R.E.A. HOLDINGS PLC

Annual Report and Accounts

2014

R.E.A. Holdings plc ("REA") is a UK company of which the shares are admitted to the Official List and to trading on the main market of the London Stock Exchange.

The REA group is principally engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production of crude palm oil and crude palm kernel oil.


New jetty under construction at Sungai Mariam


Satria oil mill

Contents

Currency

Reference to "dollars" and "$" are to the lawful currency of the United States of America.

Overview
Key statistics

	2014	2013	2012
Results ($'000)			
Revenue	125,865	110,547	124,600
Earnings before interest, tax, depreciation, amortisation and biological gain	38,797	30,269	38,083
Profit before tax	23,744	25,216	30,558
Profit for the year	21,981	12,672	17,703
Profit attributable to ordinary shareholders	14,153	5,457	11,342
Cash generated by operations	33,053	19,358	55,110
Returns per ordinary share			
Earnings (US cents)	40.3	15.8	33.9
Dividend (pence)	7.75	7.25	7.0
Allocated area (hectares)			
Mature oil palm	28,275	27,102	26,688
Immature oil palm	6,339	6,960	4,819
	34,614	34,062	31,507
Titled balance	35,970	36,522	39,077
	70,584	70,584	70,584
Allocations	37,631	30,043	31,601
Total	108,215	100,627	102,185
Production (tonnes)			
Group FFB	631,728	578,785	597,722
Third party FFB	149,002	99,348	64,014
Total	780,730	678,133	661,736
CPO	169,466	147,649	151,516
Palm kernels	35,764	30,741	30,734
CPKO	12,596	11,393	11,549
CPO extraction rate *	21.7%	21.8%	22.9%
Yields (tonnes per mature hectare) *			
FFB	22.3	21.4	22.4
CPO	4.8	4.6	5.1
CPKO	0.4	0.4	0.4
Average exchange rates			
Indonesian rupiah to US dollar	11,908	10,494	9,392
US dollar to pound sterling	1.65	1.57	1.59

* The group cannot separately determine extraction rates for its own FFB and for third party FFB. CPO extraction rate and CPO and CPKO yields are therefore calculated applying uniform extraction rates across all FFB. Sample analyses indicate that in reality extraction rates for third party FFB are lower than for own FFB.

Highlights

Financial

- Revenues up 14 per cent driven by record crop production and material increases in throughput of smallholder fruit
- Operating profit of $32.1 million, up 14 per cent (2013: $28.1 million)
- Profit before tax of $23.7 million (2013: $25.2 million), notwithstanding generally weak CPO prices
- Estate operating costs unchanged notwithstanding increased crop and administrative expenses reduced by $2.6 million
- Proposed final dividend of 3¾p per ordinary share (2013: 3¾p) making total dividends of 7¾p per ordinary share (2013: 7¼p); capitalisation issue in 2014 equivalent to slightly over 6p per ordinary share (2013: 6p)
- Net new investment of $38.2 million (2013: $33.5 million)
- 5.2 million preference shares issued by way of a placing raised $10.6 million net of expenses, applied in reducing borrowings
- $6.3 million of dollar notes 2012/14 redeemed

Agricultural operations

- Record production: crop of fresh fruit bunches ("FFB") 631,728 tonnes (2013: 578,785 tonnes) and crude palm oil ("CPO") 169,466 tonnes (2013: 147,649 tonnes) representing year on year increases of, respectively, 9 per cent and 15 per cent
- Land bank increased by purchases of two additional land allocations totalling 7,714 hectares, adjacent to existing land areas
- Recent satisfactory confirmation of land title should permit early completion of the agreed swap of land held by PT Prasetia Utama for land currently held by PT Sasana Yudha Bhakti
- Good progress in the construction of perimeter bunding designed to manage water levels as a preliminary to the rapid development of new plantings on the land owned by PT Putra Bongan Jaya whilst planting continues on the higher ground
- Major refurbishment works during the year to ensure optimum standards in the mills
- Plans initiated for expansion of the third, newest oil mill at Satria to double its capacity by 2016
- Continuing programme of cost saving initiatives, including in-house production of compost and of materials for estate infrastructure
- A fully restructured management team now in place in Indonesia and Singapore

Stone quarry and coal operations

- Operating licence granted for the quarry which will produce crushed stone for group's road and building programmes and for sale to third parties
- Cooperation arrangement for mining of principal coal concession at Kota Bangun by a third party remains in place to permit resumption of mining when coal prices improve

Sustainability

- Compensation payments, community development programmes and smallholder land allocations covering substantial new development areas now agreed so that extension planting of both group and smallholder land can gain momentum
- Methane generated electricity now being supplied to the Indonesian state electricity company for distribution to 21 local villages
- Publication of the group's second detailed sustainability report due later in 2015

Prospects

- Continuing steady recovery and improvements in operational efficiency
- Good prospects for expansion planting in 2015
- Plans to list PT REA Kaltim Plantations, the Indonesian sub-holding company of the group's plantation operations, as soon as practicable

Officers and advisers

Directors

R M Robinow
J C Oakley
M A Parry
D J Blackett
I Chia
D H R Killick

Secretary and registered office

R.E.A. Services Limited
First Floor
32-36 Great Portland Street
London W1W 8QX

Stockbrokers

Mirabaud Securities LLP
33 Grosvenor Place
London SW1X 7HY

Solicitors

Ashurst LLP
Broadwalk House
5 Appold Street
London EC2A 2HA

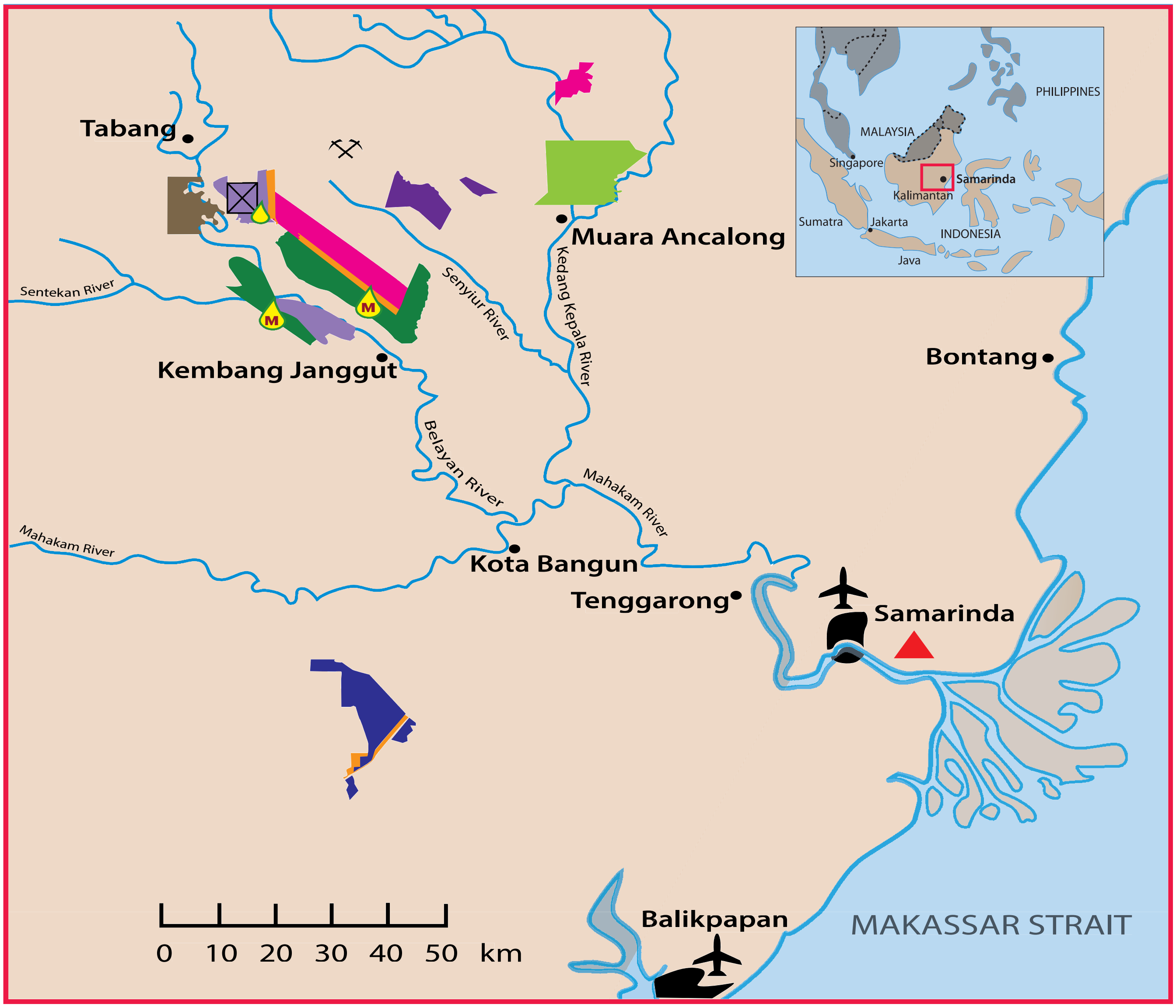
Auditor

Deloitte LLP
2 New Street Square
London EC4A 3BZ

Registrars and transfer office

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Maps



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

Key

- M Methane capture plant
- Oil mill
- Stone quarry
- Tank storage
- **CDM** PT Cipta Davia Mandiri
- **KKS** PT Kartanegara Kumalasakti
- **KMS** PT Kutai Mitra Sejahtera
- **PBJ** PT Putra Bongan Jaya
- **PBJ2** PT Persada Bangun Jaya
- **REAK** PT REA Kaltim Plantations
- **SYB** PT Sasana Yudha Bhakti
- **SYB swap:** land surrender
- **SYB swap:** new PU land

Chairman's statement

The group achieved record production levels in 2014, reflecting the increasing volumes flowing through from the maturing estates augmented by higher throughput of smallholder fruit. Volumes of oil palm fresh fruit bunches ("FFB") and crude palm oil ("CPO") were, respectively, 9 per cent and 15 per cent ahead of 2013.

The results reflected net overall mark to market gains on produce inventory and biological assets some $5.8 million lower than in 2013 and a reduction in gains from exchange rate movements of $7.6 million as compared with the preceding year. The average price of CPO per tonne, CIF Rotterdam, in 2014, was $816 per tonne, against $856 in 2013, but the average price realised by the group for its own CPO production was higher at $665 per tonne against $648 per tonne. This was in part due to lower export duties but also took account of the improved quality of 2014 CPO production.

Good progress was made in the estate operations with costs well controlled during the year. A number of new initiatives were introduced in 2014, including in-house production of compost and of materials for estate infrastructure. These will have an ongoing positive impact on production costs. The recent recruitment of a senior expatriate to head the transport and logistics operations has further strengthened the management team on the estates. In the mills, extensive refurbishment to ensure optimum standards led to a temporary reduction in processing capacity and to some harvesting delays during the second half of the year. The refurbishment programme is now having a discernible impact on the rates of oil extraction.

Extension planting of both the group's land and smallholder land should now proceed at a much faster pace than in the last two years as significantly improved relations with local communities, based on a more consistent and systematic approach, has allowed the group to progress land compensation payments.

To this end, new planting on the higher ground in the land areas of the group company, PT Putra Bongan Jaya ("PBJ"), started towards the end of 2014 and is continuing. Planting up of the low lying areas of PBJ will start shortly as the group can now be confident that the perimeter bunding that is currently under construction to control flooding during the wetter months of the year will be completed well ahead of the next wet season. Some 7,000 hectares are available for planting at PBJ and nurseries are already in place with sufficient seedlings to complete this development. With little land clearing and terracing needed, planting at PBJ should be rapid and very economic. Further significant areas are also now becoming available for planting in the group company, PT Cipta Davia Mandiri.

The group added to its land allocations in 2014 with the purchase of a further 7,714 hectares in the vicinity of the existing land areas. Following recent satisfactory confirmation of the land title in respect of the land held by PT Prasetia Utama ("PU"), which is to be swapped for land currently held by the group company, PT Sasana Yudha Bhakti, documentation is now being progressed to complete the swap. Concurrently, due diligence is being conducted to establish the PU areas to be designated for conservation. Upon completion of the swap, the group's fully titled land bank will total 76,127 hectares with a further 35,419 hectares subject to completion of titling. The directors believe that these areas will support planting of an eventual 60,000 hectares (including existing planted areas) and more if full title can be obtained for the one conditional land allocation of 12,050 hectares that the group holds.

The group continued to generate renewable energy from its methane capture plants to provide power for its operations throughout 2014, largely eliminating the need for diesel generated power on the group's principal estates. Following an inauguration ceremony on 16 April 2015, the group is also supplying electricity to the Indonesian state electricity company for distribution to local villages, enhancing the socio-economic benefits to the communities local to the group's operations.

An operating licence has now been obtained to establish a quarry on the group's stone concession with a view to producing stone for the agricultural operations and for sale to third parties. Contractual arrangements for the provision of quarry services, together with permissions for upgrading of the access road, are under negotiation. Cooperation arrangements for mining the group's principal coal concession by a third party remain in place to permit resumption of mining when coal prices improve.

The early months of 2015 have seen generally lower oil palm crops throughout East Kalimantan and Malaysia and the group's crops have reflected this trend. Crops for April to-date are showing an improvement and the directors are confident that crops will return to normal levels. More challenging are the CPO price, which remains weak, and the recent move by the Indonesian government to impose a levy of $50 per tonne on CPO exports. This levy will be applied in subsidising Indonesian biodiesel production and may well lead, in due course, to higher CPO prices. At such higher prices, export duty will be payable under the existing Indonesian sliding scale of duty and the new export levy will be offset against such duty. However, current CPO prices are below the level at which export duty starts to become payable so that, until prices rise, the new export levy will represent an unwelcome additional cost to the group.

A more positive development for the group's markets is a recent move by the EU to ban the sale of products containing trans-fats. Trans-fats occur when vegetable oils are artificially hardened by hydrogenation. Soybean oil, rape oil and sunflower oil all require hardening before they can be used for shortening and other solid fat applications but CPO does not.

This latest move by the EU can therefore be expected to result in some substitution of CPO for other vegetable oils.

With the continuing improvement in operational efficiencies, increasing planted hectarage and a restructured, strong and experienced management team in place in Indonesia and Singapore, the directors expect that further cost savings will be achievable and that the group will continue to generate good operating margins. The directors are pushing ahead with plans for a public offering of a minority shareholding in the principal operating subsidiary, PT REA Kaltim Plantations ("REA Kaltim"), combined with a listing of REA Kaltim's shares on the Indonesia Stock Exchange in Jakarta. They are also exploring the possibility of a placing of REA Kaltim shares ahead of a listing in order to ensure the availability of funds to continue the extension planting programme pending listing.

The directors recommend the payment of a maintained final dividend in respect of 2014 of 3¾p per ordinary share, to give a total dividend for the year of 7¾p per ordinary share (2013: 7¼p).

Finally, and with some sadness, I have to advise shareholders that this will be my last chairman's statement as I shall be retiring as chairman at the end of the year following my seventieth birthday in December. John Oakley will be stepping down as group managing director at the same time. David Blackett will be succeeding me as chairman and, as long planned, Mark Parry will assume the managing directorship. John Oakley and I will remain on the board of the company as non-executive directors and, for a transitional period, will undertake some additional responsibilities overseeing completion, in John Oakley's case, of the group's new information systems and, in my case, of the Jakarta listing of REA Kaltim. My family's significant shareholding in the company will continue to support the development of the group.

RICHARD M ROBINOW
Chairman

Introduction and strategic environment

Introduction

This strategic report has been prepared to provide holders of the company's shares with information that complements the accompanying financial statements. Such information is intended to help shareholders in understanding the group's business and strategic objectives and thereby assist them in assessing how the directors have performed their duty of promoting the success of the company.

This report should not be relied upon by any persons other than shareholders or for any purposes other than those stated. The report contains forward-looking statements, which have been included by the directors in good faith based on the information available to them up to the time of their approval of this report. Such statements should be treated with caution given the uncertainties inherent in any prognosis regarding the future and the economic and business risks to which the group's operations are exposed.

In preparing this report, the directors have complied with section 414C of the Companies Act 2006. The report has been prepared for the group as a whole and therefore gives emphasis to those matters that are significant to the company and its subsidiaries when taken together.

The report is divided into the following sections:

- Introduction and strategic environment
- Agricultural operations
- Stone and coal operations
- Sustainability
- Finance
- Risks and uncertainties

The balance of this first section discusses the group's business model and resources, its objectives and strategy for achieving these, the market context in which the group operates and the quantitative indicators that the directors consider relevant to assessment of the group's performance. The sections on agricultural and stone and coal operations review the current status of and trends within the group's activities and the group's plans for their further development. "Sustainability" deals with environmental and social issues facing the group while "Finance" provides explanations regarding amounts disclosed in the financial statements, the group's financial resources and its ability to fund its declared strategies. "Risks and uncertainties" itemises those risks and uncertainties currently faced by the group that the directors consider to be material.

Business model and resources

The group is principally engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production of crude palm oil ("CPO") and crude palm kernel oil ("CPKO"). Ancillary to this, the group generates renewable energy from its methane capture plants to provide power for its own operations and also for sale to local villages via the Indonesian state electricity company ("PLN").

The group also holds interests in respect of a stone deposit and three coal mining concessions, all of which are located in East Kalimantan. Detailed descriptions of the group's oil palm and related activities and of its stone and coal interests are provided under, respectively, "Agricultural operations" and "Stone and coal operations" below.

The group and predecessor businesses have been involved for over one hundred years in the operation of agricultural estates growing a variety of crops in developing countries in South East Asia and elsewhere. Today, the group sees itself as marrying developed world capital and Indonesian opportunity by offering investors in, and lenders to, the company the transparency of a company listed on a stock exchange of international standing and then using capital raised by the company (or with the company's support) to develop natural resource based operations in Indonesia from which the group believes that it can achieve good returns.

The group's long involvement in the plantation industry and its knowledge and expertise represent significant intangible resources because they underpin the group's credibility. This assists materially in sourcing capital, in negotiating with the Indonesian authorities in relation to project development and in recruiting management of a high calibre. Other resources important to the group are its established base of operations, large, and uniquely near contiguous, land concessions, an experienced management team familiar with Indonesian regulatory processes and social customs and committed to sustainable practices, and a trained workforce with strong links to the local community.

Objectives and general strategy

The group's objectives are both to provide attractive overall returns to investors in the shares and other securities of the company from the operation and expansion of the group's existing businesses and to foster economic progress in the localities of the group's activities, while maintaining high standards of sustainability. Achievement of these objectives is dependent upon, among other things, the group's ability to generate the operating profits that are needed to finance such achievement.

CPO and CPKO are primary commodities and, as such, must be sold at prices that are determined by world supply and demand. Such prices fluctuate in ways that are difficult to predict and that the group cannot control. The group's operational strategy is therefore to concentrate on minimising unit production costs, without compromising on quality or its objectives as respects sustainable practices, with the expectation that, as a lower cost producer of primary commodities, the group has greater resilience in any downturn in price than competitor producers.

In the agricultural operations, the group adopts a two pronged approach in seeking production cost efficiencies. First, the group aims to capitalise on its available resources by developing its land bank as rapidly as logistical, financial and regulatory constraints permit with a view to utilising the group's existing agricultural management capacity to manage a larger business. Secondly, the group strives to manage its established agricultural operations as productively and efficiently as possible.

The stone and coal mining interests represent group diversifications. The directors believe that quarrying of the stone interest will complement the agricultural operations and can be developed to provide a useful additional revenue source for the group. Following a decision in 2012 to limit further capital committed to the coal mining interests, the group's strategy for those interests is to maximise recovery of capital already committed.

As a financial strategy, the group aims to enhance returns to equity investors in the company by procuring that a prudent proportion of the group's funding requirements is met with prior ranking capital in the form of fixed return permanent preferred capital and debt with a maturity profile appropriate to the group's projected future cash flows.

The group recognises that its agricultural operations, of which the total assets at 31 December 2014 represented some 85 per cent of the group's total assets and which, in 2014, contributed all of the group's profits, lie within a single locality and rely on a single crop. This permits significant economies of scale but brings with it some risks. Whilst further diversification would afford the group some offset against these risks, the directors believe that, for the foreseeable future, the interests of the group and its shareholders will be best served by growing the existing operations. They therefore have no plans for further diversification.

Future direction

The continuing growth of the Indonesian economy and a gradual shift in Indonesian political opinion towards encouraging and potentially mandating increased local ownership of Indonesian oil palm operations, has reinforced the directors' long-held view on the desirability of increasing Indonesian participation in the ownership of the group's agricultural operations through a listing on the Indonesia Stock Exchange of, and public offering of shares in, the company's principal operating subsidiary, PT REA Kaltim Plantations ("REA Kaltim"), which is now also the parent of all of the company's Indonesian plantation subsidiaries.

A new Indonesian plantation law enacted in October 2014, confirming a 100,000 hectare limit on licensed development of oil palms for entities that are not listed and under majority local ownership, should not impact the group in the foreseeable future as it has significant headroom for development within the new limit. However, the directors still believe that there would be significant advantages to an Indonesian listing of REA Kaltim. As well as going some way towards meeting local political aspirations and enhancing the local profile of the group, such a move can be expected to encourage coverage of the group by South East Asian investment analysts and to result in REA Kaltim, as a locally listed company, being treated as a local rather than foreign company for many Indonesian regulatory purposes, in particular with respect to land matters.

Accordingly, the directors have resumed discussions with advisers on how best to structure a public offering in Indonesia and on the appropriate timing for such an offering with the intention that the offering will proceed as soon as practicable.

Introduction and strategic environment

continued

The vegetable oil market context

According to *Oil World*, worldwide consumption of the 17 major vegetable and animal oils and fats increased by 4.2 per cent to 195.6 million tonnes in the year to 30 September 2014. The increased consumption was reflected in increased world production during the same period of 196.4 million tonnes with CPO accounting for 58.5 million tonnes of this (some 30 per cent of the total).

Vegetable and animal oils and fats have conventionally been used principally for the production of cooking oil, margarine and soap. Consumption of these basic commodities correlates with population growth and, in less developed areas, with per capita incomes and thus economic growth. Demand is therefore driven by the increasing world population and economic growth in the key markets of China and India. Vegetable and animal oils and fats can also be used to provide biofuels and, in particular, biodiesel. According to *Oil World*, biofuel production accounts for some 15 per cent of all vegetable and animal oil and fat produced.

The principal competitors of CPO are the oils from the annual oilseed crops, the most significant of which are soybean, oilseed rape and sunflower. Because these oilseeds are sown annually, their production can be rapidly adjusted to meet prevailing economic circumstances with high vegetable oil prices encouraging increased planting and low prices producing a converse effect. Accordingly, in the absence of special factors, pricing within the vegetable oil and fat complex can be expected to oscillate about a mean at which adequate returns are obtained from growing the annual oilseed crops.

Since the oil yield per hectare from oil palms (at between four and seven tonnes) is much greater than that of the principal annual oilseeds (less than one tonne), CPO can be produced more economically than the principal competitor oils and this provides CPO with a natural competitive advantage within the vegetable oil and animal fat complex. Within vegetable oil markets, CPO should also continue to benefit from health concerns in relation to trans-fatty acids. Such acids are formed when vegetable oils are artificially hardened by partial hydrogenation. Poly-unsaturated oils, such as soybean oil, rape oil and sunflower oil, require partial hydrogenation before they can be used for shortening and other solid fat applications but CPO does not. The EU has recently introduced proposed legislation to ban the sale of products containing trans-fats.

In recent years, biofuel has become an important factor in the vegetable oil and animal fat markets, not so much because of the oils and fats that it currently consumes, although this is not insignificant, but because the size of the energy market means that biofuel can provide a ready outlet for large volumes of oils and fats over a short period when surpluses in supply depress prices to levels at which biofuel can be produced at a cost that is competitive with prevailing petroleum oil prices. There is a growing body of evidence that, in recent years, vegetable oil and petroleum oil prices have moved in tandem and that petroleum oil prices create a floor for vegetable and animal oil and fat prices at the level at which such oils and fats can be converted to biofuel at an overall cost (net of any available subsidies) that is competitive with the prevailing price of petroleum oil.

The directors believe that demand for, supply of and consequent pricing of, vegetable and animal oils and fats will ultimately be driven by fundamental market factors. However, they also recognise that normal market mechanisms can be affected by government intervention. It has long been the case that some areas (such as the EU) have provided subsidies to encourage the growing of oilseeds and that such subsidies have distorted the natural economics of producing oilseed crops. More recently there have been actions by governments attempting to reduce dependence on fossil fuels. These have included steps to enforce mandatory blending of biofuel as a fixed minimum percentage of all fuels and subsidies to support the cultivation of crops capable of being used to produce biofuel.

A graph of CIF Rotterdam spot CPO prices for the last ten years, as derived from prices published by Oil World, is shown on the adjacent page. The monthly average price over the ten years has moved between a high of $1,292 per tonne and a low of $402 per tonne. The monthly average price over the ten years as a whole has been $802 per tonne.

The CPO price, CIF Rotterdam, having started 2014 at $900 per tonne, edged up during the early months of the year towards $1,000 per tonne but then fell progressively to end the year at $700. It weakened further in January 2015 but subsequently appeared to stabilise and currently stands at around $662.5. Bearish factors have been a record soybean crop in the US and the fall in the petroleum oil price that has reduced the competitiveness of biodiesel manufactured from vegetable oil. Latterly, some relief has been afforded by an increase in the subsidy for biodiesel in Indonesia from Rp1,500 ($0.12) per litre to Rp 4,000 ($0.31) per litre. CPKO prices have also fallen since the start of 2014 but have been supported to an extent by reduced availability of coconut oil, the principal competitor to CPKO, following damage sustained by the coconut growing areas of the Philippines in a cyclone in November 2013. The CPKO price currently stands at $980 compared to $1,170 at the start of 2014.

Throughout 2015, Indonesia continued to apply its previously established sliding scales of duty on exports of CPO and CPKO. Under these scales, no export duty is payable when the price of CPO, CIF Rotterdam, falls below approximately $750 per tonne. However, the Indonesian government has recently announced the introduction of a new export levy of $50 per tonne to be imposed (with immediate effect) on all export sales of CPO and CPKO regardless of selling price. This levy will be offset against export duties payable under the established sliding scale. As the starting rate of export duty

Crude palm oil monthly average price

at above the threshold of $750 per tonne is 7.5 per cent, this means that no additional export costs will be incurred once CPO prices rise above that threshold.

Revenues from the new export levy will be paid to a newly established special fund called the "CPO Supporting Fund" and will be applied principally towards funding government subsidies for biodiesel. Concurrently with the announcement of the new export levy, the government also announced an increase in the mandatory biodiesel content in diesel from 10 per cent to 15 per cent.

There are uncertainties both as to the availability of Indonesian capacity to produce and blend higher quantities of biodiesel and as to how the new higher subsidies will be disbursed. Probably for this reason, the announcement of the increased mandatory blending requirement had little immediate impact on CPO prices. In due course, however, the Indonesian government's clear commitment to increase significantly the consumption of CPO in Indonesian domestic biofuel may well absorb significant volumes of CPO and, together with an expected slowdown in the growth of Indonesian CPO production, could lead to stronger CPO prices.

The Indonesian context

The 2014 Indonesian presidential election passed off peacefully, despite the losing candidate, Prabowo Subianto, launching an unsuccessful challenge against the result in the Supreme Court of Indonesia. The new government of President Joko ("Jokowi") Widodo is promoting a strong growth strategy, fiscal balance and investment in infrastructure and healthcare. Key structural reforms being implemented include greater transparency in the appointment of top civil servants, cutting administration costs and revamping operations in key ministries. All of these changes are specifically aimed at increasing the attractiveness of Indonesia to foreign direct investment. Indonesia currently ranks 114th out of 189 countries in the World Bank's ranking of countries by ease of doing business.

An early government initiative was a reduction in Indonesia's expensive fuel subsidies with the subsidy for petrol cut by 31 per cent and that for diesel by 36 per cent. At the same time, the government announced a series of new infrastructure projects and social welfare initiatives. Commentators expect that increased focus on health and social assistance will reduce the poverty rate from the current 12 per cent to 8 per cent by 2018. Despite these positive initial policies, the government's effectiveness is constrained by its lack of a majority in the legislature.

Introduction and strategic environment

continued

The year on year inflation rate for 2014 was 8.4 per cent (2013: 8.4 per cent) reflecting a lower rate in the first half of 2014 followed by a sharply increased rate in the second half of the year, due largely to the increase in fuel prices. The rate fell back over the first quarter of 2015 to 6.4 per cent at the end of March. Bank Indonesia is targeting a rate for 2015 of between 3.0 to 5.0 per cent but an average of independent forecasts is predicting a rate of 7.5 per cent. The current account deficit reduced slightly to 3.1 per cent of gross domestic product ("GDP"), or $6.8 billion, in the third quarter of 2014 and is projected to end 2015 at 2.8 per cent of GDP due largely to the reduction in fuel subsidies and reduced oil imports.

The Indonesian Rupiah has continued to weaken and fell to a low of Rp13,242 = $1 on 16 March 2015, 16.6 per cent below the level on the same day in 2014. It has since rallied slightly but remains at levels significantly below those of a year ago suggesting that the current government is more tolerant of a weak rupiah than its predecessor probably as a measure to support exports and depress imports and hence strengthen the balance of payments which is under pressure.

The global downturn in commodity demand and prices has severely impacted Indonesia's commodity exports and no strong recovery is expected in the short term. However, President Jokowi's domestic growth strategy, coupled with Indonesia's continued strong private consumption, is expected to largely offset these international factors, with gross domestic product growth forecasts set at 5.4 per cent for 2015, modestly ahead of the 5.0 per cent recorded in 2014, the slowest rate of growth since the third quarter of 2009.

In the regions, the system for the election of regency heads (Bupati) has been changed so that elections will in future always be held in December of the relevant election year. In East Kalimantan, Kutai Kartenegara regency will hold elections in December 2015; Kutai Timur and Kutai Barat regencies will hold Bupati elections in December 2016. The next East Kalimantan Gubernatorial election will be in 2018. Minimum wage increases for 2015 have recently been announced as 10.8 per cent in Kutai Kartenegara, 5.7 per cent in Kutai Barat and 8.2 per cent in Kutai Timur.

The 2014 interim report referred to a draft plantation law that had been tabled, although not at that time enacted, in the Indonesian House of Representatives that included provisions which, if passed, would have restricted foreign ownership of oil palm plantations in Indonesia to 30 per cent. The draft law was subsequently passed in September 2014, but in modified form so that the 30 per cent cap on foreign investment was not included and the limit on foreign ownership remains at 95 per cent. However, the law mandates the Government to prioritise domestic investment, protect local customary rights, empower local farmers and set a cap on foreign investment in plantations at some point in the future.

Indonesian CPO production in 2015 is forecast to increase by 5 per cent to 31 million tonnes as compared with 29.5 million tonnes in 2014. This will be a lower percentage increase than in recent years reflecting reduced crop expectations caused by the adverse weather conditions experienced in early 2015 (following on from some sustained dry periods in 2014) and falling yields on ageing plantations (particularly in Sumatra) that are partly offsetting increased production from younger plantings.

Delivery of smallholder crop

Evaluation of performance

In seeking to meet its expansion, efficiency and sustainability objectives, the group sets operating standards and targets for most aspects of its activities and regularly monitors performance against those standards and targets. For many aspects of the group's activities, there is no single standard or target that, in isolation from other standards and targets, can be taken as providing an accurate continuing indicator of progress. In these cases, a collection of measures has to be evaluated and a qualitative conclusion reached.

The directors do, however, rely on regular reporting of certain key performance indicators that are comparable from one year to the next, in addition to monitoring the key components of the group's profit and loss account and balance sheet. These performance indicators are summarised in the table below.

Quantifications of the indicators for 2014 with, where available, comparative figures for 2013 are provided in the succeeding sections of this report, with each category of indicators being covered in the corresponding section of the report.

Performance indicator	Measurement	Purpose
Agricultural operations		
New extension area planted	The area in hectares of new land planted out during the applicable period	To measure performance against the group's expansion objective
Crop of fresh fruit bunches ("FFB") harvested	The weight in tonnes of FFB delivered to oil mills from the group's estates during the applicable period	To measure field efficiency and assess the extent to which the group is achieving its objective of maximising output from its operations
CPO extraction rate achieved	The percentage by weight of CPO extracted from FFB processed	To measure mill efficiency and assess the extent to which the group is achieving its objective of maximising output from its operations
Palm kernel extraction rate achieved	The percentage by weight of palm kernels extracted from FFB processed	To measure mill efficiency and assess the extent to which the group is achieving its objective of maximising output from its operations
CPKO extraction rate achieved	The percentage by weight of CPKO extracted from palm kernels crushed	To measure mill efficiency and assess the extent to which the group is achieving its objective of maximising output from its operations
Stone and coal operations		
Stone or coal produced	The weight in tonnes of stone or coal extracted from each applicable concession during the applicable period	To measure production efficiency and assess the extent to which the group is achieving its objective of maximising output from its operations
Sustainability		
Work related fatalities	Number of work related fatalities during the applicable period	To measure the efficacy of the group's health and safety policies
Smallholder percentage	The area of associated smallholder plantings expressed as a percentage of the planted area of the group's estates	To measure the performance against the group's smallholder expansion objective
Greenhouse gas emissions per tonne of CPO and per planted hectare	Greenhouse gas emissions measured in tonnes of CO_2 equivalent divided, respectively, by the weight of CPO extracted from FFB processed and the number of group planted hectares supplying the group mills	To measure the intensity of the group's greenhouse gas emissions
Finance		
Return on adjusted equity	Profit before tax for the period less amounts attributable to preferred capital expressed as a percentage of average total equity (less preferred capital) for the period	To measure the group's financial performance
Net debt to total equity	Borrowings and other indebtedness (other than intra group indebtedness) less cash and cash equivalents expressed as a percentage of total equity	To assess the risks of the group's capital structure

Strategic report

Agricultural operations

Structure

All of the group's agricultural operations are located in East Kalimantan and have been established pursuant to an understanding dating from 1991 whereby the East Kalimantan authorities undertook to support the group in acquiring, for its own account and in cooperation with local interests, substantial areas of land in East Kalimantan for planting with oil palms.

The oldest planted areas, which represent the core of the group's agricultural operations, are owned through REA Kaltim in which a group company holds a 100 per cent economic interest. With the REA Kaltim land areas approaching full utilisation, over the four year period from 2005 to 2008 the company established or acquired five additional Indonesian subsidiaries, each potentially bringing with it a substantial allocation of land in the vicinity of the REA Kaltim estates.

Each of these five subsidiaries is currently owned as to 95 per cent by REA Kaltim and 5 per cent by Indonesian local investors. A further subsidiary PT Persada Bangun Jaya acquired in 2012 and with additional land allocations will, upon completion of necessary legal formalities, be owned as to at least 95 per cent by the group and as to the balance by a local investor. A diagram showing the structure of the REA Kaltim sub-group is set out below.

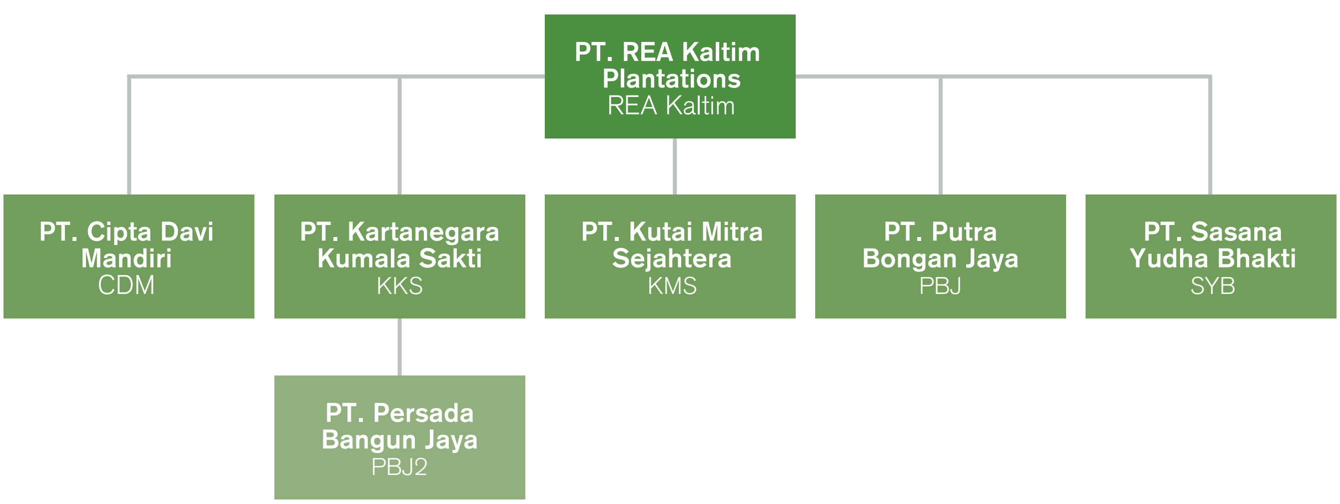
Land areas

The operations of REA Kaltim are located some 140 kilometres north west of Samarinda, the capital of East Kalimantan, and lie either side of the Belayan river, a tributary of the Mahakam, one of the major river systems of South East Asia. The SYB area and one KKS area are contiguous with the REA Kaltim areas and together form a single site. All of these areas fall within the Kutai Kartanegara regency of East Kalimantan. The PBJ area sits some 70 kilometres to the south of the REA Kaltim areas in the West Kutai regency of East Kalimantan while the CDM and KMS areas and a second KKS area are located in close proximity of each other in the East Kutai regency of East Kalimantan less than 30 kilometres to the east of the REA Kaltim areas. There are three strips of land pertaining to PBJ2, two of these lie adjacent to the land areas held by REA Kaltim and SYB, while the third borders the PBJ land area.

At present, the REA Kaltim, SYB, KKS, CDM and KMS areas are most readily accessed by river but a road bridge over the Mahakam at Kota Bangun, completed in 2005, may eventually be linked up to provide road access. A bridge across the Senyiur River links REA Kaltim and the KMS, CDM and second KKS areas. The PBJ area is easily accessible by road.

Although the 1991 understanding established a basis for the provision of land for development by, or in cooperation with, the group, all applications to develop previously undeveloped land areas have to be agreed by the Indonesian Ministry of Forestry and to go through a titling and permit process. This process begins with the grant of an allocation of Indonesian state land by the Indonesian local authority responsible for administering the land area to which the allocation relates (an "*izin lokasi*"). Allocations are normally valid for periods of between one and three years but may be extended if steps have been taken to obtain full titles.

REA Kaltim sub-group



After a land allocation has been obtained (either by direct grant from the applicable local authority or by acquisition from the original recipient of the allocation or a previous assignee), the progression to full title involves environmental and other assessments to delineate those areas within the allocation that are suitable for development, settlement of compensation claims from local communities and other necessary legal procedures that vary from case to case. The titling process is then completed by a cadastral survey (during which boundary markers are inserted) and the issue of a formal registered land title certificate (an "hak guna usaha" or "HGU"). Once full title has been obtained, central government and local authority permits are required for the development of the fully titled land. These permits are often issued in stages.

During 2014, the overall area of the group's fully titled agricultural land remained at 70,584 hectares. In addition, at 31 December 2014, the group held land allocations subject to completion of titling totalling 37,631 hectares. This figure includes 7,714 hectares that were acquired during 2014 and for which the process of obtaining full title has been initiated. Of this additional area, 2,564 hectares were acquired by PBJ and are adjacent to PBJ's fully titled land areas and 5,150 hectares were acquired by KKS adjacent to CDM's fully titled land areas. These additions will mean that when PBJ and the combined CDM and new KKS areas are eventually fully planted, the resultant planted areas will form larger and more efficient contiguous units than would previously have been the case.

Certain of the land areas held by SYB overlap with mineral rights held by an Indonesian third party company, PT Ade Putra Tanrajeng ("APT"). Pursuant to a land swap agreement reached in 2011 between SYB and APT, it was agreed that SYB would swap 3,554 hectares of fully titled land and 2,212 hectares of untitled land allocations (both being areas the subject of the overlapping rights), in exchange for the transfer to SYB of ownership of PT Prasetia Utama ("PU"), an associate of APT, and thus, indirectly, for the fully titled land areas of 9,097 hectares held by PU. The PU land is located on the southern side of the Belayan River opposite the SYB northern areas that are to be retained and is linked by a government road to the southern REA Kaltim areas.

Efforts to bring the swap arrangement to a conclusion and to proceed with the agreement reached in 2014 for the implementation of the swap were held up by the need to confirm continuation of the land titles within PU. The necessary confirmation has now been obtained and documentation to complete the swap is being progressed. Concurrently, survey work is in hand to identify the areas to be designated for conservation.

The breakdown of the land areas held by the group as they currently are and as they are expected to be following completion of the SYB land swap agreement is set out below:

Group land	Pre swap Hectares	Post swap Hectares
Fully titled land		
CDM	9,784	9,784
KMS	7,321	7,321
PBJ	11,602	11,602
PU	–	9,097
REA Kaltim	30,106	30,106
SYB	11,771	8,217
	70,584	**76,127**
Land subject to completion of titling		
CDM	6,280	6,280
KKS (area adjacent to CDM)	5,150	5,150
KKS (provisional allocation)	12,050	12,050
KMS	1,964	1,964
PBJ	2,564	2,564
PBJ2	7,411	7,411
SYB	2,212	–
	37,631	**35,419**

The KKS provisional allocation is conditional not only upon satisfaction of the normal titling requirements but also upon completion of a necessary rezoning of the area concerned. A substantial proportion of the PBJ2 land allocation will be transferred to smallholder cooperatives.

Titling of the not yet fully titled land allocations may be expected to result in full titles being granted to only part of the allocated areas as land the subject of conflicting claims or deemed unsuitable for oil palm cultivation may be excluded. Moreover, not all of the areas in respect of which full HGU titles are issued can be planted with oil palms. Some fully titled land may be unsuitable for planting, a proportion will be set aside for conservation and a further proportion will be required for roads, buildings and other infrastructural facilities. The directors believe that the 76,127 hectares of fully titled land expected to be held following completion of the SYB land swap agreement, together with the land allocations listed above (but excluding the KKS provisional land allocation), will permit extension of the group's existing oil palm planting to an eventual total area approaching 60,000 hectares. If the KKS provisional allocation becomes available for development, this could be expected to provide an additional 7,000 hectares.

With land prices rising and increasing interest in plantation development, land is much less available than was the case in 1991 when the group was first established in East Kalimantan. Moreover, the Indonesian government is now applying a "use it or lose it" policy to land. Pursuant to this policy, land allocations and titles may be rescinded if the land concerned is not utilised within a reasonable period for the purposes for which it was allocated. The group must therefore be careful in expanding its land bank to ensure that it can demonstrate clear plans for the development of all of its

Agricultural operations
continued

undeveloped land holdings in addition to monitoring its compliance with the new regulations in respect of the limit on foreign ownership of plantation land as referred to under "Future direction" in "Introduction and strategic environment" above.

Land development

Areas planted as at 31 December 2014 amounted in total to 34,614 hectares. Of this total, mature plantings comprised 28,275 hectares having a weighted average age of 12 years. A further 860 hectares planted in 2011 was scheduled to come to maturity at the start of 2015.

The breakdown by planting year of the total of 34,614 planted hectares (which excludes planted areas to be relinquished by SYB upon completion of the SYB land swap agreement described under "Land areas" above) is shown below:

Planted areas	Hectares
Mature areas	
1994	416
1995	1,956
1996	2,272
1997	2,479
1998	4,829
1999	351
2000	874
2004	3,190
2005	2,279
2006	3,362
2007	3,455
2008	991
2009	461
2010	1,360
	28,275
Immature areas	
2011	860
2012	2,140
2013	2,555
2014	784
	34,614

Planted areas that complete a planned planting programme for a particular year but are planted in the early months of the succeeding year are normally allocated to the planting year for which they were planned. However, 213 hectares of late 2011 plantings at PBJ have been reclassified as 2012 plantings. It was decided during 2014 to abandon a total of 232 hectares of flood prone areas forming part of the 2009 and 2010 plantings at CDM and these have been excluded from the above table.

Plantings in KMS were extended to some 4,500 hectares in 2014 and there remain some additional areas to be planted so that in due course total planted hectarage should amount to around 5,800 hectares. These figures include some 800 hectares that will be transferred to village cooperatives.

Development of the group's newer land areas held by PBJ and CDM and the allocation of land for smallholder cooperatives proceeded at a slower pace in 2014 than the group would have liked although the group did extend its planted areas by 784 hectares.

In PBJ, where preparations for further planting began in earnest at the end of 2013 with the setting up of a nursery and mobilisation of contractors for land clearing, progress was impeded in 2014 by the need to address some villagers' concerns regarding the location of village cooperative developments, as well as to settle one late villager land compensation claim. As work progressed on the construction of a new arterial road through the property and it became possible to undertake more detailed surveys of the topography, it became apparent that it was essential to establish a methodology for the control of flooding in the lower lying areas of PBJ. Then, late in 2014, new legislation enacted by the Ministry of Forestry brought in a requirement that plantation companies conduct a complete analysis of any land containing standing timber rather than extrapolating from analyses of sample areas, as had previously been permitted.

Having established that large areas to be developed at PBJ do not contain standing timber, extension planting on the higher areas of PBJ is continuing. At the same time, bunding, which will eventually run to some 20 kilometres, is being constructed along certain boundaries to control water levels in the low lying areas. Construction is advancing at a rate of about 5 kilometres per month and to-date, almost 10 kilometres of bunding have been completed. The group will commence planting in the low lying areas ahead of completion of the bunding as the flooding that the bunding is designed to prevent normally occurs only in the wetter months of October to April and the group can now be confident that the bunding will be completed in good time to be available to control flooding from October 2015 onwards. Accordingly, with the weather now becoming drier, the group will shortly commence planting in the low lying areas while maintaining the existing planting programme in higher areas. A substantial proportion of PBJ requires little land clearing and no terracing so that planting should be very economic and proceed rapidly.

In CDM, it has taken time to delineate and establish appropriate measures to manage the conservation reserves so that valuable wetlands are preserved. In the meantime, work is underway to satisfy the recent timber analysis legislation for areas that are available for planting so that early development of an additional 1,000 hectares may proceed.

Although CPO prices are currently depressed, at current cost levels extension planting in areas adjacent to the existing developed areas still offers the prospect of good returns. Accordingly, it remains the policy of the directors that, subject to financial and logistical constraints, the group should continue its expansion and should aim over time to plant with oil palms all suitable undeveloped land available to the group (other than areas set aside by the group for conservation). Such expansion will, however, involve a series of discrete annual decisions as to the area to be planted in each forthcoming year and the rate of planting may be accelerated or scaled back in the light of prevailing circumstances. Moreover, the group's capacity for extension development is likely to remain dependent upon the rate at which the group can make additional land areas available for planting.

Expansion of smallholder cooperatives is highly complex and has been slow owing to a number of factors. Significant progress is being made so that development may press ahead in 2015.

Processing and transport facilities

The group currently operates three oil mills in which the FFB crops harvested from the mature oil palm areas are processed into CPO and palm kernels. The two older mills date from 1998 and 2006 respectively and each is designed to have effective processing capacity of 80 tonnes per hour. The third mill, operating since 2012, has a current capacity of 40 tonnes per hour but is currently being expanded to double its capacity to 80 tonnes per hour with completion expected in 2016.

A number of engineering and operational deficiencies, which were identified in the mills during 2014, are being addressed to ensure optimum standards for grading and processing of FFB. Extensive refurbishment of one of the boilers in each of the two older mills has been completed and both boilers are now back in service and providing sufficient steam for current processing requirements. Following on from this, the second boilers in these mills are similarly undergoing refurbishment (although less extensive in nature) so that, once the works are completed, there will be sufficient resilience in both mills to allow for routine boiler maintenance while maintaining the design throughputs.

Other essential works during 2014 included the construction of a second loading ramp in the oldest mill to facilitate the complete rather than sample grading of all crop delivered for processing by third party suppliers of FFB. Following commissioning of this new loading ramp, the existing loading ramp is currently being refurbished. Other upgrading and maintenance work in the mills is on-going, with enhanced security systems and flow meters to monitor throughput due for installation during 2015.

Steps are being taken to double the processing capacity of the newest oil mill with effect from 2016. This should ensure that the three existing mills together have, for the immediate future, sufficient processing capacity to handle all crop from the group's own estates and from the growing number of maturing smallholder plantings in the vicinity.

Once the recent plantings at KMS and the existing and planned plantings at CDM reach a certain level of maturity, a further oil mill is likely to be needed to process the additional FFB production from these new areas. The PBJ areas are too far away from the group's other planted areas for PBJ fruit to be processed in any of the group's three existing mills or prospective fourth mill. It is planned that early fruit from PBJ will be sold to neighbouring mills (of which there are several) but, as FFB production from PBJ grows, it is expected that PBJ will need its own oil mill. The directors do not currently foresee either of the two further oil mills that may eventually be needed being required before 2019.

Two of the group's oil mills incorporate, within the overall facilities, palm kernel crushing plants in which palm kernels are further processed to extract the CPKO that the palm kernels contain. The processing of kernels into CPKO avoids the material logistical difficulties and cost associated with the transport and sale of kernels. Each kernel crushing plant has a final design capacity of 150 tonnes of kernels per day which is sufficient to process kernel output from the group's three oil mills. Total installed capacity is currently 250 tonnes per day.

The group maintains a fleet of barges for transport of CPO and CPKO. The fleet is used in conjunction with tank storage adjacent to the oil mills and a transhipment terminal owned by the group downstream of the port of Samarinda. The terminal jetty, which was built in 2000, is currently being refurbished and extended to ensure that it can accommodate increased traffic flow as the group expands. The barge fleet now comprises one larger vessel of 4,000 tonnes, which the group time charters, and a number of smaller vessels, ranging between 750 and 2,400 tonnes, which are owned or chartered by the group. The smaller barges can be used for transporting CPO and CPKO from the upriver operations to points downstream for transfer either to the transhipment terminal or directly to buyers' own vessels. Both the 4,000 tonne barge and the 2,400 tonne barge are equipped for sea voyages and can be used to make deliveries to customers in other parts of Indonesia and overseas. On occasions, the group also time charters barges for additional shipments and to provide temporary storage if required.

The directors believe that flexibility of delivery options is helpful to the group in its efforts to optimise the net prices, FOB port of Samarinda, that it is able to realise for its produce. Moreover, the group's ability itself to deliver CPO and CPKO allows the group to make sales without the collection delays sometimes experienced with FOB buyers.

Most CPO and CPKO is delivered either to the group's transhipment terminal in Samarinda for collection by customers or to refineries or traders in Balikpapan. The majority of CPO sales are now made to Indonesian refineries that can be easily accessed from the group's estates and to which the voyage time is in most cases shorter than to East Malaysia where historically the majority of sales were made.

During periods of lower rainfall (which normally occur for short periods during the drier months of May to August of each year), river levels on the upper part of the Belayan become volatile and CPO and CPKO at times have to be transferred by road from the mills to a point downstream where year round loading of barges of up to 2,000 tonnes is possible. The group maintains its own fleet of trucks for this purpose.

Agricultural operations

continued

The group has for many years owned a riverside site some 70 kilometres downstream at Pendamaran that is suitable for development as a loading point. In past years, the last stretch of the road from the estates to Pendamaran was inadequate to carry heavy vehicles and the group relied on third party facilities slightly closer to the estates for downstream loading during drier periods. During 2014, the government completed improvements to the hitherto impassable final section of the road and the group decided to save the costs of renting the third party loading facilities and switch its downstream loading to Pendamaran. This required an agreement with the local authority regarding road maintenance. This was duly concluded but only after a delay resulting in some hiatus in transfers downstream of CPO and CPKO and a build-up in estate stocks during what turned out to be a longer than normal drier period. In the event, all stocks were successfully evacuated without material loss of volume but some potential revenue was lost as a result of the period of higher stockholding coinciding with a period of falling CPO prices.

The group now plans to develop permanent loading facilities at Pendamaran. To provide resilience, it also intends to establish an alternative route from the estates to Pendamaran so that, as volumes increase, the group can continue to evacuate all palm product output promptly during drier periods.

The current river route downstream from the mature estates follows the Belayan River to Kota Bangun (where the Belayan joins the Mahakam River), and then the Mahakam through Tenggarong, the capital of the Kutai Kartanegara regency, Samarinda, the East Kalimantan provincial capital, and ultimately through the Mahakam's mouth into the Makassar Straits. When a fourth oil mill is eventually constructed to process FFB from the newer estates at KMS and CDM, the CPO and CPKO from that mill is likely to be evacuated by an alternative upstream route via the Kedang Kepala River which joins the Mahakam between Kota Bangun and Tenggarong.

FFB delivery

Crops and extraction rates

The following table shows the FFB crops, the CPO, palm kernel and CPKO production, resultant extraction rates and annual rainfall for 2014, together with comparative figures for 2013:

FFB crops (tonnes)	2014	2013
Group	631,728	578,785
External purchases	149,002	99,348
Total	780,730	678,133
Production (tonnes)		
CPO	169,466	147,649
Palm kernels	35,764	30,741
CPKO	12,596	11,393
Extraction rates (percentage)		
CPO	21.7	21.8
Palm kernels	4.6	4.5
CPKO	38.1	36.8
Rainfall (mm)		
Average across the estates	2,606	3,385

Production levels in 2014 were comfortably ahead of 2013 levels, but after a period of steady improvement in the first half of the year, operations were temporarily set back by two factors. First, as noted under "Processing and transport" above, several weeks of particularly dry weather during September and October caused some disruption to CPO and CPKO movements downstream and, secondly, the on-going programme of refurbishment in the group's oil mills restricted the volume of fruit that the group was able to process, during the peak cropping period spanning the year end. As a consequence harvesting rounds were delayed and the levels of crop harvested were lower than they would otherwise have been.

The widely predicted recurrence of an El Nino did not materialise in 2014 but rainfall across the estates for the whole of the year, was substantially below the average of 3,385 mm for the previous year and the average of 3,560 mm for the preceding eight years. However, the return of heavy rains in mid November brought welcome relief. It remains to be seen whether moisture stress during the drier periods will affect the overall crop in 2015.

Whilst the processing inefficiencies that have resulted from the necessary refurbishment of boilers distort comparisons, it is clear that the continuing focus on the mills is starting to have a positive impact on extraction rates. Further progress should be made over the coming months of 2015.

A steady stream of third party FFB from smallholders and other estates in the vicinity of the group's estates is continuing to provide additional throughput and revenue.

The FFB crop for the period from the beginning of 2015 to the end of March 2015 amounted to 131,207 tonnes, against 150,635 tonnes for the same period in 2014. Reports indicate that oil palm crops generally in East Kalimantan and East Malaysia during this period have been well down on the preceding year with many companies experiencing crop reductions of 10 to 15 per cent probably because of unusually high rainfall (the highest for five years) in February following on from the extended dry period in September and October 2014. In the group's case, crops for January were also affected by limitations in processing capacity but this was no longer a factor in February and March. Daily cropping rates in April to date have shown an improvement.

Revenues

In 2014, as in 2013, substantially all of the group's CPO and all CPKO was sold in the local Indonesian market, reflecting continuing strong demand from easily accessible local refiners and the delivery efficiencies achievable from selling to this nearby customer base. The group has established relationships with each of the four refineries now operating in the region. Competition between these refineries ensures that prices achieved are competitive. Local sales do not attract export duty but arbitrage between the local and international markets means that the price differential between the markets is normally an almost exact reflection of the additional imposts incurred on exports.

CPO and CPKO sales are made on contract terms that are comprehensive and standard for each of the markets into which the group sells. The group therefore has no current need to develop its own terms of dealing with customers.

Revenues continued to benefit from premia achievable on sales of ISSC certified CPO which averaged $13.6 per tonne on sales of 75,425 tonnes in 2014. In addition, the group sold 9,563 Greenpalm certificates (5,000 certificates at $60 each and 4,563 certificates at $35 each) in respect of RSPO certified CPKO using the RSPO book and claim system as further detailed under "Certification" in "Sustainability" below.

As a general rule, all CPO and CPKO produced by the group is sold on the basis of prices prevailing immediately ahead of delivery but, on occasions when market conditions appear favourable, the group may make forward sales at fixed prices. The fact that export duty is levied on prices prevailing at date of delivery, not on prices realised, does act as a disincentive to making forward fixed price sales since a rise in CPO prices prior to delivery of such sales will mean that the group will not only forego the benefit of a higher price but may also pay export tax on, and at a rate calculated by reference to, a higher price than it has obtained. No deliveries were made against forward fixed price sales of CPO or CPKO during 2014 and the group currently has no sales outstanding on this basis.

The average prices per tonne realised by the group in respect of 2014 sales of CPO and CPKO, adjusted to FOB, Samarinda, and net of export duty were, respectively, $665 (2013: $648) and $951 (2013: $755). Delays in harvesting fruit, as referred to under "Crops and extraction rates above", had a negative impact on the free fatty acid ("FFA") content of oil production in the final quarter of 2014 and the early part of 2015 with a consequent negative impact on prices realised for the production of those periods. Revenues for 2014 were further impacted by the general decline in the CPO price during the year.

Operating efficiency

The group's revenue costs principally comprise: direct costs of harvesting, processing and despatch; direct costs of upkeep of mature areas; estate and central overheads in Indonesia; the overheads of the UK head office; and financing costs. The group's strategy, in seeking to minimise unit costs of production, is to maximise yields per hectare, to seek efficiencies in overall costs and to spread central overheads over as large a cultivated hectarage as possible.

The level of rainfall in the areas of the agricultural operations provides the group with some natural advantage in relation to crop yields. The group endeavours to capitalise on this advantage by constantly striving to achieve economic efficiencies and best agricultural practice. In particular, careful attention is given to ensuring that new oil palm areas are planted with high quality seed from proven seed gardens and that all oil palm areas receive the upkeep and fertiliser that they need.

Methane from the group's two methane capture plants, which were commissioned in 2012, drives four generators (each of one megawatt capacity) generating power for the group's own use. These generators have enabled the group to achieve material savings in energy costs with consumption of diesel oil for electricity generation largely eliminated on the REA Kaltim and SYB estates.

Sales of carbon credits are no longer being pursued following the decline in their economic value. Instead, the group has installed an additional three megawatts of generating capacity dedicated to the Indonesian state electricity company ("PLN") for PLN to use in supplying power to 21 villages surrounding the group's estates by way of a local grid. Construction of the reticulation to connect the group's generating stations to the adjacent villages was largely completed by PLN during 2014 and, following finalisation of the related licences and an inaugural ceremony on 16 April 2015, electricity can now be distributed to many of the agreed villages. Payment for the power so utilised is to be made by PLN to the company and the district power company, Perusahaan Daerah Kelistrikan Dan Sumber Daya Energi Kabupaten Kutai Kartanegara ("PKSDE"), at fixed rates determined by Indonesian state regulations. These rates have recently been revised downwards and will now equate to about $700,000 per megawatt year. PLN may, in due course, be able to increase its power capacity requirement to six megawatts.

Agricultural operations
continued

Current methane production is more than double that needed to drive the installed generators (including the three generators dedicated to PLN). Moreover, utilisation of methane production could be further increased by erecting a third methane capture plant in the group's most recently constructed mill. Accordingly, the group continues to seek opportunities for cost reduction from the use of surplus methane. In particular, the group intends to convert its vehicle fleet to run on a biomethane and diesel mix, which has the potential to reduce diesel consumption in the group's vehicles by some 70 per cent.

Compost produced from CPO and CPKO by-products has, in recent years, provided an efficient replacement for a useful proportion of the inorganic fertiliser that the group would otherwise consume. During 2014, the group took over responsibility for the composting operations from an external contractor. This has involved some capital expenditure on equipment used for the composting operations but is expected to result in material cost savings going forward. The area in which compost was substituted for inorganic fertiliser continued to increase during 2014.

Other cost saving initiatives that have been implemented by the group in recent years include measures to reduce the use of pesticides, increased mechanical handling of FFB collection and transport and the establishment of an in-house road maintenance capability. A number of initiatives were introduced in 2014 to achieve further economies by switching to in house production of harvester bridges and bricks for housing (in the latter case using a mixture of cement and boiler ash from the mills). Development of the stone quarry concession, described under "Stone and coal operations" below, should permit further economies in respect of building and maintenance of the group's infrastructure.

Following a substantial increase in the minimum wage in East Kalimantan of 49 per cent in 2013 and a further increase of some 11 per cent in 2014, the combined increase announced by the national and provincial authorities for 2015, as it affects the group, is approximately 10 per cent. This increase, a need to maintain the differentials for those of the group's employees paid at a level above the minimum wage and a requirement to ensure that the group's wages remain competitive with the market has meant that the group's employment costs, which represent about one third of the cost of sales attributable to the group's agricultural operations, continue to rise in Indonesian rupiah terms. During 2014, this rise was mitigated in US dollar terms by the weakness of the rupiah against the US dollar but, nevertheless, the group continues to seek labour efficiencies wherever possible.

An important tool in achieving such efficiencies is likely to be the new information system in which the group has been investing for several years. Installation of this system, which integrates the recording and reporting of operational and accounting information, is expected to be completed during 2015. It is already providing much greater insight into estate activities than has hitherto been possible and this is facilitating the identification of potential savings and efficiencies.

Nursery at PBJ

Bunding in PBJ

Stone and coal operations

Concessions

The group holds interests in respect of a stone deposit and three coal mining concessions, all of which are located in East Kalimantan in Indonesia. The coal mining concessions comprise a high calorific value deposit near Kota Bangun and the lower grade, and broadly adjacent, Liburdinding and Muser concessions in the southern part of East Kalimantan.

Structure

Stone quarrying is classified as a mining activity for Indonesian licensing purposes and is subject to the same regulatory regime as coal mining. Initial investigation of the group's stone concession was therefore managed in conjunction with the group's coal interests. It was agreed during 2013 to reorganise ownership of the concession so as to bring it under the direct control of REA Kaltim as the agricultural operations will be an important customer of the stone concession and it was felt that the logistics of operating the quarry (which is located in close proximity to the SYB estates) could be sensibly coordinated with the logistics of the agricultural operations. However, regulatory approvals for the proposed reorganisation have still not been obtained and, with the group now planning the listing of REA Kaltim on the Indonesia Stock Exchange during 2015, the directors believe that any transfer of ownership of the stone interests to REA Kaltim should be postponed until REA Kaltim has been established as a listed company.

Accordingly, the group's stone and coal interests continue to be coordinated through an Indonesian subsidiary company, PT KCC Resources Indonesia ("KCCRI"), which is 95 per cent owned by the company's UK subsidiary company, KCC Resources Limited, and five per cent owned by local partners. The stone and coal mining concessions (or interests therein) are held by Indonesian concession holding companies, which are currently wholly owned by the group's local partners but with the group having the right, subject to satisfaction of certain conditions (the "applicable conditions"), to acquire 95 per cent of each of the concession holding companies at the local partners' original cost. In the meanwhile, the concession holding companies are financed by loan funding from the group on terms such that no dividends or other distributions or payments may be paid or made by the concession holding companies to the local partners without the prior agreement of the group.

Changes over the last couple of years to the Indonesian regulatory regime applicable to foreign investment in mining are likely to mean that the applicable conditions cannot be satisfied in their existing form. The group is confident that such conditions can over time be successfully renegotiated without material loss to the group but, pending such renegotiation, the concession holding companies have not been consolidated. In the meanwhile, in consideration of the group's continuing support for KCCRI and all the concession holding companies, the stone concession holding company has guaranteed the obligations to the group of the coal concession holding companies.

Operating activities

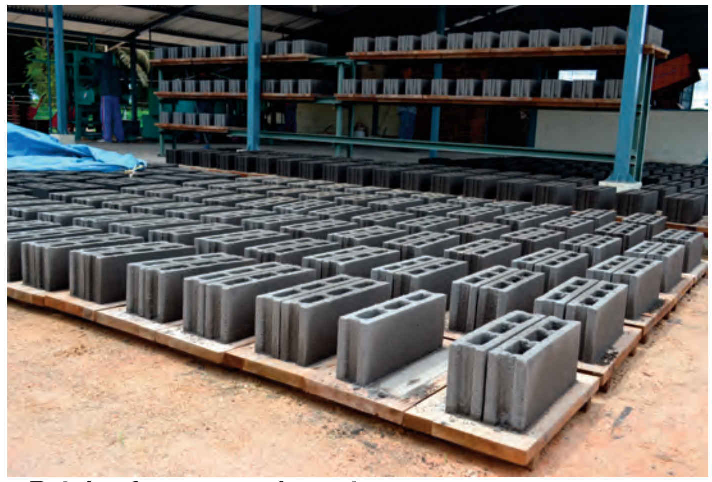
The operating licence required to establish a simple stone crushing operation at the quarry on the group's stone concession was obtained in 2014. Contractual arrangements for the provision of quarry services are under negotiation and ancillary permissions for upgrading of the existing access road to the concession to support heavy duty trucks are being secured. Crushed stone will be transferred from the concession site by truck to a stockpile on the REA Kaltim estates from which onward deliveries will be made to the agricultural operations and third party buyers. The agricultural operations can utilise significant quantities of crushed stone for their building and infrastructure construction programmes and indications are encouraging that there will also be good third party demand for crushed stone for road building and use as a concrete aggregate. The group is aiming to secure a "cornerstone" contract for third party offtake to underpin the investment of some $3 million that is likely to be required in upgrading the access road.

Following a decision by the directors in 2012, further capital commitments to the coal operations have been limited as the group concentrates on maximising recoveries from the existing coal concessions and minimising related costs. Project agreements were signed in 2013 with two separate third parties relating to the development and operation of the Kota Bangun and Liburdinding concessions, whereby an income stream would be provided to the group calculated by reference to coal prices prevailing from time to time but subject to an agreed floor.

A significant fall in international coal prices in 2014 had negative consequences for these arrangements. In the case of Kota Bangun, the agreement to give effect to the arrangements was duly completed and coal production started but, with prices realisable for coal produced falling below the cost of producing it, the group agreed to a suspension of mining operations. Nevertheless, the Kota Bangun agreement remains in place and mining operations should be resumed as soon as coal prices recover. In the case of Liburdinding, the third party proposing to take on the development and operation of the concession withdrew. When coal prices recover, the group will seek to put in place a new project agreement for Liburdinding. The group is also exploring the possibility of converting part or all of the land areas at Liburdinding and Muser to agricultural use.

In due course, the group would expect to recover at least the carrying value of the coal concessions with some upside in the event that coal prices rise. The recent fall in petroleum prices should be beneficial to coal extraction costs so that resumption of mining is likely to be less dependent upon an improvement in coal prices than previously. In the meanwhile, expenditure on the concessions continues to be minimised with such expenditure as is being incurred on the Kota Bangun concession being borne substantially by the third party operator.

Production of building bricks



Bricks for estate housing

PLN electricity inauguration ceremony

Inauguration of village water treatment plant

Estate garden at REA Kaltim

Opening of new school classrooms on REA Kaltim estate

Sustainability

Reporting

In June 2015, the group will publish its second Sustainability Report, produced in accordance with the Global Reporting Initiative ("GRI"). The purpose of this report is to provide the group's stakeholders with detailed information about the group's performance on all material environmental and socio-economic issues. This report will be available for download from the group's website: www.rea.co.uk and will contain more comprehensive information on all of the environmental and socio-economic issues covered by this sustainability section of the annual report.

Certification

The group believes that compliance with international and national sustainability standards provides the foundation for environmentally and socio-economically responsible palm oil production, as well as third party assurance that best practices are being implemented. The group therefore remains committed to ensuring that all of its operations achieve and maintain Roundtable on Sustainable Palm Oil ("RSPO") and Indonesian Sustainable Palm Oil ("ISPO") certification.

The group participates actively in the RSPO, of which it has been a member since 2007. To date, the group has obtained RSPO certification for the two REA Kaltim mills, all of the REA Kaltim estates and SYB's southern estate and some of its associated smallholders. In 2014, the group took measures to bring these operations into compliance with the revised RSPO Principles and Criteria, which were adopted in 2013 and come into force with effect from April 2015. Such measures included revision of the group's policy framework, which now incorporates policies on business ethics and human rights, and conducting carbon stock assessments prior to land clearing. The group is on track to meet its target of obtaining RSPO certification for its third palm oil mill before the end of 2015.

The ISPO scheme was introduced by the Indonesian government in 2010. It mandates that all palm oil mills and their supply base must be audited against the ISPO standard, which is largely based on existing national regulations and includes requirements covering key economic, environmental and social issues. All three of the group's oil mills and their supply bases undertook the first stage of the ISPO audit in November 2014. The second stage of the audit is scheduled to take place in April 2015.

In April 2015, the group's third oil mill was subject to an International Sustainability and Carbon Certification ("ISCC") audit. The group's two older oil mills and the REA Kaltim estates have been previously certified as ISCC compliant. Most requirements of the ISCC standard are broadly similar to those of the RSPO but one key difference is that, to obtain ISCC certification, it must be shown that the net greenhouse gas emissions associated with the production and use as a biofuel of the CPO, the subject of the certification application, will be at least 35 per cent lower than if the equivalent amount of energy was generated by burning fossil fuels. Obtaining this certification allows the group to sell the CPO produced from these operations for the production of biodiesel that meets the requirements of the European Union Renewable Energy Directive ("EU RED").

In 2014, 59 per cent of the CPO (100,742 tonnes) and 68 per cent of the CPKO (9,563 tonnes) produced by the group was RSPO certified. Of the CPO that was RSPO certified, 89,052 tonnes was also ISCC certified. However, in making sales of CPO that is both RSPO and ISCC certified, the group has to decide which certification should apply to each sale.

Whilst the group maintains its RSPO Supply Chain Certification, the logistics of finding a suitable buyer for what, in the context of the overall market in such oils, are relatively small monthly volumes of RSPO certified CPO and CPKO remain challenging. Moreover, there was very low demand for CPO "Greenpalm certificates" during 2014. This system enables end users of palm products to support RSPO certified producers by purchasing Greenpalm certificates, even if they do not physically purchase oil from these producers. One Greenpalm certificate is equivalent to one tonne of RSPO certified CPO or CPKO respectively. In 2014, therefore, some 75,000 tonnes of CPO was sold as ISCC certified and no CPO was sold as RSPO certified. Conversely, demand for CPKO through the RSPO's book and claim system remained strong and sales of CPKO through this system produced some 9,500 CPKO Greenpalm certificates which were sold in 2014.

Employees

At the end of 2014, the group's workforce numbered nearly 9,800, representing an increase of some 8.5 per cent since 2013.

The group has continued to develop its systems for managing human resources, including a comprehensive employee database of personal data, salaries, benefits, facilities, training, performance and absenteeism. In an effort to reduce absenteeism, finger-printing technology has now been installed in all mills and offices.

The group endeavours to provide competitive salary packages, opportunities for career development and a decent standard of living on the estates for employees and their families. This is particularly important given the remote location of the group's estates. In 2014, a review of the group's salary structure was conducted to ensure consistency against industry benchmarks throughout the group hierarchy. In response to this, significant revisions were made to the remuneration of junior staff. It is hoped that this will help the group to attract the best young talent available in the industry and to retain junior employees with management potential.

In addition to salaries, the group provides a range of benefits and facilities. Permanent employees, other than those living locally, are provided with housing, equipped with potable water and electricity, for themselves and their families.

The group operates a network of schools across its plantations. As at December 2014, 118 secondary school children were enrolled at the group's schools, in addition to 1,765 primary school and 460 pre-school children. In April 2014, the group received an award from the Kutai Kartanegara regency in recognition of its contribution to education in the region.

The group continues to run its long established cadet training programme from its central training school. Each year, between 30 and 40 fresh graduates from Indonesian universities and existing employees who demonstrate management potential are selected to participate in 12 months of theoretical and practical training covering all aspects of plantation management. Cadets who successfully complete the training are appointed as assistants in the group's estates, mills and various supporting departments. In addition to the cadet programme, the group also runs a training programme for existing employees, which comprises both in-house training and participation in external training courses and conferences.

The group aims to reward employees based on their performance. All assistants and above are evaluated on a biannual basis against quantitative key performance indicators, which are closely aligned with the group's overall objectives. In an effort to improve performance in the mills, in 2014 the group introduced performance related pay for mill employees at all levels. Although no employee will receive less than the Indonesian minimum wage, a bonus is available depending on the quarterly performance of the mill against a variety of production and management parameters.

The group's workforce is diverse, comprising people from 41 different ethnicities and five different religions. The group does not tolerate discrimination based on age, disability, ethnicity, gender, marital status, political opinion, race, religion or sexual orientation and works to promote equal opportunities for all employees. As at 31 December 2014, 27 per cent of the group's workforce was female, including 21 per cent of management.

	2014		2013	
	Number of male staff	Number of female staff	Number of male staff	Number of female staff
Directors	5	1	5	1
Management	56	15	51	14
Rest of workforce	7,100	2,627	6,130	2,833
Total	7,161	2,643	6,186	2,848

Management

Mark Parry, the group's regional director based in Indonesia and Singapore, has overall local responsibility for the Indonesian operations. Mr Parry is the president director and, currently, the chief operating officer of REA Kaltim.

Following changes to broaden and strengthen the senior management team running the Indonesian operations, the board of REA Kaltim currently comprises, in addition to Mr Parry, two executive directors, of whom one is female and an Indonesian national and one is male and a British expatriate. It is intended that a second Indonesian national will be appointed to the board in the near future, replacing an Indonesian director who left REA Kaltim in March 2015. The REA Kaltim directors have overall local responsibility for the group's affairs and have individual responsibilities covering estate operations and development, corporate affairs (including government and village relations, human resources, security, safety and conservation), commercial administration (including legal affairs, sales and marketing) and financial reporting.

The experienced senior management team now in place under the board of directors comprises departmental heads with responsibility for, respectively, mature estates, immature estates, mill operations, transport and logistics, biogas and engineering, central data, health and safety, operations audit, sustainability, internal audit, village affairs and human resources. A second tier of management has responsibility for information technology, security, accounting, purchasing, corporate finance and taxation, legal matters and sales and marketing.

As a foreign investor in Indonesia, the group is conscious that it is in essence a guest in Indonesia and an understanding of local customs and sensitivities is important. The group's ability to rely on senior Indonesian staff to handle its local interface is therefore a significant asset upon which the group continues to build. This asset is augmented by the local support and advice that the group obtains from local advisers and from the local non-controlling investors in, and local non-executive directors of, the company's Indonesian subsidiaries.

The directors believe that basing senior management in the same time zone as the group's operations facilitates management oversight and improves its effectiveness. They intend that, over time, overall executive responsibility for the direction and management of the group will progressively be transferred from the UK to Indonesia and Singapore. In line with this policy and, as noted in the "Corporate governance report" below, it is intended that at the end of 2015, Mr Oakley will step down as group managing director and Mr Parry will take over that role. In addition, the group has recently augmented its corporate secretarial functions with the appointment of an additional senior executive, based in Singapore, who, among other responsibilities, will assist in ensuring consistency of secretarial and investor relation activities between Jakarta and London.

Health and safety

The group maintains a total of 18 clinics across its estates. These are manned by paramedics assisted by two resident doctors, midwives and, since 2013, a dentist. In serious cases, the group arranges for employees to be evacuated by land or air to a larger hospital in Samarinda or Jakarta where it has established relationships. The clinics treat patients from the local villages as well as the group's employees and their families.

The directors regret that four group employees were involved in fatal motorbike accidents during 2014. Although only one of these occurred within the boundaries of the group's operations during working hours and is therefore considered work-related, the group takes any avoidable loss of life within its workforce very seriously. Consequently all such accidents are subject to detailed investigations to determine the cause and any corrective actions required.

The group aims to provide every employee with a safe working environment. However, the group is conscious that both structural improvements and changes in behaviour are needed if international safety standards are to be implemented consistently throughout its operations. In an effort to achieve this, the group is working to develop and implement an Occupational Health and Safety ("OHS") management system that conforms to the internationally recognised OHSAS 18001 standard.

Community relations

The group recognises that developing and maintaining harmonious relations with the communities that live in the vicinity of its operations is critical to the success of its business. The group endeavours to ensure that all legal or customary community land use rights are identified prior to development of a new area of land. The group will only proceed if the free, prior and informed consent ("FPIC") is obtained from the holders of such rights, in return for which fair compensation is paid. In order to engender mutual interest in the success of its commercial operations, the group aims to ensure that the socio-economic benefits are shared with the local communities. Strategies to achieve this include maximising the number of local people who are employed by the group, developing oil palm smallholder schemes for local villages and implementing community development projects that will assist the communities to become more socio-economically independent.

Despite these efforts, with over 60,000 people living in the villages surrounding the group's established plantations, disagreements do sometimes arise. In 2012 and the early part of 2013, the group experienced a series of protests by representatives from these local communities, the majority of which related to claims for land compensation in the group's longest established concessions and demands to expand the group's smallholder schemes. Concerted efforts made to resolve outstanding claims for land compensation in a systematic, consistent and transparent manner, as well as steady progress in developing new smallholder schemes, have significantly improved relationships between the group and the local communities.

Establishing more effective and regular channels of communication with a wider variety of groups within the surrounding communities has also contributed to the better relationship. This includes holding formal meetings with village leaders, as well as formal and informal interaction between the group's team of village ambassadors and traditional leaders, religious leaders, farmers' groups and women's groups.

Regrettably, a local villager was seriously injured in late November 2014 in an encounter with army personnel based on the estates. An official military police enquiry into this incident is continuing.

Smallholder schemes

The group believes that smallholder schemes are one of the most effective ways to share the economic benefits of its operations with the surrounding communities. The group established its first smallholder scheme in 2000. Under this original scheme, known as "Program Pemberdayaan Masyarakyat Desa" or "PPMD", the group assisted cooperatives of local people with access to land to cultivate oil palm by providing them with oil palm seedlings, fertilisers, herbicides and technical assistance. The cost of the inputs provided are repaid by the members of these cooperatives, interest free, through deductions made when their FFB is sold to the group's mills. In addition to the 1,561 hectares originally established by the 15 PPMD cooperatives with assistance from the group, these cooperatives have since expanded in terms of both membership and land area. Consequently, the 15 semi-independent PPMD cooperatives, together with the ten completely independent smallholder cooperatives, that supply the group's mills now comprise well over 2,000 farmers cultivating in excess of 7,000 hectares of oil palm.

In 2014, the group started to establish a comprehensive database of these farmers and their land. This will enable the group to trace every delivery of FFB purchased from a cooperative to a specific plot of smallholder land. Given the large number of people and the vast expanse of land dispersed over a wide area such cataloguing is complex and time consuming, but it is hoped that the database will be completed before the end of 2015.

In 2007, the Indonesian government introduced a new regulation which mandated that an area equivalent to 20 per cent of the land developed with oil palm by a commercial entity should be developed as so called "plasma schemes" for the benefit of the local communities. Although this regulation only applies to oil palm concessions developed after the new regulation was introduced, the villages surrounding the group's long established REA Kaltim concession still expect to be eligible to participate in plasma schemes. In the interests of equitable treatment, the group has therefore made a voluntary commitment to include these villages in its plasma scheme programme.

Plasma schemes involve the development of oil palm areas owned by village cooperatives but, in contrast with the PPMD schemes, the group, rather than the cooperatives themselves, manages the plasma oil palm plantings in return for a pre-agreed management fee. Financing for the group supported plasma schemes initiated to-date has been agreed with a local development bank in the form of fifteen year loans secured on the land and assets of the schemes and guaranteed by the group. These facilities are designed to finance most of the initial development costs of the schemes but will be supplemented to the extent necessary by funds advanced by the group.

As at 31 December 2014, the group had developed some 3,100 hectares under its plasma schemes. Although this represents limited progress since 2013 in terms of expansion of the planted area, the group has made steady progress in establishing and developing the institutional management structures for both existing and new plasma cooperatives and completing the field surveys and land inventories necessary to ensure that the plasma land will be developed in accordance with the group's policy on responsible development of new land.

Community development

The group aims to make a long term, tangible contribution to improving the welfare of the people living in the vicinity of its operations by implementing projects that will assist these communities to become more socio-economically self-reliant. In accordance with this vision, the group has decided to prioritise investment in infrastructure projects that will provide benefits to the whole community, particularly access to electricity and clean water, as well as improvement of roads and other public facilities. Wherever possible, the group aims to involve the communities themselves in these projects, as well as local government and neighbouring companies.

In 2014, the group completed the installation of water treatment plants for two villages in the vicinity of its REA Kaltim concession. In an effort to ensure that these villages do not rely on the group to maintain and manage this infrastructure, the group provided the operators of the plants, whose wages are covered by the villages' annual budgets, with the necessary training prior to handing over full responsibility for the management of these plants to the villages.

On 16 April 2015, as noted under "Operating efficiency" in "Agricultural operations" above, the group's collaboration with PLN came to fruition when electricity generated by the group's two methane capture plants started to supply electricity to villages in the vicinity of the group's operations. PLN has so far installed the infrastructure necessary to connect the majority of the 21 agreed villages to the electricity from this renewable source. Installation of infrastructure to the remaining villages continues. This includes nine villages that were not connected to PLN's existing transmission line in the area, which previously supplied electricity produced from diesel powered generators. This collaboration will bring significant socio-economic benefits to the local communities, who will have access to a reliable source of electricity that will hopefully promote further socio-economic development.

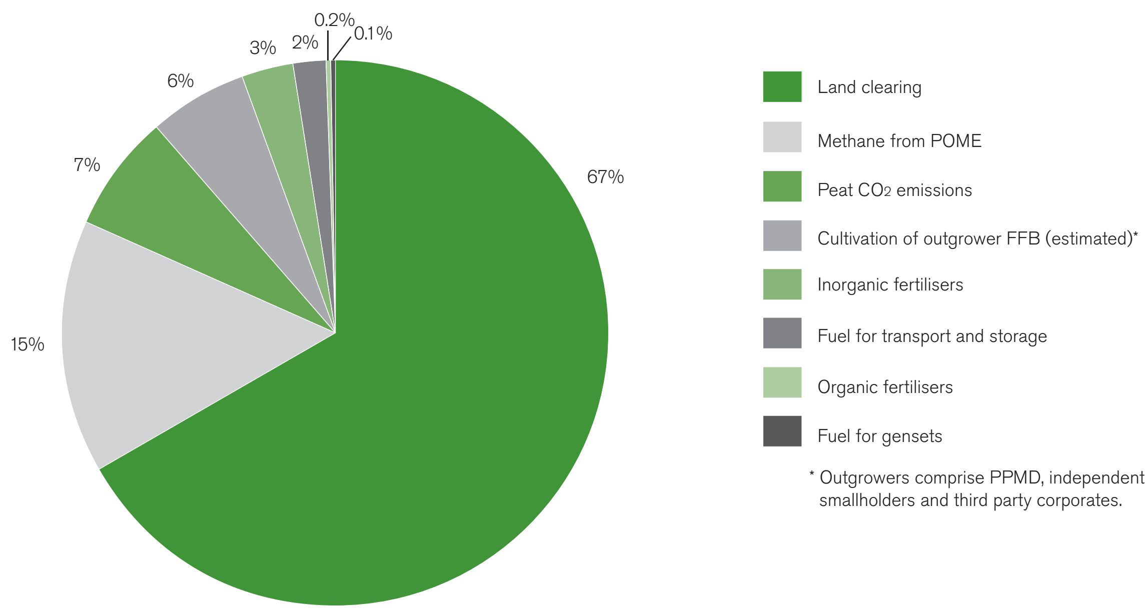
Greenhouse Gas ("GHG") emissions reduction

2014 is the fourth year for which the group has calculated and publicly reported its carbon footprint using the RSPO's PalmGHG methodology. Since 2011 significant reductions have been achieved in terms of both the net GHG emissions per tonne of CPO and CPKO produced by the group, as well as the net GHG emissions per hectare of oil palm planted by the group and its scheme smallholders. Although the net GHG emissions per tonne of product increased slightly between 2013 and 2014, a continued decline is seen using the planted area intensity measure. This is because the net GHG emissions associated with the KMS concession, which is fully planted but largely still immature, were included in the scope of the carbon footprint for the first time in 2014.

GHG emissions from land use change continue to account for the largest component of the group's GHG emissions. Whilst the GHG emissions associated with the digestion of palm oil mill effluent ("POME") remain the second largest source of GHG emissions from the group's operations, a 50 per cent reduction has been achieved in the total GHG emissions from POME between 2011 and 2014. This is almost completely attributable to the installation of methane capture facilities at the group's Perdana and Cakra oil mills in 2012. Not only do the methane capture facilities reduce GHG emissions of methane but, by converting captured methane to electricity, they also reduce the use of diesel powered electricity generators, thus further reducing GHG emissions.

The group continues to contribute to the improvement of the RSPO's PalmGHG calculator and the development of practical measures to assist oil palm growers in reducing their carbon footprint through participation in the RSPO's GHG Emissions Reduction Working Group, which the group joined as a representative of the Indonesian growers in 2014.

GHG emissions by source for 2014 tonnes of CO_2



Conservation

The group is conscious that cultivating oil palm in a region that is rich in biodiversity can have significant negative environmental impacts unless precautions are taken. To mitigate the impact of its operations on biodiversity and ecosystem services as far as possible, the group undertakes a detailed land use planning process prior to developing any new land for oil palm cultivation. This involves engaging external experts to conduct an environmental impact assessment ("EIA"), a soil survey, a high conservation value ("HCV") assessment and, from 2015, a carbon stock assessment. The results of these surveys are used to designate networks of conservation reserves, which encompass the HCV management areas identified, steep areas and riparian zones, as well as any peat soil areas, in line with the group's commitment to avoid development of these high carbon stock areas.

Whilst undertaking environmental surveys can significantly delay the commencement of land clearing, such detailed due diligence is key to the group's ability to produce palm oil in a sustainable manner. To ensure that everyone involved in the process of planning and developing new areas of land, including contractors, is aware of these requirements and their specific responsibilities a new policy and standard operating procedure for responsible development was adopted by the group early in 2015.

The conservation reserves within the group's titled land bank total some 18,250 hectares (2013: some 20,000 hectares), which amounts to some 26 per cent of the group's titled land area. These figures have been revised following the HCV assessments of PBJ and CDM, conducted by RSPO approved assessors in 2014 and early 2015. These areas may be increased further as the land development process advances. Since 2008, this network of conservation reserves has been managed by REA Kon, an in-house team of experienced conservationists and local staff with good knowledge of the biological and cultural diversity of the region. REA Kon's aim is to conserve and enhance the natural biodiversity and ecosystem functions of the landscape in which the group operates. REA Kon's work focuses on gaining a scientific understanding of the biodiversity present and trying to ensure that the group's agricultural activities, employees and the local communities do not have a detrimental impact on this biodiversity. Activities include conducting routine biodiversity surveys for a variety of taxa, including camera trapping and orangutan nest surveys, water quality monitoring, boundary patrols in an effort to prevent and detect logging, over-hunting and land clearing within the conservation reserves, and community outreach, which includes inviting children from both the estate and village schools to participate in conservation education camps.

As at 31 March 2015, biodiversity surveys of the group's conservation reserves conducted by both REA Kon and external experts had revealed the presence of a total of 504 species, including 78 that are listed on the International Union for the Conservation of Nature's ("IUCN") Red List of Threatened Species within the categories of "Near Threatened", "Vulnerable", "Endangered" and "Critically Endangered". The presence of the Borneo orangutan, which is categorised as Endangered, has been recorded within the conservation reserves of four of the group's concessions, both by camera traps and orangutan nest surveys. In order to monitor the orangutan population the group has established a number of permanent transects, along which orangutan nest surveys are conducted monthly.

Preventing local communities from logging and clearing portions of the conservation reserves for cultivation is a constant challenge and REA Kon is aware of nearly 350 hectares where encroachment has occurred. Regrettably, it is expected that further areas of encroachment will be identified as the mapping exercise continues. Once the mapping has been completed, a programme of work will be developed to restore these areas where this is feasible. REA Kon continues to work on raising the awareness of local communities and its own employees about the value of maintaining natural habitat within the landscape.

Responsible agricultural practices

The group operates a zero burning policy in relation to land development and has established standard procedures to identify and rapidly bring under control any accidental fires that may occur.

The group is conscious that its palm oil mills, agricultural operations, employees and the surrounding communities, the majority of which are traditionally river-dwelling, are dependent on access to an adequate supply of clean water. The group is also aware that there is a risk of POME and run-off or leachate from fertilisers causing water pollution unless proper precautions are taken. The group does not discharge POME from any of its mills into the rivers. Instead, the group seeks to utilise as much of the organic matter contained in the POME as possible prior to applying it to the land, which also serves to reduce the Biological Oxygen Demand ("BOD") and therefore the damage that this liquid would cause to the natural flora and fauna if it were to enter a local water course.

Since 2012, a significant portion of the POME produced by the group's two longest established mills has been treated in methane capture facilities, as opposed to the open pond system that has traditionally been used on palm oil mills. The remainder of the POME produced by these mills, as well as the majority of the POME produced at the group's newest mill, which does not yet have a methane capture facility, is combined with empty fruit bunches from the mill and converted into organic compost on site. Treated POME is finally pumped from the open ponds at each mill to flat beds in between the rows of oil palm, enabling the remaining nutrient content to be used as a fertiliser. The BOD of the POME in the final open pond at each mill is tested on a monthly basis by a third party to ensure that the BOD is below the legal limit for land application in Indonesia, which is 5,000 milligrams per litre.

The group aims to keep inputs of inorganic fertilisers to a minimum as this helps to reduce costs and minimise the risk of water pollution by way of run-off or leaching. The substitution of organic compost for inorganic fertiliser is helpful to achievement of this objective. Previously compost was produced onsite by a third party, but from 2014 compost production is being managed in-house. Inorganic fertiliser regimes are based on analyses of the nutrient content of systematically selected oil palm frond samples to ensure that the optimal amount and type of fertiliser is applied.

The group has a long established system of integrated pest management ("IPM"), which is designed to optimise natural pest control and limit the need to use chemical pesticides. IPM measures include planting varieties of flowering plants which are known to support the natural predators of the key oil palm pests, such as bagworm and caterpillars. Where chemical pest control is necessary, the group takes precautions to minimise the risks to humans and the environment. From June 2013, the group ceased to use the herbicide Paraquat in any of its operations and has instead used a glufosinate ammonium based alternative that is less hazardous.

Camera trap photo from KMS conservation reserve 2015

Company birthday celebrations 2014

Finance

Accounting policies

The group continues to report in accordance with International Financial Reporting Standards ("IFRS") and presents its financial statements in dollars. The company also produces its financial statements under IFRS and presents these in dollars thus aligning its basis of accounting and presentational currency with those of the group. For the group, the IFRS accounting policy relating to biological assets (comprising oil palm plantings and nurseries) is of particular importance. Such assets are not depreciated but are instead restated at fair value at each reporting date and the movement on valuation over the reporting period, after adjustment for additions and disposals, is taken to income. Deferred tax is provided or credited as appropriate in respect of each such movement.

As in previous years, the fair value of the biological assets at 31 December 2014 has been derived by the directors on a discounted cash flow basis by reference to the FFB projected to be harvested from the group's oil palms over the full remaining productive lives of the palms and an estimated profit margin per tonne of FFB so harvested. Such estimated unit margin is based on an average of historic FFB profit margins for the 20 years to 2014 buffered to restrict the implied annual movement in such estimated unit margin to 5 per cent and to prevent any change in estimated unit margin that runs contrary to the trend in current margins. For this purpose, the historic profit margin for each applicable year has been derived either from the budgeted unit cost of FFB production and the actual historic average of CPO prices (FOB Port of Samarinda and net of export duties) for such year or, for earlier years for which such detailed information is not available, an appropriate estimate of the historic profit margin for each year.

The discount rates used for the purposes of the biological asset revaluation at 31 December 2014 were 15 per cent for the estates owned by REA Kaltim and SYB, 16.5 per cent for the estates owned by KMS and 18 per cent for all other group companies. These discount rates are the same as those applied in 2013, except that, in the case of KMS, the rate has been reduced from 18 per cent per annum in 2013. This reduction is in line with the group's policy that, as development on any particular area progresses, the discount rate will be steadily reduced, reflecting the view of the directors that the risks of harvesting FFB projected to be produced from areas under development are greater than those applicable on an established estate.

The directors recognise that the IFRS accounting policy in relation to biological assets may have theoretical merits in charging each year to income a proper measure of capital consumed but it has always been a concern to the directors that no estimate of fair value can ever be completely accurate and that, in the case of the group's biological assets, small differences in valuation assumptions can have a quite disproportionate effect on the biological gains or losses reflected in profits. The directors therefore welcome the decision by the International Accounting Standards Board to amend IAS 41 (the standard that imposes the current policy on biological assets) in a way that will, for plantation companies, permit reversion substantially to the accounting policies that were applied to biological assets prior to the introduction of IAS 41 whereby such assets were accounted for as property, plant and equipment. This will mean that, in the group income statement, the annual movement on the fair value of biological assets will be replaced by an annual depreciation charge. It is expected that the amended version of IAS 41 will be adopted for use in the EU during 2015 and will be applied by the group in 2016.

The biological assets in the group balance sheet at 31 December 2014 amounted to $310.2 million. An increase or reduction of $5 per tonne in the estimated profit margin used for the purpose of the valuation (namely $60.9 per tonne of FFB) would increase or reduce the valuation by approximately $20.7 million.

Group results

Revenue, operating profit and profit before tax reported by the group for 2014, with comparative figures for 2013, were as follows:

	2014 $'m	2013 $'m
Revenue	125.9	110.5
Operating profit	32.1	28.1
Profit before tax	23.7	25.2

As detailed below, the results reflected net overall mark to market gains on produce inventory and biological assets some $5.8 million lower than in 2013 and a reduction in gains from exchange rate movements of $6.9 million as compared with the preceding year. The average price of CPO per tonne, CIF Rotterdam, in 2014, was $816 per tonne, against $856 in 2013, but the average price realised by the group for its own CPO production was higher at $665 per tonne against $657 per tonne. This was in part due to lower export duties but also took account of the improved quality of 2014 CPO production.

Costs were generally well controlled reflecting, in particular, the decision to move to in-house compost production and the continuing benefit from the substitution of internally produced methane for diesel. The weakness of the rupiah was also helpful in mitigating inflation in rupiah denominated costs. Although the cost of sales reported for 2014 was significantly higher than in 2013, as the following table shows, the increase was entirely due to the purchase of a greater volume of third party fruit:

	2014 $'m	2013 $'m
Purchase of external FFB	19.7	12.1
Estate operating costs	47.9	47.9
Depreciation and amortisation	10.3	9.9
	77.9	69.9

Estate operating costs in fact reduced in unit terms to $76 per tonne of FFB harvested against $83 per tonne in 2013.

Further development of the group's plantations resulted in a net gain from changes in the fair value of biological assets of $3.6 million (2013: $7.1 million) but the benefit of this was partially offset by a loss of $1.7 million on the movement in the fair value of agricultural produce inventory (2013: gain of $0.5 million) reflecting a closing inventory not markedly different from the opening but valued at lower unit market prices.

Administrative expenses for 2014 amounted to $16.4 million, a reduction of $2.6 million from the $19.0 million reported in 2013. As with cost of sales, the reduction was in part the result of favourable currency movements but efficiencies resulting from the management changes effected over the last three years were also a significant factor.

After deduction of the finance cost component added to biological assets and assets under construction, finance costs for 2014 amounted to $8.8 million. Whilst this is $5.5 million higher than the comparable costs in 2013, the increase is entirely accounted for by a lower benefit from changes in the value of loans and derivative financial instruments which are primarily foreign exchange rate related and which contributed a net gain in 2014 of $1.3 million against a gain in 2013 of $8.2 million. Excluding these items, borrowing and other finance costs in fact fell by some $2 million in 2014, reflecting the refinancing of UK borrowings with lower cost local Indonesian borrowings.

Tax charged against profit for 2014 amounted to $1.8 million (against $12.5 million in 2013). The reduction reflects the write back by the group of a net $8.4 million of previous tax provisions following a favourable decision of the Jakarta Tax Court in relation to an appeal by REA Kaltim against a disputed tax assessment disallowing mark to market losses incurred in 2008 on cross currency interest rate swaps. Without this write back, the tax charge would have been $10.2 million representing a group tax rate of 42.9 per cent (2013: 49.7 per cent). As in 2013, the relatively high rate in part reflected Indonesian withholding tax incurred on intra-group dividends paid by REA Kaltim but an additional factor was a new Indonesian tax rule limiting the carry forward of losses incurred by companies with limited revenues (such as group companies with only small areas of producing hectarage) and thus reducing the deferred tax credit that would otherwise have been booked by the group.

At the after tax level, profit amounted to $22.0 million (2013: $12.7 million) while profit attributable to ordinary shareholders was $14.2 million against $5.5 million. Earnings per share amounted to US40.3 cents (2013: US15.8 cents).

The group's target long term average annual return on adjusted equity is 20 per cent. The return achieved for 2014 was 7.4 per cent (2013: 8.0 per cent).

Appeals by both REA Kaltim and the Indonesian tax authorities remain pending with the Supreme Court of Indonesia in respect of decisions by the Jakarta Tax Court in 2012 on disputed elements of a 2006 Indonesian assessment of tax payable by REA Kaltim. In addition, REA Kaltim has now been served by the Indonesian tax authorities with notice of an appeal to the Supreme Court of Indonesia for judicial review of the Jakarta Tax Court's decision referred to above in relation to tax payable by REA Kaltim on its 2008 profits.

The 2006 and 2008 disputed tax assessments were both paid in full ahead of the appeals. The group had previously provided in full against those components of the 2006 assessment as respects which REA Kaltim is appealing findings against it by the Tax Court and in full against the 2008 assessment. Following the 2014 decision of the Indonesian tax court regarding the 2008 assessment, $8.4 million was refunded to REA Kaltim. $2.9 million of this was then applied in settling an increased tax liability for 2009 that arose as a consequence of the tax law interpretation adopted in the Jakarta Tax Court's decision (against which full provision had also previously been made).

Based on advice received regarding the merits of the appeal to the Supreme Court of Indonesia regarding the decision on mark to market losses, the group concluded that it was appropriate to release provisions to the extent of the amount recovered (namely $8.4 million). The write back referred to above is the result. No credit has been taken for interest (of 48 per cent of the amounts repaid) due to REA Kaltim on tax repayments already received in relation to the 2006 and 2008 assessments as the Indonesian tax authorities contend that such interest will only become payable after receipt by REA Kaltim of final judgement from the Supreme Court of Indonesia confirming the repayments concerned.

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2014 were duly paid. An interim dividend in respect of 2014 of 4p per ordinary share was paid in January 2015 and the directors recommend the payment of a final dividend in respect of 2014 of 3¾p per ordinary share to be paid on 24 July 2015 to ordinary shareholders on the register of members on 3 July 2015. The total dividend payable per ordinary share during 2015 in respect of 2014 will thus amount to 7¾p. This compares with the total paid during 2014 in respect of 2013 of 7¼p. In addition, the company made a capitalisation issue of 2,105,116 new preference shares to ordinary shareholders on 26 September 2014 on the basis of 3 new preference shares for every 50 ordinary shares held (2013: 2,105,116 new preference shares on the basis of 3 new preference shares for every 50 ordinary shares held).

The development of the group's agricultural operations continues to require major capital expenditure and the need to fund this expenditure constrains the rates at which the directors feel that they can prudently declare, or recommend the payment of, ordinary dividends. They believe that capitalisation issues of new preference shares to ordinary shareholders provide a useful mechanism for augmenting returns to ordinary shareholders in periods when good profits are achieved but demands on cash resources limit the scope for payment of cash dividends.

Looking forward, if, as is planned, REA Kaltim becomes listed on the Indonesia Stock Exchange, it is expected that the future planned expansion of the agricultural operations will permit REA Kaltim to distribute each year around one third of its after tax profits. The directors then intend that the company should adopt a policy of distributing to its ordinary and preference shareholders a large proportion of its share of the REA Kaltim dividends.

Capital structure

The group is financed by a combination of debt and shareholder funds. Total shareholder funds less non-controlling interests at 31 December 2014 amounted to $304.9 million as compared with $297.4 million at 31 December 2013. Non-controlling interests at 31 December 2014 amounted to $1.7 million (2013: $2.0 million).

In July 2014, 5,210,000 new preference shares were issued for cash at a price of 120p per share by way of a placing to raise $10.6 million net of expenses. This issue was followed in September 2014 by the issue of a further 2,105,116 new preference shares by way of capitalisation of share premium account as referred to under "Dividends" above.

The company has obtained shareholder authority to buy back limited numbers of ordinary shares into treasury with the intention that, once a holding of a reasonable size has been accumulated, the holding be placed with one or more investors. 152,533 ordinary shares were acquired during 2014 pursuant to this authority. Taking into account the 4,967 ordinary shares held at 31 December 2013, and sales of 25,000 ordinary shares during 2014, this resulted in 132,500 ordinary shares being held in treasury at 31 December 2014.

All of the 2014 dollar notes that remained outstanding on 31 December 2014, being some $6.3m nominal, were redeemed at face value on that date in accordance with the terms and conditions of the trust deeds in respect of such dollar notes.

Following these transactions, group indebtedness and related engagements at 31 December 2014 amounted to $195.4 million against which the group held cash and cash equivalents of $16.2 million. The composition of the resultant net indebtedness of $179.2 million was as follows:

	$'m
7.5 per cent dollar notes 2017 ("2017 dollar notes") ($34.0 million nominal)	33.4
9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes") (£34.5 million nominal)	52.4
Hedge of the principal amount of £22 million nominal of the sterling notes	8.6
Indonesian term bank loans	70.0
Drawings under working capital lines	31.0
	195.4
Cash and cash equivalents	(16.2)
Net indebtedness	179.2

The group has no material contingent indebtedness save that, in connection with the development of oil palm plantings owned by village cooperatives and managed by the group, the group has, as noted under "Smallholder schemes" in "Sustainability" above, guaranteed the bank borrowings of the cooperatives concerned. The outstanding balance of these at 31 December 2014 was equivalent to $9.6 million.

The 2017 dollar notes are unsecured obligations of the company and repayable on 30 June 2017. The sterling notes issued by REA Finance B.V., a wholly owned subsidiary of the company, are guaranteed by the company and another wholly owned subsidiary of the company, R.E.A. Services Limited ("REAS"), are secured principally on unsecured loans made by REAS to Indonesian plantation operating subsidiaries of the company and, save to the extent of sterling notes previously redeemed or cancelled (the nominal amount of such notes at 31 December 2014 totalling £2.5 million), are repayable by three equal annual instalments commencing 31 December 2015.

During 2007 and 2008, the group entered into three long-term sterling dollar debt swaps to hedge against dollars the sterling liability for principal and interest payable in respect of the entire original issue of the sterling notes (but, in the case of interest, only as respects interest payments falling due up to 31 December 2015). Of these three swaps, one was terminated during 2013, a second in 2014, and the third, which hedges £22 million nominal of sterling notes, will mature on 27 December 2015. As the remaining life of the sterling notes is now much less than it was when the swaps were originally contracted, the group has no plans to replace the maturing swaps but will simply run the sterling dollar exchange rate exposure arising from the sterling notes until such notes are repaid.

Indonesian term bank loans comprise Indonesian rupiah denominated amortising term loans to REA Kaltim and SYB from PT Bank DBS Indonesia ("DBS") and a US dollar amortising term loan to REA Kaltim. The REA Kaltim loans are secured on certain assets of REA Kaltim and guaranteed by the company. The outstanding balance of the loans at 31 December 2014 was the equivalent of $47.2 million repayable as follows: 2015: $5.5 million, 2016: $9.8 million and 2017 and thereafter: $31.9 million. The SYB loan is secured on the assets of SYB and is guaranteed by the company and REA Kaltim. The outstanding balance of the loan at 31 December 2014 was the equivalent of $22.8 million repayable as follows: 2015: $3.8 million, 2016: $5.3 million and 2017 and thereafter: $13.7 million.

At 31 December 2014, unutilised facilities available to the group comprised the equivalent of $7.2 million in REA Kaltim available to be drawn from DBS as an addition to the existing amortising term loan and the equivalent of $32.2 million in PBJ available to be drawn from PT Bank UOB Indonesia as an amortising term loan. Negotiations are at an advanced stage to augment these facilities with an additional working capital facility for SYB and a new amortising term loan for KMS together totalling in excess of $30 million.

Group cash flow

Group cash inflows and outflows are analysed in the consolidated cash flow statement. Cash and cash equivalents decreased over 2014 from $34.6 million to $16.2 million. The decrease of $18.2 million (ignoring the negative impact of $0.1 million from the effect of exchange rate movements) represented a combination of the $13.8 million component of the outflow on investing activities that was not covered by net cash from operating activities and an outflow on financing activities of $4.4 million.

As noted under "Group results" above, operating profit for 2014 amounted to $32.1 million as compared with $28.1 million in the preceding year. A $9.2 million positive adjustment for the non-cash components of operating profit was substantially offset by an almost equivalent increase in working capital; as a result cash generated by operations for 2014 amounted to $33.1 million against the $19.4 million reported for 2013. A net tax recovery of $5.1 million (reflecting the tax repayment following the favourable decision of the Jakarta Tax Court referred to under "Group results" above) compared with taxes of $7.1 million paid in 2013 but the benefit of this was partially offset by an increase in interest payments. The overall result was that cash from operating activities for 2014 amounted to $24.4 million against $0.8 million for 2013.

Investing activities for 2014 involved a net outflow of $38.2 million (2013: $33.5 million). This represented new investment totalling $38.6 million (2013: $34.0 million), offset by inflows from interest and minor items of $0.4 million (2013: $0.5 million). The new investment comprised expenditure of $33.4 million (2013: $28.8 million) on further development of the group's agricultural operations, $4.3 million (2013: $4.3 million) on land rights and titling, and $0.9 million (2013: $0.9 million) on the stone and coal operations (concentrated on the development of the stone concession).

The net cash outflow on financing activities amounted to $4.4 million (2013: inflow of $41.8 million) made up as follows:

	2014 $'m	2013 $'m
Issue of new preference shares (2013: new ordinary shares)	10.6	10.5
Purchase of treasury shares	(1.0)	–
Net (reduction)/increase in borrowings	(1.6)	42.3
Dividend payments	(12.4)	(11.0)
	(4.4)	41.8

Liquidity and financing adequacy

With CPO trading internationally at a lower price level than for some years and with the recently introduced Indonesian government levy of $50 per tonne on export sales of CPO (as referred to under "The vegetable oil market context" in "Introduction and strategic environment" above), the group must be cautious in its expectations of dollar sales revenues for 2015. The negative impact of lower net dollar sale prices will, however, be mitigated by the continuing weakness of the Indonesian rupiah and, as respects sales of CPO derived from third party FFB, by commensurate reductions in the prices paid for such FFB. Moreover, as the group continues its recovery from recent challenges, costs remain under good control and further costs efficiencies can be expected. The directors therefore remain confident that the group's operations will remain cash generative.

As noted under "Capital structure" above, at 31 December 2014, the group held cash and cash equivalents of $16.2 million and had undrawn facilities equivalent to a total of $39.4 million under the DBS and UOB amortising term loan facilities. In addition, the group is currently at an advanced stage in negotiating additional bank facilities of in excess of $30 million. Furthermore, for the reasons explained under "Future direction" in "Introduction and strategic environment" above, the group is planning that, as soon as practicable, it will make a public offering of new shares in REA Kaltim to Indonesian investors while listing the shares of REA Kaltim on the Indonesia Stock Exchange. The group is also considering a limited placing of shares in REA Kaltim with a lead investor ahead of the listing and has held some preliminary discussions in this connection. These moves would provide the group with additional equity capital.

The directors intend that the additional bank facilities currently being arranged will be utilised to refinance indebtedness falling due for repayment at the end of 2015, principally comprising £9.8 million nominal of sterling notes and the liability falling due on maturity of the remaining sterling dollar debt swap ($9.6 million when measured at the rates prevailing on 31 December 2014). The UOB amortising term loan facility will be used to fund development expenditure on PBJ. Beyond that, all extension planting and other new capital expenditure during 2015 must be met from internally generated cash and the proceeds of sale of new shares in REA Kaltim. The directors therefore intend to commit to planned capital expenditure only as the availability of funding for such expenditure becomes certain.

In any event, current crop projections suggest that, apart from expanding the capacity of the group's newest oil mill from 40 to 80 tonnes of FFB per hour, no further expenditure on milling capacity will be required until work commences on the construction of a fourth mill now projected to be brought into production in 2019. New investment in processing and compression of methane and the conversion of the group's vehicle fleet to run on a biomethane diesel mix, as referred to under "Operating efficiency" in "Agricultural operations" above offers the prospect of attractive returns but the timing of such an investment is discretionary.

Extension planting on the group's available land bank at PBJ and CDM, and, once the SYB land swap is completed, at PU, should significantly enhance the value of the group. However, such extension planting, and the additional estate buildings and general plant and equipment that such planting will require, will entail a capital investment programme spanning a period of years and the directors have discretion to vary the speed of that programme in line with the availability of cash.

Some further capital expenditure will be required to open quarrying operations on the group's stone concession but the directors expect that this will be limited, can be funded with separate bank finance and that such finance can be rapidly repaid. Once mining operations on the group's coal concessions are resumed, the directors also expect that those concessions will start returning cash to the group.

Within the competing demands for cash for capital expenditure during 2015, the directors intend to give priority to the development of PBJ. As already noted, the topography and existing ground cover at PBJ should facilitate rapid and very economic planting while the UOB amortising term loan is already in place to meet a substantial proportion of the development costs incurred by PBJ.

The group's financing is materially dependent upon the contracts governing its indebtedness. Under the terms of those contracts, there are no restrictions on the use of group cash resources or existing borrowings and facilities that the directors would expect materially to impact the planned development of the group. Under the terms of the DBS and UOB facilities, REA Kaltim, SYB and PBJ are restricted to an extent in the payment of interest on borrowings from, and on the payment of dividends to, other group companies. The directors do not believe that the applicable covenants will affect the ability of the company to meet its cash obligations.

The group's oil palms fruit continuously throughout the year and there is therefore no material seasonality in the funding requirements of the agricultural operations in their ordinary course of business. It is not expected that development of the stone and coal operations will cause any material swings in the group's utilisation of cash for the funding of its routine activities.

Financing policies

The directors believe that, in order to maximise returns to holders of the company's ordinary shares, a proportion of the group's funding needs should be met with prior ranking capital, namely borrowings and preference share capital. The latter has the particular advantage that it represents relatively low risk permanent capital and, to the extent that such capital is available, the directors believe that it is to be preferred to debt.

Insofar as the group does have borrowings, the directors believe that the group's interests are best served if the borrowings are structured to fit the maturity profile of the assets that the borrowings are financing. Since oil palm plantings take nearly four years from nursery planting to maturity and then a further period of three to four years to full yield, the directors aim to structure borrowings for the group's agricultural operations so that shorter term bank debt is used only to finance working capital requirements, while debt funding for the group's extension planting programme is sourced from issues of listed debt securities and medium term bank borrowings.

The directors believe that the group's existing capital structure is consistent with these policy objectives but recognise that the planned further development of the group, and the inevitable shortening of the maturity profile of the group's current indebtedness caused by the passage of time, mean that further action will be required to ensure that the group's capital structure continues to meet the objectives. Specifically, the directors intend that, when market conditions permit, existing shorter dated debt should be repaid and replaced with preference share capital or debt of a longer tenor.

Net debt at 31 December 2014 was 58.4 per cent of total shareholder funds against a level of 54.9 per cent at 31 December 2013. The directors intend at least to maintain the overall amount of the group's prior ranking capital (other than short term borrowings under working capital lines) but would expect that, with growth in the net assets attributable to ordinary shareholders, prior ranking capital will, over time, fall as a percentage of ordinary shareholder funds. If debt continues over time to be replaced by preference capital, net debt as a percentage of shareholder funds may be expected to fall to an even greater extent. Moreover, if, as is intended, the group proceeds with its plans to establish a minority local shareholding in REA Kaltim through a public offering (and perhaps a preliminary placing) of new shares in REA Kaltim, group equity will be increased and the ratios of prior ranking capital to ordinary shareholder funds and of net debt to equity will be further reduced.

The sterling notes and the 2017 dollar notes carry interest at fixed rates of, respectively, 9.5 and 7.5 per cent per annum. Interest is payable by REA Kaltim and SYB under the DBS amortising term loans and the working capital line and by PBJ under the UOB term loan at floating rates equal to Jakarta Inter Bank Offered Rate plus a margin. As a policy, the group does not hedge its exposure to floating rates but maintains a balance between floating and fixed rate borrowings. A one per cent increase in the floating rates of interest payable on the group's floating rate borrowings at 31 December 2014 would have resulted in an annual cost to the group of approximately $1,010,000 (2013: $973,000).

The group regards the dollar as the functional currency of most of its operations and formerly sought to ensure that, as respects that proportion of its investment in the group's operations that was met by borrowings, it had no material currency exposure against the dollar. The debt swaps referred to under "Capital structure" above were arranged for this reason. The receipt by REA Kaltim during 2011 of an Indonesian tax assessment on its 2008 profits seeking to disallow, for tax purposes, losses on two of the debt swaps (as referred to in "Group results" above) called into question the wisdom of entering into currency hedges and the group decided (at least until such time as the disputed tax issue was clarified) not to take out any further hedges against dollars of non-dollar borrowings.

With the recent decision by the Jakarta Tax Court in REA Kaltim's favour regarding the disputed losses, the directors have considered whether the group should now revert to its previous policy of hedging non-dollar exposures against the dollar. They have concluded that, given that tax law in Indonesia is uncertain and that precedent is often not determinative of Indonesian judicial decisions, the group will be best served going forward by simply maintaining a balance between its borrowings in different currencies and avoiding any new currency hedging transactions.

Accordingly, the group will in future regard some exposure to currency risk on its non-dollar borrowing as an inherent and unavoidable risk of its business. The group has never covered, and does not intend in future to cover, the currency exposure in respect of the component of the investment in its operations that is financed with sterling denominated shareholder capital.

The group's policy is to maintain a cash balance in sterling sufficient to meet its projected sterling expenditure for a period of between six and twelve months and a limited cash balance in Indonesian rupiahs.

Risks and uncertainties

The group's business involves risks and uncertainties. Identification, assessment, management and mitigation of the risks associated with environmental, social and governance matters forms part of the group's system of internal control for which the board of the company has ultimate responsibility. The board discharges that responsibility as described in "Corporate governance" below.

Those risks and uncertainties that the directors currently consider to be material are described below. There are or may be other risks and uncertainties faced by the group that the directors currently deem immaterial, or of which they are unaware, that may have a material adverse impact on the group.

Material risks, related policies and the group's successes and failures with respect to environmental, social and governance matters and the measures taken in response to any failures are described in more detail under "Sustainability" above.

Where risks are reasonably capable of mitigation, the group seeks to mitigate them. Beyond that, the directors endeavour to manage the group's finances on a basis that leaves the group with some capacity to withstand adverse impacts from identified areas of risk but such management cannot provide insurance against every possible eventuality.

Potentially significant risks are detailed below under "Produce prices", "Community relations" and "Country exposure". The "Community relations" risk is thought to be reducing as detailed under "Community relations" in "Sustainability" above but the "Produce prices" and "Country exposure" risks may be increasing as a result of declining prices for the group's produce and signs of pressure for increased local participation in Indonesian oil palm operations.

Risk	Potential impact	Mitigating or other relevant considerations
Agricultural operations		
Climatic factors		
Material variations from the norm in climatic conditions	A loss of crop or reduction in the quality of harvest resulting in loss of potential revenue	Over a long period, crop levels should be reasonably predictable
Unusually low levels of rainfall that lead to a water availability below the minimum required for the normal development of the oil palm	A reduction in subsequent crop levels resulting in loss of potential revenue; the reduction is likely to be broadly proportional to the cumulative size of the water deficit	Operations are located in an area of high rainfall
Overcast conditions	Delayed crop formation resulting in loss of potential revenue	Normal sunshine hours in the location of the operations are well suited to the cultivation of oil palm
Low levels of rainfall disrupting river transport or, in an extreme situation, bringing it to a standstill	Inability to obtain delivery of estate supplies or to evacuate CPO and CPKO (possibly leading to suspension of harvesting)	The group is developing alternative routes to and from its estates (including licences to access third party owned roads and establishment of a permanent downstream loading facility)
Cultivation risks		
Pest and disease damage to oil palms and growing crops	A loss of crop or reduction in the quality of harvest resulting in loss of potential revenue	The group adopts best agricultural practice to limit pests and diseases
Other operational factors		
Shortages of necessary inputs to the operations, such as fuel and fertiliser	Disruption of operations or increased input costs leading to reduced profit margins	The group maintains stocks of necessary inputs to provide resilience and is investing to improve its self-reliance in relation to fuel and fertiliser
A hiatus in collection or processing of FFB crops	FFB crops becoming rotten or over-ripe leading either to a loss of CPO production (and hence revenue) or to the production of CPO that has an above average free fatty acid content and is saleable only at a discount to normal market prices	The group endeavours to maintain resilience in its palm oil mills with each of the mills operating separately and some ability within each mill to switch from steam based to biogas or diesel based electricity generation

Risk	Potential impact	Mitigating or other relevant considerations
Other operational factors		
Disruptions to river transport between the main area of operations and the Port of Samarinda or delays in collection of CPO and CPKO from the transhipment terminal	The requirement for CPO and CPKO storage exceeding available capacity and forcing a temporary cessation in FFB harvesting or processing with a resultant loss of crop resulting in a loss of potential revenue	The group's bulk storage facilities have substantial capacity and further storage facilities are afforded by the fleet of barges. Together, these have hitherto always proved adequate to meet the group's requirements for CPO and CPKO storage
Occurrence of an uninsured or inadequately insured adverse event; certain risks (such as crop loss through fire or other perils), for which insurance cover is either not available or is considered disproportionately expensive, are not insured	Material loss of potential revenues or claims against the group	The group maintains insurance at levels that it considers reasonable against those risks that can be economically insured and mitigates uninsured risks to the extent reasonably feasible by management practices
Produce prices		
Volatility of CPO and CPKO prices which as primary commodities may be affected by levels of world economic activity and factors affecting the world economy, including levels of inflation and interest rates	Reduced revenue from the sale of CPO and CPKO production and a consequent reduction in cash flow and profit	Price swings should be moderated by the fact that the annual oilseed crops account for the major proportion of world vegetable oil production and producers of such crops can reduce or increase their production within a relatively short time frame
Restriction on sale of the group's CPO and CPKO at world market prices including restrictions on Indonesian exports of palm products and imposition of high export duties (as has occurred in the past for short periods)	Reduced revenue from the sale of CPO and CPKO production and a consequent reduction in cash flow and profit	The Indonesian government allows the free export of CPO and CPKO but applies a sliding scale of duties on exports which allows producers economic margins. The recent extension of this sliding scale to incorporate a new $50 per tonne export levy to fund biodiesel subsidies may be regarded as a measure to support CPO and CPKO producers
Distortion of world markets for CPO and CPKO by the imposition of import controls or taxes in consuming countries	Depression of selling prices for CPO and CPKO if arbitrage between markets for competing vegetable oils proves insufficient to compensate for the market distortion created	The imposition of controls or taxes on CPO or CPKO in one area can be expected to result in greater consumption of alternative vegetable oils within that area and the substitution outside that area of CPO and CPKO for other vegetable oils
Expansion		
Failure to secure in full, or delays in securing, the land or funding required for the group's planned extension planting programme	Inability to complete, or delays in completing, the planned extension planting programme with a consequential reduction in the group's prospective growth	The group holds substantial fully titled or allocated land areas suitable for planting. It works continuously to obtain and maintain up to date permits for the planting of these areas and aims to manage its finances to ensure, in so far as practicable, that it will be able to fund the planned extension planting programme
A shortfall in achieving the group's planned extension planting programme impacting negatively the annual revaluation of the group's biological assets	A reduction in reported profit and a possible adverse effect on market perceptions as to the value of the company's securities	Movements on the annual revaluation of the group's biological assets do not affect the group's underlying cash flow

Risks and uncertainties

continued

Risk	Potential impact	Mitigating or other relevant considerations
Environmental, social and governance practices		
Failure by the agricultural operations to meet the standards expected of them as a large employer of significant economic importance to local communities	Reputational and financial damage	The group has established standard practices designed to ensure that it meets its obligations, monitors performance against those practices and investigates thoroughly and takes action to prevent recurrence in respect of any failures identified
Criticism of the group's environmental practices by conservation organisations scrutinising land areas that fall within a region that in places includes substantial areas of unspoilt primary rain forest inhabited by diverse flora and fauna	Reputational and financial damage	The group is committed to sustainable development of oil palm and has obtained RSPO certification for most of its current operations. All group oil palm plantings are on land areas that have been previously logged and zoned by the Indonesian authorities as appropriate for agricultural development. The group maintains substantial conservation reserves that safeguard landscape level biodiversity
Community relations		
A material breakdown in relations between the group and the host population in the area of the agricultural operations	Disruption of operations, including blockages restricting access to oil palm plantings and mills, resulting in reduced and poorer quality CPO and CPKO production	The group seeks to foster mutually beneficial economic and social interaction between the local villages and the agricultural operations. In particular, the group gives priority to applications for employment from members of the local population, encourages local farmers and tradesmen to act as suppliers to the group, its employees and their dependents and promotes smallholder development of oil palm plantings
Disputes over compensation payable for land areas allocated to the group that were previously used by local communities for the cultivation of crops or as respects which local communities otherwise have rights	Disruption of operations, including blockages restricting access to the area the subject of the disputed compensation	The group has established standard procedures to ensure fair and transparent compensation negotiations and encourages the local authorities, with whom the group has developed good relations and who are therefore generally supportive of the group, to assist in mediating settlements
Individuals party to a compensation agreement subsequently denying or disputing aspects of the agreement	Disruption of operations, including blockages restricting access to the areas the subject of the compensation disputed by the affected individuals	Where claims from individuals in relation to compensation agreements are found to have a valid basis the group seeks to agree a new compensation arrangement; where such claims are found to be falsely based the group encourages appropriate action by the local authorities

Risk	Potential impact	Mitigating or other relevant considerations
Stone and coal operations		
Operational factors		
Failure by external contractors to achieve agreed production volumes	Loss of prospective revenue	The group endeavours to use experienced contractors, to supervise them closely and to take care to ensure that they have equipment of capacity appropriate for the planned production volumes
External factors, in particular weather, delaying or preventing delivery of extracted stone and coal	Delays to receipt or loss of revenue	Deliveries are not normally time critical and adverse external factors would not normally have a continuing impact for more than a limited period
Geological assessments, which are extrapolations based on statistical sampling, proving inaccurate	Unforeseen extraction complications causing cost overruns and production delays	The group seeks to ensure the accuracy of geological assessments by drilling ahead of any extraction programme and taking expert geological advice on drilling results
Prices		
Volatility of international coal prices and competition reducing stone prices	Reduced revenue and a consequent reduction in cash flow and profit	The cooperation arrangement negotiated for the mining of the group's main coal concession provides a minimum floor price for the coal mined. In relation to stone, there are currently no other stone quarries in the vicinity of the group's concession and the cost of transporting stone should restrict competition
Imposition of additional royalties or duties on the extraction of stone or coal	Reduced revenue and a consequent reduction in cash flow and profit	The Indonesian government has not to date imposed measures that would seriously affect the viability of Indonesian stone quarrying or coal mining operations
Unforeseen variations in quality of deposits	Inability to supply product within the specifications that are, at any particular time, in demand with consequent loss of revenue	Geological assessments ahead of commencement of extraction operations should have identified any material variations in quality
Environmental, social and governance practices		
Failure by the stone and coal operations to meet the expected standards	Reputational and financial damage	The areas of the stone and coal concessions are relatively small and should not be difficult to supervise. The group is committed to international standards of best environmental and social practice and, in particular, to proper management of waste water and reinstatement of quarried and mined areas on completion of extraction operations

Risks and uncertainties

continued

Risk	Potential impact	Mitigating or other relevant considerations
General		
Currency		
Strengthening of sterling or the Indonesian rupiah against the dollar	Adverse exchange movements on those components of group costs and funding that arise in Indonesian rupiah or sterling and are not hedged against the dollar	As respects costs and sterling denominated shareholder capital, the group considers that this risk is inherent in the group's business and structure and must simply be accepted. As respects borrowings, where efficient the group seeks to borrow in dollars but, when borrowing in another currency, considers it better to accept the resultant currency risk than to hedge that risk with hedging instruments
Counterparty risk		
Default by a supplier, customer or financial institution	Loss of any prepayment, unpaid sales proceeds or deposit	The group maintains strict controls over its financial exposures which include regular reviews of the creditworthiness of counterparties and limits on exposures to counterparties. Export sales are made either against letters of credit or on the basis of cash against documents
Regulatory exposure		
Failure to renegotiate the existing arrangements relating to the stone and coal interests	Limitation of the group's return from these interests to the loans advanced	Recent changes in legislation in Indonesia limited foreign investment in mining concessions
New, and changes to, laws and regulations that affect the group (including, in particular, laws and regulations relating to land tenure, work permits for expatriate staff and taxation)	Restriction on the group's ability to retain its current structure or to continue operating as currently	Save as noted above regarding interests in stone and coal, the directors are not aware of any specific changes that would adversely affect the group to a material extent; recent changes introduced to limit the size of oil palm growers in Indonesia will not impact the group for the foreseeable future
Breach of the various continuing conditions attaching to the group's land rights and the mining concessions (including conditions requiring utilisation of the rights and concessions) or failure to maintain all permits and licences required for the group's operations	Civil sanctions and, in an extreme case, loss of the affected rights or concessions	The group endeavours to ensure compliance with the continuing conditions attaching to its land rights and the mining concessions and that activities are conducted within the terms of the licences and permits that are held and that licences and permits are obtained and renewed as necessary
Failure by the group to meet the standards expected in relation to bribery and corruption	Reputational damage and criminal sanctions	The group has traditionally had, and continues to maintain, strong controls in this area because Indonesia, where all of the group's operations are located, has been classified as relatively high risk by the International Transparency Corruption Perceptions Index

Risk	Potential impact	Mitigating or other relevant considerations
Country exposure		
Deterioration in the political or economic situation in Indonesia	Difficulties in maintaining operational standards particularly if there was a consequential deterioration in the security situation	In the recent past, Indonesia has been stable and the Indonesian economy has continued to grow but, in the late 1990s Indonesia experienced severe economic turbulence and there have been subsequent occasional instances of civil unrest, often attributed to ethnic tensions, in certain parts of Indonesia. The group has never, since the inception of its East Kalimantan operations in 1989, been adversely affected by regional security problems
Introduction of exchange controls or other restrictions on foreign owned operations in Indonesia	Restriction on the transfer of profits from Indonesia to the UK with potential consequential negative implications for the servicing of UK obligations and payment of dividends; loss of effective management control	The directors are not aware of any circumstances that would lead them to believe that, under current political conditions, any Indonesian government authority would impose exchange controls or otherwise seek to restrict the group's freedom to manage its operations
Mandatory reduction of foreign ownership of Indonesian plantation operations	Forced divestment of interests in Indonesia at below market values with consequential loss of value	The group accepts there is a significant possibility that foreign owners may be required over time to partially divest ownership of Indonesian oil palm operations but has no reason to believe that such divestment would be at anything other than market value. The group aims to mitigate such risk by listing REA Kaltim on the Indonesia Stock Exchange in Jakarta
Miscellaneous relationships		
Disputes with staff and employees	Disruption of operations and consequent loss of revenues	The group appreciates its material dependence upon its staff and employees and endeavours to manage this dependence in accordance with international employment standards as detailed under "Employees" in "Sustainability" above
Breakdown in relationships with the local shareholders in the company's Indonesian subsidiaries	Reliance on the Indonesian courts for enforcement of the agreements governing its arrangements with local partners with the uncertainties that any juridical process involves and with any failure of enforcement likely to have a material negative impact on the value of the stone and coal operations because the concessions are at the moment legally owned by the group's local partners	The group endeavours to maintain cordial relations with its local investors by seeking their support for decisions affecting their interests and responding constructively to any concerns that they may have

Approved by the board on 23 April 2015 and signed on behalf of the board by
RICHARD M ROBINOW
Chairman

Board of directors

Richard Robinow

Chairman (69)

Mr Robinow was appointed a director in 1978 and has been chairman since 1984. After early investment banking experience, he has been involved for some 40 years in the plantation industry. He is non-executive but devotes a significant proportion of his working time to the affairs of the group. He is a non-executive director of M. P. Evans Group plc, a UK plantation company of which the shares are admitted to trading on the Alternative Investment Market of the London Stock Exchange, and of two overseas listed plantations companies: Sipef NV, Belgium, and REA Vipingo Plantations Limited, Kenya.

John Oakley

Managing director (66)

After early experience in investment banking and general management, Mr Oakley joined the group in 1983 as divisional managing director of the group's then horticultural operations. He was appointed to the main board in 1985 and subsequently oversaw group businesses involved in tea, bananas, pineapples and merchanting. He transferred in the early 1990s to take charge of the day to day management of the group's then embryonic East Kalimantan agricultural operations. He was appointed managing director in January 2002 and, until the appointment of a regional executive director in 2013, was the sole executive director of the group. Mr Oakley, who is based in London, has overall responsibility for the operations of the group.

Mark Parry

Executive director (54)

Mr Parry was appointed an executive director in January 2013. Mr Parry joined the group in 2011 as the group's regional director and was appointed president director of REA Kaltim in July 2012. He worked for 10 years as a surveyor and engineer in the mining, oil and gas industries. Following completion of an MBA at the London Business School, he spent 15 years with an international bank, ultimately as managing director, project finance. He subsequently established and ran a private consultancy business for two years prior to joining the group. Based in Indonesia and Singapore, Mr Parry is also chief operating officer of REA Kaltim with local responsibility for all of the group's operations.

David Blackett

Senior independent non-executive director (64)

Committees: audit (chairman), nomination, remuneration (chairman)

Mr Blackett was appointed a non-executive director in July 2008. After qualifying as a chartered accountant in Scotland, he worked for over 25 years in South East Asia, where he concluded his career as chairman of AT&T Capital Inc's Asia Pacific operations. Previously, he was a director of an international investment bank with responsibility for the bank's South East Asian operations and until October 2014 served as an independent non-executive director of South China Holdings Limited (now Orient Victory China Holdings Limited), a company listed on the Hong Kong Stock Exchange.

Irene Chia

Independent non-executive director (74)

Ms Chia was appointed a non-executive director in January 2013. Ms Chia has extensive corporate, investment and entrepreneurial experience in Asia, the USA and the UK. A graduate in economics and formerly a director of one of the Jardine Matheson Group companies, Ms Chia now lives in Singapore and is currently self-employed with Far Eastern interests in consulting, property and financial investment as well as in the charitable sector.

David Killick, FCIS

Independent non-executive director (77)

Committees: audit, nomination (chairman), remuneration

Mr Killick was appointed a non-executive director in 2006. After qualifying as a barrister, he became a Fellow of the Institute of Chartered Secretaries and Administrators. He worked for over 28 years for the Commonwealth Development Corporation, serving as a member of its management board from 1980 to 1994. Thereafter, he has held a number of directorships. He is currently a director of Reallyenglish.com Limited.

Directors' report

The directors present their annual report on the affairs of the group, together with the financial statements and auditor's report, for the year ended 31 December 2014. The "Corporate governance report" below forms part of this report.

Details of significant events since 31 December 2014 are contained in note 40 to the consolidated financial statements. An indication of likely future developments in the business of the company and details of research and development activities are included in the "Strategic report" above.

Information about the use of financial instruments by the company and its subsidiaries is given in note 21 to the consolidated financial statements.

Results and dividends

The results are presented in the consolidated income statement and notes thereto.

The fixed annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2014 were duly paid. A first interim dividend in respect of 2014 of 4p per share was paid on the ordinary shares on 23 January 2015 and the board recommends that a final dividend in respect of the year of 3¾p per share be paid on 24 July 2015 to ordinary shareholders on the register of members on 3 July 2015. Resolution 4 in the company's notice of the 2015 annual general meeting (the "2015 Notice") set out at the end of this annual report, which will be proposed as an ordinary resolution, deals with the payment of this dividend.

Going concern basis

The group's business activities, together with the factors likely to affect its future development, performance and position are described in the Strategic report above which also provides (under the heading "Finance") a description of the group's cash flow, liquidity and financing adequacy, and treasury policies. In particular, the review highlights the risks associated with the local operating environment. In addition, note 21 to the consolidated financial statements includes information as to the group's policy, objectives and processes for managing capital, its financial risk management objectives, details of financial instruments and hedging activities and exposures to credit and liquidity risks.

Although the group has indebtedness, a reasonable proportion of that indebtedness is medium term and the group is reliant on short-term borrowing facilities to only a limited extent. The directors fully expect such short term facilities to be renewed and that medium term indebtedness falling due for repayment during 2015 will be refinanced.

Moreover, as the group continues to make a steady recovery from previous challenges and to improve operational efficiencies, the group's operations can be expected to generate significant positive cash flows and, whilst it is planned to utilise those cash flows to fund capital expenditure, a large proportion of such capital expenditure is discretionary and could be cancelled should the need arise. As a consequence, the directors believe that the group is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Greenhouse gas emissions ("GHG")

GHG emissions data for the period 1 January 2012 to 31 December 2014 is as shown below:

Tonnes of CO_2e	2014	2013	2012
Gross emissions associated with oil palm operations in Indonesia[1]	706,579	627,799	686,208
Net emissions associated with oil palm operations in Indonesia	392,109	346,438	407,656
Net emissions per tonne of CPO produced	1.95	1.91	2.30
Net emissions per planted hectare	10.94	11.19	13.17
Electricity, heat, steam and cooling purchased for own use	3.3	11.8	No data

1 In addition to all material Scope 1 emissions, some Scope 3 emissions have also been included in this category. Examples include GHG emissions associated with the manufacture and transport of the inorganic fertilisers used by, and an estimate of the GHG emissions associated with, the cultivation of fresh fruit bunches purchased by the group's mills from third parties.

2 The Greenhouse Gas Protocol defines direct GHG emissions as emissions from sources that are owned or controlled by the reporting entity. These are categorised as Scope 1 emissions. The Protocol defines indirect GHG emissions as emissions that are a consequence of the activities of the reporting entity, but occur at sources owned or controlled by another entity. Indirect GHG emissions are further categorised into Scope 2 (indirect GHG emissions from the consumption of purchased electricity, heat and steam) and Scope 3 emissions (all other indirect GHG emissions, such as the extraction and production of purchased materials and fuel and transport in vehicles not owned or controlled by the reporting entity). PalmGHG takes into account all Scope 2 emissions and some Scope 3 GHG emissions.

3 The figures for 2012 and 2013 have been re-calculated using the latest version of the RSPO PalmGHG methodology. The details of the changes made will be described in full in the 2014 Sustainability Report.

The group has used the PalmGHG tool developed by the Roundtable on Sustainable Palm Oil ("RSPO") to calculate the carbon footprint of its oil palm operations in Indonesia between 2011 and 2014. This methodology was chosen because it is tailored to the palm oil industry. It was developed by a multi-stakeholder group which included leading scientists in the field of GHG accounting for oil palm. From 31 December 2016, all RSPO member palm oil producers will be required to publicly report their GHG emissions using the PalmGHG tool, so it is expected that this methodology will become industry best practice.

The PalmGHG tool uses a lifecycle assessment approach, whereby all of the major sources of GHG emissions (carbon dioxide (CO2), methane (CH4) and nitrous oxide (N2O)) linked to the cultivation, processing and transport of oil palm products are quantified and balanced against the carbon sequestration and GHG emissions' avoidance as a result of those processes. All direct and the majority of the indirect emissions associated with the group's oil palm operations in Indonesia are reflected. Aspects of the operations that are not included are the production of oil palm seedlings, the application of pesticides, fuel used for land clearing, emissions associated with infrastructure and machinery and the sequestration of carbon in oil palm products and by-products. The GHG emissions linked to these processes are not considered to be material.

The unit of calculation for the PalmGHG tool is the palm oil mill and its supply base. Whereas the boundary of the 2012 calculation was limited to the group's two longest established palm oil mills, this was expanded to include the group's newest palm oil mill and its supply base for the 2013 and 2014 carbon footprint calculation. The boundary for the GHG emissions' reporting thus differs from that used for financial reporting, as the emissions linked to oil palm estates which do not yet supply fresh fruit bunches to one of the group's mills are not directly included. Instead, emissions associated with the land use change component of new oil palm developments (which represent the majority of emissions from new developments) are accumulated over the immaturity period of each development and then amortised over the 25 year oil palm lifecycle.

The group has reported both the gross and net GHG emissions associated with its oil palm operations in Indonesia. The net GHG emissions were calculated by deducting from the gross GHG emissions the CO2 that is estimated to have been fixed (sequestered) by the oil palms through the process of photosynthesis. A further deduction was made to account for the GHG emissions that have been avoided as a result of the export of renewable electricity from the group's methane capture facilities to domestic buildings that were previously supplied with electricity by diesel powered generators.

The group's net GHG emissions have been expressed per tonne of crude palm oil produced and per planted hectare (immature and mature). It is deemed necessary because the trend in GHG emissions per planted hectare is not influenced by the maturity of the oil palm within the supply base, whereas this does impact the GHG emissions per tonne of crude palm oil.

The group's Scope 2 emissions are limited to the electricity purchased by the group's offices in London, Jakarta and Samarinda. These GHG emissions are not accounted for in the PalmGHG methodology. These emissions were therefore estimated separately by multiplying the amount of electricity consumed in kilowatt hours by the electricity emission coefficients for the UK and Indonesia respectively. Since these emissions are immaterial by comparison with the GHG emissions associated with the group's oil palm operations they have not been included in the net GHG emissions in an effort to ensure that the methodology used to calculate the intensity of the group's GHG emissions is consistent with what is likely to become the standard oil palm industry methodology for reporting GHG emission intensity.

Control and structure of capital

Details of the company's share capital and changes in share capital during 2014 are set out in note 30 to the company's financial statements. At 31 December 2014, the preference share capital and the ordinary share capital represented, respectively, 86.7 and 13.3 per cent of the total issued nominal value of share capital.

The rights and obligations attaching to the ordinary and preference shares are governed by the company's articles of association and prevailing legislation. A copy of the articles of association is available on the company's website at www.rea.co.uk. Rights to income and capital are summarised in note 30 to the company's financial statements.

On a show of hands at a general meeting of the company, every holder of shares and every duly appointed proxy of a holder of shares, in each case being entitled to vote on the resolution before the meeting, shall have one vote. On a poll, every holder of shares present in person or by proxy and entitled to vote on the resolution the subject of the poll shall have one vote for each share held. Holders of preference shares are not entitled to vote on a resolution proposed at a general meeting unless, at the date of notice of the meeting, the dividend on the preference shares is more than six months in arrears or the resolution is for the winding up of the company or is a resolution directly and adversely affecting any of the rights and privileges attaching to the preference shares. Deadlines for the exercise of voting rights and for the appointment of a proxy or proxies to vote in relation to any resolution to be proposed at a general meeting are governed by the company's articles of association and prevailing legislation and will normally be as detailed in the notes accompanying the notice of the meeting at which the resolution is to be proposed.

There are no restrictions on the size of any holding of shares in the company. Shares may be transferred either through the CREST system (being the relevant system as defined in the Uncertificated Securities Regulations 2001 of which CRESTCo Limited is the operator) where held in uncertificated form or by instrument of transfer in any usual or common form duly executed and stamped, subject to provisions of the company's articles of association empowering the directors to refuse to register any transfer of shares where the shares are not fully paid, the shares are to be transferred into a joint holding of more than four persons, the transfer is not appropriately supported by evidence of the right of the transferor to make the transfer or the transferor is in default in compliance with a notice served pursuant to section 793 of the Companies Act 2006. The directors are not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or on voting rights.

No person holds securities carrying special rights with regard to control of the company and there are no arrangements in which the company co-operates by which financial rights carried by shares are held by a person other than the holder of the shares.

The articles of association provide that the business of the company is to be managed by the directors and empower the directors to exercise all powers of the company, subject to the provisions of such articles (which include a provision specifically limiting the borrowing powers of the group) and prevailing legislation and subject to such directions as may be given by the company in general meeting by special resolution. The articles of association may be amended only by a special resolution of the company in general meeting and, where such amendment would modify, abrogate or vary the class rights of any class of shares, with the consent of that class given in accordance with the company's articles of association and prevailing legislation.

The 7.5 per cent dollar notes 2017 (the "2017 dollar notes") of the company and the 9.5 per cent guaranteed sterling notes 2015/17 of REA Finance B.V. (the "sterling notes") (which are guaranteed by the company) are transferable either through the CREST system where held in uncertificated form or by instrument of transfer in any usual or common form duly executed in amounts and multiples, in the case of the dollar notes, of $1 and, in the case of the sterling notes, of £1,000. There is no maximum limit on the size of any holding in either case.

All of the 7.5 per cent dollar notes 2014 that remained outstanding on 31 December 2014 were redeemed at face value on 31 December 2014 and cancelled forthwith in accordance with the terms and conditions of the trust deeds in respect of such dollar notes.

Substantial holders

On 31 December 2014, the company had received notifications in accordance with chapter 5 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority of the following voting rights as shareholders of the company:

Substantial holders of ordinary shares	Number of ordinary shares	Percentage of voting rights
Emba Holdings Limited	9,957,500	28.4
Prudential plc and certain subsidiaries*	6,043,129	17.2
Alcatel Bell Pensioenfonds VZW	4,167,049	11.9
Artemis UK Smaller Companies	3,563,620	10.2

* The company has been notified that the interest of Prudential plc group of companies includes 6,021,116 ordinary shares (17.16 per cent) in which M&G Investment Funds 3 is also interested.

The shares held by Emba Holdings Limited ("Emba") are included as part of the interest of Mr Robinow shown under "Statement of directors' shareholdings" in the Directors' remuneration report.

During the period from 31 December 2014 to the date of this report, the company did not receive any further notifications under chapter 5 of the Disclosure Rules and Transparency Rules.

Significant holdings of preference shares, dollar notes and sterling notes shown by the respective registers of members and noteholders at 31 December 2013 were as follows:

Substantial holders of securities	Preference shares '000	Dollar notes 2017 $'000	Sterling notes £'000
The Bank of New York (Nominees) Limited	–	–	9,847
HSBC Global Custody Nominee (UK) Limited 641898 account	–	–	4,667
KBC Securities NV Client account	–	11,143	–
Rulegale Nominees Limited JAMSCLT account	6,326	–	–
Securities Services Nominees Limited 2300001 account	–	–	3,495
State Street Nominees Limited OM04 account	–	–	5,500
Vidacos Nominees Limited CLRLUX account	–	3,466	–

A change of control of the company would entitle holders of the sterling notes to require repayment of the notes held by them as detailed in note 23 to the consolidated financial statements.

Awards under the company's long term incentive plans will vest and may be encashed within one month of a change of control as detailed under "Scheme interests" in the Directors' remuneration report below. The directors are not aware of any agreements between the company and its directors or between any member of the group and a group employee that provides for compensation for loss of office or employment that occurs because of a takeover bid.

Directors' report

continued

Directors

The directors, all of whom served throughout 2014, are listed under "Board of directors" above which is incorporated by reference in this Directors' report.

Mr Robinow retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election, such retirement being in compliance with the provisions of the UK Corporate Governance Code requiring the annual re-election of non-executive directors who have served as such for more than nine years. Resolution 5, which is set out in the 2015 Notice and will be proposed as an ordinary resolution, deals with the re-election of Mr Robinow.

The senior independent non-executive director confirms that, following a formal performance evaluation, Mr Robinow's performance continues to be effective and to demonstrate his commitment to the role. Mr Robinow, chairman, devotes a significant proportion of his working time to the affairs of the group and is recommended for re-election by the board of directors.

Messrs Blackett and Oakley retire at the forthcoming annual general meeting and being eligible, offer themselves for re-election, such retirement being in compliance with the company's articles of association providing for the rotation of directors. Resolutions 6 and 7, which are set out in the 2015 Notice and will be proposed as ordinary resolutions, deal with the re-election of Messrs Blackett and Oakley.

As noted in the "Corporate governance report" below, Mr Robinow and Mr Oakley intend to relinquish their current positions as, respectively, chairman and managing director of the company with effect from 31 December 2015. It is intended that they will remain on the board as non-executive directors and, for a limited transitional period, will continue to oversee certain executive matters to the extent necessary to ensure a smooth transfer of responsibilities.

Directors' indemnities

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) were in force for the benefit of directors of the company and of other members of the group throughout 2014 and remain in force at the date of this report.

Political donations

No political donations were made during the year.

Acquisition of the company's own shares

The company's articles of association permit the purchase by the company of its own shares subject to prevailing legislation which requires that any such purchase, if a market purchase, has been previously authorised by the company in general meeting and, if not, is made pursuant to a contract of which the terms have been authorised by a special resolution of the company in general meeting.

Pursuant to the buy-back authority granted at an extraordinary general meeting of shareholders on 10 June 2014, the company has purchased 132,500 of its ordinary shares of 25p each, representing 0.4 per cent of the called up ordinary share capital, for a total consideration of £1,010,000. The purchased shares are currently held as treasury shares with the intention that, once a holding of reasonable size has been accumulated, such holding be placed with one or more substantial investors on a basis that, to the extent reasonably possible, broadens the spread of substantial shareholders in the company. Save to the extent of this intention, no agreement, arrangement or understanding exists whereby any ordinary shares acquired pursuant to the share buy-back authority will be transferred to any person.

The directors are seeking renewal at the forthcoming annual general meeting (resolution 10 set out in the 2015 Notice) of the buy-back authority to purchase up to 5,000,000 ordinary shares, on terms that the maximum number of ordinary shares that may be bought back and held in treasury at any one time is limited to 400,000 ordinary shares. The directors may, if it remains appropriate, seek further annual renewals of this authority at subsequent annual general meetings. The authorisation being sought will continue to be utilised only for the limited purpose of buying back ordinary shares into treasury with the expectation that the shares bought back will be re-sold within a limited period. The new authority, if provided, will expire on the date of the annual general meeting to be held in 2016 or on 30 June 2016 (whichever is the earlier).

This authority is sought on the basis that the price (exclusive of expenses, if any) that may be paid by the company for each ordinary share purchased by it will be not less than £1.00 and not greater than an amount equal to the higher of (i) 105 per cent of the average of the middle market quotations for the ordinary shares in the capital of the company as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which such share is contracted to be purchased and (ii) that stipulated by article 5(1) of the EU Buyback and Stabilisation Regulation 2003 (namely the higher of the price of the last independent trade and the current highest independent bid on the London Stock Exchange).

Any ordinary shares held in treasury by the company will remain listed and form part of the company's issued ordinary share capital. However, the company will not be entitled to attend meetings of the members of the company, exercise any voting rights attached to such ordinary shares or receive any dividend or other distribution (save for any issue of bonus shares). Sales of shares held in treasury will be made from time to time as investors are found, following which the new legal owners of the ordinary shares will be entitled to exercise the usual rights from time to time attaching to such shares and to receive dividends and other distributions in respect of the ordinary shares.

The consideration payable by the company for any ordinary shares purchased by it will come from the distributable reserves of the company. The proceeds of sale of any ordinary shares purchased by the company would be credited to distributable reserves up to the amount of the purchase price paid by the company for the shares, with any excess over such price being credited to the share premium account of the company. Thus, as regards its impact on both cash resources and distributable reserves, it is intended that exercise of the share buy-back authority will be broadly neutral.

The company will continue to comply with its obligations under the Listing Rules of the Financial Conduct Authority ("the Listing Rules") in relation to the timing of any share buy-backs and re-sales of ordinary shares from treasury.

Increase in share capital

At the forthcoming annual general meeting, a resolution will be proposed (resolution 11 set out in the Notice) to increase the authorised share capital of the company (being the maximum amount of shares in the capital of the company that the company may allot) from £75,250,000 to £85,250,000 by the creation of 10,000,000 9 per cent cumulative preference shares of £1 each ranking pari passu in all respects with the existing preference shares and representing 15 per cent of the existing authorised preference share capital.

As noted in the "Finance" section of the "Strategic report" above, the directors believe that capitalisation issues of new preference shares to ordinary shareholders provide a useful mechanism for augmenting returns to ordinary shareholders in periods in which good profits are achieved but demands on cash resources limit the scope for payment of cash dividends. The directors also believe that, when circumstances permit, it is sensible to replace group debt funding with preference capital. The proposed creation of additional preference shares is designed to give the company sufficient authorised but unissued preference capital to permit the directors to issue further preference shares for these purposes without further approval (other than shareholder authority to allot such shares, which authority will be sought at the forthcoming annual general meeting as noted under "Authorities to allot share capital" below).

Authorities to allot share capital

At the annual general meeting held on 10 June 2014, shareholders authorised the directors under the provisions of section 551 of the Companies Act 2006 to allot ordinary shares or 9 per cent cumulative preference shares within specified limits. Replacement authorities are being sought at the 2015 AGM (resolutions 12 and 13 set out in the 2015 Notice) to authorise the directors (a) to allot and to grant rights to subscribe for, or to convert any security into, shares in the capital of the company (other than 9 per cent cumulative preference shares) up to an aggregate nominal amount of £1,478,682.75 (being all of the unissued ordinary share capital of the company and representing 16.9 per cent of the issued ordinary share capital at the date of this report), and (b) subject to the passing of resolution 12 set out in the Notice, to allot and to grant rights to subscribe for, or to convert any security into, 9 per cent cumulative preference shares in the capital of the company up to an aggregate nominal amount of £15,579,768 (including the additional £10,000,000 preference share capital proposed to be created at the forthcoming annual general meeting), representing 26 per cent of the issued preference share capital of the company at the date of this report.

The new authorities, if provided, will expire on the date of the annual general meeting to be held in 2016 or on 30 June 2016 (whichever is the earlier). Save in relation to the preference shares as indicated under "Increase in share capital" above, the directors have no present intention of exercising these authorities.

Authority to disapply pre-emption rights

Fresh powers are also being sought at the forthcoming annual general meeting under the provisions of sections 571 and 573 of the Companies Act 2006 to enable the board to make a rights issue or open offer of ordinary shares to existing ordinary shareholders without being obliged to comply with certain technical requirements of the Companies Act 2006 which can create problems with regard to fractions and overseas shareholders.

In addition, the resolution to provide these powers (resolution 14 set out in the 2015 Notice) will, if passed, empower the directors to make issues of ordinary shares for cash other than by way of a rights issue or open offer up to a maximum nominal amount of £438,565 (representing 5 per cent of the issued ordinary share capital of the company at the date of this report). The foregoing powers (if granted) will expire on the date of the annual general meeting to be held in 2016 or on 30 June 2016 (whichever is the earlier).

General meeting notice period

At the 2015 AGM a resolution (resolution 15 set out in the 2015 Notice) will be proposed to authorise the directors to convene a general meeting (other than an annual general meeting) on 14 clear days' notice (subject to due compliance with requirements for electronic voting). The authority will be effective until the date of the annual general meeting to be held in 2016 or on 30 June 2016 (whichever is the earlier). This resolution is proposed following legislation which, notwithstanding the provisions of the company's articles of association and in the absence of specific shareholder

Directors' report

continued

approval of shorter notice, has increased the required notice period for general meetings of the company to 21 clear days. While the directors believe that it is sensible to have the flexibility that the proposed resolution will offer, to enable general meetings to be convened on shorter notice than 21 days, this flexibility will not be used as a matter of routine for such meetings, but only where use of the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

Recommendation

The board considers that increasing the authorised share capital of the company by the creation of the additional preference shares proposed as detailed under "Increase in share capital", granting the directors the authorities and powers as detailed under "Acquisition of the company's own shares", "Authorities to allot share capital" and "Authority to disapply pre-emption rights" and the proposal to permit general meetings (other than annual general meetings) to be held on just 14 clear days' notice as detailed under "General meeting notice period" above are all in the best interests of the company and shareholders as a whole and accordingly the board recommends that shareholders vote in favour of the resolutions 10 to 15 as set out in the 2015 Notice.

Directors' remuneration report

Resolution 3 as set out in the 2015 Notice provides for approval of the company's revised policy regarding the remuneration of directors as detailed in the Directors' remuneration report below. In his statement on page 58, the chairman of the remuneration committee describes the revised elements of the remuneration policy. If approved, the revised policy will take effect from the date of such approval and will supersede the previously approved policy which took effect from 1 January 2015.

Auditor

Each director of the company at the date of approval of this report has confirmed that, so far as such director is aware, there is no relevant audit information of which the company's auditor is unaware; and that such director has taken all the steps that ought to be taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and Resolution 8 set out in the 2015 Notice proposes their re-appointment.

Disclosure requirements of Listing Rule 9.8.4R

The following table references the location of information required to be disclosed in accordance with Rule 9.8.4R of the Listing Rules published by the Financial Conduct Authority.

Listing Rule	Disclosure requirement	Disclosure in annual report
9.8.4(1)	The amount of interest capitalised during the year with an indication of the amount and treatment of any related tax relief	Note 8 to the consolidated financial statements
9.8.4(2)	Any information required by Listing Rules 9.2.18 R (publication of unaudited financial information)	Not applicable
9.8.4(4)	Long-term incentive scheme as required under LR 9.4.2R (2) (for a sole director to facilitate recruitment or retention)	Not applicable
9.8.4(5)	Any arrangements under which a director has waived or agreed to waive any emoluments from the company or any subsidiary undertaking	Not applicable
9.8.4(6)	Any arrangement under which a director has agreed to waive future emoluments	Not applicable
9.8.4(7)	Allotments for cash of equity securities made during the period under review otherwise than to the holders of the company's equity shares in proportion to their holdings of such equity shares and which has not been specifically authorised by the company's shareholders	Not applicable
9.8.4(8)	Allotments of shares for cash by a major subsidiary of the company	Not applicable
9.8.4(9)	Participation by a parent company in any placing made by the company	Not applicable
9.8.4(10)	Any contract of significance: (i) to which the listed company, or one of its subsidiary undertakings, is a party and in which a director of the listed company is or was materially interested; and (ii) between the listed company, or one of its subsidiary undertakings, and a controlling shareholder	Not applicable

Listing Rule	Disclosure requirement	Disclosure in annual report
9.8.4(11)	Contracts for the provision of services to the company or any of its subsidiary undertakings by a controlling shareholder	Not applicable
9.8.4(12)	Arrangements under which a shareholder has waived or agreed to waive any dividends	Not applicable
9.8.4(13)	Where a shareholder has agreed to waive future dividends	Not applicable
9.8.4(14)	Board statement in respect of relationship agreement with the controlling shareholder	Not applicable

By order of the board
R.E.A. SERVICES LIMITED
Secretary
23 April 2015

Corporate governance report

Throughout the year ended 31 December 2014, the company was in compliance with the provisions set out in the 2012 UK Corporate Governance Code issued by the Financial Reporting Council (the "Code"). The Code is available from the Financial Reporting Council's website at "www.frc.org.uk".

Chairman's statement on corporate governance

The directors appreciate the importance of ensuring that the group's affairs are managed effectively and with integrity and acknowledge that the principles laid down in the Code provide a widely endorsed model for achieving this. The directors seek to apply the Code principles in a manner proportionate to the group's size but, as the Code permits, reserving the right, when it is appropriate to the individual circumstances of the company, not to comply with certain Code principles and to explain why.

The directors are mindful of the recently published 2014 UK Corporate Governance Code (the "2014 Code") and associated guidance, applicable for reporting periods commencing on or after 1 October 2014, and have had regard to the provisions of the 2014 Code in the preparation of this report.

At the performance evaluation conducted in 2014, the board concluded that the board is performing effectively as constituted and that the complementary skills of individual board members are appropriate for the size and strategic direction of the group and for the challenges that it faces. It was acknowledged that each director brings valuable additional insights into the plantation industry, business in Indonesia and the group's own affairs.

The directors are conscious that the group relies not only on its shareholders but also on the holders of its debt securities for the provision of the capital that the group utilises. The comments below regarding liaison with shareholders apply equally to liaison with holders of debt securities.

Role and responsibilities of the board

The board is responsible for the proper management of the company. The board has a schedule of matters reserved for its decision which is kept under review. Such matters include strategy, material investments and financing decisions and the appointment or removal of executive directors and the company secretary. In addition, the board is responsible for ensuring that resources are adequate to meet the group's objectives and for reviewing performance, financial and operational controls, risk and compliance with the group's policies and procedures with respect to business ethics, human rights and sustainability.

The chairman and managing director (being the chief executive) have defined separate responsibilities under the overall direction of the board. The chairman has responsibility for leadership and management of the board in the discharge of its duties; the managing director has responsibility for the executive management of the group overall. Neither has unfettered powers of decision.

All of the non-executive directors, with the exception of the chairman, are considered by the board to be independent directors. There is a regular and robust dialogue, both formal and informal, between all directors and senior management and communication is open and constructive. The ethos of discussions is consistent with that of the company and non-executive directors are able to express their views and speak frankly or to raise any issues or concerns; executive management is responsive to feedback from non-executives directors and to requests for clarification and amplification.

The company carries appropriate insurance against legal action against its directors. The current policy was in place throughout 2014 in compliance with the Code requirement to carry such insurance.

Composition of the board

The board currently comprises two executive directors and four non-executive directors (including the chairman). The two executive directors are John Oakley and Mark Parry. Mr Oakley is the group's managing director and is based in London. Mr Parry is the group's regional director and is based in Indonesia and Singapore with overall local responsibility for the Indonesian operations. Mr Parry is also the president director and, since January 2014, the chief operating officer of the company's principal operating subsidiary in Indonesia, PT REA Kaltim Plantations ("REA Kaltim"). Biographical information concerning each of the directors is set out under "Board of directors" above.

The variety of backgrounds brought to the board by its members provides perspective and facilitates balanced and effective strategic planning and decision making for the long-term success of the company in the context of the company's obligations and responsibilities both as the owner of a business in Indonesia and as a UK listed entity. In particular, the board believes that the respective skills and experience of its members complement each other and that their knowledge and commitment is of specific relevance to the nature and geographical location of the group's operations.

In line with the previously stated intention that, over time, overall executive responsibility for the management of the group will progressively be transferred from the UK to Indonesia and Singapore, it has been agreed that, upon retirement of the current managing director at the end of 2015, Mr Parry will be appointed group managing director. Mr Parry will continue in his role as president director of REA Kaltim, based in South East Asia. Although Mr Oakley will cease to have executive responsibilities from January 2016, it is intended that he will remain on the board in a non-executive capacity, and during a limited transitional period, will continue to discharge certain executive responsibilities, particularly in relation to the installation of the group's new information technology systems to ensure continuity and a smooth hand over.

It has been agreed that, concurrently with Mr Oakley's retirement as managing director, Mr Robinow will step down from the chairmanship of the company; it is intended that he too will remain on the board as a non-executive director and, for a transitional period sufficient to ensure completion of all transactions associated with the proposed listing of REA Kaltim on the Indonesian Stock Exchange, will devote such additional time to the affairs of the group as are appropriate for that purpose. Upon Mr Robinow's retirement as chairman, Mr Blackett, the current senior independent director will be appointed as chairman.

The planned changes in board positions and responsibilities are in line with the group's previously announced intention that, in due course, the group's London office will be reduced to a secretariat managing the company's London listing and liaising with its European shareholders.

Under the company's articles of association, any director who has not been appointed or re-appointed at each of the preceding two annual general meetings shall retire by rotation and may submit himself for re-election. This has the effect that each director is subject to re-election at least once every three years. In addition, in compliance with the Code, non-executive directors who have served on the board for more than nine years submit themselves for re-election every year. Further, any director appointed during the year holds office until the next annual general meeting and may then submit himself for re-election.

It is the policy of the company that the board should be refreshed on the basis that independent non-executive directors will not normally be proposed for reappointment if at the date of reappointment they have served on the board for more than nine years.

Directors' conflicts of interest

In connection with the statutory duty to avoid any situation which conflicts or may conflict with the interests of the company, the board has approved the continuance of potential conflicts notified by Mr Robinow, who absented himself from the discussion in this respect. Such notifications relate to Mr Robinow's interests as a shareholder in or a director of companies the interests of which might conflict with those of the group but are not at present considered to conflict. No other conflicts or potential conflicts have been notified by directors.

Professional development and advice

In view of their previous relevant experience and, in some cases, length of service on the board, all directors are familiar with the financial and operational characteristics of the group's activities. Directors are required to ensure that they maintain that familiarity and keep themselves fully cognisant of the affairs of the group and matters affecting its operations, finances and obligations (including environmental, social and governance responsibilities). Whilst there are no formal training programmes, the board regularly reviews its own competences, receives periodic briefings on legal, regulatory, operational and political developments affecting the group and may arrange training on specific matters where it is thought to be required. Directors are able to seek the advice of the company secretary and, individually or collectively, may take independent professional advice at the expense of the company if necessary.

Newly appointed directors receive induction on joining the board and steps are taken to ensure that they become fully informed as to the group's activities.

Information and support

Quarterly operational and financial reports are issued to all directors following the end of each quarter for their review and comment. These reports are augmented by monthly management reports, annual budgets and positional papers on matters of a non routine nature and by prompt provision of such other information as the board periodically decides that it should have to facilitate the discharge of its responsibilities.

Board evaluation

A formal internal evaluation of the performance of the board, the committees and individual directors is undertaken annually. Balance of powers, contribution to strategy, efficacy and accountability to stakeholders are reviewed by the board as a whole and the performance of the chairman is appraised by the independent non-executive directors led by the senior independent director. The appraisal process includes assessments against a detailed set of criteria covering a variety of matters from the commitment and contribution of the board in developing strategy and enforcing disciplined risk management, pursuing areas of concern, if any, and setting appropriate commercial and social responsibility objectives to the adequacy and timeliness of information made available to the board.

At the performance evaluation conducted in 2014, the board concluded that it performs effectively as constituted and that the directors work well together as a team.

Corporate governance report
continued

Board committees

The board has appointed audit, nomination and remuneration committees to undertake certain of the board's functions, with written terms of reference which are available for inspection on the company's website and are updated as necessary.

An executive committee of the board, currently comprising Mr Robinow and Mr Oakley, has been appointed to deal with various matters of a routine or executory nature.

Appropriate changes to the composition of board committees, to take account of the planned changes to the composition of the board as discussed above, will be addressed in due course.

Audit committee

The audit committee reports on its composition and activities in the "Audit committee report" below. This also provides information concerning the committee's relationship with the external auditor.

Nomination committee

The nomination committee comprises Mr D Killick (chairman) and Mr Blackett. The committee is responsible for submitting recommendations for the appointment of directors for approval by the full board. In making such recommendations, the committee pays due regard to the group's open policy with respect to diversity, including gender and race.

Remuneration committee

The remuneration committee reports on its composition and activities in the "Directors' remuneration report" below. This also provides information concerning the remuneration of the directors and includes details of the basis upon which such remuneration is determined.

Board proceedings

Four meetings of the board are scheduled each year. Other board meetings are held as required to consider corporate and operational matters with all directors consulted in advance regarding significant matters for consideration and provided with relevant supporting information. Minutes of board meetings are circulated to all directors. The executive directors, unless travelling, are normally present at full board meetings. Where appropriate, telephone discussions take place between the chairman and the other non-executive directors outside the formal meetings. Committee meetings are held as and when required. All proceedings of committee meetings are reported to the full board.

The attendance of individual directors, who served during 2014, at the regular and "ad hoc" board meetings held in 2014 was as follows:

	Regular meeting	Ad hoc meeting
R M Robinow	4	1
J C Oakley	4	1
D J Blackett	4	1
I Chia	4	–
D H R Killick	4	1
M A Parry	4	–

In addition, during 2014 there were four meetings of the audit committee and one meeting of the remuneration committee. The nomination committee did not meet during 2014 but, at a meeting in 2015, recommended the proposals outlined above regarding changes to the chairmanship and managing directorship of the company. All committee meetings were attended by all of the committee members appointed at the time of each meeting.

Whilst all formal decisions are taken at board meetings, the directors have frequent informal discussions between themselves and with management and most decisions at board meetings reflect a consensus that has been reached ahead of the meetings. Some directors reside permanently, or for part of each year, in the Asia Pacific region and most of the UK based directors travel extensively. Since the regular board meetings are fixed to fit in with the company's budgeting and reporting cycle and ad hoc meetings normally have to be held at short notice to discuss specific matters, it is impractical to fix meeting dates to ensure that all directors are able to attend each meeting. Instead, when a director is unable to be at a meeting, the company ensures that he is fully briefed so that he can make his views known to other directors ahead of time and his views are reported to, and taken into account, at the meeting.

Risk management and internal control

The board is responsible for the group's system of internal control and for reviewing its effectiveness. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The board has established a continuous process for identifying, evaluating and managing the principal risks which the group faces (including risks arising from environmental, social and governance matters). The board regularly reviews the process and internal control systems, which were in place throughout 2014 and up to the date of approval of this report and which are in accordance with the current guidance on internal control (the Turnbull Guidance). The board is working to ensure that it is fully compliant with the Financial Reporting Council ("FRC") Guidance on Risk Management, Internal

Control and Related Financial and Business Reporting for 2015.

The board attaches importance not only to the process established for controlling risks but also to promoting an internal culture in which all group staff are conscious of the risks arising in their particular areas of activity, are open with each other in their disclosure of such risks and combine together in seeking to mitigate risk. In particular, the board has always emphasised the importance of integrity and ethical dealing and continues to do so, in accordance with the group's policies on business ethics and human rights.

Policies and procedures in respect of bribery and corruption are in place for all of the group's operations in Indonesia as well as in the UK. These include detailed guidelines and reporting requirements, a comprehensive continuous training programme for all management and employees and a process for on-going monitoring and review. The group also seeks to ensure that its partners abide by its ethical principles.

The board, assisted by the audit committee and the internal audit process, reviews the effectiveness of the group's system of internal control on an on-going basis. The board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management (providing such information as the board requires) and considering whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring. Details of the internal audit function are provided under "Internal audit" in the Audit committee report below.

Following formal reviews of the systems of internal control and risk management (including the group's internal audit arrangements) in November 2014 and April 2015, the board concluded that these remain effective and sufficient for their purpose. The board did not identify, nor was it advised of, any specific failings or weaknesses that it determined to be significant and warranting further action.

Internal audit and reporting

The group's internal audit arrangements are described in the Audit committee report below.

The group has established a management hierarchy which is designed to delegate the day to day responsibility for specific departmental functions within each working location, including financial, operational and compliance controls and risk management, to a number of senior managers and department heads who in turn report to the regional director and the managing director.

Management reports to the audit committee and the board on a regular basis by way of the circulation of progress reports, management reports, budgets and management accounts. Management is required to seek authority from the board in respect of any transaction outside the normal course of trading which is above an approved limit and in respect of any matter that is likely to have a material impact on the operations that the transaction concerns. Monthly meetings to consider operational matters are held between management in London and Indonesia by way of conference calls of which minutes are taken and circulated. At least four supervisory visits are made each year to the overseas operations by the managing director; other directors also make periodic visits to these operations. Such visits are reported on and reviewed by the non-executive directors at the regular board meetings. The president director and chief operating officer of REA Kaltim has a continuing dialogue with the managing director and with other members of the board.

Relations with shareholders

The "Chairman's statement" and "Strategic report above", when read in conjunction with the financial statements, the "Directors' report" above and the "Audit committee report" and "Directors' remuneration report" below are designed to present a comprehensive and understandable assessment of the group's position and prospects. The respective responsibilities of the directors and auditor in connection with the financial statements are detailed in "Directors' responsibilities" below and in the "Auditor's report".

The directors endeavour to ensure that there is satisfactory dialogue, based on mutual understanding, between the company and its shareholder body. The annual report, interim communications, periodic press releases and such circular letters to shareholders as circumstances may require are intended to keep shareholders informed as to progress in the operational activities and financial affairs of the group. In addition, within the limits imposed by considerations of confidentiality, the company engages with institutional and other major shareholders through regular meetings and other contact in order to understand their concerns. The views of shareholders are communicated to the board as a whole to ensure that the board maintains a balanced understanding of shareholder opinions and issues arising.

All ordinary shareholders may attend the company's annual and other general meetings and put questions to the board. As noted above, some directors reside permanently, or for part of each year, in the Asia Pacific region and the nature of the group's business requires that the chairman and managing director travel frequently to Indonesia. It is therefore not always feasible for all directors to attend general meetings, but those directors who are present are available to talk on an informal basis to shareholders after the meeting's conclusion. At least twenty working days' notice is given of the annual general meeting and related papers are made available to shareholders at least twenty working days ahead of the meeting. For every general meeting, proxy votes are counted

Corporate governance report
continued

and details of all proxies lodged for each resolution are reported to the meeting and made available on the company's website as soon as practicable after the meeting.

The company maintains its website at "www.rea.co.uk". The website has detailed information on, and photographs illustrating various aspects of, the group's activities, including its commitment to sustainability, conservation work and managing its carbon footprint. The website is updated regularly and includes information on the company's share prices and the price of crude palm oil. The company's results and other news releases issued via the London Stock Exchange's Regulatory News Service are published on the "Investors" section of the website and, together with other relevant documentation concerning the company, are available for downloading.

Approved by the board on 23 April 2015 and signed on behalf of the board by
RICHARD M ROBINOW
Chairman

Audit committee report

Summary of the role of the audit committee

The terms of reference of the audit committee are available for download from the company's website rea.co.uk.

The audit committee is responsible for:

- monitoring the integrity of the financial statements and reviewing formal announcements of financial performance and the significant reporting issues and judgements that such statements and announcements contain;
- reviewing the effectiveness of the internal control functions (including the internal financial controls, the internal audit function and arrangements whereby internally raised staff concerns as to financial reporting and other relevant matters are considered);
- making recommendations to the board in relation to the appointment, reappointment and removal of the external auditor, remuneration and terms of engagement; and
- reviewing and monitoring the independence of the external auditor and the effectiveness of the audit process.

The audit committee also monitors the engagement of the external auditor to perform non-audit work. During 2014, the only non-audit work undertaken by the auditor was, as in the previous year, routine compliance reporting in connection with covenant obligations applicable to certain group loans (as respects which the governing instruments require that such compliance reporting is carried out by the auditor) and routine taxation compliance services. The audit committee considered that the nature and scope of, and remuneration payable in respect of, these engagements was such that the independence and objectivity of the auditor was not impaired. Fees payable are detailed in note 5 to the consolidated financial statements.

The members of the audit committee discharge their responsibilities by informal discussions between themselves, meetings with the external auditor, with the internal auditor in Indonesia and with management in Indonesia and London and by consideration of reports from management, the Indonesian internal audit function and the external auditor.

The committee provides advice and recommendations to the board with respect to the financial statements to ensure that these offer fair, balanced and comprehensive information for the purpose of informing and protecting the interests of the company's shareholders.

Composition of the audit committee

The audit committee currently comprises Mr Blackett (chairman) and Mr Killick both of whom are considered by the directors to have relevant financial and professional experience in order to be able to fulfil their specific duties with respect to the audit committee.

Meetings

Three audit meetings are fixed to match the company's budgeting and reporting cycle. There are additional ad hoc meetings held to discuss specific matters when required.

Significant issues related to the financial statements

The committee reviewed the half year financial statements to 30 June 2014 (on which the auditor did not report) and the full year consolidated financial statements for 2014 (the "2014 financial statements") contained in this annual report. The external audit report on the latter was considered together with a paper to the committee by the auditor reporting on the principal audit findings. The audit partner of Deloitte LLP responsible for the audit of the group attended the audit planning meeting prior to the year end as well as the meeting of the committee at which the full year audited consolidated financial statements were considered and approved. Senior members of staff of Deloitte LLP who were involved in the audit also attended the meetings.

In relation to the group's audited 2014 financial statements, the committee considered the significant accounting and judgement issues set out below.

Significant accounting and judgement issues

Issues	Relevant considerations
Fair valuation of biological assets: the valuation is based on a discounted cash flow model which contains some significant management assumptions in regard to certain inputs.	Each year the group considers the various inputs for the valuation model and adjusts these as necessary to reflect the current status of the group's plantations, crop yields, the margins achieved from sale of product and general financial conditions. These are also compared as appropriate with inputs for such valuations disclosed by other oil palm plantation companies.

Audit committee report
continued

Issues	Relevant considerations
Indonesian tax balances: Indonesian legislation as to the tax treatment of transactions is sometimes unclear and can result in disputes between the group and the Indonesian tax authorities. Certain disputed items are currently the subject of cases in appeal courts.	Each year the group prepares an evaluation of items that may be disputed and adjusts tax balances as required. Following a favourable judgement from the Jakarta Tax Court in May 2014, some $8.4 million of tax previously paid was refunded. Although this and another long disputed judgement still remain subject to judicial review by the Supreme Court of Indonesia, based on advice received, tax provisions previously made were reduced by writing back an amount equal to the cash recovered. Pending the outcome of such review, which may take some years, interest receivable in the event of favourable judgements has not been recognised.
Valuation of Indonesian stone and coal loans: the value of these loans is based on their expected future generation of revenue; following a review in 2012, a provision of $3 million was booked in the 2012 consolidated financial statements.	The group has made good progress towards commencement of quarrying operations on the stone deposit and feasibility studies indicate that the value of such operations will be significantly in excess of the loan values. At current depressed coal prices, the operation of the coal concessions is uneconomic but it is expected that prices will recover from current levels. There is also potential for alternative use for agricultural development at two of the three properties. In consideration of the group's continuing support of the stone and coal concession companies, the stone concession holding company has guaranteed the obligations to the company of the coal concession companies. These considerations support the conclusion that no further impairment charge is required at this time.
Fair valuation of cross currency swaps: the valuation is derived as the difference between the net present values of the bought and sold positions converted to US dollars with assumptions as to appropriate discount rates.	The group has assumed discount rates based on published rates for the periods and currencies involved and has adjusted these for credit risk; the relatively short remaining duration of the swaps means that the scope for error in the valuation method is limited.
Revenue recognition: compliance with the "bill and hold" sale revenue recognition requirements of IAS18 "Revenue" and those relating to forward sales.	There are long-standing operating procedures for the storage of product where the buyer has requested a delivery delay, and these comply with IFRS. In addition the shift of delivery method over recent years from FOB Samarinda to CIF has reduced the occurrence and the materiality of this issue. The group has no forward sales at fixed prices.

In its review of the annual report and the consolidated financial statements, the committee has considered management's submissions on the matters above, together with the conclusions reached by the auditor, in order to ensure that the annual report and the consolidated financial statements are fair, balanced and understandable and provide sufficient information to enable shareholders to make an assessment of the group's performance, business model and strategy.

External Audit

The external auditor was appointed as the company's external auditor in 2002. There has been no tender for audit services since that time. Mark McIlquham has been the company's audit engagement partner since November 2010 and will step down this year under the standard rotation procedure of his firm.

The audit committee has recommended to the board that it should seek the approval of the company's shareholders for the reappointment of the company's current auditor. That recommendation reflects an assessment of the qualifications, expertise, resources and independence of the auditor based upon reports produced by the auditor, the committee's own dealings with the auditor and feedback from management. The committee took into account the likelihood of withdrawal of the auditor from the market and noted that there were no contractual obligations to restrict the choice of external auditor. However, given the current level of audit fees, the limited choice of audit firms with sufficient international coverage and experience and the costs that a change would be likely to entail, the committee did not recommend that the company's audit be put out to tender.

In its assessment of the external auditor, the audit committee considered the following criteria:

- delivery of a thorough and efficient audit of the group in accordance with agreed plans and timescales
- provision of accurate, relevant and robust advice on key accounting and audit judgments, technical issues and best practice
- the degree of professionalism and expertise demonstrated by the audit staff
- sufficient continuity within the core audit team
- adherence to independence policies and other regulatory requirements.

Risk Management and Internal Control

The board of the company has primary responsibility for the group's risk management and internal control systems. The audit committee supervises the internal audit function, which forms an important component of the control systems, and keeps the control systems generally under review. Any deficiencies identified are drawn to the attention of the board.

Internal audit

The group's Indonesian operations have a fully staffed in-house internal audit function supplemented where necessary by the use of external consultants. The function issues a full report on each internal audit topic and a summary of the report is issued to the audit committee. An internal audit programme is agreed at the beginning of each year and supplemented by special audits through the year as and when required by management. In addition, follow-up audits are undertaken to ensure that the necessary remedial action has been taken. In the opinion of the audit committee and the board, there is no need for an internal audit function outside Indonesia due to the limited nature of the non-Indonesian operations.

Approved by the audit committee on 23 April 2015 and signed on behalf of the committee by:
DAVID J BLACKETT
Chairman

Directors' remuneration report

This report has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the "Regulations") as amended in August 2013. The report is split into three main sections: the statement by the chairman of the remuneration committee, the annual report on remuneration and the policy report. The policy report is a revised report and will be subject to a binding shareholder vote at the 2015 Annual General Meeting ("2015 AGM") and it is intended that the revised policy should take effect immediately upon approval at the AGM, superseding the previously approved policy that took effect from 1 January 2015. The annual report on remuneration provides details on remuneration during 2014 and certain other information required by the Regulations. The directors' remuneration report, excluding the policy report, will be subject to an advisory shareholder vote at the 2015 AGM.

The Companies Act 2006 requires the auditor to report to the shareholders on certain parts of the annual report on remuneration component of the directors' remuneration report and to state whether, in its opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the annual report on remuneration that are subject to audit are indicated at the beginning of that report. The statement by the chairman of the remuneration committee and the policy report are not subject to audit.

Statement by Mr D Blackett, the chairman of the remuneration committee

The succeeding sections of this directors' remuneration report cover the activities of the remuneration committee during 2014 and provide information regarding the remuneration of executive and non-executive directors and the future policy on directors' remuneration. In particular, the report is designed to compare the remuneration of directors with the performance of the company.

The policy and principles applied by the remuneration committee in fixing the remuneration of directors continues to take account of, in particular for executive directors, the company's sustainability objectives as well as its commercial goals and achievements.

A key challenge for the committee in considering executive remuneration for 2015 and bonuses in respect of 2014 has been striking the right balance between positive and negative factors. It is positive that the group has continued to recover from the difficulties faced by the group in 2012 and the first half of 2013 but negative that the recovery has been impacted by certain operational and engineering deficiencies exacerbated by factors beyond the group's control, specifically a particularly dry period of weather and a weakening crude palm oil price in the second half of 2014.

The executive has made significant progress in identifying and addressing deficiencies, developing the operational management team and putting in place consistent procedures for managing relationships with the local communities so as to establish a sound footing for proceeding with the group's extension planting programme. In addition, arrangements and the related agreements for the supply of electricity using methane from the methane capture plants have now been secured. Against this, the progress made has yet to be reflected in the group's results.

The committee has reflected these factors in 2014 bonuses and the remuneration awarded for 2015. The committee believes that remuneration should continue to motivate and reward individual performance in a way that is consistent with the best long term interests of the company and its shareholders, and, in approving the remuneration package for 2015, considers that it struck an appropriate balance between reward and incentive. The remuneration awarded for 2015 is consistent with the current policy on remuneration.

The area in which a revised remuneration policy is proposed relates to long term incentives. In the past, these have been structured as individual agreements with executives, and have provided for cash payments on vesting. The only outstanding long term incentive is that of Mr Parry, as described below. The revised policy, outlined in the future policy tables below, provides for an increased individual limit capping the grant-date value of unvested awards held by any one individual at 150 per cent of annual base salary (or 200 per cent in exceptional circumstances). It also provides for the award of rights to acquire shares. This would be effected under a new long term incentive plan for which a separate approval from shareholders is required under the Listing Rules of the London Stock Exchange. To this end, an extraordinary general meeting is to be convened, to follow immediately after the close of the Company's annual general meeting, for the purpose of considering and, if thought fit, approving the new long term incentive plan. The notice of extraordinary general meeting will provide a summary of the principal terms of the proposed plan.

Annual report on remuneration

The information provided below under “Single total figure of remuneration for each director”, “Pension entitlements”, “Scheme interests awarded during the financial year”, “Directors’ shareholdings” and “Scheme interests” has been audited.

Single total figure of remuneration for each director

The remuneration of the executive and non-executive directors for 2013 and 2014 was as follows:

2014	Salary and fees £'000	All taxable benefits* £'000	Annual bonus £'000	Long term incentive £'000	Payment in lieu of pension £'000	Total £'000
Chairman and executive directors						
R M Robinow	200.0	6.9	–	–	–	206.9
J C Oakley	336.0	17.7	108.0	–	–	461.7
M A Parry	268.9	33.9	129.2	–	–	432.0
Non-executive directors						
D J Blackett	29.5	–	–	–	–	29.5
I Chia	27.0	–	–	–	–	27.0
D H R Killick	29.5	–	–	–	–	29.5
Total	890.9	58.5	237.2	–	–	1,186.6

2013	Salary and fees £'000	All taxable benefits* £'000	Annual bonus £'000	Long term incentive £'000	Payment in lieu of pension £'000	Total £'000
Chairman and executive directors						
R M Robinow	197.5	5.9	–	–	–	203.4
J C Oakley	324.5	16.3	105.0	–	43.0	488.8
M A Parry	275.5	28.8	115.3	–	–	419.6
Non-executive directors						
D J Blackett	24.5	–	–	–	–	24.5
I Chia	22.0	–	–	–	–	22.0
D H R Killick	24.5	–	–	–	–	24.5
Total	868.5	51.0	220.3	–	43.0	1,182.8

* Types of benefit: company car, medical insurance, overseas rental accommodation

Fees paid to Mr Blackett and Mr Killick in respect of 2013 and 2014 included, in each case, additional remuneration of £2,500 in respect of their membership of the audit committee.

Pension entitlements

In the past, executive directors were eligible to join the R.E.A. Pension Scheme, a defined benefit scheme of which details are given in note 37 to the consolidated financial statements. That scheme is now closed to new members and it is no longer the policy of the company to offer pensionable remuneration to directors, except to the extent as may be or may become required under local legislation.

Mr Oakley (who was aged 66 at 31 December 2014) was until 31 July 2009 an ordinary member of the R.E.A. Pension Scheme. Mr Oakley elected to become a pensioner member of the scheme on 31 July 2009. In recognition of Mr Oakley’s withdrawal from ordinary membership of the scheme ahead of attaining the age of 65, the company paid to Mr Oakley amounts in lieu of the pension contributions equivalent to the amounts that the company would otherwise have paid to the pension scheme during the period from 1 August 2009 until 17 August 2013 when Mr Oakley attained the age of 65. There were no further payments in lieu of pension contributions payable in 2014 (2013: £43,000) and no further payments are due in the future.

Directors' remuneration report

continued

Details of Mr Oakley's annual pension entitlement are set out below.

	£
In payment at beginning of year	72,089
Increase during the year	1,903
In payment at end of year	73,992

Scheme interests awarded during the financial year

There were no scheme interests awarded during the year to a director.

Directors' shareholdings

There is no requirement for directors to hold shares in the company.

At 31 December 2014, the interests of directors (including interests of connected persons as defined in section 96B (2) of the Financial Services and Markets Act 2000 of which the company is, or ought upon reasonable enquiry to have been, aware) in the 9 per cent cumulative preference shares of £1 each and the ordinary shares of 25p each of the company were as set out in the table below.

Directors	Preference shares	Ordinary shares
R M Robinow	–	9,957,500
D J Blackett	250,000	10,000
I Chia	–	1,000
D H R Killick	–	30,000
J C Oakley	26,549	442,493
M A Parry	42,155	25,822

There have been no changes in the interests of the directors between 31 December 2014 and the date of this report. During 2014, the total number of ordinary shares held by Mr Robinow ceased to include 24,166 ordinary shares that were previously held in trust on behalf of a person connected with Mr Robinow and a further 24,167 ordinary shares held by a member of Mr Robinow's family who no longer meets the criteria of a connected person.

Scheme interests

The following table shows the total number of scheme interests, being entitlements to notional shares with and without performance conditions, held by Mr Parry. No director, other than Mr Parry, currently holds any interests in shares other than those disclosed in the table above and no director holds any share options.

Scheme interests in ordinary shares	With performance conditions	Without performance conditions
M A Parry	106,247	Nil

A long term incentive was approved by shareholders and put in place for Mr Parry in June 2013. The scheme is linked to the market price performance of ordinary shares in the company, designed with a view to participation over the long term in value created for the group. The performance period commenced on 1 January 2013 and will end on 31 December 2016 (the "performance period").

Under the plan, the participant was awarded potential entitlements over notional ordinary shares of the company. These potential entitlements then vest to an extent that is dependent upon the achievement of certain targets. Vested entitlements are exercisable in whole or part at any time within the six years following the date upon which they vested. On exercising a vested entitlement, the participant receives a cash amount for each ordinary share over which the entitlement is exercised, equal to the excess (if any) of the market price of an ordinary share on the date of exercise over 389.4p, being the market price of an ordinary share on the date with effect from which the plan was agreed after adjustment for subsequent variations in the share capital of the company in accordance with the rules of the plan.

The plan provides that the vesting of the participant's potential entitlements to notional ordinary shares be determined by key performance targets with each performance target measured on a cumulative basis over a designated performance period. There are threshold, target and maximum levels of performance determining the extent of vesting in relation to each performance target. The three key performance targets and the respective thresholds for determining the extent of vesting under the plan are set out in the table below. Targets are subject to adjustment at the discretion of the remuneration committee where, in the committee's opinion, warranted by actual performance.

Director	Type of scheme interest	Basis of award	Face value* £'000	Percentage of award vesting for minimum performance**	Length of vesting period	Summary of performance measures and targets
M A Parry	Long term incentive plan	A notional right to acquire 103,035 ordinary shares at 401.5p per share exercisable subject to certain performance conditions	413,687	33.33	1 January 2013 to 31 December 2016	Up to 50 per cent of the maximum aggregate amount will be payable dependent on the annual total shareholder return (TSR) per ordinary share; up to 25 per cent dependent upon the percentage amount by which the inflation adjusted cost per tonne of crude palm oil and equivalents produced by the group has reduced (RCPT); and up to 25 per cent dependent upon the average annual extension planting rate achieved by the group (AEPR). For each performance measure, the thresholds for one third, two thirds or full vesting, are, respectively. as follows: TSR – 10, 15 and 20 per cent; RCPT – 5,10 and 15 per cent; and AEPR – 2,500, 3,000 and 3,500 hectares

* The face value comprises the number of shares awarded multiplied by the closing share price (401.5p) on the day immediately preceding the date of grant (11 June 2013) being the price at which the award was initially exercisable.

** Assuming minimum performance against all performance conditions.

In the event of a change in control of the company as a result of a takeover offer or similar corporate event, vested entitlements will be exercisable for a period of one month following the date of the change of control or other relevant event (as determined by the remuneration committee).

The exercise of vested entitlements depends upon continued employment with the group. If the participant leaves, he may exercise a vested entitlement within six months of leaving.

On the basis of the market price of the ordinary shares at 31 December 2014 of 350p, there would have been no gain under the plan.

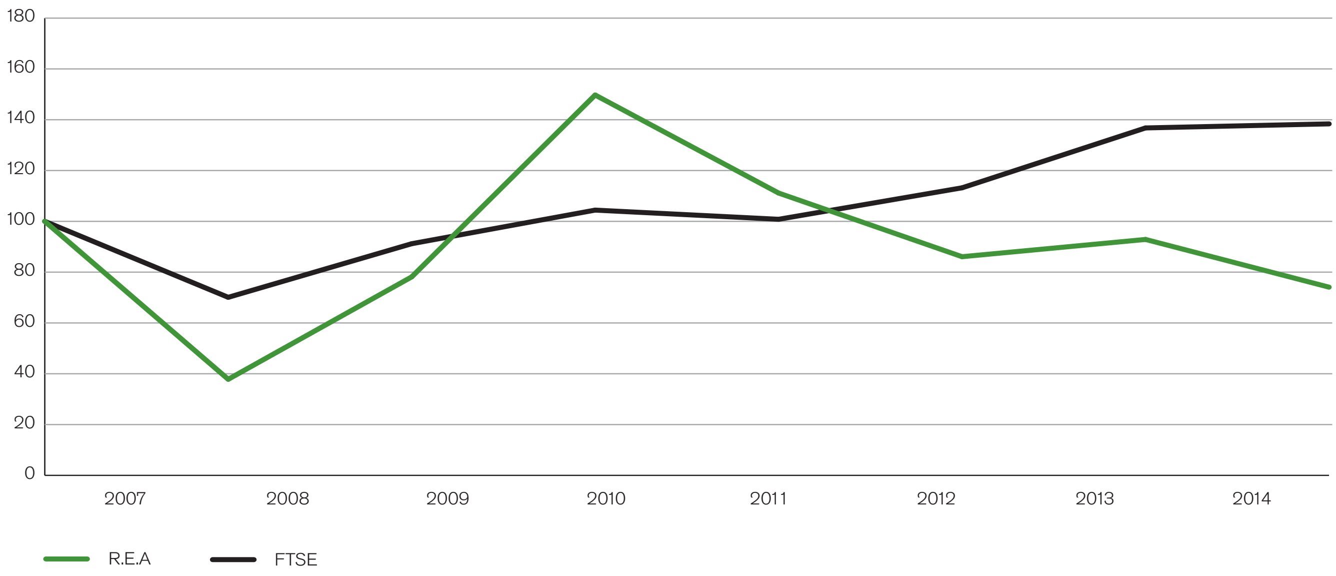
As described in the statement by the chairman of the remuneration committee above, it is intended that, subject to approval of the revised remuneration policy at the 2015 AGM and a necessary approval at the subsequent EGM, a new long term incentive plan will be adopted for senior managers based in Indonesia and Singapore, including Mr Parry. Mr Parry is the only current director who will participate in the new long term incentive plan.

Directors' remuneration report

continued

Performance graph and managing director remuneration table

The following graph shows the company's performance, measured by total shareholder return, compared with the performance of the FTSE All Share Index also measured by total shareholder return. The FTSE All Share index has been selected for this comparison as there is no index available that is specific to the activities of the company.



Record of remuneration of the managing director

The table below provides details of the remuneration of the managing director over the five years to 31 December 2014.

Managing director's remuneration	Single figure of total remuneration £'000	Annual bonus pay-out against maximum %	Long term incentive vesting rates against maximum opportunity %
2014	461.7	67	N/A
2013	488.8	65	N/A
2012	499.5	71	N/A
2011	428.7	47	N/A
2010	419.4	46	N/A

The single figure of total remuneration and the bonus calculations in 2011 above have been adjusted to reflect refunds of a benefit in kind. As previously reported, the total remuneration paid to Mr Oakley in respect of 2011 was £15,050 less than the amount to which he would normally have been entitled in each year, reflecting an agreement that a benefit in kind received in 2006 (relating to a tax liability arising on a gain on exercise of share options) should be refunded by commensurate reductions in subsequent remuneration. The reduction in 2011, together with earlier reductions, fully offset the applicable benefit in kind.

Percentage change in remuneration of the managing director

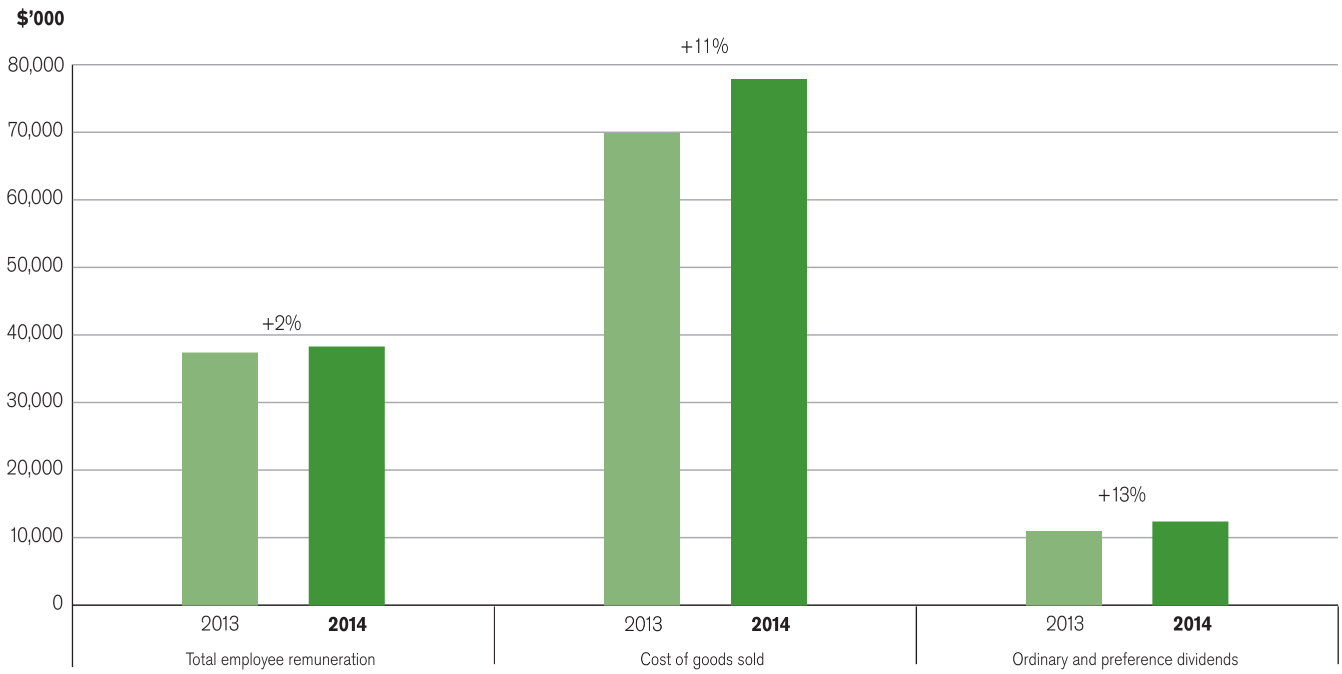
The table below shows the percentage changes in the remuneration of the managing director and in the average remuneration of certain senior management and executives in Indonesia and Singapore between 2013 and 2014. The selected comparator employee group is considered to be the most relevant taking into consideration the nature and location of the group's operations. Using the entire employee group would involve comparison with a workforce in Indonesia, whose terms and conditions are substantially different from those pertaining to employees elsewhere and of which the changes from year to year reflect local employment conditions. In order to achieve a meaningful comparison, the remuneration for the selected employee group in 2013 no longer includes certain expatriate employees who ceased to be employees of the group after 31 December 2013 and has also been restated at prevailing average exchange rates for 2014 so as to eliminate distortions based on exchange rate movements of the Indonesian rupiah, US dollar and Singapore dollar against sterling.

Percentage change in managing director's remuneration	2014 £'000	2013 £'000	change %
Salary	336.0	367.5	(9)
Benefits	17.7	16.3	8
Annual bonus	108.0	105.0	3
Total	461.7	488.8	(6)

Percentage change in selected employee group remuneration	2014 £'000	2013 £'000	change %
Salary	175.1	136.0	29
Benefits	12.5	9.5	32
Annual bonus	89.6	100.9	(11)
Total	277.2	246.4	13

Relative importance of spend on pay

The graph below shows the movements between 2013 and 2014 in total employee remuneration, cost of goods sold, and ordinary and preference dividends. Cost of goods sold has been selected as an appropriate comparator as it provides a reasonable measure of the growth in the group's activities.



Directors' remuneration report

continued

Functions of the remuneration committee

The remuneration committee currently comprises two independent non-executive directors, Mr D J Blackett (chairman) and Mr D H R Killick. The committee sets the remuneration and benefits of the chairman and the executive directors. The committee is also responsible for long term incentive arrangements, if any, for key senior executives in Indonesia.

The committee does not use independent consultants but takes into consideration external guidance, including the annual publication by Deloitte LLP regarding directors' remuneration in smaller companies. The committee also takes account of the views of the chairman of the company. The chairman plays no part in the discussion of his own remuneration.

Service contracts of directors standing for re-election

Mr Robinow, Mr Blackett and Mr Oakley are proposed for re-election at the forthcoming annual general meeting. Mr Robinow and Mr Blackett each have a contract for services to the company which is terminable at will by either party. Mr Robinow's reappointment is subject to annual review and the continuation of his appointment depends upon satisfactory performance and annual re-election at annual general meetings. Continuation of Mr Blackett's appointment depends upon satisfactory performance and re-election at annual general meetings in accordance with the articles of association of the company.

Mr Oakley has two service agreements whereby his working time and remuneration are shared between two employing companies to reflect the division of his responsibilities between different parts of the group. Each contract may be terminated by either party by giving notice to the other party of not less than six months. At 31 December 2014, the unexpired term under each contract remained as six months.

Statement of voting at general meeting

At the AGM held on 10 June 2014, votes lodged by proxy in respect of the directors' remuneration were as follows:

	Votes for	Percentage for	Votes against	Percentage against	Total votes cast	Votes withheld
Voting on remuneration report	23,758,038	99.999	158	0.001	23,758,196	–
Voting on remuneration policy	23,757,599	99.999	227	0.001	23,758,196	370

The company pays due attention to voting outcomes. Where there are substantial votes against resolutions in relation to directors' remuneration, the reasons for any such vote will be sought, and any actions in response will be detailed in the next directors' remuneration report.

Policy Report

The information provided in this part of the directors' remuneration report is not subject to audit.

Commencement and transition

The revised remuneration policy detailed below is subject to approval at the company's 2015 AGM on 11 June 2015 and, if approved, will take effect immediately thereafter. The proposed policy will not change the policy adopted in setting the current remuneration of the directors.

Future policy tables

The table below provides a summary of the key components that it will in future be the policy of the company to provide in the remuneration package of each executive director. It is not the policy of the company to provide for possible recovery after payment of directors' remuneration except under the proposed R.E.A. Holdings 2015 long term incentive plan, details of which will be set out in the notice convening an extraordinary general meeting to follow the annual general meeting.

	Purpose	Operation	Opportunity	Applicable performance measures
Executive directors				
Salary and fees	To provide a competitive level of fixed remuneration aligned to market practice for comparable organisations, reflecting the demands, seniority and location of the position and the expected contribution to achievement of the company's strategic objectives	Reviewed annually with annual increases effective from 1 January by reference to: the rate of inflation, specific responsibilities and location of the executive, current market rates for comparable organisations, rates for senior employees and staff across the operations, and allowing for differences in remuneration applicable to different geographical locations	Within the second or third quartile for similar sized companies	None
Taxable benefits	To attract, motivate, retain and reward fairly individuals of suitable calibre	Company car; and, where relevant, other benefits customarily provided to equivalent senior management in their country of residence	The cost of providing the appropriate benefits, subject to regular review to ensure that such costs are competitive	None
Annual bonus	To incentivise performance over a 12 month period, based on achievements linked to the company's strategic objectives	Annual review of performance measured against prior year progress in corporate development, both commercial and financial, and including objectives relating to sustainability and governance	Up to a maximum of 50 per cent of annual base salary	A range of objectives for the respective director, reflecting specific goals for the relevant year, with weighting assessed annually on a discretionary basis depending upon the dominant influences during the year to which a bonus relates
Long term incentives	To provide incentives, linked to ordinary shares, with a view to participation by the director over the long term in the value that a director helps to create for the group	The grant of rights to acquire shares or to receive cash payments vesting by reference to the achievement over a defined period of certain key performance targets	Cumulative unvested awards, measured at face value on dates of grant, limited to 150 per cent of prevailing annual base salary (200 per cent in exceptional circumstances)	Total shareholder return, cost per tonne of crude palm oil produced, and the annual extension planting rate achieved in proportions considered at the remuneration committee's discretion appropriate to the company's objectives at the time of making any award
Pensions	Compliance with prevailing legislation	Compliance with prevailing legislation	Compliance with prevailing legislation	None

Directors' remuneration report

continued

The table below provides a summary of each of the components that it will in future be the policy of the company to provide in the remuneration package of each non-executive director.

	Purpose	Operation
Non-executive directors		
Fees	To attract and retain individuals with suitable knowledge and experience to serve as directors of a listed UK company engaged in the plantation business in Indonesia	Determined by the board within the limits set by the articles of association and by reference to comparable organisations and to the time commitment expected; reviewed annually
Fees for additional duties	An additional flat fee in each year in respect of membership of certain committees and additional fees in respect of particular services performed	Determined by the board having regard to the time commitment expected and with no director taking part in the determination of such additional remuneration in respect of himself; reviewed annually
Taxable benefits	Continuance of previously agreed arrangements	The provision of private medical insurance, subject to regular review to ensure that the cost is competitive

The policies on remuneration set out above in respect of executive directors are applied generally to the senior management and executives of the group but adjusted appropriately to reflect the position, role and location of an individual. Remuneration of other employees, almost all of whom are based in Indonesia, is based on local and industry benchmarks for basic salaries and benefits, subject as a minimum to an annual inflationary adjustment, and with additional performance incentives as and where this is appropriate to the nature of the role.

Where any arrangements have been agreed with a director within the existing policies on remuneration, such arrangements shall be deemed to be arrangements falling within the new policies on remuneration set out above.

Approach to recruitment remuneration

In setting the remuneration package for a newly appointed executive director, the committee will apply the policy as set out above. Base salary and bonuses, if any, will be set at levels appropriate to the role and the experience of the director being appointed and, together with any benefits to be included in the remuneration package, will also take account of the geographical location in which the executive is to be based. The maximum variable incentive which may be awarded by way of annual bonus will be 50 per cent of the annual base salary and by way of long term incentive will be 150 per cent of annual base salary, except in exceptional circumstances when the maximum long term incentive would be 200 per cent of annual base salary.

In instances where a new executive is to be domiciled outside the United Kingdom, the company may provide certain relocation benefits to be determined as appropriate on a case by case basis taking account of the specific circumstances and costs associated with such relocation.

Directors' service agreements and letters of appointment

The company's policy on directors' service contracts is that contracts should have a notice period of not more than one year and a maximum termination payment not exceeding one year's salary. No director has a service contract that is not fully compliant with this policy.

Mr Oakley's service arrangements are set out under "Service contracts of director standing for re-election" above.

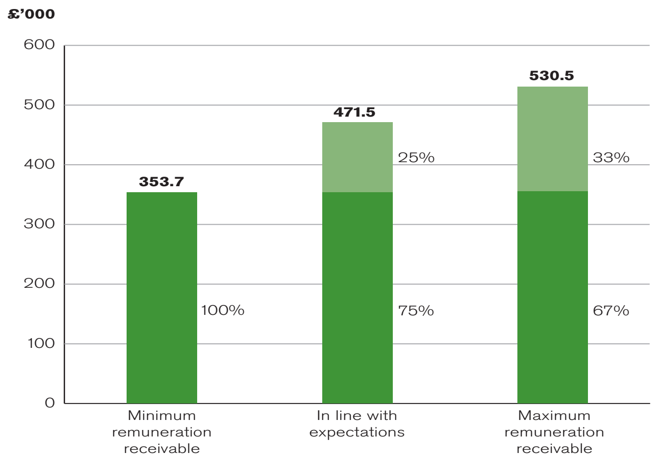
Mr Parry's service contract may be terminated by either party by giving notice to the other party of not less than three months. At 31 December 2014, the unexpired term under Mr Parry's contract was three months.

Contracts for the services of non-executive directors may be terminated at the will of either party, with fees payable only to the extent accrued to the date of termination. Continuation of the appointment of each non-executive director depends upon satisfactory performance and re-election at annual general meetings in accordance with the articles of association of the company and the provisions of the UK Corporate Governance Code.

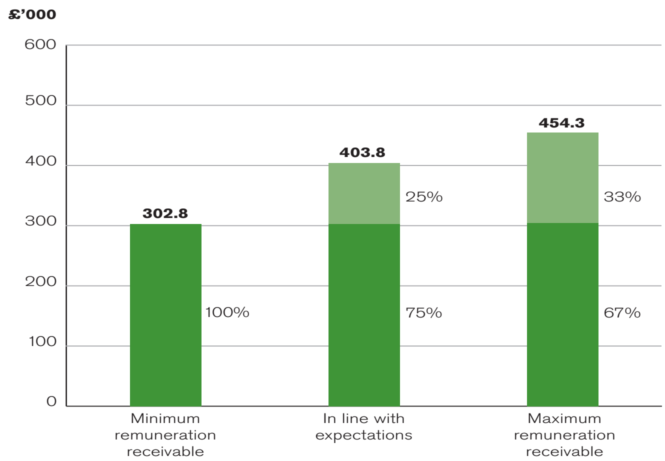
Illustration of application of remuneration policy

The charts below provide estimates of the potential remuneration receivable pursuant to the remuneration policy by each executive director, and the potential split of such remuneration between its different components (being the fixed component, the annual variable component and the long term variable component) under three different performance scenarios: minimum, in line with expectations and maximum. The long term variable component in respect of 2015 will be nil.

J C Oakley: managing director



M A Parry: regional director



Fixed pay   Annual bonus

The figures reflected in the chart above have been calculated against the policies that were applicable throughout 2014 and on the basis of remuneration paid or payable in respect of 2014..

Payment for loss of office

It is not company policy to include provisions in directors' service contracts for compensation for early termination beyond providing for an entitlement to a payment in lieu of notice if due notice is not given.

The company may cover the reasonable cost of repatriation of any expatriate executive director and the director's spouse in the event of termination of appointment, other than for reasons of misconduct, and provided that the move back to the director's home country takes place within a reasonable period of such termination.

Directors' remuneration report

continued

Consideration of employment conditions elsewhere in the company

In setting the remuneration of executive directors, regard will be had to the levels of remuneration of expatriate employees overseas and to the increments granted to employees operating in the same location as the relevant director. Employee views are not specifically sought in determining this policy. Employee salaries will normally be subject to the same inflationary adjustment as the salaries of executive directors in their respective locations.

Shareholder views

Shareholders are not specifically consulted on the remuneration policy of the company. Shareholders who have expressed views on remuneration have supported the company's policies and the application of those policies to date. Were a significant shareholder to express a particular concern regarding any aspect of the policy, the views expressed would be carefully weighed.

Approved by the board on 23 April 2015 and
signed on behalf of the board by
RICHARD M ROBINOW
Chairman

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

UK company law requires the directors to prepare financial statements for each financial year. The directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU") and Article 4 of the IAS Regulation and have also elected from 2013 to prepare the parent company financial statements in accordance with IFRSs as adopted by the EU. Under company law, the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company as at the end of and for the period covered by the financial statements.

In preparing these financial statements, the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosure when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

To the best of the knowledge of each of the directors:

- the financial statements, prepared in accordance with the International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the "Strategic report" section of this annual report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

By order of the board
R.E.A. SERVICES LIMITED
23 April 2015

Independent auditor's report to the members of R.E.A. Holdings plc

Opinion on financial statements of R.E.A. Holdings plc (the "Company" and together with its subsidiaries the "Group")

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 43 to the Group financial statements and notes (i) to (xvii) to the Company financial statements. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Going concern

As required by the Listing Rules we have reviewed the directors' statement on page 69 that the Group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
Valuation of biological assets	
Under IFRS, biological assets are required to be fair valued in accordance with IAS 41 at each financial reporting date. This valuation is performed using a discounted cash flow model which involves a number of significant assumptions with changes in fair value being recorded in the income statement. The principal assumptions within management's model remain: number of forecasted tonnes of Fresh Fruit Bunches ("FFB") harvested; the profit margin per tonne of FFB; and the discount rate (for mature and juvenile estates). Biological assets are valued at \$310m (2013: \$288m) and are discussed in note 13 to the financial statements, as well as in the accounting policy note and note 1, "Critical accounting judgements and key sources of estimation uncertainty."	We have re-performed management's calculations to check mathematical accuracy, and agreed inputs in the model to supporting evidence. We have recalculated the forecasted number of tonnes of FFB that are expected to be harvested, by applying the output per hectare based on its maturity to the number of hectares. The profit margin per tonne is arrived at by applying extraction rates to existing crops as well as the forecasted price of Crude Palm Oil ("CPO"). We have checked the accuracy of the forecasted price of CPO calculation and agreed the prices to CIF Rotterdam. We have also compared the extraction rate to other market participants. To determine the profit margin, forecasted variable and fixed costs are deducted from the calculated price of a FFB. We therefore performed a year-on-year analysis of the forecasted variable and fixed costs. We have compared the discount rates used by management to those used by other market participants.

Taxation matters arising in Indonesia

Tax legislation in Indonesia can be complex and issues can take a significant number of years to resolve. In particular, the Group has released a provision of $8.4m relating to a successful appeal to the Indonesian tax authorities relating to a 2008 case. Furthermore, significant deferred tax balances (assets of $8.9m, liabilities of $77.2m (2013: assets of $9.5m, liabilities of $73.4m)) arise in the consolidated financial statements because a number of items are carried at fair value, which may result in a different valuation to that used for tax purposes, giving rise to judgements in how much deferred tax should be recognised. Notes 1 and 9 contain more disclosure relating to the status of tax issues.

We utilised tax experts in the UK in order to understand the potential impacts of Indonesian tax regulations on the group's operations. This included reviewing the status of open queries with the Indonesian tax authorities and tax advice obtained by the Group's external tax advisors in Indonesia. We also assessed the tax disclosures for consistency with the status of open queries. We also challenged management's assumptions in determining deferred tax balances by independently re-computing temporary differences on those assets and liabilities which were expected to give rise to significant deferred tax, as well as reviewing forecasts to assess the recoverability of the assets.

The assessment of the carrying value of Indonesian stone and coal investments

The carrying value of these loans relies on certain assumptions and estimates (such as the discount rate, the timing of commencement of future operations, and expected sale prices) in relation to the likelihood of the underlying investments generating suitable future profits in order to repay the loans made by the Group. At 31 December 2014 the carrying value of the loans was $31.3m (2013: $30.4m) and further information is provided in note 16 to the financial statements, as well as in the accounting policy note and note 1, "Critical accounting judgements and key sources of estimation uncertainty."

We assessed the assumptions and estimates used to generate discounted cash flow models which support the carrying value of the underlying investments which are held by the debtors who will repay the loans. This included agreeing the volume of deposits and expected extraction rates to surveyors' reports, reviewing forecast prices and underlying contracts, using our knowledge of expected timing of future production and evaluating the sensitivity of the assumptions. We also challenged the appropriateness of the discount rate used in the models, by looking at the cost of the Group's capital and other comparable companies, as well as checking the numerical accuracy of the calculations. Finally, we assessed the ability of the company that provided the guarantee to repay the outstanding amounts.

Accounting for cross currency swaps

The accounting used to hedge foreign currency exposures arising on the principal and interest elements of loans used to finance plantation operations in Indonesia is complex. This is because financial instruments that are measured at fair value are done so at 'exit price', which requires consideration of counterparty credit and own default risk when valuing derivative financial instruments. The fair value of the swap was a liability of $9.6m at 31 December 2014 compared to a liability of $7.9m in 2013. Further information is contained in notes 21 and 26 to the financial statements.

We involved financial instruments specialists in the team to help assess the appropriateness of the accounting treatment adopted by management in line with accounting standards, including the valuation of the swaps, particularly in the context of adjustments for credit risk which we compared with our independent calculations based on observable market data. In addition, we have independently revalued the swap.

Independent auditor's report to the members of R.E.A. Holdings plc continued

Last year our report included two other risks which are not included in our report this year, relating to villager disputes and revenue recognition. Material villager disputes disrupted operations during 2012 and the first half of 2013. No such issues occurred during 2014, nor are we aware of any disputes arising since the balance sheet date; accordingly, this is not considered a significant risk for the 31 December 2014 audit.

Revenue recognition was identified by us at the planning stage as being a significant risk due to the potential for material bill and hold sales and the potential for derivatives to exist where there are future contracted sales. As the total bill and hold sales at 31 December 2014 were not material, and there were no contractual agreements giving rise to derivatives in existence at that date, revenue recognition was not considered to be a risk which had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 55 to 57.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

In determining materiality, we have had regard to a range of financial metrics that we consider to be relevant. We concluded that, using an average of the last five years' profit before tax to be most relevant, as this removes short term fluctuations in the price of crude palm oil, exchange rate movements, and any one off adverse effects caused by villager disruptions.

We determined materiality for the group to be $3.1m (2013: $3m), which is below 7.5% (2013: below 7%) of normalised pre-tax profit, and below 1% (2013: below 1%) of equity.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $62,000 (2013: $60,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our group audit scope primarily on the audit work at 13 (2013: 13) active legal entities, 12 (2013: 12) of these were subject to a full audit, whilst the remaining one was subject to specified audit procedures where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at this active legal entity. These 13 active legal entities represent the principal business activities and account for 96% (2013: 97%) of the Group's net assets,100% (2013: 100%) of the Group's revenue and 100% (2013: 98%) of the Group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the 13 active legal entities was executed at levels of materiality applicable to each individual entity which were lower than group materiality. Component materiality levels ranged from $1.55m to $2.9m (2013: $1.5m to $2.85m).

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The group audit team continued to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor and a senior member of the group audit team visit the Group's operations and component auditors in Indonesia annually and visit the plantation estates at least once every three years, with the most recent visit to the plantation being in 2014.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

MARK McILQUHAM ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
23 April 2015

Consolidated income statement

for the year ended 31 December 2014

	Note	2014 $'000	2013 $'000
Revenue	2	125,865	110,547
Net (loss) / gain arising from changes in fair value of agricultural produce inventory	4	(1,692)	548
Cost of sales		(77,914)	(69,901)
Gross profit		46,259	41,194
Net gain arising from changes in fair value of biological assets	13	3,571	7,133
Other operating income	2	2	–
Distribution costs		(1,325)	(1,290)
Administrative expenses	5	(16,391)	(18,959)
Operating profit		32,116	28,078
Investment revenues	2, 7	398	467
Finance costs	8	(8,770)	(3,329)
Profit before tax	5	23,744	25,216
Tax	9	(1,763)	(12,544)
Profit for the year		21,981	12,672
Attributable to:			
Ordinary shareholders		14,153	5,457
Preference shareholders	10	8,140	7,291
Non-controlling interests	34	(312)	(76)
		21,981	12,672
Earnings per 25p ordinary share	11	40.3 cents	15.8 cents

All operations for both years are continuing

Consolidated balance sheet
as at 31 December 2014

	Note	2014 $'000	2013 $'000
Non-current assets			
Goodwill	12	12,578	12,578
Biological assets	13	310,175	288,180
Property, plant and equipment	14	151,172	146,998
Prepaid operating lease rentals	15	33,879	30,454
Indonesian stone and coal interests	16	31,334	30,427
Deferred tax assets	27	8,909	9,515
Non-current receivables		2,749	2,250
Total non-current assets		550,796	520,402
Current assets			
Inventories	18	16,180	17,345
Trade and other receivables	19	25,487	28,625
Cash and cash equivalents	20	16,224	34,574
Total current assets		57,891	80,544
Total assets		608,687	600,946
Current liabilities			
Trade and other payables	29	(17,818)	(16,908)
Current tax liabilities		(2,581)	(2,934)
Bank loans	22	(40,326)	(35,033)
Sterling notes	23	(14,693)	–
US dollar notes	24	–	(5,964)
Hedging instruments	26	(9,590)	–
Other loans and payables	28	(1,238)	(940)
Total current liabilities		(86,246)	(61,779)
Non-current liabilities			
Bank loans	22	(60,638)	(62,281)
Sterling notes	23	(37,713)	(55,708)
US dollar notes	24	(33,472)	(33,468)
Preference shares issued by a subsidiary	25	–	(38)
Hedging instruments	26	–	(7,892)
Deferred tax liabilities	27	(77,191)	(73,404)
Other loans and payables	28	(6,802)	(6,935)
Total non-current liabilities		(215,816)	(239,726)
Total liabilities		(302,062)	(301,505)
Net assets		306,625	299,441
Equity			
Share capital	30	112,974	101,574
Share premium account	31	23,366	25,161
Translation reserve	32	(44,324)	(32,549)
Retained earnings	33	212,928	203,225
		304,944	297,411
Non-controlling interests	34	1,681	2,030
Total equity		306,625	299,441

Approved by the board on 23 April 2015 and signed on behalf of the board.

RICHARD M ROBINOW
Chairman

Consolidated statement of comprehensive income

for the year ended 31 December 2014

	Note	2014 $'000	2013 $'000
Profit for the year		21,981	12,672
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Actuarial losses		(212)	(171)
Deferred tax on actuarial losses	27	42	48
	37	(170)	(123)
Items that will not be reclassified to profit and loss:			
Exchange differences on translation of foreign operations	32	(8,429)	(12,341)
Exchange differences on deferred tax	27	(3,383)	(15,257)
		(11,982)	(27,721)
Total comprehensive income for the year		9,999	(15,049)
Attributable to:			
Ordinary shareholders		2,171	(22,416)
Preference shareholders		8,140	7,291
Non-controlling interests		(312)	76
		9,999	(15,049)

Consolidated statement of changes in equity

for the year ended 31 December 2014

	Share capital (note 30) $'000	Share premium (note 31) $'000	Translation reserve (note 32) $'000	Retained earnings (note 33) $'000	Subtotal $'000	Non-controlling interests (note 34) $'000	Total equity $'000
At 1 January 2013	97,565	18,680	(4,854)	201,630	313,021	2,009	315,030
Total comprehensive income	–	–	(27,695)	12,625	(15,070)	21	(15,049)
Correction to share premium	–	7	–	–	7	–	7
Issue of new ordinary shares (cash)	641	9,878	–	–	10,519	–	10,519
Issue of new preference shares (scrip)	3,404	(3,404)	–	–	–	–	–
Purchase of treasury shares	(36)	–	–	–	(36)	–	(36)
Dividends to preference shareholders	–	–	–	(7,291)	(7,291)	–	(7,291)
Dividends to ordinary shareholders	–	–	–	(3,739)	(3,739)	–	(3,739)
At 31 December 2013	101,574	25,161	(32,549)	203,225	297,411	2,030	299,441
Total comprehensive income	–	–	(11,775)	22,123	10,348	(349)	9,999
Issue of new preference shares (cash)	8,946	1,618	–	–	10,564	–	10,564
Issue of new preference shares (scrip)	3,420	(3,420)	–	–	–	–	–
Purchase of treasury shares	(966)	7	–	–	(959)	–	(959)
Dividends to preference shareholders	–	–	–	(8,140)	(8,140)	–	(8,140)
Dividends to ordinary shareholders	–	–	–	(4,280)	(4,280)	–	(4,280)
At 31 December 2014	112,974	23,366	(44,324)	212,928	304,944	1,681	306,625

Consolidated cash flow statement

for the year ended 31 December 2014

	Note	2014 $'000	2013 $'000
Net cash from operating activities	35	24,392	764
Investing activities			
Interest received		398	467
Proceeds from disposal of property, plant and equipment		–	79
Purchases of property, plant and equipment		(14,892)	(12,026)
Expenditure on biological assets *		(18,522)	(16,794)
Expenditure on prepaid operating lease rentals		(4,261)	(4,281)
Investment in Indonesian stone and coal interests		(897)	(947)
Net cash used in investing activities		(38,174)	(33,502)
Financing activities			
Preference dividends paid		(8,140)	(7,291)
Ordinary dividends paid		(4,280)	(3,739)
Repayment of borrowings		(30,715)	(5,000)
Proceeds of issue of ordinary shares		–	10,519
Purchase of treasury shares, net of sales		(959)	(36)
Proceeds of issue of preference shares		10,564	–
Redemption of US dollar notes		(6,310)	(9,678)
Payment to close out hedging contract		(41)	(1,862)
Net sale and repurchase of US dollar notes		–	1,238
New bank borrowings drawn		35,419	57,600
Net cash (used in) / from financing activities		(4,462)	41,751
Cash and cash equivalents			
Net (decrease) / increase in cash and cash equivalents	36	(18,244)	9,013
Cash and cash equivalents at beginning of year		34,574	26,393
Effect of exchange rate changes		(106)	(832)
Cash and cash equivalents at end of year	20	16,224	34,574

* Net of capitalised depreciation and amortisation (see notes 14 and 15)

Accounting policies (group)

General information

R.E.A. Holdings plc is a company incorporated in the United Kingdom under the Companies Act 2006 with registration number 00671099. The company's registered office is at First Floor, 32-36 Great Portland Street, London W1X 8QX. Details of the group's principal activities are provided in the Strategic report.

Basis of accounting

The consolidated financial statements set out on pages 74 to 109 are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU as at the date of approval of the financial statements and therefore comply with Article 4 of the EU IAS Regulation. The statements are prepared under the historical cost convention except where otherwise stated in the accounting policies.

For the reasons given under "Going concern basis" in the Directors' report, the financial statements have been prepared on the going concern basis.

Presentational currency

The consolidated financial statements of the group are presented in US dollars, which is also considered to be the currency of the primary economic environment in which the group operates. References to "$" or "dollar" in these financial statements are to the lawful currency of the United States of America.

Adoption of new and revised standards

In the current year the group has applied new IFRSs, a number of amendments to IFRSs and a new interpretation (IFRIC) issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period beginning on 1 January 2014, as follows:

- IFRS 10: Consolidated financial statements
- IFRS 12: Disclosure of interests in other entities
- IAS 27 (amendments): Investment entities
- IAS 32 (amendments): Offsetting financial assets and financial liabilities
- IAS 36 (amendments): Recoverable amount disclosures for non-financial assets
- IAS 39 (amendments): Novation of derivatives and continuation of hedge accounting
- IFRIC 21: Levies

IFRS 10 Consolidated financial statements amended the definition of control that an entity exercises over an investee. The directors considered carefully the application of this new standard to all the company's investments and concluded that there was no requirement to change the identity of any investee company which the company includes in its consolidated financial statements. The adoption of the other new and amended standards and the interpretation set out above has also not had any material impact on the disclosures or amounts reported in these financial statements.

At the date of authorisation of these financial statements, the standards and interpretations which were in issue but not yet effective and, in certain cases, had not yet been adopted by the EU (and therefore have not been applied in these financial statements), were as set out below together with their effective dates of implementation:

IFRS 9: Financial instruments	1 January 2018
IFRS 14: Regulatory deferral accounts	1 January 2016
IFRS 15: Revenue from contracts with customers	1 January 2017
IFRS 11(amendments): Accounting for acquisitions of interests in joint operations	1 January 2016
IAS 16 and IAS 38 (amendments): Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IAS 16 and IAS 41 (amendments): Bearer plants	1 January 2016
IAS 19 (amendments): Defined benefit plans: employee contributions	1 July 2014
IAS 27 (amendments): Equity method in separate financial statements	1 January 2016
IFRS 10 and IAS 28 (amendments): Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
Annual improvements to IFRSs:	
2010-2012 cycle	1 July 2014
2011-2013 cycle	1 July 2014
2012-2014 cycle	1 January 2016
IFRS 10, IFRS 12 and IAS 28 (amendments): Investment entities: applying the consolidation exception	1 January 2016

The effective date of IFRS 9 was deferred by the IASB and it now has mandatory application for accounting periods beginning on or after 1 January 2018. This standard implements the first two phases of the IASB's project to replace IAS 39 Financial instruments: recognition and measurement. It sets out the classification and measurement criteria for financial assets and financial liabilities and the requirements relating to hedge accounting. It is not considered that the effect of applying the standard in its current form would have a material impact on the group's reported profit or equity. The impact on the group of further changes to IFRS 9 and the impact of the third phase of the IASB's project, covering impairment, will be assessed when the IASB has finalised the proposed requirements. IFRS 9 has not been endorsed by the EU and will only become applicable once that endorsement has occurred, which is not expected until the second half of 2015.
IAS 41 Agriculture currently requires all biological assets related to agricultural activity to be measured at fair value less costs to sell. This is based on the principle that the

biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement. However, there is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods, including oil palms. At the end of their productive lives they are usually scrapped. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates.

The IASB has decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 Property, plant and equipment, because their operation is similar to that of manufacturing. Consequently, IAS 16 and IAS 41 (amendments): Bearer plants (issued on 30 June 2014) bring bearer plants within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

The directors are considering the impact on the group's financial statements of these changes. On transition it is probable that the directors will decide to adopt the values under IAS 41 as the initial carrying value under IAS 16. There will be a charge to consolidated income for depreciation replacing the net gain or loss arising from changes in the fair value of biological assets. The directors are studying the most appropriate method of computing such depreciation. These amendments to IAS 16 and IAS 41 have not been endorsed by the EU and will only become applicable once that endorsement has occurred, which is not expected until the second half of 2015.

The directors are also considering the impact of IFRS 15 Revenue from contracts with customers. The new standard requires entities to recognise revenue on the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The directors do not consider that the adoption of IFRS 15 will result in any change to the amount and timing of the group's revenue, but may require some additional disclosures.

The directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the group in future periods.

Basis of consolidation

The consolidated financial statements consolidate the financial statements of the company and its subsidiary companies (as listed in note (iii) to the company's individual financial statements) made up to 31 December of each year.

The acquisition method of accounting is adopted with assets and liabilities valued at fair values at the date of acquisition. The interest of non-controlling shareholders is stated at the non-controlling shareholders' proportion of the fair values of the assets and liabilities recognised. The share of total comprehensive income is attributed to the owners of the parent and to non-controlling interests even if this results in the non-controlling interests having a deficit balance. Results of subsidiaries acquired or disposed of are included in the consolidated income statement from the effective date of acquisition or to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the group.

On acquisition, any excess of the fair value of the consideration given over the fair value of identifiable net assets acquired is recognised as goodwill. Any deficiency in consideration given against the fair value of the identifiable net assets acquired is credited to profit or loss in the consolidated income statement in the period of acquisition.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill is recognised as an asset on the basis described under "Basis of consolidation" above and once recognised is tested for impairment at least annually. Any impairment is debited immediately as a loss in the consolidated income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of any goodwill is included in the determination of the profit or loss on disposal.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

Goodwill arising between 1 January 1998 and the date of transition to IFRS is retained at the previous UK Generally Accepted Accounting Practice amount subject to testing for impairment at that date. Goodwill written off to reserves prior to 1 January 1998, in accordance with the accounting standards then in force, has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Accounting policies (group)

continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in respect of goods and services provided in the normal course of business, net of VAT and other sales related taxes. Sales of goods are recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer and include contracted sales in respect of which the contracted goods are available for collection by the buyer in the accounting period. Income from services is accrued on a time basis by reference to the rate of fee agreed for the provision of services.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable (which is the rate that exactly discounts estimated future cash receipts, through the expected life of the financial asset, to that asset's net carrying amount). Dividend income is recognised when the shareholders' rights to receive payment have been established.

Leasing

Assets held under finance leases and other similar contracts are recognised as assets of the group at their fair values or, if lower, at the present values of minimum lease payments (for each asset, determined at the inception of the lease) and are depreciated over the shorter of the lease terms and their useful lives. The corresponding liabilities are included in the balance sheet as finance lease obligations. Lease payments are apportioned between finance charges and a reduction in the lease obligation to produce a constant rate of interest on the balance of the capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives. Finance and hire purchase charges are charged directly against income.

Rental payments under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions. At each balance sheet date, assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at that date except that non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the retranslation of other items that are subject to retranslation, are included in the net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities, including foreign currency loans, which, to the extent that such loans relate to investment in overseas operations or hedge the group's investment in such operations, are recognised directly in equity.

For consolidation purposes, the assets and liabilities of any group entity with a functional currency other than the US dollar are translated at the exchange rate at the balance sheet date. Income and expenses are translated at the average rate for the period unless exchange rates fluctuate significantly. Exchange differences arising are classified as equity and transferred to the group's translation reserve. Such exchange differences are recognised as income or expenses in the period in which the entity is sold.

Goodwill and fair value adjustments arising on the acquisition of an entity with a functional currency other than the US dollar are treated as assets and liabilities of that entity and are translated at the closing rate of exchange.

Borrowing costs

Borrowing costs incurred in financing construction or installation of qualifying property, plant or equipment are added to the cost of the qualifying asset, until such time as the construction or installation is substantially complete and the asset is ready for its intended use. Borrowing costs incurred in financing the planting of extensions to the developed agricultural area are treated as expenditure relating to biological assets until such extensions reach maturity. All other borrowing costs are recognised in the consolidated income statement of the period in which they are incurred.

Operating profit

Operating profit is stated after any gain or loss arising from changes in the fair value of biological assets (net of expenditure relating to those assets up to the point of maturity) but before investment income and finance costs.

Pensions and other post-employment benefits

United Kingdom

Certain existing and former UK employees of the group are members of a defined benefit scheme. The estimated regular cost of providing for benefits under this scheme is calculated so that it represents a substantially level percentage of current and future pensionable payroll and is charged as an expense as it is incurred.

Amounts payable to recover actuarial losses, which are assessed at each actuarial valuation, are payable over a recovery period agreed with the scheme trustees. Provision is made for the present value of future amounts payable by the group to cover its share of such losses. The provision is reassessed at each accounting date, with the difference on reassessment being charged or credited to the consolidated income statement in addition to the adjusted regular cost for the period.

Indonesia

In accordance with local labour law, the group's employees in Indonesia are entitled to lump sum payments on retirement. These obligations are unfunded and provision is made annually on the basis of a periodic assessment by independent actuaries. Actuarial gains and losses are recognised in the statement of comprehensive income; any other increase or decrease in the provision is recognised in the consolidated statement of income, net of amounts added to biological assets.

Taxation

The tax expense represents the sum of tax currently payable and deferred tax. Tax currently payable represents amounts expected to be paid (or recovered) based on the taxable profit for the period using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Deferred tax is calculated on the balance sheet liability method on a non-discounted basis on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding fiscal balances used in the computation of taxable profits (temporary differences). Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. A deferred tax asset or liability is not recognised in respect of a temporary difference that arises from goodwill or from the initial recognition of other assets or liabilities in a transaction which affects neither the profit for tax purposes nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the periods when deferred tax liabilities are settled or deferred tax assets are realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Biological assets

All biological assets are bearer biological assets as recognised by IAS 41, and are distinguished from consumable biological assets by virtue of being harvestable.

Biological assets comprise oil palm trees and nurseries, in the former case from initial preparation of land and planting of seedlings through to the end of the productive life of the trees and in the latter case from planting of seed through to field transplanting of seedlings. Biological assets do not include the land upon which the trees and nurseries are planted, or the buildings, equipment, infrastructure and other facilities used in the upkeep of the planted areas and harvesting of crops. Up to 31 December 2006 biological assets included plantation infrastructure, which includes such assets as roads, bridges and culverts. With effect from 1 January 2007 new expenditure on such assets is included in property, plant and equipment.

The biological process commences with the initial preparation of land and planting of seedlings and ceases with the delivery of crop in the form of fresh fruit bunches ("FFB") to the manufacturing process in which crude palm oil and palm kernel are extracted from the FFB.

Biological assets are revalued at each accounting date on a discounted cash flow basis by reference to the FFB expected to be harvested over the full remaining productive life of the trees, applying a standard pre-tax profit margin and then deriving the present value of the resultant profit stream. For this purpose, the standard pre-tax profit margin is taken to be the average of the historic pre-tax profit margins for the 20 years ending with the year of the valuation subject to buffering of year to year changes, such that the change in the standard pre-tax margin does not exceed 5 per cent and any change in the standard pre-tax margin that runs contrary to the trend in current margins is ignored. The historic pre-tax profit margin for each year represents the transfer value of FFB less standard production costs (including an allowance for overheads and a recovery charge in respect of infrastructure, buildings and plant and machinery). FFB transfer value is derived from the average price of crude palm oil FOB Samarinda (itself based on the CIF Rotterdam price less transport costs and export duty) over the relevant year, less processing costs. Assets which are not yet mature at the accounting date, and hence are not producing commercial quantities of FFB, are valued on a similar basis but with the discounted value of the estimated cost to complete planting and to maintain the assets to maturity being deducted from the discounted FFB value.

All expenditure on the biological assets up to maturity, including interest, is treated as an addition to the biological assets. Expenditure to maturity includes an allocation of overheads to the point that trees are brought into productive cropping. Such overheads include general charges and the costs of the Indonesian head office (including in both cases personnel costs and local fees) together with costs (including depreciation) arising from the use of agricultural buildings, plantation infrastructure and vehicles.

The variation in the value of the biological assets in each accounting period, after allowing for additions to the biological assets in the period, is charged or credited to profit or loss as appropriate, with no depreciation being provided on such assets.

Property, plant and equipment

All property, plant and equipment (including, with effect from 1 January 2007, additions to plantation infrastructure) is carried at original cost less any accumulated depreciation

Accounting policies (group)

continued

and any accumulated impairment losses. Depreciation is computed using the straight line method so as to write off the cost of assets, other than property and plant under construction, over the estimated useful lives of the assets as follows: buildings - 20 years; plant and machinery - 5 to 16 years.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the terms of the relevant leases. The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds, less costs of disposal, and the carrying amount of the asset and is recognised in the consolidated income statement.

Prepaid operating lease rentals

Payments to acquire leasehold interests in land are treated as prepaid operating lease rentals and amortised over the periods of the leases.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that any asset has suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

The recoverable amount of an asset (or cash-generating unit) is the higher of fair value less costs to sell and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and those risks specific to the asset (or cash-generating unit) for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where, with respect to assets other than goodwill, an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories of agricultural produce harvested from the biological assets are stated at fair value at the point of harvest of the FFB from which the produce derives plus costs incurred in the processing of such FFB (including direct labour costs and overheads that have been incurred in bringing such inventories to their present location and condition) or at net realisable value if lower. Inventories of engineering and other items are valued at the lower of cost, on the weighted average method, or net realisable value. For these purposes, net realisable value represents the estimated selling price (having regard to any outstanding contracts for forward sales of produce) less all estimated costs of processing and costs incurred in marketing, selling and distribution.

Recognition and de-recognition of financial instruments

Financial assets and liabilities are recognised in the group's financial statements when the group becomes a party to the contractual provisions of the relative constituent instruments. Financial assets are derecognised only when the contractual rights to the cash flows from the assets expire or if the group transfers substantially all the risks and rewards of ownership to another party. Financial liabilities are derecognised when the group's obligations are discharged, cancelled or have expired.

Non-derivative financial assets

The group's non-derivative financial assets comprise loans and receivables (including Indonesian stone and coal interests), and cash and cash equivalents. The group does not hold any financial assets designated as held at "fair value through profit and loss" ("FVTPL") or "available-for-sale" financial assets.

Loans and receivables

Trade receivables, loans and other receivables in respect of which payments are fixed or determinable and which are not quoted in an active market are classified as loans and receivables. Indonesian stone and coal interests are also classified as loans and receivables. Indonesian coal interests are measured at amortised cost. All other loans and receivables held by the group are non-interest bearing and are stated at their nominal amount.

All loans and receivables are reduced by appropriate allowances for potentially irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits and other short-term highly liquid investments that have a maturity of not more than three months from the date of acquisition and are readily convertible to a known amount of cash and, being subject to an insignificant risk of changes in value, are stated at their nominal amounts.

Held-to-maturity investments

Debentures and shares with fixed and determinable payments and fixed maturity dates that are intended to be held to maturity are classified as held-to-maturity investments, and are measured at amortised cost using the effective interest method, less any impairment, with revenue recognised on an effective yield basis.

Non-derivative financial liabilities

The group's non-derivative financial liabilities comprise redeemable instruments, bank borrowings, finance leases and trade payables, which are held at amortised cost.

Note issues, bank borrowings and finance leases

Redeemable instruments being US dollar and sterling note issues, bank borrowings and finance leases are classified in accordance with the substance of the relative contractual arrangements. Finance costs are charged to income on an accruals basis, using the effective interest method, and comprise, with respect to redeemable instruments, the coupon payable together with the amortisation of issuance costs (which include any premiums payable or expected by the directors to be payable on settlement or redemption) and, with respect to bank borrowings and finance leases, the contractual rate of interest together with the amortisation of costs associated with the negotiation of, and compliance with, the contractual terms and conditions. Redeemable instruments are recorded in the accounts at their expected redemption value net of the relative unamortised balances of issuance costs. Bank borrowings and finance leases are recorded at the amounts of the proceeds received less subsequent repayments with the relative unamortised balance of costs treated as non-current receivables.

Trade payables

All trade payables owed by the group are non-interest bearing and are stated at their nominal value.

Financial liabilities at FVTPL

A financial liability may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or if it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL. The group designates its derivative financial instruments as described below as held at FVTPL.

Derivative financial instruments

The group enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk; further details are disclosed in note 21. Derivatives are initially recognised at fair value at the date of the contract and remeasured to their fair value at the balance sheet date. The resulting gain or loss is recognised immediately in profit or loss, through finance costs (note 8), unless the derivative is designated and qualifies as a hedging instrument (either as a cash flow hedge or a fair value hedge), in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative is presented as a non-current asset or non-current liability if the remaining maturity of the instrument is more than 12 months and the derivative is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or liabilities.

Cash flow and fair value hedges

The group does not hold any derivatives designated and qualifying as cash flow or fair value hedges.

Equity instruments

Instruments are classified as equity instruments if the substance of the relative contractual arrangements evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs not charged to income. The preference shares of the company are regarded as equity instruments.

Notes to the consolidated financial statements

1. Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, which are set out in "Accounting policies (group)" above, the directors are required to make judgements, estimates and assumptions. Such judgements, estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual values of assets and amounts of liabilities may differ from estimates. The judgements, estimates and assumptions are reviewed on a regular basis. Revisions to estimates are recognised in the period in which the estimates are revised.

Critical judgements in applying the group's accounting policies

The following are critical judgements not being judgements involving estimations (which are dealt with below) that the directors have made in the process of applying the group's accounting policies.

Biological assets

IAS 41 "Agriculture" requires the determination of the fair value of biological assets. In the absence of an active market for such assets, similar in condition and location to those owned by the group, management must select an appropriate methodology to be used, together with suitable metrics, for determining fair value. The directors have applied a discounted cash flow method and have selected a discount rate that, in their opinion, reflects an appropriate rate of return on investment taking into account the cyclicity of commodity markets (see note 13).

Capitalisation of interest and other costs

As described under "Biological assets" in "Accounting policies (group)", all expenditure on biological assets up to maturity, including interest, is treated as an addition to such assets. The directors have determined that normally such capitalisation will cease at the end of the third financial year following the year in which land clearing commenced. At this point, plantings should produce a commercial harvest and accordingly be treated as having been brought into use for the purposes of IAS16 "Property plant and equipment" and of IAS 23 "Borrowing costs". However, crop yields at this point may vary depending on the time of year that land clearing commenced and on climatic conditions thereafter. In specific cases, the directors may elect to extend the period of capitalisation by a further year.

Derivatives

As described in note 21, the directors use their judgement in selecting appropriate valuation techniques for financial instruments not quoted in an active market. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for the specific features of the instruments.

Key sources of estimation uncertainty

The key sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Biological assets

Because of the inherent uncertainty associated with the valuation methodology used in determining the fair value of the group's biological assets, and in particular the volatility of prices for the group's agricultural produce and the absence of a liquid market for Indonesian oil palm plantations, the carrying value of the biological assets may differ from their realisable value (see note 13).

Taxes

The group is subject to taxes in various jurisdictions. Significant judgement is required in estimating the group's tax liabilities (including liabilities to deferred tax) having regard to the uncertainties relating to certain Indonesian legislative provisions, the availability of tax losses, the future periods in which timing differences are likely to reverse and the final determination of liabilities in respect of disputed tax items in Indonesia (see note 9).

Provisions

Provisions have been made in past years and adjusted in the year under review against balances relating to the group's interests in stone and coal. Whilst the directors have obtained geological advice in relation to reserves, the inherent uncertainty of any assessment of future returns from mining and recoverability of trading balances has required the exercise of judgement in determining the appropriateness of current carrying values.

2. Revenue

	2014 $'000	2013 $'000
Sales of goods	124,538	108,350
Revenue from services	1,327	2,197
	125,865	110,547
Other operating income	2	–
Investment revenue	398	467
Total revenue	126,265	111,014

In 2014, three customers accounted for respectively 48 per cent, 15 per cent and 14 per cent of the group's sales of agricultural goods (2013: three customers, 59 per cent, 11 per cent and 8 per cent). As stated in note 21 "Credit risk", substantially all sales of goods are made on the basis of cash against documents or letters of credit and accordingly the directors do not consider that these sales result in a concentration of credit risk to the group.

The crop of oil palm fresh fruit bunches for 2014 amounted to 631,728 tonnes (2013: 578,785 tonnes). The fair value of the crop of fresh fruit bunches was $87,647,000 (2013: $66,796,000), based on the price formulae determined by the Indonesian government for purchases of fresh fruit bunches from smallholders (see note 13).

3. Segment information

In the table below, the group's sales of goods are analysed by geographical destination and the carrying amount of net assets is analysed by geographical area of asset location. The group operates in two segments: the cultivation of oil palms and stone and coal operations. In 2014 and 2013, the latter did not meet the quantitative thresholds set out in IFRS 8 "Operating segments" and, accordingly, no analyses are provided by business segment.

	2014 $'m	2013 $'m
Sales by geographical destination:		
Indonesia	125.9	110.5
Rest of Asia	–	–
	125.9	110.5
Carrying amount of net assets by geographical area of asset location:		
UK, Continental Europe and Singapore	58.0	50.5
Indonesia	248.6	248.9
	306.6	299.4

4. Agricultural produce inventory movement

The net (loss) / 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).

5. Profit before tax

	2014 $'000	2013 $'000
Salient items charged/(credited) in arriving at profit before tax		
Administrative expenses (see below)	16,391	18,959
Movement in inventories (at historic cost)	(706)	(593)
Operating lease rentals	412	623
Depreciation of property, plant and equipment	9,704	9,751
Amortisation of prepaid operating lease rentals	548	189

Administrative expenses		
Net foreign exchange (gains) / losses	(391)	56
Net charge for additional pension contributions (see note 37)	314	272
Loss / (gain) on disposal of fixed assets	484	(20)
Indonesian operations	13,794	16,575
Head office	5,587	5,522
	19,788	22,405
Amount included as additions to biological assets	(3,397)	(3,446)
	16,391	18,959

Amounts payable to the company's auditor

The amount payable to Deloitte LLP for the audit of the company's financial statements was $174,000 (2013: $157,000). Amounts payable to Deloitte LLP for the audit of accounts of subsidiaries of the company pursuant to legislation were $21,000 (2013: $15,000).

Amounts payable to Deloitte LLP for other services were $6,000 (2013: $12,000) for the provision of certificates of group compliance with covenants under certain debt instruments (being certificates that those instruments require to be provided by the company's auditor) and for group tax administrative services.

Amounts payable to affiliates of Deloitte LLP for the audit of subsidiaries' financial statements were $29,000 (2013: $30,000).

	2014 $'000	2013 $'000
Earnings before interest, tax, depreciation and amortisation and net biological gain		
Operating profit	32,116	28,078
Depreciation and amortisation	10,252	9,324
Net biological gain	(3,571)	(7,133)
	38,797	30,269

6. Staff costs, including directors

	2014 Number	2013 Number
Average number of employees (including executive directors):		
Agricultural – permanent	5,909	5,333
Agricultural – temporary	3,545	2,991
Head office	11	9
	9,465	8,333

	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	36,994	35,849
Social security costs	963	1,049
Pension costs	370	550
	38,327	37,448

7. Investment revenues

	2014 $'000	2013 $'000
Interest on bank deposits	398	251
Other interest income	–	216
	398	467

8. Finance costs

	2014 $'000	2013 $'000
Interest on bank loans and overdrafts	4,869	5,497
Interest on US dollar notes	3,438	4,008
Interest on sterling notes	5,414	5,599
Change in value of sterling notes arising from exchange fluctuations	(3,350)	1,064
Movements relating to derivative financial instruments	2,404	(2,974)
Change in value of loans arising from exchange fluctuations	(354)	(6,298)
Other finance charges	(402)	293
	12,019	7,189
Amount included as additions to biological assets	(3,249)	(3,860)
	8,770	3,329

Amounts included as additions to biological assets and construction in progress arose on borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 16.8 per cent (2013: 55.1 per cent); there is no directly related tax relief.

Notes to the consolidated financial statements
continued

9. Tax

	2014 $'000	2013 $'000
Current tax:		
UK corporation tax	–	399
Foreign tax	7,711	1,773
Prior year	(7,000)	–
Total current tax	711	2,172
Deferred tax:		
Current year	2,063	8,040
Change in UK tax rate	–	211
Prior year	(1,011)	2,121
Total deferred tax	1,052	10,372
Total tax	1,763	12,544

Taxation is provided at the rates prevailing for the relevant jurisdiction. For Indonesia, the current and deferred taxation provision is based on a tax rate of 25 per cent (2013: 25 per cent) and for the United Kingdom, the taxation provision reflects a corporation tax rate of 21.5 per cent (2013: 23.25 per cent) and a deferred tax rate of 20 per cent (2013: 20 per cent).

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2014 $'000	2013 $'000
Profit before tax	23,744	25,216
Notional tax at the UK standard rate of 21.5 per cent (2013: 23.25 per cent)	5,105	5,863
Tax effect of the following items:		
Expenses not deductible	1,476	962
Non taxable income	(384)	(37)
Overseas tax rates above UK standard rate	944	586
UK deferred tax lower than standard rate	–	78
Overseas withholding taxes, net of relief	1,752	1,560
Tax credit on loss in overseas subsidiary not recognised	902	880
Deferred tax credit for underlying local tax loss	(23)	–
Tax losses in overseas subsidiaries time expired	496	317
Release of provisions following appeal to Jakarta Tax Court	(8,418)	–
Prior year adjustments (including change in rate of tax)	(89)	2,332
Additional tax provisions	2	3
Tax expense at effective tax rate for the year	1,763	12,544

The release of earlier provisions of $8,418,000 relates to a disputed assessment with respect to mark-to-market losses recorded in 2008 by a subsidiary on its cross currency interest rate swaps. These losses were disallowed by the tax authorities following an audit, and the disputed tax was paid by the subsidiary. Pending the outcome of an appeal, the group had made full provision against the recovery of the disputed tax. In May 2014 the Jakarta Tax Court found in favour of the subsidiary, following which the disputed tax was refunded in full.

The tax authorities have the right to apply to the Supreme Court of Indonesia for a judicial review of the Tax Court decision. This comprises an examination of the reasoning of the lower court judges, consideration of the consistency of the judgement with the evidence presented and with the relevant law, and consideration of any new evidence submitted by either party which could have a bearing on the matter. It is the normal practice of the tax authorities to file such an appeal in cases which have been decided by the lower court in favour of the taxpayer. In February 2015, the subsidiary was notified that the tax authorities filed an appeal for judicial review with the Supreme Court of Indonesia and the subsidiary filed its counter submission in March 2015 within the prescribed time limit.

9. Tax - continued

The group's tax advisers, who have acted on all aspects of the appeal stages, have advised the directors of the sound merits of the subsidiary's case and the directors have accordingly decided to release in full the provisions previously made. In addition, the subsidiary is entitled, following the Tax Court decision, to interest of up to 48 per cent of the disputed tax. However, this interest is being withheld pending the outcome of the review which is not expected for some considerable time, and has not been recognised in these financial statements.

10. Dividends

	2014 $'000	2013 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share	8,140	7,291
Ordinary dividends of 7.25p per share (2013: 7.0p per share)	4,280	3,739
	12,420	11,030

An interim dividend of 4p per ordinary share in respect of the year ended 31 December 2014 was paid on 23 January 2015. In accordance with IAS10 "Events after the reporting period", this dividend, amounting in aggregate to $2,124,000, has not been included in the 2014 financial statements.

11. Earnings per share

	2014 $'000	2013 $'000
Earnings for the purpose of earnings per share *	14,153	5,457

* being net profit attributable to ordinary shareholders

	'000	'000
Weighted average number of ordinary shares for the purpose of earnings per share	35,085	34,494

12. Goodwill

	2014 $'000	2013 $'000
Beginning of year	12,578	12,578
End of year	12,578	12,578

The goodwill of $12,578,000 arose from the acquisition by the company in 2006 of a non-controlling interest in the issued ordinary share capital of Makassar Investments Limited, the parent company of PT REA Kaltim Plantations, for a consideration of $19 million and has an indefinite life. The goodwill is reviewed for impairment as explained under "Goodwill" in "Accounting policies (group)". The recoverable amount of the goodwill is based upon value in use of the oil palm business in Indonesia, which is regarded as the cash generating unit to which the goodwill relates. Value in use is assessed by revaluing the biological assets of the oil palm business on the basis of the principles applied in determining their fair value as detailed in note 13 but utilising a standard unit profit margin calculated by reference to a five year average of historic profit margins rather than the longer term average assumed in determining fair value. The directors consider this to be an appropriate method for determining value in use as it otherwise maintains consistency of methodology between estimations of value in use and the IAS 41 valuation. Based upon the recent review, the directors have concluded that no impairment of goodwill is required.

Notes to the consolidated financial statements

continued

13. Biological assets

	2014 $'000	2013 $'000
Beginning of year	288,180	265,663
Additions to planted area and costs to maturity including finance costs (see note 8)	20,617	17,330
Transfers to property, plant and equipment (see note 14)	(2,095)	–
Transfers to non-current receivables	–	(1,942)
Transfers to current receivables	(98)	(4)
Net biological gain	3,571	7,133
End of year	310,175	288,180

Net biological gain comprises:		
Fair value of crops harvested during the year (see note 2)	(87,647)	(66,796)
Gain arising from movement in fair value attributable to other physical changes	76,808	60,646
Gain arising from movement in fair value attributable to price changes	14,410	13,283
	3,571	7,133

The nature of the group's biological assets and the basis of determination of their fair value is explained under "Biological assets" in "Accounting policies (group)". Critical judgements in relation to these matters are detailed in note 1. The fair value determination assumed a discount rate of 15 per cent in the case of PT REA Kaltim Plantations ("REA Kaltim") and PT Sasana Yudha Bhakti ("SYB"), 16.5 per cent in the case of PT Kutai Mitra Sejahtera ("KMS") and 18 per cent in the case of all other group companies (2013: 15 per cent in the case of REA Kaltim and SYB and 18 per cent in the case of all other group companies) and a standard unit margin of $60.9 per tonne of oil palm fresh fruit bunches ("FFB") (2013: standard unit margin of $58.0 per tonne of FFB).

The valuation of the group's biological assets would have been reduced by $10,370,000 (2013: $15,370,000) if the crops projected for the purposes of the valuation had been reduced by 5 per cent; by $9,030,000 (2013: $14,370,000) if the discount rates assumed had been increased by 1 per cent and by $20,650,000 (2013: $26,530,000) if the assumed unit profit margin per tonne of oil palm FFB had been reduced by $5.

Because substantially the entire business of the group consists of agricultural activities, the group's financial risk management strategies relating to agricultural activities are the same as its overall financial risk management strategies. These are detailed in note 21. At 31 December 2014, the group had no outstanding forward sale contracts at fixed prices (2013: none).

At the balance sheet date, biological assets of $164 million (2013: $162 million) had been charged as security for bank loans (see note 22) but there were otherwise no restrictions on titles to the biological assets (2013: none). Expenditure approved by the directors for the development of immature areas in 2015 amounts to $26 million (2013: $15 million).

14. Property, plant and equipment

	Buildings and structures $'000	Plant, equipment and vehicles $'000	Construction in progress $'000	Total $'000
Cost:				
At 1 January 2013	75,639	66,569	34,012	176,220
Opening balance adjustment	–	(39)	(237)	(276)
Additions	2,421	1,830	7,776	12,027
Exchange differences	–	5	–	5
Disposals	–	(515)	–	(515)
Transfers to / (from) construction in progress	4,194	29,494	(33,688)	–
Transfers to non-current receivables	(286)	–	–	(286)
At 31 December 2013	81,968	97,344	7,863	187,175
Additions	673	3,995	8,129	12,797
Exchange differences	(117)	(9)	–	(126)
Disposals	(407)	(134)	–	(541)
Transfers from biological assets	2,095	–	–	2,095
Transfers to / (from) construction in progress	184	3,236	(3,420)	–
Transfers to current receivables	–	–	(64)	(64)
At 31 December 2014	84,396	104,432	12,508	201,336
Accumulated depreciation:				
At 1 January 2013	8,982	21,628	–	30,610
Opening balance adjustment	–	(3)	–	(3)
Charge for year	3,271	6,747	–	10,018
Exchange differences	–	8	–	8
Eliminated on disposals	–	(456)	–	(456)
At 31 December 2013	12,253	27,924	–	40,177
Charge for year	3,940	6,186	–	10,126
Exchange differences	135	(217)	–	(82)
Eliminated on disposals	(37)	(20)	–	(57)
At 31 December 2014	16,291	33,873	–	50,164
Carrying amount:				
End of year	68,105	70,559	12,508	151,172
Beginning of year	69,715	69,420	7,863	146,998

The depreciation charge for the year includes $421,000 (2013: $267,000) which has been capitalised as part of the additions to biological assets.

At the balance sheet date, the book value of finance leases included in property, plant and equipment was $nil (2013: $nil).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $3,873,000 (2013: $6,469,000).

Notes to the consolidated financial statements

continued

15. Prepaid operating lease rentals

	2014 $'000	2013 $'000
Cost:		
Beginning of year	33,063	28,782
Additions	4,261	4,281
Exchange differences	(38)	–
End of year	37,286	33,063
Accumulated amortisation:		
Beginning of year	2,609	2,152
Exchange differences	100	–
Charge for year	698	457
End of year	3,407	2,609
Carrying amount:		
End of year	33,879	30,454
Beginning of year	30,454	26,630

The amortisation charge for the year includes $150,000 (2013: $268,000) which has been capitalised as part of the additions to biological assets.

Balances classified as prepaid operating lease rentals represent amounts invested in land utilised for the purpose of the plantation operations in Indonesia. At 31 December 2014, certificates of hak guna usaha ("HGU") had been obtained in respect of areas covering 70,584 hectares (2013: 70,584 hectares). A HGU is effectively a government lease entitling the lessee to utilise the land leased for agricultural and related purposes. Retention of a HGU is subject to payment of annual land taxes in accordance with prevailing tax regulations. HGUs are granted for an initial term of 30 years and are renewable on expiry of such term.

16. Indonesian stone and coal interests

	2014 $'000	2013 $'000
Stone company	14,100	14,100
Coal companies	20,234	19,327
Provision against loan to coal companies	(3,000)	(3,000)
End of year	31,334	30,427

Interest bearing loans have been made to two Indonesian companies that, directly and through a further Indonesian company, own rights in respect of certain stone and coal concessions in East Kalimantan Indonesia, together with related balances; such loans are repayable not later than 2020. Pursuant to the arrangements between the group and its local partners, KCC Resources Limited ("KCC") has the right, subject to satisfaction of local regulatory requirements, to acquire the three concession holding companies at original cost on a basis that will give the group (through KCC) 95 per cent ownership with the balance of five per cent remaining owned by the local partners. Under current regulations such rights cannot be exercised. In the meantime, the concession holding companies are being financed by loan funding from the group and no dividends or other distributions or payments may be paid or made by the concession holding companies to the local partners without the prior agreement of KCC. A guarantee has been executed by the stone concession company in respect of the amounts owed to the group by the two coal concession companies due to uncertainty surrounding the recoverability of the coal loans given the current weakness of coal prices.

The directors have carried out a recoverability assessment of the loans by which the group is funding the concession holding companies. Each concession holding company has been treated as a cash-generating unit and its recoverable amount has been estimated on the basis of value in use, applying an appropriate discount rate and, where applicable, taking into account cross guarantees. No impairment charge has been considered necessary in the 2014 consolidated income statement (2013: $nil).

17. Subsidiaries

A list of the principal subsidiaries, including the name, country of incorporation and proportion of ownership is given in note (iii) to the company's individual financial statements.

18. Inventories

	2014 $'000	2013 $'000
Agricultural produce	7,912	6,189
Engineering and other operating inventory	8,268	11,156
	16,180	17,345

19. Trade and other receivables

	2014 $'000	2013 $'000
Due from sale of goods	6,817	2,438
Prepayments and advance payments	6,962	5,613
Advance payment of taxation	3,660	14,817
Deposits and other receivables	8,048	5,757
	25,487	28,625

Sales of goods are normally made on a cash against documents basis with an average credit period (which takes account of customer deposits as disclosed in note 29) of 7 days (2013: 3 days). The directors consider that the carrying amount of trade and other receivables approximates their fair value.

20. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the group and short-term bank deposits and UK government securities with maturities of less than three months. The Moody's prime rating of short term bank deposits amounting to $16.2 million is set out in note 21 under the heading "Credit risk".

21. Financial instruments

Capital risk management

The group manages as capital its debt, which includes the borrowings disclosed in notes 22 to 25, cash and cash equivalents and equity attributable to shareholders of the parent, comprising issued ordinary and preference share capital, reserves and retained earnings as disclosed in notes 30 to 33. The group is not subject to externally imposed capital requirements.

The directors' policy in regard to the capital structure of the group is to seek to enhance returns to holders of the company's ordinary shares by meeting a proportion of the group's funding needs with prior ranking capital and to constitute that capital as a mix of preference share capital and borrowings from financial institutions and the public debt market, in proportions which suit, and as respects borrowings that have a maturity profile which suits, the assets that such capital is financing. In so doing, the directors regard the company's preference share capital as permanent capital and then seek to structure the group's borrowings so that shorter term bank debt is used only to finance working capital requirements while debt funding for the group's development programme is sourced from issues of listed debt securities and medium term borrowings from financial institutions.

Net debt to equity ratio

Net debt, equity and the net debt to equity ratio at the balance sheet date were as follows:

	2014 $'000	2013 $'000
Debt and related engagements *	195,409	198,946
Cash and cash equivalents	(16,224)	(34,574)
Net debt and related engagements	179,185	164,372

* being the book value of long and short term borrowings as detailed in the table below under "Fair value of financial instruments".

Equity (including non-controlling interests)	306,625	299,441
Net debt to equity ratio	58.4%	54.9%

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument are disclosed in "Accounting policies (group)" above.

Categories of financial instruments

Non-derivative financial assets as at 31 December 2014 comprised loans, investments and receivables (including Indonesian stone and coal interests) and cash and cash equivalents amounting to $61,608,000 (2013: $73,432,000).

Non-derivative financial liabilities as at 31 December 2014 comprised liabilities at amortised cost amounting to $195,626,000 (2013: $197,869,000).

Derivative financial instruments at 31 December 2014 comprised instruments not in designated hedge accounting relationships at fair value representing a liability of $9,590,000 (2013: $7,892,000).

As explained in note 16, conditional arrangements exist for the group to acquire at historic cost the shares in the Indonesian companies owning rights over certain stone and coal concessions. The directors have attributed a fair value of zero to these interests in view of the prior claims of loans to the concession owning companies and the present stage of the operations.

21. Financial instruments - continued

Financial risk management objectives

The group manages the financial risks relating to its operations through internal reports which permit the degree and magnitude of such risks to be assessed. These risks include market risk, credit risk and liquidity risk.

The group seeks to reduce risk by using, where appropriate, derivative financial instruments to hedge risk exposures. The use of derivative financial instruments is governed by group policies set by the board of directors of the company. The board also sets policies on foreign exchange risk, interest rate risk, credit risk, the use of non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed on a continuous basis. The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The financial market risks to which the group is primarily exposed are those arising from changes in interest rates and foreign currency exchange rates.

The group's policy as regards interest rates is to borrow whenever economically practicable at fixed interest rates, but where borrowings are raised at floating rates the directors would not normally seek to hedge such exposure. The sterling notes and the US dollar notes carry interest at fixed rates of, respectively, 9.5 and 7.5 per cent per annum. In addition, the company's preference shares carry an entitlement to a fixed annual dividend of 9 pence per share.

Interest is payable on drawings under Indonesian rupiah term loan facilities at 4.5 per cent (2013: 4.5 per cent) above the Jakarta Inter Bank Offer Rate. In addition, the interest rate formula includes an allowance for the bankers' cost of funds. Interest is payable on drawings under US dollar short-term facilities at floating rates varying between 3.0 per cent and 3.8 per cent above the relevant Inter Bank Offer Rate (2013: between 3.0 per cent and 4.0 per cent).

A one per cent increase in interest applied to those financial instruments shown in the table below entitled "Fair value of financial instruments" as held at 31 December 2014 which carry interest at floating rates would have resulted over a period of one year in a pre-tax profit (and equity) decrease of approximately $847,000 (2013: pre-tax profit (and equity) decrease of $627,000).

The group regards the US dollar as the functional currency of most of its operations and formerly sought to ensure that, as respects that proportion of its investment in the operations that was met by borrowings, it had no material currency exposure against the US dollar. Accordingly, where borrowings were incurred in a currency other than the US dollar, the group endeavoured to cover the resultant currency exposure by way of a debt swap or other appropriate currency hedge. The receipt by REA Kaltim during 2011 of an Indonesian tax assessment on its 2008 profits seeking to disallow, for tax purposes, losses on two of the debt swaps (as referred to in "Group results" above) called into question the wisdom of entering into currency hedges and the group decided (at least until such time as the disputed tax issue was clarified) not to take out any further hedges against dollars of non-dollar borrowings.

With the recent decision by the Jakarta Tax Court in REA Kaltim's favour regarding the disputed losses, the directors have considered whether the group should now revert to its previous policy of hedging non-dollar exposures against the dollar. They have concluded that, given that tax law in Indonesia is uncertain and that precedent is often not determinative of Indonesian judicial decisions, the group will be best served going forward by simply maintaining a balance between its borrowings in different currencies and avoiding any new currency hedging transactions.

Accordingly, the group will in future regard some exposure to currency risk on its non-dollar borrowing as an inherent and unavoidable risk of its business. The group has never covered, and does not intend in future to cover, the currency exposure in respect of the component of the investment in its operations that is financed with sterling denominated shareholder capital.

The group's policy is to maintain a cash balance in sterling sufficient to meet its projected sterling expenditure for a period of between six and twelve months and a limited cash balance in Indonesian rupiahs.

Notes to the consolidated financial statements
continued

21. Financial instruments - continued

At the balance sheet date, the group had non US dollar monetary items denominated in pounds sterling and Indonesian rupiah. A 5 per cent strengthening of the pound sterling against the US dollar would have resulted in a loss dealt with in the consolidated income statement and equity of $799,000 on the net sterling denominated non-derivative monetary items (excluding the element of the sterling notes that is hedged) (2013: loss of $1,455,000). A 5 per cent strengthening of the Indonesian rupiah against the US dollar would have resulted in a loss dealt with in the consolidated income statement and equity of $4,808,000 on the net Indonesian rupiah denominated, non-derivative monetary items (2013: loss of $4,564,000).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The directors consider that the group is not exposed to any major concentrations of credit risk. At 31 December 2014, 89 per cent of bank deposits were held with banks with a Moody's prime rating of P1, 10 per cent with a bank with a Moody's prime rating of P3 and the balance with banks with no Moody's prime rating. Substantially all sales of goods are made on the basis of cash against documents or letters of credit. At the balance sheet date, no trade receivables were past their due dates, nor were any impaired; accordingly no bad debt provisions were required. The maximum credit risk exposures in respect of the group's financial assets at 31 December 2014 and 31 December 2013 equal the amounts reported under the corresponding balance sheet headings.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors of the company, which has established an appropriate framework for the management of the group's short, medium and long-term funding and liquidity requirements. Within this framework, the board continuously monitors forecast and actual cash flows and endeavours to maintain adequate liquidity in the form of cash reserves and borrowing facilities while matching the maturity profiles of financial assets and liabilities. Undrawn facilities available to the group at balance sheet date are disclosed in note 22.

The board reviews the cash forecasting models for the operation of the plantations and compares these with the forecast outflows for debt obligations and projected capital expenditure programmes for the plantations, applying sensitivities to take into account perceived major uncertainties. In their review, the directors place the greatest emphasis on the cash flow of the first two years.

Non-derivative financial instruments

The following tables detail the contractual maturity of the group's non-derivative financial liabilities. The tables have been drawn up based on the undiscounted amounts of the group's financial liabilities based on the earliest dates on which the group can be required to discharge those liabilities. The table includes liabilities for both principal and interest.

2014	Weighted average interest rate %	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
Bank loans	7.1	47,678	33,174	32,439	113,291
US dollar notes	8.5	2,551	2,551	35,286	40,388
Sterling notes	10.4	20,475	22,881	21,096	64,452
Trade and other payables, and customer deposits		8,503	–	–	8,503
		79,207	58,606	88,821	226,634

21. Financial instruments - continued

2013	Weighted average interest rate %	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
Bank loans	7.3	40,505	13,617	60,510	114,632
US dollar notes	8.5	9,335	2,551	37,837	49,723
Sterling notes	10.4	5,418	21,677	46,446	73,541
KCC preference shares (see note 25)		39	–	–	39
Trade and other payables, and customer deposits		5,376	–	–	5,376
		60,673	37,845	144,793	243,311

At 31 December 2014, the group's non-derivative financial assets (other than receivables) comprised cash and deposits of $16,200,000 (2013: $34,600,000) carrying a weighted average interest rate of 2.7 per cent (2013: 1.7 per cent) all having a maturity of under one year, and Indonesian stone and coal interests of $31,334,000 (2013: $30,427,000) details of which are given in note 16.

Derivative financial instruments

The following table details the amounts due in respect of the group's derivative financial instruments. These arise under the cross currency interest rate swaps ("CCIRS") described in note 26. The cash flows are settled gross and, therefore, the table takes no account of sterling receipts under the CCIRS.

	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
At 31 December 2014	47,484	–	–	47,484
At 31 December 2013	5,721	59,857	–	65,578

Fair value of financial instruments

The table below provides an analysis of the book values and fair values of financial instruments, excluding receivables and trade payables and Indonesian coal interests, as at the balance sheet date. All financial instruments are classified as level 1 in the fair value hierarchy prescribed by IFRS 7 "Financial instruments: disclosures" other than the cross currency interest rate swaps and the preference shares issued by a subsidiary that are classified as levels 2 and 3 respectively. No reclassifications between levels in the fair value hierarchy were made during 2014 (2013: none).

	2014 Book value $'000	2014 Fair value $'000	2013 Book value $'000	2013 Fair value $'000
Cash and deposits*	16,224	16,224	34,574	34,574
Bank debt - within one year*	(40,326)	(40,326)	(35,033)	(35,033)
Bank debt - after more than one year*	(60,638)	(60,638)	(62,281)	(62,281)
Preference shares issued by a subsidiary	–	–	(38)	–
US dollar notes**	(33,472)	(34,691)	(39,432)	(40,274)
Sterling notes**	(52,406)	(57,090)	(55,708)	(55,285)
Cross currency interest rate swaps – hedge against principal liabilities	(8,567)	(8,567)	(6,454)	(6,454)
Net debt and related engagements	(179,185)	(185,088)	(164,372)	(164,753)
Cross currency interest rate swaps – hedge against interest liabilities	(1,023)	(1,023)	(1,438)	(1,438)
	(180,208)	(186,111)	(165,810)	(166,191)

* bearing interest at floating rates
** bearing interest at fixed rates

Notes to the consolidated financial statements
continued

21. Financial instruments - continued

The fair values of cash and deposits and bank debt approximate their carrying values since these carry interest at current market rates. The fair values of the US dollar notes and sterling notes are based on the latest prices at which those notes were traded prior to the balance sheet dates.

The fair value of the CCIRS has been derived by a discounted cash flow analysis using quoted foreign forward exchange rates and yield curves derived from quoted interest rates with maturities corresponding to the applicable cash flows. The valuation of the CCIRS at 31 December 2014 at fair value resulted in a loss of $1,283,000 (2013: gain of $1,876,000) which has been dealt with through the consolidated income statement.

A 50 basis points movement in the spread between the assumed yield curves for pounds sterling and the US dollar would increase or decrease the valuation by approximately $186,000 (2013: $600,000).

22. Bank loans

	2014 $'000	2013 $'000
Bank loans	100,964	97,314
The bank loans are repayable as follows:		
On demand or within one year	40,326	35,033
Between one and two years	15,140	8,785
After two years	45,498	53,496
	100,964	97,314
Amount due for settlement within 12 months (shown under current liabilities)	40,326	35,033
Amount due for settlement after 12 months	60,638	62,281
	100,964	97,314

All bank loans are denominated in either US dollars ($74.1 million – 2013: $68.6 million) or Indonesian rupiahs ($26.9 million – 2013: $28.7 million) and are at floating rates, thus exposing the group to interest rate risk. The weighted average interest rate in 2014 was 7.1 per cent (2013: 8.4 per cent). Bank loans of $70,964,000 (2013: $67,314,000) are secured on the land, plantations, property, plant and equipment owned by PT REA Kaltim Plantations ("REA Kaltim") and PT Sasana Yudha Bhakti, having an aggregate book value of $218 million (2013: $235 million), and are the subject of an unsecured guarantee by the company and REA Kaltim. The banks are entitled to have recourse to their security on usual banking terms.

Under the terms of its bank facilities, certain plantation subsidiaries are restricted to an extent in the payment of interest on borrowings from, and on the payment of dividends to, other group companies. The directors do not believe that the applicable covenants will affect the ability of the company to meet its cash obligations.

At the balance sheet date, the group had undrawn US dollar denominated bank facilities of $nil (2013: $6.4 million) and undrawn Indonesian rupiah denominated facilities of $39.4 million (2013: $12.4 million).

23. Sterling notes

The sterling notes comprise £34.5 million (2013: £34.5 million) nominal of 9.5 per cent guaranteed sterling notes 2015/17 issued by the company's subsidiary, REA Finance B.V. The sterling notes are guaranteed by the company and another wholly owned subsidiary of the company, R.E.A. Services Limited ("REAS"), and are secured principally on unsecured loans made by REAS to Indonesian plantation operating subsidiaries of the company. Unless previously redeemed or purchased and cancelled by the issuer, the sterling notes are repayable in three equal instalments commencing on 31 December 2015. The nominal amount of sterling notes purchased and cancelled as at 31 December 2014 amounted to £2.5 million.

The repayment obligation in respect of the sterling notes of £34.5 million ($53.8 million) is carried in the balance sheet net of the unamortised balance of the note issuance costs and is partly hedged by a forward foreign exchange contract for the purchase of £22.0 million and for the sale of $42.9 million. Further details of this contract are disclosed in note 26.

If a person or group of persons acting in concert obtains the right to exercise more than 50 per cent of the votes that may generally be cast at a general meeting of the company, each holder of sterling notes has the right to require that the notes held by such holder be repaid at 101 per cent of par, plus any interest accrued thereon up to the date of completion of the repayment.

24. US dollar notes

The US dollar notes comprise $34.0 million (2013: $34.0 million) nominal of 7.5 per cent dollar notes 2017 ("2017 dollar notes") of the company, and are stated net of the unamortised balance of the note issuance costs. The 2017 dollar notes are unsecured obligations of the company and are repayable on 30 June 2017.

As at 31 December 2013 the US dollar notes also included $6.3 million nominal of 7.5 percent dollar notes 2012/14 which the company repaid on 31 December 2014 at par plus accrued interest.

Notes to the consolidated financial statements

continued

25. Preference shares issued by a subsidiary

On 11 February 2010, 150,000 redeemable participating preference shares of $10 each were issued by KCC Resources Limited ("KCC preference shares"), a subsidiary undertaking of the company, fully paid, by way of a placing at par. The KCC preference shares provided a limited participation in the stone and coal interests of the company such that if those interests achieved an average annual level of earnings before interest, tax, depreciation and amortisation of $8 million over the four and a half year period from 1 January 2010 to 30 June 2014 (equivalent to $36 million for the full period), those persons who subscribed 7.5 per cent dollar notes 2012/14 of the company and KCC preference shares in a combined issue of those securities pursuant to a placing agreement dated 28 January 2010, and who retained their notes and shares until redeemed, would receive an overall compound return of 15 per cent per annum on their total investment. If the required level of earnings was not achieved, then, except in certain limited circumstances (such as divestment of all or a significant part of the stone and coal interests or a change in control of the company), no dividends or other distributions would be paid or made on the KCC preference shares and at 31 December 2014 such shares would be converted into valueless deferred shares. The required level of earnings in the stone and coal interests was not achieved and accordingly the preference shares were so converted at 31 December 2014.

At 31 December 2014 the company had acquired 149,550 KCC preference shares (2013: 149,550) at a cost of $1,462,000. Following the conversion of the shares at 31 December 2014 to valueless deferred shares the cost has been written-off in the company's profit and loss account.

26. Hedging instruments

At 31 December 2012, the group had outstanding three contracts providing in aggregate for the forward purchase of £37 million and sale of $68.6 million maturing in 2015 pursuant to the cross currency interest rate swaps ("CCIRS") entered into by the group to hedge the foreign currency exposure of the group arising from the interest and principal repayment obligations of its 9.5 per cent guaranteed sterling notes 2015/17.

The terms of one of these CCIRS contracts for £8.0 million included an option for either party to terminate the contract on 30 September 2013, pursuant to which the contract was closed out on that date at a cash cost to the group of $1.86 million and a charge to profit and loss in 2013 of $9,000.

The terms of a second CCIRS contract for £7.0 million included an option for either party to terminate the contract on 24 October 2014, pursuant to which the contract was closed out on that date at a cash cost to the group of $41,000 and a charge to profit and loss in 2014 of $381,800.

At 31 December 2014 the remaining CCIRS contract provides for the forward purchase of £22.0 million and sale of $42.9 million maturing on 27 December 2015, and is carried in the group balance sheet at its fair value, details of which are set out in note 21 under the caption "Fair value of financial instruments".

27. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the group and the movements thereon during the year and preceding year:

Deferred tax assets/(liabilities)	Property, plant and equipment $'000	Biological assets $'000	Income/ expenses* $'000	Agricultural produce $'000	Tax losses $'000	Total inventory $'000
At 1 January 2013	(22,050)	(21,356)	2,784	(566)	2,879	(38,309)
(Charge)/credit to income for the year	(2,400)	(2,361)	(11,412)	(137)	5,939	(10,371)
Credit to comprehensive income for the year**	–	–	48	–	–	48
Exchange differences***	(682)	(14,574)	1,196	–	(1,197)	(15,257)
At 31 December 2013	(25,132)	(38,291)	(7,384)	(703)	7,621	(63,889)
(Charge)/credit to income for the year	(323)	(1,686)	(354)	423	888	(1,052)
Credit to comprehensive income for the year**	–	–	42	–	–	42
Exchange differences***	1,147	(3,217)	(1,120)	–	(193)	(3,383)
At 31 December 2014	(24,308)	(43,194)	(8,816)	(280)	8,316	(68,282)
Deferred tax assets	18	–	575	–	8,316	8,909
Deferred tax liabilities	(24,326)	(43,194)	(9,391)	(280)	–	(77,191)
At 31 December 2014	(24,308)	(43,194)	(8,816)	(280)	8,316	(68,282)
Deferred tax assets	–	–	1,894	–	7,621	9,515
Deferred tax liabilities	(25,132)	(38,291)	(9,278)	(703)	–	(73,404)
At 31 December 2013	(25,132)	(38,291)	(7,384)	(703)	7,621	(63,889)

* Includes income, gains or expenses recognised for reporting purposes, but not yet charged to or allowed for tax.
** Relating to actuarial losses.
*** Included in the consolidated statement of comprehensive income.

At the balance sheet date, the group had unused tax losses of $34.2 million (2013: $31.5 million) available to be applied against future profits. A deferred tax asset of $8,316,000 (2013: $7,621,000) has been recognised in respect of these losses, which are expected to used in the future based on the group's projections. A tax loss of $270,000 incurred by the group's coal subsidiary in 2014 (2013: $3.8 million) has not been recognised; such tax loss expires after five years.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was $7,859,000 (2013: $7,651,000). No liability has been recognised in respect of these differences because the group is in a position to control the reversal of the temporary differences and it is probable that such differences will not reverse significantly in the foreseeable future.

The timing difference of $43.2 million (2013: $38.3 million) in respect of biological assets arises from their recognition at fair value in the group accounts, compared with their historic base cost in the local accounts of overseas subsidiaries. This temporary timing difference would reverse to the extent of any future reduction in their fair value.

Notes to the consolidated financial statements
continued

28. Other loans and payables

	2014 $'000	2013 $'000
Retirement benefit obligations (see note 37):		
UK	2,383	3,123
Indonesia	5,584	4,644
Other	73	108
	8,040	7,875
The amounts are repayable as follows:		
On demand or within one year (shown under current liabilities)	1,238	940
In the second year	1,696	801
In the third to fifth years inclusive	2,705	2,172
After five years	2,401	3,962
Amount due for settlement after 12 months	6,802	6,935
	8,040	7,875
Amounts of liabilities by currency:		
Sterling	2,383	3,165
US dollar	73	108
Indonesian rupiah	5,584	4,602
	8,040	7,875

Further details of the retirement benefit obligations are set out in note 37. The directors estimate that the fair value of retirement benefit obligations and of other loans and payables approximates their carrying value.

29. Trade and other payables

	2014 $'000	2013 $'000
Trade purchases and ongoing costs	5,744	3,911
Customer deposits	1,107	566
Other tax and social security	2,801	4,817
Accruals	6,515	6,891
Other payables	1,651	723
	17,818	16,908

The average credit period taken on trade payables is 30 days (2013: 26 days).

The directors estimate that the fair value of trade payables approximates their carrying value.

30. Share capital

	2014 £'000	2013 £'000
Authorised (in pounds sterling):		
65,000,000 – 9 per cent cumulative preference shares of £1 each (2013: 65,000,000)	65,000	65,000
41,000,000 – ordinary shares of 25p each (2013: 41,000,000)	10,250	10,250
	75,250	75,250

30. Share capital - continued

Issued and fully paid (in US dollars):	2014 $'000	2013 $'000
59,420,232 – 9 per cent cumulative preference shares of £1 each (2013: 52,105,116)	98,775	86,410
35,085,269 – ordinary shares of 25p each (2013: 35,085,269)	15,200	15,200
132,500 – ordinary shares of 25p each held in treasury (2013: 4,967)	(1,001)	(36)
	112,974	101,574

The preference shares entitle the holders thereof to payment, out of the profits of the company available for distribution and resolved to be distributed, of a fixed cumulative preferential dividend of 9 per cent per annum on the nominal value of the shares and to repayment, on a winding up of the company, of the amount paid up on the preference shares and any arrears of the fixed dividend in priority to any distribution on the ordinary shares. Subject to the rights of the holders of preference shares, holders of ordinary shares are entitled to share equally with each other in any dividend paid on the ordinary share capital and, on a winding up of the company, in any surplus assets available for distribution among the members.

Changes in share capital:

- on 1 July 2014, 5,210,000 preference shares were issued, fully paid, by way of a placing at £1.20 a share (total consideration £6,252,000 - $10,735,000)
- on 26 September 2014, 2,105,116 9 per cent cumulative preference shares were issued, credited as fully paid, to ordinary shareholders by way of capitalisation of share premium account

The table below summarises the changes in ordinary shares held in treasury during the year:

	Number of treasury shares	Average price per share £	(Cost)/ proceeds £'000	(Cost)/ proceeds $'000
Shares acquired November to December 2013 and held at 1 January 2014	4,967	4.43	(22)	(36)
Shares acquired January to April 2014	20,033	4.40	(88)	(149)
Shares sold May 2014	(25,000)	4.57	114	192
Profit on sale (credited to share premium account)	–		4	7
Shares acquired June to December 2014 and held at 31 December 2014	132,500	4.59	(608)	(1,010)
Sale in October 2014 of preference shares (scrip) issued September 2014	–	(0.05)	6	9
At 31 December 2014	132,500	4.54	(602)	(1,001)

31. Share premium account

	$'000
At 1 January 2013	18,680
Correction to share premium	7
Issue of new ordinary shares (cash) and preference shares (scrip)	6,474
At 31 December 2013	25,161
Issue of new preference shares (cash) and preference shares (scrip)	(1,802)
Profit on disposal of treasury shares	7
At 31 December 2014	23,366

Costs of $171,000 on the issue of preference shares (2013: $384,000) were charged to the share premium account.

Notes to the consolidated financial statements
continued

32. Translation reserve

	2014 $'000	2013 $'000
Beginning of year	(32,549)	(4,854)
Exchange differences on translation of foreign operations	(8,429)	(12,341)
Exchange differences on deferred tax	(3,383)	(15,257)
Attributable to non-controlling interests	37	(97)
End of year	(44,324)	(32,549)

33. Retained earnings

	2014 $'000	2013 $'000
Beginning of year	203,225	201,630
Profit for the year after preference dividend	13,983	5,334
Ordinary dividend paid	(4,280)	(3,739)
End of year	212,928	203,225

34. Non-controlling interests

	2014 $'000	2013 $'000
Beginning of year	2,030	2,009
Share of result for the year	(312)	(76)
Exchange translation differences	(37)	97
End of year	1,681	2,030

35. Reconciliation of operating profit to operating cash flows

	2014 $'000	2013 $'000
Operating profit	32,116	28,078
Depreciation of property, plant and equipment	9,705	9,482
Decrease / (increase) in fair value of agricultural produce inventory	1,692	(548)
Amortisation of prepaid operating lease rentals	548	457
Amortisation of sterling and US dollar note issue expenses	358	778
Biological gain	(3,571)	(7,133)
Loss / (profit) on disposal of property, plant and equipment	484	(20)
Operating cash flows before movements in working capital	41,332	31,094
Increase in inventories (excluding fair value movements)	(527)	(365)
Increase in receivables	(5,659)	(933)
Decrease in payables	(3,123)	(10,162)
Exchange translation differences	1,030	(276)
Cash generated by operations	33,053	19,358
Taxes paid	(3,401)	(7,065)
Tax refund received	8,461	8
Interest paid	(13,721)	(11,537)
Net cash from operating activities	24,392	764

No additions to property, plant and equipment during the year were financed by new finance leases (2013: $nil).

36. Movement in net borrowings

	2014 $'000	2013 $'000
Change in net borrowings resulting from cash flows:		
(Decrease) / Increase in cash and cash equivalents	(18,244)	9,013
Net increase in bank borrowings	(4,704)	(52,600)
	(22,948)	(43,587)
Issue of preference shares	10,564	–
Redemption of US dollar notes, net of amortisation of issue expenses	6,310	9,344
Net sale and repurchase of US dollar notes	–	(1,238)
	(6,074)	(35,481)
Currency translation differences	1,555	(1,786)
Net borrowings at beginning of year	(166,099)	(128,832)
Net borrowings at end of year	(170,618)	(166,099)

37. Retirement benefit obligations

United Kingdom

The company is the principal employer of the R.E.A. Pension Scheme (the "Scheme") and a subsidiary company is a participating employer. The Scheme is a multi-employer contributory defined benefit scheme with assets held in a trustee-administered fund, which has participating employers outside the group. The Scheme is closed to new members.

As the Scheme is a multi-employer scheme, in which the employers are unable to identify their respective shares of the underlying assets and liabilities (because there is no segregation of the assets), and does not prepare valuations on an IAS 19 basis, the group accounts for the Scheme as if it were a defined contribution scheme.

A non-IAS 19 valuation of the Scheme was last prepared, using the attained age method, as at 31 December 2011. This method had been adopted in the previous valuation as at 31 December 2008 and in earlier valuations, as it was considered the appropriate method of calculating future service benefits as the Scheme is closed to new members. At 31 December 2011 the Scheme had an overall shortfall in assets (deficit), when measured against the Scheme's technical provisions, of £5,197,000. The technical provisions were calculated using assumptions of an investment return of 4.70 per cent pre-retirement and 3.20 per cent post-retirement and annual increases in pensionable salaries of 3.0 per cent. The basis for the inflationary revaluation of deferred pensions and increases to pensions in payment was changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) with effect from 1 January 2011 in line with the statutory change, except that the change does not apply to pension accrual from 1 January 2006, where the RPI still applies. The rates of increase in the RPI and the CPI were assumed to be 3.0 per cent and 2.25 per cent respectively. It was further assumed that both non-retired and retired members' mortality would reflect S1PXA tables at 85 per cent and that non-retired members would take on retirement the maximum cash sums permitted from 1 January 2012. Had the Scheme been valued at 31 December 2011 using the projected unit method and the same assumptions, the overall deficit would have been similar.

The Scheme has agreed a statement of funding principles with the principal employer and has also agreed a schedule of contributions with participating employers covering normal contributions which are payable at a rate calculated to cover future service benefits under the Scheme. The Scheme has also agreed a recovery plan with participating employers which provides for recovery of the deficit shown by the 31 December 2011 valuation through the payment of quarterly additional contributions over the period from 1 January 2013 to 30 September 2018 after taking account of the additional contributions paid in 2012 under the 31 December 2008 valuation.

37. Retirement benefit obligations - continued

The normal contributions paid by the group in 2014 were £28,000 - $46,000 (2013: £27,000 - $43,000) and represented 36.4 per cent (2013: 36.4 per cent) of pensionable salaries; in addition, a discretionary contribution of £88,000 - $145,000 was made in 2014 (2013: £70,000 - $110,000) to fund an inflation adjustment to pensions in payment relating to pre-1997 accrued entitlements (which would not otherwise have been subject to full indexation). The additional contribution applicable to the group's share of the recovery plan for 2014 was £407,000 - $671,000 (2013: £396,000 - $624,000). Under the valuation as at 31 December 2011 the normal contributions will continue at the rate of 36.4 per cent of pensionable salaries and the additional contribution will rise to £418,000 -$651,000 for 2015 and thereafter by 2.75 per cent per annum. A provision of £1,529,000 - $2,383,000 (2013: £1,885,000 - $3,123,000) for these additional contributions adjusted for the time value of money has been recognised under retirement benefit obligations (see note 28). The provision is remeasured at each year end to reflect the passage of time and the additional contributions that have been paid by the group. The resultant net charge to administrative expenses relating to additional contributions to the Scheme pursuant to the recovery plan was as follows:

	2014 $'000	2013 $'000
Release of provision relating to additional contributions paid in the year	(357)	(352)
Additional contributions paid in the year	671	624
Net charge to administrative expenses (note 5)	314	272

The contributions by the group to fund the recovery plan represent approximately 45 per cent of the aggregate amounts to be paid by all participating employers towards such plan. There are no agreed allocations of any deficit on either the wind-up of the Scheme or on any participant's withdrawal from the Scheme.

The sensitivity of the deficit as at 31 December 2011 to variations in certain of the principal assumptions underlying the actuarial valuation as at that date is summarised below:

	(Decrease) / increase in deficit $'000
Increase in the post-retirement discount rate of 0.1%	(400)
Increase in inflation and all associated assumptions including salaries of 0.1%	310
Mortality base table 90% instead of 85%	(510)
Slower improvement in long term rate of mortality (1.25% instead of 1.5%)	(350)

The next actuarial valuation will be made as at 31 December 2014.

The company has a contingent liability of $3.0 million (2013: $3.6 million) for additional contributions payable by other (non-group) employers in the Scheme; such liability will only arise if other (non-group) employers do not pay their contributions. There is no expectation of this at the present time and, therefore, no provision has been made.

Indonesia

In accordance with Indonesian labour laws, group employees in Indonesia are entitled to lump sum payments on retirement at the age of 55 years. The group makes a provision for such payments in its financial statements but does not fund these with any third party or set aside assets to meet the entitlements. The provision was assessed at each balance sheet date by an independent actuary using the projected unit method. The principal assumptions used were as follows:

	2014	2013
Discount rate	8.45%	9.1%
Salary increases per annum	6%	6%
Mortality table (Indonesia) (TM1)	111-2011	111-2011
Retirement age (years)	55	55
Disability rate (% of the mortality table)	10	10

37. Retirement benefit obligations - continued

The movement in the provision for employee service entitlements was as follows:

	2014 $'000	2013 $'000
Balance at 1 January	4,602	4,659
Current service cost	907	838
Interest expense	428	298
Actuarial loss recognised in statement of comprehensive income	170	123
Exchange	(139)	(1,039)
Paid during the year	(384)	(277)
Balance at 31 December (see note 28)	5,584	4,602

The amounts recognised in administrative expenses in the consolidated income statement were as follows:

	2014 $'000	2013 $'000
Current service cost	907	838
Interest expense	428	298
	1,335	1,136
Amount included as additions to biological assets	(99)	(74)
	1,236	1,062

Estimated lump sum payments to Indonesian employees on retirement in 2015 are $531,000 (2014: $103,000).

38. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the company and its subsidiaries are dealt with in the company's individual financial statements. The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 "Related party disclosures". Further information about the remuneration of, and fees paid in respect of services provided by, individual directors is provided in the audited part of the "Directors' remuneration report".

	2014 $'000	2013 $'000
Short term benefits	2,112	2,008
Post employment benefits	–	–
Other long term benefits	–	–
Termination benefits	–	–
Share based payments	–	–
	2,112	2,008

Notes to the consolidated financial statements
continued

39. Rates of exchange

	2014 Closing	2014 Average	2013 Closing	2013 Average
Indonesian rupiah to US dollar	12,440	11,908	12,189	10,494
US dollar to pound sterling	1.5593	1.65	1.6563	1.57

40. Events after the reporting period

An interim dividend of 4p per ordinary share in respect of the year ended 31 December 2014 was paid on 23 January 2015. In accordance with IAS 10 "Events after the reporting period" this dividend, amounting in aggregate to $2,124,000, has not been reflected in these financial statements.

In February 2015 a subsidiary company was notified by the Supreme Court of Indonesia that the Indonesian tax authorities had applied to the Supreme Court of Indonesia for a judicial review of the decision of the Jakarta Tax Court in May 2014 in favour of the subsidiary (see note 9).

41. Resolution of competing rights over certain plantation areas

The fully titled land areas held by PT Sasana Yudha Bhakti ("SYB"), a plantation subsidiary of the company, include 3,557 hectares that are the subject of third party claims in respect of the rights to coal underneath such land. On 30 December 2011, SYB entered into a conditional settlement arrangement to resolve such claims. Under this agreement, SYB has agreed to swap the 3,557 hectares the subject of the claims for 9,097 hectares of fully titled land held by another company, PT Prasetia Utama ("PU"), the whole of the issued share capital of which is to be transferred to SYB. As a term of the settlement, SYB has also agreed to relinquish the 2,212 hectares in respect of which it holds a land allocation still subject to completion of titling (being land that is also subject to overlapping mineral rights).

The book value of the assets to be relinquished by SYB amounted as at 31 December 2014 to $8.6 million (2013: $8.7 million), comprising prepaid operating lease rentals of $2.6 million (2013: $2.8 million) and biological assets of $6.0 million (2013: $6.0 million). The arrangements are conditional, inter alia, upon the consent of the holders of the 9.5 per cent guaranteed sterling notes 2015/17 (see note 23) which was obtained on 14 March 2012.

Completion had been delayed by a need to obtain comfort as to the continuing validity of the land titles held by PU. During 2014, necessary confirmation was obtained and the documentation to complete the swap is now being progressed.

42. Contingent liabilities

In furtherance of Indonesian government policy which requires the owners of oil palm plantations to develop smallholder plantations, during 2009 and 2010 PT REA Kaltim Plantations ("REA Kaltim") and PT Sasana Yudha Bhakti ("SYB") , both subsidiaries of the company, entered into agreements with three cooperatives to develop and manage land owned by the cooperatives as oil palm plantations. To assist with the funding of such development, the cooperatives have concluded various long term loan agreements with Bank Pembangunan Daerah Kalimantan Timur ("Bank BPD"), a regional development bank, under which the cooperatives may borrow in aggregate up to Indonesian rupiah 157 billion ($12.6 million) with amounts borrowed repayable over 14 years and secured on the lands under development ("the bank facilities"). REA Kaltim has guaranteed the obligations of two cooperatives as to payments of principal and interest under the respective bank facilities and, in addition, has committed to lend to the cooperatives any further funds required to complete the agreed development. REA Kaltim is entitled to a charge over the developments when the bank facilities have been repaid in full. SYB has guaranteed the obligations of the third cooperative on a similar basis.

On maturity of the developments, the cooperatives are required to sell all crops from the developments to REA Kaltim and SYB respectively and to permit repayment of indebtedness to Bank BPD, REA Kaltim and SYB respectively out of the sales proceeds.

As at 31 December 2014 the aggregate outstanding balances owing by the three cooperatives to Bank BPD amounted to Indonesian rupiah 121 billion ($9.7 million) (2013: Indonesian rupiah 111 billion - $9.1 million).

43. Operating lease commitments

The group leases premises under operating leases in London, Jakarta, Samarinda and Singapore. These leases, which are renewable, run for periods of between 1 month and 50 months, and do not include contingent rentals, or options to purchase the properties.

The future minimum lease payments under operating leases are as follows:

	2014 $'000	2013 $'000
Within one year	344	380
In the second to fifth year inclusive	249	656
After five years	–	–
	593	1,036

Company balance sheet
as at 31 December 2014

	Note	2014 $'000	2013 $'000
Non-current assets			
Investments	(iii)	255,013	261,958
Deferred tax assets	(iv)	978	979
Total non-current assets		255,991	262,937
Current assets			
Trade and other receivables	(v)	25,714	29,903
Cash		728	1,156
Total current assets		26,442	31,059
Total assets		282.433	293,996
Current liabilities			
Trade and other payables	(vi)	(756)	(5,986)
US dollar notes	(vii)	–	(5,964)
Amount owed to group undertaking	(viii)	(19,478)	–
Total current liabilities		(20,234)	(11,950)
Non-current liabilities			
US dollar notes	(vii)	(33,472)	(33,472)
Amount owed to group undertaking	(viii)	(38,957)	(62,065)
Total non-current liabilities		(72,429)	(95,537)
Total liabilities		(92,663)	(107,487)
Net assets		189,770	186,509

	Note	2014 $'000	2013 $'000
Equity			
Share capital	(ix)	112,974	101,574
Share premium account	(x)	23,366	25,161
Exchange reserve	(x)	(4,300)	(4,300)
Profit and loss account	(x)	57,730	64,074
Total equity		189,770	186,509

Approved by the board on 23 April 2015 and signed on behalf of the board.
RICHARD M ROBINOW
Chairman

Company statement of changes in equity

for the year ended 31 December 2014

	Note	Share capital $'000	Share premium $'000	Exchange reserve $'000	Profit and loss $'000	Total $'000
At 1 January 2013		97,565	18,687	(4,333)	11,916	123,835
Total comprehensive income	(x)	–	–	–	63,188	63,188
Issue of new ordinary shares (cash)	(ix)	641	9,878	–	–	10,519
Issue of new preference shares (scrip)	(x)	3,404	(3,404)	–	–	–
Purchase of treasury shares	(ix)	(36)	–	–	–	(36)
Dividends to preference shareholders	(ii)	–	–	–	(7,291)	(7,291)
Dividends to ordinary shareholders	(ii)	–	–	–	(3,739)	(3,739)
Exchange adjustment deferred tax	(x)	–	–	33	–	33
At 31 December 2013		101,574	25,161	(4,300)	64,074	186,509
Total comprehensive income	(x)	–	–	–	6,076	6,076
Issue of new preference shares (cash)	(ix)	8,946	1,618	–	–	10,564
Issue of new preference shares (scrip)	(x)	3,420	(3,420)	–	–	–
Purchase of treasury shares	(ix)	(966)	7	–	–	(959)
Dividends to preference shareholders	(ii)	–	–	–	(8,140)	(8,140)
Dividends to ordinary shareholders	(ii)	–	–	–	(4,280)	(4,280)
At 31 December 2014		112,974	23,366	(4,300)	57,730	189,770

There are no gains or losses other than those recognised in the profit and loss account.

Company cash flow statement

for the year ended 31 December 2014

	Note	2014 $'000	2013 $'000
Net cash outflow from operating activities	(xii)	(11,131)	(23,855)
Investing activities			
Interest received		7,406	3,248
Dividends and other distributions received from subsidiaries	(xiv)	10,944	86,433
Repayment of loans by subsidiary companies *		3,050	33,530
New loans made to subsidiary companies *		(543)	(91,871)
Shares acquired in subsidiary companies		–	(16)
Further investment in Indonesian stone and coal interests		(897)	(1,615)
Net cash used in investing activities		19,960	29,709
Financing activities			
Preference dividends paid	(ii)	(8,140)	(7,291)
Ordinary dividends paid	(ii)	(4,280)	(3,739)
Proceeds of issue of ordinary shares		–	10,519
Proceeds of issue of preference shares		10,564	–
Purchase of treasury shares, net of sales		(959)	(36)
Redemption of US dollar notes	(vii)	(6,310)	(9,678)
Net sale and repurchase of US dollar notes		–	1,238
Net cash from financing activities		(9,125)	(8,987)
Cash and cash equivalents			
Net decrease in cash and cash equivalents		(296)	(3,133)
Cash and cash equivalents at beginning of year		1,156	4,415
Effect of exchange rate changes		(132)	(126)
Cash and cash equivalents at end of year	(xi)	728	1,156

* Excluding amounts dealt with within “Further investment in Indonesian stone and coal interests”

Accounting policies (company)

The accounting policies of R.E.A. Holdings plc (the "company") are the same as those of the group, save as modified below.

Basis of accounting

Separate financial statements of the company are required by the Companies Act 2006, and these have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed for use by the European Union as at the date of approval of the financial statements and therefore comply with Article 4 of the EU IAS Regulation. The statements are prepared under the historic cost convention except where otherwise stated in the accounting policies.

By virtue of section 408 of the Companies Act 2006, the company is exempted from presenting a profit and loss account.

Presentational currency

The financial statements of the company are presented in US dollars which is also considered to be the currency of the primary economic environment in which the company operates. References to "$" or "dollar" in these financial statements are to the lawful currency of the United States of America.

Investments

The company's investments in its subsidiaries are stated at cost less any provision for impairment. Impairment provisions are charged to the profit and loss account. Dividends received from subsidiaries are credited to the company's profit and loss account.

Financial risk

The company's financial risk is managed as part of the group's strategy and policies as discussed in note 21 to the consolidated financial statements.

Taxation

Current tax including UK corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is calculated on the liability method. Deferred tax is provided on a non discounted basis on timing and other differences which are expected to reverse, at the rate of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of timing differences can be deducted.

Leases

No assets are held under finance leases. Rentals under operating leases are charged to profit and loss account on a straight-line basis over the lease term.

Notes to the company financial statements

(i) Auditor's remuneration

The remuneration of the company's auditor is disclosed in note 5 to the company's consolidated financial statements as required by section 494(4)(a) of the Companies Act 2006.

(ii) Dividends

	2014 $'000	2013 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share	8,140	7,291
Ordinary dividends of 7.25p per share (2013: 7p per share)	4,280	3,739
	12,420	11,030

An interim dividend of 4.0p per ordinary share in respect of the year ended 31 December 2014 was paid on 23 January 2015. In accordance with IAS10 "Events after the reporting period", this dividend, amounting in aggregate to $2,124,000, has not been included in the 2014 financial statements.

(iii) Investments

	2014 $'000	2013 $'000
Shares in subsidiaries	91,775	93,237
Loans	163,238	168,721
	255,013	261,958

The movements were as follows:

	Shares $'000	Loans $'000
At 1 January 2013	93,221	142,615
Additions to shares in subsidiaries and loans	16	26,106
At 31 December 2013	93,237	168,721
Impairment loss recognised	(1,462)	–
Repayment of loans	–	(3,286)
Additions to loans	–	1,676
Effect of exchange	–	(3,873)
At 31 December 2014	91,775	163,238

The impairment loss recognised relates to KCC Resources Limited's preference shares. These provided a limited participation in the coal interests of the group if a certain average annual level of earnings was achieved by those interests by June 2014. As the required level of earnings was not achieved, the shares converted at 31 December 2014 to valueless deferred shares and the cost has been written off in the company's profit and loss account.

The principal subsidiaries at the year end, together with their countries of incorporation, are listed below. Details of UK dormant subsidiaries are not shown.

Subsidiary	Activity	Class of shares	Percentage owned
Makassar Investments Limited (Jersey)	Sub holding company	Ordinary	100
PT Cipta Davia Mandiri (Indonesia)	Plantation agriculture	Ordinary	95
PT Kartanegara Kumala Sakti (Indonesia)	Plantation agriculture	Ordinary	95
PT KCC Resources Indonesia (Indonesia)	Stone and coal operations	Ordinary	95
PT Kutai Mitra Sejahtera (Indonesia)	Plantation agriculture	Ordinary	95
PT Persada Bangun Jaya (Indonesia)	Plantation agriculture	Ordinary	95
PT Putra Bongan Jaya (Indonesia)	Plantation agriculture	Ordinary	95
PT REA Kaltim Plantations (Indonesia)	Plantation agriculture	Ordinary	100
PT Sasana Yudha Bhakti (Indonesia)	Plantation agriculture	Ordinary	95
KCC Resources Limited (England and Wales)	Sub holding company	Ordinary	100
REA Finance B.V. (Netherlands)	Group finance	Ordinary	100
R.E.A. Services Limited (England and Wales)	Group finance and services	Ordinary	100
REA Services Private Limited (Singapore)	Group services	Ordinary	100

The entire shareholdings in Makassar Investments Limited, KCC Resources Limited, R.E.A. Services Limited, REA Finance B.V. and REA Services Private Limited are held directly by the company. All other shareholdings are held by subsidiaries.

Covenants contained in credit agreements between certain of the company's plantation subsidiaries and banks restrict the amount of dividend that may be paid to the UK without the consent of the banks to certain proportions of the relevant subsidiaries' pre-tax profits. The directors do not consider that such restrictions will have any significant impact on the liquidity risk of the company.

A dormant UK subsidiary, Jentan Plantations Limited, company registration number 6662767, has taken advantage of the exemption pursuant to Companies Act 2006 s394A from preparing individual accounts.

(iv) Deferred tax asset

	$'000
At 1 January 2013	703
Credit to income for the year	342
Effect of change in tax rate	(93)
Effect of exchange	27
At 31 December 2013	979
Charge to income for the year	(1)
Effect of change in tax rate	–
Effect of exchange	–
At 31 December 2014	978

There were no deferred tax liabilities at 1 January 2013, 31 December 2013 or 31 December 2014.

At the balance sheet date, the company had unused tax losses of $4.9 million (2013: $2.9 million) available to be applied against future profits. A deferred tax asset of $978,000 (2013: $979,000) has been recognised in respect of these losses as the company considers, based on financial projections, that these losses will be utilised.

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which tax liabilities have not been recognised are disclosed in note 27 to the consolidated financial statements.

Notes to the company financial statements (continued)

(v) Trade and other receivables

	2014 $'000	2013 $'000
Trade debtors	–	37
Amount owing by group undertakings	25,166	29,319
Other debtors	530	542
Prepayments and accrued income	18	5
	25,714	29,903

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

(vi) Trade and other payables

	2014 $'000	2013 $'000
Amount owing to group undertakings	527	5,616
Other creditors	30	125
Accruals	199	245
	756	5,986

The directors consider that the carrying amount of trade and other payables approximates their fair value.

(vii) US dollar notes

The US dollar notes comprise $34.0 million (2013: $34.0 million) nominal of 7.5 per cent dollar notes 2017 ("2017 dollar notes") of the company, and are stated net of the unamortised balance of the note issuance costs. The 2017 dollar notes are unsecured obligations of the company and are repayable on 30 June 2017.

As at 31 December 2013 the US dollar notes also included $6.3 million nominal of 7.5 per cent dollar notes 2012/14 which the company repaid on 31 December 2014 at par plus accrued interest.

(viii) Amount owed to group undertaking

Amount owed to group undertaking comprises an unsecured interest-bearing loan from REA Finance BV, repayable in equal annual instalments commencing 31 December 2015.

(ix) Share capital

	2014 £'000	2013 £'000
Authorised (in pounds sterling):		
65,000,000 – 9 per cent cumulative preference shares of £1 each (2013: 65,000,000)	65,000	65,000
41,000,000 – ordinary shares of 25p each (2013: 41,000,000)	10,250	10,250
	75,250	75,250

	$'000	$'000
Issued and fully paid (in US dollars):		
59,420,232 – 9 per cent cumulative preference shares of £1 each (2013: 52,105,116)	98,775	86,410
35,085,269 – ordinary shares of 25p each (2013: 35,085,269)	15,200	15,200
132,500 – ordinary shares of 25p each held in treasury (2012: 4,967)	(1,001)	(36)
	112,974	101,574

The preference shares entitle the holders thereof to payment, out of the profits of the company available for distribution and resolved to be distributed, of a fixed cumulative preferential dividend of 9 per cent per annum on the nominal value of the shares and to repayment, on a winding up of the company, of the amount paid up on the preference shares and any arrears of the fixed dividend in priority to any distribution on the ordinary shares. Subject to the rights of the holders of preference shares, holders of ordinary shares are entitled to share equally with each other in any dividend paid on the ordinary share capital and, on a winding up of the company, in any surplus assets available for distribution among the members.

Changes in share capital:

- on 1 July 2014, 5,210,000 preference shares were issued, fully paid, by way of a placing at £1.20 a share (total consideration £6,252,000 - $10,735,000)
- on 26 September 2014, 2,105,116 9 per cent cumulative preference shares were issued, credited as fully paid, to ordinary shareholders by way of capitalisation of share premium account

The table below summarises the changes in ordinary shares held in treasury during the year.

	Number of treasury shares	Average price per share £	(Cost)/ proceeds £'000	(Cost)/ proceeds $'000
Shares acquired November to December 2013 and held at 1 January 2014	4,967	4.43	(22)	(36)
Shares acquired January to April 2014	20,033	4.40	(88)	(149)
Shares sold May 2014	(25,000)	4.57	114	192
Profit on sale			4	7
Shares acquired June to December 2014 and held at 31 December 2014	132,500	4.59	(608)	(1,010)
Sale in October 2014 of preference shares issued by way of a scrip issue in September 2014			6	9
At 31 December 2014	132,500	4.54	(602)	(1,001)

Notes to the company financial statements (continued)

(x) Movement in reserves

	Share premium account $'000	Exchange reserve $'000	Profit and loss account $'000
At 1 January 2013	18,687	(4,333)	11,916
Total comprehensive income	–	–	63,188
Dividends to preference shareholders	–	–	(7,291)
Dividends to ordinary shareholders	–	–	(3,739)
Issue of preference shares (cash)	10,262	–	–
Issue of preference shares (scrip)	(3,404)	–	–
Costs of issues	(384)	–	–
Exchange adjustment deferred tax	–	33	–
At 31 December 2013	25,161	(4,300)	64,074
At 1 January 2014	25,161	(4,300)	64,074
Total comprehensive income	–	–	6,076
Dividends to preference shareholders	–	–	(8,140)
Dividends to ordinary shareholders	–	–	(4,280)
Issue of preference shares (cash)	1,789	–	–
Issue of preference shares (scrip)	(3,420)	–	–
Costs of issues	(171)	–	–
Profit on disposal of treasury shares	7	–	–
At 31 December 2014	23,366	(4,300)	57,730

As permitted by section 408 of the Companies Act 2006, a separate profit and loss account dealing with the results of the company has not been presented. The profit before dividends recognised in the company's profit and loss account for the year is $6.1 million (2013: profit $63.2 million).

(xi) Financial instruments and risks

Financial instruments

The company's financial instruments comprise borrowings, cash and liquid resources and in addition certain debtors and trade creditors that arise from its operations. The main purpose of these financial instruments is to raise finance for, and facilitate the conduct of, the company's operations. The hierarchy for determining and disclosing the fair value of financial instruments is set out in note 21 to the consolidated financial statements. The table below provides an analysis of the book and fair values of financial instruments excluding debtors and creditors at balance sheet date.

	2014 Book value $'000	2014 Fair value $'000	2013 Book value $'000	2013 Fair value $'000
Cash and cash equivalents	728	728	1,156	1,156
US dollar notes	(33,472)	(34,691)	(39,436)	(40,274)
Net debt	(32,744)	(33,963)	(38,280)	(39,118)

The fair value of the US dollar notes reflects the last price at which transactions in those notes were effected prior to the balance sheet dates.

Risks

The main risks arising from the company's financial instruments are liquidity risk, interest rate risk, credit risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks. These policies have remained unchanged since the beginning of the year. It is, and was throughout the year, the company's policy that no trading in financial instruments be undertaken.

The company finances its operations through a mixture of share capital, retained profits, borrowings in US dollars at fixed rates and credit from suppliers. At 31 December 2014, the company had outstanding $34 million nominal (2013: $34 million) of 7.5 per cent dollar notes 2017 and on that date repaid $6.3 million nominal of 7.5 percent dollar notes 2012/14 at par plus accrued interest.

The policy for liquidity risk management is disclosed in note 21 to the consolidated financial statements together with the contractual maturity of the company's dollar notes.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The directors consider that the company is not exposed to any major concentrations of credit risk. At 31 December 2014, all bank deposits were held with banks with a Moody's prime rating of P1. At the balance sheet date, no trade receivables were past their due dates, nor were any impaired; accordingly no bad debt provisions were required. The maximum credit risk exposures in respect of the company's financial assets at 31 December 2014 and 31 December 2013 equal the amounts reported under the corresponding balance sheet headings.

A limited degree of interest rate risk is accepted. A substantial proportion of the company's financial instruments at 31 December 2014 carried interest at fixed rates rather than floating rates. On the basis of the company's analysis, it is estimated that a rise of one percentage point in interest rates applied to those financial instruments which carry interest at floating rates would have resulted in an increase of $nil (2013: $nil) in the company's interest revenues in its profit and loss account.

Non-derivative financial instruments

The following table details the contractual maturity of the group's non-derivative financial liabilities. The table has been drawn up based on the undiscounted amounts of the group's financial liabilities based on the earliest dates on which the group can be required to discharge those liabilities. The table includes liabilities for both principal and interest.

2014	Weighted average interest rate %	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
US dollar notes	8.5	2,551	2,551	35,286	40,388
2013					
US dollar notes	8.5	9,335	2,551	37,837	49,723

(xii) Reconciliation of operating profit to operating cash flows

	2014 $'000	2013 $'000
Operating loss	(105)	(414)
Amortisation of US dollar note issue expenses	346	331
Operating cash inflows / (outflows) before movements in working capital	241	(83)
Decrease / (increase) in receivables	3,642	(13,800)
(Decrease) / increase in payables	(5,189)	69
Exchange translation differences	178	(57)
Cash outflow from operations	(1,128)	(13,871)
Taxes paid	(941)	(481)
Interest paid	(9,062)	(9,503)
Net cash outflow from operating activities	(11,131)	(23,855)

Notes to the company financial statements (continued)

(xiii) Pensions

The company is the principal employer of the R.E.A. Pension Scheme (the "Scheme") and a subsidiary company is a participating employer. The Scheme is a multi-employer contributory defined benefit scheme with assets held in a trustee-administered fund, which has participating employers outside the group. The Scheme is closed to new members.

As the Scheme is a multi-employer scheme, in which the employers are unable to identify their respective shares of the underlying assets and liabilities (because there is no segregation of the assets), and does not prepare valuations on an IAS 19 basis, the company accounts for the Scheme as if it were a defined contribution scheme.

A non-IAS 19 valuation of the Scheme was last prepared, using the attained age method, as at 31 December 2011. This method was considered the appropriate method of calculating future service benefits as the Scheme is closed to new members. At 31 December 2011 the Scheme had an overall shortfall in assets (deficit), when measured against the Scheme's technical provisions, of £5,197,000. The technical provisions were calculated using assumptions of an investment return of 4.70 per cent pre-retirement and 3.20 per cent post-retirement and annual increases in pensionable salaries of 3.0 per cent. The basis for the inflationary revaluation of deferred pensions and increases to pensions in payment was changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) with effect from 1 January 2011 in line with the statutory change, except that the change does not apply to pension accrual from 1 January 2006, where the RPI still applies. The rates of increase in the RPI and the CPI were assumed to be 3.0 per cent and 2.25 per cent respectively. It was further assumed that both non-retired and retired members' mortality would reflect S1PXA tables at 85 per cent and that non-retired members would take on retirement the maximum cash sums permitted from 1 January 2012. Had the Scheme been valued at 31 December 2011 using the projected unit method and the same assumptions, the overall deficit would have been similar.

The Scheme has agreed a statement of funding principles with the principal employer and has also agreed a schedule of contributions with participating employers covering normal contributions which are payable at a rate calculated to cover future service benefits under the Scheme. The Scheme has also agreed a recovery plan with participating employers which provides for recovery of the deficit shown by the 31 December 2011 valuation through the payment of quarterly additional contributions over the period from 1 January 2013 to 30 September 2018 after taking account of the additional contributions paid in 2012 under the 31 December 2008 valuation.

There are no agreed allocations of any deficit on either the wind-up of the Scheme or on any participant's withdrawal from the Scheme.

The next actuarial valuation will be made as at 31 December 2014.

The subsidiary company that is a participating employer and other participating employers in the scheme have entered into an agreement with the Scheme to make special contributions to the Scheme to cover the deficit shown by the 31 December 2011 valuation. The company made no payments to the Scheme in 2014 (2013: $nil). The company has a contingent liability for special contributions payable by other participating employers in the Scheme; such liability will only arise if such other participating employers do not pay their contributions. There is no expectation of this at the present time and, therefore, no provision has been made by the company.

(xiv) Related party transactions

Loans to subsidiaries	2014 $'000	2013 $'000
PT Cipta Davia Mandiri	11,770	14,820
PT KCC Resources Indonesia	12,700	12,935
Makassar Investments Limited	425	425
REA Finance BV	3,836	4,074
PT REA Kaltim Plantations	77,255	79.388
R.E.A. Services Limited	24,130	25,631
	130,116	137,273

Dividends received from subsidiaries	2014 $'000	2013 $'000
Cairnhill Investments Limited	–	7,548
Kutai Plantations Limited	–	34,677
Makassar Investments Limited	8,550	8,080
REA Finance BV	–	247
R.E.A. Services Limited	2,394	6,346
Rengat Investments Limited	–	8,375
Sandan Investments Limited	–	6,621
	10,944	71,894

Interest received from subsidiaries	2014 $'000	2013 $'000
PT Cipta Davia Mandiri	686	18
REA Finance BV	340	332
PT REA Kaltim Plantations	6,115	2,637
	7,141	2,987

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 "Related party disclosures". Further information about the remuneration of, and fees paid in respect of services provided by, individual directors is provided in the audited part of the "Directors' remuneration report".

	2014 $'000	2013 $'000
Short term benefits	2,112	2,008
Post employment benefits	–	–
Other long term benefits	–	–
Termination benefits	–	–
Share based payments	–	–
	2,112	2,008

Notes to the company financial statements (continued)

(xv) Rates of exchange

See note 39 to the consolidated financial statements.

(xvi) Contingent liabilities and commitments

Sterling notes

The company has guaranteed the obligations for both principal and interest relating to the outstanding £34.54 million nominal (2013: £34.54 million) 9.5 per cent guaranteed sterling notes 2015/17 issued by REA Finance B.V.. The directors consider the risk of loss to the company from this guarantee to be remote.

Bank borrowings

The company has given, in the ordinary course of business, guarantees in support of the subsidiary company borrowings from, and other contracts with, banks (including cross currency interest rate swaps) amounting in aggregate to $111 million (2013: $105 million). The directors consider the risk of loss to the company from these guarantees to be remote.

Pension liability

The company's contingent liability for pension contributions is disclosed in note (xiii) above.

Operating leases

The company has an annual commitment under an operating lease of $167,000 (2013: $184,000). The commitment expires after two years. The lease does not contain any contingent rentals or an option to purchase the property.

The future minimum lease payments under the operating lease are as follows:

	2014 $'000	2013 $'000
Within one year	167	167
In the second to fifth year inclusive	167	354
After five years	–	–
	334	529

(xvii) Post balance sheet event

A first interim dividend of 4p per ordinary share in respect of the year ended 31 December 2014 was paid on 23 January 2015. In accordance with IAS10 "Events after the reporting period" this dividend, amounting in aggregate to $2,124,000, has not been reflected in these financial statements.

Notice of annual general meeting

This notice is important and requires your immediate attention. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if you are not so resident, another appropriately authorised independent adviser. If you have sold or otherwise transferred all your ordinary shares in R.E.A. Holdings plc, please forward this document and the accompanying form of proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Notice is hereby given that the fifty-fifth annual general meeting of R.E.A. Holdings plc will be held at the London office of Ashurst LLP at Broadwalk House, 5 Appold Street, London EC2A 2HA on 11 June 2015 at 10.00 am to consider and, if thought fit, to pass the following resolutions. Resolutions 14 and 15 will be proposed as special resolutions; all other resolutions will be proposed as ordinary resolutions.

1. To receive the company's annual accounts for the financial year ended 31 December 2014, together with the accompanying statements and reports including the auditor's report.

2. To approve the directors' remuneration report for the financial year ended 31 December 2014 (other than directors' remuneration policy component of the report which is to be dealt with by resolution 3 set out in the notice of the 2015 annual general meeting.

3. To approve the revised directors' remuneration policy to take effect immediately following the annual general meeting.

4. To declare a final dividend in respect of the year ended 31 December 2014 of 3¾p per ordinary share to be paid on 24 July 2015 to ordinary shareholders on the register of members at the close of business on 3 July 2015.

5. To re-elect as a director Mr R M Robinow, who, having been a non-executive director for more than nine years, retires as required by the UK Corporate Governance Code and submits himself for re-election.

6. To re-elect as a director Mr D J Blackett, who, having been a director at each of the two preceding annual general meetings and who was not re-appointed by the company in general meeting at or since either such meetings, retires in accordance with the articles of association and submits himself for re-election.

7. To re-elect as a director Mr J C Oakley, who, having been a director at each of the two preceding annual general meetings and who was not re-appointed by the company in general meeting at or since either such meetings, retires in accordance with the articles of association and submits himself for re-election.

8. To re-appoint Deloitte LLP, chartered accountants, as auditor of the company to hold office until the conclusion of the next annual general meeting of the company at which accounts are laid before the meeting.

9. To authorise the directors to fix the remuneration of the auditor.

10. That, conditional upon the passing of resolution 14 set out in the notice of the 2015 annual general meeting , the company is generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of any of its ordinary shares on such terms and in such manner as the directors may from time to time determine provided that:

    (a) the maximum number of ordinary shares which may be purchased is 5,000,000 ordinary shares;

    (b) the minimum price (exclusive of expenses, if any) that may be paid for each ordinary share is £1.00;

    (c) the maximum price (exclusive of expenses, if any) that may be paid for each ordinary share is an amount equal to the higher of: (i) 105 per cent of the average of the middle market quotations for the ordinary shares in the capital of the company as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which such share is contracted to be purchased and (ii) that stipulated by article 5(1) of the EU Buyback and Stabilisation Regulation 2003 (No. 2273/2003); and

    (d) unless previously renewed, revoked or varied, this authority shall expire at the conclusion of the annual general meeting of the company to be held in 2016 (or, if earlier, on 30 June 2016)

    provided further that:

    (i) notwithstanding the provisions of paragraph (a) above, the maximum number of ordinary shares that may be bought back and held in treasury at any one time is 400,000 ordinary shares; and

    (ii) notwithstanding the provisions of paragraph (d) above, the company may, before this authority expires, make a contract to purchase ordinary shares that would or might be executed wholly or partly after the expiry of this authority, and may make purchases of ordinary shares pursuant to it as if this authority had not expired.

11. That the authorised share capital of the company (being the maximum amount of shares in the capital of the company that the company may allot) be and is hereby increased from £75,250,000 to £85,250,000 by the creation of 10,000,000 9 per cent cumulative preference shares of £1 each ranking pari

passu in all respects with the existing 9 per cent cumulative preference shares of £1 each in the capital of the company.

12. That the directors be and are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the company to allot, and to grant rights to subscribe for or to convert any security into, shares in the capital of the company (other than 9 per cent cumulative preference shares) up to an aggregate nominal amount (within the meaning of sub-sections (3) and (6) of section 551 of the Act) of £1,478,682.75; such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2016), save that the company may before such expiry make any offer or agreement which would or might require shares to be allotted, or rights to be granted, after such expiry and the directors may allot shares, or grant rights to subscribe for or to convert any security into shares, in pursuance of any such offer or agreement as if the authorisations conferred hereby had not expired.

13. That the directors be and are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the company to allot, and to grant rights to subscribe for or to convert any security into, 9 per cent cumulative preference shares in the capital of the company ("preference shares") up to an aggregate nominal amount (within the meaning of sub-sections (3) and (6) of section 551 of the Act) of £5,579,768.00, such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2016), save that the company may before such expiry make any offer or agreement which would or might require preference shares to be allotted or rights to be granted, after such expiry and the directors may allot preference shares, or grant rights to subscribe for or to convert any security into preference shares, in pursuance of any such offer or agreement as if the authorisations conferred hereby had not expired.

14. That the directors be and are hereby given power:

(a) for the purposes of section 570 of the Companies Act 2006 (the "Act") and subject to the passing of resolution 12 set out in the notice of the 2015 annual general meeting, to allot equity securities (as defined in sub-section (1) of section 560 of the Act) of the company for cash pursuant to the authorisation conferred by the said resolution 12; and

(b) for the purposes of section 573 of the Act, to sell ordinary shares (as defined in sub-section (1) of section 560 of the Act) in the capital of the company held by the company as treasury shares for cash as if section 561 of the Act did not apply to the allotment or sale, provided that such powers shall be limited:

(i) to the allotment of equity securities for cash in connection with a rights issue or open offer in favour of holders of ordinary shares and to the sale of treasury shares by way of an invitation made by way of rights to holders of ordinary shares, in each case in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them on the record date for participation in the rights issue, open offer or invitation (and holders of any other class of equity securities entitled to participate therein or, if the directors consider it necessary, as permitted by the rights of those securities) but subject in each case to such exclusions or other arrangements as the directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares (other than treasury shares being sold), record dates or legal, regulatory or practical difficulties which may arise under the laws of any territory or the requirements of any regulatory body or stock exchange in any territory whatsoever; and

(ii) otherwise than as specified at paragraph (i) of this resolution, to the allotment of equity securities and the sale of treasury shares up to an aggregate nominal amount (calculated, in the case of the grant of rights to subscribe for, or convert any security into, shares in the capital of the company, in accordance with sub-section (6) of section 551 of the Act) of £438,565 and shall expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2016), save that the company may before such expiry make any offer or agreement which would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry and the directors may allot equity securities or sell treasury shares, in pursuance of any such offer or agreement as if the power conferred hereby had not expired.

15. That a general meeting of the company other than an annual general meeting may be called on not less than 14 clear days' notice.

By order of the board
R.E.A. SERVICES LIMITED
Secretary
23 April 2015

Registered office:
First Floor
32 – 36 Great Portland Street
London W1W 8QX

Registered in England and Wales no: 00671099

Notice of annual general meeting
continued

Notes

The sections of the accompanying Directors' report entitled "Results and dividends", "Directors", "Acquisition of company's own shares", "Increase in share capital", "Authorities to allot share capital", "Authority to disapply pre-emption rights", "General meeting notice period" and "Recommendation" contain information regarding, and recommendations by the board of the company as to voting on, resolutions 5 to 7 and resolutions 10 to 15 set out above in this notice of the 2015 annual general meeting of the company (the "2015 Notice").

The company specifies that in order to have the right to attend and vote at the annual general meeting (and also for the purpose of determining how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the company at 6.00 pm on 9 June 2015 or, in the event of any adjournment, at 6.00 pm on the date which is two days before the day of the adjourned meeting. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Only holders of ordinary shares are entitled to attend and vote at the annual general meeting. A holder of ordinary shares may appoint another person as that holder's proxy to exercise all or any of the holder's rights to attend, speak and vote at the annual general meeting. A holder of ordinary shares may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to (a) different share(s) held by the holder. A proxy need not be a member of the company. A form of proxy for the meeting is enclosed. To be valid, forms of proxy and other written instruments appointing a proxy must be received by post or by hand (during normal business hours only) by the company's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU by no later than 10.00 am on 9 June 2015.

Alternatively, appointment of a proxy may be submitted electronically by using either Capita's share portal at www.capitashareportal.com (and so that the appointment is received by the service by no later than 10.00 am on 9 June 2015) or the CREST electronic proxy appointment service as described below. Shareholders who have not already registered for Capita's share portal may do so by registering as a new user at www.capitashareportal.com and giving the investor code shown on the enclosed proxy form (as also shown on their share certificate). Completion of a form of proxy, or other written instrument appointing a proxy, or any appointment of a proxy submitted electronically, will not preclude a holder of ordinary shares from attending and voting in person at the annual general meeting if such holder wishes to do so.

CREST members may register the appointment of a proxy or proxies for the annual general meeting and any adjournment(s) thereof through the CREST electronic proxy appointment service by using the procedures described in the CREST Manual (available via www.euroclear.com/CREST) subject to the company's articles of association. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction regarding a proxy appointment made or given using the CREST service to be valid, the appropriate CREST message (a "CREST proxy instruction") must be properly authenticated in accordance with the specifications of Euroclear UK and Ireland Limited ("Euroclear") and must contain the required information as described in the CREST Manual (available via www.euroclear.com/CREST). The CREST proxy instruction, regardless of whether it constitutes a proxy appointment or an instruction to amend a previous proxy appointment, must, in order to be valid be transmitted so as to be received by the company's registrars (ID: RA10) by 10.00 am on 9 June 2015. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST applications host) from which the company's registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear does not make available special procedures in CREST for particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that such member's CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The rights of members in relation to the appointment of proxies described above do not apply to persons nominated under section 146 of the Companies Act 2006 to enjoy information rights ("nominated persons") but a nominated person may have a right, under an agreement with the member by whom such person was nominated, to be appointed (or to have someone else appointed) as a proxy for the annual general meeting. If a nominated person has no such right or does not wish to exercise it, such person may have a right, under such an agreement, to give instructions to the member as to the exercise of voting rights.

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

Any member attending the annual general meeting has the right to ask questions. The company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the company or the good order of the meeting that the question be answered.

Copies of the executive directors' service agreements and letters setting out the terms and conditions of appointment of non-executive directors are available for inspection at the company's registered office during normal business hours from the date of this 2015 Notice until the close of the annual general meeting (Saturdays, Sundays and public holidays excepted) and will be available for inspection at the place of the annual general meeting for at least 15 minutes prior to and during the meeting.

A copy of this 2015 Notice, and other information required by section 311A of the Companies Act 2006, may be found on the company's website www.rea.co.uk.

Under section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the company to publish on a website (in accordance with section 528 of the Companies Act 2006) a statement setting out any matter that the members propose to raise at the relevant annual general meeting relating to (i) the audit of the company's annual accounts that are to be laid before the annual general meeting (including the auditor's report and the conduct of the audit); or (ii) any circumstance connected with an auditor of the company having ceased to hold office since the last annual general meeting of the company. The company may not require the members requesting any such website publication to pay its expenses in complying with section 527 or section 528 of the Companies Act 2006. Where the company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the company's auditor by not later than the time when it makes the statement available on the website. The business which may be dealt with at the annual general meeting includes any statement that the company has been required under section 527 of the Companies Act 2006 to publish on a website.

As at the date of this 2015 Notice, the issued share capital of the company comprises 35,085,269 ordinary shares, of which 132,500 are held as treasury shares, and 59,420,232 9 per cent cumulative preference shares. Only holders of ordinary shares (and their proxies) are entitled to attend and vote at the annual general meeting. Accordingly, the voting rights attaching to shares of the company exercisable in respect of each of the resolutions to be proposed at the annual general meeting total 34,952,769 as at the date of this 2015 Notice.

Shareholders may not use any electronic address (within the meaning of sub-section 4 of section 333 of the Companies Act 2006) provided in this 2015 Notice (or any other related document including the form of proxy) to communicate with the company for any purposes other than those expressly stated.

Under section 338 and section 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the company (i) to give, to members of the company entitled to receive notice of the annual general meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the company not later than the date 6 clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

This report has been managed by Perivan Financial and printed in the UK by Park Communications.

Park is an EMAS certified company, an Eco-Management and Audit Scheme, designed to improve environmental performance of companies. Its Environmental Management System is certified to ISO 14001.

100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average, 99% of any waste associated with this production will be recycled.

This document is printed on Carbon balanced GalerieArt Matt paper, accredited by the World Land Trust and made with 10% recycled fibre and the remaining 90% sourced from responsibly managed forests, certified in accordance with the Forest Stewardship Council®.

Carbon emissions generated during the manufacture and delivery of this product have been reduced to net zero through a verified carbon offsetting project.

R.E.A. HOLDINGS PLC

R.E.A. Holdings plc
First Floor
32-36 Great Portland Street
London
W1W 8QX

www.rea.co.uk

Registered number
00671099 (England and Wales)