



RURAL
PLC (KENT)



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Kent is ideally located to provide the food needs of London and near Europe. In addition the good road links, providing direct access into the wider motorway networks, ensures that products can be delivered to a much wider geographic area within realistic timescales.

The industry's dedicated workforce has the opportunity to enhance their knowledge and learn new skills from a number of strong education establishments located across Kent, such as Hadlow College - one of the key sponsors of this initiative. A highly trained and motivated workforce can improve both efficiency and productivity, resulting in enhanced profitability.

Barclays has been a strong supporter of the Agricultural and Horticultural sectors throughout our 300 year history. We continue to be committed to helping the sector by lending to viable UK businesses. The sector, on a wider basis including food generally, comprises a significant and integral part of

the bank's business particularly across the South-East. This is evidenced by the fact that we have a dedicated and specially trained locally-based team to serve the needs of the industry, which in turn has direct access to other specialists across the bank.

The team at Barclays supports this unique and focussed initiative, and we look forward to continuing to work closely with business proprietors and their advisors across the sector to maximise the potential benefits which the initiative has the strong potential to deliver.

Visit our site at:
barclays.co.uk/agriculture

**Seasons change.
Our commitment to farming doesn't.**

Foreword



There is no doubt that economic times are challenging, and while we remain optimistic that better times lie ahead, there is still a need for business to respond positively to an economic climate fundamentally affected by the financial crisis and its aftermath.

This response takes many forms, and I have seen for myself many of the different ways in which companies right across the UK are innovating, remaining competitive and taking market share in new areas. Put simply, they are doing what businesses exist to do.

Our shared future prosperity will depend on us building on that by identifying our areas of greatest strength and by encouraging policymakers to focus their fire on these.

But above all it must be business that leads the way. The Rural PLC (Kent) initiative is doing precisely that for rural businesses in Kent, bringing many different stakeholders together around one ambition.

This will help attract all-important investment in the sector, maximise its multiplier effect in the local economy, expand job opportunities and raise productive capacity through investment and innovation.

This is exactly what businesses in this county need to do in order to secure growth and lasting success in an ever-more-competitive market, and so I am delighted to be contributing to the inaugural Rural Plc (Kent) report 2012, and wish the initiative every success.



John Cridland
CBI Director-General

Rural Plc (Kent) in two minutes.....

Our Aim

Rural Plc (Kent) is an initiative that aims to:



RURAL
PLC (KENT)

1. demonstrate the true value of the rural sector in Kent to all
2. increase awareness of the sector and related opportunities
3. drive investors and investment into the sector with strong returns
4. balance the return on capital currently being achieved by the downstream retailers with the upstream food producers

How do we demonstrate the true value of the rural sector in Kent?

In our view there is a fundamental issue with both the quality and quantity of statistics that describe the rural sector.

Historically there has been little thought put into how the food sector really flows and the fact that farming is the source of so much economic activity in Kent and the UK.

This is a sector which has a huge multiplier effect and as Rural Plc (Kent) progresses we will demonstrate the value that exists right along the food stream.

The value of the rural sector can be demonstrated in its capital, human, financial and resources, and its ability to respond to challenge.

Rural Plc (Kent) demonstrates that the farming sector in Kent is worth a massive £5.4 billion.

This would rank us 57th in The FTSE All Share Index.

Increase awareness of the sector and related opportunities

The Rural sector has not been represented effectively for a number of years in the UK. People have forgotten that there is a fundamental requirement for food and that requirement can only be met by farmers and the food sector. This will not change.

Rural encompasses a huge range of industries from research & development, production, manufacturing and right the way through to retail.

We will identify and champion opportunities that exist not only in the farming sector but throughout Rural Plc (Kent). This is not simply a 'one off'.....

The huge multiplier effect that exists takes in all the industries along the food stream from farming to retail.

Farming is the source of an industry that supports 1 in 7 UK jobs. In Kent this is 85,000 jobs and £2.6 billion of GVA.

Kent already has landmark institutions such as East Malling Research, Hadlow College and the University of Greenwich.

We aim to not only grow the 'Garden of England' but to grow everything that drives food production from R&D through to skills through to mechanical engineering.

Drive investors and investment into the sector

We believe there has been a lack of investment into Rural Plc (Kent) and a lack of different types of investor into the upstream sectors associated with it.

We aim to expand the types of investment available to the rural sector and pull far more inward investment into the Rural Plc (Kent) upstream sectors including farming, R&D and human resources.

Low returns on capital are symptomatic of low levels of investment in the upstream sectors

There are currently too few types of investor and ranges of financing available to the rural sector in Kent.

Given that food is a basic necessity with a growing customer base Rural Plc (Kent) should be an investor's dream and not an investor's last resort.

Balance the return on capital currently achieved by the downstream retailers with the upstream food producers

It is an interesting fact that in most other sectors the industries that control the raw materials, the upstream producers, have far stronger returns on capital. If, for example, we take the oil and gas sectors it is the downstream refiners and retailers who are the poor relations to the upstream producers.

While this is a factor of size and relative supplier and buyer power, we believe a single voice for our sector will help build greater margins for Kent's upstream producers and upstream sectors including farming, R&D and human resources.

We have to build on the 'Garden of England' brand.

But this is not just about farming. It is about all of the industries that make the food sector work.

We want Kent to be the food hub of the UK and in time recognised as the global food hub.

Investment and the recognition of our farmers' importance in the food chain will help us build our return on capital.

A return on capital of 2% for Kent's farming sector compares to a return on capital of 11% for Sainsbury's. We should not accept that there should be any difference in our return on capital versus that of our downstream peers. Drawing on the comparison to the oil and gas sectors, we see BP with an upstream ROCE of 25% compared to a downstream ROCE of 11%. A perfect illustration of how back to front the food sector's ROCE actually is.

People behind the plan



Mike Bax
Chairman, Rural Plc (Kent)

Mike Bax qualified as a Land Agent and Agricultural Valuer in the late 1970's and has been senior partner in his own rural property practice, the BTF Partnership since 1988. Mike farms 240 acres in the Weald, now devoted to environmental stewardship and the management of semi-natural ancient woodland. He is the current High Sheriff of Kent and is involved with a variety of rural interest groups in the County.

"Kentish land has always produced food and timber. Now farmers seek to grow those sectors, whilst being required to facilitate leisure and deliver environmental goods, renewable energy and more. Kent is in the frontline and Rural Plc (Kent) aspires to carry the Standard".



Mark Lumsdon-Taylor
Human Capital Director

Mark Lumsdon-Taylor read Law and Economics and became a Director of Audit. He joined Hadlow College in 2002 to design and implement a fiscal recovery, was appointed to the Senior Management Team and then became Director of Finance & Resources in 2004. Mark has been instrumental in building Hadlow College into a regional and national brand for land based education and services to industry. Hadlow College is rated 'Outstanding' by Ofsted.

"I am passionate about the delivery of proper business solutions to rural industry and firmly believe that Kent can be a pathfinder for finance and skills."



Nick Holmes
Finance Director

Managing partner of Chavereys, the specialist rural accountancy practice. A founding partner of AG Advisory LLP a specialist management consultancy serving rural business. Nick is a Committee member of the Institute of Chartered Accountants Farming and Rural Business Group.

Before Chavereys Nick worked in the city for a big 4 accountancy practice and as a business analyst for a large Plc.

"Statistics are one of the biggest single threats to the UK's primary food sector. We are here to remove this threat and demonstrate why this sector is the single most important sector for Kent."



Judith Norris
Resources and Planning Director,
Rural Plc (Kent)

Judith is a Land Agent turned specialist in rural planning and who is now running a multidisciplinary practice. She is Chairman of the Country Landowners Association Planning Working Group and a member of the Association's Policy Committee. Judith has recently retired as CLA Branch Chairman.

"With its diversified forward thinking, agriculture and horticulture, busy rural economy and facilities for education and research, Kent is open for business!"



Jon Regan
Director

Jon has a background in banking and insurance information technology; including sales, marketing and technology leadership roles.

"Producing fresh, affordable food is a significant part of Kent's sustainable economy. At last people are waking up to the importance of this vital sector and the untapped economic benefit that surrounds it."



Charles Tassell
Director

Charles is an arable and top fruit farmer, Chairman of 'Why Farming Matters in Kent', ex-NFU (county) Chairman and is closely involved in promoting farming and rural issues locally and nationally.

"Kent is quite rightly known as the 'Garden of England'. The landscape we have today is thanks to the past and present farming system and the evolving rural economy. By investing in Kent, the return will be felt for generations to come, locally, nationally and internationally."



Prof. Peter Gregory
Director of Research and
Development

CEO of East Malling Research and Professor of Global Food Security, University of Reading. Former CEO and Institute Director of the Scottish Crop Research Institute. Peter is Chairman of the UK Advisory Committee for Novel Foods and Processes, a Member of the Council of

the Royal Horticultural Society, and a Member of the Nutrition Committee of the Rank Prize Funds.

"Food is back on the World's agenda as we try to meet ever increasing demand. Kent's natural, human and intellectual resources have an important part to play internationally and locally in innovative new products and production techniques to meet consumer demands".

The plan

Food, a basic human need... a need that is served by the UK's most successful home grown sector of recent years, the 'Multiples'. It is a sector that boasts 4 of the FTSE 100 All Share Index constituents that totals £50 billion of market capitalisation. Add in the foreign chains and unlisted multiples and this number increases by 50%. A huge employer, a money making machine that is bucking the trend in uncertain times, an investors dream.....**But...**

Let us return to the beginning of this story and complete the first sentence. Food a basic human need.... that is produced by farmers.

Farming, a sector that boasts no listed companies, represents less than 1% of UK GVA and has fewer than 2% of UK employment.

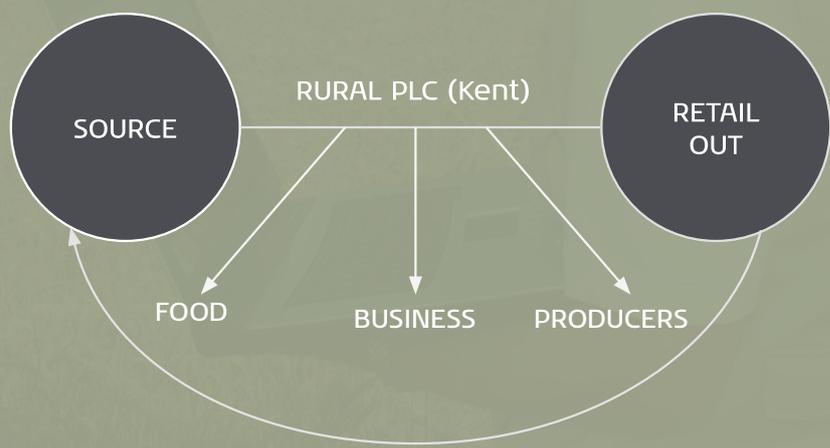
A tired and outdated sector that was important once upon a time, an investor's nightmare....

Perception is key to any investment decision.

It seems bizarre that a sector such as farming that drives so much of the so called 'Food Chain' is confined to the bottom of an investors list.

The reality is that farming is the key ingredient in the UK's food sector. The key ingredient to 1 in 7 UK jobs and GVA of £85 billion.

Put simply without farming there is no so called food chain. But how can we change perceptions?



THE FOOD CHAIN NEEDS TO BE BROKEN

As part of Kent Plc (Kent) we believe it is vitally important to rebrand how we present our food sector. For years it has been called the 'Food Chain' or the 'Supply Chain'. Yes, all of the steps from farm to fork and beyond are connected (Reference diagram page 15) but without the farmer the rest of the chain doesn't exist. In addition to this we have the fact that the end of the chain exerts far more influence than the beginning of the chain.

Therefore we prefer to think of the food sector in terms of the oil and gas industry, upstream through to downstream. Without the upstream there is no downstream. A recognition of importance that seems to have taken place in the oil and gas industry but one that is completely the wrong way round in the food sector. UK farmers still provide 60% of the food consumed in the UK.

The reality is, without a change of mindset, the river will start to run dry.

THE PERFECT STORM

Many readers of this report will have some detailed knowledge of population growth forecasts and the fact that global diets are becoming more westernised. More people and more meat eaters means a lot more demand for food.

There are enough reports out there detailing just how quickly our population will grow and how it is impossible, based on current capacity, to feed them.

The reality is that there are already too many undernourished people in the world and in the last 3 months we have seen a disastrous world harvest leading to a massive increase in food commodity prices

THE INVESTORS DREAM

The investment case is there for farming.

- A basic human need that will always be in demand.
- A growing customer base with an increasing per capita requirement.

Clearly if the investment case were this obvious there would be no need for this report.

As with Roald Dahl's BFG we must implant the dreams into the investor's minds. These dreams will become reality.

KENT, THE GARDEN OF ENGLAND

Kent has for some time been the powerhouse of UK farming. From the historical context of fruit production to the more recent context of grape production it is a unique agricultural and horticultural region.

Quite simply it is what it says on the tin, the 'Garden of England'.

Rural Plc (Kent) is about building on this strength.

But to do this we need to show investors why food and farming in Kent is worth investing in.

Put simply Rural Plc(Kent) is about attracting investment into Kent's Food and Farming sector by demonstrating its strengths and opportunities.

THE MULTIPLIER EFFECT

Food production is more than just farming.

The diagram on page 15 shows just what this sector entails. From the research and development that creates the new strains of crops through to recycling. It is a huge industry, but one fundamentally reliant on the farmer.

THE OPPORTUNITIES FOR GROWTH

This initial report details and underlines the strength of Kent's farming industry, what we have called 'Our Foundation'.

But every investor needs to know where the opportunities are. These are the areas we have identified.

SUMMARY

Rural Plc (Kent) is about creating a voice and a platform for Kent's food and farming sector.

We can only do this by rewriting how the sector is viewed and giving investors a roadmap to the opportunities whilst demonstrating our significant strength and scale.

Targets

This was always going to be a controversial piece of work. Any report that rips up the rule book and looks at things differently is a target for critics and few initiatives of this type really have longevity. In order to appease the doubters we therefore set out our targets for the next 12 months, which we will report upon in our 2013 report at this time next year.

Our 12 Month Target

- 1 Enhancement and expression of the Rural Plc (Kent) data sets to promote awareness and investment
- 2 To formally engage with national stakeholders creating a different perception in supporting the rural sector
- 3 To create new inward investment into Kent's rural industry and support sectors
- 4 To showcase outcomes and opportunities in Rural Plc (Kent) 2013 annual report
- 5 To identify specific options within each rural sector and show tables and clear outcomes in 12 months time through key performance indicators

Included with the report are detailed financial statistics. It is a clear intention of Rural PLC (Kent) to set key performance indicators during 2012/2013 for publication with the 2013 Annual Report

Chairman's report

Rural Kent covers a surface area of approximately 925,000 acres (374,280 hectares) including forestry and woodland. Roughly one-third of the farmable area is classified Grade 1 or 2 in terms of productive capacity, and the vast majority of the remainder is classified Grade 3.

Districts such as the Romney Marsh, Thanet, the North Kent Fruit Belt, the Hoo Peninsula and the North West Kent Market Garden Belt have centuries-old renown as areas of plenty, and modern agricultural techniques have raised the capacity of much of the remainder of the County in terms of productive potential.

Rural Plc(Kent) has treated Kent's agricultural and horticultural sector as a single business entity. The total assets for the sector in Kent equate to about £5.4 billion and the aggregated value of the sector's turnover in Kent at approximately £500M would rank the sector well into the top 100 FTSE Companies.

The UK farming industry effectively comprises a large number of individual businesses, of extraordinary variety and size, but generally inward-looking by definition and too small to commit to investment projects of any size, given relentlessly demanding day to day requirements in terms of working capital and equipment.

Nonetheless, Europe and the world at large requires more food as reflected by improved trading conditions in recent years, after a sustained period of farming austerity. We had seen several decades of declining food prices in real terms and those prices were approaching a level where, without a sufficient return for farmers, the increase in production required to feed increased demand would not be achieved. There has to be a fair price for farmers as well as consumers and both consumer and farmer are vulnerable to short term supply shocks which have a major impact on price. Low prices have always acted as a deterrent to investment in food production and global markets are now so integrated and the agricultural supply/demand ratio so finely balanced that any major interruption in harvests anywhere in the world affects us all. People in the western world always expect to be able to choose what they want to eat. To ignore the supply of home-grown food supply is highly dangerous.

The UK market increasingly demands quality product, greater traceability and less food miles.

The hunger for investment in infrastructure, facilities and marketing rapidly increases, but is often beyond reach at farmer level. The majority of farm businesses are increasingly aware of the need for innovation and recognise the fact that 21st Century farming is not only about food. Environment

and energy are of paramount importance and now a major farming by-product.

Kent has massive potential to perform in taking the industry forward, with favourable climate, a range of productive soils, accessibility into the Continent as well as the UK hinterland, and a wealth of industry expertise.

The culture of cooperation is improving and there is a real opportunity for outside investors to participate. Agriculture is not only about plant and livestock production. On farm technology is vital and that will come with better science. A decline in investment in agriculture will contribute to higher food prices long-term.

In Kent, we have the world's leading horticultural research establishment at East Malling; the corridor of knowledge-based industry running through North Kent; three Universities, and Hadlow College specialising as a leading commercial and educational specialist.

That is all on top of the existing outstanding layers of agri-business success that already exist in Kent, all the way through from field and farm gate to the consumers' tables.

The industry offers solid solvency on the back of a substantial asset value. There is vast untapped trading potential. If farmers can be provided with clarity of tenure, better infrastructure and better markets for produce, increases in production will result.

The search for investors begins now to enable Kent to champion agriculture from the Garden of England and through the 21st Century.



Resources and Planning Director's report

Kent, historically the 'Garden of England' and the Larder of London lives up to its name. With some very good quality land as well as the more difficult clay of the Weald, it can successfully produce livestock and grow horticultural crops, top fruit, soft fruit, hops, vines and corn. A supportive planning regime is essential to agriculture and horticulture and much work has been done by those in the industry to raise awareness.

The recent arrival of the National Planning Policy Framework with its pro growth agenda and support of business in rural areas is also helpful and timely.

The likely continued funding from the European Agricultural Fund for Rural Development after 2013 to provide funds for a wide range of rural projects is also of benefit to Kent, where LEADER funding has benefitted many smaller rural projects, several related to food processing as well as another key growth area, renewable energy.

The opportunities to locate food processing businesses in Kent are plentiful.

The county is identified as one of three food clusters within the UK and is already home to almost 500 food related companies employing 18,000 people.

These include Mack Multiples, Delmonte Fresh Produce, Brakes, Premier Food as well as distribution centres for large food retailers.

The county offers high speed links to London and the rest of Europe with lower property rents (up to 60 percent cheaper), staff and living costs than London and other parts of the south east.

There is access to a workforce of 780,000 and more than 32,000 students and graduates from the county's universities.

Strategic sites range from The Bridge and Ebbsfleet Valley in North Kent to sites in or close to Ashford, as well as Betteshanger near Dover. There is also the Enterprise Zone with its planning and business rate advantages at Discovery Park, Sandwich.

For businesses requiring smaller premises in more strategic locations Kent has developed a network of state of the art and well supported innovation centres which together form the "Kent Innovation Corridor" running from Dartford to Margate. The purpose of these is to foster growth and the focus is on innovative services or products.

Expertise within the industry includes work undertaken at East Malling Research which supports the single largest team of horticultural R&D scientists in the world, while the Natural



Resources Institute, part of the University of Greenwich is a world leader in consultancy and training to support food security and natural resource management globally.

The European Innovation Partnership for Agricultural Productivity and Sustainability funded by the EU is another useful tool to help bridge the gap between cutting edge research and practical farming.

At a more local level, the well recognised practical and theoretical training offered by Hadlow College provides well qualified and focused people to support food processing and rural business.

Whether on farm or for larger business in purpose built units the Kent Rural Board has raised awareness with planning authorities in the county. Rural areas in Kent accommodate 40 percent of business in Kent and these generate 25 percent of the GVA. The countryside is open for business!

18,000

People in Kent employed by almost 500 food related companies

Financing and Inward Investment

Finance is the life blood of any business.

In order to build Kent Rural Plc (Kent) we must have sustainable and affordable access to finance. Many of you will read the financial review and be impressed by the strength of our balance sheet but disappointed by the apparent low return on capital this balance sheet generates.

It was our aim to first establish a financial overview of the Kent Rural Plc (Kent) farming sector, what we have termed 'Our Foundation', and to identify why this return is so poor. We then have to decide if this low return on capital is simply something we accept on the basis it is endemic in the farming sector ('Our Foundation') or whether it is something that can be addressed with specific reference to Kent.

We have started with 'Our Foundation' but we must not lose sight of the massive multiplier effect this has on the rest of our economy. As discussed at the beginning of this report a massive 1 in 7 jobs is reliant on the food sector in the UK and therefore arguably reliant on 'Our Foundation.'

CURRENT CONTEXT

Over the last decade growth in Kent's and indeed the UK's rural sector has principally been financed by retained earnings, bank debt largely reliant on levels of security and various forms of grant aid.

Farming businesses had historically relied on very cheap forms of funding from the banks that was unprecedented in other sectors. This was largely a result of inherently strong balance sheets and the near zero rate of bad debt encountered by banks in the farming sector.

Times have changed. The banking sector continues to face a huge refinancing challenge and their battered balance sheets continue to be rocked by the continuing stress in the financial markets, particularly in Europe.

Farming businesses now face a significant financing challenge despite the balance sheet strength of the sector relative to its peers. Businesses can no longer rely on security for access to funding. They must show a sustainable business model that can service increasing levels of interest costs, despite historically low interest rates, and the ability to pay this debt back faster than ever before. For many farming businesses in Kent that have never struggled to access bank funding this change is arguably more marked than in other areas of the UK where asset values are weaker.

It is notable that farming businesses have never really been able to access the forms of financing that their downstream peers have been able to access such as private equity and the equity and bond markets.

This is inevitably a factor of their relative size compared to their larger downstream peers such as the 'Multiples'.

Therefore financing for the farming sector has become more challenging despite its obvious attractiveness and very low risk profile. The more fundamental issue that existed, even pre credit crisis, is that this financing was limited to a narrow range of options that has led to a much slower development of the farming industry compared to other Kent industries.

PREACHING TO THE UNCONVERTED

If you operate within this sector it is blatantly obvious why you would invest in Kent farming. The balance sheet for Kent Rural Plc shows a massive market capitalisation that is comparable to a FTSE listed Plc. Investors the world over want to own land assets in Kent which outside of the prime London property market and gold are as solid as any in the world.

Kent has huge logistical benefits that are set out in the Resources section of this report.

In addition to this, as a sector, we have the obvious strategic benefits that are referred to throughout this report, every body needs to eat and land is a finite resource. Couple this with an increasing requirement for development in the South East then you have the ultimate asset, an Investors Dream?



The reality is that this sector is not, on the whole, perceived as an investor's dream because however we look at things investors want return on capital. We have to be realistic and though many investors' appetites for risk have been readjusted their appetites for returns have not been adjusted down at the same rate.

Our figures for return on capital put this into stark contrast. The return on investment of 'Our Foundation' is low at 2% and frankly it is too low.

This is why we are here, to ensure that this return on capital increases and becomes comparable and hopefully overtakes those of its downstream peers.

Importantly we are also here to ensure those high returning capital projects are identified.

OUR FUTURE CHALLENGE

There has to be a point to producing the financial data in this report. The numbers demonstrate massive balance sheet strength but low returns on capital and therefore we believe we have two challenges from a financial perspective. The first is to increase our return on capital and the second is to provide additional and new forms of financing to the sector to exploit opportunities.

This is very much a chicken and egg situation.

There are a number of mechanisms that we have identified to do this.

INCREASING OUR RETURN ON CAPITAL

This report is the first step on this challenging route. Having a mouthpiece for our investment is key to attracting investors into the sector. Rural Plc (Kent) provides this.

We have to recognise that the return on capital is a factor of the fundamental imbalance between the upstream share of margin and the down stream share of margin. Being realistic there is nothing that can be done in a financial context until there is a recognition amongst both Government and the downstream that without a secure food production sector there is a huge threat to large parts of the downstream economy and to the UK's strategic food security. The financial section of this report is not the place for this debate but it has to be mentioned to put things into context.

All we can do is to build the upstream to such a point that we have the ability to influence price and policy on both a financial and political level.

Therefore we have identified and will continue to identify key strategic investment opportunities for the sector. A number of those already identified are set out in the report.

ADDITIONAL AND NEW FORMS OF FINANCING

Below is an extract from an HM Treasury and BIS report published in July 2010. It sets out access to finance for different sizes of business

	Definition (turnover)	Bank lending	Equity markets	Private placements	Bond markets
SMEs	Under £25 million	Yes	Limited	No	No
Mid-sized companies	£25 million to £500 million	Yes	Limited	Limited	No
Large companies	Above £500 million	Yes	Yes	Yes	Yes

Reference: 'Financing a private sector recovery' by HM Treasury and BIS, July 2010.

Most farming businesses in Kent fall squarely in the SME category. Our aim is to expand this as follows

	Bank lending	Equity markets	Private placements	Bond markets	Government led food investment bank
Current	Yes	No	No	No	N/A
Target	Yes	Limited	Yes	Yes	Yes

Is this possible? Given Kent's proximity to London and our obvious advantages including the fact we already have some of the largest horticultural businesses in the UK we believe this is possible to achieve.

We also want to persuade Government that a food investment bank that finances projects at subsidised interest rates is a much more sustainable way of publicly funding capital projects in this sector as opposed to the current RDPE schemes.

SUMMARY

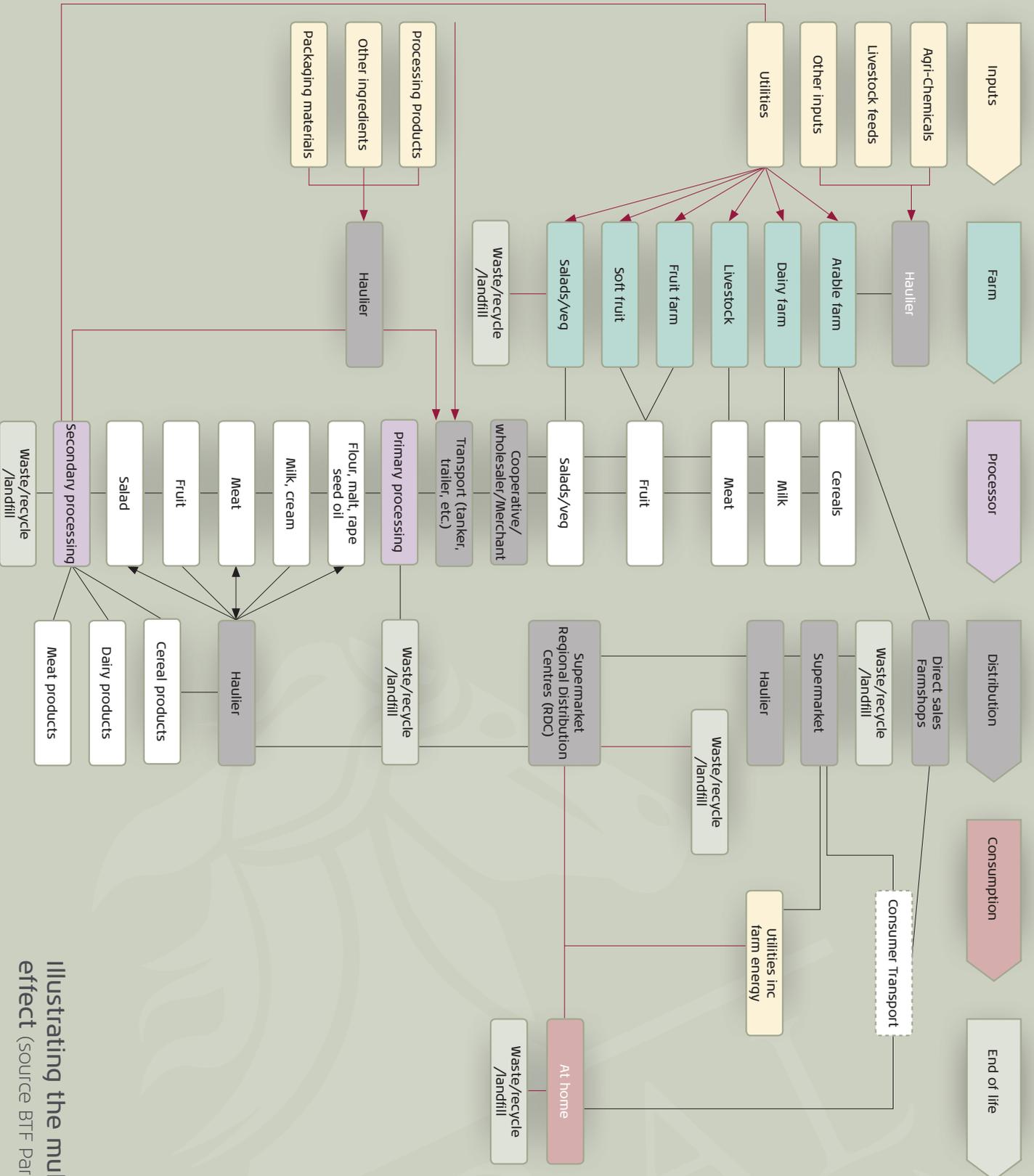
We have two major challenges in purely financial terms

- Improve our return on capital
- Attract additional and create new forms of finance.

Be under no illusion this will take time but our fundamental balance sheet strength combined with the Food Imperative means these challenges can be resolved.

1 in 7 jobs

is reliant on the food sector in the UK



Illustrating the multiplier effect (source BTF Partnership)

Human Capital Director's report

The world is constantly changing. The changes are not exclusive to Kent. They don't only affect the United Kingdom. They are global in perspective. Some changes will be for the better and some for the worse. Rural PLC (Kent) is determined to take advantage of the former while acting to mitigate the impact of the latter. That is why this inaugural PLC report is so crucial.

Profit-making businesses are built on skills and it is a fact that people are employers' most important asset. At the current time there is an imbalance between employer needs and skills availability, most significantly in specific rural sector industries, which in turn affects the overall profitability of industry and business. In some cases, most notably in the case of production horticulture, this is currently being overcome by employing people from other countries, most especially Eastern Europe. This source is unlikely to continue indefinitely and industry leaders are expressing serious concerns.

The status quo is worrying in terms of skill continuity but it also has unwelcome implications for the county's economy and social cohesion. Rural PLC (Kent) will address this problem by devising and developing ways of alerting bright and motivated young people to the progressive career options afforded within rural industries that currently record a shortfall of British entrants. This will be coordinated with the overarching vision to support and raise the profile of rural industry and the vital contributions it makes to Kent.

It is often surprising how powerful 'perception' is and how far it can stray from 'reality'. So it is with many agriculture and horticulture sectors. Fruit farming is an excellent example: all too frequently public perception consigns the industry to a lower perspective to that which it truly is. Research, technology, science, mechanisation, value added, diversification and much else of what drives a modern farm, can be perceived externally as not even relevant. The picture of a very small, traditional orchard - with sheep grazing under the trees - is dear to people's hearts! And whilst this still exists, it is not a reflection of today's industry.

Attractive as this picture may be in subjective terms, it is not surprising that it is one that is failing to attract high calibre young entrants. Again taking the fruit industry as an example, ways must be found to alert educators, careers advisors, parents and the young people themselves to the fact that this is an industry that offers opportunities for people of all academic levels including the brightest. It is challenging, dynamic, exciting, rewarding and offers good financial prospects and excellent security.

One of the problems relating to many jobs in the rural sector is that there are few clearly identifiable career paths with transparent Continual Professional Development (CPD) routes. In part this relates to the fact that employer needs

tend to be individual and so flexibility is paramount: however, implementing quantifiable CPD is essential to progress and initiatives are needed that provide formal and informal mentoring schemes for both employers and employees.

Mismatches in the labour market occur for several reasons and they can coexist with high levels of unemployment. They can occur when skilled/experienced people are located too far away to render available jobs viable and/or convenient. Mismatch may also relate to inadequate remuneration but undoubtedly the most prevalent problem in relation to rural sector industries relates to the information deficiency mentioned above. Furthermore, lack of information is a two-way traffic with employers who often find it challenging to alert individuals with relevant qualifications and qualified individuals not always having awareness of relevant vacancies and job opportunities.

Another fundamental problem concerning meeting skills gaps and progressing and upgrading existing skills relates to persuading industry to project immediate, middle and long-term needs in relation to both numbers and skills. Assessing future needs will become more difficult as 'changes' (outlined below) begin to impact but realistic attempts must be made to enable proactive training provision. We must train to fulfil tomorrow's needs - not those of yesterday - if we are to avoid ongoing mismatch of skills demand and supply. Economic growth and stability are dependent on skills endowment that ensures industries are competitive internationally.





A further conundrum especially applicable to rural sector industries relates to the appropriateness of different EU and national government policy. At the current time the instability in Europe could result in any number of big changes - some of which might impact on the CAP reform due in 2014. Presumably changes to the EU budget/multi-annual financial framework might result in amendments, some possibly drastic. As the reforms stand at this time, the proposed 'greening measures' are already resulting in conflicts between the Commission and environmentalists - national governments and farmers.

Mention 'change' and the word 'climate' springs to mind. Dealing with the impact of climate change in isolation would be challenging. Combine it with a vastly increased world population and the enormity is mind blowing. The global market is such that we have to consider in world terms how the factors will impact on Kent and the rest of the UK. For example: we are currently heavily dependent on food imports but we don't know to what extent changing weather patterns will affect the availability of produce from abroad.

At the same time we can expect to see oil prices continuing to rise on the commodities market. Shortage of fresh water is predicted to be an increasing influence in many countries (and, despite the summer of 2012 breaking records in terms of rain, Kent is expected to suffer severe water shortages in the future). Pressures on land usage will increase in line with the needs of an increased population. Simultaneously, land will be lost as sea levels rise. These challenges need solutions - and solutions embrace opportunities.

Agriculture and horticulture have long been important in Kent and the county did not acquire the title 'Garden of England' for nothing. After a few shaky years during which the global market impacted on some farming sectors, today the industry is increasingly innovative, more scientifically and technologically driven, quicker to evaluate and respond to markets and increasingly aware of the crucial importance of promoting a positive image.

Things are moving forward. A few years back, Kent hardly warranted a mention in food diaries. Today the county's restaurants, tearooms and pubs are attracting a regular following, Michelin stars are spread across county and several chefs have reached celeb status. 'Produced in Kent' is now an established and sought-after brand embracing an increasing range of quality food and drink.

Interest in where food comes from and how it is produced is increasing in all income scales. Nevertheless, there is opportunity for further promotion to link the food on the plate with the regional economy and the landscape. The message needs to be clear and unequivocal: every penny spent buying Kent-produced food and goods directly and indirectly benefits the county's finances, strengthens local communities and encourages social inclusion. Kent's landscape is a managed environment that directly reflects the mixed farming carried out in the county.

Farming and food production are important to Kent's tourist industry, which has recorded exponential growth over the last few years, and demand for regional produce is booming. Despite these welcome advances there is a significant gap to encourage visitors to buy more Kent brands to take home. Few visitors to the West Country leave without an instantly recognisable product and we need to develop a similar desire for Kent specialities.

It has often been noted that the British are a nation of entrepreneurs. Kent has its fair share of talented, thinking-outside-the-box individuals, quite a few of whom are working in the rural sector. Recognising their entrepreneurship and finding ways of helping them to develop additional skills to maximise potential could produce multiple benefits including attracting investment and increasing job opportunities. Individuals and SMEs are often responsible for the lateral thinking that results in an idea, innovation, new product or niche-filling services worthy of developing. Often limited by capital and infrastructure resources, the provision of mentoring and advice could help to bring worthwhile concepts to fruition.

Changes are taking place. Changes are imminent. Changes are predicted for the future. Change is often the only constant in the rural sector. Taking advantage of the many opportunities is dependent on readiness. 'Readiness' necessarily embraces 'evaluation'. 'Evaluation' results in skilling and up-skilling. Skills are fundamental to success.

Finance, business and skills are not mutually exclusive. More so now than ever, human capital and fiscal output need to be planned together to future proof the sector. The promotion of this sector through Rural PLC (Kent) is the start of this process.

9.8m

rural population
(19% total UK workforce)

476,000

People working on UK farms

£30,000

Income from farming per
annual work unit of labour

Research and Development Director's report

With the global population heading towards 9 billion in 2050 and greater global affluence, about the same quantity of food will need to be produced in the next 50 years as in the 500 years between 1500 and 2000. This realisation has sharpened thinking about the requirements for food in both global and local contexts.

The UK has been at the forefront of this debate, delivering Insights such as the UK Foresight report on the The Future of Food and Farming in 2011, and leading the work on the Commission on Sustainable Agriculture and Climate Change in 2012 which focused on the developing world.

East Malling Research (EMR) plays its part in this global agenda by participating in international programmes and undertaking research to deliver new knowledge, products and services. These outputs enhance the provision of nutritious fruits, fungi and other horticultural crops while simultaneously minimizing environmental damage.

East Malling Research (EMR) was founded in 1913 and is a major scientific research organisation focused on horticulturally-based industries. EMR employs about 80 people, 40 whom are directly engaged in research activity. The company works closely with many Kent-based farmers and producers and other research organisations such as the Universities of Greenwich and Kent.

EMR's ambition is to be recognised as the pre-eminent research institute in the UK, with a significant international reputation, for strategic and applied research, development and innovation in horticulture with particular emphasis on perennial and clonally propagated crops. This includes crops such as apples, pears, plums, cherries, strawberries, raspberries, blackcurrants, mushrooms and a wide variety of ornamental shrubs.

EMR conducts high-quality strategic and applied research in horticultural and environmental sciences, to deliver knowledge, products and services that benefit public and private customers. This research delivers innovations to increase production, and cope with a more variable and changing climate, in ways that are profitable for producers but also enhance the provision of other ecosystem services, increase the efficiency of resource use, result in less waste across the food system, and minimise greenhouse gas emissions.

CURRENT RESEARCH

Research is delivered through three scientific research programmes:

1. Genetics and crop improvement
2. Pest and pathogen ecology for sustainable crop management
3. Resource efficiency for crop production

Examples of this activity include:

- The genetics of resistance to Verticillium wilt in cultivated strawberry
- Using the genome of the woodland strawberry as a model for perennial crops
- Development and validation of molecular markers for resistance to strawberry powdery mildew
- Genomic tools for pre-selection of water-use efficiency in top fruit rootstocks
- Developing new varieties of strawberry, raspberry, cherry and apple rootstocks
- Management of apple scab
- Integrated pest and disease management for high quality protected raspberry production
- Developing bio-control methods for a range of crops
- Sustainable management of apple storage rots
- Development of temperature degree-based models to predict pest development
- Improving water use efficiency and fruit, herb and potato quality
- Development of methods to measure the peat content of a bag of growing media
- Developing new, sustainable mushroom casings
- The biology of mushroom virus X
- Irrigation scheduling of substrate-grown raspberry

OPPORTUNITIES FOR INVESTMENT

The genomics revolution, coupled with new methods for growing horticultural crops, offers substantial opportunities for new innovations to deliver profitable horticultural enterprises. Some examples of the research-innovation nexus offering industry-wide benefits include:

- Using the genome of the diploid woodland strawberry as a model to develop more efficient breeding programmes for strawberry and related crops
- Employing the emerging genome knowledge and understanding of root:shoot communication in rootstocks to improve their performance through effective breeding programmes
- Enhancing soils and substrates to give better functional performance during cropping, and to minimise the incidence of re-plant disease
- Developing innovative production and storage practices to improve the storage of "fresh" produce, minimise waste in the food chain and enhance shelf-life and quality

All of these research areas offer business opportunities that could deliver substantial financial returns.

Sector Specialisms report

A consensus is emerging among policy makers that the challenge for global agriculture is to grow more food without increasing the land area, while using less water, fertiliser and pesticides. Moreover, this must be achieved with reduced, minimal, adverse impacts upon the natural environment. Food production research, development and extension work will have critical role to play in delivering solutions.

Customers are increasingly aware of issues such as “carbon footprints” and “embedded water” and are reacting by demanding, where possible, locally grown food.

Combined these trends are leading to:

- A reappraisal of the strategic importance of agriculture and food production in the UK (away from previous assumptions based on economic contribution) – resulting in a greater recognition of the need to prioritise food production and increase productive capacity;
- A need for greater investment in agricultural and horticultural research to support a sustainable intensification of global agriculture.
- A recognition that the UK’s purchasing power on the world market viz-a-viz food imports will diminish, in view of increased competition from emerging economies.
- A growing consensus that urgent action needs to be taken now to prevent a deepening global and national food crisis in the medium term and longer term.
- Customers are demanding this – the UK leads the way in market-oriented production of fruit and Vegetables -
- Provenance - Food Safety

The Government’s Chief Scientific Advisor, Professor Sir John Beddington has stated in the ‘Foresight: Future of Food and Farming’ report published in January 2011, ‘that the case for urgent action in the global food system is now compelling’ and that deciding how to balance the competing pressures and demands on the global food system represents a major challenge for all policy makers.

This report sets out a framework of actions to unlock the potential within Kent’s food sector. Key to this will be raising the profile of the economic value of the sector – especially through creating a new lens through which the sector is viewed.

The actions within the report will be delivered by the work of the Rural Plc (Kent) initiative which seeks to champion food production in Kent. The title of the initiative is based on the premise that if the value of this sector to the Kent economy was aggregated its turnover would rival that of many FTSE 100 companies.

Key areas for future action identified by this report include:

- Raising the profile of the economic value of the Kent-based horticultural, agricultural and food production.
- Encouraging and facilitating investment in the sector.
- Demonstrating and maximising its multiplier effect in the local economy.
- Expanding job opportunities and creating of quality jobs.
- Raising productive capacity through investment, exploitation of R&D resources and innovation.
- Improving the image of the sector to make it attractive to new entrants.



Customers are increasingly aware of issues such as “carbon footprints” and “embedded water” and are reacting by demanding, where possible, locally grown food

1. INTRODUCTION

Food production plays a crucial role in Kent's economy. The Kent food chain is worth £2.6 billion per annum and accounts for 15% of Kent's workforce. Agriculture and horticulture represent the lynch pins of this sector; providing the primary inputs for food manufacturing – along with a range of wider environmental services and benefits.

Kent also accounts for a significant share of the UK's food production and processing businesses. Almost two-thirds of the UK's top fruit (apples, pears etc) is grown in Kent and it is estimated that a third of the UK's strawberry production is also located in the county.

Nationally, the strategic importance of the food sector is being reappraised due to escalating concerns over the future of global food security. With the current global population predicted to rise to 9 billion by 2050, coupled with current trends in food demand, food price inflation and climate change, **many experts believe that a global food crisis is inevitable unless concerted action is taken now.**

As one of the UK's key food producing regions, and through being home to a significant share of the UK's specialist agricultural and horticultural R&D base, **Kent is well-placed to play a major role in delivering solutions – at both a national and international level and contribute to sustainable economic growth**

2. DELIVERING SOLUTIONS AND HARNESSING THE OPPORTUNITIES

In view of the strategic and economic importance of Kent's food sector, food production has been identified as one of Kent's priority growth sectors.

This document sets out a strategic plan to foster the sustainable development of Kent's food sector by:

- Raising awareness of the strategic and economic importance of Kent's food production sector across the County (especially in light of growing concerns over future food security).
- Creating an enabling policy framework to support the future development of the sector
- Identifying priority actions for unlocking future growth and creating a sustainable future for the sector.

3. THE GLOBAL CONTEXT

Food security represents one of this century's greatest global challenges and economic opportunity. With the global population predicted to rise to 9 billion by 2050, coupled with current trends in food demand and climate change, many experts believe that a global food crisis is inevitable unless concerted action is taken now.

The perfect storm scenario – the scale of the challenge

The Royal Society's 'Reaping the Benefits' report and the Government's Foresight report have emphasised that global food insecurity is a chronic problem that is set to worsen, due to:

- Increasing world population: anticipated to rise from today's population of seven billion is predicted to around eight billion by 2030 and to nine billion by 2050.
- Changing and converging consumption patterns with more countries e.g. China and India, adopting Western style diets. Brazil already has a Western style diet.
- Increasing per capita incomes, leading to increased general resource consumption and, specifically a growing demand for livestock products (meat and dairy) which require more resources to produce per calorie.
- Growing demand for biofuels due to growing scarcity of fossil fuels and need to mitigate against climate change.
- Increasing water and land scarcity arising from unsustainable water consumption, loss of agricultural land through urbanisation, production of energy crops, and land degradation.
- Adverse impacts of climate change with rising temperatures, changing rainfall patterns, new pests and diseases and more frequent extreme events affecting crop production.

This unprecedented confluence of pressures around food security, climate change, population growth and the need to sustainably manage the world's rapidly growing demand for energy and water has been described by Professor Sir John Beddington, the UK Government Chief Scientific Adviser as 'the perfect storm' of global events.

The 'perfect storm scenario' predicts that by 2030 the world will require 50% more food and energy, 30% more available fresh water, whilst mitigating and adapting the challenge around climate change. Furthermore, the United Nations have estimated that food production will need to increase by 70% by 2050.

Global food production is at a critical juncture and there is an urgent need for action.

The impact of these pressures is already being felt within the global food system. After 20 years of low food commodity prices, the price shock of 2007/8 and the marked volatility in food prices over the subsequent years has elevated concerns over food security – whilst emphasising the strategic and political importance of agricultural and food production.

A recent report by the United Nation's Food and Agricultural Organisation has documented substantial price increases across a range of agricultural commodities. For example the price of rice in Brazil has increased by over 50% in 2010, and it was predicted that food prices in Australia might rise by as much as 30% as a result of the floods in Queensland in 2010 and early 2011.

The impacts of high food prices on driving inflation, protectionism and unrest have been well documented. In Mozambique 13 people were killed in food riots in 2010 and high food prices were held to be a major contributing factor to the civil unrest in Tunisia. The 2007/8 price spike led to food riots in many countries and led to some 40 countries introducing export restrictions on foodstuffs which further exacerbated the 2007-2008 food price spikes. In summer 2010, the Russian Government banned all exports of wheat after a blazing summer destroyed much of the crop, resulting in much higher prices across the wheat commodity markets.

THE CRITICAL ROLE OF RESEARCH

Both Professor Sir John Beddington's work and the Royal Society's report have argued that research, development and extension work (facilitating the transfer of new techniques and knowledge to farmers) is vital for meeting the challenges of food security. New knowledge, technologies and systems will all be required for a number of reasons including increasing direct yields and reducing the impact, and countering the

threat of new pests and diseases, which are arising at an alarming rate.

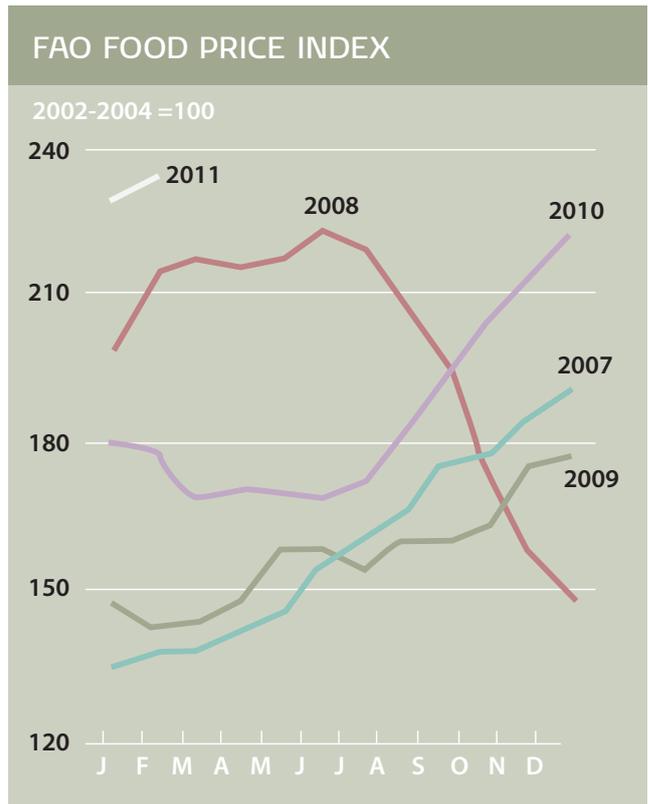
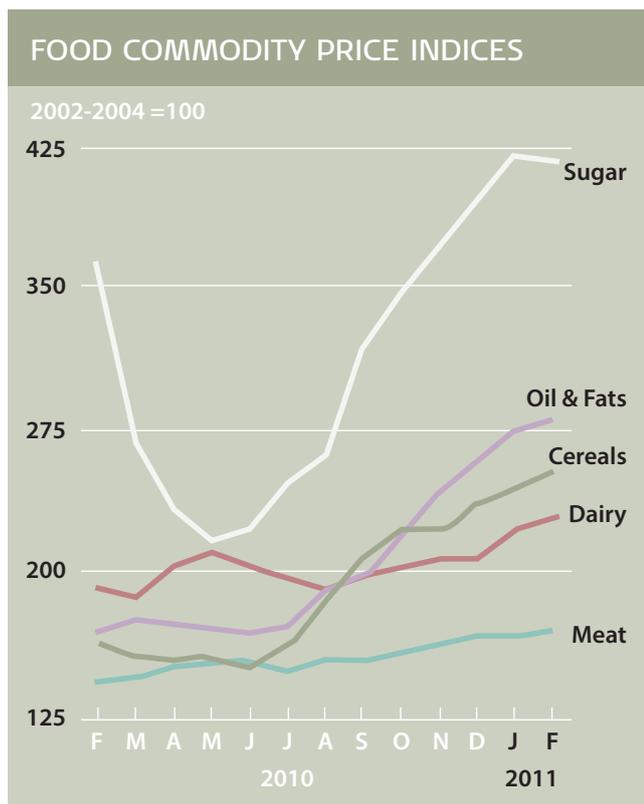
The timescale needed to turn research into a practical benefit for the food sector can vary between months and many years depending upon the problem itself, the research findings, and the resulting benefits. In addition the integration of biological and mechanical innovations into agricultural practice itself can take many years, with periods of between 15 to 25 years between research expenditure and widespread implementation, not unknown. Food sector research, and research funding needs a strategic view of the future challenges facing the industry, together with a consideration of the approaches to facilitate transfer of this knowledge, and the technologies that result, into the practical technologies and systems that will make a difference.

50%

Price increase of rice in Brazil since 2010

30%

Predicted price rise of food in Australia



Abbreviated financial statements

Profit and loss account for the year ended 30 April 2012

2011

£000

Turnover	541,834
Cost of sales	<u>(268,440)</u>
Gross profit	273,394
Administrative expenses	(153,241)
Other operating income	<u>7,988</u>
Operating profit	128,141
Interest payable and similar charges	<u>(10,000)</u>
Profit on ordinary activities before taxation	118,141
Tax on profit on ordinary activities	<u>(29,535)</u>
Profit for the financial year	<u>88,606</u>

Balance sheet as at 30 April 2012

	Note	£000	2012 £000
Fixed assets			
Tangible assets	1		5,184,519
Current assets			
Stocks	2	397,463	
Cash and debtors		142,000	
		<hr/>	
		539,463	
Creditors: amounts falling due within one year	3	(225,535)	
		<hr/>	
Net current assets			313,928
			<hr/>
Total assets less current liabilities			5,498,447
			<hr/>
Creditors: amounts falling due after more than one year			(127,000)
			<hr/>
Net assets			5,371,447
			<hr/>

Notes to the financial statements for the year ended 30 April 2012

1 Tangible fixed assets

	Buildings, plant and machinery £000	Freehold properties £000	Total £000
Cost			
At 1 May 2011	-	-	-
Additions	647,266	4,537,253	5,184,519
At 30 April 2012	647,266	4,537,253	5,184,519
Depreciation			
At 1 May 2011 and 30 April 2012	-	-	-
Net book value			
At 30 April 2012	647,266	4,537,253	5,184,519

For simplicity none of the buildings, plant and machinery are depreciated in year 1.

2 Stocks

	2012 £000
Livestock	149,223
Growing crops and stores	248,240
	397,463

3 Creditors: Amounts falling due within one year

	2012 £000
Bank overdrafts	114,360
Net obligations under finance leases and hire purchase contracts	28,000
Trade creditors	55,000
Tax (net of VAT)	25,175
Other creditors	3,000
	225,535

	Total Ha	Total Value 2012
Coastal Sand and Shingle		
Nature Reserves	2839.2	35,078,316
Livestock Grass	509.6	5,666,497
Marshland and River Valleys Drained		
Combinables	24480	362,940,480
Veg Potential	7200	124,538,400
Un-Drained		
Livestock Grass	15840	195,703,200
Environmental Scheme	5040	56,042,280
North Kent Tertiary Belt		
Planted Fruitland	10520	311,939,040
Unplanted grade 1/2	5260	116,977,140
Irrigable Grade 1/2	4734	116,977,140
Combinables only - due to soil variability	7890	155,969,520
North Downs		
Combinables	48880	905,868,600
Livestock Grass	16640	185,028,480
Dairy	2080	30,838,080
Gault Vale		
Drained for combinables	4248	62,980,848
Livestock Grass	4531.2	55,982,976
Dairy	1416	22,743,084
Lower Greensand Ridge		
Combinables	9207.5	170,637,994
Livestock Grass	7366	91,006,930
Planted Top/Soft Fruit Land	4419.6	87,366,653
Unplanted Fruit potential	3683	
Low Weald		
Combinables	8303	133,358,635
Livestock Grass	14421	178,171,455
Diary	6555	105,283,133
High Weald		
Combinables	16572.5	307,129,856
Livestock Grass	3788	46,800,740
Planted Top/Soft Fruit Land	7102.5	140,402,220
Unplanted Fruit potential	1894	35,100,555
Other		
Area under glass	52	19,273,800
Vineyards	0	0
Woodland	55205.7	477,446,496
	300,678	4,537,252,548

Financial Review

“We have a high quality and resilient asset base – our net asset value would place us 57th on the FTSE 100 All Share Index if Rural Plc (Kent) were a listed entity. In contrast is our return on capital and Rural Plc (Kent) must be used to bridge the gap between ‘Our Foundation’ and its down stream peers over the coming 5 years” Nick Holmes

HIGHLIGHTS

NET ASSETS OF

£5.4
billion

250,000

HECTARES OF
FARMABLE AREA

57th
IN FTSE 100
BY EQUIVALENT
MARKET VALUE

OPPORTUNITY
TO INCREASE
RETURN ON
CAPITAL BY

8%

INTRODUCTION

It was difficult to know where to start with Rural Plc (Kent) in a financial context. The challenges were many but primarily we were faced with an outdated set of statistics that were based on what we believe are flawed data sets and an unhelpful way of viewing the sector.

These flawed data sets fundamentally misrepresented and continue to misrepresent the sector.

We therefore had to start in the obvious place, at the beginning with ‘Our Foundation’.

This meant an unprecedented piece of work that has mapped out ‘Our Foundation’s asset base and put a value on it. We have followed this with an estimated profit and loss account and balance sheet for ‘Our Foundation’.

One of the drawbacks of starting from the beginning is that you do not possess reliable comparative data to put the current year into context. This is however where we are and in our view the important part is to ensure we have reliable data sets going forward.

The lack of comparative data also means we cannot demonstrate whether or not we have seen improvement versus the prior year as there is no benchmark.

However, if we consider that this is all about trying to pull the performance of our sector up to that of our down stream peers then it makes sense to compare our current performance against one of these peers. We have chosen J Sainsbury Plc. A leading multiple and advocate in the championing of UK Produce.

Farming and food retailing are at two ends of the food stream and therefore we would expect a significant difference in margins. In addition the supermarkets have hugely diversified product lines of which food is just one but we believe this analysis is credible given the significant weighting of Sainsbury’s business towards food.



Most financial reviews start with the profit and loss account but in order to truly understand the financial position of 'Our Foundation' we believe it is better to start with the engine room, the balance sheet.

SUMMARY OF RESULTS

Balance sheet

	Kent Rural plc 2012 £000	Sainsbury's 2012 £000
Fixed assets		
Tangible assets	5,184,519	9,329,000
Intangible assets	-	979,000
Current assets		
Stocks	397,463	938,000
Cash and debtors	142,000	1,094,000
Current liabilities		
Trade creditors	(55,000)	(2,740,000)
Other borrowings	(170,535)	(396,000)
Creditors due >1 year	(127,000)	(3,575,000)
Net assets	5,371,447	5,629,000

Above you will see two simple tables that summarise our profit and loss account and balance sheet. Next to this we have shown the same comparable data for Sainsbury's. This comparison allows us to draw what we believe are important conclusions about the upstream and downstream components of the food stream.

Profit and Loss

	Kent Rural plc 2012 £000	Sainsbury's 2012 £000
Turnover	541,834	22,294,000
Cost of sales	(268,440)	(21,083,000)
Gross profit	273,394	1,211,000
Administrative expenses	(153,241)	(419,000)
Other operating income	7,988	82,000
Operating profit	128,141	874,000
Interest payable net of JV	(10,000)	(75,000)
Profit on ordinary activities before taxation	118,141	799,000
Tax on profit on ordinary activities	(29,535)	(201,000)
Profit for the financial year	88,606	598,000

THE BALANCE SHEET

The balance sheet puts a current value on 'Our Foundation'. In essence it is what our farming sector is worth at our snap shot in time of 30 April 2012. This is something that has never been done before.

FIXED ASSETS

Our key component is our land bank which is represented by approximately 300,000 Hectares of land. This is broken down on page 25. At conservative market values our major fixed asset and our major manufacturing unit is worth £4.54 billion. This ignores any development value. It should be recognised that our sector controls most of the land base in Kent.

On top of our land base we have all of the buildings, infrastructure and plant and equipment that our sector has invested in. The book value of these is a further £647 million. This represents grain stores, pack houses and the diverse range of plant and equipment that our farmers use.

At £9.3 billion of tangible fixed assets Sainsbury's has approximately double our asset base.



CURRENT ASSETS AND CURRENT LIABILITIES ('WORKING CAPITAL')

We then have the working capital that our sector requires for it to operate. In effect this is the fuel that enables the engine to function.

Stocks at £397 million represent our estimate of the value of biological assets that our farmers produce or from which they produce as at 30 April 2012. This is the livestock, the growing crops and the crops in store.

As with fixed assets this is broadly 50% of the Sainsbury's figure at £938 million.

We then have the cash and debtors which total £142 million versus a significant £1,094 million for Sainsbury's

The money our sector owes, excluding bank debt, at 30 April 2012 we estimate to be £55 million versus a significant £2,740 million for Sainsbury's.

Therefore 'Our Foundation' has significant net current assets versus a current liability position for Sainsbury's. This is characteristic of two factors

- i. 'Our Foundation' has no real buying power and no ability to demand extended credit terms whereas Sainsbury's does
- ii. Sainsbury's turns its stock in to cash every second of the day whereas our stock can sit there for months and sometimes years.

DEBT TO EQUITY AND THE OPTIMAL CAPITAL STRUCTURE

The capital structure of any business is normally a good indication of how it has or hasn't invested in recent times.

This pattern of investment is a factor of a number of things, from the opportunity for investment in the first place to the ability to access funding to make the investment. 'Our Foundation's' estimated net debt levels at £175 million puts our gearing at 3%. Sainsbury's on the other hand has net debt levels of £1,980 million and gearing of 35%.

Yet another clear marker that suggests 'Our Foundation' suffers from a lack of investment.

NET ASSETS

Finally we see that all of the above translates down into very similar net asset positions for both Our Foundation and Sainsbury's at £5.4 billion and £5.6 billion respectively.

So how does our performance compare to that of Sainsbury's?

Before answering this question we must understand the return 'Our Foundation' Balance Sheet generates.

PROFIT AND LOSS AND RETURN ON CAPITAL

The total turnover of £542 million compares to £22,294 million for Sainsbury's. A massive reduction versus Sainsbury's, but this would be expected given their relative position in the food stream and the decreasing gross margin from upstream to downstream.

The telling number is net profit before tax and interest that drives the return on capital employed calculation. Our net profit before tax and interest at £128million compares to £874million for Sainsbury's.

This represents a return on capital of 2% for 'Our Foundation' versus a return on capital of 11% for Sainsbury's.

Now we see our challenge in black and white. For reference here are these ROCE figures including Morrisons, Marks and Spencer, and Tesco.

Rural Plc (Kent)	Sainsburys	Morrisons	Marks and Spencers	Tesco
2%	11%	9.7%	16.4%	13.3%

We should not accept that there should be any difference in our return on capital versus that of our downstream peers. Going back to our comparison to the oil and gas sector we see BP with an upstream ROCE of 25% versus a downstream ROCE of 11%. A perfect illustration of how back to front the food sectors ROCE actually is.

SUMMARY

This initial financial review is not meant to be a tome of numbers and meaningless narrative. In so many ways we compare with our downstream peers but fundamentally we lack investment and we lack Return on Capital.

We believe this review cuts to the heart of the issue and the very reason for the existence of Rural Plc (Kent).

We have an asset base that is second to none but we are just not getting an appropriate return on capital given we are the source of the food industry.

This defines our challenge, to increase this return on capital through investment and through a fundamental rebranding of our farming sector in Kent.

Statement on Environmental and Social Responsibility

Every plc recognises the importance of conducting its business in a responsible and sustainable way. The food and farming sector in Kent is very active in fostering environmental and social responsibility within the rural communities it supports, which in turn, underpin the businesses comprising Rural plc (Kent).

Initiatives include liaising closely within the Kent Downs AONB, joining agri-environmental stewardship schemes with advice taken from organisations such as Kent Wildlife Trust, and becoming accredited to national and global food and farming standards. There are numerous community level activities supported by individual food and farming businesses.

Other reports - from Defra and NGOs - deal with this aspect of Rural Plc (Kent) progress, but again data is probably disparate and not truly representative of all that is done to support the environment and social vigour of rural communities. Our annual KPIs will recognise environmental and social responsibility, in the same way that a plc would chart its performance in this area.

METHODOLOGY

All sources and data that are referred to in this report were the most up to date available figures at the time of writing. The balance sheets and supporting primary data relate specifically to the agriculture and horticulture sectors in Kent and were compiled and analysed using previously unpublished data by BTF Partnership LLP. The data and analysis constitute an original contribution to the understanding of farming in Kent.



RURAL
LC (KENT)

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