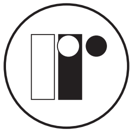

R.E.A. HOLDINGS PLC

Annual Report and Accounts

2015

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.

PBJ - bunding and water gate

Methane capture plant

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Currency

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

Key statistics

	2015	2014	2013	2012
Results ($'000)				
Revenue	90,515	125,865	110,547	124,600
Earnings before interest, tax, depreciation, amortisation and biological gain	15,269	38,797	30,269	38,083
Profit before tax	11,533	23,744	25,216	30,558
Profit for the year	4,902	21,981	12,672	17,703
(Loss) / profit attributable to ordinary shareholders	(3,964)	14,153	5,457	11,342
Cash generated by operations	37,286	33,053	19,358	55,110
Returns per ordinary share				
(Loss) / earnings (US cents)	(11.2)	40.3	15.8	33.9
Dividend (pence)	–	7.75	7.25	7.0
Allocated area (hectares)				
Mature oil palm	29,367	28,275	27,102	26,688
Immature oil palm	7,730	6,339	6,960	4,819
	37,097	34,614	34,062	31,507
Titled balance	33,487	35,970	36,522	39,077
	70,584	70,584	70,584	70,584
Allocations	37,631	37,631	30,043	31,601
Total	108,215	108,215	100,627	102,185
Production (tonnes)				
Group FFB	609,389	631,728	578,785	597,722
Third party FFB	139,276	149,002	99,348	64,014
Total	748,665	780,730	678,133	661,736
CPO	163,880	169,466	147,649	151,516
Palm kernels	34,354	35,764	30,741	30,734
CPKO	12,703	12,596	11,393	11,549
CPO extraction rate *	22.2%	21.9%	21.8%	22.9%
Yields (tonnes per mature hectare)				
FFB	20.8	22.3	21.4	22.4
CPO	4.7	4.8	4.6	5.1
CPKO	0.4	0.4	0.4	0.4
Average exchange rates				
Indonesian rupiah to US dollar	13,377	11,908	10,494	9,392
US dollar to pound sterling	1.53	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 processed.

Highlights

Financial

- Revenues of $90.5 million (2014: $125.9 million)
- Operating profit of $17.2 million (2014: $32.1 million), reflecting lower revenues partly offset by significant cost savings
- Profit before tax of $11.5 million (2014: $23.7 million)
- Net new investment of $34.8 million (2014: $38.2 million)
- 4.2 million preference shares issued by way of a cash placing raised $7.8 million net of expenses
- 1.8 million ordinary shares issued by way of a cash placing raised $6.8 million net of expenses
- Redemption date of £26.2 million nominal of 2015/2017 sterling notes extended to 2020, by way of an exchange offer and placing to raise $4.1 million net of expenses
- 2 new bank facilities arranged in Indonesia totalling $22.4 million

Agricultural operations

- Crop of fresh fruit bunches ("FFB") 609,389 tonnes (2014: 631,728 tonnes) and crude palm oil ("CPO") 163,880 tonnes (2014: 169,466 tonnes)
- Steady and continuous improvement in CPO extraction rates and now averaging close to 24 per cent
- Over 4,200 hectares of new land developed of which over 2,200 hectares planted
- Completion of the perimeter bunding and water gates to control flooding at PBJ; installation of water pumping equipment now being installed
- Major refurbishment of 3 out of 4 boilers in the older mills now complete ensuring resilience and enhancing both efficiency and capacity
- New jetty constructed at Sungai Mariam
- Agreement finalised to swap land held by PT Prasetia Utama in exchange for land currently held by PT Sasana Yudha Bhakti with completion expected in 2016

Sustainability

- Second sustainability report published highlighting success in meeting the group's targets since 2013
- Pioneering arrangement for the sale of renewable energy generated from the methane capture plants to distribute to 24 local villages, with 34% out of a total of 13,000 village households already connected
- Completion of 2 new estate schools
- Completion of 3 village water treatment community development projects
- Mapping project completed to ensure traceability and optimise the quality of smallholder fruit maximising yields and profitability and meeting international standards
- 3 regional awards for corporate and social responsibility by the plantation sector

Officers and advisers

Directors

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

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London EC2A 2HA

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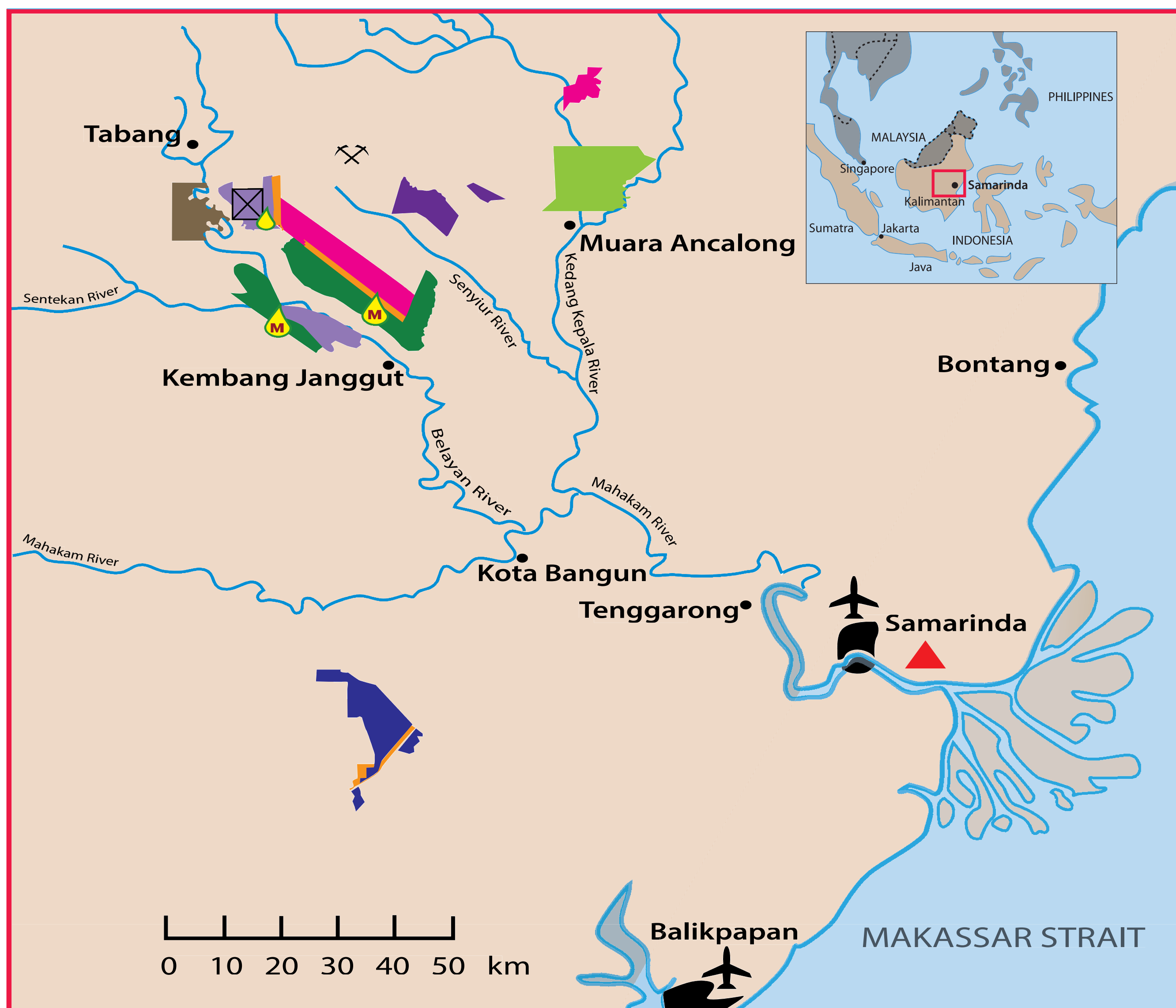
Registrars and transfer office

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

I would like to take this opportunity to introduce myself as the new chairman of REA. I took over as chairman at the beginning of 2016 and, at the same time, Mark Parry succeeded John Oakley as Managing Director. Both Mark and I have had a long association with the company: I have served on the board as the senior independent director for seven years; Mark joined REA in May 2011 as the group's regional director based in Singapore.

FFB yields and the CPO price have presented a number of challenges this year. However, REA has made good strides in identifying causes of the FFB yield reduction and these are currently being addressed. The group has also continued its drive to reduce costs and to improve extraction rates, making a number of operational improvements in 2015.

Production levels in 2015 were lower than in 2014. The volume of the group's fresh fruit bunches ("FFB") harvested amounted to some 609,000 tonnes compared with 632,000 tonnes in 2014, while smallholder FFB processed by the group amounted to some 139,000 tonnes, compared with 149,000 tonnes in 2014.

Unusual weather patterns and social issues with surrounding communities (particularly in 2011 and 2012) have had a negative impact on FFB yields in recent years. Moreover, it is clear that the El Niño weather phenomenon experienced to an extent in both 2014 and 2015 is resulting in reduced oil palm yields in many parts of Malaysia and Indonesia. The group now believes that weather and relations with the communities surrounding its estates, which are now much improved, have not been the only causes of recent lower yields. The group's newly installed information systems have permitted more detailed analysis of estate block results than was previously possible and, based on these, the group has concluded that certain areas, particularly those that are hilly or where soils are poor, will benefit from the application of increased fertiliser dosages. It is expected that, over time, this will result in an improvement in crop levels.

Crude palm oil ("CPO") production amounted to some 164,000 tonnes in 2015, compared with 169,000 tonnes in 2014. This reflected the reduced crop and lower purchases of fruit from smallholders as noted above, partially offset by improving extraction rates in the oil mills.

The price of CPO per tonne, CIF Rotterdam, dropped to a low of $480 per tonne in late August and averaged $612 per tonne for the year compared with $828 per tonne in 2014. This price weakness reflected the general collapse in petroleum prices which in turn led to a decline in the consumption of CPO for biodiesel. Prices subsequently recovered to $560 per tonne at the end of 2015 and are currently standing at $745 per tonne. The impact of the lower prices was exacerbated by a new levy of $50 per tonne on CPO exports introduced in July 2015. The average price realised by the group for its own production in 2015 was $485 per tonne, compared with $665 in 2014, reflecting in part regional price differentials which were greater than usual.

Lower production and the weakness of CPO prices contributed to falls in both revenues and gross profits for 2015 to, respectively, $90.5 million (2014: $125.9) and $17.0 million ($46.3 million). Profit before tax amounted to $11.5 million (2014: $23.7 million), including a $13.1 million gain arising from changes in the fair value of biological assets (2014: $3.6 million).

The drive to reduce costs and increase operating efficiencies yielded positive results in 2015 and these initiatives are continuing in 2016. The total number of workers on the estates was reduced significantly from 9,800 at the beginning of the year to approximately 7,400 at the year end primarily reflecting a reduction in the number of temporary employees. Refurbishment of three boilers in the two older mills was completed during the year and refurbishment of the fourth boiler will be completed shortly. As a consequence, CPO extraction rates are steadily being restored to historic levels, achieving 23.5 per cent by the year end, and currently averaging close to 24.0 per cent. Installation of a second boiler at the group's newest mill at Satria is expected to be completed in 2017 to increase processing capacity in this mill to 80 tonnes per hour.

Good progress was made during the year with development of the group's newer land areas held by PT Putra Bongan Jaya ("PBJ") and PT Cipta Davia Mandiri ("CDM"). In excess of 4,200 hectares were cleared and some 2,200 hectares planted during the year. Planting of cleared areas has continued at a good pace in the first few months of 2016 and represents a significant improvement compared with the progress of recent years. In PBJ, construction of the perimeter bunding and installation of water pumping equipment to control flooding during the wetter months of the year is now almost complete.

The group also made progress in finalising the legal, financial and management agreements needed for the smallholder cooperatives and in completing the field surveys necessary for the development of the plasma schemes in compliance with the group's policy on responsible development of new land, including high conservation value and carbon stock assessments.

As previously reported, the company's pioneering arrangement with the Indonesian National Electricity company ("PLN") for the supply of renewable energy generated by the group's methane capture facilities to local villages came to fruition in April 2015. The majority of the 24 villages and sub villages are now connected bringing electricity supplies to some

13,000 households. Revenue from electricity sales amounted to some $233,000 in 2015 and, with the rate of uptake accelerating each month, amounted to some $133,000 in the first three months of 2016.

The group is working towards concluding negotiations with a third party in respect of the stone quarry. 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.

Looking ahead, the outlook for the CPO price is encouraging, with petroleum oil prices making some recovery and expected growth in general demand for CPO, supported by the recent increase in Indonesia in the mandated usage for biodiesel from 15 to 20 per cent. By contrast, the first quarter of the year has seen lower FFB production and yields compared with the corresponding period in 2015. Whilst the El Niño weather event is likely to be a contributory factor, the group is working to address the recent shortfall with more rigorous harvesting routines and by adapting the current fertiliser regime, so that over a period crop levels should start to improve. Combined with the recent expansion of plantings and steady improvements in extraction rates, the operations are well placed to benefit from any further strengthening of the CPO price.

In view of the financial performance in 2015, the directors have not recommended the payment of any dividend on the ordinary shares in respect of 2015.

Considerable time and effort was devoted in 2015 to addressing the group's funding profile. The group issued and placed for cash both ordinary and preference shares, extended the maturity of the sterling loan notes, negotiated and drew two new bank facilities in Indonesia and settled a long-term sterling-dollar swap. However, the shortening maturity profile of a significant proportion of the group's borrowings remains a concern with some $84 million of term bank loans and notes repayable during 2016 and 2017 (of which some $15 million will fall due in 2016) and a further $35 million of borrowings provided under working capital lines that revolve annually, although the directors have no reason to believe that these will not be renewed.

To address this concern, the group is pursuing several initiatives. Negotiations are at an advanced stage with the group's Indonesian bankers with a view to confirming renewal of the working capital lines and amending term bank loans to extend their tenor and reduce early repayments. At the same time, the group has initiated discussions on refinancing the notes maturing in 2017.

However, the group also would clearly benefit from permanent capital. Over the last year, exploratory talks have been held with a considerable number of potential trade investors and these have resulted in current active discussions with a limited shortlist of interested parties primarily directed at securing a strategic third party investment in the company's principal operating subsidiary in Indonesia, PT REA Kaltim Plantations. Should funding be required pending completion of these discussions, the group will seek to place for cash a limited number of new ordinary shares and the necessary authorities to permit further issues are being sought at the company's forthcoming annual general meeting.

I would like to conclude my report by thanking both Richard Robinow, my predecessor, and John Oakley, the company's managing director until the end of 2015, for all their work and efforts in building the company from its first plantings back in 1994 into what it is today. On behalf of the board of directors I would like to express our gratitude. The company is fortunate that both Richard and John have agreed to remain on the board as non-executive directors and to continue to assist the company, in particular in relation to strategic, financial and agronomical matters.

There is much to take encouragement from for the year ahead. Both Mark and I look forward to contributing towards the company's success in the coming months and years.

DAVID J BLACKETT
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 these activities, 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 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 good returns can be achieved.

The knowledge and expertise gained from the group's long involvement in the plantation industry represent significant intangible resources that underpin the group's credibility. This is important when sourcing capital, working closely with the Indonesian authorities in relation to project development and recruiting a high calibre experienced management team familiar with Indonesian regulatory processes and social customs and committed to sustainable practices. Other resources important to the group are its established base of operations, large, and uniquely near contiguous, land concessions, 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 social and economic progress in the localities of the group's activities, while maintaining high standards of sustainability. Achieving these objectives is dependent upon, among other things, the group's ability to generate the operating profits necessary to finance such achievement.

CPO and CPKO are primary commodities that, as such, are sold at prices 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, the group will have greater resilience in any downturn in prices 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 while utilising the group's existing agricultural management capacity to manage the resultant larger business. Secondly, the group strives continually to improve the productivity and efficiency of its established agricultural operations.

The stone and coal mining interests represent group diversifications. The directors believe that quarrying of the company's sizeable stone deposit will improve the durability of infrastructure in its agricultural operations and could also provide useful additional revenue from the sale of stone to third parties. Following a decision in 2012 to limit further capital committed to the coal mining interests, the group's strategy for these interests is to maximise the recovery of capital already committed.

The group's financial strategy is 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 2015 represented some 96 per cent of the group's total assets and which, in 2015, contributed all of the group's revenue, 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.

An 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 not under majority local ownership, should not impact the group in the foreseeable future as the group has significant headroom for development within this limit. However, the directors still believe that there would be significant advantages to an Indonesian listing of the group's principal operating subsidiary, PT REA Kaltim Plantations ("REA Kaltim") on the Indonesian Stock Exchange in Jakarta combined with a public offering of a minority shareholding in 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.

The group continues to work towards placing itself in a position in which it is ready to proceed with the planned listing of REA Kaltim. However, current interest in new issues on the Indonesian Stock Exchange is limited so that it is unlikely that this can be successfully undertaken in the near future. Accordingly the group is actively exploring the possibility of a transaction with a strategic investor. Ideally, such a transaction will comprise a subscription of new shares in REA Kaltim with a view to such investment preceding the planned public offering. The group is currently in active discussions with several interested parties.

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 3.3 per cent to 202 million tonnes in the year to 30 September 2015 (of which vegetable oils represented 149.8 million tonnes). The increased consumption was reflected in increased world production during the same period of 201.7 million tonnes with vegetable oils accounting for 149.9 million tonnes and CPO 60.8 million tonnes (some 30 per cent of the total).

Total vegetable oil production is currently forecast to rise by 1.3 per cent in 2016 from 176.6 million tonnes to 178.3 million tonnes, driven principally by increased production of soybean oil in South America encouraged by weakening currencies in the region, with total CPO production accounting for approximately 62 million tonnes 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.

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 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.

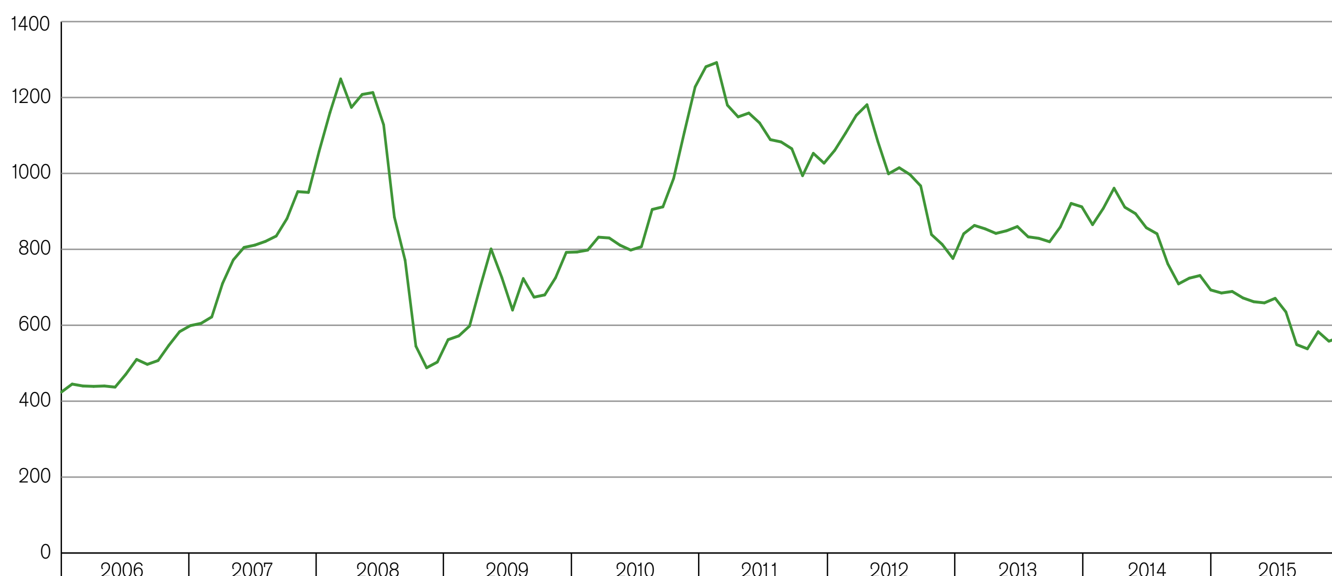
In recent years, biofuel has become an important factor in the vegetable oil markets. According to Oil World, biofuel production in the year to 30 September 2015 accounted for some 13 per cent of global vegetable oil consumption. There has been a widespread view that vegetable oil and petroleum oil prices move in tandem and that petroleum oil prices have created a floor for vegetable oil prices at the level at which vegetable oils can be converted to biofuel at an overall cost (net of any available subsidies) that is competitive with the prevailing price of petroleum oil. Certainly, the sharp downturn in petroleum oil prices during 2015 was followed by a similar downturn in CPO prices.

Weakness in CPO prices during 2015 can also be attributed to plentiful supplies of soya oil with excellent soya crops in both the US and Brazil exacerbated in August and September by heightened concern over the Chinese economy.

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 $424 per tonne. The monthly average price over the ten years as a whole has been $822 per tonne.

The CPO price, CIF Rotterdam, started 2015 at $700 per tonne and traded in a narrow range for much of the first half of the year until it weakened sharply in late August to $480 per tonne. There was some recovery from September onwards with the price reaching $560 per tonne by the end of 2015. The recovery has continued into 2016 and the price currently stands at $745 per tonne.

The recovery in CPO prices in recent months provides some evidence of decoupling between petroleum oil and vegetable oil prices. This has perhaps been driven by continuing growth in food consumption of vegetable oils and the fact that not all conversion of vegetable oils to biofuels is dependent upon market factors because an increasing element of biofuel use reflects government mandates requiring that a certain percentage of all fuel be made from biofuel. In the US and several other countries, that percentage will increase in 2016.



In Indonesia, in particular, a levy on exports of CPO of $50 per tonne introduced in July 2015 is being used to subsidise biodiesel production. Concurrently with the introduction of this levy, the Indonesian government announced an increase in the mandatory biodiesel content in transport diesel from 10 per cent to 15 per cent. Subsequently for 2016, this has been increased to 20 per cent. It appears that, whilst taking time to be fully implemented, this mandate is now beginning to have a significant impact on Indonesian biodiesel consumption.

An after effect of the El Niño weather phenomenon experienced in 2015 is that CPO production in Indonesia and Malaysia in 2016 is now expected to be lower than it would otherwise have been. A further scaling back may also be expected as some growers have reduced fertiliser applications in response to reduced revenues. Reduced production is already resulting in lower levels of CPO stocks at origin.

The Indonesian context

The economy in Indonesia, along with the whole of South East Asia and much of the rest of the world, was adversely affected during 2015 by the slowdown in China, growing by only 6.9 per cent, the slowest rate for 25 years. Yet, despite current poor external demand for commodities, delayed spending on infrastructure and tight monetary policy, Indonesian GDP is forecast to grow on average by 5.5 per cent per annum between 2016 and 2020, materially ahead of the growth estimate for global GDP of 2.6 to 2.8 per cent for 2016-17.

The Indonesian rupiah saw a marked depreciation from Rp12,440 = $1 at the start of 2015 to a low of Rp14,728 = $1 at the end of September 2015 but subsequently rallied to Rp13,795 = $1 by the end of the year. The currency continued to recover into the early part of 2016 but there is uncertainty as to whether this can be sustained against a background of low GDP growth and flat commodity prices. The government of President Joko Widodo ("Jokowi") is making slow progress with delivering on election pledges of reduced unemployment, increased infrastructure investment and structural reform.

A consistently high level of security, in place in Jakarta for many years, meant that the police were able to respond swiftly to a recent terrorist attack, reducing the potential scale and impact of the damage and, to an extent, helping to ease concerns about political uncertainty in the wake of this recent incident.

Introduction and strategic environment

continued

In East Kalimantan, where the group's operations are based, continued low coal prices have led to many coal companies closing down with associated large-scale redundancies. The fall in CPO prices has also resulted in plantation companies reducing headcount in order to cut costs. The East Kalimantan authorities have responded by increasing the minimum wage by a mere 0.4 per cent in 2016, following a number of years of increases that were substantially higher than the rate of inflation.

Despite the economic challenges facing the Kutai Kartanegara region in East Kalimantan, the regency head ("Bupati") has pressed ahead with important infrastructure projects. The new Tenggarong Bridge over the Mahakam River, built to replace the bridge that collapsed three years ago, opened in December 2015 and road access to the longstanding bridge over the Mahakam River at Kota Bangun was eventually completed in November so that it is now possible to drive direct from Balikpapan or Samarinda to the group's mature estates.

Following a change in the electoral system during 2014, all Bupati elections were held at the same time in 2015, on 9 December. The majority of the elections were completed without dispute although there are still some appeals by contesting candidates that are being considered by the constitutional courts. In Kutai Kartanegara, the incumbent was re-elected with a resounding majority, signalling continued stability for the next five-year term in the location of the group's mature estates. The group's principal and oldest subsidiary company has good relations with the Kutai Kartanegara Bupati, who recognises that the group provides significant local employment, local contracts and ancillary community development benefits.

In Kutai Barat, a new Bupati was elected in December 2015 without incident after the previous incumbent completed his maximum two terms. In Kutai Timur, an appeal is being considered but, in any event, a new Bupati will be elected in due course. These new Bupatis, have the potential to hold office for ten years and the group companies that own immature estates in the regions overseen by them will aim to establish good relations with them similar to those in Kutai Kartanegara.

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 export levy of $50 per tonne affects all export sales of CPO and CPKO regardless of selling price. As the levy is offset against export duties payable under the established sliding scale and the starting rate of export duty 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.

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 2015 with, where available, comparative figures for 2014 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 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

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 ("PBJ2") acquired in 2012 and with additional land allocations will, upon completion of necessary legal formalities, be owned as to 95 per cent by the group and as to the balance by a local investor. As noted under "Land areas" below, an agreement finalised in 2015 will result in the swap of certain land areas owned by the group for shares in PT Prasetia Utama ("PU") which will be similarly owned.

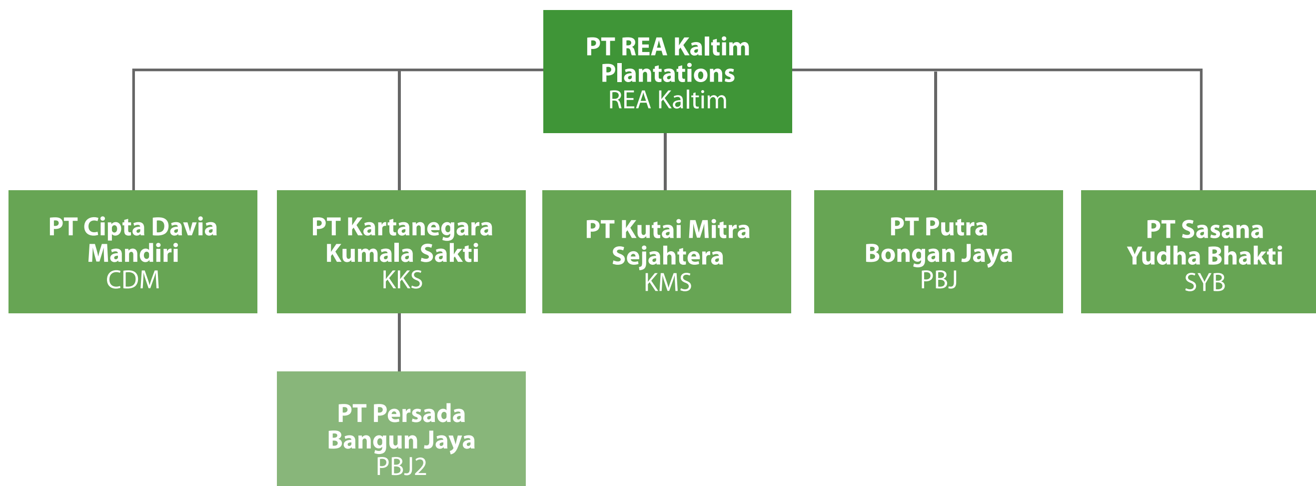
A diagram showing the structure of the REA Kaltim sub-group is set out below.

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 Sasana Yudha Bhakti ("SYB") area and one Kartanegara Kumula Sakti ("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 to 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.

Until the end of 2015, the REA Kaltim, SYB, KKS, CDM and KMS areas were most readily accessed by river. However, construction was completed towards the end of 2015 of a new road between Tabang (a town to the north of the REA Kaltim estates) and Kota Bangun, that passes through the REA Kaltim estates and connects via a long-standing bridge over the Mahakam River with an existing road from Kota Bangun to Samarinda (the capital of East Kalimantan). This means that, for the first time since the inception of the REA Kaltim business, the group's estates can now be accessed by road from Samarinda, providing alternatives for transport (particularly when dry weather periods affect river access to the estates). A replacement for the bridge at Tenggarong, that collapsed some three years ago, was opened in December 2015 and has reduced road transfer times between the estates and Balikpapan to less than six hours. 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.

REA Kaltim sub-group



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.

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 2015, the overall area of the group's fully titled agricultural land remained at 70,584 hectares. In addition, at 31 December 2015, the group held land allocations subject to completion of titling totalling 37,631 hectares. The areas still subject to titling include 7,714 hectares that were acquired during 2014 and for which the process of obtaining full title has been initiated. These additional areas are adjacent to existing titled land areas so that when they are eventually fully planted, the resultant planted areas will form larger and therefore more efficient contiguous units.

Certain of the land areas held by SYB overlap with mineral rights held by an Indonesian third party company, PT Ade Putra Tanrajeng ("APT"). During 2015, agreement was finalised pursuant to a land swap agreement made in 2011 between SYB and APT whereby 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 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. Survey work is in progress to identify the areas to be designated for conservation and completion of the swap arrangements is now expected to occur during 2016.

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.

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 undeveloped land holdings in addition to monitoring its

compliance with the 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 2015 amounted in total to 37,097 hectares. Of this total, mature plantings comprised 29,367 hectares having a weighted average age of 13 years. A further 2,140 hectares planted in 2012 were scheduled to come to maturity at the start of 2016.

The breakdown by planting year of the total of 37,097 planted hectares (which exclude 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	648
2010	1,405
2011	860
	29,367
Immature areas	
2012	2,140
2013	2,555
2014	784
2015	2,251
	37,097

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. A total of 232 hectares of flood prone areas forming part of the 2009 and 2010 plantings at CDM that were previously abandoned are now expected to be recovered. This may involve construction of bunding, subject to confirmation that such bunding will not affect the ecology in the wetlands. These areas are now included in the above table.

There remain some additional areas for planting out in KMS, where some 4,500 hectares have been planted to date. When fully planted, hectarage should amount to around 4,800 hectares, of which some 800 hectares will be transferred to village cooperatives in due course.

Good progress was made during 2015 with the development of the new land areas held by PBJ and CDM, following satisfaction, where required, of legislation enacted by the Ministry of Forestry late in 2014 that 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. The first phase of construction of the perimeter bunding required to control flooding in the lower lying areas of PBJ was completed on target in the middle of the year and the second phase to shape and compact the bund was completed by the year end together with construction of three water gates. By the end of 2015, in excess of 4,200 hectares were cleared across PBJ and CDM with over 2,200 hectares of this planted.

Whilst clearing will continue into 2016 only to the extent of existing contractual commitments or that the group is able to raise additional equity finance to fund further development, if such funding is available the group would be well placed to clear a further 4,000 hectares during 2016 with planting out of all cleared areas following steadily behind the clearing programme. In any event, the group expects that by 30 June 2016, the total planted area will exceed 40,000 hectares.

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.

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 and in due course can be expanded to double its capacity to 80 tonnes per hour. So as to ensure greater resilience in the operation of the third mill and to provide the steam capacity required to double its capacity, works commenced in 2015 on the installation of a second boiler in the third mill. These will be completed during 2016 but, following a careful review of overall mill capacity and likely utilisation during 2016, it was decided to postpone until 2017 installation of the other additional equipment that is needed to double the capacity of the mill.

Improvements to overcome a number of engineering and operational deficiencies that had been identified in the mills during 2014 were substantially completed during 2015. These included refurbishment of three out of the four boilers at the group's two older mills. Refurbishment of the fourth boiler is expected to be completed during 2016. This will give sufficient resilience in both of these mills to allow for routine boiler maintenance while maintaining the design throughputs. A programme of regular upgrading and maintenance work in the mills initiated in 2015, including enhanced security systems and flow meters to monitor throughput, is continuing through 2016. As noted under "Crops and extraction rates" below, extraction rates have recovered to higher levels and the group expects these levels to be maintained going forward.

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. Early fruit from PBJ is being sent for processing in the REA Kaltim mills but because of the distance between PBJ and the group's other planted areas, this arrangement will become sub-optimal as the PBJ production increases. It is therefore planned that, as FFB production from PBJ grows, a further mill will be built on PBJ. 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.

A fleet of barges is used to transport CPO and CPKO, in conjunction with tank storage adjacent to the oil mills and a transhipment terminal owned by the group downstream of the port of Samarinda. During 2015, the terminal jetty was refurbished and extended to ensure that it can accommodate increased traffic flow as the group expands. The core barge fleet was sold during 2015 to a third party and leased back under a long term lease arrangement to ensure compliance with current Indonesian cabotage regulations. The fleet, which comprises a number of small vessels, ranging between 750 and 2,000 tonnes, is used for transporting CPO and CPKO from the estates to the transhipment terminal for bulking and loading to buyers' own vessels. In addition, the group maintains a time charter over a 4,000 tonne barge and a 2,400 tonne barge, both of which are equipped for sea voyages to make deliveries to customers in other parts of Indonesia and East Malaysia. On occasions, the group also spot charters additional barges for 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 more volatile and CPO and CPKO has to be transferred by road from the mills to a point some 70 kilometres downstream at Pendamaran where year round loading of barges of up to 2,400 tonnes is possible and the group has now established a permanent loading facility on a site acquired some years ago. The group maintains its own fleet of trucks for this purpose. The additional resilience provided by this alternative route from the estates to Pendamaran ensured that the group was able to continue to evacuate all CPO and CPKO promptly during the extended dry periods that were experienced during 2015.

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 delta 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. In due course, a fifth mill at PBJ will have direct access to the Mahakam and will follow the same route along the Mahakam as CPO and CPKO from the group's existing mills.

Agricultural operations
continued

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 2015, together with comparative figures for 2014:

FFB crops (tonnes)	2015	2014
Group	609,389	631,728
External purchases	139,276	149,002
Total	748,665	780,730
Production (tonnes)		
CPO	163,880	169,466
Palm kernels	34,354	35,764
CPKO	12,703	12,596
Extraction rates (percentage)		
CPO	22.2	21.9
Palm kernels	4.7	4.6
CPKO	35.0	38.1
Rainfall (mm)		
Average across the estates	2,141	2,606

An unusually dry period from July to October 2015, combined with a knock-on effect from the climatic conditions in 2014, resulted in generally lower oil palm production throughout East Kalimantan and East Malaysia during 2015. Rainfall was consistently below historic monthly averages and substantially below the average of 3,454 mm for the preceding nine years. This shortfall is attributed to an El Niño weather phenomenon and it remains to be seen whether moisture stress will affect the overall crop in 2016. However, notwithstanding the dry period, much of the shortfall was attributable to the first half of 2015 and the latter months of the year saw some recovery in crop levels.

Recent refurbishment and a regular programme of maintenance in the mills, combined with a drive to improve the quality of third party FFB from smallholders and other estates in the vicinity of the group's estates, is contributing to a steady improvement in extraction rates, with the CPO extraction rate currently averaging close to 24 per cent. Third party FFB continues to provide additional throughput and revenue.

The FFB crop for the period from the beginning of 2016 to the end of March 2016 amounted to 124,475 tonnes, against 134,064 tonnes for the same period in 2015. Whilst it is widely acknowledged that the El Niño weather phenomenon in 2015 has adversely impacted 2016 CPO production in South East Asia, the group has been concerned as to whether this is the sole reason for the lower level of crops that it is currently achieving. The group's new information systems have facilitated detailed comparison of crop performance by individual block against levels of fertiliser applied. Although these levels are set on the basis of independent agronomic advice based on foliar analysis, there is strong evidence that areas with poor soils or subject to greater fertiliser run off (such as hill tops) will benefit from additional fertiliser. The group has therefore decided to increase dosages and is confident that, over a period, this will result in improvements to crop levels.

Revenues

Most all of the group's CPO and all CPKO is 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. CPO and CPKO are widely traded and the group does not therefore see the concentration of its sales on three customers as a significant risk. Were there to be problems with any one customer, the group could readily arrange for sales to be made further afield and, whilst this could result in additional delivery costs, the overall impact would not be material.

There were no sales of ISSC certified CPO during 2015 as the fall in the price of petroleum oil led to a decline in the consumption of CPO for biodiesel. However, the group sold 31,526 Greenpalm certificates in respect of RSPO certified CPO and CPKO (20,000 CPO certificates at $1.50 each and 11,526 CPKO certificates at $44.00 each) using the RSPO book and claim system as further detailed under "Certification" in "Sustainability" below. There has been a small revival in the ISCC market since the beginning of 2016 and 20,000 tonnes of ISCC certified CPO were sold in the first quarter at a premium of $7.50 per tonne, with further sales expected to be made in the coming months.

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 2015 and the group currently has no sales outstanding on this basis.

The average prices per tonne realised by the group in respect of 2015 sales of CPO and CPKO, adjusted to FOB, Samarinda, and net of export duty were, respectively, $485 (2014: $665) and $744 (2014: $951). The group's revenues and cash flow were adversely impacted both by the overall level of 2015 crops and by general weakness in the CPO price throughout the year. In addition, the impact of the lower prices realisable for the group's CPO production was exacerbated by an export levy of $50 per tonne payable since mid-July 2015 and reflected in sales for local delivery as local and export sales are well arbitraged.

Operating efficiency

The group's 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.

An additional three megawatts of generating capacity are dedicated to PLN, the Indonesian state electricity company, to use in supplying power to 24 villages and sub-villages surrounding the group's estates by way of a local grid. Following finalisation of the related licences and an inaugural ceremony in April 2015, electricity is now being distributed to 20 of the agreed villages, with prepay meters installed by PLN in over a third of all village houses. Payment for the power so utilised is made by PLN to the company and the district power company, Perusahaan Daerah Kelistrikan Dan Sumber Daya Energi Kabupaten Kutai Kartanegara ("Perusda"), at fixed rates determined by Indonesian state regulations. The rate of uptake is growing every month and, as further villages are connected and the installed number of prepay meters increases, power offtake from the group is projected to increase. Revenue from electricity sales amounted to some $233,000 in the first eight months to December 2015 and some $133,000 in the first three months of 2016. PLN may, in due course, be able to increase its power capacity requirement to eight megawatts.

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 explore opportunities for cost reduction from the use of surplus methane, such as conversion of the group's 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. The area in which compost was substituted for inorganic fertiliser continued to increase during 2015.

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 recent initiatives to achieve further economies were extended during 2015 including 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).

The group's employment costs represent about one third of the cost of sales attributable to the group's agricultural operations. Following substantial above inflation increases in the minimum wage in East Kalimantan in recent years, minimum wages are being held more or less flat in 2016. Whilst the group continues to maintain the differentials for those of the group's employees paid at a level above the minimum wage and must ensure that the group's wages remain competitive with the market, the absence of an increase in the minimum wage, coupled with a significant reduction in the number of temporary employees during 2015, should lead to a helpful reduction in costs in 2016. The group is continuing to seek labour efficiencies wherever possible.

Agricultural operations
continued

Implementation of the first phase of the new information system, in which the group has been investing for several years and which integrates the recording and reporting of operational and accounting information, was completed during 2015. By providing greater insight into estate activities than has hitherto been possible, the system is facilitating the identification of potential savings and efficiencies.

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 stone concession comprises a substantial deposit of high grade basalt stone and is located close to the group's agricultural operations. 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. The group's stone concession is therefore managed in conjunction with the group's coal interests 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 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.

Recent changes 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 concession holding companies have not been consolidated, therefore, although the group is confident that such conditions could over time be successfully renegotiated without material loss to the group. 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 quarrying and crushing operation on the group's stone concession was obtained in 2014. 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 continuing to seek third party financial involvement to underpin the investment needed to upgrade the access road to the group's stone concession which will be a necessary preliminary to commencing extraction operations at the concession. Discussions with one potentially interested party are continuing.

Following a decision by the directors in 2012 to limit further capital commitments to the coal operations and to concentrate the group's efforts on maximising recoveries from the existing coal concessions and minimising related costs, coal activities were suspended in 2014.

A project agreement signed in 2013 with a third party relating to the development and operation of the Kota Bangun concession, remains in place. Continuing weakness in international coal prices has had negative consequences for these arrangements but mining operations could be resumed when coal prices recover.

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.

KMS - loading ramp

New jetty at Sungai Mariam tank storage facility

Muai village clean water project

Sustainability

Transparency

The group is committed to operating in a responsible and transparent manner. This commitment is underscored by the group ranking 7th out of 50 palm oil companies by the Zoological Society of London's ("ZSL") Sustainable Palm Oil Transparency Toolkit ("SPOTT") in November 2015. The SPOTT assessment, which is based solely on publicly available information, is designed to score palm oil companies on their level of transparency and commitment to sustainability. Topics covered by the assessment include progress with achieving Roundtable on Sustainable Palm Oil ("RSPO") certification, availability of information regarding the location and size of operations, supply chain traceability and environmental policies and management plans.

The introduction of a biennial sustainability report has been central to the group's ability to provide stakeholders with detailed and quantitative information about the group's environmental and social performance. The report allows stakeholders to monitor the group's progress and to hold the group accountable for meeting its sustainability commitments. In addition, using the internationally recognised Global Reporting Initiative ("GRI") standard to produce this report means that the group's sustainability performance can be compared to that of other leading palm oil companies.

In June 2015, the group published its second sustainability report, which describes the group's performance in 2013 and 2014. The report is available for download from the group's website: www.rea.co.uk and contains more comprehensive information on all of the environmental and socio-economic issues covered by this "Sustainability" section of the annual report.

Policies

Early in 2015 the group adopted a new policy framework. This framework comprises five policies designed to embrace both the group's sustainability standards and applicable regulations. Together the policies reinforce the group's commitment to well-established best practices, such as zero burning, and are a response to the rapidly evolving expectations of stakeholders by making commitments to a range of issues, such as avoiding new planting on peat and reporting on GHG emissions, including emissions from land use change.

Certification

The group believes that certification is important because it provides third party verification that international and national sustainability standards are being implemented throughout its operations. The group therefore remains committed to ensuring that all of its plantations and mills achieve and maintain RSPO and Indonesian Sustainable Palm Oil ("ISPO") certification.

The group has been a member of the RSPO since 2007 and during this period has actively contributed to strengthening the RSPO standard and improving its implementation. This has included piloting the RSPO's Greenhouse Gas accounting tool and participating in the task force established to develop a High Conservation Value ("HCV") Compensation Procedure, which was finalised in November 2015.

To date, the group has obtained RSPO certification for its two longest established mills and the majority of their supply base. Over the course of 2015, the group has been working to implement the requirements of the new RSPO standard at its third, newest mill (Satria oil mill) and the estates that supply it. Whilst significant progress has been made, the need to obtain approval for an HCV compensation plan for 20 hectares of land, which were cleared prior to conducting an HCV assessment in one of the estates and which supply this mill, before the RSPO audit can be undertaken has meant that the original target date of December 2015 could not be met. The group is now in the process of developing the HCV compensation plan, which should be completed during the first half of 2016. Once approved, the mill operations will be subject to an RSPO audit. The RSPO new plantings procedure is completed prior to undertaking any land clearing in the group's new development areas.

Although the Satria oil mill has not yet achieved RSPO certification, it was awarded International Sustainability and Carbon Certification ("ISCC") in 2015. Obtaining ISCC certification allows the group to sell the CPO produced from ISCC certified mills for the production of biodiesel that meets the requirements of the European Union Renewable Energy Directive ("EU RED"). Further, all of the group's three mills completed the ISPO audit process in 2015.

Further information about the requirements of the RSPO, ISCC and ISPO standards can be found in the group's sustainability report.

In 2015, 72 per cent of the CPO (116,528 tonnes) and 42 per cent of the CPKO (5,274 tonnes) produced by the group was RSPO certified. Of the CPO that was RSPO certified, 105,199 tonnes was also ISCC certified. 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. However, the RSPO has developed a 'Book and Claim' system that 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 2015, the group sold 20,000 CPO and 11,526 CPKO Greenpalm certificates.

Employees

At the end of 2015, the group's workforce numbered some 7,400, compared to 9,800 at the end of 2014. The approximately 25 per cent reduction in headcount reflects a significant reduction in temporary employees and is a consequence of the drive to improve productivity and to achieve cost savings and efficiencies during 2015.

A key contributor to increased efficiency has been the continued roll out of the group's new information system, the REA Kaltim Plantation Management System ("RKPMS"). The introduction of this system means that all human resources and operational data is now managed centrally and can be made available to the management team to support decision making in near real-time.

To improve productivity, the group aims to ensure that employees at every level within the organisation are rewarded based on their performance. Performance from assistant to director level is evaluated annually in relation to a pre-agreed set of quantitative and objective key performance indicators ("KPIs"). So that every employee is focused on contributing to optimising the performance of the group as a whole, for the first time in 2015 30 per cent of each employee's score was linked to the group KPIs such as FFB harvested, CPO extraction rates and cost per tonne of group FFB. Performance related pay schemes for both the mills and transport department has also been introduced to promote efficiency and motivate staff. In addition to receiving the minimum wage set by the government, non-staff mill workers now have the opportunity to earn a bonus determined by the quarterly performance of each mill against a range of production and management parameters.

Complementary to efforts to motivate performance has been a drive to reduce overtime, particularly in the mills and transport departments, where in the past overtime has been perceived by some as an entitlement unrelated to hours worked and has led to incidents of overtime fraud. Measures introduced to combat this include the installation of fingerprinting technology in the mills and offices. Tighter controls on overtime are essential to protect the safety of the group's workers, to ensure compliance with Indonesian labour regulations and to minimise costs. Such measures can be unpopular amongst some members of the workforce but initial negative reactions were resolved swiftly and amicably by the group's industrial relations officer. Following the success of the fingerprinting technology in the mills, the company is now installing fingerprinting systems throughout the local operations.

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.

Providing employees at the group's newer plantations with high quality housing is a priority and 90 new houses were completed in 2015, 20 at Satria oil mill, 20 in Satria estate and 50 in KMS. Although all housing on the group's estates has electricity and potable water, these new houses have been designed to provide more space and better facilities. The use of bataco bricks (breeze blocks) produced in-house by mixing boiler ash from the mills with cement, has significantly reduced both the cost and environmental footprint of these houses.

In 2015, the group also added two new primary schools (on the SYB Tepian estate and in KMS) to the existing network of 12 pre-schools, 12 primary schools and 1 secondary school within the group's plantations. These schools are managed by a foundation established by the group. As at December 2015, 190 secondary, 1,769 primary and 482 pre-school children were enrolled at the group's schools.

The group's long established cadet training programme is one of the key mechanisms by which the group recruits fresh graduates with the range of skills needed to run its business and develops existing employees who demonstrate management potential. The training programme is run from the group's central training school, and provides participants with 12 months of theoretical and practical training in all aspects of plantation management. Cadets who successfully complete the training are appointed as assistants on the group's estates, in the mills and various other departments. Over the last ten years, 226 cadets have participated in this programme, of which 60 per cent are still employed by the group.

To equip employees at every level with the skills and knowledge to perform effectively and to advance their careers, the group also runs an annual training programme. The programme is designed by the group's training manager, based on input received from every department, and consists of both in-house training and participation in external training and conferences.

The group takes seriously its duty to protect and respect the human rights of any person affected by its operations and is committed to adhering to the core conventions of the International Labour Organisation's Fundamental Principles and Rights at Work, as well as Indonesian labour regulations and the provisions of the Modern Slavery Act 2015. The policy on human rights is displayed at every work site in order to communicate the group's commitments in this regard to employees at every level. This policy includes a commitment to promote diversity and equality in the workplace and states clearly that discrimination based on age, disability, ethnicity, gender, marital status, political opinion, race, religion or sexual orientation will not be tolerated. As at 31 December 2015, 41 ethnicities and five religions were represented in the group's workforce.

The group is conscious that the oil palm industry has traditionally been male-dominated and seeks to improve the gender balance within its workforce. Free driving training courses are provided to women already living on the plantation who are interested in joining the group's transport department. In 2015, five women participated in this training scheme, three of whom are now employed as drivers. At the end of 2015, women accounted for 22 per cent of the group's workforce, including 18 per cent of the management team.

	2015		2014	
	Number of male staff	Number of female staff	Number of male staff	Number of female staff
Directors	5	1	5	1
Management	60	13	56	15
Rest of workforce	5,398	1,565	7,100	2,627
Total	5,463	1,579	7,161	2,643

Management

Mark Parry has overall local responsibility for the Indonesian operations. Mr Parry is the president director and the chief operating officer of REA Kaltim.

The board of REA Kaltim currently comprises, in addition to Mr Parry, three executive directors, of whom two are Indonesian nationals and the third a British expatriate. One of the directors is female. Together, 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.

Following changes to broaden and strengthen the local senior management team running the Indonesian operations, there is an experienced management group under the board of directors comprising departmental heads with responsibility for, respectively, mature estates, immature estates, mill operations, biogas and engineering, transport and logistics, village affairs, information technology, human resources and sustainability, including health and safety. A second tier of management has responsibility for sales and marketing, internal and operations audit, security, accounting, purchasing, corporate finance, taxation and legal matters.

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 support and advice that the group obtains from local advisers and from the local non-controlling investors in, and local commissioners 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. The recent changes in board positions and responsibilities, as noted in the "Corporate governance report" below, are consistent with the group's intention that, over time, overall executive responsibility for the management of the group will progressively be transferred from the UK to Indonesia and Singapore. To support this transition, the group augmented its corporate secretarial function in 2015 with the appointment of an additional senior executive, based in Singapore, who, in addition to overseeing the regional legal and secretarial departments, assists in ensuring consistency of investor activities between Jakarta and London.

Health and safety

Implementing an Occupational Health and Safety Management System that complies with the internationally recognised OHSAS 18001 standard remains a high priority for the group. The major focus of the group's safety programme in 2015 was the development and implementation of measures designed to integrate safety considerations into the working behaviour of every employee, such as more rigorous safety inductions for all employees and contractors, a company driving test and licence for all vehicles, routine training sessions for high risk tasks (working at height or in confined spaces) and the introduction of a safety accountability system for all permanent staff.

It takes time and effort to ensure that these initiatives become ingrained into the working practices of all employees so that the management can be confident that the OHSAS 18001 standard will be upheld on a daily basis throughout the group's operations. It has been decided, therefore, that the target for obtaining OHSAS 18001 certification should be delayed until 2016.

The directors deeply regret to report that three employees and two relatives of employees were involved in fatal accidents within the boundaries of the group's operations during 2015. Two of these fatalities occurred during working hours in the final quarter of 2015 and accordingly are considered as work-related. The first of these occurred when an employee suffered a heart attack in the field and the second when a contractor fell whilst standing on a trailer, in contravention of company procedures, and was run over. The group treats any fatality within its premises extremely seriously and responds in the same way irrespective of whether the incident is considered to be work-related or otherwise. In 2015, the group introduced a more rigorous and inclusive incident investigation and reporting procedure to ensure that the cause of any incident is properly identified and the senior management operations teams understand the remedial action required to prevent such an incident from recurring.

Healthcare provision is inevitably limited in the remote locations of the group's operations. The group has established a network of 18 clinics, which treat employees, their families and also members of the local communities. Medical care is provided by two doctors, a dentist and a team of paramedics and midwives.

Community relations

Developing and maintaining good relationships with the people that are impacted by or influence the group's operations is critical to the group's success. Engaging in formal and informal dialogue with a wide variety of representatives of, and groups within, the local communities is therefore a core component of the daily routine on the estates. This continuous dialogue is led by a team of village "ambassadors" and has resulted in a marked improvement in relations with the surrounding communities over the last few years. Although it is inevitable that disagreements will occasionally arise, given that the local population with which the group interacts comprises over 60,000 people, the introduction of a more consistent and transparent approach to resolving any claims of outstanding rights to compensation for land has contributed to reducing the frequency of villager claims.

Community development

The group is determined to ensure that its business continues to make a significant and long-lasting contribution to improving the socio-economic status of the communities that live in the vicinity of its operations. The strategy for achieving this has evolved significantly over the last twenty years, from a primarily philanthropic approach to the development of schemes designed to ensure that local communities share in the benefits generated by the group's operations. Key initiatives to achieving this include maximising employment opportunities for local people, supporting local businesses, expanding smallholder schemes and investing in infrastructure projects that will catalyse further development and assist communities to become self-sufficient.

The evolution of the group's approach to community development is epitomised by the pioneering collaboration with the Indonesian National Electricity company ("PLN"), as noted under "Operating efficiency" in Agricultural operations above, which came to fruition in April 2015. Through this project with PLN, which controls all sales of electricity in Indonesia, the group can now supply local villages with electricity generated by the group's methane capture facilities. The group has invested in three additional gas engines, whilst PLN has provided the infrastructure necessary to connect 24 villages and sub villages, comprising some 13,000 households, to this supply of renewable energy.

Prior to the inauguration of the project, the local villages relied on diesel powered generators for electricity, which were expensive to run and not environmentally friendly. Access to a reliable source of green energy will both catalyse socio-economic development and reduce GHG emissions. Moreover, the communities which previously relied on donations of diesel from the group to power their generators will no longer be beholden to the group for power as they can purchase electricity from PLN. For every kilowatt hour purchased by PLN, the group receives some US cents 7.0.

Facilitating access to clean water is another way in which the group is working to make a tangible long term contribution to improving the welfare of the people living in the vicinity of its operations. Over the course of 2015, the group has been engaged in installing water treatment plants for three villages, two of which are associated with REA Kaltim (Long Bleh Modang and Muai) and one of which is associated with SYB (Buloq Sen). Wherever possible, the group tries to involve the relevant community in these projects. To ensure that these villages do not rely on the group to maintain and manage the new plants, training has been provided to operators of the plants, whose wages will be covered by the villages' own annual budgets. Full responsibility for the management of these latest water treatment plants was handed over to the respective villages in February 2016.

The group's achievements with respect to corporate social responsibility were recognised in Kutai Kartanegara region's biennial cultural festival in 2015, when the group received two platinum awards and one silver award for providing benefits to society in infrastructure, health, education and culture, for helping society to become more efficient and effective and for its contribution to conservation and the environment.

Smallholders

The group believes that developing smallholder schemes and purchasing FFB from independent smallholders are vital mechanisms for ensuring that local communities benefit financially from the group's operations.

The group's work with smallholders began in 2000, when the group voluntarily established a programme known as "Program Pemberdayaan Masyarakyat Desa" or "PPMD". Through this scheme, 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. As the end of 2015, 15 cooperatives of semi-independent smallholders cultivating just over 1,500 hectares of oil palm had been established through this scheme.

In 2007, the Indonesian government introduced a new regulation that requires companies who acquire new land for oil palm development to facilitate the establishment of "plasma" smallholder schemes for the benefit of the surrounding community. The area of oil palm developed under such schemes must be no less than 20 per cent of the area developed for the benefit of the company. In contrast to the PPMD schemes, the start-up costs for the plasma schemes established to date have been financed by loans to the cooperatives concerned from REA Kaltim or local development banks. A further difference is that members of the cooperatives are not involved in managing the land cultivated with oil palm. Instead this is done by the group, in return for a pre-agreed management fee.

The development of plasma smallholder schemes has been a significant focus of the group's expansion programme in recent years. In addition to working to establish 13 plasma schemes for the newer concessions where this is mandatory, in the interests of equitable treatment, the group has voluntarily committed to develop six plasma cooperatives for the villages whose land overlaps with the group's long established REA Kaltim concession.

At the end of 2015, the group had developed some 3,400 hectares (2014: 3,100 hectares) under its plasma schemes. Although this represents limited progress since 2014 in terms of expansion of the planted area, the group has made steady progress in finalising the legal, financial and management agreements needed by each cooperative. The group's plasma team has also invested significant time and energy in trying to ensure that the members of each cooperative fully understand how the plasma schemes work, including the cost of cultivating oil palm, the terms of the financial agreements with the group and bankers to the schemes, and the predicted income over time to the members of each cooperative. Over the course of 2015, progress has also been made in completing the field surveys necessary for the development of the plasma schemes to comply with the group's policy on responsible development of new land, including HCV and carbon stock assessments.

During 2015, the group purchased over 125,000 tonnes of FFB from plasma, PPMD and independent smallholders (2014: 119,000 tonnes), providing these local farmers with revenue equivalent to a total of some US$13.3 million (2014: $19.7 million). As well as being an important source of income for the local population, smallholder fruit represents a significant portion of the group's supply base, accounting for some 17 per cent of the FFB processed in REA's mills in 2015. Developing good relations with these farmers and investing in measures to maximise the yield and quality of the fruit that they produce is to the benefit of all parties concerned.

The ability to trace all of the fruit purchased from smallholders to a specific farmer and plot of oil palm is critical to the group's ability to improve practices among its suppliers. In 2015, the group completed the process of mapping and creating a comprehensive database of all the smallholder land within its current supply base. This was a complex and time consuming process covering some 1,500 independent smallholders who together are cultivating some 7,700 hectares of land dispersed over a wide area. Having completed this exercise, the group has, since 1 July 2015, only accepted FFB from farmers who have participated in this mapping process, which means that the group's FFB supply chain is now fully traceable.

To improve the practices of the smallholders who manage their own land (both PPMD and independent farmers), during 2015 the group worked with the international development NGO SNV to pilot a 'train the trainer' programme. This involved training the group's smallholder team and the management teams from five cooperatives in the techniques necessary to provide effective training in best agricultural practices and cooperative management. Once these 'master trainers' have proven their ability to convey the training materials to others effectively, they can then go on to train others to become 'trainers' with the objective that each cooperative within the group's supply base will eventually have the capability to provide training to all of its members on a regular basis.

Greenhouse Gas ("GHG") emissions reduction

2015 is the fifth 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 2015, a continued decline is seen using the planted area intensity measure. The slight increase in the per tonne measure is a reflection of the inclusion of the KMS concession, which is fully planted but largely still immature, in the scope of the carbon footprint for the first time in 2014. Lower yields achieved by the group's older established plantations in 2015 compared to 2014 also contributed to the increase.

GHG emissions from land use change continue to account for the largest component, some 65 per cent, of the group's carbon footprint. 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, being 15 per cent, a 50 per cent reduction has been achieved in the annual GHG emissions from POME between 2011 and 2015. This is almost entirely attributable to

the installation of methane capture facilities at the 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.

In 2015, the group continued to represent the Indonesian growers in the RSPO's GHG Emissions Reduction Working Group.

Conservation

The group is conscious that the longevity of its business is wholly dependent on ecosystem services, such as nutrient cycling, climate regulation and pollination, which are critical for productive agriculture. It is therefore imperative that measures are in place to avoid and mitigate the negative environmental impacts that can be associated with oil palm cultivation in the tropics.

To ensure that everyone, including contractors, involved in the process of planning and developing new areas of land is aware of these requirements and their specific responsibilities, a new policy and standard operating procedure for responsible development was adopted by the group at the beginning of 2015.

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, an HCV assessment and, from 2015, a carbon stock assessment. The results of these surveys are used to designate 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.

The area designated as conservation reserves within the group's titled land bank totals some 18,250 hectares, accounting for some 25 per cent of the group's titled land area. 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.

At the end of 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 535 species, including 87 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". During 2015, REA Kon detected the presence of two species which had not previously been recorded by the group, a Clouded leopard (Neofelis nebulosi), which is listed as Vulnerable on the IUCN Red List, and a White headed weasel (Mustela nudipes), which were photographed during camera trap surveys in KMS.

The group considers the presence of the Endangered Borneo orangutan within four of its concessions to be both a great privilege and a huge responsibility. REA Kon therefore monitors the orangutan population on a monthly basis by conducting nest surveys along permanent transects. The group is conscious that the risk of human-orangutan conflict will increase as the landscape becomes increasingly fragmented as a result of oil palm development. During 2015, the group was involved in a case where people from a local village discovered a baby orangutan alone and far from the forest and felt compelled to rescue it. Although this orangutan was not found within one of REA's concessions, REA Kon was contacted by the villagers to ask for assistance in caring for it. Since the orangutan was an infant, it was feared that it might not survive if simply released into the nearest area of forest, which would have been the group's conservation reserves. REA Kon therefore arranged for the Department for the Conservation of Natural Resources ("BKSDA") to collect the orangutan from the villagers and take it to a rehabilitation centre in East Kalimantan. In response to this incident, the group has developed a formal collaboration with the BKSDA, outlined by a memorandum of understanding, which includes the provision of training in effective management of human-wildlife conflict for the REA Kon team.

Protecting through active management the areas of natural habitat which the group has set-aside within its concessions is extremely challenging. The group is aware that a significant portion of the conservation reserves within its longest established plantations have been impacted by logging and clearing for agriculture by local communities. Identifying and mapping the encroachment on the extensive areas designated for conservation is a huge task which must be completed with some urgency. The group therefore engaged the remote sensing experts, SarVision, to produce high resolution maps of

the conservation reserves using drones. These maps were completed in November 2015 and indicate that some 352 hectares, or 6.6 per cent of the 5,324 hectares designated as conservation reserves within the REA Kaltim concession may have been impacted by encroachment.

The group is now in the process of visiting each location of potential encroachment to gather detailed information about the precise extent of the area affected, the perpetrators and the existence of legal or customary rights. As part of this exercise, REA Kon is also assessing the risk of further encroachment of each area, the ecological, social and legal feasibility of restoring the natural vegetation and the cost of doing so. Based on this information, REA Kon has developed an action plan for each location where encroachment has occurred. By the end of 2015, this process had been completed for 360 hectares in REA Kaltim and 30 hectares within SYB. Whilst the ideal would be to restore all locations with natural vegetation, the group's ability to do so depends on obtaining the free, prior and informed consent of any legitimate legal or customary land use rights holders to change the use of these areas.

At the same time as working to mitigate the impact of encroachment in the older estates belonging to REA Kaltim and SYB, implementing measures to protect the conservation reserves set-aside in the newer developments is also a high priority. Critical to achieving this is the policy to ensure that, in future, all legal and customary land use rights to the conservation reserves are identified and acquired in the same way as for the land designated for oil palm cultivation, which was not the case when REA Kaltim and SYB were developed many years ago. This should facilitate the group's ability to prevent and tackle any clearance of these future reserves. In addition to this change in group policy, a new standard operating procedure has been developed to ensure that the plantation, conservation, villager affairs and security teams fully understand their respective responsibilities and can respond quickly and effectively if logging or land clearing is detected within the conservation reserves.

Responsible agricultural practices

The onset of El Niño conditions in Borneo during the last quarter of 2015, which resulted in the group's operations being subject to several months of drought, emphasised the importance of implementing responsible agricultural practices.

The fires which raged across Borneo during the El Niño resulted in huge tracts of forest being burnt and both humans and wildlife being subjected to dangerously poor air quality for several months. Despite strict adherence to a zero burn policy within its own concessions and the best efforts of the group's fire-fighting teams, the group's operations were impacted both directly and indirectly by the fires. As a consequence of this, 379 hectares of oil palm and 282 hectares of the conservation reserves were burnt in 2015. In response to widespread concern about the environmental and social impact of the fires, the RSPO has introduced a fire alert and reporting system for all members with which process the group has fully participated.

The severe droughts experienced during the El Niño serve as a reminder that access to an adequate supply of clean, fresh water is critical to both the group's ability to operate and the livelihoods of the surrounding communities. It is therefore imperative that this precious resource is used efficiently and equitably and does not become polluted.

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 the methane capture facilities, as opposed to the open pond system that has traditionally been used by 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 it is below the legal limit for land application in Indonesia, being 5,000 milligrams per litre.

The group aims to use inorganic fertilisers prudently in order to achieve maximum yields at minimum cost and reduce the risk of water pollution from run-off or leaching. To achieve this, the group works closely with independent agronomists, who design the group's inorganic fertiliser regimes based on analysis of the nutrient content of systematically selected oil palm frond samples. Over the last five years the group has substituted organic compost for significant quantities of inorganic fertiliser. The organic compost is produced on site from POME and empty fruit bunches at all three of the group's oil mills. As the volume of organic compost produced will never be sufficient to fertilise the whole supply base, it is applied at a fixed dosage to a different area of oil palm within the supply base each year in order to spread the benefits in terms of soil improvement.

Despite precautions to prevent water pollution, over the

course of 2015 there were four occasions when representatives of local communities claimed that the group's operations had caused water pollution. For each incident reported, a full investigation was conducted, involving representatives of the affected communities and the local environment department, which determined that two of the incidents were caused by minor spillages during the transfer of CPKO and POME respectively, while the other two claims were invalid. Remedial action was taken to clear the two minor spillages and to prevent further incident and both matters are now closed.

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 that 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.

REA 20th birthday celebrations

REA 20th birthday celebrations

Finance

Accounting policies

The group and the company continue to report in accordance with International Financial Reporting Standards ("IFRS") and to present their financial statements in dollars. 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 2015 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 2015 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 2015 were 15 per cent for the estates owned by REA Kaltim, SYB and KMS and 18 per cent for all other group companies. These discount rates are the same as those applied in 2014, except that, in the case of KMS, the rate has been reduced from 16.5 per cent per annum in 2014. 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.

As previously reported, the standard which determined that biological assets have to be stated at fair value, IAS 41 Agriculture, was amended in 2014 in a way that, for plantation companies growing so called "bearer plants", requires the reversion 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. At the same time IAS 16 Property, Plant and Equipment was amended to accommodate this change. The EU endorsed the amendments to IAS 41 and IAS 16 in December 2015 and these will be applied by the group in 2016. The directors expect to adopt the December 2015 fair value of the biological assets as their deemed cost of plant and equipment as at 1 January 2016, being the effective date of the IFRS amendments. 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.

The amendment of IAS 41 has introduced a new requirement for plantation companies to account for "growing produce", but only if this can be reliably measured. In the case of the group, growing produce will mean FFB in formation on the group's oil palms. Such growing produce will, if measured, be treated as a separate asset with changes in the value of the asset from year to year being taken to the income statement. The directors are discussing with the group's auditor and other companies in the oil palm sector whether FFB in formation can be reliably measured and, if so, the measurement methodology that should be applied.

The biological assets in the group balance sheet at 31 December 2015 amounted to $339.1 million. An increase or reduction of $5 per tonne in the estimated profit margin used for the purpose of the valuation (namely $63.9 per tonne of FFB) would increase or reduce the valuation by approximately $27.2 million.

Group results

Revenue, operating profit and profit before tax reported by the group for 2015, with comparative figures for 2014, were as follows:

	2015 $'m	2014 $'m
Revenue	90.5	125.9
Operating profit	17.2	32.1
Profit before tax	11.5	23.7

The significantly lower revenue and profit before tax reported for 2015 as compared with 2014 were principally the result of the lower CPO price prevailing during 2015 with an average price of CPO, CIF Rotterdam, in 2015, of $612 per tonne, against $816 in 2014. In consequence, the average price realised by the group for its own CPO production was $485 per tonne against $665 per tonne in 2014. The results reflect net overall mark to market gains on produce inventory and biological assets of $11.9 million, some $10.0 million higher than the $1.9 million recorded in 2014 and an increase in gains from exchange rate movements of $4.7 million as compared with the preceding year.

During 2015, improvements in cost control were maintained and extended, including the streamlining of the workforce to reduce dependence on temporary employees. The Indonesian rupiah continued to weaken during the year, mitigating the effect of inflation on rupiah denominated costs. The cost of sales fell by $5.5 million to $72.4 million, compared with $77.9 million in 2014, largely due to a reduction in the cost of third party fruit purchased.

Cost of sales reported for 2015, compared with 2014, was as follows:

	2015 $'m	2014 $'m
Purchase of external FFB	13.3	19.7
Estate operating costs	48.1	47.9
Depreciation and amortisation	11.0	10.3
	72.4	77.9

Further development of the group's plantations contributed to a net gain from changes in the fair value of biological assets of $13.1 million (2014: $3.6 million), while the movement in the fair value of agricultural produce inventory yielded a loss of $1.1 million (2014: loss of $1.7 million) reflecting lower values of closing inventory than those of 2014.

Administrative expenses for 2015 amounted to $11.7 million (2014: $16.4 million) benefiting from a one-off write back of a $2.2 million provision in respect of future UK pension contributions no longer required, some cost savings in Indonesia and the general weakening of the rupiah.

Finance costs for 2015 amounted to $6.0 million, compared with $8.8 million in 2014, reflecting changes in the value of foreign currency monetary net assets yielding a gain of $6.0 million compared with a net gain in 2014 of $1.3 million (thus resulting in the increase in gains from exchange rate movements of $4.7 million referred to above). There was also a $1.6 million benefit from a higher capitalisation rate applied to interest costs, but this was partly offset by an increase in interest on bank loans of $3.3 million.

Tax charged against profit for 2015 amounted to $6.6 million against $1.8 million in 2014, the latter having been reduced by a one-off write back of a prior period $8.4 million provision following a 2014 Jakarta Tax Court decision in favour of REA Kaltim in relation to a disputed assessment with respect to mark-to-market losses recorded in 2008 on cross currency interest rate swaps.

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. The Indonesian tax authorities have also appealed to the Supreme Court of Indonesia for judicial review of the Jakarta Tax Court's 2014 decision in favour of REA Kaltim referred to above.

Refunds of disputed tax were received following the Jakarta Tax Court's decisions in 2012 and 2014 but it has been the practice of the tax authorities to withhold any interest due on such refunds until after the outcome of any Supreme Court review. A new regulation issued in late 2015 now permits taxpayers to apply for interest immediately following receipt of disputed tax refunds. REA Kaltim is discussing with its local tax office the exact interpretation of this regulation with a view to agreeing a release of interest before the outcome of the Supreme Court reviews is known. None of this potential interest receivable, amounting to some $4 million, has been recognised in the 2015 financial statements.

The group's target long term average annual return on adjusted equity is 20 per cent. The return achieved for 2015 was 1.5 per cent (2014: 7.4 per cent).

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2015 were duly paid. In view of the difficult conditions that faced the group during 2015 and in light of the 2015 results, the directors have concluded that, as previously announced, they should not declare or recommend the payment of any dividend on the ordinary shares in respect of 2015.

The development of the group's agricultural operations continues to require major capital expenditure and the need to fund this expenditure will continue to constrain the rates at which the directors feel that they can prudently declare, or recommend the payment of, ordinary dividends until such time as the development of the group's remaining plantable land bank has been completed.

Capital structure

The group is financed by a combination of debt and shareholder funds. Total shareholder funds less non-controlling interests at 31 December 2015 amounted to $309.1 million as compared with $304.9 million at 31 December 2014. Non-controlling interests at 31 December 2015 amounted to $2.5 million (2014: $1.7 million).

In July 2015, 4,221,000 new preference shares were issued for cash at a price of 120p per share by way of a placing to raise $7.8 million net of expenses. This issue was followed in October 2015 by the issue of 1,754,260 new ordinary shares for cash at a price of 260p per share by way of a placing to raise $6.8 million net of expenses.

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. To date, 132,500 ordinary shares have been acquired pursuant to this authority and are currently held in treasury.

On 3 September 2015 REA Finance issued, by way of an exchange offer and cash placing at par, £26.6 million nominal of new 8.75 per cent sterling notes 2020 (the "2020 sterling notes") and concurrently acquired and subsequently cancelled £26.2 million nominal of outstanding 9.5 per cent sterling notes 2015/2017 (the "2017 sterling notes") (together, the "sterling notes"). Thereafter, on 10 September 2015 a further £0.3 million nominal of 2020 sterling notes were issued by

way of a cash placing at par and on 22 December 2015 a further £5.0 million nominal of 2020 sterling notes were issued by way of a cash placing at a price of £0.97 per £1.00. Of these latter notes, £1.5 million nominal were subscribed by a subsidiary of the company.

Following these transactions, group indebtedness at 31 December 2015 amounted to $212.4 million against which the group held cash and cash equivalents of $15.7 million. The composition of the resultant net indebtedness of $196.7 million was as follows:

	$'m
7.5 per cent dollar notes 2017 ("2017 dollar notes") ($34.0 million nominal)	33.6
9.5 per cent guaranteed sterling notes 2015/17 ("2017 sterling notes") (£8.3 million nominal)	10.6
8.75 per cent guaranteed sterling notes 2020 ("2020 sterling notes") (£31.9 million nominal)	45.3
Indonesian term bank loans	87.4
Drawings under working capital lines	35.5
	212.4
Cash and cash equivalents	(15.7)
Net indebtedness	196.7

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 2015 was equivalent to $9.8 million.

The 2017 dollar notes are unsecured obligations of the company and repayable on 30 June 2017. The sterling notes are 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"), and are secured almost wholly on unsecured loans made by REAS to Indonesian plantation operating subsidiaries of the company. The 2017 sterling notes, save to the extent previously redeemed or cancelled, were repayable in three equal annual instalments commencing on 31 December 2015. However, the instalments due on 31 December 2015 and 2016 having been satisfied by the cancellation of £26.2 million nominal of such notes in September 2015 following the exchange offer referred to above, the 2017 sterling notes are now repayable in a single instalment on 31 December 2017. The 2020 sterling notes are repayable in a single instalment on 31 August 2020.

The outstanding long-term sterling dollar swap to hedge against dollars the sterling liability for principal and interest payable in respect of £22 million nominal of the 2017 sterling notes terminated on 24 December 2015 at a cash cost of some $10.2 million and a charge to profit and loss account of $595,000. The group has no plans to enter into further 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 each of REA Kaltim, SYB, PBJ and KMS and a US dollar amortising term loan to REA Kaltim. The REA Kaltim loans are provided by PT Bank DBS Indonesia ("DBS") and are secured on certain assets of REA Kaltim and guaranteed by the company. The outstanding balance of such loans at 31 December 2015 was the equivalent of $45.0 million repayable as follows: 2016: $10.6 million, 2017: $15.9 million and 2018: $18.5 million.

The SYB loan, also provided by DBS, is secured on assets of SYB and is guaranteed jointly by the company and REA Kaltim. The outstanding balance of the loan at 31 December 2015 was the equivalent of $17.1 million repayable as follows: 2016: $4.8 million, 2017: $6.7 million and 2018: $5.6 million.

The PBJ loan is provided by PT Bank UOB Indonesia ("UOB"), is secured on the assets of PBJ and is guaranteed jointly by the company and REA Kaltim. The outstanding balance of the loan at 31 December 2015 was the equivalent of $7.4 million repayable as follows: 2018 and thereafter: $7.4 million.

The KMS facility is provided by PT Bank Mandiri (Persero) Tbk ("Mandiri"), is secured on the assets of KMS and is guaranteed by the company. The outstanding balance of the loan at 31 December 2015 was the equivalent of $17.9 million repayable by instalments commencing in 2018.

At 31 December 2015, unutilised facilities available to the group comprised the equivalent of $21.6 million available to be drawn from UOB as an addition to the existing amortising term loan to PBJ.

Group cash flow

Group cash inflows and outflows are analysed in the consolidated cash flow statement. Cash and cash equivalents decreased over 2015 from $16.2 million to $15.7 million.

As noted under "Group results" above, operating profit for 2015 amounted to $17.2 million as compared with $32.1 million in the preceding year.

A $7.2 million positive adjustment for the non-cash components of operating profit reflected depreciation of $9.1 million, $9.0 million arising on reversal of prior year provisions on the hedging contract terminated in the year and a decrease in inventory fair value of $1.1 million, partially offset by movements in the valuations of biological assets of $13.1 million. A $12.9 million decrease in working capital was principally the result of an increase in payables of $6.8 million, largely due to prepayments received in respect of CPO sales.

As a result cash generated by operations for 2015 amounted to $37.3 million against the $33.1 million reported for 2014.

Taxes paid in the year of $5.4 million were largely offset by tax refunds received of $4.6 million, and interest paid was $16.4 million. The overall result was that cash from operating activities for 2015 amounted to $20.1 million against $24.4 million for 2014.

Investing activities for 2015 involved a net outflow of $34.8 million (2014: $38.2 million). This represented new investment totalling $37.6 million (2014: $38.6 million), offset by inflows from proceeds on disposal of property, plant and equipment and interest and minor items totalling $2.8 million (2014: $0.4 million). The new investment comprised expenditure of $32.3 million (2014: $33.4 million) on further development of the group's agricultural operations, $1.3 million (2014: $4.3 million) on land rights and titling, and $4.0 million (2014: $0.9 million) on the stone and coal operations (primarily on the stone operations and arising mainly from the refinancing of debts incurred by those operations in previous years).

The net cash inflow from financing activities amounted to $14.4 million (2014: outflow of $4.4 million) made up as follows:

	2015 $'m	2014 $'m
Issue of new ordinary shares	6.8	–
Issue of new preference shares	7.8	10.6
Issue of new sterling notes	4.1	–
Purchase of treasury shares	–	(1.0)
Purchase of sterling notes	(2.2)	–
Payment to close out hedging contract	(10.2)	–
Net increase / (reduction) in borrowings	20.7	(1.6)
Dividend payments	(12.6)	(12.4)
	14.4	(4.4)

Liquidity and financing adequacy

With the recovery in CPO prices from their low point in late August 2015 continuing to date in 2016 (the reasons for which are discussed under "The vegetable oil market context" in "Introduction and strategic environment" above), the group can reasonably expect a higher average price for its CPO sales in 2016. Sales revenues for 2016 will further benefit from the higher oil extraction rates now being consistently achieved by the group's mills. In addition, the group expects that that the steps it is taking in response to its recent findings on fertiliser will lead to higher crop volumes although the impact of higher fertiliser applications will not be immediate. With the group continuing to exercise good control over costs and further cost efficiencies in prospect, the directors are confident that the group's operations will remain cash generative.

As noted under "Capital structure" above, at 31 December 2015, the group held cash and cash equivalents of $15.7 million and had undrawn facilities equivalent to a total of $21.6 million under the UOB amortising term loan facility. In addition, the group is currently at an advanced stage in negotiations with its bankers to amend the $62.1 million of amortising term loan facilities provided by DBS to REA Kaltim and SYB, with a view to extending the tenor of the loans to mid- 2020 and reducing from their present levels the quarterly instalments payable during the early life of the rebased facilities. The directors have no reason to believe that the group's working capital facilities of $35.5 million, which are also provided by DBS and are also renewable annually, will not be rolled over at the end of July 2016 when the term of the existing facilities expires.

Whilst improving cash flows from operations and amending the terms of the amortising term loan facilities with DBS will improve the group's liquidity, the group requires further long term capital.

For the reasons explained under "Future direction" in "Introduction and strategic environment" above, the group has for some time been planning that it should raise capital by way of a public offering to Indonesian investors of a minority shareholding in REA Kaltim combined with a listing of the shares of REA Kaltim shares on the Indonesia Stock Exchange. However, market conditions and the group's recent performance have not been conducive to such a public offering. The group has therefore, in recent months, been actively exploring the possibility of raising capital from a strategic investor ideally by way of a subscription of new shares in REA Kaltim with a view to such investment being later followed by the planned public offering.

Discussions with a short list of potential strategic investors are now at an advanced stage. If, as is expected, such discussions can be successfully concluded, the outcome would be likely to resolve or significantly reduce the group's requirement for additional liquidity. Should funding be required pending completion of these discussions, the group will seek to place for cash a limited number of new ordinary shares and the necessary authorities to permit further issues are being sought at the forthcoming annual general meeting of the company.

The directors intend that the undrawn balance of the UOB amortising term loan facility will be used to fund development expenditure on PBJ. Beyond that, the directors intend to commit to discretionary 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 in 2017, 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 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 can 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, could be funded with separate bank finance and that such finance could be rapidly repaid. Alternatively, the group may enter into arrangements for a third party to operate the quarry on terms that the third party funds all costs of opening operations, pays the group a royalty and supplies the group with an agreed volume of stone for its own use at a concessionary price. Discussions to this end are continuing with one interested party. If coal prices recover and mining of the group's coal concessions again becomes economic so that operations on those concessions can be resumed, the directors expect that the coal concessions will also start returning cash to the group.

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, UOB and Mandiri 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 would prefer 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.

Whilst the directors consider that the group's existing capital structure was, when put in place, consistent with these policy objectives, the subsequent passage of time and some delays in the original plans for expansion of the group's planted hectarage have meant that the group is now too dependent on shorter term debt. As noted above, the group is already taking steps to raise additional permanent capital while negotiations with the group's bankers are well advanced to amend their term loans to extend their tenor and reduce early repayment. The directors have also initiated discussions to refinance with longer term debt, the 2017 sterling notes and the 2017 dollar notes that will fall due for repayment in 2017. The directors intend to retain their existing policy of replacing shorter dated debt with preference share capital when market conditions permit.

Net debt at 31 December 2015 was 63.1 per cent of total shareholder funds against a level of 58.4 per cent at 31 December 2014. 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 oridnary shareholders, prior ranking capital will, over time, fall as a percentage of ordinary shareholder funds. A successful concluson of the current discussions with strategic investors or further replacement of debt with ordinary and preference capital would mean that net debt as a percentage of shareholder funds would fall to a greater extent.

The 2017 sterling notes, the 2020 sterling notes and the 2017 dollar notes carry interest at fixed rates of, respectively, 9.5, 8.75 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 PBJ under the UOB term loan, at floating rates equal to Jakarta Inter Bank Offered Rate plus a margin and by KMS under the Mandiri loan at a variable rate currently 11.5 per cent. 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 2015 would have resulted in an additional annual cost to the group of approximately $1.2 million (2014: additional $1.0 million).

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 (now terminated), referred to under "Capital structure" above, were arranged originally for this reason but 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 called into question the wisdom of entering into currency hedges and the group decided not to enter into any new hedges pending the outcome of its appeal against the assessment in question.

In the light of the decision by the Jakarta Tax Court in 2014 in REA Kaltim's favour regarding the disputed losses, the directors have considered whether the group should revert to its previous policy of hedging non-dollar exposures against the dollar. They continue to believe that, given that tax law in Indonesia is uncertain and that precedent is often not taken into account in 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. Whilst interest rates payable on Indonesian rupiah borrowings are higher than on dollar borrowings, the directors believe that such higher rates reflect the fact that the Indonesian rupiah is a weak currency and that the higher cost that such borrowings entail is likely over time to be more than offset by exchange gains on the borrowings concerned.

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 rupiah.

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", "Country exposure" and "Funding". Funding is now perceived to be a significant risk as the combination of weak produce prices and the imminence of certain debt repayments have increased its importance.

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. Notwithstanding some seasonal variations, annual rainfall is usually adequate for normal development
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 has established a permanent downstream loading facility, where the river is tidal. In addition, road access between the ports of Samarinda and Balikpapan and the estates now offers a viable alternative route for transport and any associated additional cost is more than outweighed by the potential negative impact of disruption to the business cycle by any delay in evacuating CPO
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

Risk	Potential impact	Mitigating or other relevant considerations
Other operational factors		
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
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 extension of this sliding scale to incorporate a $50 per tonne export levy to fund biodiesel subsidies is supporting the local price of CPO and CPKO
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

Risks and uncertainties

continued

Risk	Potential impact	Mitigating or other relevant considerations
Expansion		
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
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 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 once operations have commenced
External factors, in particular weather, delaying or preventing delivery of extracted stone	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 of any extraction programme and taking expert geological advice on the results
Prices		
Local competition reducing stone prices	Reduced revenue and a consequent reduction in cash flow and profit	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	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 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 operations to meet the expected standards	Reputational and financial damage	The area of the stone concession is 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 areas on completion of extraction operations
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

Risks and uncertainties
continued

Risk	Potential impact	Mitigating or other relevant considerations
Funding		
Bank debt repayment instalments and other debt maturities coincide with periods of adverse trading and negotiations with bankers and investors are not successful in rescheduling instalments, extending maturities or otherwise concluding satisfactory refinancing arrangements	Inability to meet liabilities as they fall due	The group maintains good relations with its bankers and other holders of debt who have generally been receptive to reasonable requests to moderate debt profiles when circumstances require; moreover, the directors believe that the fundamental profitability of the group's business will facilitate divestment of assets or procurement of additional equity capital should this prove necessary
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 interests	Limitation of the group's return from these interests to the loans advanced	Current regulations in Indonesia limit 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, the directors are not aware of any specific changes that would adversely affect the group to a material extent; current regulations restricting 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 stone quarry concession (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 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 and/or by a transaction with a local investor
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 22 April 2016 and signed on behalf of the board by

DAVID J BLACKETT

Chairman

Board of directors

David Blackett

Chairman (independent) (65)

Committees: audit, nomination, remuneration

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. Mr Blackett was appointed chairman on 1 January 2016 following the retirement of Mr Robinow from that position.

Mark Parry

Executive director (55)

Mr Parry was appointed an executive director in January 2013. Mr Parry joined the group in 2011 as the group's regional director based in Singapore and Indonesia 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. Mr Parry is also chief operating officer of REA Kaltim with responsibility for all of the group's operations and on 1 January 2016 assumed the role of managing director on retirement of Mr Oakley from that role.

Irene Chia

Independent non-executive director (75)

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

Senior independent non-executive director (78)

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

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. Mr Killick intends to retire from the board with effect from the end of June 2016.

John Oakley

Non-executive director (67)

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, retired as managing director on 1 January 2016 but remains on the board as a non-executive director to undertake for a transitional period some additional responsibilities, in particular to oversee completion of the group's new information systems.

Richard Robinow

Non-executive director (70)

Mr Robinow was appointed a director in 1978 and became chairman in 1984. Following his seventieth birthday, he retired from the chairmanship on 1 January 2016. He remains on the board as a non-executive director and, for a transitional period, will undertake some additional responsibilities particularly as respects the financing of the group. After early investment banking experience, he has been involved for over 40 years in the plantation industry. 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 a Kenyan plantation company, REA Vipingo Plantations Limited (substantially all of the shares in which are indirectly owned by his family).

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 2015. The "Corporate governance report" below forms part of this report.

Details of significant events since 31 December 2015 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 22 to the consolidated financial statements.

Results and dividends

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

The fixed dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2015 were duly paid. In view of the difficult conditions that faced the group during 2015 and in light of the 2015 results, the directors have concluded that, as previously announced, they should not declare or recommend the payment of any dividend on the ordinary shares in respect of 2015.

Viability statement

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 addition, note 22 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 policies and exposures to credit and liquidity risks. The "Risks and uncertainties" section of the Strategic report describes the steps taken by the group to manage risk. In particular there are risks associated with the group's local operating environment and the group is materially dependent upon selling prices for crude palm oil ("CPO") and crude palm kernel oil over which it has no control.

As respects funding risk, the group has material indebtedness, in the form of bank loans and listed notes. Some $15.4 million of bank term indebtedness falls due for repayment during 2016 and a further $35.5 million of revolving working capital lines fall due for renewal during the same period. Thereafter, in the period to 31 December 2017, a further $22.6 million of bank term indebtedness and $46.4 million of listed notes will be repayable. In view of the material proportion of the group's indebtedness falling due in the period to 31 December 2017, as described above, the directors have chosen this period for their assessment of the long-term viability of the group.

The group is at an advanced stage in negotiations with its bankers in Indonesia to extend the tenor and reduce nearer term repayments on bank term loans totalling $62.1 million (being the bank loans in respect of which repayments are due in 2016 and 2017). In addition, the group has initiated discussions to refinance with longer term debt the listed notes falling due for repayment in 2017. The directors have no reason to believe that the revolving working capital facilities will not be rolled over when the existing facilities expire.

In addition the group has, in recent months, been actively exploring the possibility of raising additional permanent capital from a transaction with a strategic investor. Discussions with a short list of potential strategic investors are now at an advanced stage. If such discussions can be successfully concluded, the outcome would be likely to resolve or significantly reduce the group's requirement for additional liquidity. Should funding be required pending completion of these discussions, the group will seek to place for cash a limited number of ordinary shares and the necessary authorities to permit further issues are being sought at the forthcoming annual general meeting of the company. Flexibility also exists in making decisions on the rate of extension planting which may be accelerated or scaled back in the light of available finance.

The directors fully expect that the foregoing measures will refinance, or permit the group to repay, the group indebtedness falling due for repayment during 2016 and 2017. Moreover, as the benefits of recent improvements in operational efficiencies start to flow through and CPO prices gradually improve, the group's operations can be expected to generate increasing cash flows going forward.

Based on the foregoing and after making enquiries, the directors therefore have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the period to 31 December 2017. Moreover, the directors consider that, taking into consideration the maturity profile of the group's debt and given the operating resilience of the business, the group will remain viable thereafter at least until 2020, being a period of four years.

Going concern

The business risks are set out on pages 38-43 with an indication of those risks regarded by the directors to be potentially significant together with mitigating and other relevant considerations for the management of risks. The financing policies are described on page 36 of the strategic report and the 2015 developments relating to capital structure are contained in the 'Finance' section of the strategic report under 'Capital Structure'. The directors have set out their assessment of liquidity and financing adequacy on pages 35-36 of the strategic report including the actions either in progress or contemplated in order to ensure adequate liquidity for the next twelve months.

Accordingly, having made due enquiries, the directors reasonably expect that the company and the group have adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements, and therefore 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 2015 is as shown below:

Tonnes of CO_2e	2015	2014	2013	2012
Gross emissions associated with oil palm operations in Indonesia[1]	767,177	706,579	627,799	686,208
Net emissions associated with oil palm operations in Indonesia	370,718	392,109	346,438	407,656
Net emissions per tonne of CPO produced	2.00	1.95	1.91	2.30
Net emissions per planted hectare	7.30	10.94	11.19	13.17
Electricity, heat, steam and cooling purchased for own use	4.4	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 are described in full in the 2014 Sustainability Report published in June 2015.

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 2012 and 2015. 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 2015 are set out in note 30 to the company's financial statements. At 31 December 2015, the preference share capital and the ordinary share capital represented, respectively, 87.4 and 12.6 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 and 8.75 per cent guaranteed sterling notes 2020 (respectively the "2017 sterling notes" and the "2020 sterling notes" and, together, the "sterling notes") that have been issued by REA Finance B.V. and 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, in the case of the 2017 sterling notes, of £1,000 and, in the case of the 2020 sterling notes, of £100,000 and integral multiples of £1,000 in excess thereof. There is no maximum limit on the size of any holding in each case.

Substantial holders

On 31 December 2015, 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 held by them as holders of ordinary shares of the company:

Substantial holders of ordinary shares	Number of ordinary shares	Percentage of voting rights
Emba Holdings Limited	10,311,420	28.1
Prudential plc and certain subsidiaries*	6,043,129	16.5
Alcatel Bell Pensioenfonds VZW	4,167,049	11.4
Artemis UK Smaller Companies	3,563,620	9.7
First State Investments (UK) Limited	1,476,858	4.0

* The company has been notified that the interest of Prudential plc group of companies includes 6,021,116 ordinary shares (16.4 per cent) in which M&G Investment Funds 3 is also interested.

Directors' report

continued

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 2015 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 2015 were as follows:

Substantial holders of securities	Preference shares '000	Dollar notes 2017 $'000	Sterling notes 2017 £'000	Sterling notes 2020 £'000
The Bank of New York (Nominees) Limited	–	–	–	9,582
Chase Nominees Limited	3,264	4,608	519	2,876
The Bank of New York (Nominees) Limited AHIF account	–	–	2,028	–
Euroclear Nominees Limited EOC01 account	–	3,253	–	–
Ferlim Nominees Limited pooled account	–	–	1,161	–
HSBC Global Custody Nominees (UK) Limited 641898 account	3,667	–	–	4,667
HSBC Global Custody Nominees (UK) Limited 888624 account	–	–	500	–
HSBC Global Custody Nominees (UK) Limited 993791 account	4,226	–	–	–
KBC Securities NV Client account	–	11,016	–	–
Lynchwood Nominees Limited 2006420 account	4,129	–	–	–
Rulegale Nominees Limited JAMSCLT account	5,753	–	–	–
Securities Services Nominees Limited 2300001 account	–	–	1,295	–
State Street Nominees Limited 2300001 account	–	–	–	5,500
Vidacos Nominees Limited CLRLux account	–	4,866	–	–
Vidacos Nominees Limited CLRLux2 account	–	2,000	–	–

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 24 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

The directors, all of whom served throughout 2015, are listed under "Board of directors" above which is incorporated by reference in this Directors' report.

Mr Oakley and Mr Robinow retire at the forthcoming annual general meeting and, being eligible, offer themselves 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 for more than nine years. Resolutions 3 and 4, which are set out in the 2016 Notice and will be proposed as ordinary resolutions, deal with the re-election of Messrs Oakley and Robinow.

Mr Parry and Ms Chia 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 5 and 6, which are set out in the 2016 Notice and will be proposed as ordinary resolutions, deal with the re-election of Mr Parry and Ms Chia.

As noted in the "Corporate governance report" below, Mr Oakley and Mr Robinow relinquished their positions as, respectively, managing director and chairman of the company with effect from 31 December 2015. They remain on the board as non-executive directors and, for a limited transitional period, are continuing to oversee certain executive matters to the extent necessary to ensure a smooth transfer of their responsibilities. Mr Oakley remains committed to the success of the group which will continue to benefit from his knowledge of agronomical practices as well as his essential oversight of the development and implementation of the new information technology systems. Specifically as respects Mr Robinow, his significant family shareholding in the company will continue to support the development of the group, particularly with regard to current strategic initiatives.

Mr Parry, who joined the company in 2011 and is based in Indonesia and Singapore, has served as president director of REA Kaltim since 2012 and as the group's chief operating officer since 2014. He has developed a deep understanding of the company's business and the local operating environment which can be used to good advantage following his succession to Mr Oakley as managing director with effect from 1 January 2016.

Ms Chia, who is based in Singapore, has extensive experience of commercial and financial investment in SE Asia and is in a position to offer informative insights into regional matters, making regular visits to the group's operations in East Kalimantan.

Mr Killick, who has been a non-executive director since 2006, has indicated his intention to step down as non-executive director with effect from the end of the

forthcoming annual general meeting. It is intended that an appointment to the board of a new non-executive independent director will be made in due course.

The chairman confirms that, following a formal performance evaluation, the performance of each of the non-executive directors, Ms Chia, Mr Oakley and Mr Robinow, continues to be effective. The chairman particularly welcomes their respective valuable commitment and experience and recommends each of them for re-election.

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 2015 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 (commonly known as a "buy-back"), 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.

The company currently holds 132,500 of its ordinary shares of 25p each, representing 0.4 per cent of the called up ordinary share capital, 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 referred to below will be transferred to any person.

The directors are seeking renewal at the forthcoming annual general meeting (resolution 9 set out in the 2016 Notice) of the buy-back authority granted in 2015 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 2017 or on 30 June 2017 (whichever is the earlier).

The renewed buy-back 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) the higher 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 10 set out in the Notice) to increase the authorised share capital of the company from £85,250,000 to £97,500,000 by the creation of 9,000,000 ordinary shares of 25 pence each and 10,000,000 9 per cent cumulative preference shares of £1 each, in each case ranking pari passu in all respects with the existing ordinary and preference shares and representing, respectively, 24.4 per cent and 15.7 per cent of the existing authorised ordinary and preference share capitals.

Directors' report
continued

As noted above the company may seek to raise additional equity capital by way of a placing. The proposed increase in the authorised ordinary share capital is designed to ensure that the company has sufficient authorised but unissued ordinary share capital to implement a placing and/or provide a reserve for possible future issues of further new ordinary shares.

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 11 June 2015, 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 2016 AGM (resolutions 11 and 12 set out in the 2016 Notice) to authorise the directors (a) to allot and to grant rights to subscribe for, or to convert any security into, ordinary shares in the capital of the company (other than 9 per cent cumulative preference shares) up to an aggregate nominal amount of £3,058,919 (including the additional £2,250,000 ordinary share capital proposed to be created at the forthcoming annual general meeting), representing 33.3 per cent of the issued ordinary share capital (excluding treasury shares) at the date of this report), and (b) 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 £21,358,768 (including the additional £10,000,000 preference share capital proposed to be created at the forthcoming annual general meeting), representing 33.6 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 2017 or on 30 June 2017 (whichever is the earlier). Save 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 13 set out in the 2016 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 £917,675 (representing 10 per cent of the issued ordinary share capital of the company (excluding treasury shares) at the date of this report). It is intended that this power be used for the purpose of placing shares as discussed in the Chairman's statement and under "Liquidity and financing adequacy" in the "Finance" section of the "Strategic report" above.

The foregoing powers (if granted) will expire on the date of the annual general meeting to be held in 2017 or on 30 June 2017 (whichever is the earlier).

General meeting notice period

At the 2016 AGM a resolution (resolution 14 set out in the 2016 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 2017 or on 30 June 2017 (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 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 convene general meetings 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 ordinary and 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 9 to 14 as set out in the 2016 Notice.

Directors' remuneration report

Resolution 2 as set out in the 2016 Notice provides for approval of the company's remuneration report regarding the remuneration of directors as detailed in the Directors' remuneration report below.

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 2016 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)	Details of long-term incentive scheme as required under LR 9.4.3R (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	Note 30 to the consolidated financial statements
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
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
22 April 2016

Corporate governance report

Throughout the year ended 31 December 2015, the company was in compliance with the provisions set out in the 2014 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.

At the performance evaluation conducted in 2015, 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 considered that each director brings separate valuable insights into, variously, 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.

The chairman, Ms Chia and Mr Killick, 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-executive 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 2015 in compliance with the Code requirement to carry such insurance.

Composition of the board

The board currently comprises one executive director, Mark Parry, and five non-executive directors (including the chairman). Mr Parry, who is based in Indonesia and Singapore, is managing director with overall responsibility for the group's operations. Mr Parry is also the president director and 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, Mr Parry succeeded Mr Oakley as group managing director with effect from 1 January 2016. Although Mr Oakley has ceased to be an executive director, he remains on the board in a non-executive capacity and also continues to discharge certain executive responsibilities, in particular in relation to the installation of the group's new information technology systems, to ensure continuity and a smooth hand over.

Concurrently with Mr Oakley's retirement as managing director, Mr Robinow stepped down from the chairmanship of the company but, as intended, he too remains on the board as a non-executive director. For a transitional period sufficient to ensure a satisfactory conclusion of the current strategic initiatives described under "Future direction" in the "Strategic report" above, Mr Robinow devotes such additional time to the affairs of the group as are appropriate for that purpose. Upon Mr Robinow's retirement as chairman, Mr Blackett was appointed chairman with effect from 1 January 2016.

With effect from Mr Blackett's appointment as chairman, Mr Killick has been designated the senior independent director.

Mr Killick has indicated his intention to step down from the board at the end of the forthcoming annual general meeting and it is intended that the appointment of an independent non-executive director to succeed Mr Killick will be made in due course.

The recent changes in board positions and responsibilities are consistent with the group's 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 is expected that a consequence of this will be that 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 provisions regarding the avoidance by directors of situations which conflict 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 do so. 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 2015, the board concluded that it performs effectively as constituted and that the directors communicate and 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.

There is an executive committee of the board, currently comprising any two of Mr Blackett, Mr Robinow and Mr Oakley, to deal with various matters of a routine or executory nature.

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 managing director, unless travelling, is 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 2015, at the regular and "ad hoc" board meetings held in 2015 was as follows:

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

In addition, during 2015 there were three meetings of the audit committee, two meetings of the remuneration committee and one meeting of the nomination committee. 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 may not always be practical to fix meeting dates to ensure that all directors are able to attend each meeting. Instead, if a director is unable to attend 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) and considering any such risks in the context of the group's overall strategic objectives. The board regularly reviews the process and internal control systems, which were in place throughout 2015 and up to the date of approval of this report, in accordance with the Financial Reporting Council ("FRC") Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

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, including those with respect to slavery as set out in the policy on human rights. The board is conscious of the provisions of the Modern Slavery Act 2015 and intends to respond appropriately.

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 2015 and April 2016, 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 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. Directors and managers based in London make periodic visits to the overseas operations each year. The managing director has a continuing dialogue with the chairman 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 other directors 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 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.

Corporate governance report
continued

In accordance with Rule 4.2.2R (1) of the Disclosure and Transparency Rules of the Financial Conduct Authority, the company intends to publish the 2016 half yearly report in September 2016, rather than in August as in previous years.

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 22 April 2016 and signed on behalf of the board by
DAVID J BLACKETT
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 and internal audit function in the context of the company's overall risk management system, as well as 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, removal, remuneration and terms of engagement of the external auditor, and overseeing the relationship with and reviewing the audit findings of the external auditor; 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 2015, 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 formal meetings and 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 Killick (chairman) and Mr Blackett both of whom are considered by the directors to have relevant financial and professional experience, as well as experience of the business sector and region in which the company operates, in order to be able to fulfil their specific duties with respect to the audit committee. Mr Blackett was chairman of the audit committee until his appointment to the role of chairman of the board of directors with effect from 1 January 2016.

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 2015 (on which the auditor did not report) and the full year consolidated financial statements for 2015 (the "2015 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 2015 financial statements, the committee considered the significant accounting and judgement issues set out below.

Audit committee report

continued

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.
Indonesian tax balances: from time to time the group finds itself in dispute with the Indonesian tax authorities over the interpretation of Indonesian tax legislation. 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. Two long disputed cases which had been found in the group's favour in past years remain subject to judicial review by the Supreme Court of Indonesia, which may take some years. Meanwhile, in response to a recent ruling from the Director General of Taxation in Indonesia, which permits successful litigants to apply for interest following favourable Tax Court decisions, the Group has applied to the regional tax office to secure payments of interest of up to some $4 million. Pending the outcome of these applications, such interest 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 some further progress towards commencement of quarrying operations on the stone deposit. Commencement of operations will depend on funding, and the group has opened negotiations with parties who are interested in participating in the venture. Feasibility studies continue to 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. 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.
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. Any forward sales made by the group are priced relevant to benchmarks at the time of delivery and so are not 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. In accordance with the EU Audit Directive and Audit Regulation, consideration will be given to tendering for future audits in due course.

Colin Rawlings succeeded Mark McIlquham as the company's audit engagement partner following the annual general meeting in June 2015. Mr McIlquham, who had been the audit partner since November 2010, stepped down under the standard rotation procedure of his firm.

During the year, the company's plantation subsidiaries changed their auditor to the local affiliate of Deloitte LLP, the company's auditor. The group expects to benefit from improvements in communication and alignment of procedure between the company auditor and this component auditor.

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 possibility of the 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 a key component of the control systems, and keeps the systems of financial, operational and compliance controls 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 22 April 2016 and signed on behalf of the committee by:
DAVID H R KILLICK
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 current policy report took effect immediately upon approval at the 2015 Annual General Meeting (the "2015 AGM"). The annual report on remuneration provides details on remuneration during 2015 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 2016 Annual General Meeting (the "2016 AGM").

The Companies Act 2006 requires the auditors to report to the shareholders on certain parts of the directors' remuneration report and to state whether, in their 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 in that report. The statement by the chairman of the remuneration committee and the policy report are not subject to audit.

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

The succeeding sections of this directors' remuneration report cover the activities of the remuneration committee during 2015 and provide information regarding the remuneration of executive and non-executive directors. 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 the managing director, who is the sole executive director of the company, the company's sustainability objectives as well as its commercial goals and achievements.

In considering bonuses in respect of 2015, the committee confirmed the importance of striking an appropriate balance between positive and negative factors. In particular, the committee took note of the external factors that are beyond the control of management which impacted the performance of the company during 2015, such as continuing weakness of commodity prices, impacting sales and costs per tonne and a second successive El Niño affecting production and transportation.

Whilst these factors depressed the results for 2015, the executive management achieved successes on a number of fronts. Specific achievements in respect of the company's operational objectives include commencing development of the group's newer land areas, near completion of the refurbishment of the two older mills and supplying renewable energy to the Indonesian state electricity company, in addition to furthering a number of sustainability initiatives. The executive has built a strong regional management team and has worked to achieve cost reductions and administrative efficiencies which in due course should reap significant benefits for the group.

The committee has reflected these factors in 2015 bonuses and the remuneration awarded for 2016. 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 2016, considers that it struck an appropriate balance between reward and incentive. In particular with respect to Mr Parry, the remuneration award for 2016 reflects the greater responsibilities associated with his promotion to the role of managing director and the fact that he is based overseas with a significant travel commitment. The remuneration awarded for 2016 is consistent with the current policy on remuneration.

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 2014 and 2015 was as follows:

2015	Salary and fees £'000	All taxable benefits* £'000	Annual bonus £'000	Long term incentive £'000	Total £'000
Chairman and executive directors					
R M Robinow	205.0	7.2	–	–	212.2
J C Oakley	344.0	17.9	99.6	–	461.5
M A Parry	295.2	111.1	119.0	–	525.3
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	930.2	136.2	218.6	–	1,285.0

2014	Salary and fees £'000	All taxable benefits* £'000	Annual bonus £'000	Long term incentive £'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	89.6**	129.2	–	487.7
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	114.2	237.2	–	1,242.3

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

** The figure in respect of Mr Parry for 2015 is provisional and includes certain estimates; the 2014 comparative for Mr Parry has been restated to reflect the final agreed taxable benefit

Fees paid to Mr Blackett and Mr Killick in respect of 2014 and 2015 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 67 at 31 December 2015) is a pensioner member of the scheme. Details of Mr Oakley's annual pension entitlement are set out below.

	£
In payment at beginning of year	73,992
Increase during the year	1,002
In payment at end of year	74,994

Directors' remuneration report

continued

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 2015, 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	–	10,311,420
D J Blackett	250,600	10,000
I Chia	–	1,000
D H R Killick	–	40,000
J C Oakley	–	442,493
M A Parry	42,155	25,822

Following further purchases in January 2016 of, in aggregate, 40,981 9 per cent cumulative preference shares of £1 each, Mr Parry and persons connected with Mr Parry hold in total 83,136 9 per cent cumulative preference shares of £1 each in the company at the date of this report.

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 2015 of 264p, there would have been no gain under the plan.

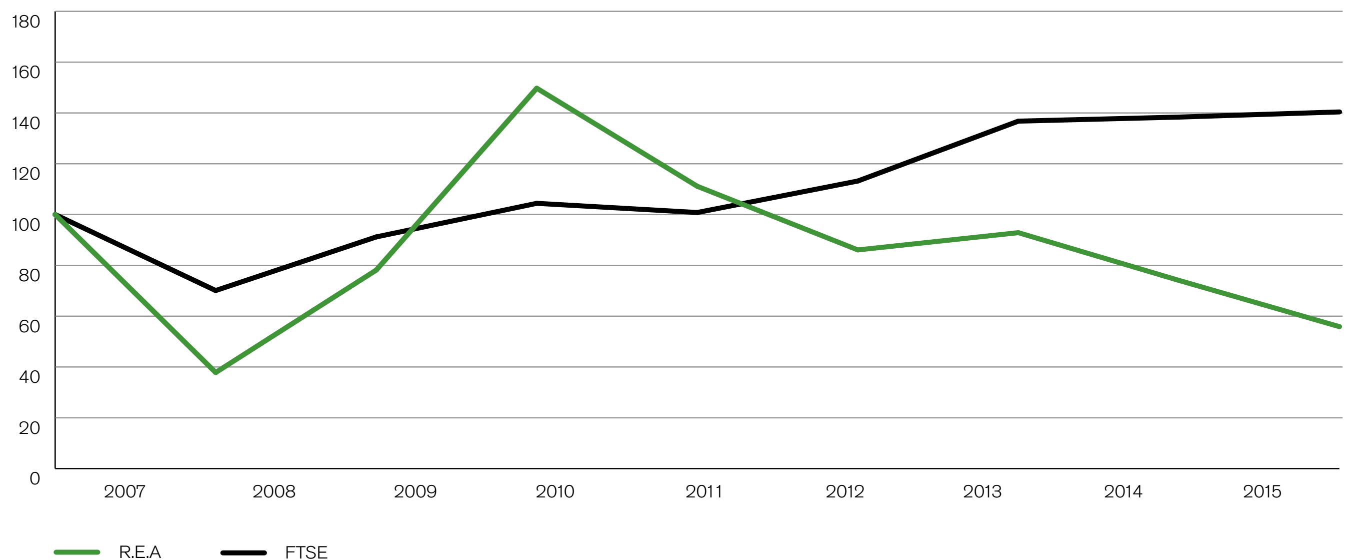
Following shareholder approval of the revised remuneration policy at the 2015 AGM, in response to impact of the prolonged weakness in the CPO price on the market price of the company's ordinary shares, a replacement incentive arrangement was put in place during 2015 for Mr Parry and, as and when appropriate, for certain other members of the senior management team in Indonesia and Singapore. Mr Parry may elect to switch to the new incentive plan in due course, subject to further approval by the remuneration committee.

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 2015.

Managing director's remuneration	Single figure of total remuneration £'000	Annual bonus pay-out against maximum %	Long term incentive vesting rates against maximum opportunity %
2015	461.5	60	N/A
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
2009	358.6	40	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

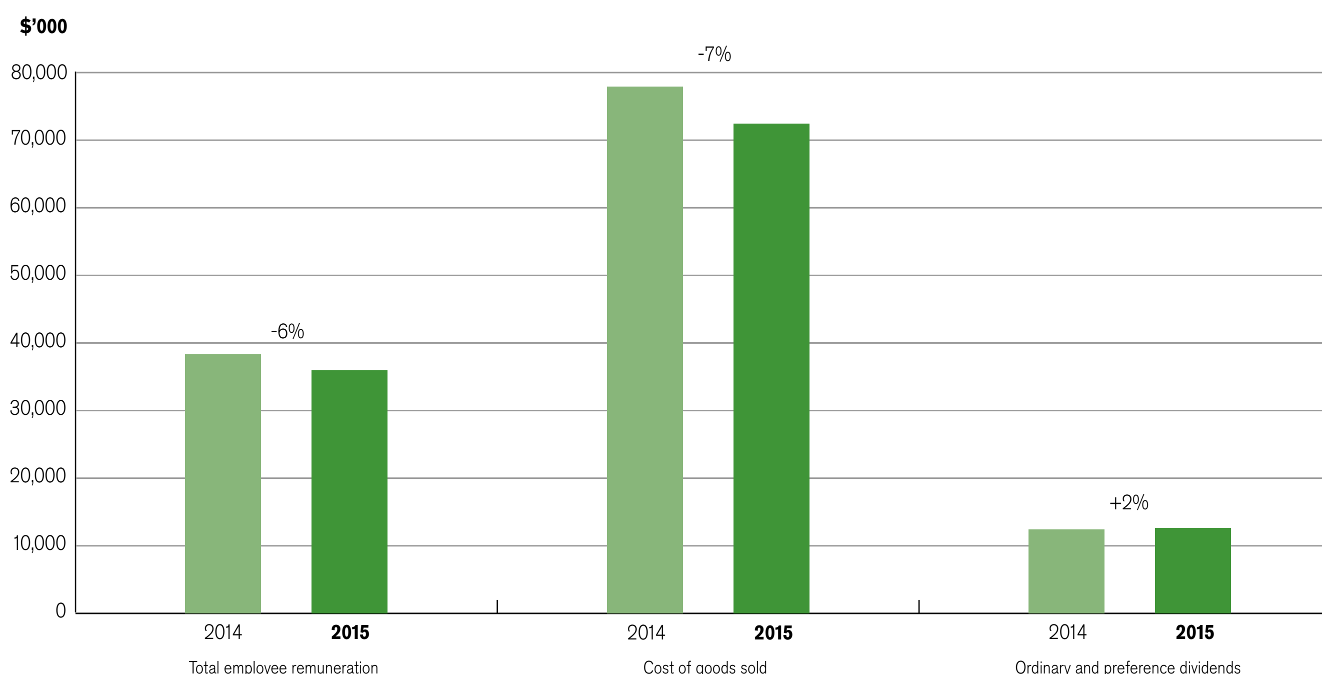
The table below shows the percentage changes in the remuneration of the managing director and in the average remuneration of certain senior management and executives in Indonesia and Singapore between 2014 and 2015. The selected comparator employee group is considered to be the most relevant taking into 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 2014 remuneration of the selected comparator employee group has been restated to reflect only the remuneration in that year of those employees comprising the 2015 selected comparator employee group. The 2014 remuneration of the selected group 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	2015 £'000	2014 £'000	change %
Salary	344.0	336.0	2
Benefits	17.9	17.7	1
Annual bonus	99.6	108.0	(8)
Total	461.5	461.7	–

Percentage change in selected employee group remuneration	2015 £'000	2014 £'000	change %
Salary	183.9	170.4	8
Benefits	16.4	17.8	(8)
Annual bonus	84.2	73.1	15
Total	284.5	261.3	9

Relative importance of spend on pay

The graph below shows the movements between 2014 and 2015 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 H R Killick (chairman) and Mr D J Blackett. 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

Ms Chia and Messrs Oakley, Robinow and Parry are proposed for re-election at the forthcoming annual general meeting. Each of the non-executive directors, being Ms Chia Mr Oakley and Mr Robinow, has a contract for services to the company which is terminable at will by either party. Continuation of their appointment depends upon satisfactory performance and re-election at annual general meetings in accordance with the articles of association of the company.

Mr Parry's service agreement may be terminated by either party by giving notice to the other party of not less than three months. At 31 December 2015, the unexpired term under Mr Parry's contract remained as three months.

Statement of voting at general meeting

At the AGM held on 11 June 2015, 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	22,408,141	99.99	128	0.01	22,408,269	310
Voting on remuneration policy	22,407,493	99.99	128	0.01	22,407,621	958

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.

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 R.E.A. Holdings 2015 long term incentive plan.

	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.

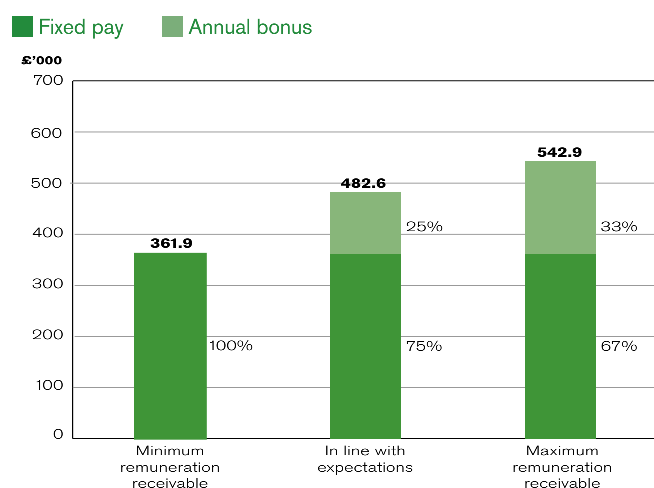
Mr Parry's service contract may be terminated by either party by giving notice to the other party of not less than three months. At 31 December 2015, the unexpired term under Mr Parry's contract was three months.

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

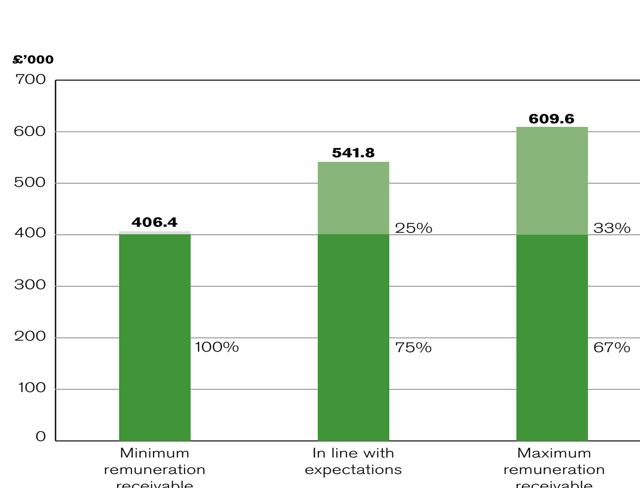
Illustration of application of remuneration policy

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



The figures reflected in the chart above have been calculated against the policies that were applicable throughout 2015 and on the basis of remuneration paid or payable in respect of 2015.

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 22 April 2016 and
signed on behalf of the board by
DAVID J BLACKETT
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 for that period.

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
22 April 2016

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

Opinion on financial statements of R.E.A. Holdings plc

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 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 parent 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 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 xix 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.

Emphasis of matter - Going concern

As described in the Directors' Report on page 45, the group has material indebtedness, in the form of term bank loans, revolving working capital facilities renewable annually and listed notes. The equivalent of some $15 million of bank indebtedness falls due for repayment over the next twelve months and the equivalent of a further $69 million thereafter in the period to 31 December 2017 (of which the equivalent of some $46 million relates to listed notes).

The directors have also assessed the impact of this matter when assessing the principal risks and how they have been managed and in their explanation of how they have assessed the prospects of the group.

Whilst we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate, these conditions indicate the existence of a material uncertainty which may give rise to significant doubt over the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

We describe below how the scope of our audit has responded to this risk. Our opinion is not modified in respect of this matter.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within the accounting policies note to the financial statements and the directors' statement on the longer-term viability of the company contained on page 45-46.

Aside from the matters disclosed in the emphasis of matter paragraph above, we have nothing else material to add or draw attention to in relation to:

- the directors' confirmation on page 38 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 38-43 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the accounting policies note to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation on pages 45-46 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the group and we have fulfilled our

other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

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; assumed extraction rates for Crude Palm Oil ("CPO") and Crude Palm Kernel Oil ("CPKO"); buffering assumptions applied; and the discount rate (for mature and juvenile estates). The forecasted profit margin is derived from the price of CPO and CPKO and subtracting forecasted variable and fixed costs. The forecasted profit margin of CPO is then determined by assessing whether the margin will increase or decrease based on the year-on-year movement in the 20 year historical average. The current year's average margin is then adjusted up to a maximum of +/- 5%. The changes in price are tapered as the development of a palm oil plantation is a long term undertaking and the value of plantations do not swing markedly in response to short term price fluctuations. By tapering the changes in the price this more accurately reflects the value of the biological assets. If the future actual performance varies from projections, or management's assumptions and estimates of future profitability change, the calculated fair values could change materially. As such, it is critical that the Board and management maintain and execute established policies and procedures to continually reassess the appropriateness of key assumptions upon which judgements and estimates are based. Biological assets are valued at $339m as at 31 December 2015 (2014: $310m), 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 tested the accuracy and integrity of management's model, including identifying if any key changes from the prior year were made to the model in terms of inputs and assumptions, and performed sensitivity analysis over the key assumptions used within the model. We performed the following procedures to challenge management's key assumptions: ▪ We 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; ▪ Production of CPO and CPKO is arrived at by applying extraction rates to existing crops. We have audited the extraction rates by comparing the current and historical extraction rates to other market participants and internal reports; ▪ We agreed the prices to CIF Rotterdam, and performed a year-on-year analysis of the forecasted variable and fixed costs; and ▪ We have assessed discount rates applied within the calculation by comparing to other market participants, and evaluated whether any change is required due to risk and local economic issues.

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

Going concern

As explained above in the "Emphasis of matter – Going concern" section, the equivalent of some $15 million of bank indebtedness falls due for repayment over the next twelve months and the equivalent of a further $69 million thereafter in the period to 31 December 2017 (of which the equivalent of some $46 million relates to listed notes). Given the group's ongoing funding requirements for sufficient working capital to continue trading, we considered going concern to be a key risk.

Further detail of management's assessment of this risk is contained in the Directors' Report on pages 45-46.

We have reviewed management's working capital model, particularly to assess whether any critical assumptions for the future profitability of the operations are consistent with the assumptions made in valuing the biological assets.

We reviewed the group's banking facilities, both at the individual and aggregate level, and agreed the terms and conditions (including covenants) and future repayment schedules to the assumptions relating to financing contained in the working capital model.
We have obtained evidence of discussions between management and banks to refinance certain facilities.

We have also considered other factors, such as the development and capital expenditure plans in relation to the plantations and the stone quarry as well as external factors such as the recent palm oil price and future forecasts.

We critically assessed the adequacy of the disclosures related to the going concern assumption in the notes to the financial statements.

We include above the conclusion of our review of the directors' statement in respect of the group's ability to continue as a going concern.

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

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 2015 the carrying value of the loans was $35.3m, compared to $31.3m at 31 December 2014. The loan agreement between REAH and ATP has been extended to 31 December 2016 and increased from $15m to $20m. 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 have challenged management's revised plans and cash flow forecasts in relation to the mining operations to support the value of investments in the coal and quarry interests. We have noted that in the current year, management has not prepared a discounted cash flow analysis for the coal mine concessions as the price of coal is too low for these to be economically viable for the foreseeable future. Our work on the discounted cash flow forecast for the stone operations has included:

- Agreement of total stone reserves to external third party evidence.
- Testing the accuracy and integrity of management's discounted cash flow calculation including identifying key changes made to the model in terms of inputs and assumptions, and performing sensitivity analysis over the key assumptions used within the model. These assumptions are the selling price of stone and the discount rate used.
- Challenge over expected price of stone to be used in the valuation, and the profit margin per year used within the calculation
- Challenge of the discount rates used by management, terminal growth rates and the forecast figures used and the assumptions in the discounted cash flow calculation.

Taxation matters arising in Indonesia	
Tax legislation in Indonesia can be complex and issues can take a significant number of years to resolve. Furthermore, significant deferred tax balances (31 December 2015: assets of $15.8m, liabilities of $92.2m, (31 December 2014: assets of $8.9m, liabilities of $77.2m)) 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. This gives 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 challenged group and local management in respect of the treatment of open tax positions and the recognition of deferred tax assets by utilising tax experts in the UK in order to help 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 assessed the tax disclosures for consistency with the status of open queries, and independently re-computed temporary differences on those assets and liabilities which were expected to give rise to significant deferred tax. Finally, we reviewed forecasts to assess the recoverability of the assets, including assessing those forecasts for consistency with biological assets valuation and the going concern status.

Last year our report included one other risk which is not included in our report this year, relating to accounting for cross currency swaps which have been settled during the course of 2014 and 2015.

Revenue recognition was identified by us at the planning stage as being a significant risk due to the potential for material advance sales. As the total advance sales at 31 December 2015 amounted to approximately $6m, and there were no contractual agreements giving rise to derivatives in existence at that date, the further work undertaken in respect of these matters was limited to reviewing the workpapers of the component auditor. Accordingly, we do not consider this risk needs separate consideration above.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 58.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these 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.

We determined materiality for the group to be $6.4m (2014: $3.1m), which is approximately 2% of biological assets. This represents a change in the benchmark used in the current year from a normalised profit before tax basis to one based upon biological assets. We consider that the valuation of biological assets is a key indicator of the current and future performance of the company. It is the KPI of critical interest to users of the financial statements of R.E.A. Holdings Plc as it is the key measure of the company's success in developing its palm oil plantations. It has also been chosen as it gives a more stable balance than profit before tax due to the large fluctuations on the price of crude palm oil.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $128k (2014: $62k), 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 of 12 active legal entities (2014: 13 active legal entities). 12 (2014:12) of these were subject to a full audit, whilst in the prior year one legal entity 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 that location. These 12 entities represent the principal business activities and account for 95% (2014: 96%) of the group's net assets, 100% (2014: 100%) of the group's revenue and 100% (2014: 100%) 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 12 active legal entities was executed at levels of

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

materiality applicable to each individual entity which were lower than group materiality and ranged from $3.2m to $5.4m (2014: $1.55m to $2.9m).

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 part of the Corporate Governance Statement relating to the company's compliance with certain 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). 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/or those further matters we have expressly agreed to report to them in our engagement letter. 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.

COLIN RAWLINGS FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
22 April 2016

Consolidated income statement

for the year ended 31 December 2015

	Note	2015 $'000	2014 $'000
Revenue	2	90,515	125,865
Net loss arising from changes in fair value of agricultural produce inventory	4	(1,147)	(1,692)
Cost of sales		(72,406)	(77,914)
Gross profit		16,962	46,259
Net gain arising from changes in fair value of biological assets	13	13,060	3,571
Other operating income	2	2	2
Distribution costs		(1,097)	(1,325)
Administrative expenses	5	(11,702)	(16,391)
Operating profit		17,225	32,116
Investment revenues	2, 7	259	398
Finance costs	8	(5,951)	(8,770)
Profit before tax	5	11,533	23,744
Tax	9	(6,631)	(1,763)
Profit for the year		4,902	21,981
Attributable to:			
Ordinary shareholders		(3,964)	14,153
Preference shareholders	10	8,461	8,140
Non-controlling interests	34	405	(312)
		4,902	21,981
(Loss) / earnings per 25p ordinary share	11	(11.2 cents)	40.3 cents

All operations for both years are continuing

Consolidated balance sheet

as at 31 December 2015

	Note	2015 $'000	2014 $'000
Non-current assets			
Goodwill	12	12,578	12,578
Biological assets	13	339,091	310,175
Property, plant and equipment	14	155,642	151,172
Prepaid operating lease rentals	15	34,295	33,879
Indonesian stone and coal interests	16	35,338	31,334
Deferred tax assets	27	15,787	8,909
Non-current receivables		1,395	2,749
Total non-current assets		594,126	550,796
Current assets			
Inventories	18	11,190	16,180
Investments	19	2,158	–
Trade and other receivables	20	29,103	25,487
Cash and cash equivalents	21	15,758	16,224
Total current assets		58,209	57,891
Total assets		652,335	608,687
Current liabilities			
Trade and other payables	29	(27,025)	(17,818)
Current tax liabilities		(3,406)	(2,581)
Bank loans	23	(50,906)	(40,326)
Sterling notes	24	–	(14,693)
Hedging instruments	26	–	(9,590)
Other loans and payables	28	(93)	(1,238)
Total current liabilities		(81,430)	(86,246)
Non-current liabilities			
Bank loans	23	(72,034)	(60,638)
Sterling notes	24	(55,853)	(37,713)
US dollar notes	25	(33,637)	(33,472)
Deferred tax liabilities	27	(92,168)	(77,191)
Other loans and payables	28	(5,558)	(6,802)
Total non-current liabilities		(259,250)	(215,816)
Total liabilities		(340,680)	(302,062)
Net assets		311,655	306,625
Equity			
Share capital	30	120,288	112,974
Share premium account	31	30,683	23,366
Translation reserve	32	(46,282)	(44,324)
Retained earnings	33	204,429	212,928
		309,118	304,944
Non-controlling interests	34	2,537	1,681
Total equity		311,655	306,625

Approved by the board on 22 April 2016 and signed on behalf of the board.
DAVID J BLACKETT
Chairman

Consolidated statement of comprehensive income

for the year ended 31 December 2015

	Note	2015 $'000	2014 $'000
Profit for the year		4,902	21,981
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Actuarial losses		(489)	(212)
Deferred tax on actuarial losses	27	122	42
		(367)	(170)
Items that will not be reclassified to profit and loss:			
Exchange differences on translation of foreign operations	32	3,575	(8,429)
Exchange differences on deferred tax	27	(5,082)	(3,383)
		(1,874)	(11,982)
Total comprehensive income for the year		3,028	9,999
Attributable to:			
Ordinary shareholders		(5,838)	2,171
Preference shareholders		8,461	8,140
Non-controlling interests		405	(312)
		3,028	9,999

Consolidated statement of changes in equity

for the year ended 31 December 2015

	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 2014	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
Total comprehensive income	–	–	(1,958)	4,130	2,172	856	3,028
Issue of new preference shares (cash)	6,639	1,199	–	–	7,838	–	7,838
Issue of new ordinary shares (cash)	675	6,118	–	–	6,793	–	6,793
Dividends to preference shareholders	–	–	–	(8,461)	(8,461)	–	(8,461)
Dividends to ordinary shareholders	–	–	–	(4,168)	(4,168)	–	(4,168)
At 31 December 2015	120,288	30,683	(46,282)	204,429	309,118	2,537	311,655

Consolidated cash flow statement

for the year ended 31 December 2015

	Note	2015 $'000	2014 $'000
Net cash from operating activities	35	20,063	24,392
Investing activities			
Interest received		259	398
Proceeds from disposal of property, plant and equipment		2,512	–
Purchases of property, plant and equipment		(15,785)	(14,892)
Expenditure on biological assets *		(16,563)	(18,522)
Expenditure on prepaid operating lease rentals		(1,250)	(4,261)
Investment in Indonesian stone and coal interests		(4,004)	(897)
Net cash used in investing activities		(34,831)	(38,174)
Financing activities			
Preference dividends paid		(8,461)	(8,140)
Ordinary dividends paid		(4,168)	(4,280)
Repayment of borrowings		(9,620)	(30,715)
Proceeds of issue of ordinary shares		6,793	–
Proceeds of issue of sterling notes, less costs of issue		4,086	–
Proceeds of issue of sterling notes, by exchange		39,921	–
Purchase of treasury shares, net of sales		–	(959)
Proceeds of issue of preference shares		7,838	10,564
Redemption of US dollar notes		–	(6,310)
Redemption of sterling notes, by exchange		(39,921)	–
Payment on termination of hedging contract		(10,184)	(41)
Purchase of sterling notes		(2,158)	–
New bank borrowings drawn		30,326	35,419
Net cash from / (used in) financing activities		14,452	(4,462)
Cash and cash equivalents			
Net decrease in cash and cash equivalents	36	(316)	(18,244)
Cash and cash equivalents at beginning of year		16,224	34,574
Effect of exchange rate changes		(150)	(106)
Cash and cash equivalents at end of year	21	15,758	16,224

* 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 78 to 111 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.

The directors acknowledge in the "Viability statement" in the Directors' report that there exists a material uncertainty relating to events or conditions that may cast significant doubt on the company's ability to remain as a going concern and that it, therefore, may be unable to realise its assets and discharge its liabilities in the normal course of business. The directors have set out their assessment of liquidity and financing adequacy on pages 35 and 36 of the strategic report, including the actions either in progress or contemplated in order to ensure adequate liquidity for the next twelve months. Accordingly, having made due enquiries, the directors reasonably expect that the company and the group have adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements and, therefore, they continue to adopt the going concern basis of accounting in preparing the financial statements.

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 2015, as follows:

- IAS 19 (amendments): Defined benefit plans: employee contributions
- Annual improvements to IFRSs: 2010-2012 cycle
- Annual improvements to IFRSs: 2011-2013 cycle

Their adoption has not had any significant impact on the amounts reported in these financial statements, although disclosures have been amended to reflect the new requirements.

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 not been applied in these financial statements), are 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 2018
IFRS 16: Leases	1 January 2019
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 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: 2012-2014 cycle	1 January 2016
IFRS 10, IFRS 12 and IAS 28 (amendments): Investment entities: applying the consolidation exception	1 January 2016

IFRS 9 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 2016.

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 bears.

In 2014 the IASB 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, amendments to IAS 16 and IAS 41 (issued on 30 June 2014, and now endorsed by the EU) 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 the amended IAS 41 which now requires plantation companies to account for "growing produce", but only if this can be reliably measured. In the case of the group, growing produce will mean FFB in formation on the group's oil palms. Such growing produce will, if measured, be treated as a separate asset with changes in the value of the asset from year to year being taken to the income statement. The directors are discussing with the group's auditor and other companies in the oil palm sector whether FFB in formation can be reliably measured (within the meaning of IAS 41) and if so the measurement methodology that should be applied.

The directors are considering the impact on the group's financial statements of these changes. On transition on 1 January 2016 it is probable that the directors will decide to adopt the values under IAS 41 as the cost under IAS 16, and this will result in 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.

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 standards listed above other than the modifications to IAS16 and IAS41 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

Accounting policies (group)

continued

standards then in force, has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

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 substantively 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 buffering reflects the opinion of the directors that movements in the market price of crude palm oil may only become reflected in the market value of oil palm plantations if sustained over a period of time. 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 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 22. 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.

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).

Indonesian stone and coal interests

In view of the fluctuations in the market prices for stone and coal to be extracted from the group's concessions, the carrying value of the stone and coal interests in Indonesia may differ from their realisable value.

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

	2015 $'000	2014 $'000
Sales of goods	87,824	124,538
Revenue from services	2,691	1,327
	90,515	125,865
Other operating income	2	2
Investment revenue	259	398
Total revenue	90,776	126,265

In 2015, three customers accounted for respectively 59 per cent, 16 per cent and 15 per cent of the group's sales of agricultural goods (2014: three customers, 48 per cent, 15 per cent and 14 per cent). As stated in note 22 "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 2015 amounted to 609,389 tonnes (2014: 631,728 tonnes). The fair value of the crop of fresh fruit bunches was $46,164,000 (2014: $87,647,000), 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 2015 and 2014, the latter did not meet the quantitative thresholds set out in IFRS 8 "Operating segments" and, accordingly, no analyses are provided by business segment.

	2015 $'m	2014 $'m
Sales by geographical destination:		
Indonesia	90.5	125.9
Rest of Asia	–	–
	90.5	125.9
Carrying amount of net assets by geographical area of asset location:		
UK, Continental Europe and Singapore	58.0	58.0
Indonesia	253.7	248.6
	311.7	306.6

4. Agricultural produce inventory movement

The net loss arising from changes in fair value of agricultural produce inventory represents the movement in the fair value of that inventory less the amount of the movement in such inventory at historic cost (which is included in cost of sales).

5. Profit before tax

	2015 $'000	2014 $'000
Salient items charged / (credited) in arriving at profit before tax		
Administrative expenses (see below)	11,702	16,391
Movement in inventories (at historic cost)	1,937	(706)
Amounts provided against inventories	497	–
Operating lease rentals	234	412
Depreciation of property, plant and equipment	10,526	9,704
Amortisation of prepaid operating lease rentals	578	548

Administrative expenses		
Net foreign exchange losses / (gains)	818	(391)
Net (credit) / charge for additional pension contributions (see note 37)	(2,267)	314
Loss on disposal of fixed assets	49	484
Indonesian operations	11,556	13,794
Head office	6,160	5,587
	16,316	19,788
Amount included as additions to biological assets	(4,614)	(3,397)
	11,702	16,391

Amounts payable to the company's auditor

The amount payable to Deloitte LLP for the audit of the company's financial statements was $180,000 (2014: $174,000). Amounts payable to Deloitte LLP for the audit of accounts of subsidiaries of the company pursuant to legislation were $24,000 (2014: $21,000).

Amounts payable to Deloitte LLP for other services were $10,000 (2014: $6,000) 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), for the issue of consent letters in connection with the placing of the sterling notes (see note 24) and for group accountancy services.

Amounts payable to affiliates of Deloitte LLP for the audit of subsidiaries' financial statements were $195,000 (2014: $29,000) and for other services to subsidiaries were $95,000 (2014: $nil).

	2015 $'000	2014 $'000
Earnings before interest, tax, depreciation and amortisation and net biological gain		
Operating profit	17,225	32,116
Depreciation and amortisation	11,104	10,252
Net biological gain	(13,060)	(3,571)
	15,269	38,797

6. Staff costs, including directors

	2015 Number	2014 Number
Average number of employees (including executive directors):		
Agricultural – permanent	5,333	5,909
Agricultural – temporary	2,991	3,545
Head office	9	11
	8,333	9,465

	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	35,893	36,994
Social security costs	807	963
Pension costs	(728)	370
	35,972	38,327

Details of the remuneration of directors are shown in the "Directors' remuneration report".

7. Investment revenues

	2015 $'000	2014 $'000
Interest on bank deposits	62	398
Other interest income	197	–
	259	398

8. Finance costs

	2015 $'000	2014 $'000
Interest on bank loans and overdrafts	8,130	4,869
Interest on US dollar notes	2,716	3,438
Interest on sterling notes	5,042	5,414
Change in value of sterling notes arising from exchange fluctuations	(4,946)	(3,350)
Movements relating to derivative financial instruments	1,685	2,404
Change in value of loans arising from exchange fluctuations	(2,694)	(354)
Other finance charges	887	(402)
	10,820	12,019
Amount included as additions to biological assets	(4,869)	(3,249)
	5,951	8,770

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 27.3 per cent (2014: 16.8 per cent); there is no directly related tax relief.

Notes to the consolidated financial statements

continued

9. Tax

	2015 $'000	2014 $'000
Current tax:		
UK corporation tax	–	–
Overseas withholding tax	1,467	–
Foreign tax	50	7,711
Foreign tax - prior year	1,778	(7,000)
Total current tax	3,295	711
Deferred tax:		
Current year	2,958	2,063
Prior year	378	(1,011)
Total deferred tax	3,336	1,052
Total tax	6,631	1,763

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 (2014: 25 per cent) and for the United Kingdom, the taxation provision reflects a corporation tax rate of 20.25 per cent (2014: 21.5 per cent) and a deferred tax rate of 20 per cent (2014: 20 per cent).

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

	2015 $'000	2014 $'000
Profit before tax	11,533	23,744
Notional tax at the UK standard rate of 20.25 per cent (2014: 21.5 per cent)	2,335	5,105
Tax effect of the following items:		
Expenses not deductible	897	1,476
Non taxable income	(27)	(384)
Overseas tax rates above UK standard rate	493	944
Overseas withholding taxes, net of relief	608	1,752
Tax credit on loss in overseas subsidiary not recognised	178	902
Deferred tax credit for underlying local tax loss	–	(23)
Tax losses in overseas subsidiaries time expired	–	496
Release of provisions following appeal to Jakarta Tax Court	–	(8,418)
Prior year adjustments (including change in rate of tax)	2,156	(89)
Additional tax (credits) / provisions	(9)	2
Tax expense at effective tax rate for the year	6,631	1,763

The company's principal subsidiary in Indonesia has been involved for several years in two tax disputes with the tax authorities. The principal case 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. In May 2014 the Jakarta Tax Court found in favour of the subsidiary, following which the disputed tax amounting to some IDR 103 billion ($7.4 million) 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 February 2015 within the prescribed time limit. 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.

9. Tax - continued

The second tax dispute relates to a disputed 2006 assessment and was decided by the Jakarta Tax Court in 2012. Those elements of the judgement in favour of the subsidiary have been appealed by the tax authorities to the Supreme Court for judicial review.

The subsidiary is entitled, following the Tax Court decisions, to interest of up to 48 per cent of the disputed tax that had been refunded. This amounts to some IDR 52 billion (some $4 million) in aggregate. It has been the practice of the tax authorities to withhold interest on refunds of disputed tax until the outcome of judicial review by the Supreme Court has been handed down. However, a regulation issued in late 2015 now permits tax payers to apply for such interest following receipt of the disputed tax refunds. The subsidiary is discussing with the local tax office the exact interpretation of this regulation with a view to agreeing the proportion of the interest refund due that can now be released before the outcome of the Supreme Court review is known. Meanwhile none of this potential interest receivable has been recognised in these financial statements.

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 accordingly decided in 2014 to release in full the provisions previously made.

10. Dividends

	2015 $'000	2014 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share	8,461	8,140
Ordinary dividends of 7.75p per share (2014: 7.25p per share)	4,168	4,280
	12,629	12,420

11. (Loss) / earnings per share

	2015 $'000	2014 $'000
(Loss) / earnings for the purpose of earnings per share *	(3,964)	14,153

* being net (loss) / profit attributable to ordinary shareholders

	'000	'000
Weighted average number of ordinary shares for the purpose of (loss) / earnings per share	35,455	35,085

12. Goodwill

	2015 $'000	2014 $'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 REA Kaltim, 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 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.

13. Biological assets

	2015 $'000	2014 $'000
Beginning of year	310,175	288,180
Opening balance adjustment	(363)	–
Additions to planted area and costs to maturity including finance costs (see note 8)	24,766	20,617
Transfers to property, plant and equipment (see note 14)	(8,202)	(2,095)
Transfers to current receivables	(345)	(98)
Net biological gain	13,060	3,571
End of year	339,091	310,175

	2015 $'000	2014 $'000
Net biological gain comprises:		
Fair value of crops harvested during the year (see note 2)	(46,164)	(87,647)
Gain arising from movement in fair value attributable to other physical changes	43,933	76,808
Gain arising from movement in fair value attributable to price changes	15,291	14,410
	13,060	3,571

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 REA Kaltim, SYB and KMS and 18 per cent in the case of all other group companies (2014: 15 per cent in the case of REA Kaltim and SYB, 16.5 per cent in the case of KMS and 18 per cent in the case of all other group companies) and a standard unit margin of $63.9 per tonne of oil palm FFB (2014: standard unit margin of $60.9 per tonne of FFB).

The valuation of the group's biological assets would have been reduced by $17,340,000 (2014: $10,370,000) if the crops projected for the purposes of the valuation had been reduced by 5 per cent; by $15,830,000 (2014: $9,030,000) if the discount rates assumed had been increased by 1 per cent and by $27,160,000 (2014: $20,650,000) 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 22. At 31 December 2015, the group had no outstanding forward sale contracts at fixed prices (2014: none).

At the balance sheet date, biological assets of $212.4 million (2014: $164.0 million) had been charged as security for bank loans (see note 23) but there were otherwise no restrictions on titles to the biological assets (2014: none). Expenditure approved by the directors for the development of immature areas in 2016, subject to availability of funding, amounts to $27 million (2014: $26 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 2014	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
Opening balance adjustment	363	–	–	363
Additions	274	1,897	5,412	7,583
Exchange differences	–	(36)	–	(36)
Disposals	–	(2,530)	–	(2,530)
Transfers from biological assets	8,202	–	–	8,202
Transfers to / (from) construction in progress	1,708	6,281	(7,989)	–
Transfers to current receivables	–	–	(2)	(2)
At 31 December 2015	94,943	110,044	9,929	214,916
Accumulated depreciation:				
At 1 January 2014	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
Opening balance adjustment	1,682	–	–	1,682
Charge for year	2,178	6,898	–	9,076
Exchange differences	–	(29)	–	(29)
Eliminated on disposals	–	(1,619)	–	(1,619)
At 31 December 2015	20,151	39,123	–	59,274
Carrying amount:				
End of year	74,792	70,921	9,929	155,642
Beginning of year	68,105	70,559	12,508	151,172

The depreciation charge for the year includes $233,000 (2014: $421,000) 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 (2014: $nil).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $1,155,000 (2014: $3,873,000).

At the balance sheet date, property, plant and equipment of $66.1 million had been charged as security for bank loans.

15. Prepaid operating lease rentals

	2015 $'000	2014 $'000
Cost:		
Beginning of year	37,286	33,063
Additions	1,250	4,261
Exchange differences	–	(38)
End of year	38,536	37,286
Accumulated amortisation:		
Beginning of year	3,407	2,609
Opening balance adjustment	112	–
Exchange differences	–	100
Charge for year	722	698
End of year	4,241	3,407
Carrying amount:		
End of year	34,295	33,879
Beginning of year	33,879	30,454

The amortisation charge for the year includes $143,000 (2014: $150,000) 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 2015, certificates of HGU had been obtained in respect of areas covering 70,584 hectares (2014: 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.

At the balance sheet date, prepaid operating lease rentals of $14.7 million had been charged as security for bank loans (see note 23.)

16. Indonesian stone and coal interests

	2015 $'000	2014 $'000
Stone company	17,435	14,100
Coal companies	20,903	20,234
Provision against loan to coal companies	(3,000)	(3,000)
End of year	35,338	31,334

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 2015 consolidated income statement (2014: $nil).

17. Subsidiaries

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

18. Inventories

	2015 $'000	2014 $'000
Agricultural produce	4,221	7,912
Engineering and other operating inventory	6,969	8,268
	11,190	16,180

Agricultural produce inventory is carried at fair value less selling costs. Engineering and other operating inventory is carried at cost less any amounts provided against which approximates its fair value. Inventory with a carrying value of $625,000 is subject to a floating charge as security for a bank loan.

At the balance sheet date, inventories of £1.1 million had been charged as security for bank loans (see note 23).

19. Investments

	2015 $'000	2014 $'000
REA Finance B.V. 8.75 per cent guaranteed sterling notes 2020	2,158	–

Pursuant to a placing on 22 December 2015 of £5 million nominal of REA Finance B.V. 8.75 per cent guaranteed sterling notes 2020 ("sterling notes"), R.E.A. Services Limited (a wholly-owned subsidiary of the company) acquired £1,500,000 nominal of sterling notes. The company intends to on-sell these notes as and when purchasers can be found.

The company has designated its holding of sterling notes as an available-for-sale investment which is carried at fair value.

20. Trade and other receivables

	2015 $'000	2014 $'000
Due from sale of goods	5,233	6,817
Prepayments and advance payments	7,035	6,962
Advance payment of taxation	9,883	3,660
Deposits and other receivables	6,952	8,048
	29,103	25,487

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 (2014: 7 days). The directors consider that the carrying amount of trade and other receivables approximates their fair value.

At the balance sheet date, trade and other receivables of $4.7 million had been charged as security for bank loans (see note 23).

21. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the group and short-term bank deposits. The Moody's prime rating of short term bank deposits amounting to $15.8 million (2014: $16.2 million) is set out in note 22 under the heading "Credit risk". At 31 December 2015, $1.1 million of total bank deposits were subject to charges.

Notes to the consolidated financial statements

continued

22. Financial instruments

Capital risk management

The group manages as capital its debt, which includes the borrowings disclosed in notes 23 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:

	2015 $'000	2014 $'000
Debt and related engagements *	212,430	195,409
Cash and cash equivalents	(15,758)	(16,224)
Net debt and related engagements	196,672	179,185

* 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)	311,655	306,625
Net debt to equity ratio	63.1%	58.4%

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 2015 comprised loans, investments and receivables (including Indonesian stone and coal interests) and cash and cash equivalents amounting to $67,090,000 (2014: $61,608,000).

Non-derivative financial liabilities as at 31 December 2015 comprised liabilities at amortised cost amounting to $201,071,000 (2014: $195,626,000).

Derivative financial instruments at 31 December 2015 comprised instruments not in designated hedge accounting relationships at fair value representing a liability of $nil (2014: $9,590,000).

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.

22. 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 2015/17 sterling notes, the 2020 sterling notes and the US dollar notes carry interest at fixed rates of, respectively, 9.5, 8.75 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 varying between 3.8 per cent and 4.8 per cent (2014: 4.5 per cent) above the Jakarta Inter Bank Offer Rate. In addition, the interest rate formula on certain loans includes an allowance for the bankers' cost of funds.

Interest is payable on drawings under US dollar short-term facilities at floating rates of 3.8 per cent above the relevant Inter Bank Offer Rate (2014: between 3.0 per cent and 3.8 per cent). In addition, the interest rate formula includes an allowance for bankers' cost of funds.

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 2015 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 $1,072,000 (2014: pre-tax profit (and equity) decrease of $847,000).

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.

In the light of the decision by the Jakarta Tax Court in 2014 in REA Kaltim's favour regarding the disputed losses, the directors have considered whether the group should revert to its previous policy of hedging non-dollar exposures against the dollar. They continue to believe that, given that tax law in Indonesia is uncertain and that precedent is often not taken into account in 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. Whilst interest rates payable on Indonesian rupiah borrowings are higher than on dollar borrowings, the directors believe that such higher rates reflect the fact that the Indonesian rupiah is a weak currency and that the higher cost that such borrowings entail is likely over time to be offset by exchange gains on the borrowings concerned.

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 rupiah.

22. 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 $2,237,000 on the net sterling denominated non-derivative monetary items (2014: $799,000). 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 $5,011,000 on the net Indonesian rupiah denominated, non-derivative monetary items (2014: loss of $4,808,000).

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 2015, 72 per cent of bank deposits were held with banks with a Moody's prime rating of P1, 28 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 2015 and 31 December 2014 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 23.

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.

2015	Weighted average interest rate %	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
Bank loans	7.3	59,316	27,432	48,068	134,816
US dollar notes	8.5	2,551	35,286	–	37,837
Sterling notes - repayable 2015-2017	10.4	1,175	13,532	–	14,707
Sterling notes - repayable 2020	10.1	4,140	4,138	58,370	66,648
Trade and other payables, and customer deposits		15,966	–	–	15,966
		83,148	80,388	106,438	269,974

22. Financial instruments - continued

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

At 31 December 2015, the group's non-derivative financial assets (other than receivables) comprised cash and deposits of $15,800,000 (2014: $16,200,000) carrying a weighted average interest rate of 1.4 per cent (2014: 2.7 per cent) all having a maturity of under one year, and Indonesian stone and coal interests of $35,338,000 (2014: $31,334,000) 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 as at 31 December 2014. These arose under the cross currency interest rate swap ("CCIRS") described in note 26, which was terminated on 24 December 2015. 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 2015	–	–	–	–
At 31 December 2014	47,484	–	–	47,484

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 that were classified as level 2. No reclassifications between levels in the fair value hierarchy were made during 2015 (2014: none).

	2015 Book value $'000	2015 Fair value $'000	2014 Book value $'000	2014 Fair value $'000
Cash and deposits*	15,758	15,758	16,224	16,224
Bank debt - within one year*	(50,906)	(50,906)	(40,326)	(40,326)
Bank debt - after more than one year*	(72,034)	(72,034)	(60,638)	(60,638)
US dollar notes**	(33,637)	(31,290)	(33,472)	(34,691)
2017 Sterling notes**	(10,623)	(12,346)	(52,406)	(57,090)
2020 Sterling notes**	(45,230)	(45,826)	–	–
Cross currency interest rate swaps – hedge against principal liabilities	–	–	(8,567)	(8,567)
Net debt and related engagements	(196,672)	(196,644)	(179,185)	(185,088)
Cross currency interest rate swaps – hedge against interest liabilities	–	–	(1,023)	(1,023)
	(196,672)	(196,644)	(180,208)	(186,111)

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

22. 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 as at 31 December 2014 was 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 CCIRS was terminated on 24 December 2015 as set out in note 26. The valuation of the CCIRS at 31 December 2014 at fair value resulted in a loss of $1,283,000 which has been dealt with through the 2014 consolidated income statement.

23. Bank loans

	2015 $'000	2014 $'000
Bank loans	122,940	100,964

	2015 $'000	2014 $'000
The bank loans are repayable as follows:		
On demand or within one year	50,906	40,326
Between one and two years	22,575	15,140
After two years	49,459	45,498
	122,940	100,964
Amount due for settlement within 12 months (shown under current liabilities)	50,906	40,326
Amount due for settlement after 12 months	72,034	60,638
	122,940	100,964

All bank loans are denominated in either US dollars ($73.7 million – 2014: $74.1 million) or Indonesian rupiah ($49.2 million – 2014: $26.9 million) and are at floating rates, thus exposing the group to interest rate risk. The weighted average interest rate in 2015 was 7.3 per cent (2014: 7.1 per cent). Bank loans of $92,940,000 (2014: $70,964,000) are secured on the land, plantations, property, plant and equipment and certain current assets owned by REA Kaltim, SYB, PBJ and KMS having an aggregate book value of $300 million (2014: $218 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 (2014: $nil) and undrawn Indonesian rupiah denominated facilities of $21.6 million (2014: $39.4 million).

24. Sterling notes

The sterling notes comprise £8.3 million (2014: £34.5 million) nominal of 9.5 per cent guaranteed sterling notes 2015/17 (the "2017 sterling notes") and £31.9 million (2014: nil) nominal of 8.75 per cent guaranteed sterling notes 2020 (the "2020 sterling notes"), in each case issued by the company's subsidiary, REA Finance B.V. ("REAF"). 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 two instalments, £8.3 million on 31 December 2017 and £31.9 million on 31 August 2020.

Pursuant to proposals made in August 2015 to holders of the 2017 sterling notes, £26.2 million of such notes were exchanged on 3 September 2015 for a like amount of 2020 sterling notes, and concurrently £636,000 nominal of 2020 sterling notes were issued for cash at 100 per cent of their principal amount. On 24 December 2015, a further £5 million of 2020 sterling notes were issued for cash at a price of £0.97 per £1.00 nominal.

The repayment obligation in respect of the sterling notes of £40.2 million ($59.6 million) is carried in the balance sheet net of the unamortised balance of the note issuance costs. At 31 December 2014, the repayment obligation was partly hedged by a forward foreign exchange contract for the purchase of £22.0 million and for the sale of $42.9 million which matured on 24 December 2015. 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.

25. US dollar notes

The US dollar notes comprise $34.0 million (2014: $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.

26. Hedging instruments

At 31 December 2014, the group had outstanding one cross currency interest rate swap ("CCIRS") for the forward purchase of £22.0 million and sale of $42.9 million, maturing on 24 December 2015, which was carried in the group balance sheet at its fair value. The contract terminated in December 2015 at a cash cost to the group of $10.2 million and a charge to profit and loss in 2015 of $594,700.

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	Inventory $'000	Tax losses $'000	Total $'000
At 1 January 2014	(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)
Credit/(charge) to income for the year	24	(3,884)	(8,069)	401	8,192	(3,336)
Credit to comprehensive income for the year**	–	–	122	–	–	122
Transfers	(23)	–	197	–	23	197
Exchange differences***	(662)	(4,018)	583	(3)	(982)	(5,082)
At 31 December 2015	(24,969)	(51,096)	(15,983)	118	15,549	(76,381)
Deferred tax assets	1	–	119	118	15,549	15,787
Deferred tax liabilities	(24,970)	(51,096)	(16,102)	–	–	(92,168)
At 31 December 2015	(24,969)	(51,096)	(15,983)	118	15,549	(76,381)
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)

* 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 $63.2 million (2014: $34.2 million) available to be applied against future profits. A deferred tax asset of $15,549,000 (2014: $8,316,000) has been recognised in respect of these losses, which are expected to be used in the future based on the group's projections. A tax loss of $122,000 incurred by the group's coal subsidiary in 2015 (2014: $270,000) has not been recognised and at the balance sheet date, tax losses aggregating $9.9 million incurred by the group's coal subsidiary have not been recognised; these tax losses expire 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 $5,572,000 (2014: $7,859,000). 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 temporary difference of $51.1 million (2014: $43.2 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 difference would reverse to the extent of any future reduction in their fair value.

28. Other loans and payables

	2015 $'000	2014 $'000
Retirement benefit obligations (see note 37):		
UK	–	2,383
Indonesia	5,651	5,584
Other	–	73
	5,651	8,040
The amounts are repayable as follows:		
On demand or within one year (shown under current liabilities)	93	1,238
In the second year	186	1,696
In the third to fifth years inclusive	280	2,705
After five years	5,092	2,401
Amount due for settlement after 12 months	5,558	6,802
	5,651	8,040
Amounts of liabilities by currency:		
Sterling	–	2,383
US dollar	–	73
Indonesian rupiah	5,651	5,584
	5,651	8,040

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

	2015 $'000	2014 $'000
Trade purchases and ongoing costs	7,763	5,744
Customer deposits	6,852	1,107
Other tax and social security	2,810	2,801
Accruals	8,249	6,515
Other payables	1,351	1,651
	27,025	17,818

The average credit period taken on trade payables is 33 days (2014: 30 days).

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

Notes to the consolidated financial statements
continued

30. Share capital

	2015 £'000	2014 £'000
Authorised (in pounds sterling):		
75,000,000 – 9 per cent cumulative preference shares of £1 each (2014: 65,000,000)	75,000	65,000
41,000,000 – ordinary shares of 25p each (2014: 41,000,000)	10,250	10,250
	85,250	75,250

	$'000	$'000
Issued and fully paid (in US dollars):		
63,641,232 – 9 per cent cumulative preference shares of £1 each (2014: 59,420,232)	105,414	98,775
36,839,529 – ordinary shares of 25p each (2014: 35,085,269)	15,875	15,200
132,500 – ordinary shares of 25p each held in treasury (2014: 132,500)	(1,001)	(1,001)
	120,288	112,974

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 2015, 4,221,000 9 per cent cumulative preference shares were issued, fully paid, by way of a placing at £1.20 a share (total consideration £5,065,000 - $7,970,000)
- on 15 October 2015, 1,754,260 ordinary shares were issued, credited as fully paid, by way of placing at £2.60 per share (total consideration £4,561,000 - $7,023,000) to Mirabaud Pereire Nominees Limited, Emba Holdings Limited, P Byrom, J Landon and M Goodliffe. The middle market price at close of business on 2 October 2015 (being the date at which the terms of issue were fixed) was £2.67

There have been no changes in ordinary shares held in treasury during the year.

31. Share premium account

	$'000
At 1 January 2014	25,161
Issue of new preference shares (cash)	1,789
Issue of new preference shares (scrip)	(3,420)
Cost of issues	(171)
Profit on disposal of treasury shares	7
At 31 December 2014	23,366
Issue of new preference shares (cash)	1,328
Issue of new ordinary shares (cash)	6,347
Cost of issues	(358)
At 31 December 2015	30,683

32. Translation reserve

	2015 $'000	2014 $'000
Beginning of year	(44,324)	(32,549)
Exchange differences on translation of foreign operations	3,575	(8,429)
Exchange differences on deferred tax	(5,082)	(3,383)
Attributable to non-controlling interests	(451)	37
End of year	(46,282)	(44,324)

33. Retained earnings

	2015 $'000	2014 $'000
Beginning of year	212,928	203,225
Loss/ (profit) for the year after preference dividend	(4,331)	13,983
Ordinary dividend paid	(4,168)	(4,280)
End of year	204,429	212,928

34. Non-controlling interests

	2015 $'000	2014 $'000
Beginning of year	1,681	2,030
Share of result for the year	405	(312)
Exchange translation differences	451	(37)
End of year	2,537	1,681

35. Reconciliation of operating profit to operating cash flows

	2015 $'000	2014 $'000
Operating profit	17,225	32,116
Depreciation of property, plant and equipment	9,076	9,705
Decrease in fair value of agricultural produce inventory	1,147	1,692
Amortisation of prepaid operating lease rentals	722	548
Amortisation of sterling and US dollar note issue expenses	275	358
Biological gain	(13,060)	(3,571)
Loss on disposal of property, plant and equipment	49	484
Cumulative loss on termination of hedging contract *	9,002	–
Operating cash flows before movements in working capital	24,436	41,332
Decrease / (increase) in inventories (excluding fair value movements)	3,844	(527)
Decrease / (increase) in receivables	3,585	(5,659)
Increase / (decrease) in payables	6,818	(3,123)
Exchange translation differences	(1,397)	1,030
Cash generated by operations	37,286	33,053
Taxes paid	(5,427)	(3,401)
Tax refunds received	4,601	8,461
Interest paid	(16,397)	(13,721)
Net cash from operating activities	20,063	24,392

* The cumulative loss on termination of hedging contract represents the cumulative prior year mark-to-market losses on the terminated hedging contract, and is a cash flow offset against the $10,184,000 payment on termination of the contract treated as an outflow under Financing activities.

No additions to property, plant and equipment during the year were financed by new finance leases (2014: $nil).

36. Movement in net borrowings

	2015 $'000	2014 $'000
Change in net borrowings resulting from cash flows:		
Decrease in cash and cash equivalents	(316)	(18,244)
Net increase in bank borrowings	(20,706)	(4,704)
	(21,022)	(22,948)
Issue of preference shares	–	10,564
Amortisation of US dollar notes expenses	(165)	–
Issue of sterling notes, net of amortisation of issue expenses	(4,195)	–
Redemption of US dollar notes, net of amortisation of issue expenses	–	6,310
	(25,382)	(6,074)
Currency translation differences	(2,686)	1,555
Net borrowings at beginning of year	(170,618)	(166,099)
Net borrowings at end of year	(198,686)	(170,618)

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. 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.

A non-IAS 19 valuation of the Scheme was last prepared, using the attained age method, as at 31 December 2014. This method had been adopted in the previous valuation as at 31 December 2011 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 2014 the Scheme had an overall marginal surplus of assets, when measured against the Scheme's technical provisions, of £202,000 - $315,000. The technical provisions were calculated using assumptions of an investment return of 4.35 per cent pre-retirement and 2.80 per cent post-retirement and annual increases in pensionable salaries of 3.20 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 3.20 per cent and 2.45 per cent respectively. It was further assumed that both non-retired and retired members' mortality would reflect S2PXA tables (light version) at 100 per cent and that non-retired members would take on retirement the maximum cash sums permitted from 1 January 2015. Had the Scheme been valued at 31 December 2014 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 normal contributions paid by the group in 2015 were £29,500 - $45,100 (2014: £28,000 - $46,000) and represented 37.4 per cent (2014: 36.4 per cent) of pensionable salaries; in addition, a discretionary contribution of £41,700 - $67,300 was made in 2015 (2014: £88,000 - $145,000) 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). Under the valuation as at 31 December 2014 the normal contributions will continue at the increased rate of 40.2 per cent of pensionable salaries.

37. Retirement benefit obligations - continued

The Scheme had also agreed a recovery plan with participating employers which provided 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. Of the additional contributions applicable to the group's share of that previous recovery plan for 2015 £313,400 - $475,000 was paid (2014: £407,000 - $671,000). No further additional contributions applicable to the group's share of the previous recovery plan will be made and the remaining provision for such contributions has been credited to the group's income statement for the year.

The resultant net (credit)/charge to administrative expenses relating to additional contributions to the Scheme pursuant to the recovery plan was as follows:

	2015 $'000	2014 $'000
Release of provision relating to additional contributions paid in the year	(475)	(357)
Additional contributions paid in the year	475	671
Release of balance of provision relating to additional contributions no longer required	(2,267)	–
Net (credit) / charge to administrative expenses (note 5)	(2,267)	314

The sensitivity of the deficit as at 31 December 2014 to variations in certain of the principal assumptions underlying the actuarial valuation as at that date is summarised below:

	(Decrease) / increase in surplus $'000
Decrease in post-retirement investment returns by 0.1%	(651)
Increase in base table mortality rates by 10%	1,439
Increase in long term rate of mortality by 0.25%	(617)

The next actuarial valuation will be made as at 31 December 2017.

The company is responsible for 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:

	2015	2014
Discount rate	9.14%	8.45%
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:

	2015 $'000	2014 $'000
Balance at 1 January	5,584	4,602
Current service cost	883	907
Interest expense	439	428
Actuarial loss recognised in statement of comprehensive income	489	170
Exchange	(569)	(139)
Paid during the year	(1,175)	(384)
Balance at 31 December (see note 28)	5,651	5,584

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

	2015 $'000	2014 $'000
Current service cost	883	907
Interest expense	439	428
	1,322	1,335
Amount included as additions to biological assets	(110)	(99)
	1,212	1,236

Estimated lump sum payments to Indonesian employees on retirement in 2016 are $93,000 (2015: $531,000).

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".

	2015 $'000	2014 $'000
Short term benefits	2,111	2,112
Post employment benefits	–	–
Other long term benefits	–	–
Termination benefits	–	–
Share based payments	–	–
	2,111	2,112

39. Rates of exchange

	2015 Closing	2015 Average	2014 Closing	2014 Average
Indonesian rupiah to US dollar	13,795	13,377	12,440	11,908
US dollar to pound sterling	1.4832	1.53	1.5593	1.65

40. Events after the reporting period

There have been no material post balance sheet events that would require disclosure or adjustment to these financial statements.

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.

The book value of the assets to be relinquished by SYB amounted as at 31 December 2015 to $8.6 million (2014: $8.6 million), comprising prepaid operating lease rentals of $2.6 million (2014: $2.6 million) and biological assets of $6.0 million (2014: $6.0 million).

Completion had been delayed by a need to obtain comfort as to the continuing validity of the land titles held by PU. Survey work is in progress to identify the areas to be designated for conservation and completion of the swap arrangements is now expected to occur during 2016.

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 2015 the aggregate outstanding balances owing by the three cooperatives to Bank BPD amounted to Indonesian rupiah 122.6 billion ($8.9 million) (2014: Indonesian rupiah 121 billion - $9.7 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 34 months, and do not include contingent rentals, or options to purchase the properties.

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

	2015 $'000	2014 $'000
Within one year	147	344
In the second to fifth year inclusive	111	249
After five years	–	–
	258	593

Company balance sheet

as at 31 December 2015

	Note	2015 $'000	2014 $'000
Non-current assets			
Investments	(iv)	270,489	255,013
Deferred tax assets	(v)	978	978
Non-current receivables		51	–
Total non-current assets		271,518	255,991
Current assets			
Trade and other receivables	(vi)	15,859	25,714
Cash and cash equivalents	(vii)	278	728
Total current assets		16,137	26,442
Total assets		287,655	282,433
Current liabilities			
Trade and other payables	(viii)	(1,069)	(756)
Amount owed to group undertaking	(x)	–	(19,478)
Total current liabilities		(1,069)	(20,234)
Non-current liabilities			
US dollar notes	(ix)	(33,637)	(33,472)
Amount owed to group undertaking	(x)	(63,944)	(38,957)
Total non-current liabilities		(97,581)	(72,429)
Total liabilities		(98,650)	(92,663)
Net assets		189,005	189,770

	Note	2015 $'000	2014 $'000
Equity			
Share capital	(xi)	120,288	112,974
Share premium account	(xii)	30,683	23,366
Exchange reserve	(xii)	(4,300)	(4,300)
Profit and loss account	(xii)	42,334	57,730
Total equity		189,005	189,770

Approved by the board on 22 April 2016 and signed on behalf of the board.

DAVID J BLACKETT

Chairman

Company statement of changes in equity

for the year ended 31 December 2015

	Note	Share capital $'000	Share premium $'000	Exchange reserve $'000	Profit and loss $'000	Total $'000
At 1 January 2014		101,574	25,161	(4,300)	64,074	186,509
Total comprehensive income	(xii)	–	–	–	6,076	6,076
Issue of new preference shares (cash)	(xi)	8,946	1,618	–	–	10,564
Issue of new preference shares (scrip)	(xi)	3,420	(3,420)	–	–	–
Purchase of treasury shares	(xi)	(966)	7	–	–	(959)
Dividends to preference shareholders	(iii)	–	–	–	(8,140)	(8,140)
Dividends to ordinary shareholders	(iii)	–	–	–	(4,280)	(4,280)
At 31 December 2014		112,974	23,366	(4,300)	57,730	189,770
Total comprehensive income	(xii)	–	–	–	(2,767)	(2,767)
Issue of new preference shares (cash)	(xi)	6,639	1,199	–	–	7,838
Issue of new ordinary shares (cash)	(xi)	675	6,118	–	–	6,793
Dividends to preference shareholders	(iii)	–	–	–	(8,461)	(8,461)
Dividends to ordinary shareholders	(iii)	–	–	–	(4,168)	(4,168)
At 31 December 2015		120,288	30,683	(4,300)	42,334	189,005

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 2015

	Note	2015 $'000	2014 $'000
Net cash inflow / (outflow) from operating activities	(xiv)	427	(11,131)
Investing activities			
Interest received		6,952	7,406
Dividends and other distributions received from subsidiaries	(xvi)	–	10,944
Repayment of loans by subsidiary companies *		5,242	3,050
New loans made to subsidiary companies *		(19,787)	(543)
Further investment in Indonesian stone and coal interests		(3,968)	(897)
Net cash used in investing activities		(11,561)	19,960
Financing activities			
Preference dividends paid	(iii)	(8,461)	(8,140)
Ordinary dividends paid	(iii)	(4,168)	(4,280)
Proceeds of issue of ordinary shares		6,793	–
Proceeds of issue of preference shares		7,838	10,564
Purchase of treasury shares, net of sales		–	(959)
Redemption of US dollar notes	(ix)	–	(6,310)
New loans from subsidiary company		8,709	–
Net cash from financing activities		10,711	(9,125)
Cash and cash equivalents			
Net decrease in cash and cash equivalents		(423)	(296)
Cash and cash equivalents at beginning of year		728	1,156
Effect of exchange rate changes		(27)	(132)
Cash and cash equivalents at end of year	(vii)	278	728

* 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

The company financial statements are set out on pages 112 to 124.

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.

Adoption of new and revised standards

The directors do not expect that the adoption of the standards listed on page 82 in Accounting policies (group) will have a material impact on the financial statements of the company in future periods.

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 22 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) Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described on page 115, the directors are required to make judgements, estimates and assumptions; these are based on historical experience and other factors that are considered to be relevant, and are reviewed on a regular basis. Actual values of assets and amounts of liabilities may differ from estimates. Revisions to estimates are recognised in the period in which the estimates are revised.

In the opinion of the directors, all critical accounting judgements and key sources of estimation uncertainty relate to the group's operations as disclosed in note 1 to the consolidated financial statements and no such judgements or estimates apply to the company's financial statements

(ii) 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.

(iii) Dividends

	2015 $'000	2014 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share	8,461	8,140
Ordinary dividends of 7.75p per share (2014: 7.25p per share)	4,168	4,280
	12,629	12,420

(iv) Investments

	2015 $'000	2014 $'000
Shares in subsidiaries	91,775	91,775
Loans	178,714	163,238
	270,489	255,013

The movements were as follows:

	Shares $'000	Loans $'000
At 1 January 2014	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
Repayment of loans	–	(5,316)
Additions to loans	–	23,833
Effect of exchange	–	(3,041)
At 31 December 2015	91,775	178,714

KCC Resources Limited's preference shares provided a limited participation in the coal interests of REA 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 was written-off in the company's profit and loss account.

The 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 06662767, has taken advantage of the exemption pursuant to Companies Act 2006 s394A from preparing and filing individual accounts.

(v) Deferred tax asset

	$'000
At 1 January 2014	979
Credit to income for the year	(1)
Effect of change in tax rate	–
Effect of exchange	–
At 31 December 2014	978
Charge to income for the year	–
Effect of change in tax rate	–
Effect of exchange	–
At 31 December 2015	978

There were no deferred tax liabilities at 1 January 2014, 31 December 2014 or 31 December 2015.

At the balance sheet date, the company had unused tax losses of $4.9 million (2014: $4.9 million) available to be applied against future profits. A deferred tax asset of $978,000 (2014: $978,000) 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)

(vi) Trade and other receivables

	2015 $'000	2014 $'000
Trade debtors	–	–
Amount owing by group undertakings	15,267	25,166
Other debtors	567	530
Prepayments and accrued income	25	18
	15,859	25,714

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

(vii) Cash and cash equivalents

Cash and cash equivalents comprise short-term bank deposits. The Moody's prime ratings of these deposits amounting to $278,000 (2014: $728,000) is set out in note 22 to the consolidated financial statements under the heading "Credit risk".

(viii) Trade and other payables

	2015 $'000	2014 $'000
Amount owing to group undertakings	651	527
Other creditors	90	30
Accruals	328	199
	1,069	756

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

(ix) US dollar notes

The US dollar notes comprise $34.0 million (2014: $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.

(x) Amount owed to group undertaking

Amount owed to group undertaking comprises two unsecured interest-bearing loans from REA Finance B.V.. One loan of £11.3 million ($16.7 million) is repayable in December 2017, the second loan of £31.9 million ($47.2 million) is repayable in August 2020.

(xi) Share capital

	2015 £'000	2014 £'000
Authorised (in pounds sterling):		
75,000,000 – 9 per cent cumulative preference shares of £1 each (2014: 65,000,000)	75,000	65,000
41,000,000 – ordinary shares of 25p each (2014: 41,000,000)	10,250	10,250
	85,250	75,250

	$'000	$'000
Issued and fully paid (in US dollars):		
63,641,232 – 9 per cent cumulative preference shares of £1 each (2014: 59,420,232)	105,414	98,775
36,839,529 – ordinary shares of 25p each (2014: 35,085,269)	15,875	15,200
132,500 – ordinary shares of 25p each held in treasury (2014: 132,500)	(1,001)	(1,001)
	120,288	112,974

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 2015, 4,221,000 9 per cent cumulative preference shares were issued, fully paid, by way of a placing at £1.20 a share (total consideration £5,065,000 - $7,970,000)
- on 15 October 2015, 1,754,260 ordinary shares were issued, credited as fully paid, by way of placing at £2.60 per share (total consideration £4,561,000 - $7,023,000) to Mirabaud Pereire Nominees Limited, Emba Holdings Limited, P Byrom, J Landon and M Goodliffe. The middle market price at close of business on 2 October 2015 (being the date at which the terms of issue were fixed) was £2.67

There have been no changes in ordinary shares held in treasury during the year.

(xii) Movement in reserves

	Share premium account $'000	Exchange reserve $'000	Profit and loss account $'000
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
At 1 January 2015	23,366	(4,300)	57,730
Total comprehensive income	–	–	(2,767)
Dividends to preference shareholders	–	–	(8,461)
Dividends to ordinary shareholders	–	–	(4,168)
Issue of preference shares (cash)	1,328	–	–
Issue of ordinary shares (cash)	6,347	–	–
Costs of issues	(358)	–	–
At 31 December 2015	30,683	(4,300)	42,334

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 loss before dividends recognised in the company's profit and loss account for the year is $2.8 million (2014: profit $6.1 million).

(xiii) 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 22 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.

	2015 Book value $'000	2015 Fair value $'000	2014 Book value $'000	2014 Fair value $'000
Cash and cash equivalents	278	278	728	728
US dollar notes	(33,637)	(31,290)	(33,472)	(34,691)
Net debt	(33,359)	(31,012)	(32,744)	(33,963)

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 2015, the company had outstanding $34 million nominal (2014: $34 million) of 7.5 per cent dollar notes 2017.

The policy for liquidity risk management is disclosed in note 22 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 2015, 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 2015 and 31 December 2014 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 2015 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 (2014: $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 company's non-derivative financial liabilities. The table has been drawn up based on the undiscounted amounts of the company's financial liabilities based on the earliest dates on which the company can be required to discharge those liabilities. The table includes liabilities for both principal and interest.

2015	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	35,286	-	37,837
2014					
US dollar notes	8.5	2,551	2,551	35,286	40,388

At 31 December 2015, the company's non-derivative financial assets (other than receivables) comprised cash and deposits of $278,000 (2014: $728,000) carrying a weighted average interest rate of nil per cent (2104: nil per cent) all having a maturity of under one year and loans (including Indonesian stone and coal interests) of $37,200,000 (2014: $33,100,000).

(xiv) Reconciliation of operating loss to operating cash flows

	2015 $'000	2014 $'000
Operating loss	(57)	(105)
Amortisation of US dollar note issue expenses	166	346
Operating cash inflows before movements in working capital	109	241
Decrease in receivables	8,754	3,642
Increase / (decrease) in payables	313	(5,189)
Exchange translation differences	246	178
Cash outflow from operations	9,422	(1,128)
Taxes paid	(903)	(941)
Interest paid	(8,092)	(9,062)
Net cash inflow / (outflow) from operating activities	427	(11,131)

(xv) 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. 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.

A non-IAS 19 valuation of the Scheme was last prepared, using the attained age method, as at 31 December 2014. This method had been adopted in the previous valuation as at 31 December 2011 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 2014 the Scheme had an overall marginal surplus of assets, when measured against the Scheme's technical provisions, of £202,000. The technical provisions were calculated using assumptions of an investment return of 4.35 per cent pre-retirement and 2.80 per cent post-retirement and annual increases in pensionable salaries of 3.2 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 3.20 per cent and 2.45 per cent respectively. It was further assumed that both non-retired and retired members' mortality would reflect S2PXA tables (light version) at 100 per cent and that non-retired members would take on retirement the maximum cash sums permitted from 1 January 2015. Had the Scheme been valued at 31 December 2014 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 had also agreed a recovery plan with participating employers which provided 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.

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 2017.

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 2015 (2014: $nil).

The company is responsible for 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.

(xvi) Related party transactions

Loans to subsidiaries	2015 $'000	2014 $'000
PT Cipta Davia Mandiri	6,528	11,770
PT KCC Resources Indonesia	12,622	12,700
Makassar Investments Limited	425	425
REA Finance BV	3,649	3,836
PT REA Kaltim Plantations	89,101	77,255
R.E.A. Services Limited	29,220	24,130
	141,545	130,116

Dividends received from subsidiaries	2015 $'000	2014 $'000
Makassar Investments Limited	–	8,550
R.E.A. Services Limited	–	2,394
	–	10,944

Interest received from subsidiaries	2015 $'000	2014 $'000
PT Cipta Davia Mandiri	410	686
REA Finance BV	322	340
PT REA Kaltim Plantations	5,951	6,115
	6,683	7,141

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".

	2015 $'000	2014 $'000
Short term benefits	2,111	2,112
	2,111	2,112

There is no remuneration other than short term benefits.

Notes to the company financial statements (continued)

(xvii) Rates of exchange

See note 39 to the consolidated financial statements.

(xviii) Contingent liabilities and commitments

Sterling notes

The company has guaranteed the obligations for both principal and interest relating to the outstanding £8.3 million nominal (2014: £34.54 million) 9.5 per cent guaranteed sterling notes 2017 and the outstanding £31.9 million nominal 8.75 per cent guaranteed sterling notes 2020 issued by REA Finance B.V.. The directors consider the risk of loss to the company from these guarantees to be remote.

Bank borrowings

The company has given, in the ordinary course of business, guarantees in support of subsidiary company borrowings from, and other contracts with, banks amounting in aggregate to $122.9 million (2014: $111.0 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 (xiv) above.

Operating leases

The company has an annual commitment under an operating lease of $157,000 (2014: $167,000). The commitment expires after one year. 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:

	2015 $'000	2014 $'000
Within one year	157	167
In the second to fifth year inclusive	–	167
After five years	–	–
	157	334

(xix) Post balance sheet event

There have been no material post balance sheet events that would require disclosure or adjustment to 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-sixth 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 6 June 2016 at 10.00 am to consider and, if thought fit, to pass the following resolutions. Resolutions 13 and 14 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 2015, 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 2015.

3. To re-elect as a director Mr J C Oakley, who, having recently been appointed as a non-executive director and having served for more than nine years as an executive director, retires as required by the UK Corporate Governance Code and submits himself for re-election.

4. 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.

5. To re-elect as a director Mr M A Parry, who, having been a director at each of the two preceding annual general meetings and who was not reappointed 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.

6. To re-elect as a director Ms I Chia, 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 herself for re-election.

7. 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.

8. To authorise the directors to fix the remuneration of the auditor.

9. That, conditional upon the passing of resolution 13 set out in the notice of the 2016 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) the higher of the last independent trade and the current highest independent bid on the London Stock Exchange; 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 2017 (or, if earlier, on 30 June 2017)

   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.

10. That the articles of association of the company be and are hereby amended by increasing the maximum amount of shares that may be allotted by the company from £85,250,000 to £97,500,000 by the addition of 9,000,000 ordinary shares of 25p each and 10,000,000 9 per cent cumulative preference shares of £1, in each case ranking pari passu in all respects with the existing ordinary and preference shares in the capital of the company.

11. 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 £3,058,919; such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2017), 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.

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, 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 £21,358,768, such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2017), 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.

13. 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 11 set out in the notice of the 2016 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 11; 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 £917,675 and shall expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2017), 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.

14. 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
22 April 2016

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 the 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 3 to 6 and 9 to 14 set out above in this notice of the 2016 annual general meeting of the company (the "2016 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 4 June 2016 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 4 June 2016.

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 4 June 2016) 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 4 June 2016. 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 2016 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 2016 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 2016 Notice, the issued share capital of the company comprises 36,839,529 ordinary shares, of which 132,500 are held as treasury shares, and 63,641,232 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 36,707,029 as at the date of this 2016 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 2016 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.

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