R.E.A. HOLDINGS PLC

Annual Report and Accounts

2016

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 and sale of crude palm oil and crude palm kernel oil.

Sterilising cages

Steam turbine

Contents

Currency

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

Key statistics

	2016	2015*	2014	2013	2012
Results ($'000)					
Revenue	79,265	90,515	125,865	110,547	124,600
Earnings before interest, tax, depreciation and amortisation	15,933	15,123	38,797	30,269	38,083
(Loss) / profit before tax	(9,289)	(12,245)	23,744	25,216	30,558
(Loss) / profit for the year	(11,308)	(12,931)	21,981	12,672	17,703
(Loss) / profit attributable to ordinary shareholders	(17,800)	(20,912)	14,153	5,457	11,342
Cash generated by operations	25,371	37,286	33,053	19,358	55,110
Returns per ordinary share					
(Loss) / earnings (US cents)	(48.2)	(59.0)	40.3	15.8	33.9
Dividend (pence)	–	–	7.75	7.25	7.0

* Restated - see Accounting policies (group)

	2016	2015	2014	2013	2012
Land areas (hectares)					
Mature oil palm	31,521	29,367	28,275	27,102	26,688
Immature oil palm	11,325	7,730	6,339	6,960	4,819
Planted areas	42,846	37,097	34,614	34,062	31,507
Infrastructure and undeveloped	27,738	33,487	35,970	36,522	39,077
Fully titled	70,584	70,584	70,584	70,584	70,584
Subject to completion of title	37,631	37,631	37,631	30,043	31,601
Total	108,215	108,215	108,215	100,627	102,185
FFB Harvested (tonnes) **					
Group	468,371	600,741	631,728	578,785	597,722
Third party	98,052	138,657	149,002	99,348	64,014
Total	566,423	739,398	780,730	678,133	661,736
Production (tonnes) **					
Total FFB processed	560,957	728,871	774,420	677,389	660,954
CPO	127,697	161,844	169,371	147,649	151,516
Palm kernels	26,371	33,877	35,812	30,741	30,734
CPKO	9,840	12,557	12,610	11,393	11,549
CPO extraction rate ***	22.8%	22.2%	21.9%	21.8%	22.9%
Yields (tonnes per mature hectare)					
FFB	14.9	20.5	22.3	21.4	22.4
CPO	3.4	4.5	4.9	4.6	5.1
CPKO	0.3	0.3	0.4	0.4	0.4
Average exchange rates					
Indonesian rupiah to US dollar	13,369	13,377	11,908	10,494	9,392
US dollar to sterling	1.36	1.53	1.65	1.57	1.59

** 2015 restated - see footnote to table under "Agricultural operations" page 18

*** 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

- Adoption of amended IAS 41, effective 1 January 2016, on biological assets has impacted 2016 profits due to a new additional depreciation charge and the elimination of fair value gains; 2015 comparatives restated to reflect the change with reduction in results before tax of $23.8 million
- Revenues of $79.3 million (2015: $90.5 million), reflecting lower production following two year severe dry period
- Firmer CPO prices, continued focus on costs and exchange gains limiting the impact of lower production: loss before tax of $9.3 million (2015: $12.2 million)
- Net new investment of $31.6 million (2015: $34.8 million)
- Permanent capital base to support extension planting programme strengthened by $27.0 million, net of expenses, from combination of acquisition by DSN group of 15 per cent in the REA Kaltim group and cash placing of 3.7 million new ordinary shares
- Debt maturity profile improved by exchange of $13.8 million of 2017 dollar notes for new 2022 dollar notes, repackaging of Indonesian bank loans and new funding of $14.4 million to refinance maturing debt from combination of sale of 2020 sterling notes held in treasury and loans from the DSN group

Agricultural operations

- Crop of FFB 468,371 tonnes (2015: 600,741 tonnes); CPO production of 127,697 tonnes (2015: 161,844 tonnes)
- Extraction rates averaged 22.8 per cent (2015: 22.2 per cent) despite impact on FFB quality of disruptions to harvesting and transportation caused by heavy rainfall in final quarter
- Significant progress with new development: over 5,700 hectares of new land planted and a further 1,500 prepared for planting
- Reliability of mill operations benefiting from recent extensive refurbishment programme and enhanced security systems
- New enhanced fertiliser regime targeted at mature areas initiated

Stone and coal operations

- Long term arrangements agreed for purchasing crushed stone for own use in hardening roads and other infrastructure and for sale to third parties
- Agreements reached for resumption of coal operations at the coal concession near Kota Bangun

Sustainability

- Renewable energy from methane capture plants supplying 26 local villages and making an increasing contribution as household take up continues to grow
- RSPO recertification audits competed satisfactorily; ISCC renewals in process
- Completion of new estate school and new housing at KMS
- Completion of five village water treatment community development projects
- REA Kaltim awarded Class 1 status by the regional governor following assessment of local plantation companies, based on operational, social and environmental criteria

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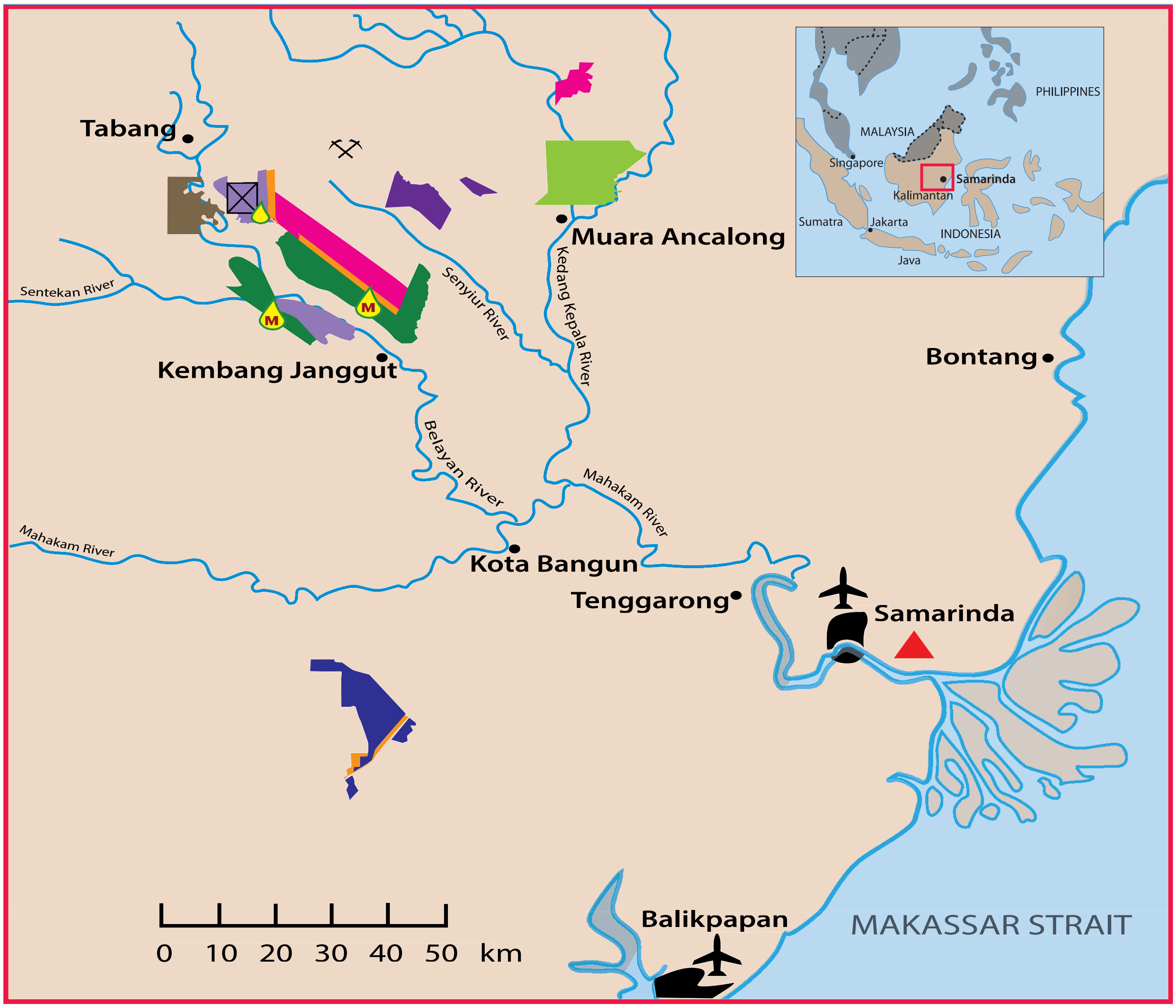
Maps



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.

Key

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

Chairman's statement

The accompanying financial statements for 2016 incorporate a significant change in accounting policies in accordance with the amendment of IAS 41 Agriculture effective 1 January 2016. The amendment means that bearer plants are no longer carried as biological assets at fair value but are instead accounted for as property, plant and equipment, and are depreciated. The 2015 financial statements have been restated to reflect the change.

The effect has been to reduce the previously reported profit before tax for 2015 by $23.8 million and, whilst the comparable reduction for 2016 has not been computed, it is most probably even higher given the likely benefit to the fair value of what were formerly biological assets from the sizeable extension planting achieved in 2016. As a result, with margins already reduced by lower production, and despite improved crude palm oil ("CPO") prices, the group incurred a loss before taxation for the year, albeit reduced from the restated loss of the preceding year.

Total revenue for the year amounted to $79.3 million, compared with $90.5 million in 2015; at the operating level, the group incurred a loss of $5.0 million for the year, compared with a restated loss of $6.6 million in 2015. Firmer CPO prices in 2016 as well as continued focus on cost controls restricted the loss before tax in 2016 to $9.3 million compared with a restated loss of $12.2 million in 2015.

As previously reported, the group's lower production mirrored the production experience reported by many other oil palm plantations in East Kalimantan and several other areas of South East Asia and is attributed to the severe dry periods experienced in both 2014 and 2015. The group's cropping rates started to recover from September onwards, but heavy rainfall in November and December disrupted collection, which meant that production in the final months of the year fell short of crop availability as not all crop could be recovered. Oil quality was also affected. Whilst the change in precipitation is positive for future productivity, such a dramatic increase after a prolonged period of drought, with average rainfall in 2016 more than 60 per cent higher than in 2015, had a short term negative impact on conditions for both harvesting and transportation. With the easing of the rains, essential repairs to, and hardening of, estate roads have become feasible and these should progressively benefit production as the current year progresses.

Fresh fruit bunches ("FFB") harvested in 2016 amounted to some 468,000 tonnes compared with 601,000 tonnes in 2015. Smallholder and other third party FFB purchased by the group also fell short of 2015 levels at 98,000 tonnes compared with 139,000 tonnes in the previous year. CPO production amounted to 128,000 tonnes compared with 162,000 tonnes in 2015, while CPO extraction rates averaged 22.8 per cent compared with 22.2 per cent in 2015. Extraction rates in 2016 would have been higher were it not for the impact on FFB quality of the disruptions to harvesting and transportation in the last part of the year.

The CPO price, CIF Rotterdam, edged steadily upwards through 2016 from an opening price of $570 per tonne to close at $801 per tonne but has since fallen back and currently stands at $710 per tonne. Whilst there is an expectation of better CPO production in 2017, soybean oil production may be constrained by a relatively weak market for soya meal so that, with vegetable oil and CPO stocks much depleted following the poor harvests of 2016, there is a reasonable prospect that prices will stabilise at above the $700 per tonne level during the second half of 2017.

Through PLN, the Indonesian state electricity company, the group now supplies power to 26 villages and sub-villages surrounding the estates. Revenue from electricity generated from the group's two methane capture plants amounted to some $563,000 in 2016, compared with $233,000 in the first eight months of operation in 2015.

Excellent progress was made with the group's extension planting programme in 2016, following completion of the bunding and construction of the water gates to control the flood prone lower lying areas of PT Putra Bongan Jaya ("PBJ"). A total of 5,758 hectares were planted during the year and a further 4,000 hectares of plantings are planned for 2017. The latter programme will require extension of existing bunding into the northern section of PBJ and new bunding along the southern boundary of PT Cipta Davia Mandiri ("CDM"). Work on this additional bunding is already well in hand.

As reported previously, in December 2016, PT Dharma Satya Nusantara Tbk ("DSN") completed its acquisition of a 15 per cent interest in the group's principal operating subsidiary in Indonesia, PT REA Kaltim Plantations ("REA Kaltim"). In addition, the DSN group has provided loans to the REA Kaltim group. DSN's investment and provision of loans will help to finance the group's extension planting programme and accords with the long-held intention of increasing Indonesian participation in the group.

The group successfully addressed several key elements of funding that were highlighted in the 2015 annual report. Specifically, the group issued new US dollar denominated notes maturing in 2022 by way of an exchange offer to existing 2017 dollar noteholders to extend the maturity of $13.8 million and latterly issued 3.7 million ordinary shares by way of a placing to raise some £10.5 million. In addition, £1.5 million of 2020 sterling notes held in treasury were sold by a group subsidiary and Indonesian bank loans were repackaged so as to extend the maturities and significantly reduce nearer term repayments under the existing facilities.

Under fresh agreements recently reached with third parties, operations at the group's coal concession near Kota Bangun are expected to resume shortly following dewatering of the concession area. Under these agreements, the group should receive a steady cash flow based upon the prevailing coal prices but with an agreed floor. Previously reported negotiations with another third party in relation to the Liburdinding concession proved abortive but the group is continuing to hold discussions regarding this concession with several potentially interested parties.

The group is also continuing to review options for developing suitable road access to the group's andesite stone concession. This will be a necessary preliminary to commencing extraction operations. Previous discussions with potential strategic investors have not been renewed pending the outcome of such review. Arrangements have been agreed, however, in respect of a limestone deposit adjacent to PBJ. These arrangements will provide the group with the crushed stone required for infrastructure in the agricultural operations and other construction programmes, as well as for sale to third parties.

Revenue from these recent developments in the stone and coal operations will provide a useful addition to the group's cash flow. However, depending upon the level of CPO prices and operational performance during the remainder of 2017, some further funding may be required to enable the group to continue its expansion programme at the speed that it would like. Accordingly, the group is actively engaged in discussions to obtain new longer term debt financing to replace, or replace in part, the remaining component of the group's maturing sterling and dollar notes that has not yet been refinanced. The directors are optimistic of a successful outcome to these discussions.

In view of the financial performance in 2016, the directors have not declared, or recommended the payment of any ordinary dividend in respect of the year. Provided that crops continue to recover as expected and prices for the group's produce are maintained around current levels, the directors will consider recommending the payment of a final ordinary dividend in respect of 2017.

Following the resignation of Mark Parry, I would like to welcome Carol Gysin as the company's new managing director. Carol has worked for the group for over eight years and is very familiar with its operations. Further, I also welcome Michael St Clair-George who joined the board in October 2016 as the senior independent non-executive director and chairman of both the audit and remuneration committees. Michael has over 40 years' experience in the plantation and agribusiness industries in Malaysia and Indonesia.

Looking ahead, the recent return to more normal levels of rainfall, allowing harvesting rounds gradually to improve and renovation and repairs to the estate roads to become fully effective, should see both harvesting and production levels increase. With extraction rates expected to improve further, an increasing hectarage of mature plantings and CPO prices that could well remain around current levels, a significant improvement in revenues should be possible. This and the continuing development of the group's land bank, coupled with further progress in the stone and coal operations, should lead to enhanced shareholder value.

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 operations" 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 and sale 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 two stone deposits and two 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 while 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 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 group's stone deposits 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 invested.

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 2016 represented some 92 per cent of the group's total assets and which, in 2016, 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 and developing the existing operations. They therefore have no plans for further diversification.

Future direction

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 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.

To this end, in May 2016, the directors concluded a transaction with a strategic investor in the group's principal operating subsidiary, PT REA Kaltim Plantations ("REA Kaltim") whereby subsidiary companies of PT Dharma Satya Nusantara Tbk ("DSN"), acquired, by a combination of subscription for new shares and the acquisition of existing shares, a 15 per cent equity interest in REA Kaltim.

DSN is an Indonesian natural resources company listed on the Indonesia Stock Exchange in Jakarta and engaged in the business of oil palm plantations and wood products, with plantation estates based in East, Central and West Kalimantan. In addition to securing more permanent capital in the local operations of the group, the directors believe that through this association with DSN the group will benefit from exchanges of information on agronomic practices and that there will be scope for more efficient sourcing of supplies and marketing of produce.

The group has acknowledged that DSN may increase its participation in REA Kaltim to an eventual level of 49 per cent by gradual stages over a period of five years, but on the basis that each increase will be subject to agreement of the price and other terms at the time of such increase and to the receipt of all necessary consents and approvals, including the approval of the company's shareholders to the extent required.

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 3.1 per cent to 208 million tonnes in the year to 30 September 2016 (of which vegetable oils represented 155 million tonnes). World production of the same group of vegetable oils and fats during the same period was 206 million tonnes with vegetable oils accounting for 153 million tonnes and CPO 61 million tonnes (some 29 per cent of the total). The excess of consumption over production was reflected in a material depletion in stocks.

Total vegetable oil production is currently forecast by Oil World to rise by 2.4 per cent in 2017 to 213 million tonnes, driven principally by a recovery in CPO production (which was depressed in the preceding year by weather factors) and increased production of soybean oil. Total CPO production is projected to account for approximately 61 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 up to 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. In particular, 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.

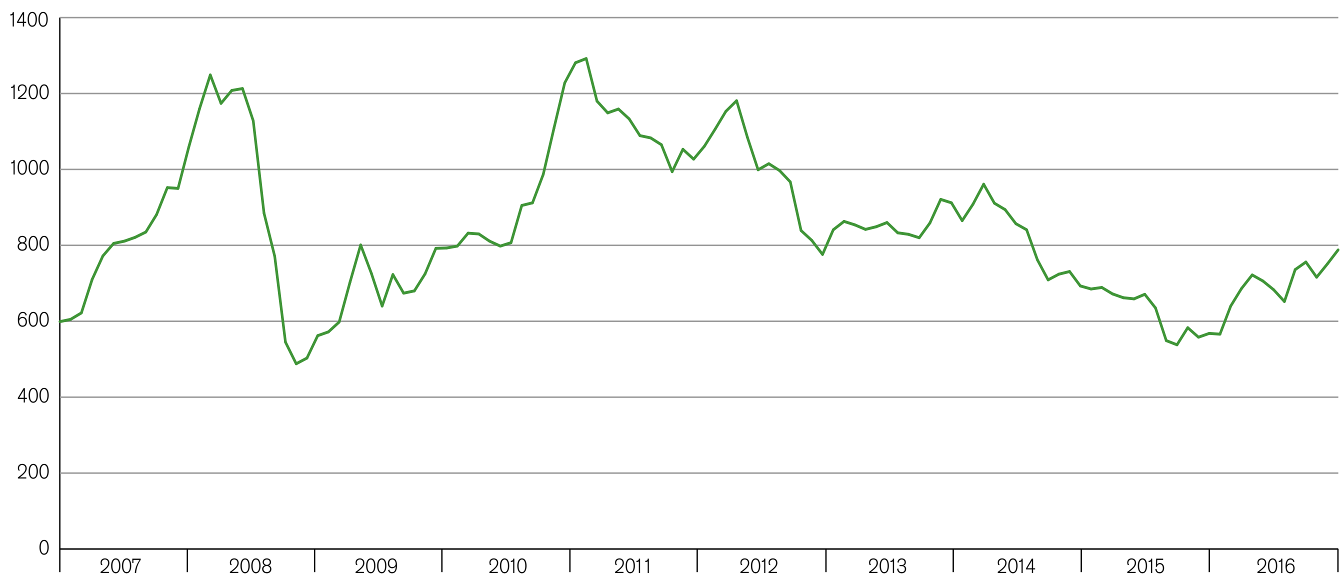
In recent years, biofuel has become an important factor in the vegetable oil markets. According to Oil World, biofuel production in the year to 30 September 2016 accounted for some 15 per cent of global vegetable oil consumption. There is substantial evidence that over a period of several years there has been a correlation between vegetable oil and petroleum oil prices but, following the sharp decline in petroleum oil prices during 2015, it appears that the correlation has, for the time being at least, been broken.

There are probably two principal reasons for this: the 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. An increasing element of biofuel use reflects government mandates. In Indonesia, for example, a levy on exports of CPO of $50 per tonne introduced in July 2015 is being used to subsidise biodiesel production and is leading to increasing amounts of CPO being converted to biodiesel for internal consumption. The resultant effect is that the economics of producing biodiesel (which, subsidies apart, are dependent upon the price of competing petroleum based diesel) are not currently the determinant of vegetable oil prices so that those prices no longer correlate with energy prices. This situation would, of course, change should petroleum oil prices recover materially from present levels and restore the economics of manufacturing unsubsidised biodiesel.

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 $488 per tonne. The monthly average price over the ten years as a whole has been $844 per tonne.

The CPO price, CIF Rotterdam, edged steadily upwards through 2016 from an opening price of $570 per tonne to close at $801 per tonne but has fallen back since then and currently stands at $710 per tonne. Whilst there is an expectation of better CPO production in 2017, soybean oil

Crude palm oil monthly average price



production may be constrained by a relatively weak market for soya meal so that, with vegetable oil and CPO stocks much depleted following the poor harvests of 2016, there is a reasonable expectation that prices will stabilise at above the $700 per tonne level during the second half of 2017.

The Indonesian context

The Indonesian economy remained relatively stable during 2016 and continued to be one of the best performing global economies behind India and China. Despite the adverse impact of continuing low global commodity prices, GDP still grew by over 5.0 per cent in 2016 (2015: 4.9 per cent) boosted by a number of government infrastructure projects throughout Indonesia. The official inflation rate was around 3.0 per cent in 2016 (2015: 3.4 per cent), although real inflation, particularly in the outer islands, is likely to have been higher than this as suggested by an average increase of 8.3 per cent in the minimum wage for 2017 in the three districts in which the group operates in East Kalimantan.

The Indonesian rupiah strengthened from Rp 13,795 = $1 at the start of 2016 to Rp 13,436 = $1 by the end of the year and has strengthened slightly further in the first months of 2017.

The consistently high level of security, in place in Jakarta for many years, has meant that the police have apparently been able to prevent or respond swiftly to a number of planned terrorist incidents. This has helped to maintain international, as well as domestic, investor confidence in the effectiveness of the government, an important facilitator of economic growth.

Against a background of positive macro-economic indicators, the government of President Joko Widodo ("Jokowi") has started to make progress with delivering on key election pledges of reduced unemployment, increased infrastructure investment and structural reform.

Introduction and strategic environment

continued

The run up to the governor's elections in Jakarta held in February 2017, which resulted in the failure of any candidate to attain the required minimum 50 per cent of the vote and consequently the need for a second and final round of voting to be held in April 2017, was tarnished by political tensions and accusations amongst the candidates. Although this led to a few mass demonstrations in Jakarta, there has since been a public reconciliation between the sides supporting each of the candidates, suggesting that democracy in Indonesia is maturing and able to weather major political storms that erupt from time to time. Maintaining investor confidence in the country is key to its economic growth.

In East Kalimantan, where the group's operations are based, the local economy continued to suffer for most of 2016 from the low coal prices that had previously led to the closure of many coal mines, as well as from the sharp fall in oil palm production during the middle of the year associated with the worst El Niño event on record. The final quarter of 2016 saw the start of a recovery in coal prices, leading to the reopening of some mines, as well as improving production in the plantation sector.

The group continues to maintain excellent relations with the longstanding regent of Kutai Kartanegara, where the group's mature estates are located, and is building good relations with the newly elected regents of Kutai Timur and Kutai Barat, where the developing estates are located. The Kutai Kartanegara regent is seen as a front runner for the elections for governor of East Kalimantan to be held in 2018.

The export levy of $50 per tonne introduced in July 2015 continues to be applied to all Indonesian export sales of CPO and CPKO irrespective of selling price. In addition, Indonesia applies sliding scales of duty on exports of CPO and CPKO at export prices above certain levels. These scales have been adjusted so that, at export prices at which export duty was payable under the previous sliding scales, the combined cost of export levy and export duty under the new sliding scale is unchanged from the export duty that would have been payable under the previous sliding scales. Export duty on CPO now becomes payable when export prices CIF Rotterdam exceed $750 per tonne.

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 2016 with, where available, comparative figures for 2015 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 by 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 now holds an 85 per cent economic interest (2015: 100 per cent). 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 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 concluded 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.

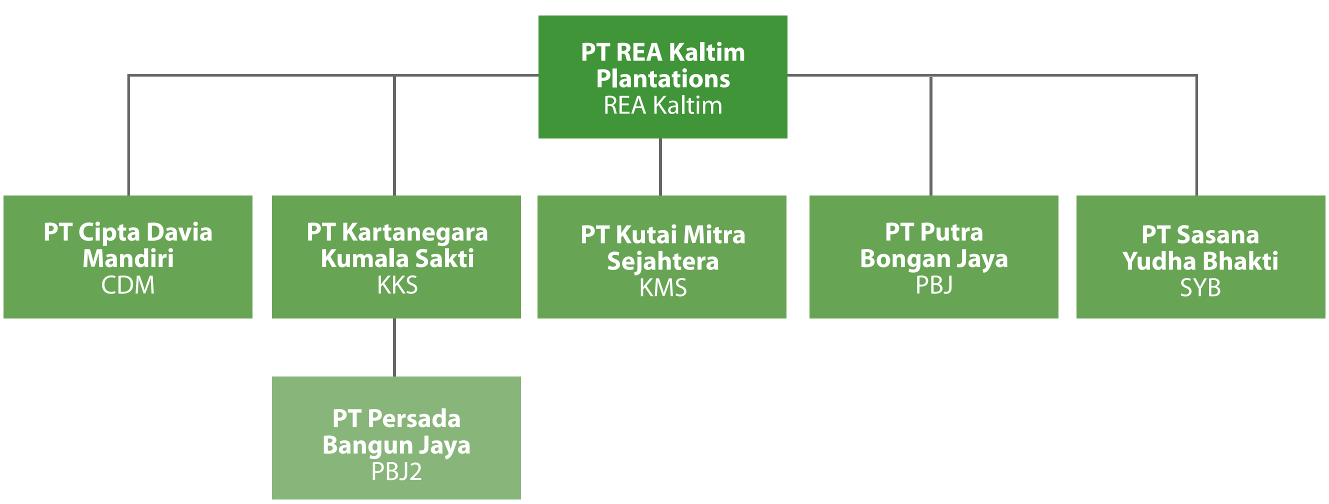
A diagram showing the structure of the REA Kaltim sub-group is set out below.

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 SYB area and one KKS area are contiguous with the REA Kaltim areas and together form a single site. All of these areas fall within the Kutai Kartanegara regency of East Kalimantan. The PBJ area sits some 70 kilometres to the south of the REA Kaltim areas in the West Kutai regency of East Kalimantan while the CDM and KMS areas and a second KKS area are located in close proximity to each other in the East Kutai regency of East Kalimantan less than 30 kilometres to the east of the REA Kaltim areas. Two strips of land held by PBJ2 are adjacent to the land areas held by REA Kaltim and SYB; a third strip, bordering the PBJ land areas and formerly held by PBJ2, is being reallocated to PBJ.

Historically, the REA Kaltim, SYB, KKS, CDM and KMS areas were most readily accessed by river. However, construction in 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), means that the group has alternative transport options particularly when either excessively dry or wet weather periods affect river or road access. Transit times between the estates and Balikpapan can now be as little as six hours by road. 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 have 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 2016, the overall area of the group's fully titled agricultural land remained at 70,584 hectares. In addition, at 31 December 2016, the group held, or had previously held and can potentially renew, land allocations totalling 37,631 hectares.

Certain of the land areas held by SYB overlap with mineral rights held by an Indonesian third party company, PT Ade Putra Tanrajeng ("APT"). Pursuant to an agreement concluded in 2015, it has been agreed that SYB will swap 3,554 hectares of fully titled land and relinquish 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. Areas to be designated for conservation have now been identified and completion of the swap arrangements is now being actively progressed with a view to satisfying any remaining conditions in 2017.

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:

Land areas	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

* Of the area shown above as held by PBJ2, application has been made to reallocate to PBJ 2,142 hectares comprising a strip of land adjacent to the existing PBJ land areas. A proportion of this strip and a substantial proportion of the balance of the PBJ2 land allocation will be transferred to smallholder cooperatives. A proportion of the other areas classified above as "land subject to completion of titling" will also be so transferred.

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. Whilst the group continues to maintain its claim to this area should rezoning occur, the prospect of a favourable decision on such rezoning appears increasingly unlikely.

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, deemed unsuitable for oil palm cultivation or allocated for smallholder cooperatives 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 must 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 planted 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 managing 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 ownership of plantation land as referred to under "Future direction" in "Introduction and strategic environment" above.

Land development

Areas planted as at 31 December 2016 amounted in total to 42,846 hectares. Of this total, mature plantings comprised 31,521 hectares having a weighted average age of 13 years. A further 2,555 hectares planted in 2013 were scheduled to come to maturity at the start of 2017.

The breakdown by planting year of the total of 42,846 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 were resurveyed during 2016 as a result of which the previously reported planted area was reduced by eight hectares and certain areas were reallocated between different planting years.

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	625
2010	1,419
2011	1,073
2012	1,950
	31,521
Immature areas	
2013	2,555
2014	777
2015	2,236
2016	5,757
	42,846

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. The above table includes a total of 232 hectares of flood prone areas forming part of the 2009 and 2010 plantings at CDM that were previously abandoned but are now expected to be recovered following construction of bunding.

There remain some additional areas for planting out in KMS, where some 4,500 hectares have been planted to date. When fully planted, this hectarage should amount to around 4,800 hectares, of which some 800 hectares that were planted in 2013 will be transferred to village cooperatives in due course.

Rapid progress was made with the group's extension planting programme in 2016, following completion of bunding and construction of water gates to control the flood prone lower lying areas of PBJ. Cumulative development for the year is detailed below:

	PBJ hectares	CDM hectares	Total hectares
Cleared, not yet planted at 1 January 2016	2,338	353	2,691
Cleared, during 2016	2,110	2,538	4,648
Cleared, not yet planted at 31 December 2016	(492)	(1,089)	(1,581)
Planted during the period	3,956	1,802	5,758

The group plans further extension planting in 2017 of not less than 4,000 hectares again to be split predominantly between PBJ and CDM. This programme will require extension of the existing bunding into the northern section of PBJ and new bunding along the southern boundary of CDM. Work on bunding is already well in hand and the group is on course to achieve the planned expansion.

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 but is now being expanded to increase its capacity to 60 tonnes per hour. Installation of a second boiler and the other equipment needed to achieve this expansion is expected to be completed during 2017.

Following an extensive programme of refurbishment, all but one of the four boilers in the group's older mills have now been reconditioned; reconditioning of the remaining boiler will be completed during 2017. Having two boilers in a mill provides resilience and facilitates downtime for routine maintenance while retaining the designed throughput. Breakdown hours were substantially reduced in 2016 and, with enhanced security systems and flow meters to monitor throughput, extraction rates improved as noted under "Crops and extraction rates" below.

Once the recent plantings at KMS and the 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 also 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 for transporting CPO and CPKO is used in conjunction with tank storage adjacent to the oil mills and a transhipment terminal owned by the group downstream of the port of Samarinda. The core river barge fleet, which is operated under time charter arrangements to ensure compliance with current Indonesian cabotage regulations, comprises a number of small vessels, ranging between 750 and 2,000 tonnes. These barges are used for transporting CPO and CPKO from the estates to the transhipment terminal for bulking and then either loading to buyers' own vessels on an FOB basis or for loading to either a 4,000 tonne or 2,400 tonne sea-going barge. The sea-going barges, also operated under time charter arrangements, make deliveries to customers on a CIF basis in other parts of Indonesia. On occasion, 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 on a CIF basis, buyer's port, allows the group to make sales without exposure to the collection delays sometimes experienced with FOB buyers.

The majority of CPO sales are now made to Indonesian refineries in Balikpapan, East Kalimantan, and Kota Baru, South Kalimantan, which can be easily accessed from the group's bulking station on the Mahakam River and to which the voyage time is much shorter than that to East Malaysia where historically the majority of CIF 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 must be transferred by road from the mills to a point some 70 kilometres downstream at Pendamaran where the group has established a permanent loading facility and the year round loading of barges of up to 2,400 tonnes is possible.

The group maintains its own fleet of trucks to transport CPO and CPKO from the oil mills either to the usual loading points on the upper reaches of the Belayan River or to the downstream loading point at Pendamaran as weather conditions may dictate.

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

Key agricultural statistics for the year to 31 December 2016 (with restated comparative figures for the corresponding period of 2015) were as follows:

FFB crops (tonnes)	2016	2015*
Group harvested	468,371	600,741
Third party harvested	98,052	138,657
Total	566,423	739,398
Production (tonnes)		
Total FFB processed	560,957	728,871
CPO	127,697	161,844
Palm kernels	26,371	33,877
CPKO	9,840	12,557
Extraction rates (percentage)		
CPO	22.8	22.2
Palm kernels	4.7	4.7
CPKO	34.7	35.0
Rainfall (mm)		
Average across the estates	3,449	2,141

* The 2015 comparative figures have been restated as the group's new information system now allows for data collection in real time so that operational statistics can be reported on an actual month basis.

As previously reported, the severe dry periods experienced in both 2014 and 2015 had a significant negative impact on the group's crop production in 2016, alongside that of other oil palm plantations in East Kalimantan and in a number of other areas of South East Asia. Cropping rates started to recover from September onwards, but heavy rainfall in November and December disrupted collection, which meant that production in the final months of the year fell short of crop availability as not all crop could be recovered. Whilst the change in precipitation is positive for future productivity, such a dramatic increase after a prolonged period of drought, with average rainfall in 2016 more than 60 per cent higher than in 2015, had a short term negative impact on conditions for both harvesting and transportation.

The substantial recent investment in refurbishment of the group's two older mills, a regular programme of mill maintenance and a drive to improve the quality of third party FFB from smallholders and nearby estates have all contributed to the improvements in overall extraction rates achieved over the last two years, with the CPO extraction rate averaging close to 23 per cent in 2016. Indeed, the extraction rate achieved in 2016 would have been higher were it not for the problems in the closing months of the year with harvesting and transportation. These reduced the quality of FFB delivered to the mills and thereby reduced the CPO extraction potential of the FFB concerned. Third party FFB continues to provide additional throughput and revenue.

Moving into 2017, the group has instituted a programme to strengthen the group's road infrastructure. This will be assisted by the arrangements now in place for sourcing stone from the group's own stone operations as detailed under "Stone and coal operations" below. This should produce fairly rapid improvements in production but, having effectively started only in March 2017, did not improve the harvesting and transportation situation to any significant extent during the wetter part of the first quarter of the year. As a result, not all available crop was harvested in that period and the FFB crop for the period from the beginning of the year to the end of March 2017 amounted to 127,636 tonnes, against 124,475 tonnes for the same period in 2016.

In line with a previously announced decision, planned fertiliser levels in the mature areas were significantly increased for 2016 although a proportion of the planned programme had to be rolled over into 2017 because of the heavy rainfall at the end of the year. The group intends to maintain higher dosages going forward. Fertiliser applications in immature areas have always been maintained at high levels and therefore no material changes are planned for those areas. The group has recently engaged a new agronomy adviser to provide advice on optimising field disciplines and improving crop yields. The adviser has confirmed his support for the group's planned higher levels of fertiliser application.

Steps are to be taken to bund and resupply mature areas totalling slightly over 1,000 hectares that have been damaged over the years by periodic flooding. These areas apart, the group retains good stands in all of its mature areas. With good bunch formation being reported, increased fertiliser applications and work now underway to strengthen the group's road infrastructure, the directors are optimistic that monthly production will steadily improve and that, over the next couple of years, annual production levels will be restored to the levels that the group would expect given the normal yield profiles of the plant varieties that make up the group's plantings.

Revenues

During 2016, all of the group's CPO and CPKO was sold in the local Indonesian market, reflecting continuing strong demand from easily accessible local refiners and the delivery efficiencies achievable from selling to this nearby customer base. The group has established relationships with each of the four refineries now operating in the region. Competition between these refineries ensures that prices achieved are competitive. Local sales do not attract export duty but arbitrage between the local and international markets means that the price differential between the markets is normally an almost exact reflection of the additional imposts incurred on exports.

CPO and CPKO sales are made on contract terms that are comprehensive and standard for each of the markets into which the group sells. The group therefore has no current need to develop its own terms of dealing with customers. CPO and CPKO are widely traded and the group does not therefore see the concentration of its sales on a small number of 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.

With some revival in the ISCC certified market, the group sold 95,660 tonnes of ISCC certified CPO and a further 2,301 tonnes of RSPO certified CPKO during 2016 at premia of, respectively, $5 and $35 per tonne. By contrast, there were no sales of Greenpalm certificates under the RSPO's book and claim system as explained under "Certification" in "Sustainability" below.

As a 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 2016 and the group currently has no sales outstanding on this basis.

The average prices per tonne realised by the group in respect of 2016 sales of CPO and CPKO, adjusted to FOB, Samarinda, and net of export duty were, respectively, $521 (2015: $485) and $1,111 (2015: $744).

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 group's operations lie in an area where average rainfall levels are high. The group endeavours to capitalise on this advantage by 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 appropriate husbandry.

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 26 villages and sub-villages surrounding the group's estates by way of a local grid. Payment for the power so utilised is made by PLN to the company and the local 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 continues to grow and, as further households install prepay meters, power offtake from the group is projected to increase. Revenue from electricity sales amounted to some $563,000 in 2016, compared with $233,000 in the first eight months of operation in 2015. PLN may, in due course, be able to increase its power capacity requirement to eight megawatts.

Methane production could be further increased by installing a third methane capture plant in the group's most recently constructed mill. There are other potential 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 could reduce diesel consumption in the group's vehicles by some 70 per cent.

Other cost saving initiatives that have been implemented by the group in recent years include measures to reduce the use of pesticides, in-house production of harvester bridges and manufacture of bricks for housing using a mixture of cement and boiler ash from the mills.

The group's new information system, of which the first phase was implemented in 2015, now provides transparent oversight of substantially all estate activities involving labour and production. Work is now in hand on implementing field inputting of data from handheld devices and integrating the operational data being recorded with the group's accounting records.

Stone and coal operations

Concessions

The group holds interests in respect of two stone deposits and two coal mining concessions, all of which are located in East Kalimantan in Indonesia.

The stone concessions comprise a substantial deposit of high grade andesite stone located to the north east of the SYB northern plantations and a much smaller limestone deposit adjacent to the PBJ plantations.

The coal mining concessions comprise a high calorific value deposit near Kota Bangun and the lower grade Liburdinding concession in the southern part of East Kalimantan. The rights in respect of the Muser coal concession (in which the group formerly held an interest acquired together with the Liburdinding concession) have been allowed to lapse as the group concluded that the prospects for this concession were insufficient to justify the costs of extending the Muser licences.

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 interests are 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 andesite 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 andesite stone concession holding company has guaranteed the obligations to the group of the coal concession holding companies.

The limestone concession is held by an independent Indonesian third party with which the group has indirectly concluded an exclusive offtake agreement as detailed below.

Operating activities

Pursuant to the arrangements agreed in respect of the limestone quarry, KCCRI will purchase crushed stone from a third party contractor who will quarry the stone at the concession site and then transfer it to a site within the PBJ property for crushing by the same contractor. The resultant crushed stone will be sold by KCCRI to PBJ and potentially other group companies, as well as to third parties. The crushed stone purchased by PBJ and other group companies will be utilised for hardening roads. The arrangements agreed between KCCRI and the third party contractor, and between that contractor and the concession owner, provide that the contractor will have exclusive rights to quarry the concession and that all stone quarried will be transferred to and crushed at PBJ and then sold to KCCRI. The concession size is estimated at between 1.2 and 1.5 million tonnes although there may be scope later to extend into an adjacent area. The contractor is currently mobilising and production is expected to start in June 2017.

The operating licence required to establish a simple quarrying and crushing operation on the andesite 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 review options for developing suitable road access to the andesite stone concession. This will be a necessary preliminary to commencing extraction operations at the concession. A recent study suggests that it may be sensible to upgrade the existing road to the concession only to the extent necessary to support smaller trucks and to limit initial production volumes to the level that such smaller trucks have the capacity to move. This would reduce the capital cost of opening the concession and thus facilitate initial funding, particularly if firm indications of offtake can be obtained. As cash flow builds, the road could then be upgraded to support larger trucks and higher production volumes.

The directors decided in 2012 to limit further capital commitments to the coal operations and to concentrate the group's efforts on maximising recoveries of the amounts already invested. Then in 2014, there was a substantial fall in international coal prices and coal activities were suspended. The past twelve months have seen a considerable recovery in prices and it is now proposed that operations be resumed.

Discussions have recently been concluded on novation of a project agreement signed in 2013 with a third party relating to the development and operation of the Kota Bangun concession. The novation will bring in a second third party to fund resumption of mining. This will permit dewatering of the concession area to begin shortly with coal extraction operations expected to resume shortly thereafter. Under the novated agreement, the group would receive a steady cash inflow based upon prevailing coal prices but with an agreed floor.

Previously reported negotiations with another third party in relation to the Liburdinding concession proved abortive but the group is continuing to hold discussion regarding this concession with several potentially interested parties. The group's aim is either to divest the concession in its entirety or to conclude arrangements similar to those applicable to the Kota Bangun concession with the group guaranteed a minimum revenue from the concession.

Sustainability

Transparency

The group is committed to operating in a responsible and transparent manner. The group has made its policy framework publicly available since early 2015 and publishes biennial sustainability reports in addition to the sustainability updates published in the annual strategic reports.

During 2017, the group will publish its third sustainability report. This report will describe in greater detail the group's environmental and social performance as well as the sustainability challenges faced through 2015 and 2016, allowing stakeholders to monitor the group's progress in meeting its sustainability commitments. The report will follow the internationally recognised Global Reporting Initiative ("GRI") standard, allowing the group's sustainability performance to be compared with that of other palm oil companies. The report will be available for download from the group's website: www.rea.co.uk.

The group continues to be ranked by the Zoological Society of London's ("ZSL") Sustainable Palm Oil Transparency Toolkit ("SPOTT"). The toolkit uses publicly available information regarding certification, supply chain traceability and environmental management policies to generate a score indicating a company's commitment to sustainability and transparency. In October 2016, the group was ranked joint ninth out of 50 palm oil companies. The group gained three points in 2016 by providing maps of concessions and encouraging smallholders to adopt policies of zero burning and no planting on peat soils. Despite this gain, the group's 2016 ranking was slightly lower than in 2015 (seventh), due to other companies also improving their overall scores.

Policies

The group continues to follow the policy framework implemented in early 2015, which incorporates the requirements of all of the sustainability standards and regulations to which the group has committed. Together these policies reinforce the group's commitment to well-established best practices, including sustainable development through the provision of socio-economic benefits for local communities, the protection of biodiversity and ecosystem functions, zero-burning, reducing greenhouse gas emissions and a zero-tolerance approach to bribery and slavery. The policy framework can be downloaded from the group's website at www.rea.co.uk/sustainability/policies.

Certification

Certification of the oil palm industry is important. It provides third party verification that a company is operating according to national and international standards while encouraging the improvement of practices across the industry by establishing higher premia for certified products. The group remains committed to ensuring that all of its plantations and mills achieve and maintain Roundtable for Sustainable Palm Oil ("RSPO"), International Sustainability and Carbon Certification ("ISCC") and Indonesian Sustainable Palm Oil ("ISPO") certification.

The group has been a member of the RSPO since 2007. REA Kaltim's two oldest oil mills, Perdana ("POM") and Cakra ("COM"), were first certified in 2011 along with their supply chains. Each year since, these mills and their supply chains have undergone assessments to monitor their continued compliance with the RSPO standard. In 2016, POM, COM and their supply chains underwent full recertification audits, which are required every five years under the RSPO certification system. POM was successfully recertified; and the recertification process for COM is expected to be completed in the coming months.

The group's third oil mill, Satria ("SOM") has not yet achieved RSPO certification. This is due to an outstanding High Conservation Value ("HCV") compensation liability at Satria estate, which supplies the mill. The compensation liability is for 20 hectares of land that was cleared in 2008 prior to conducting an HCV assessment. In 2016 a compensation plan was submitted to the RSPO, including a third party report indicating the location and extent of land clearing and a proposal of how the group intends to compensate for the cleared land. Once the plan has been approved, the mill and its supply chain can undergo an RSPO audit. The original target deadline for the RSPO certification of SOM was December 2015, but due to the time required to resolve the compensation liability this deadline has been extended to December 2017.

The group has a second outstanding HCV compensation liability for approximately 968 hectares of land cleared at Cipta Davia Mandiri ("CDM"). Although there is no mill at CDM, the group submitted a compensation plan to the RSPO in order to pursue its commitment of achieving full RSPO certification for the group in the future. CDM's HCV compensation plan is currently still under review by the RSPO.

CPO produced from ISCC certified mills can be sold for the production of biodiesel that meets the requirements of the European Union Renewable Energy Directive ("EU RED"). In 2016, all three of the group's mills underwent an ISCC recertification audit. The certifying body issued new certificates for POM and SOM in 2016 and for COM in March 2017.

For oil palm companies operating in Indonesia it is mandatory to maintain ISPO certification. POM, COM and SOM all successfully retained their ISPO certification in 2016. Further information about the requirements of the RSPO, ISCC and ISPO standards can be found in the group's 2015 sustainability report and will be provided in the forthcoming 2017 sustainability report.

In 2016, the group sold 126,012 tonnes of CPO and 10,029 tonnes of CPKO comprising:

	CPO	CPKO
RSPO certified	–	2,301
ISCC certified	95,660	–
Other	30,352	7,728
Total	126,012	10,029

In making sales of CPO that is both RSPO and ISCC certified, the group has to decide which certification should apply to each sale.

The reason that little CPO and CPKO is sold under RSPO certification is that in the context of the overall market for such oils, the group's monthly production is relatively small and this makes the logistics of finding a suitable buyer challenging. Instead, the group uses the RSPO's "Book and Claim" system. Until the end of 2016, this allowed end users of palm oil products to support RSPO certified producers by purchasing from them Greenpalm certificates, such certificates being issued on the basis of one certificate for every one tonne of RSPO certified CPO or CPKO that the producer has elected to sell in the general market rather than as RSPO or ISCC certified oil. As of 1 January 2017, the RSPO no longer endorses Greenpalm certificates but in their place has launched its own Book and Claim system called "PalmTrace" which will operate similarly to the former Greenpalm system but with RSPO "credits" replacing Greenpalm certificates.

During 2016 no sales of Greenpalm certificates were made due to the delay in the issuance of ISCC and RSPO certificates for COM, without which the group was unable to calculate the number of Greenpalm certificates available for sale in respect of 2016. However, once the final calculations for 2016 have been made, the group can proceed with the sale of RSPO credits to which it will be entitled in lieu of Greenpalm certificates in respect of its non-certified sales of CPO and CPKO during 2016.

Employees

At the end of 2016, the group's workforce numbered 8,368, compared to 7,400 at the end of 2015. The increase in headcount is due to a rise in the number of harvesters and casual workers employed by the group towards the end of the year.

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"). The reward system is under constant review and is subject to change if more effective methods for improving productivity are found. For example, in 2016 a new system was implemented for harvesters. Annual bonuses are now paid based on the number of days in a year in which the quantity of FFB harvested by an individual exceeds a set minimum level. The more days a harvester exceeds the minimum level, the greater their bonus. A quarterly bonus is also awarded to the two most productive harvesters at each estate as an added incentive. This system replaced the previous scheme where bonuses were calculated based on attendance. Since the introduction of the new bonus system there has been a marked improvement in harvester productivity.

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.

High quality housing and community facilities for employees are a priority. Houses are now built using bataco blocks, which are produced in-house by mixing boiler ash from the mills with cement. Use of this material has significantly reduced both the cost and environmental footprint of new houses. In 2016, houses were constructed for 32 workers' families at the group's KMS and SYB estates, with a further 26 new houses planned for SYB in 2017. The group also provides each worker emplacement with a medical clinic, church, mosque, sports facilities and a market.

In 2008, the group established a foundation to manage the network of schools across the estates. The foundation now manages 28 schools, including 11 pre-schools, 16 primary schools and one secondary school. As of the end of year 2016, 516 pre-school children, together with 1,624 primary school and 170 secondary school students, were enrolled in the group's school system.

In order for the group's operations to run efficiently, it is essential to establish and maintain quality management. The group aims to achieve this by facilitating the upward mobility of promising employees and by recruiting and training new graduates. The mechanism for this is the group's long established cadet training programme. The 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, 259 cadets have participated in this programme and almost 70 per cent are still employed by the group. 33 people enrolled in the 2015/2016 programme, of which 25 successfully graduated and progressed to positions at the group's mills, the established and developing estates, the plasma projects and the conservation department.

Career advancement is not restricted to members of the cadet training programme. 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 2016, 37 ethnicities and 5 religions were represented in the group's workforce.

The group pays careful attention to the gender balance within its workforce. At the end of 2016, women accounted for 28 per cent of the group's workforce, including 17 per cent of the management team.

	2016		2015	
	Number of male staff	Number of female staff	Number of male staff	Number of female staff
Directors	5	1	5	1
Management	58	12	60	13
Rest of workforce	6,007	2,298	5,398	1,565
Total	6,070	2,311	5,463	1,579

Management

Overall responsibility for the Indonesian operations resides with the group managing director. Following the resignation of Mark Parry in February 2017 the directors appointed Carol Gysin as managing director of the group based in London.

Concurrently with Carol's appointment, George Kapitan, who is an Indonesian citizen, was appointed president director of REA Kaltim. The board of REA Kaltim now comprises four directors, of whom three are Indonesian nationals, including one female and the fourth is a British expatriate. Together, the REA Kaltim directors have overall local responsibility for the group's affairs in Indonesia, covering the estate operations, corporate affairs, commercial administration and finance.

Day to day execution of the board's executive responsibilities is undertaken by a small team of senior managers in Indonesia together with the group's chief financial officer and regional secretary, both of whom are based in Singapore but spend a substantial proportion of their time in Indonesia acting on behalf of the group's board to assist in ensuring consistency and cohesion between London and Indonesia. 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 development of the senior management team in Singapore is consistent with the group's previously stated intention of progressively transferring overall executive responsibility for the management of the group from the UK to Indonesia and Singapore.

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.

Health and safety

The group remains committed to implementing the internationally recognised Operational Health and Safety Management System ("OHSAS") 18001. In 2016 a new head of health and safety joined the company and reviewed the health and safety standards across the group's operations. Monthly inspections of the group's mills, estates and biogas facilities are undertaken to ensure planned health and safety measures are implemented in order to meet the criteria for OHSAS 18001 certification.

Regular training sessions are conducted to instil the importance of safe working practices into all employees and contractors. Routine training sessions include the appropriate use of protective equipment, first aid, fire safety and risk management for high risk tasks (working at height, in confined spaces or with chemicals). Following the widespread fires in Kalimantan in 2015, additional emergency response training courses were conducted for fires, which also included training for responding to chemical spills, explosions and riots. Roads in the region of the group's operations can be hazardous, particularly after heavy rain, therefore drivers of all vehicles are required to pass a company-set driving test and motorcycle safety training is provided for employees and their families.

Despite regular and routine training, it takes time for health and safety practices to become naturalised within a workforce. It has been decided, therefore, that the target for obtaining OHSAS 18001 certification should be delayed until the end of 2017.

Although measures are taken to minimise the occurrence and severity of accidents, incidents still occur. In 2016 there were 855 reported accidents, 690 of which resulted in a worker needing to take at least one day off work. Regretfully there were three fatalities between January 2016 and January

2017. Of these, one was work related and the other two were non work-related. 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. The group maintains a rigorous 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.

External healthcare provision is extremely limited in the remote locations of the group's operations. The group has established a network of 16 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. The medical team conducts a monthly immunisation programme for families, including collaborations with external medical professionals to participate in the Indonesian government's polio immunisation programme. The medical team also conducts blood tests twice a year to check for chemical exposure in workers who come into regular contact with pesticides. If workers test positive for pesticide exposure, they are rotated out of spraying and into other roles.

Community relations

The group works hard to develop and maintain good relationships with the people that are impacted by its operations. Successful relationship building with surrounding communities is seen as key to the group's ability to operate efficiently and reduce the frequency of compensation claims by villages. Relationships with local communities have improved over the last few years through regular formal and informal engagement with a wide variety of village groups and representatives, as well as a transparent approach to resolving claims of outstanding rights to compensation for land through the group's department of village affairs ("DVA"). In 2016, 70 land rights claims were made against the group for a total area of 1,572 hectares, a reduction from 105 claims over 1,814 hectares of land in 2015. Most of these claims were successfully resolved by the end of 2016. A large proportion of the claims were found to be spurious following investigation by the DVA.

Community development

Over the last 20 years the group has endeavoured to ensure that its business contributes a significant and long-lasting improvement to the socio-economic status of the communities that live in the vicinity of its operations. What began as a primarily philanthropic approach has evolved into established schemes designed to ensure that local communities share in the benefits generated by the group's operations. The core principle is to help communities grow and succeed while being self-sufficient, in other words to benefit from the group's operations without being dependent on them. The initiatives developed to achieve this include maximising employment opportunities for local people, supporting and improving local businesses, expanding smallholder schemes and investing in infrastructure projects that will catalyse further development.

During 2016, in collaboration PLN, the group expanded the provision of electricity generated by the group's methane capture facilities to two additional local villages. PLN provides the infrastructure required to connect villages to the electricity supplied by the group which it purchases from the group at a price of $0.07 per kilowatt hour. The benefits to local communities from this project are significant. Prior to the establishment of this energy scheme, villages relied on diesel-powered generators for their electricity supply. The switch to methane-generated electricity not only provides communities with a cheaper, lower emission and renewable energy source, but also allows them to be more independent from the group as they no longer rely on donations of diesel from the group to run their generators. Renewable energy generated by the group is now provided to 26 villages, comprising approximately 13,000 households, through the infrastructure established by PLN.

The group also works to provide an improvement to the welfare of local communities by facilitating access to clean water. In 2016, the group completed the installation of five new water treatment facilities. Training is provided for treatment plant operators to encourage independence from the group and allows each village to have full control of the management and maintenance of their own resources.

The community development department conducts a mentoring scheme for small businesses and households. During 2016, members of the department made routine visits to local communities to provide advice to farmers on improving their yields and minimising the environmental impact of their practices. Sessions were also conducted on how to manage household finances and loans.

Donations in the form of equipment, expertise or money are provided where necessary to help villages improve their own roads, schools and other community facilities.

Smallholders

Developing smallholder schemes and purchasing FFB from independent smallholders not only creates mutually beneficial business relationships, but also results in financial benefits for local communities and an opportunity to educate local farmers in more sustainable agricultural practices. The group engages with smallholders in three ways: through a programme known as "Program Pemberdayaan Masyarakyat Desa" ("PPMD"), through "plasma" schemes and by purchasing FFB directly from independent smallholders. During 2016, the group purchased a total of 93,000 tonnes of FFB from PPMD, plasma and independent smallholders, providing local farmers with a total revenue equivalent to approximately USD $10.4 million. Although the quantity of FFB purchased in 2016 was smaller than in 2015 (125,000 tonnes), smallholder FFB still accounted for 16 per cent of the FFB processed in the group's mills, a proportion similar to 2015 (17 per cent).

The group has been working with smallholders since 2000, when the group established the PPMD programme. 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 costs 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. The PPMD scheme provides the second largest input of FFB to the mills after the group's own estates, with a total of 61,000 tonnes produced in 2016 by 15 cooperatives of smallholders.

Plasma smallholder schemes are established for the benefit of the surrounding community as part of the group's responsible development of new land for oil palm, in line with regulations introduced by the Indonesian government in 2007. Plasma schemes differ from PPMD in their financing and management. Plasma schemes established to date have been financed by loans to the cooperatives from the group and local development banks. The cooperatives themselves are not responsible for, or involved in, the management of cultivated plasma land, rather the group manages these areas in return for a pre-agreed management fee. Cooperatives therefore receive an income based on the value of FFB harvested minus loan repayments and management fees.

Due to the more complex nature of the funding and management of plasma areas, their development into oil palm can take longer to organise than the development of PPMD or group-owned estates. It is critical that, before development begins, members of each cooperative fully understand how plasma schemes work, including the cost of cultivating oil palm, the terms of the financial agreements with the group or bankers to the schemes and the predicted income over time to the members of each cooperative. The group is currently working towards developing 13 plasma schemes for newer concessions, as well as 6 additional plasma schemes around the established estates. The plasma schemes at the established estates are not required under the 2007 government legislation as the estates were developed prior to 2007, but in the interests of equitable treatment the group has committed to develop these plasma cooperatives for villages whose land overlaps with the group's concessions. By the end of 2016, 3,567 hectares of plasma land had been developed, increasing from 3,400 hectares by the end of 2015. Four plasma areas are currently producing FFB with a total of just over 9,680 tonnes delivered to two of the group's mills in 2016.

The group purchased 19,760 tonnes of FFB from independent smallholders in 2016. Since 2015, FFB has only been accepted from smallholders who have participated in the group's smallholder mapping process. The aim of this process is to create a map and comprehensive database of all smallholder land within the group's supply base in order to make the group's FFB supply chain fully traceable. Traceability of 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. The group remains committed to achieving RSPO certification for independent smallholders that make up part of the supply base.

Greenhouse Gas ("GHG") emissions reduction

2016 is the sixth year for which the group has calculated and publicly reported its carbon footprint using the RSPO's PalmGHG methodology. In 2016 the group reduced its gross carbon dioxide emissions from 2015 levels by 6.7 per cent and net GHG emissions by 17.1 per cent. The reduction in net GHG emissions is largely due to the increase in credits gained in 2016 from the provision of renewable energy to workers' housing and local communities by the group's two methane capture facilities. Provision of electricity increased markedly in 2016, up by 73.8 per cent from 2015 following the completion of PLN's infrastructure in 2015.

Net GHG emissions per tonne of CPO and CPKO increased slightly from 2015 to 2016 due to an overall reduction in the production of crude oil palm products in 2016, resulting from the lower FFB yields across the group's and third party plantations. Net GHG emissions per planted hectare decreased in 2016, due to an increase in the group's total planted area following 2016 plantings in PBJ and CDM in conjunction with the group's overall reduction in net GHG emissions.

The largest individual component of GHG emissions is land use change, which accounted for 65.8 per cent of the group's gross GHG emissions. The second largest contributor was palm oil mill effluent ("POME"), accounting for 8.8 per cent of the gross GHG emissions, although gross CO_2 emissions from POME have been reduced by 29.5 per cent from 2015 as a result of the increased quantity of POME used by the methane capture facilities to produce electricity.

Conservation

Development of land for agriculture can result in a loss of biodiversity and natural ecosystem function. For an agricultural business to be productive over the long term, it is essential that natural ecosystem services are maintained, including nutrient cycling, pollination, erosion defence and climate regulation. It is therefore important to understand how oil palm cultivation affects the environment and put measures in place to avoid or mitigate negative environmental impacts.

Aware of the importance of minimising the environmental impact of its operations, the group incorporated a strategy for responsible development into the policy framework adopted at the beginning of 2015. This was to ensure that everyone, from in-house teams to third party contractors, involved in the process of planning and developing new land is aware of their responsibility to mitigate the negative impacts of development. As dictated by the group's policy for responsible development and the RSPO's new planting procedure, on which the group's policy is based, the process of developing new land begins with a series of surveys and assessments typically conducted by external experts. These assessments include environmental and social impact assessments, land use change analyses, assessments of high conservation value ("HCV") constraints, soil surveys and carbon stock assessments. Once collated, the results of these surveys and assessments inform the development teams as to the areas to be set aside for conservation. Conservation zones include areas of cultural significance or valuable biodiversity, steep areas, riparian zones and peat soils, 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 approximately 23,950 hectares, accounting for some 23 per cent of the group's titled areas. 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. Using scientific research, education and active field projects, 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 conducts routine biodiversity surveys, camera trapping and water quality monitoring to gain a scientific understanding of the biodiversity present in, and environmental state of, conservation areas. As of December 2016, biodiversity surveys revealed a total of 551 species of mammals, birds, amphibians, reptiles, fish and invertebrates, of which 94 species are classed as "Near Threatened", "Vulnerable", "Endangered" or "Critically Endangered" according to the International Union for the Conservation of Nature's ("IUCN") Red List of Threatened Species. In 2016, 4 species of bird not previously recorded within the group's conservation areas were found: the crested goshawk (Accipiter trivirgatus), sooty-capped babbler (Malacopteron affine), garnet pitta (Pitta granatina) and rufous-winged philentoma (Philentoma pyrhoptera).

Conservation areas in four of the group's concessions also support a population of the Endangered Borneo orangutan. REA Kon monitors the orangutan population on a monthly basis by conducting nest surveys along permanent transects. Surveys conducted in 2016 confirmed the continued use of the group's conservation areas by orangutans, revealing evidence of recent feeding activity and the establishment of 26 new orangutan nests.

An important aspect of REA Kon's work to protect the habitat and biodiversity within conservation areas is regular engagement with surrounding communities and REA's workforce. Frequent engagement not only allows REA Kon to educate communities and workers about the importance and benefits of conserving biodiversity and natural ecosystem services, but also results in the formation of closer bonds with local villages and independent farmers. Throughout 2016, REA Kon conducted regular visits to schools in REA emplacements and local villages to educate children about the need for conservation. These education programmes are extended into community education camps, which provide more hands-on learning about environmental issues to a wider age range within local communities. REA Kon also conducts visits to villages to meet with senior members of communities to promote positive environmental action by villages, including HCV protection and proper waste management. REA Kon often conducts these visits in collaboration with the Indonesian Government's Natural Resources Conservation Agency ("BKSDA").

Education can help to promote a positive attitude towards conservation amongst local communities and the workforce, but the message needs to be reinforced through the active management of conservation areas. Following feedback from village leaders, during 2016 REA Kon marked the boundaries of conservation areas with visible posts and signboards to clearly delineate HCV land within the group's concessions. REA Kon also routinely patrols the edges of conservation areas to monitor for signs of human disturbance and to map areas damaged through human activity or fire. Despite REA Kon's continued engagement with local communities, there are still cases of encroachment into REA's conservation areas by loggers or independent farmers.

Managing the encroachment of conservation reserves is arguably the greatest sustainability challenge faced by the group. The problem is exacerbated by Indonesia's complicated land rights system. A standard operating procedure has been developed to ensure that the plantation, conservation, village affairs and security teams fully understand their respective responsibilities in tackling encroachment and can respond quickly and effectively if logging or land clearing is detected within the conservation reserves. When an area of encroachment is reported by plantation teams or found during patrols, REA Kon visits the location to determine the extent of the affected area, the person or group responsible and the existence of any legal or customary rights. The matter is then passed to the group's department of village affairs, which is responsible for determining whether a case requires compensation or prosecution and for proceeding with the appropriate action.

In addition to gathering information regarding each case of encroachment, REA Kon also assesses the risk of further encroachment for each area and establishes the ecological, social and legal feasibility of restoring the natural vegetation as well as the cost of doing so. Based on this information, REA Kon develops an action plan for each location where encroachment has occurred.

REA Kon manages a nursery area of native species for the purpose of restoring the natural vegetation, but whilst it would be ideal 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. To protect the conservation areas set-aside in newer developments, 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. The group acknowledges the importance of free, prior and informed consent for conservation and, although this was not the group's policy when REA Kaltim and SYB were developed many years ago, adhering to this policy going forward should facilitate the group's ability to prevent and address any clearance of future reserves.

A benefit of the better rainfall received during 2016 was a reduction in the frequency of forest fires in the region, with no loss of oil palm or conservation reserves suffered by the group in 2016.

Responsible agricultural practices

Maintaining fresh water resources is vitally important for the group's operations, both for use in the mills and for the provision of clean water for homes in the group villages. The group's mills operate a zero effluence policy, whereby no by-products resulting from the production of CPO or CPKO are expelled into local water courses. A significant proportion of the palm oil mill effluent ("POME") that is produced at POM and COM is diverted to the methane capture facilities at each mill to be used in generating renewable energy. Other POME from these mills, as well as POME produced at SOM, is sprayed over empty FFB discarded from each mill in order to produce organic compost. Any POME that is not used for methane production and composting, and the digested POME residue of methane production is treated in the traditional manner by being pumped through a series of open ponds to reduce its biological oxygen demand ("BOD") and then used for land application in flat beds between rows of oil palm, allowing 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 (5,000mg/l).

In recent years, the group has applied reduced quantities of inorganic fertiliser and has supplemented inorganic fertiliser applications with organic compost produced at each mill. The group's inorganic fertiliser regime is designed by independent agronomy consultants, based on analysis of the nutrient content of systematically selected oil palm frond samples. In 2016, the total annual quantity of inorganic fertiliser applied was over twice the quantity used in 2015. This was in part in response to a decline in FFB yields that the group had experienced over several years but also reflected the fact that 2015 was a very dry year and inorganic fertiliser is not applied during drought periods as moisture is required to mobilise the nutrients in the fertiliser and make them available to the palms. Furthermore, the defence mechanism employed by palms against the stress caused by prolonged drought is to become less active and reduce the uptake of nutrients. Consequently, fertiliser application during drought conditions is both costly and a waste of resources. The increased quantity applied during 2016 took advantage of the wetter conditions and was designed to provide a boost to the nutrient supply base and improve FFB yields.

Following the completion of the collaboration with PLN in 2015 to supply electricity to local villages, the POME demand of the methane capture facilities has been very high. To meet the demand, the majority of POME from POM and COM is now directed to the biogas facilities rather than composting. POME that has already passed through biogas facilities does not create good conditions for composting as the digestion process cools the POME, resulting in compost with reduced nutrient levels. Given that this situation is likely to continue, the group has concluded that it should cease composting operations, utilise all POME for land application and adjust the level of inorganic fertiliser applications appropriately.

Every effort is taken to prevent POME polluting water courses or neighbouring land. In 2016, however, there were three cases of pollution where prolonged periods of heavy rainfall caused POME ponds or flat beds to overflow into neighbouring land belonging to local communities. The group responded by constructing bunding around ponds and embankments around flat beds to accommodate any future POME overflow during extended periods of rain. Communities are always compensated for damage to the extent appropriate.

In March 2016, an outbreak of the leaf-eating caterpillar, *Setora nitens*, was detected at Cakra estate over an area of approximately 200 hectares. Further outbreaks were recorded at Perdana, Senteken, Lestari and Berkat estates in the second quarter of 2016, with a total of 1,200 hectares affected. Treatment to combat the outbreak began in April, consisting of the injection of systemic insecticides into the trunks of oil palms. Trunk injection is a preferable method of pest management, compared to spraying, as the method is more targeted to the problem species and does not involve the blanket application of harmful chemicals to the environment that can affect non-target species or be leached into waterways. The outbreak of caterpillars was brought under control by the end of September 2016, but insecticide application continued into the fourth quarter to prevent a recurrence.

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. However, as stated in the 2016 half yearly report published in September 2016, in accordance with the amendment of IAS 41 Agriculture effective 1 January 2016, the financial statements incorporate a significant change in accounting policy. The amendment means that bearer plants are no longer to be carried as biological assets but are instead accounted for as property, plant and equipment. The financial statements for 2015 have been restated to reflect this change in accounting policy.

Whilst the change has no effect on the group's cash flows, it means that the reported profits for 2016 and restated 2015 profits are lower than they would have been, or were, applying the previous accounting provisions of IAS 41. The reason for this is that the group's income statement no longer reflects any movement in the fair value of the group's biological assets (other than growing produce as detailed below) but instead includes a charge for the depreciation of those assets. This charge is based on the fair value of such biological assets at 1 January 2015 which the group has, as permitted by the revisions to IAS 41, adopted as the deemed cost of the assets in question.

While the group continues to expand, it could reasonably expect that the periodic movements in the fair value of its biological assets under the previous provisions of IAS 41 would be positive whereas the depreciation charges that replace these movements will be negative. Specifically, in 2015, the net gain from changes in the value of biological assets (excluding growing produce) amounted to $13.1 million whereas, on restatement, this gain has been replaced by a depreciation charge of $10.6 million, resulting in a net reduction in 2015 reported profit before tax of $23.7 million.

The amendment of IAS 41 still requires plantation companies to account for growing produce as biological assets. In the case of the group, growing produce will mean FFB in formation on the group's oil palms. Such ripening FFB is therefore treated as a separate asset with changes in the value of the asset from year to year being taken to the income statement. There is no market for ripening FFB, so the group, in common with other oil palm companies, has adopted a formulaic methodology for deriving fair value of this growing produce based on the estimated value of the oil content of the FFB in question. Movements from year to year in this value are unlikely to have a material impact on the group's profits.

Group results

Applying the changed accounting principles, group revenue, operating loss and loss before tax for 2016, with restated comparative figures for 2015, were as follows:

	2016 $'m	2015 (restated) $'m
Revenue	79.3	90.5
Operating loss	(5.0)	(6.6)
Loss before tax	(9.3)	(12.2)

The significant revenue reduction in 2016 reflected the fall in the group's own crop and a mirroring fall in purchases of FFB from third party growers as compared with the preceding year. The reasons for these falls are covered under "Crops" in "Agricultural operations" above. Revenue was also negatively impacted by the harvesting and transportation issues in the closing months of the year adversely affecting CPO quality. Despite the lower revenue, the operating loss was reduced as a consequence of the improved CPO prices during 2016 and continued focus by the group on cost control with particular attention to the management of overtime.

Cost of sales reported for 2016, with restated comparative figures for 2015, was made up as follows:

	2016 $'m	2015 (restated) $'m
Depreciation and amortisation	21.0	21.7
Purchase of external FFB	9.1	13.3
Estate operating costs	41.7	48.1
	71.8	83.1

As noted under "Accounting policies" above, the change in IAS 41 has eliminated the previous movement in the fair value of biological assets (other than growing produce) and has replaced it with a new additional depreciation charge. Fair value gains are no longer reflected in profits or assets for any enhancements to the value of the group's assets generated by the continuing development programme.

The valuation of closing agricultural produce inventory at end 2016 at higher prices than at 31 December 2015 resulted in a positive movement on such inventory of $0.6 million (2015: $1.1 million loss).

Whilst total administrative expenses at $12.0 million for 2016 were not dissimilar from those of the preceding year ($11.7 million), the latter benefited from a non-recurring credit in relation to pension funding of $2.3 million. Overheads in both Indonesia and externally showed a reduction, in the latter case assisted by the weakness of sterling.

The substantial increase in investment revenues ($1.7 million against $0.3 million) arises from the inclusion of interest of $1.1 million received in respect of certain tax amounts previously refunded as a result of Jakarta Tax Court decisions that remain subject to Supreme Court review. Such interest was previously only paid on completion of such review but a new regulation now permits taxpayers to apply for earlier payment. The tax authorities are disputing the group's entitlement to further interest of some $2.8 million on that balance of tax refunded that was originally paid voluntarily. No credit for such further interest has been taken in the group financial statements.

Finance costs totalled $6.0 million (2015: $6.0 million). There was an increase in the interest charge relating to Indonesian rupiah denominated bank loans but this was offset by favourable exchange rate movements in sterling liabilities and increased capitalisation of interest charges incurred.

Tax charged against profit for 2016 amounted to $2.0 million against $0.7 million in 2015. A significant component of the 2016 charge reflected the introduction of new regulations in Indonesia limiting interest deductions for tax purposes in some circumstances. Planned restructuring of Indonesian subsidiary capitals should mitigate the negative impact of these regulations in future years.

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 for review of a decision by the Jakarta Tax Court in 2014 in favour of REA Kaltim allowing deduction for tax purposes of mark to market losses recorded in 2008 on cross currency interest rate swaps.

The group's previously published target of a long term average 20 per cent annual return on equity took into account the expected benefit to group profits from movements in the fair value of biological assets as previously defined prior to the recent change to IAS 41. Following that change, such a target is no longer appropriate and the directors are renewing an appropriate revision of the target once group profitability has been restored. The negative return for 2016 was 7.6 per cent (2015: negative 10.5 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 2016 were duly paid. In view of the difficult conditions that faced the group during 2016, 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 2016.

The group's programme of planting its land bank remains ongoing. This will continue to require major capital expenditure and constrain the rates at which the directors feel that they can prudently declare, or recommend the payment of, ordinary dividends over the next few years. Nevertheless, the directors will consider recommending the payment of a final ordinary dividend in respect of 2017, although this will necessarily depend upon crops and CPO prices over the balance of 2017.

DSN transaction

Discussions with a short list of potential strategic investors culminated in an initial conditional agreement between the group and PT Dharma Satya Nusantara Tbk ("DSN") on 16 May 2016. This was followed on 16 August 2016 by detailed implementing agreements. Regulatory approval was granted on 2 December 2016.

As a result, two wholly owned subsidiaries of DSN have acquired a 15 per cent interest in the group's principal operating subsidiary in Indonesia, PT REA Kaltim Plantations ("REA Kaltim"). The overall consideration amounted to $15.0 million in cash with up to a further $850,000 payable on a deferred basis depending upon the recovery by REA Kaltim of certain overpaid tax amounts prior to 1 January 2018.

Concurrently with this acquisition, a subsidiary of DSN provided dollar and sterling loans to REA Kaltim of, respectively, $10.0 million and £3.9 million on terms mirroring the terms of existing dollar and sterling loans from the company to REA Kaltim. Subsequent to the end of 2016, the same subsidiary has provided loans to subsidiaries of REA Kaltim totalling $11.7 million and £3.9 million again on terms mirroring loans by the company and a UK subsidiary to those subsidiaries.

Capital structure

The group is financed by a combination of debt and shareholder funds. Total shareholder funds less non-controlling interests at 31 December 2016 amounted to $286.7 million as compared with $292.2 million at 31 December 2015. Non-controlling interests at 31 December 2016 amounted to $22.8 million (2015: $1.7 million).

In July 2016, the group raised some £1.46 million from the sale of £1.5 million nominal of 8.75 per cent guaranteed sterling notes 2020 held by a subsidiary of the company.

Then, in August 2016, discussions with the group's principal Indonesian bankers, PT Bank DBS Indonesia ("DBS"), were successfully concluded, as a result of which borrowings, denominated in a combination of Indonesian rupiah and US dollars and totalling the equivalent of $88.6 million, were replaced with new increased borrowings, denominated in Indonesian rupiah and totalling the equivalent of $95.5 million.

Finance

continued

The new borrowings incorporate a reduced annual revolving credit facility (committed until July 2017) of the equivalent of $26.0 million against the previous annual revolving credit facilities of $35.5 million. The balance of the new borrowings is repayable over five years.

In November 2016, the group issued $24.0 million nominal of 7.5 per cent dollar notes 2022 the ("2022 dollar notes"). Of these new notes, $14.0 million nominal was issued pursuant to an exchange offer to holders of 7.5 per cent dollar notes 2017 (the "2017 dollar notes"). The balance of the new notes, being $10.0 million, was issued to R.E.A. Services Limited ("REAS"), a wholly owned subsidiary of the group. $13.8 million nominal of 2017 dollar notes were acquired pursuant to the exchange offer and were cancelled.

In December 2016, 3,670,000 new ordinary shares, representing some 10 per cent of the ordinary shares in issue, were issued for cash at a price of 295p per share by way of a placing to raise £10.5 million ($13.0 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.

Following these transactions, group indebtedness at 31 December 2016 amounted to $229.7 million against which the group held cash and cash equivalents of $24.6 million. The composition of the resultant net indebtedness of $205.1 million was as follows:

	$'m
7.5 per cent dollar notes 2017 ("2017 dollar notes") ($20.2 million nominal)	20.0
7.5 per cent dollar notes 2022 ("2022 dollar notes") ($24.0 million nominal)	23.6
9.5 per cent guaranteed sterling notes 2015/17 ("2017 sterling notes") (£8.3 million nominal)	10.1
8.75 per cent guaranteed sterling notes 2020 ("2020 sterling notes") (£31.9 million nominal)	37.1
Loans from non-controlling shareholder	12.5
Indonesian term bank loans	69.6
Drawings under working capital lines	56.8
	229.7
Cash and cash equivalents	(24.6)
Net indebtedness	205.1

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 $9.0 million.

The 2017 dollar notes are unsecured obligations of the company and repayable in a single instalment on 30 June 2017. The 2022 dollar notes are unsecured obligations of the company and are repayable in a single instalment on 30 June 2022. The sterling notes are issued by REA Finance B.V., a wholly owned subsidiary of the company, are guaranteed by the company and REAS, and are secured almost wholly on unsecured loans made by REAS to Indonesian plantation operating subsidiaries of the company. The 2017 sterling notes are repayable in a single instalment on 31 December 2017. The 2020 sterling notes are repayable in a single instalment on 31 August 2020.

Following the repackaging of the group's facilities with DBS referred to above, Indonesian bank borrowings at 31 December 2016 comprised Indonesian rupiah denominated amortising term loans and working capital loans to each of REA Kaltim, SYB, PBJ and KMS.

The REA Kaltim loans are provided by DBS, are secured on certain assets of REA Kaltim and are guaranteed by the company. The outstanding balance of such loans at 31 December 2016 was the equivalent of $76.6 million comprising term loans of $ 25.5 million and working capital loans of $51.1 million. The term loans are repayable as follows: 2017: $2.2 million, 2018: $3.5 million and thereafter $19.8 million. The working capital loans fall due for renewal in 2017 - $19.8 million and in 2019 - $31.3 million.

The SYB loans are also provided by DBS, are secured on certain assets of SYB and are guaranteed jointly by the company and REA Kaltim. The outstanding balance of the loans at 31 December 2016 was the equivalent of $15.9 million, comprising a term loan of $10.2 million and a working capital loan of $5.7 million. The term loan is repayable as follows: 2017: $0.9 million, 2018: $1.4 million and thereafter $7.9 million. The working capital loan falls due for renewal in 2017.

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 2016 was the equivalent of $15.5 million repayable as follows: 2018 $0.8 million and thereafter: $14.7 million.

The KMS loan 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 2016 was the equivalent of $18.4 million repayable as follows: 2018: $0.3 million and thereafter $18.1 million.

At 31 December 2016, unutilised facilities available to the group comprised the equivalent of $14.3 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 increased over 2016 from $15.8 million to $24.6 million.

As noted under "Group results" above, operating loss for 2016 amounted to $5.0 million compared to a loss of $6.6 million in the prior year. After adjusting for depreciation, amortisation and other non-cash items ($21.2 million) and a reduction in working capital ($9.2 million) cash generated by operations was $25.4 million (2015: $37.3 million). The decrease in working capital was primarily due to careful management of trade payables and an increase in customer deposits.

Taxes paid net of refunds at $2.1 million were slightly higher than in 2015 ($0.8 million) because of the lower level of refunds due. Interest amounted to $20.7 million (2015: $16.4 million) reflecting the fact that a greater proportion of borrowings than in the past was denominated in Indonesian rupiah for which interest rates are higher than for dollars and sterling.

Investing activities for 2016 involved a net outflow of $31.6 million (2015: $34.8 million). This represented new investment of $33.4 million (2015: $37.6 million) offset by interest received and a small amount received from the disposal of property, plant and equipment together amounting to $1.8 million (2015: $2.8 million including $2.5 million proceeds from the disposal of property, plant and equipment). The new investment comprised expenditure of $31.1 million (2015: $32.3 million) on further development of the group's agricultural operations, $0.4 million (2015: $1.3 million) on land rights and titling and $1.9 million (2015: $4.0 million) on the stone and coal operations.

The net cash inflow from financing activities amounted to $37.8 million (2015: inflow of $14.5 million) made up as follows:

	2016 $'m	2015 $'m
Issue of new ordinary shares	13.1	6.8
Issue of new preference shares	–	7.8
Reorganisation of dollar notes	(0.1)	–
Issue / sale of new sterling notes	1.9	4.1
Purchase of sterling notes	–	(2.2)
Payment to close out hedging contract	–	(10.2)
Transaction with DSN	14.0	–
Borrowings from DSN	12.4	–
Net increase in borrowings	3.9	20.8
Dividend payments	(7.4)	(12.6)
	37.8	14.5

Liquidity and financing adequacy

As explained under "Group results" above, the recovery in CPO prices and improved extraction rates achieved by the group's mills during 2016 were offset by the low level of crop harvested during the year. However, going forward, continuation of the revised fertiliser regime, an increasing hectarage of mature plantings and more normal levels of precipitation should ensure that crops recover. With extraction rates expected to improve further and CPO prices likely to remain at current better levels, this will mean significant increases in revenue. With continued focus on cost control, the directors are therefore confident that the group's operations will remain cash generative and at higher levels.

As noted under "Capital structure" above, as at 31 December 2016, the group held cash of $24.6 million and had undrawn facilities equivalent to a total of $14.3 million under the UOB amortising term loan facility. This facility will continue to be used to fund the development of PBJ.

The repackaging of the DBS facility resulted in a much improved profile of term loan repayments. As at 31 December 2016, bank debt due within one year reduced to $28.6 million from $50.9 million at 31 December 2015. Moreover, of such $28.6 million, $25.5 million represented drawings under the group's revolving working capital facilities. The directors have no reason to believe that these facilities will not be rolled over at the end of July 2017 when the facilities fall due for renewal.

The 2016 exchange offer for the group's 2017 dollar notes (referred to under "Capital structure" above) has reduced the nominal amount of such notes outstanding and falling due for redemption in June 2017 to $20.2 million. In addition, £8.3 million nominal of 2017 sterling notes fall due for redemption in December 2017. The directors are confident that the group will have the cash resources to meet these commitments and the capital expenditure needed to maintain existing immature plantings and for other routine capital requirements. However, depending upon the level of CPO prices and operational performance during the remainder of 2017, some further funding may be required to enable the group to continue its expansion programme at the level that it would like. Accordingly, the group is actively engaged in discussions to obtain new longer term debt financing to replace, or replace in part, the maturing notes. The directors are optimistic of a successful outcome to these discussions.

Limited further capital expenditure will be required on mills until the group commences construction of its fourth mill. This is scheduled for 2018 but could be postponed if cash constraints so require as FFB production in excess of the capacity of the group's existing mills can, if necessary, be sold to third party mills. The agreements recently reached or imminently expected to be reached in relation to the group's stone and coal interests should not involve the group in any material cash outlay and should lead to the interests in question becoming rapidly cash generative.

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.

As respects group borrowings, the directors believe that the group's interests are best served if 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 group's borrowings were, when put in place substantially consistent with the above objectives, subsequent events and in particular some delays in the original plans for expansion of the group's planted hectarage, meant that by the end of 2014, the group had become too dependent on short term debt. To address this, the group raised some $27.7 million from issues of ordinary and preference shares during 2015 and 2016 and a further $15 million from the transaction with DSN detailed above. Additionally, as noted under "Liquidity and financing adequacy" above, the directors have completed various steps to improve the repayment profile of the group's debt. As a result, the financing position of the group is now much improved although, as noted above, the directors are still endeavouring to obtain additional longer term financing to replace maturing debt. The directors retain their existing policy of replacing debt with preference share capital when market conditions permit.

Net debt at 31 December 2016 was 66.3 per cent of total shareholder funds against a level of 66.9 per cent at 31 December 2015. Whilst the directors intend to maintain the overall amount of the group's prior ranking capital, they expect that with growth in the net assets attributable to ordinary shareholders, the percentage of ordinary shareholder funds represented by prior ranking capital will, over time, fall.

The 2017 sterling notes, the 2020 sterling notes and the 2017 and 2022 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 by 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 2016 would have resulted in an additional annual cost to the group of approximately $1.4 million (2015: additional $1.2 million).

The group regards the dollar as the functional currency of most of its operations. The directors believe that the group will be best served going forward by simply maintaining a balance between its borrowings in different currencies and avoiding currency hedging transactions.

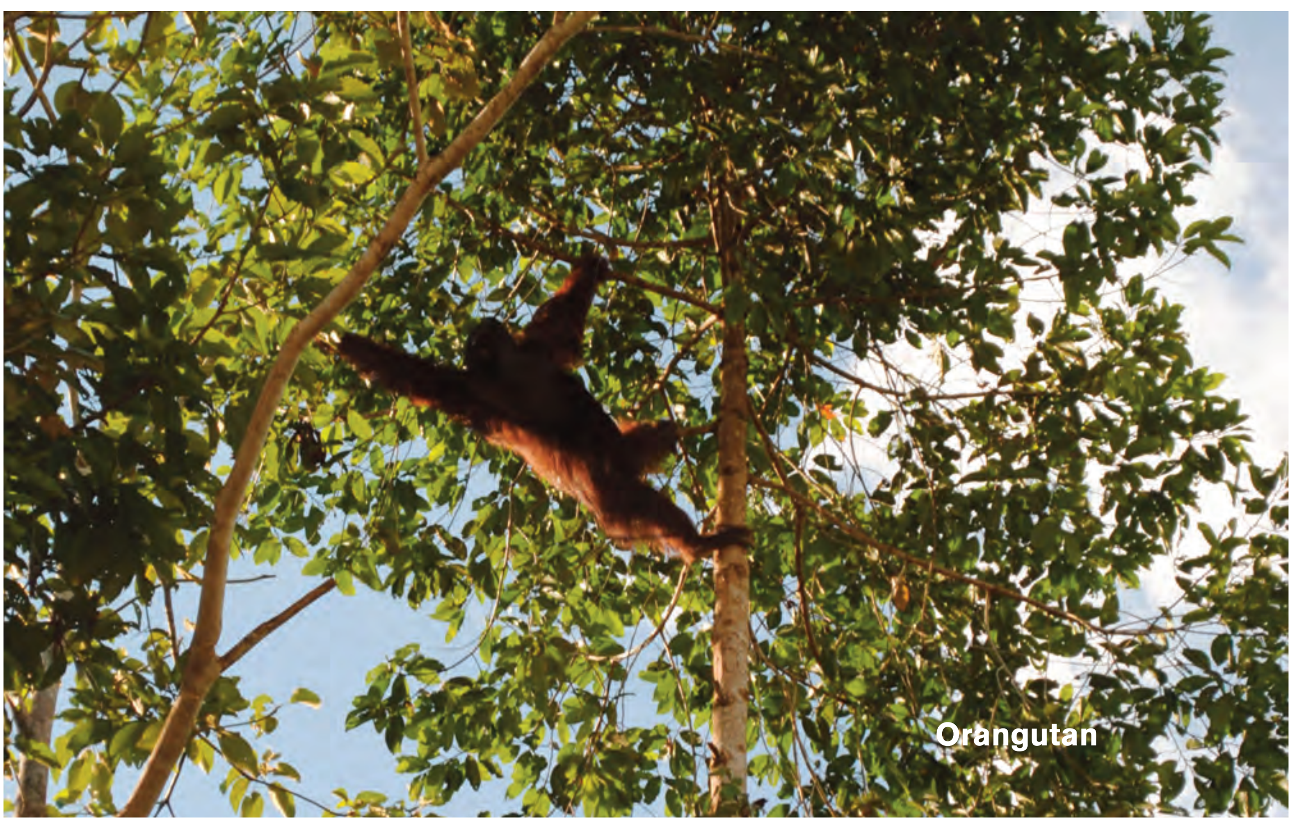
Accordingly, the group regards some exposure to currency risk on its non-dollar borrowing as an inherent and unavoidable risk of its business. Whilst interest rates payable on Indonesian rupiah borrowings are higher than on dollar borrowings, the directors believe that such higher rates reflect the fact 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.


Bornean langur monkey


Storm's storks


Orangutan

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.

Risks assessed by the directors as being of particular significance are those detailed below under climatic and other operational factors, produce prices and funding. In the case of climatic and other operational factors and produce prices, the directors' assessment reflects the negative impact on revenues that could be caused by adverse climatic conditions or operational circumstances and, in the case of funding, the possibility that the group's expansion programme might have to be curtailed.

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

Risk	Potential impact	Mitigating or other relevant considerations
Stone and coal operations		
Operational factors		
Failure by external contractors to achieve agreed production volumes	Loss of prospective revenue	The group endeavours to use experienced contractors, to supervise them closely and to take care to ensure that they have equipment of capacity appropriate for the planned production volumes once operations have commenced
External factors, in particular weather, delaying or preventing delivery of extracted stone and coal	Delays to receipt or loss of revenue	Deliveries are not normally time critical and adverse external factors would not normally have a continuing impact for more than a limited period
Geological assessments, which are extrapolations based on statistical sampling, proving inaccurate	Unforeseen extraction complications causing cost overruns and production delays	The group seeks to ensure the accuracy of geological assessments of any extraction programme and taking expert geological advice on the results
Prices		
Local competition reducing stone prices and volatility of international coal 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 deposits and the cost of transporting stone should restrict competition. In relation to coal, the cooperation arrangement negotiated for the mining of the group's main coal concession provides a floor price for the coal mined
Imposition of additional royalties or duties on the extraction of stone or coal	Reduced revenue and a consequent reduction in cash flow and profit	The Indonesian government has not to date imposed measures that would seriously affect the viability of Indonesian stone quarrying or coal mining operations
Unforeseen variations in quality of deposits	Inability to supply product within the specifications that are, at any particular time, in demand with consequent loss of revenue	Geological assessments ahead of commencement of extraction operations should have identified any material variations in quality
Environmental, social and governance practices		
Failure by the stone and coal operations to meet the expected standards	Reputational and financial damage	The area of the stone and coal concessions are relatively small and should not be difficult to supervise. The group is committed to international standards of best environmental and social practice and, in particular, to proper management of waste water and reinstatement of quarried and mined areas on completion of extraction operations

Risks and uncertainties

continued

Risk	Potential impact	Mitigating or other relevant considerations
General		
Currency		
Strengthening of sterling or the Indonesian rupiah against the dollar	Adverse exchange movements on those components of group costs and funding that arise in Indonesian rupiah or sterling and are not hedged against the dollar	As respects costs and sterling denominated shareholder capital, the group considers that this risk is inherent in the group's business and structure and must simply be accepted. As respects borrowings, where efficient the group seeks to borrow in dollars but, when borrowing in another currency, considers it better to accept the resultant currency risk than to hedge that risk with hedging instruments
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. Moreover, the group has recently increased local participation 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

The directors have also considered the implications of the notice given to terminate UK membership of the European Union in the context of the group and its operations. Any ensuing weakness of sterling will positively impact the group as its operations are essentially dollar denominated and costs incurred and liabilities recognised in sterling will be reduced in dollar terms. Any reduction in UK interest rates may negatively impact the level of the technical provisions of the REA Pension Scheme by, given the Scheme's estimated funding position and having regard to the performance of the assets, the directors do not expect that the impact will be material in the context of the group.

Approved by the board on 27 April 2017 and signed on behalf of the board by
DAVID J BLACKETT
Chairman

Board of directors

David Blackett

Chairman (independent) (66)

Committees: audit, nomination (chairman), remuneration

David 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. He was appointed chairman on 1 January 2016 following the retirement of Richard Robinow from that position.

Irene Chia

Independent non-executive director (76)

Irene Chia was appointed a non-executive director in January 2013. She 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, she 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.

Carol Gysin

Executive director (59)

Carol Gysin was appointed to the board as managing director on 21 February 2017. Based in London, she has worked for the group for over eight years as group company secretary, with increasing involvement in the operational areas of the business, including making regular visits to the group's offices and plantation estates in Indonesia. Prior to joining the group, Carol worked as company secretary to a telecommunications company, Micadant plc (formerly, Ionica Group plc, listed on NASDAQ and in London), to a medical devices company, Weston Medical plc, as well as to a number of early-stage technology companies, following an initial career in investment banking.

John Oakley

Non-executive director (68)

After early experience in investment banking and general management, John 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 in the early 1990s he took 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. He retired as managing director on 1 January 2016 but remains on the board as a non-executive director and for a transitional period undertaking some additional responsibilities, in particular overseeing completion of the group's new information systems as well as making twice yearly visits to the group's estate operations to advise on agronomic matters.

Richard Robinow

Non-executive director (71)

Richard 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, is undertaking 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).

Michael St. Clair-George

Senior independent non-executive director (74)

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

Michael St. Clair-George was appointed to the board on 24 October 2016. He is a fellow of the Institute of Chartered Accountants in England & Wales. He has over 40 years' experience in the plantation and agribusiness industries in Malaysia and Indonesia, having worked for some 25 years with Harrisons & Crosfield and Harrisons Malaysian Plantations Berhad, as finance director, and then as president director of Sipef NV's Indonesian operations. He then spent 10 years as managing director of Sipef NV, based in Belgium. Retiring from this position in 2007 and returning to London, he served until 2013 as senior non-executive director and chairman of the audit committee of New Britain Palm Oil Limited, a company then listed in London.

Former directors

David Killick, FCIS (retired 6 June 2016)

Senior independent non-executive director (78)

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

David Killick was appointed a non-executive director in 2006 and retired from that position in 2016 having served on the board for over nine years.

Mark Parry (resigned 20 February 2017)

Executive director (55)

Mark Parry joined the group in 2011 as the group's regional director based in Singapore and Indonesia. He was appointed as an executive director in January 2012, as president director of PT REA Kaltim Plantations in July 2012, and as group managing director in January 2016.

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 2016. The "Corporate governance report" below forms part of this report.

There are no significant events since 31 December 2016 to be disclosed. 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 23 to the consolidated financial statements.

Results and dividends

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

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2016 were duly paid. In view of the difficult conditions that faced the group during 2016, 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 2016.

The group's programme of planting its land bank remains ongoing. This will continue to require major capital expenditure and constrain the rates at which the directors feel that they can prudently declare, or recommend the payment of, ordinary dividends over the next few years. Nevertheless, the directors will consider recommending the payment of a final ordinary dividend in respect of 2017, although this will necessarily depend upon crops and CPO prices over the balance of 2017.

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 23 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 material risks faced by the group and actions taken to mitigate those risks. 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 $3.1 million of bank term indebtedness falls due for repayment during 2017, and a further $25.5 million of revolving working capital lines fall due for renewal during the same period. In addition, $20.2 million of dollar notes fall due for repayment in June 2017 and £8.3 million of sterling notes in December 2017. In 2018 and 2019 bank term loans of $6.0 million and $12.9 million respectively fall due for repayment and $31.3 million of a committed revolving bank line falls due for renewal. A further £31.9 million ($38.9 million) sterling notes will become repayable in August 2020. In view of the material proportion of the group's indebtedness falling due in the period to 31 December 2020, as described above, the directors have chosen this period for their assessment of the long-term viability of the group.

In April 2017, PT Dharma Satya Nusantara Tbk, the non-controlling shareholder in PT REA Kaltim Plantations ("REA Kaltim"), provided further loans of $16.6 million to REA Kaltim's plantation subsidiaries. The group continues in discussions to refinance, with longer term debt, indebtedness falling due in 2017 and 2018. Furthermore, the directors have no reason to believe that the revolving working capital facilities falling due in 2017 and 2019 will not be rolled over when these facilities fall due for renewal.

Limited further capital expenditure will be required on the group's mills until construction is commenced on the fourth mill. This is scheduled for 2018 but could be postponed if cash constraints so require.

In 2020 consideration will be given to proposals to the holders of the sterling notes to refinance these with securities of longer duration. The group holds in treasury $9.9 million of dollar notes 2022 which it acquired in the placing in December 2016; the group plans to sell these over time as market conditions permit. Should funding be required pending completion of any of the debt financing initiatives, the group will seek to place for cash a limited number of ordinary and/or preference shares, authority for which will be sought as and when appropriate.

The directors fully expect that the foregoing measures will refinance, or permit the group to repay, the group indebtedness falling due for repayment during the period of assessment. As the benefits of recent improvements in operational efficiencies start to flow through, with CPO prices likely to remain at current better levels, the group's plantation operations can be expected to generate increasing cash flows going forward. Operations are expected to restart shortly at one of the group's coal concessions and to commence at a new stone deposit. Together these are expected to result in increasing cash flow.

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

Directors' report

continued

in operational existence for the period to 31 December 2020 and to remain viable during that period.

Going concern

The business risks are set out on pages 36 to 41 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 pages 34 of the strategic report and the 2016 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 33 to 34 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 2015 to 31 December 2016 is as shown below:

Tonnes of CO_2e	2016	2015
Gross emissions associated with oil palm operations in Indonesia[1]	1,033,340	1,107,127
Net emissions associated with oil palm operations in Indonesia	466,939	563,167
Net emissions per tonne of CPO produced	3.66	3.48
Net emissions per planted hectare	10.81	15.05
Electricity, heat, steam and cooling purchased for own use	57.3	57.6

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.

The group has used the PalmGHG tool (v. 3.0.1), developed by the Roundtable on Sustainable Palm Oil ("RSPO"), to calculate the carbon footprint of its oil palm operations in Indonesia 2016 and to restate its previously calculated carbon footprint for 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. As of 31 December 2016, all RSPO member palm oil producers have been required to report publicly their GHG emissions using the PalmGHG tool, so it is expected that this methodology will become industry best practice. Following the change in the methodology of the most recent version of PalmGHG, the data presented above is not directly comparable with that for the years 2012 to 2015 presented in previous Directors' reports which was computed in accordance with an earlier version of the PalmGHG tool.

The PalmGHG tool uses a lifecycle assessment approach, whereby all of the major sources of GHG emissions (carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O)) 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. The boundary of calculation includes all three of the group's palm oil mills and their supply bases. 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 CO_2 that is estimated to have been fixed (sequestered) by the oil palms and conserved set-aside forest 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 and local communities that were previously supplied with electricity by diesel powered generators.

The group's net GHG emissions have been expressed per tonne of CPO produced and per planted hectare (immature and mature). It is deemed necessary to consider both measures 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 CPO.

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 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 2016 are set out in note 30 to the company's financial statements. At 31 December 2016, the preference share capital and the ordinary share capital represented, respectively, 86.3 and 13.7 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 Euroclear UK & Ireland 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 and the 7.5 per cent dollar notes 2022 (respectively, the "2017 dollar notes" and the "2022 dollar notes" and, together, the "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. Transfers may be in any usual or common form duly executed in amounts and multiples: in the case of the 2017 dollar notes of $1; in the case of the 2022 dollar notes, of $120,000 and

Directors' report
continued

integral multiples of $1 in excess thereof; 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 2016, 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	11,082,420	27.4
Prudential plc and certain subsidiaries*	6,043,129	15.0
Alcatel Bell Pensioenfonds VZW	4,167,049	10.3
Artemis UK Smaller Companies	3,563,620	8.8
First State Investments (UK) Limited	1,476,858	3.7

* The company has been notified that the interest of Prudential plc group of companies includes 6,021,116 ordinary shares (14.9 per cent) in which M&G Investment Funds 3 is also interested.

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

Pursuant to notifications received in the period from 31 December 2016 to the date of this report, substantial shareholders were as set out below:

	Number of ordinary shares	Percentage of voting rights
Emba Holdings Limited	11,082,420	27.4
Prudential plc and certain subsidiaries	6,043,129	15.0
Alcatel Bell Pensioenfonds VZW	4,167,049	10.3
Artemis UK Smaller Companies	3,563,620	8.8
Aberforth LLP	2,946,902	7.3
The Capital Group Companies, Inc	2,162,000	5.4

Significant holdings of dollar notes and sterling notes shown by the respective registers of members and noteholders at 31 December 2016 are set out below. There were no significant holders of preference shares at 31 December 2016.

Substantial holders of securities	Dollar notes 2017 $'000	Dollar notes 2022 $'000	Sterling notes 2017 £'000	Sterling notes 2020 £'000
The Bank of New York (Nominees) Limited	–	–	7,800	–
The Bank of New York (Nominees) Limited AHIF account	–	–	–	2,028
Euroclear Nominees Limited EOC01 account	2,958	–	–	–
Ferlim Nominees Limited pooled account	–	–	–	842
HSBC Global Custody Nominees (UK) Limited 641898 account	–	–	5,967	–
KBC Securities NV Client account	6,080	4,690	–	–
R.E.A. Services Limited	–	9,880	–	–
Securities Services Nominees Limited 2300007 account	–	–	–	1,595
State Street Nominees Limited OM04 account	–	–	5,300	-
State Street Nominees Limited OU61 account	2,566	–	8,816	-
Vidacos Nominees Limited CLRLux account	3,910	–	–	–
Vidacos Nominees Limited CLRLux2 account	–	2,264	–	–

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 25 to the consolidated financial statements.

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 who served during 2016 or were appointed subsequent to the end of 2016 are listed under "Board of directors" above, which is incorporated by reference in this Directors' report. Biographical details of each of the directors proposed for election or re-election are also set out under "Board of directors". David Killick retired as a non-executive director on 6 June 2016 and Mark Parry resigned as managing director on 20 February 2017.

Carol Gysin and Michael St. Clair-George, who were appointed on 21 February 2017 and 24 October 2016, respectively, retire at the forthcoming annual general meeting and being eligible, offer themselves for election, such retirement being in compliance with the company's articles of association providing for the rotation of directors. Resolutions 4 and 5, which are set out in the 2017 notice of annual general meeting (the "2017 Notice") and will be proposed as ordinary resolutions, deal with the election of Carol Gysin and Michael St. Clair-George.

John Oakley and Richard 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 6 and 7, which are set out in the 2017 Notice and will be proposed as ordinary resolutions, deal with the re-election of John Oakley and Richard Robinow.

John Oakley and Richard Robinow relinquished their positions as, respectively, managing director and chairman of the company at the end of 2015. However they remain on the board as non-executive directors and continue to oversee certain executive matters to the extent necessary to ensure a smooth transfer of their responsibilities. The group continues to benefit from John Oakley's knowledge of agronomical practices as well as his essential oversight of the development and implementation of the new information technology systems. As respects Richard Robinow, his significant family shareholding in the company will continue to support the development of the group, particularly with regard to current strategic initiatives.

The chairman confirms that, following a formal evaluation, the performance of each of the non-executive directors continues to be effective and recommends each of John Oakley, Richard Robinow and Michael St. Clair-George for re-election or election as a non-executive director. Further, the chairman recommends for election Carol Gysin as sole executive director. The chairman particularly welcomes the valuable commitment and extensive experience of all of the directors.

Resignation of Mark Parry

Mark Parry's directorships with the company and all subsidiaries of the group ceased with effect from 20 February 2017. His employment with the company's Singapore subsidiary will end on 20 May 2017. Mark Parry decided to offer his resignation following concerns expressed by the authorities in East Kalimantan that, in his position as president director of PT REA Kaltim Plantations, he might have undertaken various tasks that were outside the scope of his work permits. The tasks in question involved matters relating to human resources and personnel management (which are reserved by Indonesian law to Indonesian nationals) and conducting business at group locations not specifically covered by the work permits.

On 20 February 2017, the directors resolved unanimously that it was in the best interests of the company and its shareholders for the company to pay to Mark Parry the sum of £200,000 as compensation for his loss of office as a director of the company (the "Loss of Office Payment"), such payment to be subject to the approval of shareholders at the next annual general meeting of the company.

The remuneration policy of the company contemplates directors being paid their contractual notice entitlement and, in respect of expatriate executive directors, reasonable repatriation costs upon termination of their appointments. However, the remuneration policy does not contemplate any other loss of office payments. The Loss of Office Payment, therefore, is inconsistent with the company's current remuneration policy. Accordingly, a resolution will be proposed at the forthcoming general meeting to approve the Loss of Office Payment to Mark Parry (resolution 3 set out in the 2017 Notice). In accordance with section 430(2b) of the Companies Act 2006, the detailed terms of the arrangements agreed between the company and Mark Parry in relation to the latter's resignation are available on the company's website at www.rea.co.uk and will remain so available until the company's 2018 annual general meeting. In addition and in accordance with section 226D of the Companies Act 2006, such terms are available for inspection at the registered office of the company, First Floor, 32-26 Great Portland Street, London W1W 8QX, will so remain until the conclusion of the company's forthcoming annual general meeting and will be available for inspection at the place of that meeting at least 15 minutes prior to and during the meeting.

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 2016 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 0.33 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 10 set out in the 2017 Notice) of the buy-back authority granted in 2016 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 2018 or on 30 June 2018 (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.

Authorities to allot share capital

At the annual general meeting held on 6 June 2016, 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 2017 annual general meeting (resolutions 11 and 12 set out in the 2017 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 £3,364,752 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 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 2018 or on 30 June 2018 (whichever is the earlier). 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 2017 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 £1,009,425 (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 should the need arise as discussed in the viability statement above.

The foregoing powers (if granted) will expire on the date of the annual general meeting to be held in 2018 or on 30 June 2018 (whichever is the earlier).

General meeting notice period

At the 2017 annual general meeting a resolution (resolution 14 set out in the 2017 Notice) will be proposed to authorise the directors to convene a general meeting (other than an AGM) 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 2018 or on 30 June 2018 (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 the proposed Loss of Office Payment to Mark Parry as detailed under "Resignation of Mark Parry" above that the proposals to grant 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" above 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 resolution 3 and resolutions 10 to 14 as set out in the 2017 Notice.

Directors' remuneration report

Resolution 2 as set out in the 2017 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 2017 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	Note 34 to the consolidated financial statements
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

Directors' report
continued

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

By order of the board
R.E.A. SERVICES LIMITED
Secretary
27 April 2017

Corporate governance report

Throughout the year ended 31 December 2016, the company was in compliance with the provisions set out in the 2016 UK Corporate Governance Code issued by the Financial Reporting Council (the "Code") save for an interim period from June to October 2016 as respects code provision C.3.1 regarding audit committees for the reasons explained under 'Composition of the audit committee' in the Audit committee report below. 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 2016, 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.

Irene Chia and Michael St. Clair-George, are considered by the board to be independent directors. Further, the Chairman on appointment was considered to meet the board of directors' criteria for independence. There is a regular and robust dialogue, both formal and informal, between all directors and senior management and communication is open and constructive and non-executive directors are able to express their views, speak frankly and raise 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 2016 in compliance with the Code requirement to carry such insurance.

Composition of the board

The board currently comprises one executive director and five non-executive directors (including the chairman). Throughout 2016 and up to the date of his resignation on 20 February 2017, Mark Parry, who was based in Singapore and Indonesia, was managing director with overall responsibility for the Indonesian operations. Mark was also president director and the chief operating officer of the company's principal operating subsidiary, PT REA Kaltim Plantations ("REA Kaltim").

Following Mark's resignation, Carol Gysin, who is based in London, was appointed managing director on 21 February 2017. At the same time, George Kapitan, who is an Indonesian citizen, relinquished his position as chairman of REA Kaltim's board of commissioners, and was appointed president director of REA Kaltim, in place of Mark Parry.

In line with his previously stated intention, David Killick retired as a director on 6 June 2016. Michael St. Clair-George was appointed to succeed David Killick on 24 October 2016.

Biographical information concerning each of the directors of the company 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.

The recent changes in board positions and responsibilities do not alter 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

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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 or herself 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 Richard Robinow, who absented himself from the discussion in this respect. Such notifications relate to Richard 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 2016, the board concluded that it performs effectively as constituted and that the directors communicate and work well together as a team.

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 David Blackett, Carol Gysin and Richard Robinow, 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 David Blackett (chairman) and Michael St. Clair-George. 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, and takes into consideration the ethos of the company and the specific nature and location of the group operations. Experience and understanding of the plantation industry and business in Indonesia is an important factor in considering a potential appointment.

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 2016, at the regular board meetings held in 2016 is set out below. There were no ad hoc meetings held in 2016.

	Regular meeting
David Blackett	4
Irene Chia	4
David Killick (retired 6 June 2016)	2
John Oakley	4
Mark Parry (resigned 20 February 2017)	4
Richard Robinow	4
Michael St. Clair-George (appointed 24 October 2016)	1

In addition, during 2016 there were three meetings of the audit committee, three 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 some 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. In the event that 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 2016 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 in compliance with the Modern Slavery Act 2015 and has a statement on its website in relation to modern slavery.

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

Corporate governance report
continued

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 October 2016 and April 2017, 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 in London and Indonesia and regular meetings are held between the two offices by way of conference calls. Directors and managers based in London make periodic visits to the overseas operations each year. The managing director has a continuous 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.

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 27 April 2017 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 at www.rea.co.uk.

The audit committee is responsible for:

- monitoring the integrity of the financial statements, 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 2016, 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 were 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 Michael St. Clair-George (chairman) and David 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.

David Killick was chairman of the audit committee until his retirement on 6 June 2016. Following his retirement, for an interim period between June 2016 and October 2016, the company no longer had a sufficient number of independent and qualified directors who were eligible to be members of the audit committee. Pending the appointment of a suitable successor to David Killick, responsibility for matters that were normally reserved for consideration by the audit committee was assumed by the full board.

Meetings

Three audit meetings are scheduled each year 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 2016 (on which the auditor did not report) and the full year consolidated financial statements for 2016 (the "2016 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 2016 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
Biological assets: compliance with the amended provisions of IAS 41 Agriculture requiring that produce growing on bearer plants, if capable of reliable measurement, be treated as a separate asset and carried at fair value and that the balance of what was formerly accounted for as biological assets be reclassified as property, plant and equipment and depreciated.	The group has applied a formulaic methodology for valuing growing produce based on oil content in growing fresh fruit bunches. It has concluded that this provides "reliable measurement" based on its understanding of how that phrase has to be interpreted in the context of Accounting Standards, notwithstanding that a different and still reasonably justifiable formulaic methodology could give a materially different result. As permitted by the amended provisions of IAS 41, the group decided to adopt the fair value ascribed to biological assets (other than growing produce) at 31 December 2014 (the transition date for the purposes of the provisions) as deemed cost. The assets concerned comprise individual oil palm trees, nurseries and the field infrastructural improvements that accompanied the planting of the trees. The group concluded that a component of deemed cost could be specifically attributed to nurseries. The balance of deemed cost was then allocated by separating the infrastructural improvement at estimated depreciated current cost at 31 December 2014 and treating the remaining balance as attributable to the oil palm trees.
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 2015 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 $4.0 million. During discussions in 2016 with the local tax office, the tax officials rejected the subsidiary's claim for interest on that part of the repayment which represented a refund to the subsidiary of the tax that had been voluntarily paid at the time of the disputed assessment. The subsidiary disagrees with this interpretation and is considering an appeal. In the meanwhile, only undisputed interest received in 2016 has been credited to income and no other disputed interest has been recognised in the financial statements.
Valuation of 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 $3.0 million was booked in the 2012 consolidated financial statements.	The group has made further progress towards resumption of its stone and coal extraction activities. Discussions have recently been concluded on re-opening the Kota Bangun concession which should permit coal extraction to resume shortly following dewatering of the concession area. Arrangements have been concluded for the extraction of limestone from a deposit close to the group's plantations. The group continues to review options for developing suitable road access to the andesite stone concession. Meanwhile, current feasibility studies indicate that the value of such operations significantly exceeds the loan values, and support the conclusion that no further impairment charge is required.

Significant accounting and judgement issues

Issues	Relevant considerations
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 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 has been the company's audit engagement partner since June 2015 succeeding Mark McIlquham, who had been the audit partner since November 2010 and stepped down under the standard rotation procedure of his firm.

The audit committee has recommended to the board that it should seek the approval of the company's shareholders for the reappointment of the company's current auditor. That recommendation reflects an assessment of the qualifications, expertise, resources and independence of the auditor based upon reports produced by the auditor, the committee's own dealings with the auditor and feedback from management. The committee took into account the 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 judgements, 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 27 April 2017 and signed on behalf of the committee by:

MICHAEL A ST. CLAIR-GEORGE
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 AGM (the "2015 AGM"). The annual report on remuneration provides details on remuneration during 2016 and certain other information required by the Regulations. The overall report, excluding the policy report, will be subject to an advisory shareholder vote at the 2017 annual general meeting.

The Companies Act 2006 requires the auditors to report to shareholders on certain parts of the annual report on remuneration 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 Michael St. Clair-George, chairman of the remuneration committee

The succeeding sections of this directors' remuneration report cover the activities of the remuneration committee during 2016 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 executive directors takes account of the company's commercial goals and achievements as well as its sustainability objectives.

In considering bonuses in respect of 2016, the committee considered it important to strike 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 and that impacted the performance of the company during 2016, specifically the knock on effect of the 2015 El Niño on production and transportation.

Whilst harvesting and production levels were less than expected in 2016, the rate of development in the group's newer land areas and some improvement in extraction rates were positive outcomes. Other successes of the executive management in respect of the company's operational objectives include: completion of the flood control systems allowing for acceleration of development in PT Putra Bongan Jaya; enhanced security, data and administration systems; relocation of the Jakarta and Samarinda offices to improve efficiencies and reduce costs and commencement of the expansion of the mill operations at Satria Oil Mill. In addition a number of sustainability initiatives were achieved, including: construction of a new school and housing in Kutai Mitra Sejahtera; a more rigorous training programme for cadets; the introduction of tenancy agreements for staff housing; reorganisation of the three original plasma cooperatives in order to achieve a more equitable division of the land in accordance with the now agreed village boundaries; and three new clean water projects for local villages.

The committee reflected these factors in awarding bonuses in respect of 2016 and setting the executive remuneration for 2017.

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 remuneration packages for 2017, considers that it struck an appropriate balance between reward and incentive.

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 2015 and 2016 was as follows (stated in sterling as all the directors with the exception of Mark Parry are remunerated in sterling):

2016	Salary and fees £'000	All taxable benefits * £'000	Annual bonus** £'000	Long term incentive £'000	Total £'000
Managing director					
M A Parry (resigned 20 February 2017)	404.0	124.2	101.0	–	629.2
Chairman and non-executive directors					
D J Blackett	100.0	–	–	–	100.0
I Chia	27.0	–	–	–	27.0
D H R Killick (retired 6 June 2016)	14.8	–	–	–	14.8
J C Oakley	90.0	19.3	–	–	109.3
R M Robinow	100.0	7.2	–	–	107.2
M A St. Clair-George (appointed 24 October 2016)	5.6	–	–	–	5.6
Total	741.4	150.7	101.0	–	993.1

2015	Salary and fees £'000	All taxable benefits * £'000	Annual bonus** £'000	Long term incentive £'000	Total £'000
Executive directors					
J C Oakley (managing director)	344.0	17.9	112.0	–	473.9
M A Parry	295.2	111.1	135.3	–	541.6
Chairman and non-executive directors					
D J Blackett	29.5	–	–	–	29.5
I Chia	27.0	–	–	–	27.0
D H R Killick	29.5	–	–	–	29.5
R M Robinow	205.0	7.2	–	–	212.2
Total	930.2	136.2	247.3	–	1,313.7

* Types of benefit: company car, medical insurance, overseas rental accommodation
** In respect of current year

Fees paid to David Blackett and David Killick in respect of 2015 and 2016 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 68 at 31 December 2016) 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	74,994
Increase during the year	101
In payment at end of year	75,095

Directors' remuneration report

continued

Scheme interests awarded during the financial year

The table below sets out scheme interests awarded to directors. Only one director was awarded a scheme interest during the year. As noted below, this award has subsequently lapsed.

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 234,589 ordinary shares at 269p per share exercisable subject to certain performance conditions	631,044	33.33	1 January 2016 to 31 December 2019	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 average share price (269p) for the period 1 January 2016 up to and including the day immediately preceding the date of grant (16 December 2016) being the price at which the award was initially exercisable.

** Assuming minimum performance against all performance conditions.

Payment for loss of office

Mark Parry resigned from the company following concerns expressed by the authorities in East Kalimantan that, in his position as president director of PT REA Kaltim Plantations, Mark might have undertaken various tasks that were outside the scope of his work permits. The tasks in question involved matters relating to human resources and personnel management (which are reserved by Indonesian law to Indonesian nationals) and conducting business at group locations not specifically covered by the work permits.

Accordingly, Mark ceased to be an executive director of the company on 20 February 2017. Mark's employment with the company's Singapore subsidiary will terminate at the end of his three-month notice period on 20 May 2017. Mark is on garden leave for his three-month notice period during which period Mark receives his normal base salary and contractual entitlements. Mark is not entitled to any bonus or commission during his garden leave.

Pursuant to the company's remuneration policy, Mark's service agreement and the terms of Mark's settlement agreement, the company will pay the reasonable costs of relocation for Mark and his spouse back to the UK from Singapore, provided that they relocate by 20 November 2017, up to a maximum of S$30,000 (approximately £17,500) plus the cost of one-way flights for each of Mark and his spouse from Singapore to the UK.

In addition, Mark will receive an ex gratia payment of £200,000 and a contribution of £15,000 plus VAT towards the reasonable legal fees incurred by Mark with regard to these arrangements, the ex gratia payment being conditional upon the approval of the company's shareholders as noted under "Resignation of Mark Parry" in the Director's report above.

In considering the ex gratia payment to Mark Parry, the committee took account of the company's policy with regard to directors' notice periods being for no more than one year and noted that the service contract for Mark's predecessor as managing director provided for a notice period of six months. It was further noted that, in accordance with the rules of the 2015 LTIP, Mark's award granted under the 2015 LTIP will lapse on the date of his termination. It was agreed, therefore, that the sum of £200,000, being approximately equivalent to Mark's salary and benefits for four months, is fair and reasonable.

Other than as disclosed above, Mark is not eligible for any pay in lieu of notice or severance as a result of his resignation.

Directors' shareholdings

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

At 31 December 2016, 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
D J Blackett	250,600	10,000
I Chia	–	1,000
C E Gysin (appointed 21 February 2017)	91,957	1,132
J C Oakley	–	442,493
M A Parry (resigned 20 February 2017)	83,186	37,343
R M Robinow	–	11,082,420
M A St. Clair-George (appointed 24 October 2016)	2,108	10,149

There have been no changes in the interests of the directors between 31 December 2016 and 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 Mark Parry up until his resignation on 20 February 2017. No director currently holds any scheme interests in ordinary shares.

Scheme interests in ordinary shares	With performance conditions	Without performance conditions
M A Parry	234,589	Nil

In December 2016 Mark Parry surrendered his award under the 2013 long term incentive plan approved by shareholders and put in place in June 2013, so as to receive a new award under the 2015 long term incentive plan (the "2015 plan") approved by shareholders in June 2015. In accordance with the rules of the 2015 plan, an award was granted to Mark on 21 December 2016.

The 2015 plan 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 in respect of the award granted to Mark commenced on 1 January 2016 and was to end on 31 December 2019 (the "performance period"). 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. Upon Mark's resignation in February 2017, the award granted to Mark lapsed on the cessation of his employment, in accordance with the rules of the 2015 plan.

Under the 2015 plan, participants are 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, a 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 the price at which the entitlement was granted, subject to adjustment for subsequent variations in the share capital of the company in accordance with the rules of the plan.

Directors' remuneration report

continued

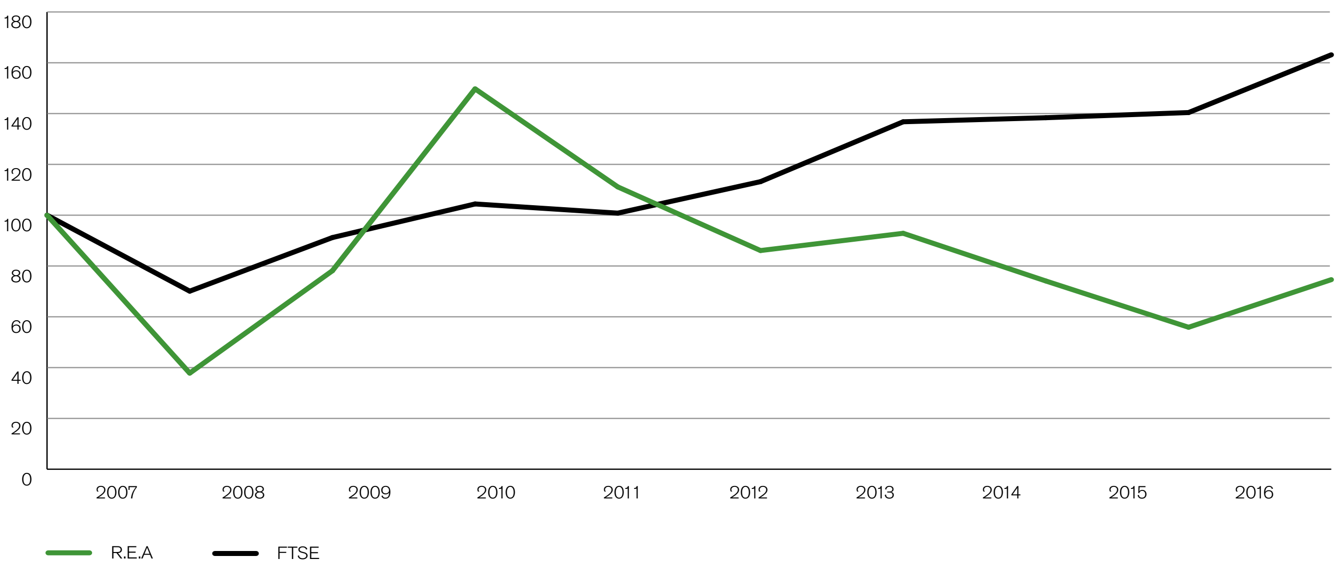
The plan provides that the vesting of the participant's potential entitlements to notional ordinary shares be determined by key performance targets with each performance target measured on a cumulative basis over a designated performance period. For the initial award to Mark Parry under the 2015 plan, there were threshold, target and maximum levels of performance determining the extent of vesting in relation to each performance target. The three key performance targets set for the award and the respective thresholds for determining the extent of vesting under the plan are set out in the table showing the scheme interests awarded during the year. Targets under the 2015 plan are subject to adjustment at the discretion of the remuneration committee where, in the committee's opinion, warranted by actual performance.

In the event of a change in control of the company as a result of a takeover offer or similar corporate event, vested entitlements would 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).

On the basis of the market price of the ordinary shares at 31 December 2016 of 352.5p, there would have been an 83.5p gain under the 2015 plan.

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 2016.

Managing director's remuneration		Single figure of total remuneration £'000	Annual bonus pay-out against maximum %	Long term incentive vesting rates against maximum opportunity %
2016	M A Parry	629.2	92	N/A
2015	M A Parry	541.7	88	N/A
2015	J C Oakley	473.9	60	N/A
2014	J C Oakley	453.3	67	N/A
2013	J C Oakley	488.8	65	N/A
2012	J C Oakley	499.5	71	N/A

Percentage change in remuneration of the managing director

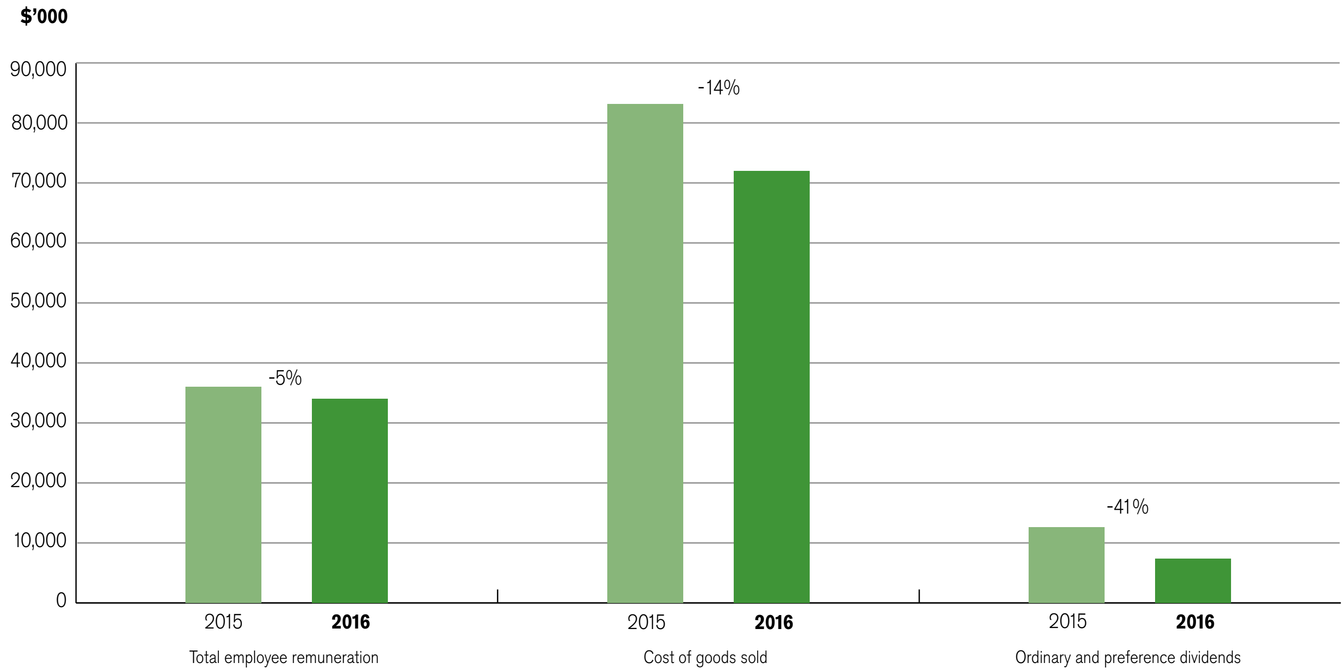
The table below shows the percentage changes in the remuneration of the managing director and in the average remuneration of certain senior management and executives in Indonesia and Singapore between 2015 and 2016. The selected comparator employee group is considered to be the most relevant taking into 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 2015 remuneration of the selected comparator employee group has been restated to reflect only the remuneration in that year of those employees comprising the 2016 selected comparator employee group. The 2015 remuneration of the selected group has also been restated at prevailing average exchange rates for 2016 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	2016 £'000	2015 £'000	change %
Salary	404.0	295.2	37
Benefits	124.2	111.1	12
Annual bonus	101.0	135.3	(25)
Total	629.2	541.6	16

Percentage change in selected employee group remuneration	2016 £'000	2015 £'000	change %
Salary	174.2	150.5	16
Benefits	6.8	3.3	106
Annual bonus	53.6	50.6	6
Total	234.6	204.4	15

Relative importance of spend on pay

The graph below shows the movements between 2015 and 2016 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, Michael St. Clair-George (chairman) and David 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 chairman plays no part in the discussion of his own remuneration.

Service contracts of directors standing for re-election

John Oakley, Richard Robinow, Michael St. Clair-George and Carol Gysin are proposed for re-election or election, as applicable, at the forthcoming annual general meeting. All the non-executive directors have 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.

Carol Gysin's service agreement, effective from 1 February 2017, states that the appointment shall continue until it automatically terminates on 31 January 2021 without the need for notice unless it is previously terminated by either party giving the other at least 12 months' prior written notice expiring before 31 January 2021. As at the date of this report, the unexpired term under Carol Gysin's contract was 12 months.

Statement of voting at general meeting

At the AGM held on 6 June 2016, 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	25,188,202	99.99	168	0.01	25,188,370	0

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 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

	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.

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.

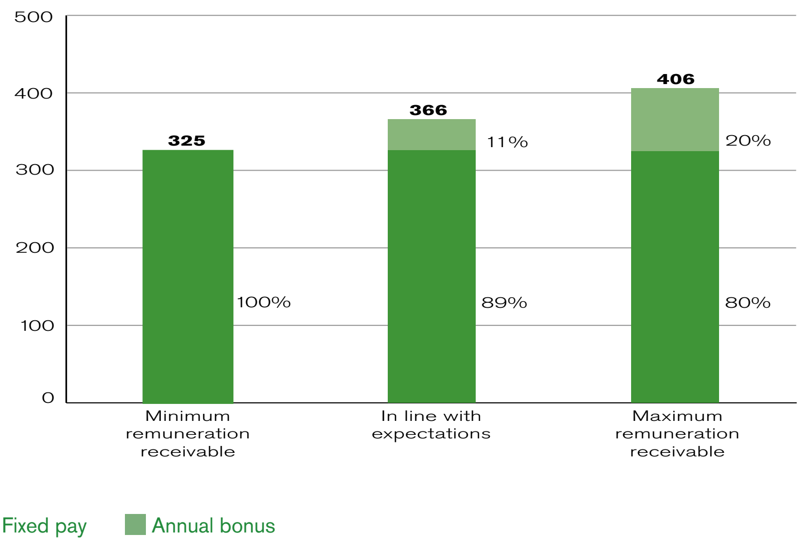
The service agreement of Mark Parry, who resigned on 20 February 2017, stated that it may be terminated by either party by giving notice to the other party of not less than three months. At 31 December 2016, the unexpired term under Mark Parry's contract was three months.

Details of Carol Gysin's service agreement are noted under "Service contracts of directors standing for re-election" above.

Illustration of application of remuneration policy

The charts below provide estimates of the potential remuneration receivable pursuant to the remuneration policy by the managing director (being the only 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 2016 will be nil.

Managing director



The figures reflected in the chart above have been calculated against the policies that were applicable throughout 2016 and on the basis of remuneration payable in respect of 2017.

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.

On 20 February 2017, in connection with the resignation of Mark Parry described under the Directors' report above, the Loss of Office Payment does not constitute a variation to the current remuneration policy.

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 27 April 2017 and
signed on behalf of the board by
MICHAEL A ST. CLAIR-GEORGE
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 is 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 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
27 April 2017

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 2016 and of the group's loss 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 that we have audited comprise:
- the Consolidated Income Statement;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Cash Flow Statements;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Statement of Accounting Policies; and
- the related notes 1 to 44 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.

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: ▪ Valuation of biological assets ▪ Valuation of loans to stone and coal interests ▪ Taxation matters arising in Indonesia
Materiality	The materiality that we used in the current year was $6.5m which was determined on the basis of 2% of biological assets
Scoping	The scope of our audit of the group remains unchanged from the previous year. We continue to focus our group audit scope primarily on the audit work of 12 active legal entities, all of which were subject to full scope audits
Significant changes in our approach	We do not consider going concern to be a key risk for the current year as the material uncertainties that existed in the prior year are no longer present, due to the sale of 15% of R.E.A Kaltim and an agreed bank facility in Indonesia.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in the basis of accounting section of the Accounting policies (group), in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the group has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

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 basis of accounting section of the Accounting policies (group) and the directors' statement on the longer-term viability of the group contained within the Directors' report.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 44 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 36 to 41 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in basis of accounting section of the Statement of Accounting Policies to the group 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; and
- the directors' explanation on pages 43 and 44 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.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

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.

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

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.

We do not consider going concern to be a significant risk for the current year end as the material uncertainties that existed in the prior year are no longer present, due to the sale of 15% of R.E.A Kaltim and an agreed bank facility in Indonesia.

Valuation of biological assets

Risk description

Under the revised IAS 41 standard, effective for periods beginning on or after 1 January 2016, biological assets are no longer carried at fair value but are instead accounted for as property, plant and equipment.

The amendment also introduced a requirement for plantation companies to account for "growing produce" (for the group developing fresh fruit bunches ("FFB")), but only if this can be reliably measured. The group has concluded that developing FFB can be reliably measured.

We identified two key risks around the valuation of biological assets:

- The valuation of growing produce. This calculation is considered judgmental and it is the first year it has been prepared. There is no historical approach to base the valuation on and the industry has yet to agree upon a standard valuation methodology.

- The split of deemed cost between asset classes. The biological assets valuation has been split into plantings, relating to the actual palms, and buildings and structures. The split between the two will have a material impact on the current and future reporting of the company's results because these are depreciated over different useful economic lives. The calculation of the split is complex and the methodology judgmental. The revised standard allows management to take the plantings' valuation as at 31st December 2014 as the deemed cost of the asset. The buildings and structures have been brought in at depreciated cost.

At the 31 December 2016 a total of $323m (2015: $330m) was recognised, which included; plantings of $168m (2015: $185m), buildings and structures of $153m (2015: $143m) and biological assets of $2m (2015: $2m).

Further information is provided in the Audit Committee report on page 57, note 14 to the financial statements, as well as in the accounting policy note and note 1, "Critical accounting judgements and key sources of estimation uncertainty."

How the scope of our audit responded to the risk

Our work on the split of deemed cost between asset classes has included:

- Reviewing the nature of the costs which have been capitalised to assess whether they are appropriate.
- Challenging the split of costs between plantings and buildings and structures, by reference to our audit work, our knowledge of the business and our interpretation of the revised standard.
- Challenging if the plantings and buildings and structures are being depreciated over appropriate useful economic lives, by comparing to scientific literature, the licensing agreements and future land rights.
- Assessing the carrying value of plantings and buildings and structures for impairment as required by IAS 16.

	During our work on the valuation of growing produce we identified and challenged: ▪ The amount of palm oil and palm kernel oil developed in the average fresh fruit bunch in the last month before harvest. This has been compared to papers published in scientific journals. ▪ The fair value of palm oil and palm kernel oil at the mill. This has been compared to market derived prices. ▪ The amount of palm oil produced by the mill in January 2017. This has been compared to internal management reports. Growing produce is the value of oil in the fruit at year end, this is extracted from the fruit in the mill over the 4 week period after year end. ▪ The costs associated with production and distribution have been flexed to analyse the impact on the growing produce calculation.
Key observations	Based on the audit evidence obtained from the work performed above, we conclude that the valuation of growing produce and the split of cost between the plantings and buildings and structures asset classes is appropriate.
Valuation of loans to stone and coal interests	
Risk description	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 2016 the carrying value of the loans increased to \$37.2m due to additional drawdowns (\$35.3m at 31 December 2015). In 2014 it was decided by management to guarantee the value of the coal loans using the andesite stone concession. This meant no impairment was taken even though the coal operations remained suspended in 2016. The coal price has now recovered sufficiently such that mining operations are expected to resume in the first half of 2017, as evidenced by a proposal from third party contractors. Whilst mining of the stone quarry has yet to commence, management remains committed to funding this at the earliest opportunity. Should activity not commence during the near future on either stone or coal sites, the likelihood of impairment of the loans in future periods will increase. Further information is provided in the Audit Committee report on page 56, 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".
How the scope of our audit responded to the risk	We challenged management's plans and cash flow forecasts in relation to the mining operations to support the value of investments in the stone and coal interests. Our work on the discounted cash flow forecasts for the operations included: ▪ Agreement of total stone and coal 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 prices to be used in the valuation with reference to third party sources, and the profit margin per year used within the calculation. ▪ Challenge of the discount rates used by management by comparing to others in the plantation industry, terminal growth rates and the forecast figures used and the assumptions in the discounted cash flow calculation.
Key observations	Based on the audit evidence obtained from the work performed above, we conclude that the valuation of loans to stone and coal interests is appropriate.

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

Taxation matters arising in Indonesia	
Risk description	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 2016: assets of $12.8m, liabilities of $80.8m, (31 December 2015: assets of $15.7m, liabilities of $86.1m)) 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 including consideration of rules relating to the expiry of losses in Indonesia. Notes 1, 9 and 27 and the Audit Committee report on page 56 contain more disclosure relating to the status of tax issues.
How the scope of our audit responded to the risk	Our work included: ▪ Challenging 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. ▪ Reviewing the status of open queries with the Indonesian tax authorities and tax advice obtained by the Group's external tax advisors in Indonesia. ▪ Assessing 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. ▪ Reviewing forecasts to assess the recoverability of the assets, including assessing those forecasts for consistency with the going concern status.
Key observations	Based on the audit evidence obtained from the work performed above, we conclude that the deferred tax assets have been appropriately recognised and the open tax positions have been appropriately accounted for in the balance sheet.

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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	$6.5m (2015: $6.4m)
Basis for determining materiality	2% of biological assets (2015: 2% of biological assets), which includes growing produce, plantings and infrastructure.
Rationale for the benchmark applied	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.

We agreed with the Audit Committee that we would report to the committee all audit differences in excess of $250k (2015: $138k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The change in the reporting threshold has been made following our reassessment of what matters require communicating. 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 on the full scope audit work of 12 active legal entities (2015: 12 active legal entities), all of which were subject to full scope audits. These 12 entities represent the principal business activities and account for 98% (2015: 95%) of the group's net assets, 100% (2015: 100%) of the group's revenue and 98% (2015: 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 materiality applicable to each individual entity which were lower than group materiality and ranged from $3.2m to $4.5m (2015: $3.2m to $5.4m).

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 appropriately qualified members 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 April 2017.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report and the Directors' report.

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

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

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 for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

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

Colin Rawlings, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
27 April 2017

Consolidated income statement

for the year ended 31 December 2016

	Note	2016 $'000	2015* $'000
Revenue	2	79,265	90,515
Net gain / (loss) arising from changes in fair value of agricultural produce inventory	4	632	(1,147)
Cost of sales:			
Depreciation and amortisation		(20,959)	(21,676)
Other costs		(50,868)	(61,448)
Gross profit		8,070	6,244
Other operating income	2	1	2
Distribution costs		(1,110)	(1,097)
Administrative expenses	5	(11,987)	(11,702)
Operating loss		(5,026)	(6,553)
Investment revenues	2, 7	1,742	259
Finance costs	8	(6,005)	(5,951)
Loss before tax	5	(9,289)	(12,245)
Tax	9	(2,019)	(686)
Loss for the year		(11,308)	(12,931)
Attributable to:			
Ordinary shareholders		(17,800)	(20,912)
Preference shareholders	10	7,402	8,461
Non-controlling interests	34	(910)	(480)
		(11,308)	(12,931)
Basic and diluted loss per 25p ordinary share (US cents)	11	(48.2)	(59.0)

* Restated - see Accounting policies (group)

The company is exempt from preparing and disclosing its profit and loss account

All operations for both years are continuing

Consolidated balance sheet

as at 31 December 2016

	Note	2016 $'000	2015* $'000	2014* $'000
Non-current assets				
Goodwill	12	12,578	12,578	12,578
Intangible assets	13	4,176	–	–
Property, plant and equipment	14	471,922	468,850	459,096
Prepaid operating lease rentals	15	34,230	34,295	33,879
Stone and coal interests	16	37,208	35,338	31,334
Deferred tax assets	27	12,781	15,669	8,909
Non-current receivables		3,136	1,395	2,749
Total non-current assets		576,031	568,125	548,545
Current assets				
Inventories	18	15,767	11,190	16,180
Biological assets	19	2,037	2,105	2,251
Investments	20	9,880	2,158	–
Trade and other receivables	21	42,554	29,103	25,487
Cash and cash equivalents	22	24,593	15,758	16,224
Total current assets		94,831	60,314	60,142
Total assets		670,862	628,439	608,687
Current liabilities				
Trade and other payables	29	(43,426)	(27,025)	(17,818)
Current tax liabilities		(317)	(3,406)	(2,581)
Bank loans	24	(28,628)	(50,906)	(40,326)
Sterling notes	25	(10,103)	–	(14,693)
US dollar notes	26	(20,048)	–	–
Hedging instruments		–	–	(9,590)
Other loans and payables	28	(519)	(93)	(1,238)
Total current liabilities		(103,041)	(81,430)	(86,246)
Non-current liabilities				
Bank loans	24	(97,771)	(72,034)	(60,638)
Sterling notes	25	(37,037)	(55,853)	(37,713)
US dollar notes	26	(23,646)	(33,637)	(33,472)
Deferred tax liabilities	27	(80,830)	(86,105)	(77,191)
Other loans and payables	28	(18,987)	(5,558)	(6,802)
Total non-current liabilities		(258,271)	(253,187)	(215,816)
Total liabilities		(361,312)	(334,617)	(302,062)
Net assets		309,550	293,822	306,625
Equity				
Share capital	30	121,426	120,288	112,974
Share premium account	31	42,585	30,683	23,366
Translation reserve	32	(39,127)	(46,282)	(44,324)
Retained earnings	33	161,839	187,481	212,928
		286,723	292,170	304,944
Non-controlling interests	34	22,827	1,652	1,681
Total equity		309,550	293,822	306,625

* Restated - see Accounting policies (group)

Approved by the board on 27 April 2017 and signed on behalf of the board.

DAVID J BLACKETT

Chairman

Consolidated statement of comprehensive income

for the year ended 31 December 2016

	Note	2016 $'000	2015* $'000
Loss for the year		(11,308)	(12,931)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Actuarial losses		(569)	(489)
Deferred tax on actuarial losses	27	143	122
		(426)	(367)
Items that will not be reclassified to profit and loss:			
Exchange differences on translation of foreign operations	32	5,222	3,575
Exchange differences on deferred tax	27	2,617	(5,082)
		7,413	(1,874)
Total comprehensive income for the year		(3,895)	(14,805)
Attributable to:			
Ordinary shareholders		(10,387)	(22,786)
Preference shareholders		7,402	8,461
Non-controlling interests		(910)	(480)
		(3,895)	(14,805)

* Restated - see Accounting policies (group)

Consolidated statement of changes in equity

for the year ended 31 December 2016

	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 2015*	112,974	23,366	(44,324)	212,928	304,944	1,681	306,625
Total comprehensive income	–	–	(1,958)	(12,818)	(14,776)	(29)	(14,805)
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)	187,481	292,170	1,652	293,822
Total comprehensive income	–	–	7,155	(10,824)	(3,669)	(226)	(3,895)
Sale of shareholding in sub-group	–	–	–	(7,416)	(7,416)	21,401	13,985
Issue of new ordinary shares (cash)	1,138	11,902	–	–	13,040	–	13,040
Dividends to preference shareholders	–	–	–	(7,402)	(7,402)	–	(7,402)
At 31 December 2016	121,426	42,585	(39,127)	161,839	286,723	22,827	309,550

* Restated - see Accounting policies (group)

Consolidated cash flow statement

for the year ended 31 December 2016

	Note	2016 $'000	2015 $'000
Net cash from operating activities	35	2,598	20,063
Investing activities			
Interest received		1,742	259
Proceeds from disposal of property, plant and equipment		61	2,512
Purchases of property, plant and equipment		(31,137)	(32,348)
Expenditure on prepaid operating lease rentals		(367)	(1,250)
Investment in stone and coal interests		(1,860)	(4,004)
Net cash used in investing activities		(31,561)	(34,831)
Financing activities			
Preference dividends paid		(7,402)	(8,461)
Ordinary dividends paid		–	(4,168)
Repayment of borrowings		(11,004)	(9,620)
Proceeds of issue of ordinary shares, less costs of issue		13,040	6,793
Proceeds of issue of US dollar notes, less costs of issue		(44)	–
Redemption of US dollar notes		(45)	–
Proceeds of issue / sale of sterling notes, less costs of issue		1,922	4,086
Proceeds of issue of sterling notes, by exchange		–	39,921
Proceeds of issue of preference shares, less costs of issue		–	7,838
Redemption of sterling notes, by exchange		–	(39,921)
Payment on termination of hedging contract		–	(10,184)
Purchase of sterling notes		–	(2,158)
Proceeds of sale of shareholding in subsidiary		13,985	–
New borrowings from related party		12,446	–
New bank borrowings drawn		14,939	30,326
Net cash from financing activities		37,837	14,452
Cash and cash equivalents			
Net increase / (decrease) in cash and cash equivalents	36	8,874	(316)
Cash and cash equivalents at beginning of year		15,758	16,224
Effect of exchange rate changes		(39)	(150)
Cash and cash equivalents at end of year	22	24,593	15,758

Accounting policies (group)

General information

R.E.A. Holdings plc is a company incorporated and domiciled 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 114 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 have conducted a review of the projected cash flows from operations, investing and financing and have set out their assessment of liquidity and financing adequacy on pages 33 and 34 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 2016. The principal change in accounting policies results from the amendments to IAS 41 Agriculture and to IAS 16 Property plant and equipment. The new accounting policies are set out under "Property, plant and equipment - plantings" and under "Property, plant and equipment - other" below.

As a result of this change in accounting policies and, as set out in note 44, the consolidated balance sheets for 2014 and 2015 and the consolidated income statement for 2015 have been restated. In these financial statements, references to "restated" should be construed accordingly.

The adoption of other amendments to IFRSs has not had any significant impact on the amounts reported in these financial statements, although certain 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 applied in these financial statements), are set out below together with their effective dates of implementation:

IFRS 9: Financial instruments	1 January 2018
IFRS 15: Revenue from contracts with customers	1 January 2018
IFRS 16: Leases	1 January 2019
IFRS 10 and IAS28: Sale or contribution of assets between an investor and its associate or joint venture (amendments)	1 January 2017
IAS 12: Recognition of deferred tax assets for unrealised losses (amendments)	1 January 2017
IFRS 2: Classification and measurement of share-based payment transactions (amendments)	1 January 2018
IFRS 4: Applying IFRS9 Financial instruments with IFRS 4 Insurance contracts (amendments)	1 January 2018
Annual improvements to IFRSs: 2014 - 2016 cycle	1 January 2017/2018
IFRIC interpretation 22: Foreign currency transactions and advance consideration	1 January 2018
IAS 40: Transfers of investment property (amendments)	1 January 2018

IFRS 9 implements 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 will have a material impact on the group's reported profit or equity.

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

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

Basis of consolidation

The consolidated financial statements consolidate the financial statements of the company and its subsidiary companies (as listed in note (iv) 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 not depreciated although it is tested for impairment at least annually. Any impairment is debited immediately as a loss in the consolidated income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of any goodwill is included in the determination of the profit or loss on disposal.

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

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

Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and any recognised impairment losses.

Intangible assets acquired separately are measured at cost on initial recognition. An intangible asset with a finite life is amortised on a straight-line basis so as to charge its cost to the income statement over its expected useful life. An intangible asset with an indefinite life is not amortised but is tested at least annually for impairment and carried at cost less any recognised impairment losses.

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset. Amortisation is provided on a straight-line basis so as to charge the cost of the software to the income statement over its expected useful life, not exceeding eight years.

The expected useful lives of acquired intangible assets are as follows:

Purchased software	4-8 years
Licences (other than land titles)	duration of the licence
Other	up to 6 years

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

Accounting policies (group)

continued

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 plantings 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 agricultural produce inventory 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 plantings within property, plant and equipment.

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.

Property, plant and equipment - plantings

On application of the amendments to IAS41: Agriculture and IAS 19: Property, plant and equipment, the directors elected to state the group's plantings at deemed cost being the fair value recognised as at 1 January 2015 less the fair value at that date of the growing produce which is disclosed in current assets under "Biological assets". Additions (which include interest incurred during the period of immaturity) are recognised at historical cost.

Depreciation is not provided on immature plants. Once plants reach maturity, depreciation is provided on a straight line basis at a rate that will write off the costs of the plants by the date on which they are scheduled to be replanted, with a maximum of 24 years.

Property, plant and equipment - other

All property, plant and equipment other than plantings 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 and structures – 20 to 67 years; plant, equipment and vehicles - 5 to 16 years. Construction in progress is not depreciated. Where the directors consider that the residual value of an asset exceeds its carrying value, no depreciation will be provided.

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 are amortised over 67 years.

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

Accounting policies (group)

continued

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 group's oil palms are stated at fair value at the point of harvest of the fresh fruit bunches ("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.

Biological assets

Biological assets comprise the growing produce (fresh fruit bunches – "FFB") on oil palm trees and are carried at fair value.

Growing produce is valued using a formulaic methodology to determine the estimated value of the oil content of FFB which develops in the fruitlets in the five to six weeks immediately prior to harvest. The oil content so derived, both CPO and CPKO, is valued at market value, after deducting harvesting, processing and transport costs.

Periodic movements in the fair value of growing produce are reflected in the consolidated income statement

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 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" 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. Stone and coal interests are also classified as loans and receivables. Stone and coal interests are measured at amortised cost using the effective interest rate method. 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, loans from non-controlling shareholders, 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.

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 (the growing crop of FFB). No market exists for unripe FFB, so management must select an appropriate methodology to be used, together with suitable metrics, for determining fair value. The quantity of trees and the absence of accepted valuation bases for measuring the value of the ripening FFB between flowering and harvest have led management to value the growing crop of FFB by reference to the formation of the oil content in the fruitlets on the FFB in the period immediately before harvest.

Capitalisation of interest and other costs

As described under "Property plant and equipment - plantings" in "Accounting policies (group)", all expenditure on plantings 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 determination of the fair value of the group's biological assets, and the fact that choice of a different methodology could give a materially different result, the actual value of ripening FFB may differ from that estimated (see note 19).

Taxes

The group is subject to taxes in various jurisdictions. 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) mean that tax outcomes may differ from estimates.

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 may differ from their realisable value (see note 16).

2. Revenue

	2016 $'000	2015 $'000
Sales of goods	77,642	87,824
Revenue from services	1,623	2,691
	79,265	90,515
Other operating income	1	2
Investment revenue	1,742	259
Total revenue	81,008	90,776

In 2016, two customers accounted for respectively 72 per cent and 16 per cent of the group's sales of agricultural goods (2015: three customers, 59 per cent, 16 per cent and 15 per cent). As stated in note 23 "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 2016 amounted to 468,371 tonnes (2015: 600,741 tonnes). The fair value of the crop of fresh fruit bunches was $49.7 million (2015: $45.1 million), based on the price formulae determined by the Indonesian government for purchases of fresh fruit bunches from smallholders.

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 2016 and 2015, the latter did not meet the quantitative thresholds set out in IFRS 8 "Operating segments" and, accordingly, no analyses are provided by business segment.

	2016 $'m	2015* $'m
Sales by geographical destination:		
Indonesia	79.3	90.5
Rest of World	–	–
	79.3	90.5
Carrying amount of net assets by geographical area of asset location:		
UK, Continental Europe and Singapore	56.0	58.0
Indonesia	253.6	237.9
	309.6	295.9

* Restated - see Accounting policies (group)

4. Agricultural produce inventory movement

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

Notes to the consolidated financial statements
continued

5. Loss before tax

	2016 $'000	2015* $'000
Salient items charged / (credited) in arriving at loss before tax		
Administrative expenses (see below)	11,987	11,702
Movement in inventories (at historic cost)	(313)	1,937
Amounts provided against inventories	73	497
Movement in fair value of growing produce	68	146
Operating lease rentals	373	234
Amortisation of intangible assets	74	–
Depreciation of property, plant and equipment	20,453	21,097
Amortisation of prepaid operating lease rentals	432	579
Administrative expenses		
Net foreign exchange losses	1,290	818
Net credit for additional pension contributions (see note 37)	–	(2,267)
Loss on disposal of property, plant and equipment	12	49
Indonesian operations	9,621	11,556
Head office	5,377	6,160
	16,300	16,316
Amount included as additions to property, plant and equipment	(4,313)	(4,614)
	11,987	11,702

* Restated - see Accounting policies (group)

Amounts payable to the company's auditor

The amount payable to Deloitte LLP for the audit of the company's financial statements was $149,000 (2015: $180,000). Amounts payable to Deloitte LLP for the audit of accounts of subsidiaries of the company pursuant to legislation were $17,000 (2015: $24,000).

Amounts payable to Deloitte LLP for other services were $8,000 (2015: $10,000) for the provision of certificates of group compliance with covenants under certain debt instruments (being certificates that those instruments require to be provided by the company's auditor) and for group accountancy services.

Amounts payable to affiliates of Deloitte LLP for the audit of subsidiaries' financial statements were $174,000 (2015: $195,000) and for other services to subsidiaries were $nil (2015: $95,000).

	2016 $'000	2015* $'000
Earnings before interest, tax, depreciation and amortisation		
Operating loss	(5,026)	(6,553)
Depreciation and amortisation	20,959	21,676
	15,933	15,123

* Restated - see Accounting policies (group)

6. Staff costs, including directors

	2016 Number	2015 Number
Average number of employees (including executive directors):		
Agricultural – permanent	5,501	5,333
Agricultural – temporary	2,868	2,991
Head office	11	9
	8,380	8,333

	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	31,825	35,893
Social security costs	700	807
Pension costs	1,493	(728)
	34,018	35,972

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

7. Investment revenues

	2016 $'000	2015 $'000
Interest on bank deposits	44	62
Other interest income	1,698	197
	1,742	259

8. Finance costs

	2016 $'000	2015 $'000
Interest on bank loans and overdrafts	12,617	8,130
Interest on US dollar notes	2,899	2,716
Interest on sterling notes	5,184	5,042
Interest on other loans	273	–
Change in value of sterling notes arising from exchange fluctuations	(10,470)	(2,694)
Movements relating to derivative financial instruments	–	1,685
Change in value of loans arising from exchange fluctuations	1,378	(4,946)
Other finance charges	251	887
	12,132	10,820
Amount included as additions to property, plant and equipment	(6,127)	(4,869)
	6,005	5,951

Amounts included as additions to property, plant and equipment and construction in progress arose on borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 22.0 per cent (2015: 27.3 per cent); there is no directly related tax relief.

9. Tax

	2016 $'000	2015* $'000
Current tax:		
UK corporation tax	1	–
Overseas withholding tax	1,604	1,467
Foreign tax	38	50
Foreign tax - prior year	3	1,778
Total current tax	1,646	3,295
Deferred tax:		
Current year	373	(2,987)
Prior year	–	378
Total deferred tax	373	(2,609)
Total tax	2,019	686

* Restated - see Accounting policies (group)

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 (2015: 25 per cent) and for the United Kingdom, the taxation provision reflects a corporation tax rate of 20 per cent (2015: 20.25 per cent) and a deferred tax rate of 19 per cent (2015: 20 per cent).

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

	2016 $'000	2015* $'000
Loss before tax	(9,289)	(12,245)
Notional tax at the UK standard rate of 20 per cent (2015: 20.25 per cent)	(1,858)	(2,480)
Tax effect of the following items:		
Interest not deductible	2,475	–
Other expenses not deductible	702	897
Non taxable income	(29)	(27)
Overseas tax rates above UK standard rate	(24)	(637)
Overseas withholding taxes, net of relief	310	608
Tax credit on loss in overseas subsidiary not recognised	381	178
Tax losses in overseas subsidiaries time expired	21	–
Prior year adjustments	3	2,156
Change in rate of tax applicable to UK tax losses	49	–
Additional tax credits	(11)	(9)
Tax expense at effective tax rate for the year	2,019	686

* Restated - see Accounting policies (group)

A regulation issued in 2015 by the Indonesian Ministry of Finance restricts the amount of finance charges that may be deducted from company profits for taxation purposes by reference to the debt equity ratio of the entity concerned. Where equity is negative, no deduction of finance charges is permitted.

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 Indonesian rupiah 103 billion ($7.4 million) was refunded in full.

9. Tax - continued

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.

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.

It had 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 taxpayers to apply for such interest following receipt of the disputed tax refunds. Following the Tax Court decisions, the subsidiary applied to the tax office for the payment to it of interest of up to 48 per cent of the disputed tax that had been refunded. This amounted to some Indonesian rupiah 52 billion ($3.9 million) in aggregate. During discussions in 2016 with the local tax office, the tax officials rejected the subsidiary's claim for interest on that part of the repayment which represented a refund to the subsidiary of the tax which had been voluntarily paid at the time of the disputed assessment. The subsidiary disagrees with this interpretation and is considering an appeal.

In the meanwhile, undisputed interest (equivalent to $1.1 million) was repaid during 2016 and has been credited to income; only this amount has been recognised in these financial statements.

10. Dividends

	2016 $'000	2015 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share (2015: 9p per share)	7,402	8,461
Ordinary dividends (2015: 7.75p per share)	–	4,168
	7,402	12,629

11. Loss per share

	2016 $'000	2015* $'000
Basic and diluted loss for the purpose of calculating loss per share **	(17,800)	(20,912)
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	36,950	35,455

* Restated - see Accounting policies (group)
** Being net loss attributable to ordinary shareholders

Notes to the consolidated financial statements

continued

12. Goodwill

	2016 $'000	2015 $'000
Beginning of year	12,578	12,578
End of year	12,578	12,578

The goodwill of $12.6 million 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 $19.0 million and has an indefinite life. The goodwill is reviewed for impairment as explained under "Goodwill" in "Accounting policies (group)".

Accordingly, the oil palm business in Indonesia is regarded as the cash generating unit to which the goodwill relates. The recoverable amount of the goodwill has been assessed by comparing the carrying value per planted hectare of the group's oil palm plantations with publicly disclosed valuations conducted recently of Indonesian plantations held by other groups.

Based upon their review, the directors have concluded that no impairment of goodwill is required.

13. Intangible assets

	2016 $'000
Beginning of year	–
Transfers from property, plant and equipment	4,123
Transfers from deferred charges	1,142
End of year	5,265
Amortisation:	
Beginning of year	–
Additions	74
Transfers from property, plant and equipment	124
Transfers from deferred charges	891
End of year	1,089
Carrying amount:	
Beginning of year	–
End of year	4,176

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset.

14. Property, plant and equipment

	Plantings $'000	Buildings and structures $'000	Plant, equipment and vehicles $'000	Construction in progress $'000	Total $'000
Cost:					
At 1 January 2015 (restated)	178,420	213,898	104,431	12,510	509,259
Opening balance adjustment	(363)	363	–	–	–
Additions	9,411	15,629	1,897	5,412	32,349
Exchange differences	–	–	(36)	–	(36)
Disposals	–	(1)	(2,530)	–	(2,531)
Transfers from plantings	(8,202)	8,202	–	–	–
Transfers to / (from) construction in progress	–	1,708	6,281	(7,989)	–
Transfers to current receivables	(345)	–	–	(2)	(347)
At 31 December 2015 (restated)	178,921	239,799	110,043	9,931	538,694
Additions	7,104	18,082	2,173	3,778	31,137
Exchange differences	–	–	(63)	–	(63)
Disposals	(24)	(16)	(439)	–	(479)
Transfers to / (from) construction in progress	–	1,008	82	(1,090)	–
Transfers to intangible assets	–	–	(124)	(3,999)	(4,123)
Transfers to deferred charges	–	–	–	(3,025)	(3,025)
Transfers to current receivables	(4)	–	–	–	(4)
Transfers to income statement	(141)	–	–	–	(141)
At 31 December 2016	185,856	258,873	111,672	5,595	561,996
Accumulated depreciation:					
At 1 January 2015 (restated)	–	16,291	33,872	–	50,163
Opening balance adjustment	–	1,682	–	–	1,682
Charge for year	8,689	4,061	6,898	–	19,648
Exchange differences	–	–	(29)	–	(29)
Disposals	–	(1)	(1,619)	–	(1,620)
At 31 December 2015 (restated)	8,689	22,033	39,122	–	69,844
Charge for year	9,082	5,076	6,608	–	20,766
Transfers to intangible assets	–	–	(124)	–	(124)
Disposals	–	(11)	(401)	–	(412)
At 31 December 2016	17,771	27,098	45,205	–	90,074
Carrying amount:					
At 31 December 2016	168,085	231,775	66,467	5,595	471,922
At 31 December 2015	170,232	217,766	70,921	9,931	468,850
At 1 January 2015	178,420	197,607	70,559	12,510	459,096

The depreciation charge for the year includes $313,000 (2015: $233,000) which has been capitalised as part of additions to plantings.

In accordance with the amendments to IAS 41: Agriculture and IAS 16: Property, plant and equipment, the assets previously disclosed as 'Biological assets' have been transferred as follows. Growing produce, which is still classified as a biological asset, is now disclosed in current assets. As regards the balance, the group has adopted, as permitted by the amended provisions of IAS 41, the fair value as at 31 December 2014 as deemed cost. The assets concerned comprise oil palm trees, nurseries and the field infrastructural improvements relating to the planting of trees. This balance of deemed cost has been allocated by separating the infrastructural improvements at estimated depreciated current cost and treating the remaining balance as attributable to the oil palm trees (plantings).

At the balance sheet date, the book value of finance leases included in property, plant and equipment was $nil (2015: $nil).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $1.4 million (2015: $1.2 million).

14. Property, plant and equipment - continued

At the balance sheet date, property, plant and equipment of $298.6 million had been charged as security for bank loans.

15. Prepaid operating lease rentals

	2016 $'000	2015 $'000
Cost:		
Beginning of year	38,536	37,286
Additions	367	1,250
Exchange differences	–	–
End of year	38,903	38,536
Accumulated amortisation:		
Beginning of year	4,241	3,407
Opening balance adjustment	–	112
Exchange differences	–	–
Charge for year	432	722
End of year	4,673	4,241
Carrying amount:		
End of year	34,230	34,295
Beginning of year	34,295	33,879

The amortisation charge for the year includes $nil (2015: $143,000) which has been capitalised as part of the additions to plantings.

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 (2015: 70,584 hectares). An HGU is effectively a government lease entitling the lessee to utilise the land leased for agricultural and related purposes. Retention of an HGU is subject to payment of annual land taxes in accordance with prevailing tax regulations. HGUs are normally 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 $15.2 million had been charged as security for bank loans (see note 24).

16. Stone and coal interests

	2016 $'000	2015 $'000
Stone company	17,435	17,435
Coal companies	22,773	20,903
Provision against loan to coal companies	(3,000)	(3,000)
	37,208	35,338

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, the company's subsidiary, 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 5 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.

16. Stone and coal interests - continued

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 2016 consolidated income statement (2015: $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

	2016 $'000	2015 $'000
Agricultural produce	6,921	4,221
Engineering and other operating inventory	8,846	6,969
	15,767	11,190

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 $13.5 million had been charged as security for bank loans (see note 24).

19. Biological assets

Biological assets comprise the growing produce on the group's oil palms and are carried at fair value. The basis of valuation is set out under "Biological assets" in Accounting policies (group). Biological assets are classified as level 3 in the fair value hierarcy prescribed by IFRS 7 "Financial instruments: Disclosures" as no transactions occur in growing produce prior to harvest.

	2016 $'000	2015* $'000
Beginning of year	2,105	2,251
Fair value loss taken to income	(68)	(146)
End of year	2,037	2,105

* Restated - see Accounting policies (group)

At the balance sheet date, biological assets of $2.0 million had been charged as security for bank loans (see note 24).

20. Investments

	2016 $'000	2015 $'000
R.E.A. Holdings plc 7.5 per cent US dollar notes 2022	9,880	–
REA Finance B.V. 8.75 per cent guaranteed sterling notes 2020	–	2,158
	9,880	2,158

20. Investments - continued

On 24 November 2016 the company issued $24,035,218 nominal of 7.5 per cent dollar notes 2022 by way of an exchange offer and placing at 100 per cent of their principal amount. $10.0 million of such notes were acquired by R.E.A. Services Limited ("REAS") (a wholly owned subsidiary of the company) of which $120,000 were sold prior to the year end at the purchase price.

The £1.5 million nominal of REA Finance B.V. ("REAF") 8.75 per cent guaranteed sterling notes 2020 ("the 2020 sterling notes") acquired at 97 per cent of their principal amount during 2015 were sold on 6 July 2016 at the purchase price.

The company has designated the above holdings as available-for-sale investments carried at cost. The directors consider that the fair value of the investments approximates cost. The investments are quoted on the London Stock Exchange.

21. Trade and other receivables

	2016 $'000	2015 $'000
Due from sale of goods	10,269	5,233
Prepayments and advance payments	8,703	7,035
Advance payment of taxation	15,236	9,883
Deposits and other receivables	8,346	6,952
	42,554	29,103

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 11 days (2015: 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 $14.2 million had been charged as security for bank loans (see note 24).

22. 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 $24.6 million (2015: $15.8 million) is set out in note 23 under the heading "Credit risk". At 31 December 2016, $0.1 million of total bank deposits were subject to charges.

23. Financial instruments

Capital risk management

The group manages as capital its debt, which includes the borrowings disclosed in notes 24 to 26 and note 29, 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.

23. Financial instruments - continued

Net debt to equity ratio

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

	2016 $'000	2015 $'000
Debt *	229,702	212,430
Cash and cash equivalents	(24,593)	(15,758)
Net debt	205,109	196,672

* 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)	309,550	293,822
Net debt to equity ratio	66.3%	66.9%

Significant accounting policies

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

Categories of financial instruments

Non-derivative financial assets as at 31 December 2016 comprised loans, investments and receivables (including stone and coal interests) and cash and cash equivalents amounting to $90.6 million (2015: $67.1 million).

Non-derivative financial liabilities as at 31 December 2016 comprised liabilities at amortised cost amounting to $280.6 million (2015: $201.0 million).

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.

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.

23. Financial instruments - continued

Interest is payable on drawings under Indonesian rupiah term loan facilities varying between 1.2 per cent and 4.8 per cent (2015: between 3.8 per cent and 4.8 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.

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 2016 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 $1.1 million (2015: pre-tax profit (and equity) decrease of $1.1 million).

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 certain debt swaps 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.

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 $2.3 million on the net sterling denominated non-derivative monetary items (2015: loss $2.2 million). 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 $6.9 million on the net Indonesian rupiah denominated, non-derivative monetary items (2015: loss of $5.0 million).

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 2016, 87 per cent of bank deposits were held with banks with a Moody's prime rating of P1 and 13 per cent with a bank with a Moody's prime rating of P3. 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 2016 and 31 December 2015 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.

23. Financial instruments - continued

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 24.

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.

2016	Weighted average interest rate %	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
Bank loans	11.0	38,269	15,455	83,210	136,934
US dollar notes - repayable 2017	8.5	21,813	–	–	21,813
US dollar notes - repayable 2022	8.5	901	1,803	30,344	33,048
Sterling notes - repayable 2015/2017	10.4	11,231	–	–	11,231
Sterling notes - repayable 2020	10.1	3,434	3,436	45,094	51,964
Non-controlling shareholder loans - US dollar	6.0	460	3,026	5,593	9,079
Non-controlling shareholder loans - sterling	10.6	504	2,101	3,703	6,308
Trade and other payables, and customer deposits		31,385	–	–	31,385
		107,997	25,821	167,944	301,762

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

At 31 December 2016, the group's non-derivative financial assets (other than receivables) comprised cash and deposits of $24.6 million (2015: $15.8 million) carrying a weighted average interest rate of nil per cent (2015: 1.4 per cent) all having a maturity of under one year, and stone and coal interests of $37.2 million (2015: $35.3 million) details of which are given in note 16.

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. Cash and deposits, US dollar notes and sterling notes are classified as level 1 in the fair value hierarchy prescribed by IFRS 7 "Financial instruments: disclosures". (Level 1 includes instruments where inputs to the fair value measurements are quoted prices in active markets). All other financial instruments are classified as level 3 in the fair value hierarchy. (Level 3 includes instruments which have no observable market data to provide inputs to the fair value measurements). No reclassifications between levels in the fair value hierarchy were made during 2016 (2015: none).

23. Financial instruments - continued

	2016 Book value $'000	2016 Fair value $'000	2015 Book value $'000	2015 Fair value $'000
Cash and deposits*	24,593	24,593	15,758	15,758
Bank debt - within one year*	(28,628)	(28,628)	(50,906)	(50,906)
Bank debt - after more than one year*	(97,771)	(97,771)	(72,034)	(72,034)
Loans from non-controlling shareholder - after more than one year*	(12,469)	(12,469)	–	–
US dollar notes - repayable 2017**	(20,048)	(20,206)	(33,637)	(31,290)
US dollar notes - repayable 2022**	(23,646)	(24,035)	–	–
Sterling notes - repayable 2015/2017**	(10,103)	(10,143)	(10,623)	(12,346)
Sterling notes - repayable 2020**	(37,037)	(38,553)	(45,230)	(45,826)
Net debt	(205,109)	(207,212)	(196,672)	(196,644)

* Bearing interest at floating rates
** Bearing interest at fixed rates

The fair values of cash and deposits and bank debt approximate their carrying values since these carry interest at current market rates. The fair value of investments approximates their carrying value. 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.

24. Bank loans

	2016 $'000	2015 $'000
Bank loans	126,399	122,940

	2016 $'000	2015 $'000
The bank loans are repayable as follows:		
On demand or within one year	28,628	50,906
Between one and two years	5,997	22,575
After two years	91,774	49,459
	126,399	122,940
Amount due for settlement within 12 months (shown under current liabilities)	28,628	50,906
Amount due for settlement after 12 months	97,771	72,034
	126,399	122,940

All bank loans are denominated in Indonesian rupiah (2015: denominated in US dollars $73.7 million and Indonesian rupiah $49.2 million) and are at floating rates, thus exposing the group to interest rate risk. The weighted average interest rate in 2016 was 11 per cent (2015: 7.3 per cent). Bank loans of $126.4 million (2015: $92.9 million) are secured on the land, plantations, property, plant and equipment and certain current assets owned by REA Kaltim, PT Kutai Mitra Sejahtera, PT Putra Bongan Jaya and PT Sasana Yudha Bhakti having an aggregate book value of $343 million (2015: $300 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 Indonesian rupiah denominated facilities of $14.3 million (2015: $21.6 million).

25. Sterling notes

The sterling notes comprise £8.3 million (2015: £8.3 million) nominal of 9.5 per cent guaranteed 2015/17 sterling notes and £31.9 million (2015: £31.9 million) nominal of 8.75 per cent guaranteed 2020 sterling notes, in each case issued by the company's subsidiary, REAF. The sterling notes are guaranteed by the company and another wholly owned subsidiary of the company, 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.

The repayment obligation in respect of the sterling notes of £40.2 million ($49.1 million) is carried in the balance sheet net of the unamortised balance of the note issuance costs.

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.

26. US dollar notes

The US dollar notes comprise $20.2 million (2015: $34.0 million) nominal of 7.5 per cent dollar notes 2017 ("2017 dollar notes") and $24.0 million (2015: nil) nominal of 7.5 per cent dollar notes 2022 ("2022 dollar notes"). The 2017 dollar notes are repayable on 30 June 2017 and the 2022 dollar notes on 30 June 2022.

Pursuant to proposals made in November 2016 to holders of the 2017 dollar notes, $13.8 million of such notes were exchanged on 24 November 2016 for a like amount of 2022 dollar notes, and at the same time a further $225,000 of 2022 dollar notes were issued to holders of $45,000 of 2017 dollar notes who subscribed in cash $180,000 under the top-up provisions of the exchange proposals. In addition, R.E.A. Services Limited, a wholly owned subsidiary of the company, subscribed a further $10.0 million of 2022 dollar notes pursuant to the placing.

The US dollar notes are unsecured obligations of the company and are stated net of the unamortised balance of the note issuance costs.

27. Deferred tax

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

Deferred tax assets / (liabilities)	Plantings $'000	Other property, plant and equipment $'000	Income/ expenses* $'000	Agricultural produce and other inventory $'000	Tax losses $'000	Total $'000
At 1 January 2015 (restated)	(42,630)	(24,308)	(8,816)	(843)	8,315	(68,282)
Credit/(charge) to income for the year	1,553	495	(8,069)	438	8,192	2,609
Credit to comprehensive income for the year**	–	–	122	–	–	122
Transfers	–	(23)	197	–	23	197
Exchange differences***	(4,018)	(662)	583	(4)	(981)	(5,082)
At 31 December 2015 (restated)	(45,095)	(24,498)	(15,983)	(409)	15,549	(70,436)
Credit/(charge) to income for the year	1,397	(280)	2,308	(207)	(3,591)	(373)
Credit to comprehensive income for the year**	–	–	143	–	–	143
Exchange differences***	475	2,053	(318)	2	405	2,617
At 31 December 2016	(43,223)	(22,725)	(13,850)	(614)	12,363	(68,049)
Deferred tax assets	–	43	367	8	12,363	12,781
Deferred tax liabilities	(43,223)	(22,768)	(14,217)	(622)	–	(80,830)
At 31 December 2016	(43,223)	(22,725)	(13,850)	(614)	12,363	(68,049)
Deferred tax assets	–	1	119	–	15,549	15,669
Deferred tax liabilities	(45,095)	(24,499)	(16,102)	(409)	–	(86,105)
At 31 December 2015 (restated)	(45,095)	(24,498)	(15,983)	(409)	15,549	(70,436)

* 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.

Deferred tax assets and liabilities at 1 January and 31 December 2015 have been restated - see Accounting policies (group).

At the balance sheet date, the group had unused tax losses of $50.5 million (2015: $63.2 million) available to be applied against future profits. A deferred tax asset of $12.4 million (2015: $15.6 million) 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 $462,000 incurred by the group's coal subsidiary in 2016 (2015: tax loss $122,000) has not been recognised and at the balance sheet date, tax losses aggregating $9.7 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 $6.1 million (2015: $5.6 million). 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 $43.2 million (2015: $45.1 million) in respect of plantings arises from their recognition prior to 2015 at fair value in the group accounts, compared with their historic base cost in the local accounts of overseas subsidiaries. From 2015 onwards this temporary difference reverses as the plantings are depreciated over their remaining useful life.

28. Other loans and payables

	2016 $'000	2015 $'000
Indonesian retirement benefit obligations	7,037	5,651
Loans from non-controlling shareholder	12,469	–
	19,506	5,651
Repayable as follows:		
On demand or within one year (shown under current liabilities)	519	93
In the second year	5,195	186
In the third to fifth years inclusive	9,871	280
After five years	3,921	5,092
Amount due for settlement after 12 months	18,987	5,558
	19,506	5,651
Liabilities by currency:		
Sterling	4,746	–
US dollar	7,723	–
Indonesian rupiah	7,037	5,651
	19,506	5,651

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

29. Trade and other payables

	2016 $'000	2015 $'000
Trade purchases and ongoing costs	12,309	7,763
Customer deposits	14,926	6,852
Other tax and social security	3,730	2,810
Accruals	11,172	8,249
Other payables	1,289	1,351
	43,426	27,025

The average credit period taken on trade payables is 30 days (2015: 33 days).

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

30. Share capital

	2016 £'000	2015 £'000
Authorised (in sterling):		
85,000,000 – 9 per cent cumulative preference shares of £1 each (2015: 75,000,000)	85,000	75,000
50,000,000 – ordinary shares of 25p each (2015: 41,000,000)	12,500	10,250
	97,500	85,250

30. Share capital - continued

	2016 $'000	2015 $'000
Issued and fully paid (in US dollars):		
63,641,232 – 9 per cent cumulative preference shares of £1 each (2015: 63,641,232)	105,414	105,414
40,509,529 – ordinary shares of 25p each (2015: 36,839,529)	17,013	15,875
132,500 – ordinary shares of 25p each held in treasury (2015: 132,500)	(1,001)	(1,001)
	121,426	120,288

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 20 December 2016 3,670,000 ordinary shares were issued, credited as fully paid, by way of placing at £2.95 per share (total consideration £10.8 million - $13.4 million) to Mirabaud Pereire Nominees Limited and Emba Holdings Limited (a related party). The middle market price at close of business on 14 December 2016 (being the date at which the terms of issue were fixed) was £2.94

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

31. Share premium account

	$'000
At 1 January 2015	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
Issue of new ordinary shares (cash) (see note 30)	12,289
Cost of issues	(387)
At 31 December 2016	42,585

32. Translation reserve

	2016 $'000	2015* $'000
Beginning of year	(46,282)	(44,324)
Exchange differences on translation of foreign operations	5,222	3,575
Exchange differences on deferred tax	2,617	(5,082)
Attributable to non-controlling interests	(684)	(451)
End of year	(39,127)	(46,282)

* Restated - see Accounting policies (group)

33. Retained earnings

	2016 $'000	2015* $'000
Beginning of year	187,481	212,928
Sale of non-controlling shareholding in a subsidiary	(7,416)	–
Loss for the year after preference dividend	(18,226)	(21,279)
Ordinary dividend paid	–	(4,168)
End of year	161,839	187,481

* Restated - see Accounting policies (group)

34. Non-controlling interests

	2016 $'000	2015* $'000
Beginning of year	1,652	1,681
Sale of non-controlling shareholding in a subsidiary	21,401	–
Share of result for the year	(910)	(480)
Exchange translation differences	684	451
End of year	22,827	1,652

* Restated - see Accounting policies (group)

DSN's purchase of a shareholding in a subsidiary was accounted for as follows:

	2016 $'000
Amount paid for shareholding	13,985
Share of net assets purchased	(21,401)
Loss on disposal	(7,416)

In connection with the acquisition by DSN of a shareholding in REA Kaltim, subsidiaries of DSN subscribed in December 2016 in cash for 77 class B shares and 1,453 class A shares in the share capital of REA Kaltim at a price of $6,864.60 per share. Also in December 2016 REA Kaltim issued to subsidiaries of DSN by way of the capitalisation of shareholder loans a further 110 class B shares and 220 class B shares at a price of $6,864.60 per share.

35. Reconciliation of operating loss to operating cash flows

	2016 $'000	2015* $'000
Operating loss	(5,026)	(6,553)
Amortisation of intangible assets	74	–
Depreciation of property, plant and equipment	20,766	19,648
(Increase) / decrease in fair value of agricultural produce inventory	(632)	1,147
Amortisation of prepaid operating lease rentals	432	722
Amortisation of sterling and US dollar note issue expenses	584	275
Loss on disposal of property, plant and equipment	12	49
Cumulative loss on termination of hedging contract **	–	9,002
Operating cash flows before movements in working capital	16,210	24,290
(Increase) / decrease in inventories (excluding fair value movements)	(3,944)	3,844
Decrease in receivables	760	3,585
Increase in payables	13,136	6,964
Exchange translation differences	(791)	(1,397)
Cash generated by operations	25,371	37,286
Taxes paid	(2,313)	(5,427)
Tax refunds received	241	4,601
Interest paid	(20,701)	(16,397)
Net cash from operating activities	2,598	20,063

* Restated - see Accounting policies (group)
** The cumulative loss on termination of hedging contract represented the cumulative prior year mark-to-market losses on the terminated hedging contract, and was a cash flow offset against the $10.2 million 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 (2015: $nil).

36. Movement in net borrowings

	2016 $'000	2015 $'000
Change in net borrowings resulting from cash flows:		
Decrease in cash and cash equivalents	8,874	(316)
Net increase in bank borrowings	(3,935)	(20,706)
Increase in related party borrowings	(12,469)	–
	(7,530)	(21,022)
Issue of sterling notes	–	(4,086)
Issue of US dollar notes	(345)	–
Amortisation of sterling notes expenses	(318)	(109)
Amortisation of US dollar notes expenses	(266)	(165)
	(8,459)	(25,382)
Currency translation differences	2,036	(2,686)
Net borrowings at beginning of year	(198,686)	(170,618)
Net borrowings at end of year	(205,109)	(198,686)

37. Retirement benefit obligations

United Kingdom

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

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

A non-IAS 19 valuation of the Scheme was last prepared, using the attained age method, as at 31 December 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 3.2 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 3.2 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 surplus 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.

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. No contributions under that recovery plan were required to be made in 2016 or will be required going forward (2015: £313,400 - $475,000) and the remaining provision for such contributions was credited to the group's 2015 income statement.

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

	2016 $'000	2015 $'000
Release of provision relating to additional contributions paid in the year	–	(475)
Additional contributions paid in the year	–	475
Release of balance of provision relating to additional contributions no longer required	–	(2,267)
Net credit to administrative expenses (note 5)	–	(2,267)

The sensitivity of the surplus 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 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:

	2016	2015
Discount rate (per cent)	8.45	9.14
Salary increases per annum (per cent)	6	6
Mortality table (Indonesia) (TM1)	111-2011	111-2011
Retirement age (years)	55	55
Disability rate (per cent of the mortality table)	10	10

37. Retirement benefit obligations - continued

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

	2016 $'000	2015 $'000
Balance at 1 January	5,651	5,584
Current service cost	958	883
Interest expense	533	439
Actuarial loss recognised in statement of comprehensive income	571	489
Exchange	139	(569)
Paid during the year	(815)	(1,175)
Balance at 31 December (see note 28)	7,037	5,651

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

	2016 $'000	2015 $'000
Current service cost	958	883
Interest expense	533	439
	1,491	1,322
Amount included as additions to property, plant and equipment	(114)	(110)
	1,377	1,212

Estimated lump sum payments to Indonesian employees on retirement in 2017 are $519,000 (2016: $93,000).

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".

	2016 $'000	2015 $'000
Short term benefits	1,405	2,111
Post employment benefits	–	–
Other long term benefits	–	–
Termination benefits	–	–
Share based payments	–	–
	1,405	2,111

As described in note 30 ordinary shares were placed with Emba Holdings Limited on 20 December 2016.

39. Rates of exchange

	2016 Closing	2016 Average	2015 Closing	2015 Average
Indonesian rupiah to US dollar	13,436	13,369	13,795	13,377
US dollar to sterling	1.2226	1.36	1.4832	1.53

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 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 2016 to $8.6 million (2015: $8.6 million), comprising prepaid operating lease rentals of $2.6 million (2015: $2.6 million) and infrastructural improvements of $6.0 million (2015: $6.0 million).

Completion has been subject to the now successful resolution of certain due diligence queries in respect of PU (in particular with regard to land titles) and the satisfaction of various Indonesian regulatory approvals, which are anticipated to be obtained during the course of 2017.

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 ($11.6 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 sale proceeds.

As at 31 December 2016 the aggregate outstanding balances owing by the three cooperatives to Bank BPD amounted to Indonesian rupiah 121.4 billion ($9.0 million) (2015: Indonesian rupiah 122.6 billion - $8.9 million).

43. Operating lease commitments

The group leases premises under operating leases in London, Balikpapan, Samarinda and Singapore. These leases, which are renewable, run for periods of between 6 months and 10 years, and do not include contingent rentals, or options to purchase the properties.

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

	2016 $'000	2015 $'000
Within one year	212	147
In the second to fifth year inclusive	1,062	111
After five years	996	–
	2,270	258

44. Reconciliation of change in accounting policy

Prior-year financial information has had to be re-stated as a result of a change explained in Accounting policies (group). The following tables show the adjustments made accordingly to the balance sheet and income statement for the prior year.

Balance sheet	Previously reported 31 December 2015 $'000	Adoption of amended IAS 16 and IAS 41 $'000	31 December 2015 (restated) $'000
Non-current assets			
Goodwill	12,578	–	12,578
Biological assets	339,091	(339,091)	–
Property, plant and equipment	155,642	313,208	468,850
Prepaid operating lease rentals	34,295	–	34,295
Stone and coal interests	35,338	–	35,338
Deferred tax assets	15,787	(118)	15,669
Non-current receivables	1,395	–	1,395
Total non-current assets	594,126	(26,001)	568,125
Current assets			
Inventories	11,190	–	11,190
Biological assets	–	2,105	2,105
Investments	2,158	–	2,158
Trade and other receivables	29,103	–	29,103
Cash and cash equivalents	15,758	–	15,758
Total current assets	58,209	2,105	60,314
Total assets	652,335	(23,896)	628,439
Current liabilities			
Trade and other payables	(27,025)	–	(27,025)
Current tax liabilities	(3,406)	–	(3,406)
Bank loans	(50,906)	–	(50,906)
Other loans and payables	(93)	–	(93)
Total current liabilities	(81,430)	–	(81,430)
Non-current liabilities			
Bank loans	(72,034)	–	(72,034)
Sterling notes	(55,853)	–	(55,853)
US dollar notes	(33,637)	–	(33,637)
Deferred tax liabilities	(92,168)	6,063	(86,105)
Other loans and payables	(5,558)	–	(5,558)
Total non-current liabilities	(259,250)	6,063	(253,187)
Total liabilities	(340,680)	6,063	(334,617)
Net assets	311,655	(17,833)	293,822
Equity			
Share capital	120,288	–	120,288
Share premium account	30,683	–	30,683
Translation reserve	(46,282)	–	(46,282)
Retained earnings	204,429	(16,948)	187,481
	309,118	(16,948)	292,170
Non-controlling interests	2,537	(885)	1,652
Total equity	311,655	(17,833)	293,822

44. Reconciliation of change in accounting policy - continued

Balance sheet	Previously reported 31 December 2014 $'000	Adoption of amended IAS 16 and IAS 41 $'000	31 December 2014 (restated) $'000
Non-current assets			
Goodwill	12,578	–	12,578
Biological assets	310,175	(310,175)	–
Property, plant and equipment	151,172	307,924	459,096
Prepaid operating lease rentals	33,879	–	33,879
Stone and coal interests	31,334	–	31,334
Deferred tax assets	8,909	–	8,909
Non-current receivables	2,749	–	2,749
Total non-current assets	550,796	(2,251)	548,545
Current assets			
Inventories	16,180	–	16,180
Biological assets	–	2,251	2,251
Trade and other receivables	25,487	–	25,487
Cash and cash equivalents	16,224	–	16,224
Total current assets	57,891	2,251	60,142
Total assets	608,687	–	608,687
Current liabilities			
Trade and other payables	(17,818)	–	(17,818)
Current tax liabilities	(2,581)	–	(2,581)
Bank loans	(40,326)	–	(40,326)
Sterling notes	(14,693)	–	(14,693)
Hedging instruments	(9,590)	–	(9,590)
Other loans and payables	(1,238)	–	(1,238)
Total current liabilities	(86,246)	–	(86,246)
Non-current liabilities			
Bank loans	(60,638)	–	(60,638)
Sterling notes	(37,713)	–	(37,713)
US dollar notes	(33,472)	–	(33,472)
Deferred tax liabilities	(77,191)	–	(77,191)
Other loans and payables	(6,802)	–	(6,802)
Total non-current liabilities	(215,816)	–	(215,816)
Total liabilities	(302,062)	–	(302,062)
Net assets	306,625	–	306,625
Equity			
Share capital	112,974	–	112,974
Share premium account	23,366	–	23,366
Translation reserve	(44,324)	–	(44,324)
Retained earnings	212,928	–	212,928
	304,944	–	304,944
Non-controlling interests	1,681	–	1,681
Total equity	306,625	–	306,625

Notes to the consolidated financial statements

continued

44. Reconciliation of change in accounting policy - continued

Income statement	Previously reported 31 December 2015 $'000	Adoption of amended IAS 16 and IAS 41 $'000	31 December 2015 (restated) $'000
Revenue	90,515	–	90,515
Net gain / (loss) arising from changes in fair value of agricultural produce inventory	(1,147)	–	(1,147)
Cost of sales:			
Depreciation and amortisation	(11,104)	(10,572)	(21,676)
Other costs	(61,302)	(146)	(61,448)
Gross profit	16,962	(10,718)	6,244
Net gain arising from changes in fair value of biological assets	13,060	(13,060)	–
Other operating income	2	–	2
Distribution costs	(1,097)	–	(1,097)
Administrative expenses	(11,702)	–	(11,702)
Operating profit / (loss)	17,225	(23,778)	(6,553)
Investment revenues	259	–	259
Finance costs	(5,951)	–	(5,951)
Profit / (loss) before tax	11,533	(23,778)	(12,245)
Tax	(6,631)	5,945	(686)
Profit / (loss) for the year	4,902	(17,833)	(12,931)

Cash flow

Cash flow from operating, investing and financing activities is unaffected by the change of accounting policy.

Company balance sheet
as at 31 December 2016

	Note	2016 $'000	2015 $'000
Non-current assets			
Investments	(iv)	269,827	270,489
Deferred tax assets	(v)	929	978
Non-current receivables		–	51
Total non-current assets		270,756	271,518
Current assets			
Trade and other receivables	(vi)	26,146	15,859
Cash and cash equivalents	(vii)	614	278
Total current assets		26,760	16,137
Total assets		297,516	287,655
Current liabilities			
Trade and other payables	(viii)	(4,627)	(1,069)
US dollar notes	(ix)	(20,048)	–
Amount owed to group undertaking	(x)	(13,765)	–
Total current liabilities		(38,440)	(1,069)
Non-current liabilities			
US dollar notes	(ix)	(23,646)	(33,637)
Amount owed to group undertaking	(x)	(38,944)	(63,944)
Total non-current liabilities		(62,590)	(97,581)
Total liabilities		(101,030)	(98,650)
Net assets		196,486	189,005

Equity			
Share capital	(xi)	121,426	120,288
Share premium account	(xii)	42,585	30,683
Exchange reserve	(xii)	(4,300)	(4,300)
Profit and loss account	(xii)	36,775	42,334
Total equity		196,486	189,005

The company reported a loss in the financial year ended 31 December 2016 of $2.2 million (2015: loss $2.8 million).

Approved by the board on 27 April 2017 and signed on behalf of the board.
DAVID J BLACKETT
Chairman

Company statement of changes in equity

for the year ended 31 December 2016

	Note	Share capital $'000	Share premium $'000	Exchange reserve $'000	Profit and loss $'000	Total $'000
At 1 January 2015		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
Total comprehensive income	(xii)	–	–	–	1,843	1,843
Issue of new ordinary shares (cash)	(xi)	1,138	11,902	–	–	13,040
Dividends to preference shareholders	(iii)	–	–	–	(7,402)	(7,402)
At 31 December 2016		121,426	42,585	(4,300)	36,775	196,486

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 2016

	Note	2016 $'000	2015 $'000
Net cash (outflow) / inflow from operating activities	(xiv)	(6,925)	427
Investing activities			
Interest received		7,592	6,952
Dividends and other distributions received from subsidiaries	(xvi)	4,028	–
Repayment of loans by subsidiary companies *		–	5,242
New loans made to subsidiary companies *		(8,033)	(19,787)
Further investment in stone and coal interests		(1,860)	(3,968)
Net cash used in investing activities		1,727	(11,561)
Financing activities			
Preference dividends paid	(iii)	(7,402)	(8,461)
Ordinary dividends paid	(iii)	–	(4,168)
Proceeds of issue of ordinary shares, less costs of issue		13,040	6,793
Proceeds of issue of preference shares, less costs of issue		–	7,838
Proceeds of issue of US dollar notes, less costs of issue		(44)	–
Redemption of US dollar notes	(ix)	(45)	–
New loans from subsidiary company		–	8,709
Net cash from financing activities		5,549	10,711
Cash and cash equivalents			
Net increase / (decrease) in cash and cash equivalents		351	(423)
Cash and cash equivalents at beginning of year		278	728
Effect of exchange rate changes		(15)	(27)
Cash and cash equivalents at end of year	(vii)	614	278

* Excluding amounts dealt with within "Further investment in 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 116 to 128.

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 23 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 119, 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

	2016 $'000	2015 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share (2015: 9p per share)	7,402	8,461
Ordinary dividends (2015: 7.75p per share)	–	4,168
	7,402	12,629

(iv) Investments

	2016 $'000	2015 $'000
Shares in subsidiaries	91,775	91,775
Loans	178,052	178,714
	269,827	270,489

The movements were as follows:

	Shares $'000	Loans $'000
At 1 January 2015	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
Additions to loans	–	10,846
Effect of exchange	–	(11,508)
At 31 December 2016	91,775	178,052

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	80.8
PT Kartanegara Kumala Sakti (Indonesia)	Plantation agriculture	Ordinary	80.8
PT KCC Resources Indonesia (Indonesia)	Stone and coal operations	Ordinary	80.8
PT Kutai Mitra Sejahtera (Indonesia)	Plantation agriculture	Ordinary	80.8
PT Persada Bangun Jaya (Indonesia)	Plantation agriculture	Ordinary	80.8
PT Putra Bongan Jaya (Indonesia)	Plantation agriculture	Ordinary	80.8
PT REA Kaltim Plantations (Indonesia)	Plantation agriculture	Ordinary	85
PT Sasana Yudha Bhakti (Indonesia)	Plantation agriculture	Ordinary	80.8
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 2015	978
Credit to income for the year	–
Effect of change in tax rate	–
Effect of exchange	–
At 31 December 2015	978
Charge to income for the year	–
Effect of change in tax rate	(49)
Effect of exchange	–
At 31 December 2016	929

There were no deferred tax liabilities at 1 January 2015, 31 December 2015 or 31 December 2016.

At the balance sheet date, the company had unused tax losses of $4.9 million (2015: $4.9 million) available to be applied against future profits. A deferred tax asset of $929,000 (2015: $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

	2016 $'000	2015 $'000
Trade debtors	–	–
Amount owing by group undertakings	26,035	15,267
Other debtors	88	567
Prepayments and accrued income	23	25
	26,146	15,859

The directors consider that the carrying amount of trade and other receivables approximates their fair value. The amounts owing by group undertakings are non-interest bearing and repayable on demand.

(vii) Cash and cash equivalents

Cash and cash equivalents comprise short-term bank deposits. The Moody's prime ratings of these deposits amounting to $614,000 (2015: $278,000) is set out in note 23 to the consolidated financial statements under the heading "Credit risk".

(viii) Trade and other payables

	2016 $'000	2015 $'000
Amount owing to group undertakings	561	651
Other creditors	442	90
Accruals	3,624	328
	4,627	1,069

The directors consider that the carrying amount of trade and other payables approximates their fair value. The amounts owing to group undertakings are non-interest bearing and repayable on demand.

(ix) US dollar notes

The US dollar notes comprise $20.2 million (2015: $34.0 million) nominal of 7.5 percent dollar notes 2017 ("2017 dollar notes") and $24.0 million (2015: nil) nominal of 7.5 percent dollar notes 2020 ("2020 dollar notes"). The 2017 dollar notes are repayable on 30 June 2017 and the 2020 dollar notes on 30 June 2020.

Pursuant to proposals made in November 2016 to holders of the 2017 dollar notes, $13.8 million of such notes were exchanged on 24 November 2016 for a like amount of 2022 dollar notes, and at the same time a further $225,000 of 2022 dollar notes were issued to holders of $45,000 of 2017 dollar notes who subscribed in cash $180,000 under the top-up provisions of the exchange proposals. In addition, R.E.A. Services Limited, a wholly owned subsidiary of the company, subscribed a further $10.0 million of 2022 dollar notes pursuant to the placing.

The US dollar notes are unsecured obligations of the company and are stated net of the unamortised balance of the note issuance costs.

(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 ($13.8 million) is repayable in December 2017, the second loan of £31.9 million ($38.9 million) is repayable in August 2020.

(xi) Share capital

	2016 £'000	2016 £'000
Authorised (in sterling):		
85,000,000 – 9 per cent cumulative preference shares of £1 each (2015: 75,000,000)	85,000	75,000
50,000,000 – ordinary shares of 25p each (2015: 41,000,000)	12,500	10,250
	97,500	85,250
	$'000	$'000
Issued and fully paid (in US dollars):		
63,641,232 – 9 per cent cumulative preference shares of £1 each (2015: 63,641,232)	105,414	105,414
40,509,529 – ordinary shares of 25p each (2015: 36,839,529)	17,013	15,875
132,500 – ordinary shares of 25p each held in treasury (2015: 132,500)	(1,001)	(1,001)
	121,426	120,288

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 20 December 2016 3,670,000 ordinary shares were issued, credited as fully paid, by way of placing at £2.95 per share (total consideration £10.8 million - $13.4 million) to Mirabaud Pereire Nominees Limited and Emba Holdings Limited (a related party). The middle market price at close of business on 14 December 2016 (being the date at which the terms of issue were fixed) was £2.94

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

Notes to the company financial statements (continued)

(xii) Movement in reserves

	Share premium account $'000	Exchange reserve $'000	Profit and loss account $'000
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
At 1 January 2016	30,683	(4,300)	42,334
Total comprehensive income	–	–	1,843
Dividends to preference shareholders	–	–	(7,402)
Issue of ordinary shares (cash)	12,289	–	–
Costs of issues	(387)	–	–
At 31 December 2016	42,585	(4,300)	36,775

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 $2.2 million (2015: loss $2.8 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 23 to the consolidated financial statements. Loans from group undertakings are not included in the consolidated financial statements but are considered to be level 3 in the hierarchy due to the lack of observable market data available. The table below provides an analysis of the book and fair values of financial instruments excluding trade receivables and trade payables at the balance sheet date.

	2016 Book value $'000	2016 Fair value $'000	2015 Book value $'000	2015 Fair value $'000
Cash and cash equivalents	614	614	278	278
US dollar notes - repayable 2017	(20,048)	(20,206)	(33,637)	(31,290)
US dollar notes - repayable 2022	(23,646)	(24,035)	–	–
Loan from REA Finance B.V. - repayable 2017	(13,765)	(13,765)	(16,699)	(16,699)
Loan from REA Finance B.V. - repayable 2020	(38,944)	(38,944)	(47,243)	(47,243)
Net debt	(95,789)	(96,336)	(97,301)	(94,954)

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, loans from a group undertaking, borrowings in US dollars at fixed rates and credit from suppliers. At 31 December 2016, the company had outstanding $20.2 million nominal (2015: $34 million) of 7.5 per cent dollar notes 2017 and $24.0 million (2015: nil) of 7.5 per cent dollar notes 2022.

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 2016, 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 (2015: $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.

2016	Weighted average interest rate %	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
US dollar notes - repayable 2017	8.5	21,813	–	–	21,813
US dollar notes - repayable 2022	8.5	901	1,803	30,344	33,048
Loan from REA Finance.B.V. - repayable 2017	9.7	15,215	–	–	15,215
Loan from REA Finance B.V. - repayable 2020	8.9	3,504	3,506	46,382	53,392
		41,433	5,309	76,726	123,468

2015	Weighted average interest rate %	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
US dollar notes - repayable 2017	8.5	2,551	35,286	–	37,837
Loan from REA Finance B.V. - repayable 2017	9.7	1,619	13,975	–	15,594
Loan from REA Finance B.V. - repayable 2020	8.9	4,225	4,222	60,004	68,451
		8,395	53,483	60,004	121,822

At 31 December 2016, the company's non-derivative financial assets (other than receivables) comprised cash and deposits of $614,000 (2015: $278,000) carrying a weighted average interest rate of nil per cent (2015: nil per cent) all having a maturity of under one year and loans (including Indonesian stone and coal interests) of $39,028,000 (2015: $37,200,000).

Notes to the company financial statements (continued)

(xiv) Reconciliation of operating loss to operating cash flows

	2016 $'000	2015 $'000
Operating loss	(225)	(57)
Amortisation of US dollar note issue expenses	266	166
Operating cash inflows before movements in working capital	41	109
(Increase) / decrease in receivables	(1,599)	8,754
Increase in payables	3,474	313
Exchange translation differences	103	246
Cash outflow from operations	2,019	9,422
Taxes paid	(982)	(903)
Interest paid	(7,962)	(8,092)
Net cash (outflow) / inflow from operating activities	(6,925)	427

(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 group accounts for the Scheme as if it were a defined contribution scheme.

A non-IAS 19 valuation of the Scheme was last prepared, using the attained age method, as at 31 December 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 3.2 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 3.2 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 surplus 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. No contributions under that recovery plan were required in 2016 nor will be required going forward. The company made no payments to the Scheme in 2016 (2015: $nil).

There are no agreed allocations of any surplus 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 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 and, therefore, no provision has been made.

(xvi) Related party transactions

Loans to subsidiaries	2016 $'000	2015 $'000
PT Cipta Davia Mandiri	14,561	6,528
PT KCC Resources Indonesia	12,622	12,622
Makassar Investments Limited	14,216	425
REA Finance B.V.	3,008	3,649
PT REA Kaltim Plantations	70,531	89,101
R.E.A. Services Limited	24,086	29,220
	139,024	141,545

Dividends received from subsidiaries	2016 $'000	2015 $'000
R.E.A. Services Limited	4,028	–
	4,028	–

Interest received from subsidiaries	2016 $'000	2015 $'000
PT Cipta Davia Mandiri	417	410
REA Finance B.V.	283	322
PT REA Kaltim Plantations	6,612	5,951
	7,312	6,683

Placing with related party

As described in note (xi) ordinary shares were placed with Emba Holdings Limited on 20 December 2016.

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".

	2016 $'000	2015 $'000
Short term benefits	1,405	2,111
	1,405	2,111

There is no remuneration other than short term benefits.

(xvii) Rates of exchange

See note 39 to the consolidated financial statements.

Notes to the company financial statements (continued)

(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 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 $126 million (2015: $123 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 (xv) above.

Operating leases

The company has an annual commitment under an operating lease of $199,000 (2015: $157,000). The commitment expires after ten years (2015: 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:

	2016 $'000	2015 $'000
Within one year	113	157
In the second to fifth year inclusive	797	–
After five years	996	–
	1,906	157

(xix) Post balance sheet events

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-seventh 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 13 June 2017 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 and resolution 3 will be dealt with as special business; all other resolutions will be proposed as ordinary resolutions.

1. To receive the company's annual accounts for the financial year ended 31 December 2016, 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 2016.

3. To approve, for the purposes of section 226C(1)(b) of the Companies Act 2006, the making of the Loss of Office Payment (as defined and described under "Resignation of Mark Parry" in the Directors' report) and to authorise the directors to do all acts and things that they may reasonably consider necessary or desirable in connection with the same.

4. To elect as a director Carol Gysin, who having been appointed an executive director of the company on 21 February 2017, retires in accordance with the articles of association and submits herself for election.

5. To elect as a director Michael St. Clair-George, who, having been appointed a non-executive director of the company during 2016, retires in accordance with the articles of association and submits himself for election.

6. To re-elect as a director John Oakley, who, having become a non-executive director at the beginning of 2016 and having served for more than nine years as a director, retires as required by the UK Corporate Governance Code and submits himself for re-election.

7. To re-elect as a director Richard 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.

8. To re-appoint Deloitte LLP, chartered accountants, as auditor of the company to hold office until the conclusion of the next annual general meeting of the company at which accounts are laid before the meeting.

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

10. That 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 2018 (or, if earlier, on 30 June 2018)

    provided further that:

    (i) notwithstanding the provisions of paragraph (a) above, the maximum number of ordinary shares that may be bought back and held in treasury at any one time is 400,000 ordinary shares; and

    (ii) notwithstanding the provisions of paragraph (d) above, the company may, before this authority expires, make a contract to purchase ordinary shares that would or might be executed wholly or partly after the expiry of this authority, and may make purchases of ordinary shares pursuant to it as if this authority had not expired.

11. That the 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 £2,372,617; such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2018), 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 2018), 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 2017 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 £1,009,425

and shall expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2018), 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
27 April 2017

Registered office:
First Floor
32 – 36 Great Portland Street
London W1W 8QX

Registered in England and Wales no: 00671099

Notes

The sections of the accompanying Directors' report entitled "Results and dividends", "Directors", "Resignation of Mark Parry", "Acquisition of the company's own shares", "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 7 and 10 to 14 set out above in this notice of the 2017 annual general meeting of the company (the "2017 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 close of business on 11 June 2017 or, in the event of any adjournment, at close of business 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 11 June 2017.

Alternatively, appointment of a proxy may be submitted electronically by using either Capita's share portal at www.signalshares.com (and so that the appointment is received by the service by no later than 10.00 am on 11 June 2017) 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.signalshares.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 11 June 2017. 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 2017 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 2017 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 2017 Notice, the issued share capital of the company comprises 40,509,529 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 40,377,029 as at the date of this 2017 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 2017 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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R.E.A. HOLDINGS PLC

R.E.A. Holdings plc Annual Report and Accounts 2016

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