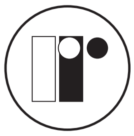

R.E.A. HOLDINGS PLC

Annual Report and Accounts

2017

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.

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Currency

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

Key statistics

	2017	2016	2015	2014	2013
Results ($'000)					
Revenue	100,241	79,265	90,515	125,865	110,547
Earnings before interest, tax, depreciation and amortisation	20,051	15,933	15,123	38,797	30,269
(Loss) / profit before tax	(21,862)	(9,289)	(12,245)	23,744	25,216
(Loss) / profit for the year	(24,901)	(11,308)	(12,931)	21,981	12,672
(Loss) / profit attributable to ordinary shareholders	(27,408)	(17,800)	(20,912)	14,153	5,457
Cash generated by operations	45,816	25,371	37,286	33,053	19,358
Returns per ordinary share					
(Loss) / earnings (US cents)	(67.0)	(48.2)	(59.0)	40.3	15.8
Dividend (pence)	–	–	–	7.75	7.25
Land areas (hectares)					
Mature oil palm	34,076	31,521	29,367	28,275	27,102
Immature oil palm	10,018	11,325	7,730	6,339	6,960
Planted areas	44,094	42,846	37,097	34,614	34,062
Infrastructure and undeveloped	32,033	27,738	33,487	35,970	36,522
Fully titled	76,127	70,584	70,584	70,584	70,584
Subject to completion of title	34,347	37,631	37,631	37,631	30,043
Total	110,474	108,215	108,215	108,215	100,627
FFB Harvested (tonnes)					
Group	530,565	468,371	600,741	631,728	578,785
Third party	114,005	98,052	138,657	149,002	99,348
Total	644,570	566,423	739,398	780,730	678,133
Production (tonnes)					
Total FFB processed	630,600	560,957	728,871	774,420	677,389
CPO	143,916	127,697	161,844	169,371	147,649
Palm kernels	29,122	26,371	33,877	35,812	30,741
CPKO	11,052	9,840	12,557	12,610	11,393
CPO extraction rate *	22.8%	22.8%	22.2%	21.9%	21.8%
Yields (tonnes per mature hectare)					
FFB	15.6	14.9	20.5	22.3	21.4
CPO	3.6	3.4	4.5	4.9	4.6
CPKO	0.3	0.3	0.3	0.4	0.4
Average exchange rates					
Indonesian rupiah to US dollar	13,400	13,369	13,377	11,908	10,494
US dollar to sterling	1.29	1.36	1.53	1.65	1.57

* 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

Overview

- Production and revenue saw a progressive improvement in 2017, which is continuing into 2018
- Significant plantation disposal recently announced

Financial

- Revenue up 26 per cent to $100.2 million (2016: $79.3 million) reflecting initial impact of operational improvements to restore yields to historic norms
- Cost of sales increased to $86.3 million (2016: $71.8 million) primarily due to expenditure on rehabilitation of the mature estates and increased cost and volume of third party fruit purchases
- Pre-tax losses of $21.9 million (2016: $9.3 million), mainly due to increase in the value of the group's sterling notes arising from exchange fluctuations, resulting in a charge of $4.8 million in 2017 (2016: credit of $10.5)
- Balance of 2017 dollar notes ($20.2 million) and 2017 sterling notes (£8.0 million) repaid
- Sale of 2022 dollar notes held in treasury and placing of preference shares together raising $18.0 million

Agricultural operations

- Increased production of 530,565 tonnes of FFB, up 13 per cent (2016: 468,371 tonnes), benefiting from improvements in harvesting, infrastructure and field management practices
- Increase in third party FFB purchased to 114,005 tonnes (2016: 98,052 tonnes)
- Consistently improved CPO extraction rates averaging 23 per cent
- 1,248 hectares of extension planting

Sale of subsidiary

- Agreement reached on 25 April 2018 for sale of REA Kaltim's 95 per cent shareholding in PBJ to Kuala Lumpur Kepong Berhad; proceeds estimated at $85 million gross or approximately $57 million net of external debt repayments and selling expenses
- Divestment serves to benefit capital structure by reducing indebtedness and by relieving the group of the further investment that would be required to take the PBJ estates to full maturity; it will also defer for at least three years the need for a further group oil mill
- No material negative impact on group's immediate profit outlook as the majority of the plantings at PBJ are immature

Stone and coal operations

- Plans to reopen coal concession at Kota Bangun progressed with conclusion of arrangements to acquire loading point and conveyor with permitting now in hand to allow mining operations to recommence
- Limestone quarry operations commenced
- Discussions regarding the development of the andesite stone concession continuing

Organisational changes

- Appointment of Carol Gysin as group managing director in February 2017 and several senior management changes implemented
- Completion of relocation of Indonesian administrative offices to a single location in Balikpapan

Outlook

- The recovery seen in 2017 anticipated to strengthen further in 2018 with crop levels and yields returning closer to historic norms
- FFB for the four months to April 2018 expected to be around 200,000 (2017: 159,706)
- Divestment of PBJ to enable group to concentrate operations on the remaining plantation areas in near contiguous locations
- Coal activities expected to provide cash flows going forward

Officers and advisers

Directors

D J Blackett
I Chia
C E Gysin
J C Oakley
R M Robinow
M A St. Clair-George

Secretary and registered office

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

Stockbrokers

Mirabaud Securities LLP
10 Bressenden Place
London SW1E 5DH

Solicitors

Ashurst LLP
Broadwalk House
5 Appold Street
London EC2A 2HA

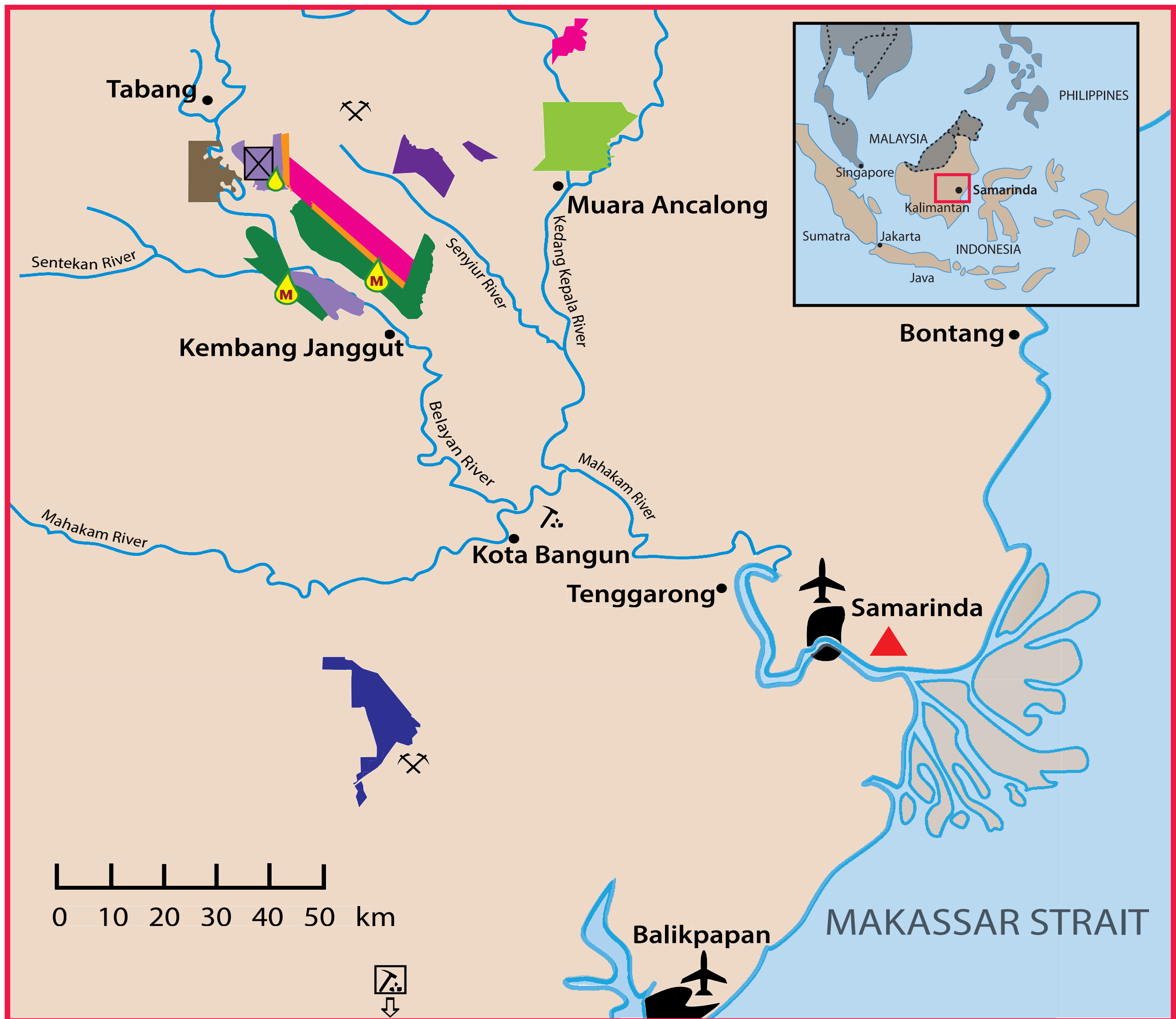
Auditor

Deloitte LLP
Hill House
1 Little New Street
London EC4A 3TR

Registrars and transfer office

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

Maps



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

Key	
M	Methane capture plant
	Oil mill
	Stone source
	Coal concession
	Tank storage

Companies		
	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
	PU	PT Prasetia Utama
	SYB	SYB land transfer

Chairman's statement

2017 saw the beginnings of a much needed recovery in the group's operations. Following changes to staffing and staff responsibilities in both estates and mills and with the estates beginning to benefit from the enhanced fertiliser programmes initiated in 2016, harvesting, field management practices, mill efficiency and road maintenance all progressively improved over the course of the year.

Total revenue for the year increased to $100.2 million from $79.3 million in 2016. Operating losses were reduced to $2.2 million compared with $5.0 million in 2016. Although the loss before tax increased to $21.9 million compared with $9.3 million for 2016, this was principally the result of a negative swing from year to year of $15.3 million in mark to market movements on the group's foreign currency liabilities, with a charge to profits of $4.8 million in 2017 compared with a credit of $10.5 million in 2016. In addition, and as previously reported, a one off charge of $1.1 million was incurred in 2017 as a result of staff changes arising from the reorganisation of the group's Indonesian offices. By contrast, the results for 2016 benefited from a one off receipt of $1.1 million received in respect of tax refunds.

Fresh fruit bunches ("FFB") harvested increased by 13 per cent in 2017 to some 530,000 tonnes, compared with 468,000 tonnes in 2016. This reflected an 8 per cent increase in mature estate hectarage and an improvement in FFB yields to 15.6 tonnes per mature hectare in 2017 from 14.9 tonnes in 2016. There was a similar increase in the volume of purchases of FFB from smallholders and other third parties: 114,000 tonnes in 2017 compared with 98,000 tonnes in the previous year. Crude palm oil ("CPO") production in 2017 totalled 144,000 tonnes, compared with 128,000 tonnes in 2016, with CPO extraction in the latter part of 2017 running at consistently higher average rates than in 2016 and the early months of 2017. The better performance reflected recent mill refurbishment works, a rigorous maintenance programme, as well as an improvement in the quality of FFB being processed. CPO and crude palm kernel oil ("CPKO") yields of, respectively, 3.6 and 0.3 tonnes per mature hectare were achieved during 2017 compared with, respectively, 3.4 tonnes and 0.3 tonnes per hectare in 2016.

The CPO price, CIF Rotterdam, had a strong start to the year rising from $790 per tonne at the beginning of January to a high of $857 per tonne on the back of generally lower production before declining to a low of $640 per tonne reflecting increasing stock levels and expectations of significant production growth in the second half of the year. The price closed at the end of the year at $670 per tonne and has traded in the range $640 to $710 per tonne in 2018 to date. Prices are currently at $640 per tonne. Consumption growth and weaker soybean production in South America appears likely to support prices around these levels.

Progress with development of both PT Putra Bongan Jaya ("PBJ") and PT Cipta Davia Mandiri ("CDM") was slower than expected in 2017. Weather conditions throughout the year hampered extension planting in PBJ and a review of the programme for CDM resulted in a decision to cancel planting of some 1,000 hectares that had been originally planned so as to concentrate on larger, near contiguous blocks as well as to reconsider the status of the conservation reserves. Planting in PBJ and CDM combined amounted to some 1,161 hectares in 2017, with the balance of the targeted 3,000 hectares carried over to 2018.

Plans to reopen the group's coal concession at Kota Bangun were progressed during 2017 leading to the conclusion by the group, in April 2018, of arrangements to acquire an established loading point on the Mahakam River, together with a coal conveyor that crosses the group's concession and runs to the loading point. This acquisition is an essential prerequisite to efficient evacuation of coal from the Kota Bangun concession. With it concluded, the group is applying for the requisite permits to recommence mining operations and to sell the previously mined coal currently held in stockpile. Discussions regarding the development of the group's andesite stone concession continue.

The group further addressed its funding arrangements during 2017, raising monies from the sale of the $7.2 million of 2022 dollar notes held in treasury, the issue of 8.4 million new £1 cumulative preference shares and the completion of the arrangements agreed with the group's new local partner in 2016. In addition, revolving working capital facilities were rolled over for a further 12 months at the end of July 2017. All of the outstanding $20.2 million of 2017 dollar notes and the outstanding £8.0 million of 2017 sterling notes were repaid in June and December 2017 respectively.

Further to the statement in the group's half yearly report published in September 2017 regarding a potential divestment of certain outlying plantation assets, the group reached an agreement on 25 April 2018 for the sale of its PBJ subsidiary. Completion of the sale, which is subject to shareholder approval, is expected to take place later in 2018 and will result in group indebtedness being reduced by the bank borrowings in PBJ and a cash inflow to the group provisionally estimated at $57 million. The PBJ estate is located some distance from the group's principal estates and would, in the near future, have required the construction of a new mill and other infrastructure for harvesting and processing crop. Divestment of PBJ will therefore both reduce the funding required for the group's immediate development programme and permit the group's management to focus on a geographically more compact area of operations.

The proceeds from the divestment of PBJ will principally be applied in reducing group indebtedness. Coupled with the funding actions taken over the last two years, this divestment leaves the group in a stronger financial position. It will permit the group to operate with significantly reduced indebtedness and, at the same time, to proceed quickly to develop suitable areas of its remaining undeveloped land bank. Following the completion in 2017 of the agreements for the transfer to SYB of fully titled land areas held by PU, the remaining developable land bank following the sale of PBJ is currently estimated at about 10,000 hectares. The immediate impact on production of the sale of PBJ will be immaterial as the majority of this estate is not yet mature.

In view of the results for 2017, the directors have concluded that they should not declare or recommend the payment of any ordinary dividend in respect of the year.

The recovery in group operations that began in 2017 has continued into 2018, with production in March demonstrating a noticeable upturn, against a background of generally poorer cropping in East Kalimantan. The positive trend has continued into April, with daily cropping rates suggesting an FFB crop for the month approaching 60,000 tonnes (2016: 32,070 tonnes). Higher production combined with increases in mill efficiency should result in further progress in the group's operational performance during the current year.

The improvements to the group's balance sheet that will follow from the divestment of PBJ and a resumption of coal revenues should help the group accelerate development of its land bank. With CPO prices expected to remain around current levels, the prospects for the group are more encouraging than they have been for some years.

DAVID J BLACKETT
Chairman

Introduction and strategic environment

Introduction

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

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

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

The report is divided into the following sections:

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

The balance of this first section discusses the group's business model and resources, its objectives and strategy for achieving these, the market context in which the group operates and the quantitative indicators that the directors consider relevant to assessment of the group's performance. The sections on "Agricultural 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 operating profits sufficient to enable the group to realise its ambitions.

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 in due course 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 2017 represented some 92 per cent of the group's total assets and which, in 2017, contributed substantially 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. The conditional sale of PT Putra Bongan Jaya ("PBJ") as discussed below means that the likelihood of such a limit being of consequence to the group is more remote.

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 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. Through its association with DSN the group benefits from exchanges of information on agronomic and related practices and there may be scope in due course 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.

On 25 April 2018 REA Kaltim entered into a conditional agreement for the sale of REA Kaltim's 95 per cent interest in PBJ to Kuala Lumpur Kepong Berhad ("KLK"). The disposal enables the group to release the intrinsic value that has built up in developing PBJ, which, as a recently planted property, has excellent potential but is not currently profitable. The divestment will benefit the group's capital structure by reducing indebtedness, by relieving the group of the further investment that would be required to take the PBJ estates to full maturity and will also defer for at least three years the need for a further group oil mill. Further, the divestment will permit the group to focus its efforts on its remaining plantings which are concentrated within a single geographical area.

The vegetable oil market context

According to Oil World, worldwide consumption of the 17 major vegetable and animal oils and fats increased by 3 per cent to 214 million tonnes in the year to 30 September 2017 (of which vegetable oils represented 160 million tonnes). World production of the same group of vegetable oils and fats during the same period was 215 million tonnes with vegetable oils accounting for 161 million tonnes of which CPO represented 65 million tonnes (some 30 per cent of the total).

Total vegetable oil production is currently forecast by Oil World to rise by 3 per cent in 2018 to 222 million tonnes, driven principally by a recovery in CPO production following the 2015-2016 El Niño, and increased production of soybean oil. Total CPO production is projected to account for approximately 69 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. There have also 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 2017 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 $837 per tonne.

The CPO price, CIF Rotterdam, had a strong start to 2017 rising from $790 per tonne at the beginning of January to $857 per tonne by the middle of the month on the back of generally lower production. Thereafter, with stock levels increasing and expectations of significant production growth in the second half of the year, the price declined, reaching a low point of $645 at the end of June and ending the year at

Crude palm oil monthly average price

$670. Prices are currently at $640 per tonne and expectations are that they will at least remain stable at, and might appreciate slightly above, this level over the period to the end of 2018. These expectations reflect projections that further growth in CPO production will be offset by reduced production of soybeans in South America and continuing consumption growth in China and India. Whilst the introduction by China of a new tariff on US soybeans may result in some adjustments within soybean markets, it seems unlikely materially to change worldwide consumption of vegetable oils.

The Indonesian context

2017 was another steady year for the Indonesian economy, under the helm of President Joko Widodo ("Jokowi"). With a GDP growth rate for the year of 5.1 per cent (2016: 5.0 per cent) Indonesia was again one of the best performing countries in the South East Asian region behind India and China. Growth was largely driven by the many nationwide infrastructure projects that are now showing tangible progress, as well as the gradual recovery in global commodity prices in the second half of 2017, although offset by some slowdown in domestic consumption.

The official inflation rate was reported as 3.6 per cent (2016: 3.0 per cent) although real inflation, particularly in the outer islands, was undoubtedly higher as evidenced by an average 8.7 per cent increase in the minimum wage, effective from 1 January 2018, in the three Regencies in which the group operates in East Kalimantan.

The Indonesian rupiah opened 2017 at Rp 13,436 = $1 and closed the year at Rp 13,548 = $1, although for most of the year it traded around the level of Rp 13,300 = $1. The early months of 2018 have seen some weakening in the rate to a current level of Rp 13,880 = $1.

These positive macro-economic indicators and the many highly visible major infrastructure projects underline the progress that the government of President Jokowi has made on delivering on key election pledges of reduced unemployment, increased infrastructure investment and structural reform. With the next national and Presidential elections set to take place in 2019, Jokowi, as the Presidential candidate nominated by the Partai Demokrasi Indonesia

Introduction and strategic environment

continued

Perjuangan (PDIP) coalition under the leadership of Megawati Soekarnoputri, is well placed to secure re-election with a strong mandate.

In East Kalimantan, the local economy has been boosted by the recovery of coal prices which have allowed many small mines to recommence operations. However, the oil palm sector continued to feel the impact of the 2015-2016 El Niño in 2017 with many estates seeing production in the second half of the year well below production levels experienced in the first half.

The term of the existing Governor of East Kalimantan will expire in December 2018. The first round of voting in the election of a new Governor will be held in June 2018. Following the withdrawal of the Regent of Kutai Kartanegara, who was the previous front runner, the 2018 race is now open with four pairings cleared to run.

Throughout 2017, Indonesia continued to apply its previously established sliding scales of duty on exports of CPO and CPKO. Under these scales, no export duty is payable when the price of CPO, CIF Rotterdam, falls below approximately $750 per tonne. However, the flat rate export levy of $50 per tonne (used to subsidise bio fuel prices and replanting by small holders) is applied to all export sales of CPO and CPKO regardless of selling price.

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 2017 with, where available, comparative figures for 2016 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 holds an 85 per cent interest. With the REA Kaltim land areas approaching full utilisation, over the four-year period from 2005 to 2008 the company established or acquired five additional Indonesian subsidiaries, each potentially bringing with it a substantial allocation of land in the vicinity of the REA Kaltim estates.

Each of these five subsidiaries is currently owned as to 95 per cent by REA Kaltim and 5 per cent by Indonesian local investors. Two more recently acquired subsidiaries, PBJ2 (acquired in 2012) and PU (acquired in 2017), are similarly owned.

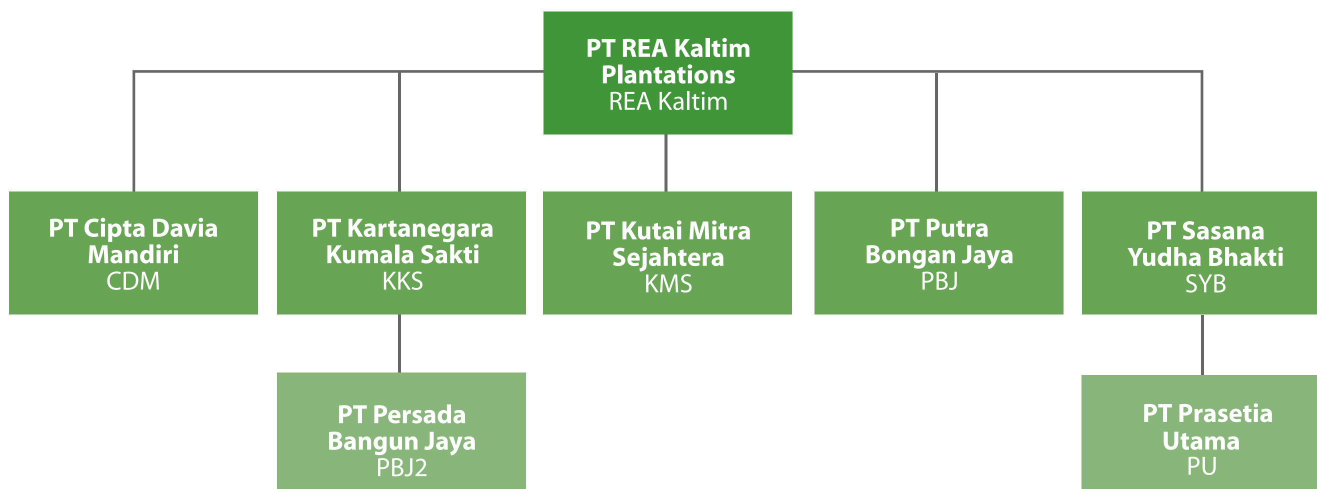
A diagram showing the structure of the REA Kaltim sub-group is set out below.

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 is contiguous with the REA Kaltim areas and together these form a single site falling within the Kutai Kartanegara regency of East Kalimantan. The PBJ area, which is now subject to divestment, sits some 70 kilometres to the south of the REA Kaltim areas in the West Kutai regency of East Kalimantan while the CDM, KMS and KKS areas 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. A strip of land previously held by PBJ2 and bordering the PBJ land areas was reallocated to PBJ during 2017. The balance of the PBJ2 land is adjacent to the land areas held by REA Kaltim and SYB.

The REA Kaltim and adjacent areas are most readily accessed by river. In 2015, a new road was constructed between Tabang (a town to the north of the REA Kaltim estates) and Kota Bangun connecting via a bridge over the Mahakam River with an existing road from Kota Bangun to Samarinda (the capital of East Kalimantan). This new road passes through the REA Kaltim estates and potentially provides the group with alternative transport options which can be of value when excessively dry periods affect river access. However, the very heavy rains of the past two years have damaged the new road so that until the road is resurfaced its value as an alternative transport route is limited. A bridge across the Senyiur River links REA Kaltim and the KMS, CDM and 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"). Separately, central government and local authority permits are required for the development of land. These permits are often issued in stages.

During 2017, the overall area of the group's fully titled agricultural land increased from 70,584 hectares to 76,127 hectares following completion of the transfer to SYB and a local minority shareholder of PU shares the subject of exchange arrangements agreed in 2015 with PT Ade Putra Tanrajeng ("APT"). PU holds fully titled land areas of 9,097 hectares located on the southern side of the Belayan River opposite the SYB northern areas and is linked by a government road to the southern REA Kaltim areas. By way of exchange, SYB has agreed to transfer to APT 3,554 hectares of fully titled SYB land and has relinquished 2,212 hectares of untitled land allocations, both areas being the subject of overlapping mineral rights held by APT. Pending completion of the transfer of the 3,554 hectares, APT and its associates have been granted access to commence mining in this area.

In addition, at 31 December 2017, the group held and can potentially renew land allocations totalling 34,347 hectares. A provisional allocation of 12,050 hectares made many years ago to KKS was conditional upon rezoning of the area concerned. There is some doubt as to the success of such rezoning and parts of the area have become the subject of mining licences. Accordingly, the group is reviewing its options in respect of this area.

Details of the land areas held by the group as at 31 December 2017 are set out below:

Land areas	Hectares
Fully titled land	
CDM	9,784
KMS	7,321
PBJ*	11,602
PU	9,097
REA Kaltim	30,106
SYB	8,217
	76,127
Land subject to completion of titling	
CDM	5,454
KKS (area adjacent to CDM)	5,150
KKS (provisional allocation)	12,050
KMS	1,964
PBJ*	4,460
PBJ2	5,269
	34,347

*As noted under "Future direction" above, on 25 April 2018 the company entered into a conditional agreement for the sale of PBJ

During 2017, 2,142 hectares previously held by PBJ2 that are adjacent to the existing PBJ land were reallocated to PBJ. However, in renewing the izin lokasi for the PBJ area as enlarged by this reallocation, there was a reduction of 246 hectares in the total area the subject of the izin lokasi. Extension of the CDM land allocation in 2017 also resulted in a net reduction of 826 hectares. Other areas that are not yet fully titled in KMS and PBJ2 can be expected to result in reduced hectarage upon renewal of allocations. Moreover, areas the subject of land allocations may be further reduced on full titling as land the subject of conflicting claims, deemed unsuitable for oil palm cultivation or allocated for smallholder cooperatives may be excluded.

Not all 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. Following the sale of PBJ, the directors believe that the remaining fully titled land and land allocations will permit extension of the group's retained oil palm plantings to an eventual total planted area approaching 50,000 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

Agricultural operations

continued

demonstrate clear plans for the development of all of its undeveloped land holdings.

Land development

Areas planted as at 31 December 2017 amounted in total to 44,094 hectares. Of this total, mature plantings comprised 34,076 hectares having a weighted average age of 13 years. A further 777 hectares planted in 2014 were scheduled to come to maturity at the start of 2018.

The breakdown by planting year of the total of 44,094 planted hectares (which exclude planted areas to be relinquished by SYB upon completion of the SYB land swap agreement described under "Land areas" above) is shown below.

Planted areas	Hectares
Mature areas	
1994	416
1995	1,956
1996	2,272
1997	2,479
1998	4,829
1999	351
2000	874
2004	3,190
2005	2,279
2006	3,362
2007	3,455
2008	991
2009	625
2010	1,419
2011	1,073
2012	1,950
2013	2,555
	34,076
Immature areas	
2014	777
2015	2,236
2016	5,757
2017	1,248
	44,094

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 may be recoverable.

Towards the end of 2017, the group conducted a review of the development programme for CDM. As a consequence of this review, the planting of 1,000 hectares originally planned in CDM was cancelled in order to concentrate on larger, near contiguous blocks within this estate with a view to completing this development in the most cost-effective manner. At the same time, it was decided to examine carefully the status of the important conservation reserves in the wetland area which the group is concerned to protect. This review is continuing and a decision regarding how best to manage this area will be taken in due course.

Development work at PBJ was hampered by the weather conditions throughout 2017 as extension planting, planned to occur predominantly in lower lying areas in the north west section, had to be postponed until consistently drier weather would permit bunding to control flooding to be completed.

Delays in the PBJ planting and the review of the CDM development programme meant that, as previously announced, the target of completing 3,000 hectares in PBJ and CDM combined in 2017 was not achieved. Cumulative development for the year is detailed below:

	PBJ hectares	CDM hectares	Total hectares
Cleared, not yet planted at 1 January 2017	492	1,089	1,581
Cleared, during 2017	351	429	780
Cleared, not yet planted at 31 December 2017	(595)	(605)	(1,200)
Planted during the period	248	913	1,161

The balance of the targeted 3,000 hectares has been carried over to 2018 and, following completion of this, extension planting in 2018 is now expected to be concentrated on PU. As weather conditions become more favourable and with certain land issues in respect of the remaining pockets of immediately plantable land in PBJ now resolved, clearing and planting of PBJ will continue in the coming months as completion of the sale of PBJ is not expected to occur before 31 August 2018.

There remain some additional areas for planting out in KMS which should increase the 4,500 hectares that have been planted to date to an eventual total of some 4,800 hectares. Of this total, some 750 hectares that were planted in 2013 will in due course be transferred to village cooperatives.

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 being expanded to increase its capacity to 60 tonnes per hour. Completion of the installation works for a second boiler and other equipment needed to achieve this expansion was delayed in 2017 by extended lead times for deliveries. This provided the opportunity for the new head of mills, who was appointed mid-year and has extensive experience in managing palm oil mills in the region, to re-negotiate certain arrangements with suppliers and the works are now expected to conclude in the second half of 2018.

Following an extensive programme of refurbishment, all but one of the four boilers in the group's older mills have recently been reconditioned; reconditioning of the fourth boiler is continuing. Having two boilers in a mill provides resilience and facilitates downtime for the ongoing programme of routine maintenance and upgrading work required to maximise extraction rates, minimise oil losses and ensure that the design throughput is retained. Extraction rates improved in the second half of 2017 to consistently better levels than in 2016 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. As production from the early plantings in PBJ has increased, processing arrangements have been agreed with a third-party mill in the vicinity, pending completion of the disposal of PBJ. In due course, PBJ would require its own mill. Existing processing capacity is, for the time being, sufficient for the group's own processing requirement and to process the current flow of crops from smallholders.

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.

Agricultural operations

continued

Crops and extraction rates

Key agricultural statistics for the year to 31 December 2017 (with comparative figures for the corresponding period of 2016) were as follows:

FFB crops (tonnes)	2017	2016
Group harvested	530,565	468,371
Third party harvested	114,005	98,072
Total	644,570	566,423
Production (tonnes)		
Total FFB processed	630,600	560,957
CPO	143,916	127,697
Palm kernels	29,122	26,371
CPKO	11,052	9,840
Extraction rates (percentage)		
CPO	22.8	22.8
Palm kernels	4.6	4.7
CPKO	38.0	34.7
Rainfall (mm)		
Average across the estates	3,620	3,449

As previously reported, production showed a marked improvement in 2017. The recovery which started in the middle of 2017 continued into the second half when cropping was up 18 per cent to 342,000 tonnes of FFB from 290,000 tonnes of FFB in the first half, notwithstanding that the outcome for the last quarter of the year was more muted than had been envisaged. This was partly because the remedial action required across the group's estates in both the field and infrastructure took longer than expected to complete and partly because of the number of harvesting days disrupted by rain during the traditional peak cropping period.

Mill extraction rates in early months of 2017 reflected the harvesting and transportation difficulties noted above but started to recover towards the middle of the year and improved through the second half, to levels close to or above 23 per cent for CPO and 39 per cent for CPKO, compared with 22 per cent and 37 per cent in the first half. The refurbishment works in the group's two older mills and regular mill maintenance, as referred to under "Processing and transport facilities" above, coupled with 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 now being achieved.

Action to resurface and strengthen the group's road infrastructure throughout 2017 and continuing into 2018 is steadily improving access to the mature areas and evacuation of harvested crop to the group's mills. In PBJ, as detailed under "Stone and coal operations" below, stone is now being sourced from the group's own quarry operations. This arrangement is expected to continue following completion of the sale of PBJ.

In line with agronomy advice, fertiliser applications in the mature areas were significantly increased for 2017 and it is planned that the higher dosage levels will be continued through 2018. Fertiliser applications in immature areas have always been maintained at high levels and therefore there have been no material changes for those areas.

It is intended that some 1,000 hectares of mature areas hectares that have been damaged over the years by periodic flooding will be bunded and resupplied in the next one to two years. These areas apart, the group retains good stands in all of its mature areas. Optimisation of field disciplines and improving crop yields are increasingly evident in current production, which is gradually being restored to former standards and, in due course, to surpass those standards.

Crops at the beginning of 2018 reflected an East Kalimantan wide poorer cropping period. However, March showed a noticeable upturn and this has continued into April. If the daily cropping rates currently being seen are maintained for the last few days of the month, crop of some 200,000 tonnes can be expected for the first 4 months of the year (4 months to April 2017: 159,706 tonnes).

Revenues

During 2017, 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 main 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 International Sustainability and Carbon Certification ("ISCC") certified market, the group sold 62,566 tonnes of ISCC certified CPO and a further 3,001 tonnes of Roundtable for Sustainable Palm Oil ("RSPO") certified CPKO during 2017 at premia of, respectively, $7 and $55 per tonne.

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 2017 and the group currently has no sales outstanding on this basis.

The average prices per tonne realised by the group in respect of 2017 sales of CPO and CPKO, adjusted to FOB, Samarinda, and net of export duty were, respectively, $592 (2016: $521) and $1,134 (2016: $1,111).

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) providing 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 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 $627,000 in 2017, compared with $563,000 in 2016. 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 continues on implementing field inputting of data from handheld devices throughout the group's operations 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.

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.

Changes to the Indonesian regulatory regime applicable to foreign investment in mining since the above arrangements were agreed 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, which is adjacent to the group's PBJ property, 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 arrangements agreed in respect of the limestone quarry during 2017, KCCRI purchases crushed stone from a third party contractor who quarries the stone at the concession site and then delivers it to a site within the PBJ property for crushing by the same contractor. The resultant crushed stone is currently being sold by KCCRI to PBJ but potentially could also be sold to other group companies, as well as to third parties. At the moment, the crushed stone purchased by PBJ is being utilised for hardening roads but in due course could also be used as an aggregate for other infrastructure projects. The arrangements agreed between KCCRI and the third party contractor, and between that contractor and the concession owner, provide that the contractor has exclusive rights to quarry the concession and that all stone quarried is 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. Quarry operations commenced in May 2017 and crushing commenced in September with some 22,000 tonnes delivered to the PBJ site for road building.

Pursuant to the conditional agreement for the sale of PBJ, it has been agreed that KCCRI will continue to use the existing site within PBJ for crushing stone and KLK will procure that PBJ offers KCCRI first refusal on all future contracts for the supply of stone to PBJ.

The operating licence required to establish a simple quarrying and crushing operation on the andesite stone concession was obtained in 2014. It is planned that crushed stone will be transferred from the concession site by truck to a stockpile on the REA Kaltim estates from which onward deliveries would 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. In addition, indications are encouraging that there would also be good third party demand for crushed stone for road building and use as a concrete aggregate.

The group is reviewing several options for developing and operating the andesite stone concession for which suitable road access is a necessary preliminary to commencing extraction operations. A feasibility study undertaken in 2017 indicated a reduced upfront cost of opening a quarry at this concession of some $3 million and the prospect of a payback over a shorter period then previously contemplated. The group remains of the view that there is local demand for stone in the volumes that the feasibility study assumes. Discussions in respect of a joint venture arrangement are ongoing, pursuant to which a third party would operate the quarry, market the crushed stone production and provide the development funding required in exchange for a share of future profits. For the moment, however, to the extent that any further capital is to be committed to its stone and coal operations, the group is giving priority to the reopening of its coal concessions, as it

believes that these offer greater certainty of quicker returns with lower risk than the andesite concession.

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. With the recent recovery in prices the group is working towards arrangements to resume operations.

Of the group's two coal concessions, the most important is the Kota Bangun concession as this principally contains high value semi-soft coking coal which is currently in good demand. In April 2018, the group concluded arrangements with the owners of an adjacent mine to acquire an established loading point on the Mahakam River, together with a coal conveyor that crosses the group's concession and runs to the loading point. With this acquisition concluded, the group has been able to apply for the loading point to be relicensed and for a licence to export coal from the Kota Bangun concession. As soon as these necessary permits have been obtained, dewatering can start and thereafter recommencement of mining. Meanwhile, the group is finalising arrangements to sell the existing coal stockpile at the concession of some 16,000 tonnes, utilising the loading point on the Mahakam.

The group keeps under review options for the Liburdinding concession with a view to either divesting the concession in its entirety or entering into arrangements similar to those applicable to the Kota Bangun concession whereby the group would be 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 information published each year in the annual report.

The group's third sustainability report was published during 2017 and is available for download from the group's website: www.rea.co.uk. This report provides updated detail regarding 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 follows the internationally recognised Global Reporting Initiative ("GRI") standard, allowing the group's sustainability performance to be compared with that of other oil palm growers. The group's next sustainability report will be published in 2019.

In October 2017, the group was ranked 16th out of 50 oil palm companies by the Zoological Society of London's ("ZSL") Sustainable Palm Oil Transparency Toolkit ("SPOTT"). This 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. Although the group's ranking is lower than its previous position of 9th reflecting improvements in the scores of other oil palm companies, the group's overall score has increased from 64.4 per cent (38 out of 59 points) in 2016 to 67.4 per cent (80.5 points out of 119.5 points) in 2017 moving it from the middle orange category (33-66 per cent) to the higher green category (above 66 per cent). The SPOTT criteria have changed and the number of categories has increased from 7 to 10, complicating comparison of current and previous rankings.

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 was updated in 2017 to include a statement detailing the group's stance against modern slavery, in line with the UK's Modern Slavery Act 2015. 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, preferably by multiple certification schemes, provides third-party verification that a company is operating according to national and international standards. Further, it encourages 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, amongst others, Roundtable for Sustainable Palm Oil ("RSPO") certification, International Sustainability and Carbon Certification ("ISCC") and Indonesian Sustainable Palm Oil ("ISPO") certification.

RSPO

The group has been a member of the RSPO since 2007. REA Kaltim's two oldest oil mills, Perdana oil mill ("POM") and Cakra oil mill ("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, the COM kernel crushing plant ("KCP") and their supply chains along with the group's downstream bulking station successfully underwent full recertification audits, which are required every five years. In April 2017, POM, the KCP at COM and the bulking station duly passed their annual surveillance 1 audits. The annual surveillance 1 audit for COM is due to be completed in May 2018.

In November 2017, the Certification Body SCCS awarded the group's third oil mill at Satria ("SOM") RSPO certification for its mill and KCP. Subsequently, there was a change in the regulations whereby a mill is no longer eligible for certification unless the estates that supply the mill are also certified in accordance with the RSPO principles and criteria. This led to the SOM certification being rescinded pending certification of the Satria estate that supplies it. SOM's KCP, on the other hand, has retained its certification.

As previously reported, there remains an outstanding High Conservation Value ("HCV") compensation liability at Satria estate regarding a small area of land that was cleared in 2008 prior to conducting an HCV assessment. A compensation plan was submitted to the RSPO in 2016, including a proposal of how the group intends to compensate for the cleared land but acceptance of this plan has been delayed by the need to clarify the precise extent and location of the land in question. Once the RSPO has agreed the position, SOM and its supply chain will undergo an RSPO audit. It is hoped to resolve the compensation liability during 2018.

A second HCV compensation liability is outstanding for approximately 959 hectares of land cleared at CDM. Although there is no mill at CDM, a compensation plan has been submitted to the RSPO in furtherance of the group's commitment to achieve full RSPO certification for all of its operations. RSPO has responded positively to the objectives,

timeline and proposed compensation set out in the plan and, once implementation has been agreed, the compensation payments will be settled over several years.

ISCC

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 2017, all three of the group's mills passed the recertification audits and new ISCC certificates were issued for COM in March, POM in June and SOM in July 2017.

ISPO

It is mandatory for oil palm companies operating in Indonesia to acquire ISPO certification. REA Kaltim successfully achieved ISPO certification in 2016 and passed audit surveillance tests in 2017. SYB has not yet obtained ISPO certification, as the land application permit for the palm oil mill effluent ("POME") treatment facility, for which an application was submitted to the district level of the Department of Environment in October 2016, is still pending. Recommendation letters have now been issued and submitted to the certification body at ISPO and the permit is expected to be issued shortly.

Certified sales

Production and sales of certified CPO and CPKO are shown below:

Tonnes	2017 Production		2017 Sales	
	CPO	CPKO	CPO	CPKO
RSPO certified	10,133	3,446	–	3,001
ISCC certified	81,738	–	62,566	–
Other	52,045	7,606	81,632	8,802
Total	143,916	11,052	144,198	11,803

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 which makes the logistics of finding a suitable buyer challenging. Instead, the group uses the RSPO "PalmTrace" system whereby physical sales and processing activities of certified palm oil and palm kernel oil can be registered. RSPO PalmTrace also offers a marketplace and the option to register off market deals ("Book and Claim") for RSPO "credits" which confirm that the certified palm oil was produced by an RSPO-certified company.

Environment

The group maintains ISO 14001:2004 Environment Management System certification for its operations. POM and COM acquired this certification in May 2015 while the REA Kaltim estates, SOM and the SYB estates achieved certification in February 2016. The certifications will be due for renewal in, respectively, May and September 2018.

The group's mills have also been rated, at both provincial and national levels, under PROPER, the "Program for Pollution Control Evaluation and Rating". The ratings attained by the group's mills in 2017 are shown below, where blue denotes environmental management standards that are in accordance with the regulations and green denotes environmental management that is higher than the standard requirement. The green awards at provincial level reflect the provision of energy to local communities through biogas production.

	National	Provincial
POM	Blue	Green
COM	Blue	Green
SOM	(awaiting POME permit)	Blue

2017 is the seventh year for which the company has calculated and reported its carbon footprint using RSPO's PalmGHG calculation tools. For the last two years, the company has applied RSPO PalmGHG calculator v. 3.0.1. Changes in the calculation methodologies have led to some discrepancies between current and previous GHG emission calculations.

With the reduction in land clearing during 2017 compared with 2016, the related CO2 emissions were also reduced, while the increased oil palm hectarage in 2017 meant that there was more sequestration of greenhouse gases by the oil palm plantings. As a result, when improvements in POME treatment, lower fuel usage for transport and storage and improved cultivation by smallholders are also taken into account, total carbon emissions in 2017 are estimated to have been lower than in 2016.

Responsible agricultural practices

The quality of river water, tap water and air quality across the group's plantations and employee facilities is measured regularly. 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 substantial proportion of the 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. POME that is not used for methane production, as well as POME

produced at SOM 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. All three mills continued to meet this standard in 2017.

The group seeks to optimise the quantity of organic and inorganic fertiliser that it applies and supplements inorganic applications with organic fertiliser so as to maximise the use of the empty fruit bunches ("EFB") discarded by the mills. Having ceased composting operations in 2016, as these were found to have become less effective in terms of nutrient production now that the majority of POME is directed to the biogas facilities, the group has reverted to the application of EFB for mulching. This provides the palms with organic matter that helps to retain ground moisture which is important during dry weather periods and also helps to minimise the application of inorganic fertiliser.

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, supplemented by visual inspection of palm canopies and soil sampling. In 2015, it became evident that too little fertiliser was being applied resulting in a nutrient deficiency in the soils and palms and, as a consequence, lower FFB productivity. The impact of the reduced application and uptake of inorganic fertiliser was exacerbated by the prolonged droughts during 2015 and 2016 as moisture is required to mobilise the nutrients in the fertiliser to make them available to the palms. Fertiliser application during drought conditions is both costly and a waste of resources. Increased quantities of fertiliser were applied during the second half of 2016 when wetter conditions helped to boost the nutrient supply base and improve FFB yields. In order to restore the nutrient content of the soils and to maximise productivity, the quantity of inorganic fertiliser in each of 2016 and 2017 was approximately double that applied in 2015.

Every effort is taken to prevent POME polluting water courses or neighbouring land. After three incidents in 2016 as a consequence of prolonged periods of rainfall causing the POME ponds or flat beds to overflow, the group constructed bunds around the POME trenches thereby preventing overflows into neighbouring community land in 2017. Prolonged periods of rainfall and upcoming groundwater, however, did cause high pressure and some seepage in the ponds at POM and SOM. This has been contained by strengthening the bunds and further work to improve the bunds around the ponds is continuing in 2018, together with the construction of additional trenches to prevent overflowing in the future. Further staff training was conducted in 2017 to improve the knowledge and understanding of land application techniques and emergency response procedures in the event of overflows.

The higher rainfall experienced in 2017 helped to prevent further outbreaks of pests that were witnessed in 2016.

Employees

At the end of 2017, the group's workforce numbered 10,958 compared to 8,372 at the end of 2016. The increase in headcount was due to the recruitment of additional harvesters and casual workers in the second half of the year to meet the increasing volume of FFB.

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 regular review and is subject to change if more effective methods for improving productivity are found. In 2017, a new system of compensation and benefits was implemented for harvesters whereby monthly production incentives are now paid based on the number of days in a month in which the quantity of FFB harvested by an individual exceeds a set minimum level. The more days that a harvester exceeds the minimum level, the greater the monthly incentive. A quarterly bonus is also awarded to the two most productive harvesters at each estate as an additional incentive. This system replaced the previous scheme. The introduction of the new compensation package has led to 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.

Good quality housing and community facilities for employees are a priority. The group continues to build houses 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. The group also provides each village 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 13 pre-schools, 14 primary schools and one secondary school. At the end of 2017, 433 pre-school children, 1,793 primary school children and 202 secondary school students were enrolled in the group's school system.

In order for the group's operations to run efficiently, good management is essential. 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 11 years, 269 cadets have participated in this programme and almost 70 per cent are still employed by the group. 10 people enrolled in the 2016/2017 programme, all of whom 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 2017, 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 2017, women accounted for 29 per cent of the group's workforce, including 18 per cent of the management team.

	2017		2016	
	Number of male staff	Number of female staff	Number of male staff	Number of female staff
Directors	4	2	5	1
Management	66	13	61	12
Rest of workforce	7,670	3,214	6,007	2,298
Total	7,729	3,229	6,061	2,311

Management

Overall responsibility for the group's operations resides with the group managing director, who is based in the UK. The president director of the group's principal operating subsidiary, REA Kaltim, together with 4 fellow directors has 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 REA Kaltim 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.

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.

Whilst a number of executive functions have, over the past few years, been successfully transferred from the UK to Singapore and Indonesia, the group has concluded that it is important to maintain separation between the responsibilities of the group managing director and the person in overall charge of the group's Indonesian operations and, accordingly, the managing director will remain based in the UK for the foreseeable future.

Health and safety

The group remains committed to implementing the internationally recognised Operational Health and Safety Management System ("OHSAS") 18001. 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, with chemicals or high voltage). An emergency response team has been established with training courses

conducted for fires, 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 members of their families.

Despite regular and routine training, it takes time for health and safety practices to become fully embedded in workforce practices. An internal audit for OHSAS 180001 and for the Indonesian certification system, based on Indonesian government regulation 50/2012, was conducted during 2017 and determined that the target for obtaining both OHSAS 18001 and Occupational Health & Safety Management System certification should again be postponed until the end of 2018.

Although measures are taken to minimise the occurrence and severity of accidents, incidents still occur. In 2017 there were 872 Lost Time Incidents ("LTIs") compared to 649 LTIs in 2016. However, man-hours in 2017 were 24,934,348 compared to 17,301,932 man-hours in 2016, so relative to total man-hours there was a 6.8 per cent reduction in LTIs. Regretfully there were two fatalities between September and December 2017. Of these, one was work related and the other one was 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 not. The group maintains a rigorous incident investigation and reporting procedure to ensure that the cause of any incident is properly identified and that 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. In the last quarter of 2017, the group appointed a new chief medical officer and one permanent dentist, so medical care is now 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 and lung 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. There are also audiometry and ergonomic tests for certain workers. As a precautionary measure, drugs tests are taken once a year to try to prevent drug usage and addiction amongst employees.

Community relations

The group aims 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 2017, 27 land rights claims were made against the group for a total area of some 624 hectares, a significant reduction from the 70 claims over 1,572 hectares of land experienced in 2016, most of which are being successfully resolved or have been found to be spurious.

Community development

Over the last 20 years the group has endeavoured to ensure that its business contributes to improvement in 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 clarify where communities need support in order for them to be and remain self-sufficient in their food and energy supplies and in their commercial activities. The group collaborates with the communities in such a way that they can benefit from the group's operations without being dependent upon them. 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. Many of these initiatives work in tandem with local government programmes.

Renewable energy generated by the group was provided to 26 villages, comprising approximately 13,000 households, through the infrastructure established by PLN. PLN connects 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 substantial. 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. During 2017, PLN continued its work of providing electricity installations for the residents of local villages not yet connected to the supply. Some further installation work remains to be completed in 2018.

In 2017, the group completed the installation of a further two new water treatment facilities, in addition to the five water treatment facilities that were already established by the end of 2016, providing the local communities in three additional villages with access to clean water. The group's community development department provides training for the treatment plant operators to encourage independence from the group in recognition of the importance of each local village having control of the management and maintenance of its own resources.

DVA conducts a mentoring scheme for small businesses and households, making routine visits to local communities to provide advice to farmers on improving their yields and minimising the environmental impact of their practices. Sessions are also conducted on how to manage household finances and loans. In collaboration with local government and neighbouring companies, the group seeks to improve the infrastructure around villages and provides donations in the form of equipment, expertise or money where necessary to support villages in improving their own roads, schools and other community facilities. The group also works with the local university and the Training Center for Agriculture and Rural Support to enhance mutual understanding and cooperation. Other community support is provided in the form of assistance with the organisation of women's groups and various youth activities in local villages, including sports competitions, history classes, scouting and social activities.

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 increases employment and opportunities 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.

The group has been working with smallholders since 2001 under the 'Smallholder Farmers Program' which became the PPMD programme in 2005. Under 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 palm oil mills.

Plasma smallholder schemes are established for the benefit of the communities that are surrounding the company plantations, as part of the group's obligation to responsible development of new land for oil palm, in accordance 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 the plasma plantations but rather the group manages these areas in return for a pre-agreed management fee. The cooperatives, therefore, receive an income based on the value of FFB harvested minus loan repayments and management fees in accordance with government regulations.

The development of oil palm plantations under the plasma development programme can take longer to organise than the development of PPMD or group-owned estates, due to the more complex nature of the funding, legal aspects and management of these areas. 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 plasma schemes at the group's established estates are not required under the 2007 government legislation as these estates were developed prior to 2007, but in the interests of equitable treatment, the group has committed to develop plasma cooperatives for villages whose land overlaps with the group's location permit obtained from the government. By the end of 2017, 4,744 hectares of plasma has been developed, compared with 3,567 hectares at the end of 2016.

Since 2015, FFB has only been accepted from independent smallholders who have participated in the group's smallholder mapping process. The aim of this process is to create a map and a comprehensive database of all smallholder land within the group's supply base in order to ensure traceability of the FFB supply chain. The volume of FFB purchased by the group is verified against the farmer's registered details. 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 and in 2017 conducted cultivation technical training and accounting training in order to improve the practices of both PPMD cooperatives and independent smallholders. Further specific training is planned for 2018 and 2019.

During 2017, the group collaborated with 18 PPMD cooperatives, 8 plasma cooperatives and 8 independent smallholder cooperatives. Together they accounted for some 17 per cent of the FFB processed in the group's mills and received revenue equivalent to some $14.4 million.

FFB purchased (tonnes)	2017	2016
Plasma	12,179	9,986
PPMD	91,822	80,666
Independent smallholders	10,004	7,399
Total	114,005	98,052
Revenue ($ million)	14.4	10.4

Conservation

Plantation development in the tropics can result in a significant alteration of biodiversity and natural ecosystem functions. Agricultural operations should ensure for the long term the effectiveness of natural ecosystem characteristics and services. Ideally, the operational aspects required for oil palm cultivation, harvest, processing and delivery should be integrated with conservation principles, not only with measures in place to avoid or mitigate negative impacts, but also with positive steps to restore or enhance significant portions of the original landscape level biological diversity.

Aware of the importance of minimising the environmental impact of its operations, the group incorporated a strategy for enhanced best practice, within the policy framework adopted at the beginning of 2015. This was to ensure that all those involved in the process of planning and development of new land were aware of the responsibility to prevent or mitigate negative impacts of plantation development. As dictated by the group's policy and the RSPO's new planting procedure on which the group's policy is based, the process of opening new land begins with a series of surveys and assessments typically conducted by qualified experts. These environmental and social impact assessments include an evaluation of land use changes, assessments of high conservation value ("HCV") characteristics of the landscape, soil surveys and carbon stock assessments. The results of these assessments guide development teams to avoid disturbance of areas of cultural biological significance, steep areas, riparian zones or peat soils, including any habitats containing high carbon stock.

The area designated as conservation reserves within the group's titled land bank totals approximately 20,000 hectares, accounting for some 23 per cent of the group's titled areas. Since 2008, this network of conservation reserves has been managed by the REA Kaltim conservation department, known as REA Kon, an in-house team of experienced conservationists, ecologists, herpetologists, ornithologists and education and media specialists with good knowledge of the biological and cultural diversity of the region. Using empirical information derived from scientific field studies, hands-on conservation education and active management, REA Kon's aim is to conserve or enhance the natural biodiversity and ecosystem functions of the landscape in which the group operates.

REA Kon conducts systematic monthly activities in order to maintain and enhance biodiversity surveys, in cooperation with local and international scientists, including HCV boundary marking and monitoring, camera trapping point surveys, belt-transects, restoration and enrichment activities and conservation education in schools. REA Kon also conducts water quality monitoring to obtain a reliable picture of the physical and biological health of conservation areas.

In 2017, a total of 19 new camera traps were installed in REA Kaltim and CDM. These camera traps recorded a total of 34 mammal, bird and reptile species. Three of these species are threatened: Pongo pygmaeus (Orangutan) (Endangered), Manis javanica (Sunda Pangolin, Trenggiling) (Critically endangered) and Helarctos malayanus (Malayan Sun Bear, Beruang Madu) (Endangered). The Prionailurus bengalensis or leopard cat (Kucing Hutan) was also detected in 2017.

REA Kon monitors the orangutans found in the conservation areas of four of the group's estates on a monthly basis by conducting nest surveys along permanent transects. In 2017, monthly permanent transect walks revealed a total of 94 orangutan nests which had remained intact for a total of 652 days, implying that, on average, each nest remained intact for about 7 days. These transects confirm that a population of orangutans continues to use the conservation reserves within the group's concessions. Further surveys that focus on identifying orangutan individuals will be undertaken during 2018 and 2019 to verify the current status of the orangutan population.

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 allows REA Kon to exchange ideas with local communities and workers about its efforts to maintain local biodiversity and natural ecosystem services. REA Kon also seeks to form closer bonds and better communication with local villages and independent farmers. In 2017, REA Kon conducted regular visits to schools in REA emplacements as well as educational activities with communities and workers, mostly in the form of presentations, followed by discussions, about rare, threatened and endangered species. A conservation education camp was organised in the field station to provide more hands-on learning about environmental issues for a broader age group from within the local community.

REA Kon also conducts visits to villages to meet 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.

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. The boundaries of conservation areas are marked with visible posts and signboards to clearly delineate HCV land within the group's concessions and REA Kon routinely patrols the edges of the 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 the group's conservation areas by loggers or independent farmers.

Rough analyses of satellite-based land cover maps have revealed that there has been much vegetation change in the conservation areas over the past decade, suggesting potential clearing in some areas and potential regrowth in others. The group is now analysing the changes to the quality and extent of forested areas with the use of recent high-resolution land cover maps.

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 DVA, 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 the group's REA Kaltim and SYB estates were developed some years ago, adhering to this policy going forward should facilitate the group's ability to prevent and address any clearance of future reserves.

With ample rainfall during 2017, there were no forest fires recorded in the region.

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. The significant change in accounting policy adopted last year in accordance with the amendment of IAS 41 Agriculture effective 1 January 2016 has been continued, with bearer plants accounted for as property, plant and equipment.

This policy continues to affect the reported losses for 2017 and 2016 by both including a charge for depreciation of bearer plants (which were formerly treated as biological assets) and also not including a movement in the fair value of bearer plants, which would tend to be an uplift reflecting the expansion of the group's hectarage or planted hectarage, as was the case in every year that the former IAS 41 Agriculture applied.

One small change to accounting policies in 2017 is that the group has ceased to amortise its land titles. This reflects the expectation of the directors, having reviewed the relevant Indonesian legislation, that there would be no difficulty in renewing the "hak guna usaha" ("HGU") titles to land in the future. This is consistent with the approach and expectation of other oil palm groups. The amount of amortisation provided on land titles in 2016 was $432,000.

Group results

Group revenue, operating loss and loss before tax for 2017, with comparative figures for 2016, were as follows:

	2017 $'m	2016 $'m
Revenue	100.2	79.3
Operating loss	(2.2)	(5.0)
Loss before tax	(21.9)	(9.3)

The significant increase in revenue in 2017 reflected the higher crop harvested during the year and an improvement in the selling prices achieved for the group's CPO and CPKO. The increase was in part offset by an increase in cost of sales reflecting the remedial actions taken during the year to restore the conditions of the mature estates, of which the full benefit will only accrue in 2018 and later years, and the higher prices paid for third party FFB.

The significant adverse movement on loss before tax as compared with 2016 ($21.9 million against $9.3 million) principally arose from the change in the value of the group's sterling notes arising from exchange fluctuations resulting in a charge of $4.8 million in 2017 contrasting with a credit of $10.5 million in 2016.

Cost of sales reported for 2017, with comparative figures for 2016, was made up as follows:

	2017 $'m	2016 $'m
Depreciation and amortisation	22.2	21.0
Purchase of external FFB	14.4	9.1
Estate operating costs	49.7	41.7
	86.3	71.8

The valuation of closing agricultural produce inventory at the end of 2017 at lower prices than at 31 December 2016 resulted in a negative movement on such inventory of $1.1 million (2016: $0.6 million gain).

Administrative expenses amounted to $13.7 million in 2017, compared to $12.0 million in 2016. A number of one off costs were incurred during the year including staff retrenchment costs arising from the combination in Balikpapan of the group's former Indonesian offices in Samarinda and Jakarta as well as costs arising from changes to senior management.

Investment revenues were $1.1 million against $1.7 million in 2016. The latter figure benefited from the inclusion of interest of $1.1 million received in respect of tax amounts refunded as a result of Jakarta Tax Court decisions.

Finance costs totalled $20.8 million (2016: $6.0 million), the difference principally reflecting the change in the value of the group's sterling notes arising from exchange fluctuations with a charge of $4.8 million in 2017 compared to a credit of $10.5 million in 2016.

The taxation charge on the loss before tax amounted in 2017 to $3.0 million against $2.0 million in 2016. Two principal factors have adversely affected this charge in 2017. First, regulations in Indonesia limit interest deductions for tax purposes in circumstances where the equity in an entity is small by comparison with interest bearing borrowings. Following the anticipated sale later in the year of the group's holding in PBJ, reorganisation of Indonesian subsidiary capital structures should mitigate the negative impact of these regulations in future. Secondly, the tax losses in Indonesia, which can only be carried forward for a maximum of five years, have been reviewed and partly written down to reflect revised anticipated utilisation.

The directors continue to plan the establishment of a target for long term average return on equity once group profitability has been restored. The negative return for 2017 was 16.1 per cent (2016: negative 7.6 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 were duly paid. In view of the results reported for 2017, the directors have concluded that they should not declare or recommend the payment of any dividend on the ordinary shares in respect of 2017.

Capital structure

The group is financed by a combination of debt and shareholder funds. Total shareholder funds less non-controlling interests at 31 December 2017 amounted to $259.1 million as compared with $286.7 million at 31 December 2016. Non-controlling interests at 31 December 2017 amounted to $17.6 million (2016: $22.8 million).

Completion during 2017 of arrangements agreed in 2016 with PT Dharma Satya Nusantara ("DSN") for the acquisition by DSN of a 15 per cent minority interest in REA Kaltim, resulted in the receipt by the group during 2017 of additional loans from DSN of $11.7 million and £3.9 million and an additional payment by DSN for its 15 per cent interest in REA Kaltim of $807,000.

In addition, the group raised monies during 2017 from the sale of 7.5 per cent dollar notes 2022 ("2022 dollar notes") held in treasury at end 2016 and an issue of 9 per cent cumulative preference shares of £1 each ("preference shares"). $7.2 million of 2022 dollar notes were sold during the year for a consideration of $7.1 million while in October 2017 8,358,768 preference shares were issued, fully paid, by way of placing at par plus accrued dividend for a total consideration equivalent to $11,398,000.

On 30 June 2017 the company repaid all of the outstanding $20.2 million nominal of 7.5 per cent dollar notes 2017 ("2017 dollar notes") at par plus accrued interest. This was followed in October and December 2017 by the purchase by the company for cancellation of £298,000 nominal of the 9.5 per cent guaranteed 2015/17 sterling notes ("2017 sterling notes") issued by a wholly owned subsidiary of the company. The outstanding balance of £8.0 million nominal of the 2017 sterling notes were then repaid on 21 December 2017 at par plus accrued interest.

Revolving working capital facilities of the Indonesian rupiah equivalent of $19.9 million provided by the group's principal Indonesian bankers, PT Bank DBS Indonesia ("DBS"), were rolled over for a further twelve months at the end of July 2017.

Following these transactions, group indebtedness at 31 December 2017 amounted to $220.0 million against which the group held cash, cash equivalents and investments of $8.3 million. The composition of the resultant net indebtedness of $211.7 million was as follows:

	$'m
7.5 per cent dollar notes 2022 ("2022 dollar notes") ($24.0 million nominal)	23.6
8.75 per cent guaranteed sterling notes 2020 ("2020 sterling notes") (£31.9 million nominal)	41.4
Loans from non-controlling shareholder	29.9
Indonesian term bank loans	72.1
Drawings under working capital lines	53.0
	220.0
Cash and cash equivalents	(5.6)
Investments (2022 dollar notes held in treasury)	(2.7)
Net indebtedness	211.7

The group has no material contingent indebtedness save that, in connection with the development of oil palm plantings owned by village cooperatives and managed by the group, the group has, as noted under "Smallholder schemes" in "Sustainability" above, guaranteed the bank borrowings of the cooperatives concerned. The outstanding balance of these at 31 December 2017 was equivalent to $8.1 million.

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 REA Services Limited (a wholly owned UK subsidiary of the company) ("REAS"), and are secured almost wholly on unsecured loans made by REAS to Indonesian plantation operating subsidiaries of the company. The 2020 sterling notes are repayable in a single instalment on 31 August 2020.

Indonesian bank borrowings at 31 December 2017 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 2017 was the equivalent of $70.3 million comprising term loans of $23.0 million and working capital loans of $47.3 million. The term loans are repayable as follows: 2018: $3.4 million, 2019: $6.5 million and thereafter $13.1 million. The working capital loans fall due for renewal in 2018 ($16.3 million) and 2019 ($31.0 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 2017 was the equivalent of $14.9 million, comprising a term loan of $9.2 million and a working capital loan of $5.7 million. The term loan is repayable as follows: 2018: $1.4 million, 2019: $2.6 million and thereafter $5.2 million. The working capital loan falls due for renewal in July 2018.

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 2017 was the equivalent of $21.6 million repayable as follows: 2018 $1.1 million, 2019 $3.2 million and thereafter: $17.3 million. Pursuant to the conditional agreement for the sale of PBJ, it is expected that the loan will be discharged upon completion.

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 2017 was the equivalent of $18.2 million repayable as follows: 2018: $0.3 million, 2019: $1.5 million and thereafter $16.4 million.

At 31 December 2017, unutilised facilities available to the group comprised the equivalent of $7.9 million available to be drawn from UOB as an addition to the existing amortising term loan to PBJ (subject to discharge upon the sale of PBJ).

The company has 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. No acquisitions pursuant to this authority were made in 2017 but 132,500 ordinary shares had been previously acquired and remain held in treasury.

Group cash flow

Group cash inflows and outflows are analysed in the consolidated cash flow statement. Cash and cash equivalents decreased over 2017 from $24.6 million to $5.5 million.

As noted under "Group results" above, operating loss for 2017 amounted to $2.2 million compared to a loss of $5.0 million in the prior year. After adjusting for depreciation, amortisation and other non-cash items ($24.1 million) and a reduction in working capital ($23.9 million) cash generated by operations was $45.8 million (2016: $25.4 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 $1.2 million were similar to 2016 ($2.1 million). Interest paid amounted to $24.9 million (2016: $20.7 million) reflecting the fact that less interest payable was accrued at year-end than in the prior year.

Investing activities for 2017 involved a net outflow of $33.7 million (2016: $31.6 million). This represented new investment of $33.7 million (2016: $33.4 million) offset by a small amount of interest received. The new investment comprised expenditure of $32.0 million (2016: $31.1 million) on further development of the group's agricultural operations, $0.9 million (2016: $0.4 million) on land rights and titling and $0.7 million (2016: $1.9 million) on the stone and coal operations.

The net cash outflow from financing activities amounted to $4.9 million (2016: inflow of $37.8 million) made up as follows:

	2017 $'m	2016 $'m
Issue of new ordinary shares	–	13.1
Issue of new preference shares	10.9	–
Issue/sale of new sterling notes	–	1.9
Redemption of 2017 dollar notes	(20.2)	–
Redemption of 2017 sterling notes	(11.1)	–
Reorganisation of dollar notes	–	(0.1)
Sale of investments	7.1	–
Sale of shareholding in subsidiary	–	14.0
Borrowings from non-controlling shareholder and related party	24.0	12.4
Net change in other borrowings	(7.8)	3.9
Dividend payments	(7.8)	(7.4)
	(4.9)	37.8

Liquidity and financing adequacy

Whilst the group again reported a loss in 2017, as explained elsewhere in this Strategic report that loss reflected an increase in operating costs of which the full benefits did not accrue in 2017, crops that although higher than in 2016 were still below those that the group should be delivering and a level of financing charges disproportionate to the profitability of the group. Crops are now recovering further and with much of the remedial work needed on the group's mature estates completed should, subject to CPO and CPKO prices, deliver increased revenues without a proportionate increase in operating costs. The directors are therefore confident that the group's operations will become increasingly cash generative.

As noted under "Future direction" above, the group has entered into a conditional agreement for the divestment of PBJ, such agreement being conditional upon shareholder approval, necessary regulatory consents in Indonesia and the consent of REA Kaltim's lending bank. The proceeds of the sale of the PBJ shares and the repayment of monies owed by PBJ to the group will be applied in reduction of REA group indebtedness. Such agreement will be subject to approval by the company's shareholders and to the usual regulatory consents in Indonesia. It is expected that completion of the sale will occur in September 2018.

In addition to addressing finance costs by reducing overall levels of indebtedness, the group is also seeking to convert Indonesian rupiah denominated borrowings into dollar denominated borrowings upon which the group would be charged interest at dollar interest rates which are significantly

lower than rupiah interest rates. As a first step in this direction, the group has recently obtained an offer of a new $35 million dollar denominated bank facility which may be utilised either in its entirety to replace rupiah borrowings or in part for that purpose (to the extent of the equivalent of $12 million) and in part to provide the group with additional undrawn borrowing facilities.

As noted under "Capital structure" above, as at 31 December 2017, the group held cash of $5.6 million and had undrawn facilities equivalent to a total of $7.9 million under the UOB amortising term loan facility. This facility will continue to be used partially to fund expenditure on PBJ pending completion of its sale, whereupon it is expected that the loan will be discharged. In addition, the balance of 2022 dollar notes remaining in treasury at end 2017 has now been sold to realise $2.6 million and available liquidity has been further augmented to the extent of the $23 million available as a result of the facility offer above. Sale of PBJ will very substantially further improve the group's available cash resources.

As at 31 December 2017, bank debt due within one year amounted to $28.1 million. Of this, $22.0 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 2018 when the facilities fall due for renewal.

Since June 2015, the group's financial position has been much improved by the subscription of some $39.5 million for new ordinary and preference shares, the issue of a total of $65 million of 2020 sterling notes and 2022 dollar notes in replacement of previous notes now redeemed and the loan and equity investment totalling $44 million by DSN. The sale of PBJ should complete the financial restructuring.

The sale of PBJ will serve the important financial purpose of reducing debt. It will also permit the group to consolidate its operational activities in a more compact area and to operate for longer without the need for an additional oil mill. This can be expected to result in a capital expenditure programme better aligned to the group's operational cash flows. The steady progress towards the resumption of mining on the group's principal coal concession should also lead to progressive recovery of amounts invested in coal. On the reasonable assumption that the divestment of PBJ will be completed as expected, the directors are confident that the group will have the cash resources that it needs for the foreseeable future.

Should the sale of PBJ for any reason not be completed (an eventuality that the directors consider unlikely), then the group would be left with a higher level of indebtedness than the directors believe is desirable. Depending upon the level of CPO prices and operational performance during the remainder of 2018, the group may then need to seek some additional equity funding to address this.

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 and to improve the repayment profile of the group's debt, the group has taken various steps as noted under "Liquidity and financing adequacy". As a result, the group's financing position is now much improved. The group's financial restructuring would be completed on the closing of the sale of PBJ.

Net debt at 31 December 2017 was 76.5 per cent of total shareholder funds against a level of 66.3 per cent at 31 December 2016. The sale of PBJ will reduce net debt, Thereafter the directors 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, to be further reduced.

The 2020 sterling notes and the 2022 dollar notes carry interest at fixed rates of, respectively, 8.75 and 7.5 per cent per annum. Interest is payable by REA Kaltim and SYB under

the DBS amortising term loans and working capital lines, 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 fixed rate of 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 2017 would have resulted in an additional annual cost to the group of approximately $1.3 million (2016: $1.4 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.

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.

Sun bear

Orangutan

Colugo (flying lemur)

Sambar

Mountain serpent eagle

Macaque

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 considerations referred to in the "Viability statement" in the "Directors' report" below.

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 (currently requiring repair) between the ports of Samarinda and Balikpapan and the estates when available offers a viable alternative route for transport with any associated additional cost 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

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, for example, by imposition of reciprocal trade barriers or tariffs between major economies	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 with optimal stripping values or extraction rates	Loss of prospective revenue	The group endeavours to use experienced contractors, to supervise them closely and to take care to ensure that they have equipment of capacity appropriate for the planned production volumes
External factors, in particular weather, delaying or preventing delivery of extracted stone and coal	Delays to receipt or loss of revenue	Deliveries are not normally time critical and adverse external factors would not normally have a continuing impact for more than a limited period
Geological assessments, which are extrapolations based on statistical sampling, proving inaccurate	Unforeseen extraction complications causing cost overruns and production delays or failure to achieve projected production	The group seeks to ensure the accuracy of geological assessments of any extraction programme and takes 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 high quality of the coal in the group's main coal concession may limit volatility
Imposition of additional royalties or duties on the extraction of stone or coal	Reduced revenue and a consequent reduction in cash flow and profit	The Indonesian government has not to date imposed measures that would seriously affect the viability of Indonesian stone quarrying or coal mining operations
Unforeseen variations in quality of deposits	Inability to supply product within the specifications that are, at any particular time, in demand with consequent loss of revenue	Geological assessments ahead of commencement of extraction operations should have identified any material variations in quality
Environmental, social and governance practices		
Failure by the stone and coal operations to meet the expected standards	Reputational and financial damage	The areas of the stone and coal concessions are relatively small and should not be difficult to supervise. The group is committed to international standards of best environmental and social practice and, in particular, to proper management of waste water and reinstatement of quarried and mined areas on completion of extraction operations
General		
Currency		
Strengthening of sterling or the Indonesian rupiah against the dollar	Adverse exchange movements on those components of group costs and funding that arise in Indonesian rupiah or sterling and are not hedged against the dollar	As respects costs and sterling denominated shareholder capital, the group considers that this risk is inherent in the group's business and structure and must simply be accepted. As respects borrowings, where efficient the group seeks to borrow in dollars but, when borrowing in another currency, considers it better to accept the resultant currency risk than to hedge that risk with hedging instruments

Risks and uncertainties

continued

Risk	Potential impact	Mitigating or other relevant considerations
Funding		
Bank debt repayment instalments and other debt maturities coincide with periods of adverse trading and negotiations with bankers and investors are not successful in rescheduling instalments, extending maturities or otherwise concluding satisfactory refinancing arrangements	Inability to meet liabilities as they fall due	The group maintains good relations with its bankers and other holders of debt who have generally been receptive to reasonable requests to moderate debt profiles when circumstances require; moreover, the directors believe that the fundamentals 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		
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	The directors are not aware of any specific planned 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
Restrictions on foreign investment in Indonesian mining concessions, limiting the effectiveness of co-investment arrangements with local partners	Constraints on the group's ability to earn an equity return on its investment	Maintenance of good relations with local partners to ensure that returns appropriately reflect agreed arrangements
Systems access and controls		
Weakness in IT controls and financial reporting system	Likelihood of error or misstatement in financial statements	The group obtains professional advice to ensure best practice

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 divest partially 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 monitored the impact of the decision to terminate membership of the European Union on its operations. So far, the impact has been limited to fluctuations of sterling against the US dollar and the Indonesian rupiah (see "General" "Currency" risk above). The directors do not at present see further significant risk to the group's operations from this decision. Any reduction in UK interest rates may negatively impact the level of the technical provisions of the REA Pension Scheme but, given the Scheme's estimated funding position, the directors do not expect that the impact will be material in the context of the group.

Approved by the board on 26 April 2018 and signed on behalf of the board by
DAVID J BLACKETT
Chairman

Board of directors

David Blackett

Chairman (independent) (67)

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 (77)

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 (60)

Carol Gysin was appointed to the board as managing director on 21 February 2017. Based in London, she had previously 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 (69)

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 operational matters.

Richard Robinow

Non-executive director (72)

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 (75)

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

Mark Parry (resigned 20 February 2017)

Executive director (56)

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 2017. The "Corporate governance report" below forms part of this report.

As set out in note 40 to the consolidated financial statements, on 25 April 2018 the company announced that its subsidiary, PT REA Kaltim Plantations ("REA Kaltim"), has entered into a conditional agreement for the sale of REA Kaltim's 95 per cent interest in PT Putra Bongan Jaya ("PBJ") to Kuala Lumpur Kepong Berhad ("KLK"). The sale is conditional, inter alia, upon the approval by the company's shareholders and the consents of Indonesian regulatory authorities. Completion is not expected to occur before 31 August 2018 and the sale agreement will lapse if the conditions have not been satisfied by 31 January 2019.

Save as regards the conditional sale agreement in respect of PBJ, there are no significant events since 31 December 2017 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 2017 were duly paid. In line with previous indications and in view of the financial performance during 2017, 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 2017.

As previously indicated, if crops continue to recover as expected, prices for the group's palm products are maintained at around current levels, the sale of PBJ is successfully completed and the coal operations start to generate suitable returns, the directors intend to resume the payment of ordinary dividends. However, the programme of development of the group's land bank remains ongoing and will require further significant capital expenditure. The need to fund such expenditure will necessarily influence the rates at which the directors feel that they can prudently declare, or recommend the payment of, ordinary dividends over the next few years.

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 $5.1 million (excluding $1.1 million of bank loans to PBJ that will be discharged upon completion of the sale of PBJ as referred to below) of bank term indebtedness falls due for repayment during 2018. A further $22.0 million of revolving working capital lines fall due for renewal during the same period. A further £31.9 million ($42.8 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.

As announced on 25 April 2018, the group has entered into a conditional agreement for the sale of PBJ. The sale is expected to realise gross proceeds of approximately $85 million and net proceeds of approximately $57 million after repayment of external borrowings and net of selling expenses. The proceeds of the sale of the PBJ shares and the repayment of monies owed by PBJ to other group companies will be applied in reduction of group indebtedness. Completion is not expected to occur before 31 August 2018 and the sale agreement will lapse if the conditions have not been satisfied by 31 January 2019. The purchaser has deposited with the group the sum of $8 million by way of a pre-completion advance; should completion not occur then such sum will be repayable. PBJ is a recently planted property but is not currently profitable. Accordingly, its sale will not have a material negative impact on the immediate profit outlook for the group.

In the meanwhile, the group is continuing discussions to refinance with longer term debt indebtedness falling due in 2018 and 2019, although the directors have no reason to believe that the revolving working capital facilities falling due in 2018 and 2019 will not be rolled over when they fall due for renewal (all revolving working capital facilities having previously been substantially rolled over on past renewals).

In 2020 consideration will be given to the submission of proposals to the holders of the sterling notes to refinance these with securities of longer tenor.

Directors' report

continued

With the improvement in crops now being seen and CPO prices projected to remain at remunerative levels, the group's plantation operations can be expected to generate increasing cash flows going forward. In addition, the group is currently finalising arrangements to recommence operations at the group's principal coal concession and this can be expected to result in increasing cash flow. The group's ongoing extension planting programme will continue to require material capital expenditure but the group has flexibility as to the rate of development. Moreover, successful completion of the divestment of PBJ referred to above will defer for some years the group's requirement for a fourth palm oil mill.

The directors fully expect that the divestment and financing initiatives currently being pursued, coupled with the improving outlook for the group's internally generated cash flows, will refinance, or permit the group to repay, the group indebtedness falling due for repayment during the period of assessment. However, should funding be required pending completion of these initiatives, the group will seek to issue for cash a limited number of new shares, authority for which will be sought as and when appropriate.

Based on the foregoing and after making enquiries, the directors therefore have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the period to 31 December 2020 and to remain viable during that period.

Going concern

Material risks faced by the group are set out in the "Risks and uncertainties" section of the "Strategic report" with an indication of those risks regarded by the directors as potentially significant together with mitigating and other relevant considerations for the management of risks. Financing policies are described on pages 33 and 34 of the Strategic report and 2017 developments relating to capital structure are detailed 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 32 and 33 of the Strategic report including the actions either in progress or contemplated in order to ensure adequate liquidity for the next twelve months.

Based on the foregoing, 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 2016 to 31 December 2017 is as shown below:

Tonnes of CO_2e	2017	2016
Gross emissions associated with oil palm operations in Indonesia[1]	663,675	1,033,340
Net emissions associated with oil palm operations in Indonesia	287,679	466,939
Net emissions per tonne of CPO produced	5.38	3.66
Net emissions per planted hectare	4.95	10.81
Electricity, heat, steam and cooling purchased for own use[2]	57.0	57.3

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 1 emissions and some Scope 2 and Scope 3 GHG emissions.

This is the second year that 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 in 2017. The PalmGHG tool 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 changes to the PalmGHG methodology, the data presented above is not directly comparable with that for the years 2012 to 2016 presented in previous Directors' reports.

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.

The boundary of calculation includes all three of the group's palm oil mills and their supply bases, which is the unit of calculation for the PalmGHG tool. 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 2017 are set out in note (xi) to the company's financial statements. At 31 December 2017, the issued preference share capital and the issued ordinary share capital represented, respectively, 87.7 and 12.3 per cent of the nominal value of the total issued 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 2022 (the "dollar notes") of the company and the 8.75 per cent guaranteed sterling notes 2020 (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 dollar notes of $120,000 and integral multiples of $1 in excess thereof; and, in the case of the 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 2017, 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
Aberforth LLP	2,946,902	7.3
The Capital Group Companies, Inc	2,162,000	5.4

* 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.

During the period from 31 December 2017 to the date of this report, the company did not receive any further notifications in accordance with chapter 5 of the Disclosure Rules and Transparency rules.

Significant holdings of preference shares, dollar notes and sterling notes shown by the respective registers of members and noteholders at 31 December 2017 are set out below.

Substantial holders of securities	Preference shares £'000	Dollar notes 2022 £'000	Sterling notes 2020 £'000
HSBC Global Custody Nominee (UK) Limited 641898 acct	–	–	6,867
KBC Securities NV Client acct	–	5,512	–
R.E.A. Services Limited*	–	2,730	–
State Street Nominees Limited OU61 acct	9,339	7,300	11,051
The Bank of New York (Nominees) Limited AHIF account	–	–	4,875
Vidaco Nominees Limited CLRLUX acct	–	4,039	–

* The 7.5 per cent dollar notes 2022 held in treasury by the company's subsidiary R.E.A. Services Limited have been sold subsequent to the year end as detailed in note 20.

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 2017 (who include all of the directors proposed for election or re-election) are listed under "Board of directors" above, which is incorporated by reference in this "Directors' report". Mark Parry resigned as managing director on 20 February 2017.

David Blackett, 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 4, 5 and 6, which are set out in the accompanying notice of the forthcoming annual general meeting ("the 2018 Notice") and will be proposed as ordinary resolutions, deal with the re-election of David Blackett, John Oakley and Richard Robinow.

Michael St. Clair George, as senior independent non-executive director, confirms that, following a formal performance evaluation of the chairman, Mr Blackett's performance continues to be effective and to demonstrate his commitment to the role. Accordingly, Mr St. Clair George together with fellow non-executive directors recommend the re-election of Mr Blackett as a non-executive director.

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 group's new information technology systems. As respects Richard Robinow, his significant family shareholding in the company supports 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 and Richard Robinow for re-election a non-executive director. The chairman particularly welcomes the valuable commitment and extensive experience of all of the directors.

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 ended on 20 May 2017.

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 2017 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 9 set out in the 2018 Notice) of the buy-back authority granted in 2017 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 when circumstances permit. The new authority, if provided, will expire on the date of the annual general meeting to be held in 2019 or on 30 June 2019 (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.

Directors' report
continued

Authorities to allot share capital

At the annual general meeting held on 13 June 2017, 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 2018 annual general meeting (resolutions 10 and 11 set out in the 2018 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 £2,372,617 representing 23.5 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 £13,000,000 representing 18.1 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 2019 or on 30 June 2019 (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 12 set out in the 2018 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).

The foregoing powers (if granted) will expire on the date of the annual general meeting to be held in 2019 or on 30 June 2019 (whichever is the earlier).

General meeting notice period

At the 2018 annual general meeting a resolution (resolution 13 set out in the 2018 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 2019 or on 30 June 2019 (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 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 resolutions 9 to 13 as set out in the 2018 Notice.

Directors' remuneration report

Resolution 2 as set out in the 2018 Notice provides for approval of the company's remuneration report regarding the remuneration of directors as detailed in the "Directors' remuneration report" below. Resolution 3 as set out in the 2018 Notice provides for approval of the company's remuneration policy as set out in the 'Policy Report' below and which is unchanged from the policy approved by shareholders at the company's 2015 annual general meeting.

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 7 set out in the 2018 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	Not applicable
9.8.4(8)	Allotments of shares for cash by a major subsidiary of the company	Not applicable
9.8.4(9)	Participation by a parent company in any placing made by the company	Not applicable
9.8.4(10)	Any contract of significance: (i) to which the listed company, or one of its subsidiary undertakings, is a party and in which a director of the listed company is or was materially interested; and (ii) between the listed company, or one of its subsidiary undertakings, and a controlling shareholder	Note 38 to the consolidated financial statements
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
26 April 2018

Corporate governance report

Throughout the year ended 31 December 2017, 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 as respects Code provision C.3.3.1 regarding audit committees, as respects Code provision B.2.1 regarding nomination committees and as respects Code provision D.2.1 regarding remuneration committees for the reasons explained under "Board committees" 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.

The directors are mindful of proposed revisions to the Code which are expected to take effect for accounting periods beginning on or after 1 January 2019 and will pay due regard to such revisions when published.

At the performance evaluation conducted in 2017, 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 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, diversity 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 2017 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). Carol Gysin, who is based in London, was appointed managing director on 21 February 2017, following the resignation of Mark Parry on 20 February 2017.

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 group has previously indicated its intention that, over time, overall executive responsibility for the management of the group will progressively be transferred from the UK to Indonesia and Singapore and that, as a consequence, the group's London office will be reduced to a secretariat managing the company's London listing and liaising with its European shareholders. In line with this intention, a number of executive functions have, over the past few years, been successfully transferred from the UK to Singapore and Indonesia. However, the group has concluded that it is important to maintain separation between the responsibilities of the group managing director and of the person in overall charge of the group's Indonesian operations. On that basis, the group expects that, whilst UK executive functions may well be further reduced, the group managing director will remain based in the UK for the foreseeable future.

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

Monthly operational and financial reports are issued to all directors 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 2017, 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. The directors are conscious that the board committees do not meet the independence criteria specified by the Code. This reflects the desire to maintain a board of a size that is appropriate to the needs and circumstances of the company, to retain a suitable balance between independence and recent and relevant financial or industry experience on each committee and to avoid unnecessary duplication of the oversight exercised by the commissioners of PT REA Kaltim Plantations (the Indonesian sub-holding company of all of the group's plantation interests) of which a majority are independent. The board considers that the independence of judgement of the audit, nomination and remuneration committees is not compromised as a consequence of their current composition.

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.

Corporate governance report

continued

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 diversity policy 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 2017, at the regular board meetings held in 2017 is set out below. There were no ad hoc meetings held in 2017.

	Regular meeting
David Blackett	4
Irene Chia	4
Carol Gysin	4
John Oakley	4
Mark Parry (resigned 20 February 2017)	0
Richard Robinow	4
Michael St. Clair-George	4

In addition, during 2017 there were three meetings of the audit committee, two meetings of the remuneration committee and one meeting of the nomination committee. All committee meetings were attended by all of the committee members appointed at the time of each meeting.

Whilst all formal decisions are taken at board meetings, the directors have frequent informal discussions between themselves and with management and most decisions at board meetings reflect a consensus that has been reached ahead of the meetings. One of the directors resides permanently 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 the director concerned is fully briefed so that the director's views can be made known to other directors ahead of time and be 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 2017 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 diversity and anti 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. In particular, as regards the group's diversity policy, the group's objective is to encourage an open approach to recruitment, promotion and career development irrespective of age, gender, national origin or professional background. Applicable policies are designed to recognise this open approach. Substantial progress has been made in implementing the diversity policy as evidenced by the composition of the group board, Indonesian subsidiary boards and senior management.

Further analysis is forthcoming in respect of the current reporting period.

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. Furthermore the group has initiated measures to ensure that it is compliant with the General Data Protection Regulation ("GDPR") which comes into effect on 25 May 2018.

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

As discussed under "Risk management and internal control" in the "Audit committee report" below, the group has commissioned a third party review of its Information Technology control and financial reporting system to ensure compliance with best practice. Following formal reviews of the systems of internal control and risk management (including the group's internal audit arrangements) in April 2017, the board concluded that otherwise these remain effective and sufficient for their purpose.

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 based in London make frequent 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, one director resides permanently 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 26 April 2018 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 2017, 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 9 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.

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 2017 (on which the auditor did not report) and the full year consolidated financial statements for 2017 (the "2017 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 2017 financial statements, the committee considered the significant accounting and judgement issues set out below.

Audit committee report

Significant accounting and judgement issues

Issues	Relevant considerations
Assets held for sale: where directors decide to seek purchasers for non-current assets or a disposal group they are required by IFRS 5 Non-current assets held for sale and disposal groups to determine the point at which such assets should be classified as held for sale and disclosed in the group financial statements at the lower of its carrying value or fair value less costs to sell.	The directors have reviewed the principal sequence of events which culminated on 25 April 2018 with the execution of a conditional sale agreement for one of the group's Indonesian plantation subsidiary companies (PT Putra Bongan Jaya) and concluded that at 31 December 2017 its sale was not highly probable and that it did not therefore qualify as an asset held for sale.
Biological assets: compliance with IAS 41 Agriculture, as amended, requiring that produce growing on bearer plants, if capable of reliable measurement, be treated as a separate asset and carried at fair value.	The group has continued, in the interest of consistency, to apply the same formulaic methodology for valuing growing produce based on oil content in growing fresh fruit bunches.
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. In response to disputed tax assessments raised in earlier years, it has been the policy of the group to pay voluntarily the disputed amounts in order to minimise the extent of interest and penalties in the event that the group was wholly or partially unsuccessful in its appeals. Following successful appeals, the tax authorities have only repaid interest on that part of the disputed assessment where tax had been paid in compliance with usual advance payment procedures; only such interest has been credited to income. Meanwhile, a subsidiary has lodged an appeal with the Supreme Court to recover the disputed interest, claims for which have been rejected by the lower courts. An Indonesian subsidiary is also in dispute with the tax authorities over the tax residence of a UK subsidiary; the Indonesian subsidiary is defending its position robustly.
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. At Kota Bangun, the group has acquired a company with port facilities on the Mahakam River immediately adjacent to the concession and has applied for the necessary licences to export coal. A potential buyer of the coal stockpile of some 16,000 tonnes has been identified, as well as a contractor to begin the rehabilitation of the mine as a preliminary to resuming coal extraction. A group subsidiary is now taking delivery of shipments of limestone from a nearby deposit. 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.

Audit committee report

continued

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.
Depreciation of land: the group has reviewed the estimated economic life of its non-current plantation operating assets with a view to applying appropriate depreciation rates.	In particular, the committee has studied the Indonesian land tenure law and regulation as applied to oil palm plantations. The system of awarding land certificates (an "hak guna usaha" or "HGU") grants HGUs for an initial long period of time (35 years) and these can be renewed relatively easily and at minimal cost for further periods of up to 60 years. All land rights in the past have always been generally renewed without issues. Although the current framework is silent on whether further extensions will be allowed it is the working assumption of the industry in Indonesia, when considering such matters as extension planting, that the current HGUs will be extendible when the time comes. Land suitable for oil palm development and subject to HGUs can be readily bought and sold. Indonesian accounting standards prescribe that the costs associated with acquiring and licensing such land may not be depreciated. Based on these and other considerations, the committee has recommended to the directors that the group no longer depreciates its land titles. This recommendation constitutes a reappraisal of the economic lives of the land titles, not a change of accounting policy; accordingly, there is no change to the accumulated depreciation at 1 January 2017. This is consistent with the practice of other European groups with oil palm plantations in Indonesia. The committee will monitor applicable accounting standards and Indonesian law and regulation which could have an impact on the assessment of the economic lives of the land titles.

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.

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.

During the past few years the group has been upgrading its information technology (IT) systems both as regards the management of the plantation operations and their integration into the group's new accounting and reporting functions, which went live during 2017. The committee has become aware that, following implementation, the IT access and control systems and procedures (which had had to accommodate many users during the development and implementation stages) require to be significantly strengthened and the group is now actively engaged on such work. Separately the group has recently commissioned an independent review of such controls and procedures to ensure compliance with best practice and with the Financial Reporting Council's code on Internal Control Management.

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 26 April 2018 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 annual report on remuneration provides details of directors' remuneration during 2017 and certain other information required by the Regulations. The overall report, excluding the policy report, will be put to an advisory shareholder vote at the company's 2018 annual general meeting. The remuneration policy detailed in the policy report is separately subject to approval at that annual general meeting but is unchanged from the policy that was previously approved at the company's 2015 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 have been audited 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 2017 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 2017, the committee confirmed the importance of striking an appropriate balance between positive and negative factors. In particular, the committee took note of the progress made in improving operational performance in 2017, following on from the sub-optimal performance in 2016, albeit that the recovery to former standards is taking time to achieve given the extent of remedial action required across the group's operations. The committee also recognised the successful reorganisation of local management during 2017 and the enhanced oversight of the operations and improved performance and efficiencies that this was facilitating.

The committee reflected these factors in awarding bonuses in respect of 2017 and setting the executive remuneration and specific objectives for 2018.

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 2018, 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 2016 and 2017 was as follows (stated in sterling as all the directors are remunerated in sterling). There was no remuneration in respect of any long term incentive plan in 2017.

2017	Salary and fees £'000	All taxable benefits * £'000	Annual bonus** £'000	Other remuneration £'000	Total £'000
Managing director					
C E Gysin (appointed 21 February 2017)	312.9	6.1	81.3	–	400.3
M A Parry (resigned 20 February 2017)	181.9	30.9	–	200.0	412.8
Chairman and non-executive directors					
D J Blackett	100.0	–	–	–	100.0
I Chia	27.0	–	–	–	27.0
J C Oakley	82.0	18.0	–	–	100.0
R M Robinow	100.0	6.5	–	–	106.5
M A St. Clair-George	29.5	–	–	–	29.5
Total	833.3	61.5	81.3	200.0	1,176.1

2016	Salary and fees £'000	All taxable benefits * £'000	Annual bonus** £'000	Long term incentive £'000	Total £'000
Managing director					
M A Parry	425.1	91.2	101.0	–	617.3
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	762.5	117.7	101.0	–	981.2

* Types of benefit: company car, medical insurance, overseas rental accommodation
** In respect of the applicable year (awarded in the subsequent year)

Fees paid to Michael St Clair George and David Killick included additional remuneration at the rate of £2,500 per annum in respect of their membership of the audit committee but reduced in 2016 on a pro rata basis to reflect the period of that year during which they served as directors.

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 69 at 31 December 2017) 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	75,095
Increase during the year	871
In payment at end of year	75,966

Directors' remuneration report

continued

Scheme interests awarded during the financial year

There were no scheme interests awarded during the financial year. Upon the resignation of Mark Parry on 20 February 2017, all scheme interests previously awarded to Mr Parry under the Long Term Incentive scheme lapsed.

Payment for loss of office

Pursuant to a resolution approved by the company shareholders at the 2017 Annual General Meeting, Mark Parry, following his resignation on 20 February 2017, received an ex gratia payment of £200,000 and a contribution of £15,000 plus VAT towards reasonable legal fees incurred by him with regard to these arrangements.

Directors' shareholdings

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

At 31 December 2017, 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
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 2017 and the date of this report.

Scheme interests

No director currently holds any scheme interests in ordinary shares.

A long term incentive plan (the "2015 plan") was approved by shareholders in June 2015. 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.

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.

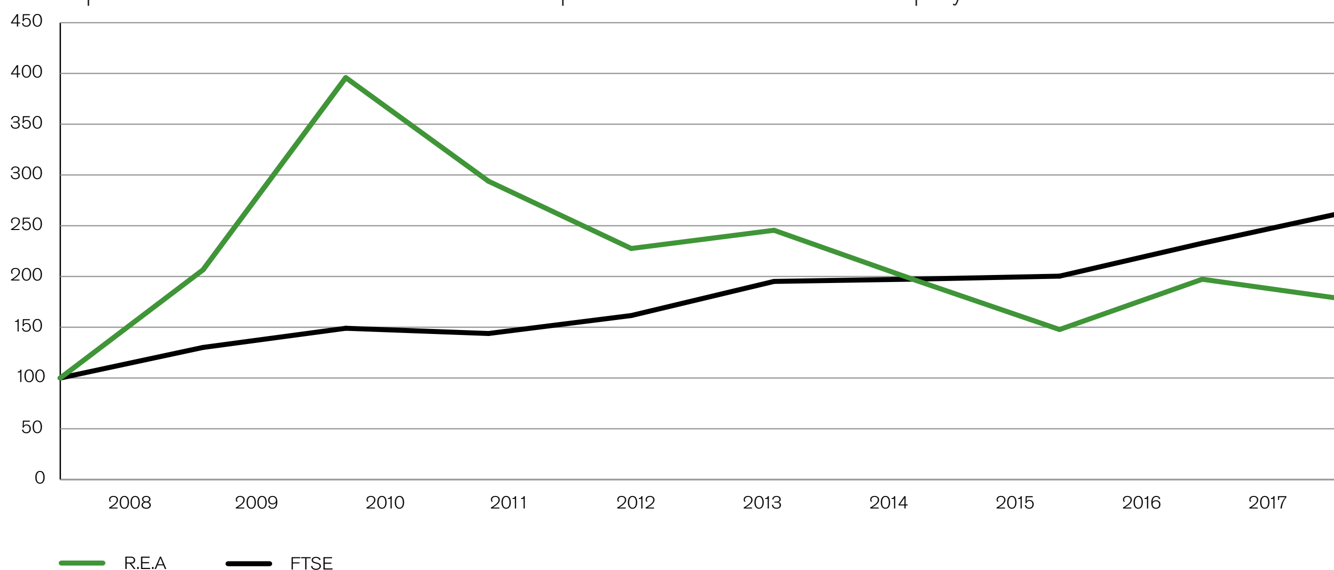
The plan provides that the vesting of the participant's potential entitlements to notional ordinary shares be determined by key performance targets with each performance target measured on a cumulative basis over a designated performance period. Targets for any award made under the 2015 plan are subject to adjustment at the discretion of the remuneration committee where, in the committee's opinion, warranted by actual performance.

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.

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).

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 2017.

Managing director's remuneration		Single figure of total remuneration £'000	Annual bonus pay-out against maximum %	Long term incentive vesting rates against maximum opportunity %
2017	C E Gysin (for the period 21 February to 31 December 2017)	400.3	100	N/A
2017	M A Parry (for the period 1 January to 20 February 2017)	412.8	N/A	N/A
2016	M A Parry	617.3	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

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 2016 and 2017. 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 employment in the UK and Singapore of which the changes from year to year reflect local employment conditions. In order to achieve a meaningful comparison, the 2016 remuneration of the selected comparator employee group has been restated to reflect only the remuneration in that year of those employees comprising the 2017 selected comparator employee group. The 2016 remuneration of the selected group has also been restated at prevailing average exchange rates for 2017 so as to eliminate distortions based on exchange rate movements of the Indonesian rupiah, US dollar and Singapore dollar against sterling.

Directors' remuneration report

continued

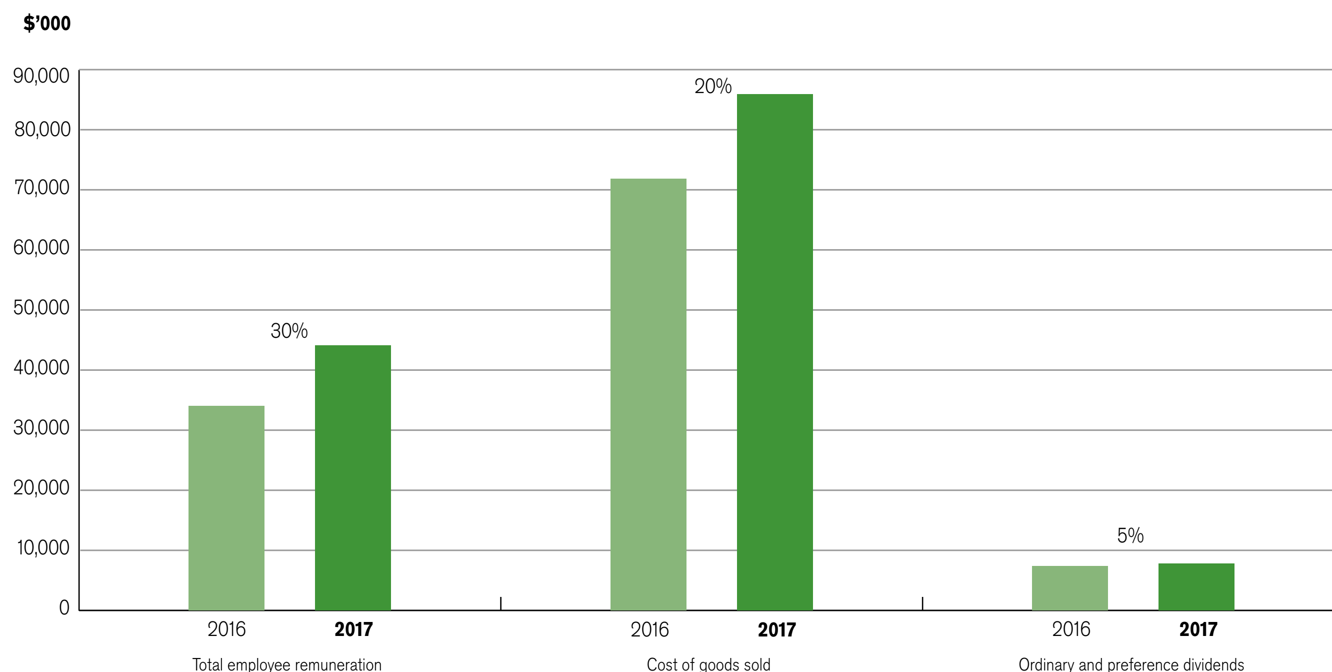
Mark Parry (resigned 20 February 2017) and Carol Gysin (appointed 21 February 2017)	2017	2016	change
Percentage change in managing director's remuneration	£'000	£'000	%
Salary	338.2	425.1	(20)
Benefits	13.0	91.2	(86)
Annual bonus	81.3	101.0	(20)
Total	432.5	617.3	(30)

The 2017 remuneration above is the aggregate of Mark Parry's remuneration for one month and Carol Gysin's remuneration for 11 months. The remuneration for the purpose of the table excludes the loss of office payment to Mark Parry of £200,000.

Percentage change in selected employee group remuneration	£'000	£'000	%
Salary	241.5	168.2	44
Benefits	9.7	6.8	43
Annual bonus	34.9	48.7	(28)
Total	286.1	223.7	28

Relative importance of spend on pay

The graph below shows the movements between 2016 and 2017 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.



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 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, which is a matter for determination between the other member of the committee and fellow directors.

Service contracts of directors standing for re-election

David Blackett, John Oakley and Richard Robinow 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.

Statement of voting at general meeting

At the annual general meeting held on 12 June 2017, votes lodged by proxy in respect of the resolution to approve the 2016 directors' remuneration report were as follows:

	Votes for	Percentage for	Votes against	Percentage against	Total votes cast	Votes withheld
Voting on remuneration report	29,862,991	99.99	275	0.01	29,886,447	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.

The remuneration policy detailed below is subject to approval at the company's 2018 annual general meeting on 13 June 2018 in accordance with the Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013 requiring all companies to put their remuneration policy to shareholders for approval at least every three years. The policy proposed for approval is unchanged from the policy approved by shareholders at the company's 2015 annual general meeting. The remuneration of directors approved in respect of 2018 is consistent with this policy.

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 in respect of awards, if any, 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

Directors' remuneration report
continued

	Purpose	Operation	Opportunity	Applicable performance measures
Executive directors				
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
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 policy 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 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.

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.

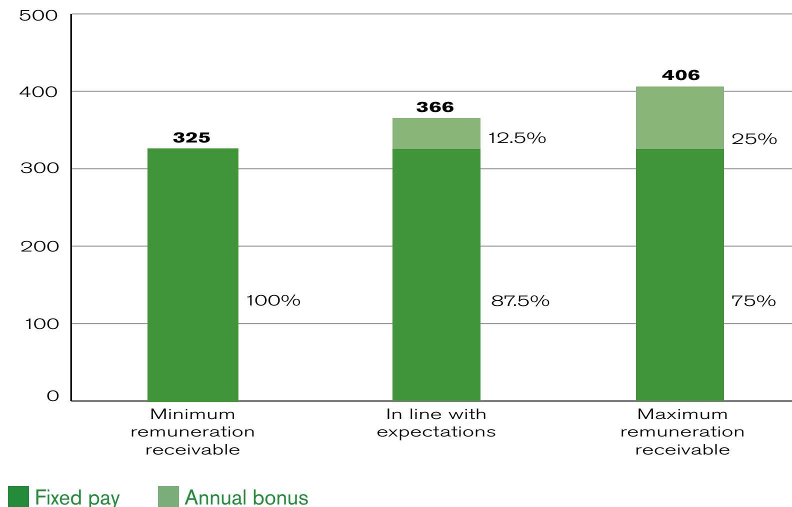
Illustration of application of remuneration policy

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 2017 is nil.

Directors' remuneration report

continued

Managing director



The figures reflected in the chart above have been calculated against the policies that were applicable throughout 2017 and on the basis of remuneration payable in respect of 2018.

Payment for loss of office

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

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

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 26 April 2018 and
signed on behalf of the board by
MICHAEL A ST. CLAIR-GEORGE
Chairman of the remuneration committee

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
26 April 2018

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

Report on the audit of the financial statements

Opinion

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 2017 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 and IFRSs as issued by the International Accounting Standards Board (IASB);
- 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.

We have audited the financial statements of R.E.A. Holdings plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the Consolidated Income Statement;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated and Parent Company Cash Flow Statements;
- the Statement of Accounting Policies; and
- the related notes 1 to 43 to the Consolidated 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: ▪ Plantation assets valuation ▪ Investments in stone and coal ▪ Sun 6 accounting system implementation The plantation assets valuation and the investments in stone and coal key audit matters included within this report were also considered key audit matters in the prior period. Due to a number of tax matters in respect of old years being settled with Indonesian tax authorities in recent years we have decided to remove Indonesian tax liabilities as a key audit matter as we now consider the risk to be lower than previously.
Materiality	The materiality that we used for the group financial statements was $7.3m which was determined on the basis of 1.75% of plantation 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 the 7 largest plantation entities and the 3 UK based entities, all of which were subject to full scope audits.

Significant changes in our approach	The most significant change to our audit approach compared to the previous period is with regard to procedures on plantation assets. Procedures performed in 2016 focused on the implementation of the revised IAS 41 standard. In 2017 the focus of our procedures has changed to the assignation of PPE additions to the correct asset class.

Conclusions relating to going concern, principal risks and viability statements

Going concern

We have reviewed the directors' statement on page 44 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

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

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 36 to 41 that describe the principal risks and explain how they are being managed or mitigated;
- 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; or
- 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 are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

Plantation Assets Valuation	
Key audit matter description	Plantation assets disclosed within property plant and equipment comprise predominantly 'plantings' and 'buildings and structures'. Due to the size and importance of these assets to the group, we identified a key audit matter relating to the capitalisation and classification of costs into plantation assets. There is a risk of potential fraud in incorrectly classifying capitalised costs into classes of property, plant and equipment. The calculation of the split is complex and the methodology judgmental. Plantings are depreciated over a useful economic life of 24 years while building and structures are depreciated over a useful economic life of up to 67 years (page 83). Incorrect classification of capitalised costs between these two asset classes could lead to a material difference to the carrying value of fixed assets in future years. At 31 December 2017 the carrying value of plantings is $174.4m and the carrying value of buildings and structures is $242.3m. The value of additions in the period to plantings is $11.5m and to buildings and structures is $17.6m (note 14)
How the scope of our audit responded to the key audit matter	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 the testing of capitalised additions to immature plantations performed by our component audit team in Indonesia, our knowledge of the business and our interpretation of the revised IAS 41 standard; ▪ Challenge 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; and ▪ Assessing the carrying value of plantings and buildings and structures for impairment as required by IAS 16 on an individual plantation (CGU) basis by creating an independent estimate for the recoverable amount of each CGU and comparing to the carrying value of plantings and buildings and structures for each.
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.

Investments in stone and coal	
Key audit matter description	The group holds loans made to stone and coal concessions in Indonesia for which control is outside of the group and which are discussed in the audit committee report on page 55. The recoverability of these loans rely on certain assumptions and estimates in relation to the likelihood of the underlying investments generating suitable future profits. These have the potential to be subject to management bias and include the discount rate, the timing of commencement of future mining operations and expected commodity sale prices. At 31 December 2017 the carrying value of the loans was $37.9m, an increase from $37.2m at 31 December 2016 (note 16, and the accounting policy is disclosed in note 1). During 2014, the concessions' management guaranteed the value of the two coal concessions using the ATP stone concession. As such even though the coal operations were suspended, and continue to be suspended in 2017, the group did not impair the loans to the coal concessions.
How the scope of our audit responded to the key audit matter	We have focused our procedures on the ATP Andesite stone discounted cash flow forecast. The forecast calculated a value in use sufficient to justify the carrying value of all of the stone and coal loans. Our procedures included: ▪ Agreement of total stone reserves to external third party evidence; ▪ Challenge of the discount rates used by management, terminal growth rates and the forecast figures used and the assumptions in the DCF; ▪ Checks of the numerical accuracy of the DCF; ▪ Detailed sensitivity analysis to assess the outcome of a change in variables such as price, discount rates and production volume to determine the critical variables in the model; and ▪ Challenge over the expected price of stone to be used in the valuation by comparison to recent price quotes and expected increases in demand, and expenses in the profit margin per year used within the calculation.
Key observations	We are satisfied the value of the stone and coal loans as per the value in use calculation performed by management is reasonable.

Sun 6 accounting system implementation	
Key audit matter description	Management implemented a new accounting ledger, SUN 6, for use by Indonesian planation companies and the group consolidation performed in the UK. As part of the planned audit approach, Deloitte IT specialists in Indonesia assessed the migration of the accounting ledger onto SUN and the effectiveness of general IT controls around the system. While the data migration was successful, we assessed the general IT controls at the infrastructure level as not being designed and implemented to the standard we would expect for a group of this scale and complexity. These weaknesses in the group's controls and financial reporting system increase the likelihood of error or misstatement in the financial statements.

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

How the scope of our audit responded to the key audit matter	As a result of our findings, we have increased the scope of our work. We have performed the following additional procedures: ▪ Reduced our performance materiality from $4.4m to $3.7m; ▪ Increased the scope of our journal entry testing, to include additional tests to identify potentially fraudulent journals; ▪ Extended the scope of our substantive procedures to test the consolidation schedule which is produced within the Sun 6 accounting system.
Key observations	We completed our procedures related to the consolidation and journal entries satisfactorily. As disclosed on page 40 management are considering commissioning an independent IT specialist to review the IT controls around the Sun 6 accounting system, with a view to strengthening the control environment in 2018.

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 financial statements	**Parent company financial statements**
Materiality	$7.3m (2016: $6.5m)	$5.9m (2016: $5.9m)
Basis for determining materiality	1.75% of plantation assets. (2016 2% of plantation assets) We have defined planation assets as the sum of: ▪ Plantings - $173m – note 14 ▪ Buildings & Structures - $242m – note 14 ▪ Biological Assets - $2m – note 19	3% of net assets (2016: 3% of net assets)
Rationale for the benchmark applied	We consider that the valuation of plantation assets is a key indicator for 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.	The parent company is a holding company whose purpose is to consolidate the active trading entities and a number of other group companies. We consider net assets to be the most important balance to the users of the financial statements.

We determine performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality for the financial statements as a whole. As discussed in the key audit matter relating to the Sun accounting system discussed above, we set Group performance materiality at $3.7m which is approximately 50% of group materiality.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $250k (2016: $250k) for the group and $250k (2016: $250k) for the parent company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused on the full scope audit work of 10 active legal entities, all of which were subject to full scope audits. The 10 active legal entities include 7 Indonesian plantation companies and 3 UK holding or services companies.

The audit of the 7 plantation companies has been performed by a Deloitte Indonesia component team. The UK group team have been involved in the planning, risk assessment, performing and reviewing stages of the component audit. The group audit team continued to follow a programme of planned visits to Indonesia 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 plantations begin in April 2017.

These 10 entities represent the principal business activities and account for 97% (2016: 98%) of the group's net assets, 100% (2016: 100%) of the group's revenue and 96% (2016: 98%) of the group's loss 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 10 active legal entities was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from $3.5m to $6.0m (2016: $3.2m to $4.5m).

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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

We have nothing to report in respect of these matters.

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

- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:
- 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 group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we 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 in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the board of directors in 2002 to audit the financial statements for the year ending 31 December 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 16 years, covering the years ending 31 December 2002 to 31 December 2017.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Colin Rawlings, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London
26 April 2018

Consolidated income statement

for the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Revenue	2	100,241	79,265
Net (loss) / gain arising from changes in fair value of agricultural produce inventory	4	(1,069)	632
Cost of sales:			
Depreciation and amortisation		(22,215)	(20,959)
Other costs		(64,062)	(50,868)
Gross profit		12,895	8,070
Other operating income	2	–	1
Distribution costs		(1,378)	(1,110)
Administrative expenses	5	(13,681)	(11,987)
Operating loss		(2,164)	(5,026)
Investment revenues	2, 7	1,072	1,742
Finance costs	8	(20,770)	(6,005)
Loss before tax	5	(21,862)	(9,289)
Tax	9	(3,039)	(2,019)
Loss for the year		(24,901)	(11,308)
Attributable to:			
Ordinary shareholders		(27,408)	(17,800)
Preference shareholders	10	7,777	7,402
Non-controlling interests	34	(5,270)	(910)
		(24,901)	(11,308)
Basic and diluted loss per 25p ordinary share (US cents)	11	(67.0)	(48.2)

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 2017

	Note	2017 $'000	2016 $'000
Non-current assets			
Goodwill	12	12,578	12,578
Intangible assets	13	3,477	4,176
Property, plant and equipment	14	482,341	471,922
Land titles	15	35,178	34,230
Stone and coal interests	16	37,877	37,208
Deferred tax assets	27	9,867	12,781
Non-current receivables		4,996	3,136
Total non-current assets		586,314	576,031
Current assets			
Inventories	18	11,497	15,767
Biological assets	19	1,927	2,037
Investments	20	2,730	9,880
Trade and other receivables	21	39,280	42,554
Cash and cash equivalents	22	5,543	24,593
Total current assets		60,977	94,831
Total assets		647,291	670,862
Current liabilities			
Trade and other payables	29	(62,212)	(43,426)
Current tax liabilities		(11)	(317)
Bank loans	24	(28,140)	(28,628)
Sterling notes	25	–	(10,103)
US dollar notes	26	–	(20,048)
Other loans and payables	28	(10,469)	(519)
Total current liabilities		(100,832)	(103,041)
Non-current liabilities			
Bank loans	24	(96,991)	(97,771)
Sterling notes	25	(41,364)	(37,037)
US dollar notes	26	(23,649)	(23,646)
Deferred tax liabilities	27	(79,600)	(80,830)
Other loans and payables	28	(28,120)	(18,987)
Total non-current liabilities		(269,724)	(258,271)
Total liabilities		(370,556)	(361,312)
Net assets		276,735	309,550
Equity			
Share capital	30	132,528	121,426
Share premium account	31	42,401	42,585
Translation reserve	32	(50,897)	(39,127)
Retained earnings	33	135,074	161,839
		259,106	286,723
Non-controlling interests	34	17,629	22,827
Total equity		276,735	309,550

Approved by the board on 26 April 2018 and signed on behalf of the board.

DAVID J BLACKETT
Chairman

Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Loss for the year		(24,901)	(11,308)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Actuarial losses		(205)	(569)
Deferred tax on actuarial losses	27	41	143
		(164)	(426)
Items that will not be reclassified to profit and loss:			
Exchange differences on translation of foreign operations	32	(11,419)	5,222
Exchange differences on deferred tax	27	(279)	2,617
		(11,862)	7,413
Total comprehensive income for the year		(36,763)	(3,895)
Attributable to:			
Ordinary shareholders		(39,270)	(10,387)
Preference shareholders		7,777	7,402
Non-controlling interests		(5,270)	(910)
		(36,763)	(3,895)

Consolidated statement of changes in equity

for the year ended 31 December 2017

	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 2016	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
Total comprehensive income	–	–	(11,770)	(19,795)	(31,565)	(5,198)	(36,763)
Sale of shareholding in sub-group	–	–	–	807	807	–	807
Issue of new preference shares (cash)	11,102	(184)	–	–	10,918	–	10,918
Dividends to preference shareholders	–	–	–	(7,777)	(7,777)	–	(7,777)
At 31 December 2017	132,528	42,401	(50,897)	135,074	259,106	17,629	276,735

Consolidated cash flow statement

for the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Net cash from operating activities	35	19,670	2,598
Investing activities			
Interest received		29	1,742
Proceeds from disposal of property, plant and equipment		–	61
Purchases of property, plant and equipment		(31,960)	(31,137)
Purchases of intangible assets		(112)	–
Expenditure on land titles		(949)	(367)
Investment in stone and coal interests		(669)	(1,860)
Net cash used in investing activities		(33,661)	(31,561)
Financing activities			
Preference dividends paid		(7,777)	(7,402)
Repayment of borrowings		(6,754)	(11,004)
Repayment of borrowings from related party		(7,400)	–
Proceeds of issue of ordinary shares, less costs of issue		–	13,040
Proceeds of issue of preference shares, less costs of issue		10,918	–
Proceeds of issue of 2022 dollar notes, less costs of issue		–	(44)
Redemption of 2017 dollar notes		(20,156)	(45)
Redemption of 2017 sterling notes		(11,154)	–
Proceeds of issue / sale of sterling notes, less costs of issue		–	1,922
Proceeds of sale of investments		7,078	–
Proceeds of sale of shareholding in subsidiary		–	13,985
New borrowings from non-controlling shareholder and related party		23,986	12,446
New bank borrowings drawn		6,356	14,939
Net cash from financing activities		(4,903)	37,837
Cash and cash equivalents			
Net (decrease)/increase in cash and cash equivalents	36	(18,894)	8,874
Cash and cash equivalents at beginning of year		24,593	15,758
Effect of exchange rate changes		(156)	(39)
Cash and cash equivalents at end of year	22	5,543	24,593

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

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 32 and 33 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 a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period beginning on 1 January 2017. There have been no changes to the group's accounting policies resulting from the adoption of these amendments to IFRSs, although certain disclosures have been amended to reflect the new requirements. In particular the Amendments to IAS 7 – Disclosure Initiative – require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities from financing activities, including both cash and non-cash changes. The group's liabilities arising from financing activities consist of bank loans (note 24), sterling notes (note 25), dollar notes (note 26) and loans from non-controlling shareholders (note 28). A reconciliation between the opening and closing balances of these items is provided (note 23). Consistent with the transition provisions of the amendments, the group has not disclosed comparative information for the prior year.

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) have not been applied in these financial statements) are set out below together with their effective dates of implementation:

IFRS 9: Financial instruments	1 January 2018
IFRS 15: Revenue from contracts with customers	1 January 2018
IFRS 16: Leases	1 January 2019
IFRS 2: Classification and measurement of share-based payment transactions (amendments)	1 January 2018
IFRS 4: Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts (amendments)	1 January 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 have also considered 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 will 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 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.

Accounting policies (group)

continued

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 multi-employer contributory 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 after that date (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.

Land

Land comprises payments to acquire Indonesian licences over land for plantation purposes, together with related costs including surveys and villager compensation. In view of the indefinite economic life associated with such licences, they are not depreciated.

Impairment of tangible and intangible assets excluding goodwill

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

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

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

relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories of agricultural produce harvested from the 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 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.

Assets held for sale

When directors have decided to seek purchasers for any non-current asset or disposal group, they are required by IFRS 5 Non-current assets held for sale and discontinued operations to determine whether such asset or disposal group should be classified as held for sale and disclosed as a current asset at the lower of its carrying value or fair value less costs to sell. For such asset to be so classified, it must be available for immediate sale and its sale must, in the opinion of the directors, be highly probable. The directors have reviewed the chronology of the events leading to the execution of the conditional sale contract for the group's investment in PT Putra Bongan Jaya ("PBJ"), as disclosed in note 40, and have concluded that as at 31 December 2017, the sale of PBJ was not highly probable.

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.

Land

The Indonesian system of land tenure for agricultural purposes ("hak guna usaha" or "HGU") gives the licensee rights to occupy for periods of up to 35 years, followed by an extension and then further renewals of between 25 and 35 years. Local law and regulation is silent on the extent of renewals after the first extension. However, it has always been the working assumption of those in the industry in Indonesia that such renewals will be permitted, at negligible cost as is currently the case, and accordingly replanting programmes are reliant on such judgement. Based on these and other considerations, no depreciation is applied to the costs associated with the obtaining of the initial HGUs.

Taxation of retained earnings of overseas subsidiaries

No liability is recognised for the taxation that would arise on the distributions to the UK in the future of the retained earnings of oversea subsidiaries on the grounds that the directors are in a position to control the timing of such distribution.

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 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

	2017 $'000	2016 $'000
Sales of goods	99,956	77,642
Revenue from services	285	1,623
	100,241	79,265
Other operating income	–	1
Investment revenue	1,072	1,742
Total revenue	101,313	81,008

In 2017, two customers accounted for respectively 60 per cent and 24 per cent of the group's sales of agricultural goods (2016: two customers, 72 per cent and 16 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 2017 amounted to 530,565 tonnes (2016: 468,371 tonnes). The fair value of the crop of fresh fruit bunches was $61.6 million (2016: $49.7 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 2017 and 2016, the latter did not meet the quantitative thresholds set out in IFRS 8 "Operating segments" and, accordingly, no analyses are provided by business segment.

	2017 $'m	2016 $'m
Sales by geographical destination:		
Indonesia	100.2	79.3
Rest of World	–	–
	100.2	79.3
Carrying amount of net assets by geographical area of asset location:		
UK, Continental Europe and Singapore	58.0	56.0
Indonesia	218.7	253.6
	276.7	309.6

4. Agricultural produce inventory movement

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

5. Loss before tax

	2017 $'000	2016 $'000
Salient items charged / (credited) in arriving at loss before tax		
Administrative expenses (see below)	13,681	11,987
Movement in inventories (at historic cost)	(883)	(313)
Amounts provided against inventories	–	73
Movement in fair value of growing produce	(110)	68
Operating lease rentals	284	373
Amortisation of intangible assets	812	74
Depreciation of property, plant and equipment	21,419	20,453
Amortisation of land titles	–	432

Administrative expenses		
Net foreign exchange losses	–	1,290
Loss on disposal of property, plant and equipment	–	12
Indonesian operations	14,685	12,756
Head office	5,665	5,377
	20,350	19,435
Amount included as additions to property, plant and equipment	(6,669)	(7,448)
	13,681	11,987

Amounts payable to the company's auditor

The amount payable to Deloitte LLP for the audit of the company's financial statements was $162,000 (2016: $149,000). Amounts payable to Deloitte LLP for the audit of accounts of subsidiaries of the company pursuant to legislation were $19,000 (2016: $17,000).

Amounts payable to Deloitte LLP for other services were $9,000 (2016: $8,000) 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 tax compliance services.

Amounts payable to affiliates of Deloitte LLP for the audit of subsidiaries' financial statements were $214,000 (2016: $174,000) and for other services to subsidiaries were $nil (2016: $nil).

	2017 $'000	2016 $'000
Earnings before interest, tax, depreciation and amortisation		
Operating loss	(2,164)	(5,026)
Depreciation and amortisation	22,215	20,959
	20,051	15,933

6. Staff costs, including directors

	2017 Number	2016 Number
Average number of employees (including executive directors):		
Agricultural – permanent	5,928	5,501
Agricultural – temporary	4,086	2,868
Head office	12	11
	10,026	8,380

	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	40,173	31,825
Social security costs	969	700
Pension costs	2,925	1,493
	44,067	34,018

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

7. Investment revenues

	2017 $'000	2016 $'000
Interest on bank deposits	32	44
Other interest income	1,040	1,698
	1,072	1,742

8. Finance costs

	2017 $'000	2016 $'000
Interest on bank loans and overdrafts	15,665	12,617
Interest on dollar notes	2,669	2,899
Interest on sterling notes	5,184	5,184
Interest on other loans	1,896	273
Change in value of sterling notes arising from exchange fluctuations	4,800	(10,470)
Change in value of loans arising from exchange fluctuations	(1,190)	1,378
Other finance charges	817	251
	29,841	12,132
Amount included as additions to property, plant and equipment	(9,071)	(6,127)
	20,770	6,005

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 23.5 per cent (2016: 22.0 per cent); there is no directly related tax relief.

9. Tax

	2017 $'000	2016 $'000
Current tax:		
UK corporation tax	28	1
Overseas withholding tax	1,538	1,604
Foreign tax	27	38
Foreign tax - prior year	–	3
Total current tax	1,593	1,646
Deferred tax:		
Current year	(794)	373
Prior year	2,240	–
Total deferred tax	1,446	373
Total tax	3,039	2,019

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 (2016: 25 per cent) and for the United Kingdom, the taxation provision reflects a corporation tax rate of 19.25 per cent (2016: 20 per cent) and a deferred tax rate of 19 per cent (2016: 19 per cent).

The rate of corporation tax reduced from 20 per cent to 19 per cent from 1 April 2017 and will reduce from 19 per cent to 17 per cent from 1 April 2020.

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

	2017 $'000	2016 $'000
Loss before tax	(21,862)	(9,289)
Notional tax at the UK standard rate of 19.25 per cent (2016: 20 per cent)	(4,208)	(1,858)
Tax effect of the following items:		
Interest not deductible	4,724	2,475
Other expenses not deductible	629	702
Non taxable income	(49)	(29)
Overseas tax rates above UK standard rate	189	(24)
Overseas withholding taxes, net of relief	6	310
Tax credit on loss in overseas subsidiary not recognised	(548)	381
Tax losses in overseas subsidiaries time expired	2,240	21
Prior year adjustments	–	3
Change in rate of tax applicable to UK tax losses	49	49
Additional tax provisions/(credits)	7	(11)
Tax expense at effective tax rate for the year	3,039	2,019

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 prior year deferred tax charge of $2,240,000 relates to a portion of the tax losses of the Indonesian plantation subsidiaries as at 31 December 2016 which may not be recoverable against future taxable profits within the statutory five year limit.

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 was refunded in full. The second tax dispute relates to a disputed 2006 assessment and this was decided by the Jakarta Tax Court in 2012, in part in favour of the subsidiary, following which the related disputed tax was refunded.

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, in regard to the first disputed case, 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. Those elements of the judgement in favour of the subsidiary in the second dispute have also been appealed by the tax authorities to the Supreme Court for judicial review. There is no further progress to report on either appeal cases.

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 tax payers 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 IDR 52 billion (some $4 million) in aggregate which was received by the subsidiary in 2016. During later discussions 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 disagreed with this interpretation and in 2017 lodged an appeal with the Supreme Court. Meanwhile it is the policy of the group to recognise in income only the undisputed interest which is received in cash

There are other less significant items of dispute being discussed with the tax authorities.

10. Dividends

	2017 $'000	2016 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share (2016: 9p per share)	7,777	7,402
	7,777	7,402

11. Loss per share

	2017 $'000	2016 $'000
Basic and diluted loss for the purpose of calculating loss per share *	(27,408)	(17,800)
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	40,510	36,950

* Being net loss attributable to ordinary shareholders

12. Goodwill

	2017 $'000	2016 $'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

	2017 $'000	2016 $'000
Beginning of year	5,265	–
Additions	112	–
Transfers from property, plant and equipment	–	4,123
Transfers from deferred charges	–	1,142
End of year	5,377	5,265
Amortisation:		
Beginning of year	1,089	–
Additions	811	74
Transfers from property, plant and equipment	–	124
Transfers from deferred charges	–	891
End of year	1,900	1,089
Carrying amount:		
Beginning of year	4,176	–
End of year	3,477	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	Buildings and structures	Plant, equipment and vehicles	Construction in progress	Total
	$'000	$'000	$'000	$'000	$'000
Cost:					
At 1 January 2016	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
Opening balance reclassification	3,966	(3,966)	–	–	–
Additions	11,547	17,605	1,008	1,678	31,838
Transfers to / (from) construction in progress	–	2,128	69	(2,197)	–
At 31 December 2017	201,369	274,640	112,749	5,076	593,834
Accumulated depreciation:					
At 1 January 2016	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
Charge for year	9,190	5,281	6,948	–	21,419
At 31 December 2017	26,961	32,379	52,153	–	111,493
Carrying amount:					
At 31 December 2017	174,408	242,261	60,596	5,076	482,341
At 31 December 2016	168,085	231,775	66,467	5,595	471,922

The depreciation charge for the year includes $15,000 (2016: $313,000) which has been capitalised as part of additions to plantings and buildings and structures.

At the balance sheet date, the book value of finance leases included in property, plant and equipment was $nil (2016: $nil).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $8.2 million (2016: $1.4 million).

At the balance sheet date, property, plant and equipment of $328.5 million (2016: $298.6 million) had been charged as security for bank loans.

15. Land titles

	2017 $'000	2016 $'000
Cost:		
Beginning of year	38,903	38,536
Additions	948	367
End of year	39,851	38,903
Accumulated amortisation:		
Beginning of year	4,673	4,241
Charge for year	–	432
End of year	4,673	4,673
Carrying amount:		
End of year	35,178	34,230
Beginning of year	34,230	34,295

Balances classified as land titles represent amounts invested in land utilised for the purpose of the plantation operations in Indonesia. At 31 December 2017, certificates of HGU had been obtained in respect of areas covering 76,127 hectares (2016: 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, land titles of $13.2 million (2016: $15.2 million) had been charged as security for bank loans (see note 24).

16. Stone and coal interests

	2017 $'000	2016 $'000
Stone company	19,172	17,435
Coal companies	21,705	22,773
Provision against loan to coal companies	(3,000)	(3,000)
	37,877	37,208

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.

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 2017 consolidated income statement (2016: $nil).

17. Subsidiaries

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

18. Inventories

	2017 $'000	2016 $'000
Agricultural produce	4,417	6,921
Engineering and other operating inventory	7,080	8,846
	11,497	15,767

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 $1.2 million is subject to a floating charge as security for a bank loan.

At the balance sheet date, inventories of $11.1 million (2016: $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 hierarchy prescribed by IFRS 7 "Financial instruments: Disclosures" as no transactions occur in growing produce prior to harvest.

	2017 $'000	2016 $'000
Beginning of year	2,037	2,105
Fair value loss taken to income	(110)	(68)
End of year	1,927	2,037

At the balance sheet date, biological assets of $1.9 million (2016: $2.0 million) had been charged as security for bank loans (see note 24).

20. Investments

	2017 $'000	2016 $'000
R.E.A. Holdings plc 7.5 per cent US dollar notes 2022	2,730	9,880
	2,730	9,880

$7,150,000 nominal of the 7.5 per cent US dollar notes 2022 ("2022 dollar notes") acquired in 2016 at 100% of their principal amount by R.E.A. Services Limited (a wholly owned subsidiary of the company) were sold during 2017. The 2022 notes were sold in tranches over the course of the year at prices of minimum 96.5 per cent to maximum 99.5 per cent of the nominal value of the notes.

All of the $2,730,000 2022 dollar notes held at 31 December have now been sold at 96.75 per cent. of the nominal value of the notes.

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

	2017 $'000	2016 $'000
Due from sale of goods	1,940	10,269
Prepayments and advance payments	6,975	8,703
Advance payment of taxation	11,321	15,236
Deposits and other receivables	19,044	8,346
	39,280	42,554

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 19 days (2016: 11 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 $11.0 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 $5.5 million (2016: $24.6 million) is set out in note 23 under the heading "Credit risk".
At 31 December 2017, $20,000 (2016: $45,000) 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 notes 28 and 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.

Net debt to equity ratio

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

	2017 $'000	2016 $'000
Debt *	220,008	229,702
Cash and cash equivalents	(5,545)	(24,593)
Investments	(2,730)	(9,880)
Net debt	211,733	195,229

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

	2017	2016
Equity (including non-controlling interests)	276,735	309,550
Net debt to equity ratio	76.5%	66.3%

23. Financial instruments - continued

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 2017 comprised loans, investments and receivables (including stone and coal interests) and cash and cash equivalents amounting to $65.2 million (2016: $90.6 million).

Non-derivative financial liabilities as at 31 December 2017 comprised liabilities at amortised cost amounting to $263.5 million (2016: $280.6 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 2020 sterling notes and the 2022 dollar notes carry interest at fixed rates of, respectively, 8.75 and 7.5 per cent per annum. In addition, the company's preference shares carry an entitlement to a fixed annual dividend of 9 pence per share.

Interest is payable on drawings under Indonesian rupiah term loan facilities varying between 1.2 per cent and 4.8 per cent (2016: between 1.2 per cent and 4.8 per cent) above the Jakarta Inter Bank Offer Rate with the exception of one bank loan which bears interest at a fixed rate of 11.5 per cent (2016: 11.5 per cent).

A one per cent increase in interest applied to those financial instruments shown in the table below entitled "Fair value of financial instruments" as held at 31 December 2017 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 $1.3 million (2016: 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.

23. Financial instruments - continued

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 $2.1 million on the net sterling denominated non-derivative monetary items (2016: loss $2.3 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 $8.6 million on the net Indonesian rupiah denominated, non-derivative monetary items (2016: loss of $6.9 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 2017, 90 per cent of bank deposits were held with banks with a Moody's prime rating of P1 and 10 per cent with a bank with a Moody's prime rating of P2. 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 2017 and 31 December 2016 equal the amounts reported under the corresponding balance sheet headings.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors of the company, which has established an appropriate framework for the management of the group's short, medium and long-term funding and liquidity requirements.

Within this framework, the board continuously monitors forecast and actual cash flows and endeavours to maintain adequate liquidity in the form of cash reserves and borrowing facilities while matching the maturity profiles of financial assets and liabilities. Undrawn facilities available to the group at balance sheet date are disclosed in note 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.

23. Financial instruments - continued

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.

2017	Weighted average interest rate %	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
Bank loans	10.9	39,039	51,108	53,575	143,722
US dollar notes - repayable 2022	8.5	1,803	1,803	28,542	32,148
Sterling notes - repayable 2020	10.1	3,793	3,794	45,881	53,468
Non-controlling shareholder loans - US dollar	6.5	7,735	7,315	6,894	21,944
Non-controlling shareholder loans - sterling	10.4	4,624	4,259	3,892	12,775
Trade and other payables, and customer deposits	–	43,255	–	–	43,255
		100,249	68,279	138,784	307,312

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

At 31 December 2017, the group's non-derivative financial assets (other than receivables) comprised cash, investments and deposits of $8.3 million (2016: $34.5 million) carrying a weighted average interest rate of 2.8 per cent (2016: nil per cent) all having a maturity of under one year, and stone and coal interests of $37.9 million (2016: $37.2 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. Investments, cash and deposits, 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 2017 (2016: none).

Notes to the consolidated financial statements
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23. Financial instruments - continued

	2017 Book value $'000	2017 Fair value $'000	2016 Book value $'000	2016 Fair value $'000
Cash and deposits*	5,545	5,545	24,593	24,593
Investments**	2,730	2,730	9,880	9,880
Bank debt - within one year**	(295)	(295)	–	–
Bank debt – within one year*	(27,845)	(27,845)	(28,628)	(28,628)
Bank debt - after more than one year**	(17,936)	(17,936)	–	–
Bank debt - after more than one year*	(79,055)	(79,055)	(97,771)	(97,771)
Loans from non-controlling shareholder - after more than one year*	(29,864)	(29,864)	(12,469)	(12,469)
US dollar notes - repayable 2017**	–	–	(20,048)	(20,206)
US dollar notes - repayable 2022**	(23,649)	(23,074)	(23,646)	(24,035)
Sterling notes - repayable 2015/2017**	–	–	(10,103)	(10,143)
Sterling notes - repayable 2020**	(41,364)	(42,857)	(37,037)	(38,553)
Net debt	(211,733)	(212,651)	(195,229)	(197,332)

* 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 dollar notes and sterling notes are based on the latest prices at which those notes were traded prior to the balance sheet dates.

Changes in liabilities arising from financing activities and analysis of movement in borrowings

The table below details changes in the group's liabilities arising from finance activities, including both cash and non-cash changes. Liabilities from financing activities are those for which cash flows were, or future cash flows will be classified in the group's consolidated cash flow statement as cashflows from financing activities.

	At 1 January 2017 $'000	Financing cash flows $'000	Non-cash other changes $'000	At 31 December 2017 $'000
Bank debt	(126,399)	398	870	(125,131)
Loan from non-controlling shareholder	(12,469)	(16,586)	(809)	(29,864)
US dollar notes - repayable 2017	(20,048)	20,156	(108)	–
US dollar notes - repayable 2022	(23,646)	–	(3)	(23,649)
Sterling notes - repayable 2017	(10,103)	11,154	(1,051)	–
Sterling notes - repayable 2020	(37,037)	–	(4,327)	(41,364)
Total liabilities from financing activities	(229,702)	15,122	(5,428)	(220,008)

24. Bank loans

	2017 $'000	2016 $'000
Bank loans	125,131	126,399
The bank loans are repayable as follows:		
On demand or within one year	28,140	28,628
Between one and two years	44,766	5,997
After two years	52,225	91,774
	125,131	126,399
Amount due for settlement within 12 months (shown under current liabilities)	28,140	28,628
Amount due for settlement after 12 months	96,991	97,771
	125,131	126,399

All bank loans are denominated in Indonesian rupiah (2016: all denominated in Indonesian rupiah) and are at floating rates, thus exposing the group to interest rate risk. The weighted average interest rate in 2017 was 10.9 per cent (2016: 11 per cent). Bank loans of $125.1 million (2016: $126.4 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 $366 million (2016: $343 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 $7.9 million (2016: $14.3 million).

25. Sterling notes

The sterling notes comprise £31.9m nominal of 8.75 per cent guaranteed 2020 sterling notes (2016: £31.9 million nominal of 8.75 per cent guaranteed 2020 sterling notes) issued by the company's subsidiary, REAF.

As at 31 December 2016 the sterling notes also included £8.3 million nominal of 9.5 per cent guaranteed 2015/17 sterling notes. £298,000 of these notes were purchased for cancellation prior to the repayment date and the balance were repaid on 21 December 2017 at par plus accrued interest.

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 on 31 August 2020.

The repayment obligation in respect of the sterling notes of £31.9 million ($42.6 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 $24.0 million nominal of 7.5 per cent dollar notes 2022 ("2022 dollar notes") (2016: $24.0 million nominal of 2022 dollar notes) and are stated net of the unamortised balance of the note issuance costs.

As at 31 December 2016 the US dollar notes also included $20.2 million nominal of 7.5 per cent dollar notes 2017 ("2017 dollar notes") which the company repaid on 30 June 2017 at par plus accrued interest.

The 2022 US dollar notes are unsecured obligations of the company and are repayable on 30 June 2022.

The repayment obligation in respect of the 2022 US dollar notes of $24.0 million is carried in the balance sheet 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 2016	(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)
Credit/(charge) to income for the year	49	1,098	(269)	312	(2,636)	(1,446)
Credit to comprehensive income for the year**	–	–	41	–	–	41
Exchange differences***	(249)	(3)	48	–	(75)	(279)
At 31 December 2017	(43,423)	(21,630)	(14,030)	(302)	9,652	(69,733)
Deferred tax assets	–	4	211	–	9,652	9,867
Deferred tax liabilities	(43,423)	(21,634)	(14,241)	(302)	–	(79,600)
At 31 December 2017	(43,423)	(21,630)	(14,030)	(302)	9,652	(69,733)
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)

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

At the balance sheet date, the group had unused tax losses of $39.7 million (2016: $50.5 million) available to be applied against future profits. A deferred tax asset of $9.7 million (2016: $12.4 million) has been recognised in respect of these losses, which are expected to be used in the future based on the group's projections. Tax losses of $3.5 million (2016: nil) incurred by the Indonesian plantation subsidiaries have not been recognised in deferred tax as these may not be recoverable against future taxable profits within the statutory five-year limit (see also note 9). A tax loss of $788,000 incurred by the group's coal subsidiary in 2017 (2016: tax loss $462,000) has not been recognised and at the balance sheet date; tax losses aggregating $7.7 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 $8.6 million (2016: $6.1 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 $43.4 million (2016: $43.2 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

	2017 $'000	2016 $'000
Indonesian retirement benefit obligations	8,725	7,037
Loans from non-controlling shareholder	29,864	12,469
	38,589	19,506
Repayable as follows:		
On demand or within one year (shown under current liabilities)	10,469	519
In the second year	10,469	5,195
In the third to fifth years inclusive	11,497	9,871
After five years	6,154	3,921
Amount due for settlement after 12 months	28,120	18,987
	38,589	19,506
Liabilities by currency:		
Sterling	10,441	4,746
US dollar	19,423	7,723
Indonesian rupiah	8,725	7,037
	38,589	19,506

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

	2017 $'000	2016 $'000
Trade purchases and ongoing costs	11,520	12,309
Customer deposits	23,784	14,926
Other tax and social security	4,054	3,730
Accruals	14,903	11,172
Other payables	7,951	1,289
	62,212	43,426

The average credit period taken on trade payables is 68 days (2016: 30 days).

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

30. Share capital

	2017 £'000	2016 £'000
Authorised (in sterling):		
85,000,000 – 9 per cent cumulative preference shares of £1 each (2016: 85,000,000)	85,000	85,000
50,000,000 – ordinary shares of 25p each (2016: 50,000,000)	12,500	12,500
	97,500	97,500

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30. Share capital - continued

	2017 $'000	2016 $'000
Issued and fully paid (in US dollars):		
72,000,000 – 9 per cent cumulative preference shares of £1 each (2016: 63,641,232)	116,516	105,414
40,509,529 – ordinary shares of 25p each (2016: 40,509,529)	17,013	17,013
132,500 – ordinary shares of 25p each held in treasury (2016: 132,500)	(1,001)	(1,001)
	132,528	121,426

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 16 October 2017 8,358,768 preference shares were issued, fully paid, by way of a placing at £1 per share to qualified investors (total consideration £8,359,000 - $11,102,000. The middle-market price at close of business on 9 October 2017 (being the date at which the terms of issue were fixed) was £1.045.

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

31. Share premium account

	$'000
At 1 January 2016	30,683
Issue of new ordinary shares (cash)	12,289
Cost of issues	(387)
At 31 December 2016	42,585
Cost of issues	(184)
At 31 December 2017	42,401

32. Translation reserve

	2017 $'000	2016 $'000
Beginning of year	(39,127)	(46,282)
Exchange differences on translation of foreign operations	(11,419)	5,222
Exchange differences on deferred tax	(279)	2,617
Attributable to non-controlling interests	(72)	(684)
End of year	(50,897)	(39,127)

33. Retained earnings

	2017 $'000	2016 $'000
Beginning of year	161,839	187,481
Sale of non-controlling shareholding in a subsidiary	807	(7,416)
Loss for the year after preference dividend	(27,572)	(18,226)
End of year	135,074	161,839

34. Non-controlling interests

	2017 $'000	2016 $'000
Beginning of year	22,827	1,652
Sale of non-controlling shareholding in a subsidiary	–	21,401
Share of result for the year	(5,270)	(910)
Exchange translation differences	72	684
End of year	17,629	22,827

35. Reconciliation of operating loss to operating cash flows

	2017 $'000	2016 $'000
Operating loss	(2,164)	(5,026)
Amortisation of intangible assets	811	74
Depreciation of property, plant and equipment	21,419	20,766
Decrease / (increase) in fair value of agricultural produce inventory	1,137	(632)
Decrease in value of growing produce	110	–
Amortisation of prepaid operating lease rentals	–	432
Amortisation of sterling and dollar note issue expenses	648	584
Loss on disposal of property, plant and equipment	–	12
Operating cash flows before movements in working capital	21,961	16,210
Decrease / (increase) in inventories (excluding fair value movements)	3,133	(3,944)
(Increase) / decrease in receivables	649	760
Increase in payables	20,174	13,136
Exchange translation differences	(101)	(791)
Cash generated by operations	45,816	25,371
Taxes paid	(6,627)	(2,313)
Tax refunds received	5,398	241
Interest paid	(24,917)	(20,701)
Net cash from operating activities	19,670	2,598

No additions to property, plant and equipment during the year were financed by new finance leases (2016: $nil).

36. Movement in net borrowings

	2017 $'000	2016 $'000
Change in net borrowings resulting from cash flows:		
(Decrease) / increase in cash and cash equivalents	(19,050)	8,874
Net decrease / (increase) in bank borrowings	398	(3,935)
Increase in related party borrowings	(16,586)	(12,469)
	(35,238)	(7,530)
Redemption of 2017 sterling notes	11,154	–
Redemption of 2017 dollar notes	20,156	–
Issue of 2022 dollar notes	–	(345)
Amortisation of sterling note issue expenses	(537)	(318)
Amortisation of dollar note issue expenses	(111)	(266)
	(4,576)	(8,459)
Currency translation differences	(4,780)	2,036
Net borrowings at beginning of year	(205,109)	(198,686)
Net borrowings at end of year	(214,465)	(205,109)

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. The company's share of the total employer contribution is 5.4 per cent.

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 result 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 to be made in 2017 nor is any projected for 2018.

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.

37. Retirement benefit obligations - continued

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 valuation will not be available until the second half of this year and is therefore not reflected in these financial statements.

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 records a provision in the financial statements which is not financed by a third party: accordingly there are no separate assets set aside to fund these entitlements. The provision is assessed at each balance sheet date by an independent actuary using the projected unit credit method. The principal assumptions used were as follows:

	2017	2016
Discount rate (per cent)	7.19	8.45
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

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

	2017 $'000	2016 $'000
Balance at 1 January	7,037	5,651
Current service cost	1,208	958
Interest expense	595	533
Actuarial loss recognised in statement of comprehensive income	–	571
Exchange	(76)	139
Paid during the year	(202)	(815)
Balance at 31 December (see note 28)	8,562	7,037

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

	2017 $'000	2016 $'000
Current service cost	1,208	958
Interest expense	595	533
	1,803	1,491
Amount included as additions to property, plant and equipment	–	(114)
	1,803	1,377

Estimated lump sum payments to Indonesian employees on retirement in 2018 are $504,000 (2017: $519,000).

Notes to the consolidated financial statements

continued

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.

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".

	2017 $'000	2016 $'000
Short term benefits	1,364	1,405
Termination benefits	258	–
	1,622	1,405

Loan from related party

During the year, REA Trading Limited, a related party, made unsecured loans to the company on commercial terms. The maximum amount was $7.4 million, all of which had been repaid by 31 December. This disclosure also complies with the requirements of the Listing Rule 9.8.4.

39. Rates of exchange

	2017 Closing	2017 Average	2016 Closing	2016 Average
Indonesian rupiah to US dollar	13,548	13,400	13,436	13,369
US dollar to sterling	1.3435	1.29	1.2226	1.36

40. Events after the reporting period

On 25 April 2018 the company announced the sale of PT REA Kaltim Plantation's shareholding in PT Putra Bongan Jaya ("PBJ"), its 95 per cent subsidiary. The sale is conditional, inter alia, upon approval by the company's shareholders and necessary consents of the Indonesian regulatory authorities. The gross sale proceeds are estimated to amount to approximately $85 million, from which are to be deducted borrowings from PBJ's bankers projected at $26.0 million at completion. As a result, the net proceeds to the group are expected to amount, net of expenses, to approximately $57 million. Such net proceeds will be applied substantially in the reduction of group indebtedness.

Completion is not expected to occur before 31 August 2018 and the sale agreement will lapse if the conditions have not been satisfied by 31 January 2019. The purchaser has deposited with the group, by way of an advance of the purchase price, the sum of $8 million. Should the agreement for the sale of PBJ not become unconditional, such amount will be repayable.

The estimated sums disclosed above in relation to the gross and net sale proceeds will be recalculated immediately prior to completion. Based on current projections, the tax impact of the eventual sale is expected to be minimal.

The PBJ plantation is a recently planted property but is not currently profitable. Accordingly, its sale will not have a material negative impact on the immediate profit outlook for the group.

Otherwise there have been no material post balance sheet events that would require disclosure in, or adjustment to, these financial statements.

41. Resolution of competing rights over certain plantation areas

During 2017, the overall area of the group's fully titled agricultural land increased from 70,584 hectares to 76,127 hectares following completion of the transfer to SYB and a local minority shareholder of PU shares the subject of exchange arrangements agreed in 2015 with PT Ade Putra Tanrajeng ("APT"). PU holds fully titled land areas of 9,097 hectares located on the southern side of the Belayan River opposite the SYB northern areas and is linked by a government road to the southern REA Kaltim areas. By way of exchange, SYB has agreed to transfer to APT 3,554 hectares of fully titled SYB land and has relinquished 2,212 hectares of untitled land allocations, both areas being the subject of overlapping mineral rights held by APT. Pending completion of the transfer of the 3,554 hectares, APT and its associates have been granted access to commence mining in this area.

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 2017 the aggregate outstanding balances owing by the three cooperatives to Bank BPD amounted to Indonesian rupiah 113.3 billion ($8.4 million) (2016: Indonesian rupiah 121.4 billion - $9.0 million).

43. Operating lease commitments

The group leases premises under operating leases in London, Balikpapan, 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:

	2017 $'000	2016 $'000
Within one year	304	212
In the second to fifth year inclusive	1,049	1,062
After five years	906	996
	2,259	2,270

Company balance sheet

as at 31 December 2017

	Note	2017 $'000	2016 $'000
Non-current assets			
Investments	(iv)	264,892	269,827
Deferred tax assets	(v)	843	929
Total non-current assets		265,735	270,756
Current assets			
Trade and other receivables	(vi)	5,482	26,146
Cash and cash equivalents	(vii)	724	614
Total current assets		6,206	26,760
Total assets		271,941	297,516
Current liabilities			
Trade and other payables	(viii)	(6,710)	(4,627)
US dollar notes	(ix)	–	(20,048)
Amount owed to group undertaking	(x)	–	(13,765)
Total current liabilities		(6,710)	(38,440)
Non-current liabilities			
US dollar notes	(ix)	(23,649)	(23,646)
Amount owed to group undertaking	(x)	(43,433)	(38,944)
Total non-current liabilities		(67,082)	(62,590)
Total liabilities		(73,792)	(101,030)
Net assets		198,149	196,486
Equity			
Share capital	(xi)	132,528	121,426
Share premium account	(xii)	42,401	42,585
Exchange reserve	(xii)	(4,300)	(4,300)
Profit and loss account	(xii)	27,520	36,775
Total equity		198,149	196,486

The company reported a loss in the financial year ended 31 December 2017 of $1.5 million (2016: loss $2.2 million).

Approved by the board on 26 April 2018 and signed on behalf of the board.

DAVID J BLACKETT

Chairman

Company statement of changes in equity

for the year ended 31 December 2017

	Note	Share capital $'000	Share premium $'000	Exchange reserve $'000	Profit and loss $'000	Total $'000
At 1 January 2016		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
Total comprehensive income	(xii)	–	–	–	(1,478)	(1,478)
Issue of new preference shares (cash)	(xi)	11,102	(184)	–	–	10,918
Dividends to preference shareholders	(iii)	–	–	–	(7,777)	(7,777)
At 31 December 2017		132,528	42,401	(4,300)	27,520	198,149

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 2017

	Note	2017 $'000	2016 $'000
Net cash inflow / (outflow) from operating activities	(xiv)	13,875	(6,925)
Investing activities			
Interest received		7,104	7,592
Dividends and other distributions received from subsidiaries	(xvi)	–	4,028
Repayment of loans by subsidiary companies *		9,533	–
New loans made to subsidiary companies *		–	(8,033)
Further investment in stone and coal interests		(2,339)	(1,860)
Net cash used in investing activities		14,298	(1,727)
Financing activities			
Preference dividends paid	(iii)	(7,777)	(7,402)
Proceeds of issue of ordinary shares, less costs of issue		–	13,040
Proceeds of issue of preference shares, less costs of issue	(xi)	10,918	–
Proceeds of issue of 2022 dollar notes, less costs of issue		–	(44)
Redemption of 2017 dollar notes	(ix)	(20,156)	(45)
Repayment of loan to subsidiary company	(x)	(11,156)	–
New borrowings from related party	(xvi)	7,400	–
Repayment of borrowings from related party	(xvi)	(7,400)	–
Net cash (to) / from financing activities		(28,171)	5,549
Cash and cash equivalents			
Net increase in cash and cash equivalents		2	351
Cash and cash equivalents at beginning of year		614	278
Effect of exchange rate changes		108	(15)
Cash and cash equivalents at end of year	(vii)	724	614

* 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 110 to 122.

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 80 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 113, 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

	2017 $'000	2016 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share (2016: 9p per share)	7,777	7,402
	7,777	7,402

(iv) Investments

	2017 $'000	2016 $'000
Shares in subsidiaries	91,775	91,775
Loans	173,117	178,052
	264,892	269,827

The movements were as follows:

	Shares $'000	Loans $'000
At 1 January 2016	91,775	178,714
Additions to loans	–	10,846
Effect of exchange	–	(11,508)
At 31 December 2016	91,775	178,052
Repayment of loans	–	(13,030)
Additions to loans	–	2,763
Effect of exchange	–	5,332
At 31 December 2017	91,775	173,117

The subsidiaries at the year end, together with their countries of incorporation, activity, registered office address and proportion of ownership, are listed below. Details of UK dormant subsidiaries are not shown.

Subsidiary	Activity	Registered Office	Class of shares	Percentage owned
Makassar Investments Limited (Jersey)	Sub holding company	Fifth floor, 37 Esplanade, St Helier, Jersey JE1 2TR	Ordinary	100.0
PT Cipta Davia Mandiri (Indonesia)	Plantation agriculture	Gedung PAM Tower Lt.9 JL Jend. Sudirman Stal Kuda, Komp. BSB No. 47 RT 19, Kelurahan Damai Bahagia, Kecamatan Balikpapan Selatan 76114 Kalimantan Timur Indonesia	Ordinary	80.8
PT Kartanegara Kumala Sakti (Indonesia)	Plantation agriculture	As for PT Cipta Davia Mandiri	Ordinary	80.8
PT KCC Resources Indonesia (Indonesia)	Stone and coal operations	Plaza 5 Pondok Indah Blok B.06, JL Margaguna Raya, Gandaria Utara, Kebayoran Baru, Jakarta Selatan 12140	Ordinary	95.0
PT Kutai Mitra Sejahtera (Indonesia)	Plantation agriculture	As for PT Cipta Davia Mandiri	Ordinary	80.8
PT Persada Bangun Jaya (Indonesia)	Plantation agriculture	As for PT Cipta Davia Mandiri	Ordinary	80.8
PT Putra Bongan Jaya (Indonesia)	Plantation agriculture	As for PT Cipta Davia Mandiri	Ordinary	80.8
PT REA Kaltim Plantations (Indonesia)	Plantation agriculture	As for PT Cipta Davia Mandiri	Ordinary	85.0
PT Sasana Yudha Bhakti (Indonesia)	Plantation agriculture	As for PT Cipta Davia Mandiri	Ordinary	80.8
PT Prasetia Utama (Indonesia)	Plantation agriculture	As for PT Cipta Davia Mandiri	Ordinary	80.8
KCC Resources Limited (England and Wales)	Sub holding company	First Floor, 32-36 Great Portland Street, London W1W 8QX	Ordinary	100.0
REA Finance B.V. (Netherlands)	Group finance	Amstelveenseweg 760, 1081 JK, Amsterdam, Netherlands	Ordinary	100.0
R.E.A. Services Limited (England and Wales)	Group finance and services	First Floor, 32-36 Great Portland Street, London W1W 8QX	Ordinary	100.0
REA Services Private Limited (Singapore)	Group services	16 Collyer Quay #17-00 Singapore 049318	Ordinary	100.0

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 2016	978
Effect of change in tax rate	(49)
At 31 December 2016	929
Charge to income for the year	(86)
At 31 December 2017	843

There were no deferred tax liabilities at 1 January 2016, 31 December 2016 or 31 December 2017.

At the balance sheet date, the company had unused tax losses of $4.7 million (2016: $4.9 million) available to be applied against future profits. A deferred tax asset of $843,000 (2016: $929,000) 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

	2017 $'000	2016 $'000
Amount owing by group undertakings	5,398	26,035
Other debtors	71	88
Prepayments and accrued income	13	23
	5,482	26,146

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 $724,000 (2016: $614,000) is set out in note 23 to the consolidated financial statements under the heading "Credit risk".

(viii) Trade and other payables

	2017 $'000	2016 $'000
Amount owing to group undertakings	2,202	561
Other creditors	25	442
Accruals	4,483	3,624
	6,710	4,627

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 $24.0 million nominal of 7.5 per cent dollar notes 2022 ("2022 dollar notes") (2016: $24.0 million nominal of 2022 dollar notes) and are stated net of the unamortised balance of the note issuance costs.

As at 31 December 2016 the US dollar notes also included $20.2 million nominal of 7.5 per cent dollar notes 2017 ("2017 dollar notes") which the company repaid on 30 June 2017 at par plus accrued interest.

The 2022 dollar notes are unsecured obligations of the company and are repayable on 30 June 2022.

The repayment obligation in respect of the 2022 US dollar notes of $24.0 million is carried in the balance sheet net of the unamortised balance of the note issuance costs.

(x) Amount owed to group undertaking

Amount owed to group undertaking comprises an unsecured interest-bearing loan of £32.3m ($43.4 million) from REA Finance B.V. At the end of 2016 there were two unsecured interest-bearing loans totalling £43.1m ($52.7 million) of which £10.8m ($14.5 million) was repaid during 2017.

(xi) Share capital

	2017 £'000	2016 £'000
Authorised (in sterling):		
85,000,000 – 9 per cent cumulative preference shares of £1 each (2016: 85,000,000)	85,000	85,000
50,000,000 – ordinary shares of 25p each (2016: 50,000,000)	12,500	12,500
	97,500	97,500

	$'000	$'000
Issued and fully paid (in US dollars):		
72,000,000 – 9 per cent cumulative preference shares of £1 each (2016: 63,641,232)	116,516	105,414
40,509,529 – ordinary shares of 25p each (2016: 40,509,529)	17,013	17,013
132,500 – ordinary shares of 25p each held in treasury (2016: 132,500)	(1,001)	(1,001)
	132,528	121,426

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 16 October 2017 8,358,768 preference shares were issued, fully paid, by way of a placing at £1 per share to qualified investors (total consideration £8,359,000 - $11,102,000). The middle market price at close of business on 9 October 2017 (being the date at which the terms of issue were fixed) was £1.045.

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 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
At 1 January 2017	42,585	(4,300)	36,775
Total comprehensive income	–	–	(1,478)
Dividends to preference shareholders	–	–	(7,777)
Costs of issues	(184)	–	–
At 31 December 2017	42,401	(4,300)	27,520

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 $1.5 million (2016: loss $2.2 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.

	2017 Book value $'000	2017 Fair value $'000	2016 Book value $'000	2016 Fair value $'000
Cash and cash equivalents	724	724	614	614
US dollar notes - repayable 2017	–	–	(20,048)	(20,206)
US dollar notes - repayable 2022	(23,649)	(23,074)	(23,646)	(24,035)
Loan from REA Finance B.V. - repayable 2017	–	–	(13,765)	(13,765)
Loan from REA Finance B.V. - repayable 2020	(43,433)	(43,433)	(38,944)	(38,944)
Net debt	(66,358)	(65,783)	(95,789)	(96,336)

The fair value of the 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 2017, the company had outstanding $24.0 million of 7.5 per cent dollar notes 2022 (2016: $24.0 million of 7.5 per cent dollar notes 2022 and $20.2 million of 7.5 per cent dollar notes 2017).

The policy for liquidity risk management is disclosed in note 23 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 2017, 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 2017 and 31 December 2016 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 2017 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 (2016: $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.

2017	Weighted average interest rate %	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
US dollar notes - repayable 2022	8.5	1,803	1,803	28,542	32,148
Loan from REA Finance B.V. - repayable 2020	8.9	3,928	3,929	46,618	54,475
		5,731	5,732	75,160	86,623

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

At 31 December 2016, the company's non-derivative financial assets (other than receivables) comprised cash and deposits of $724,000 (2016: $614,000) carrying a weighted average interest rate of nil per cent (2016: nil per cent) all having a maturity of under one year and loans (including Indonesian stone and coal interests) of $41,791,000 (2016: $39,028,000).

Notes to the company financial statements (continued)

(xiv) Reconciliation of operating loss to operating cash flows

	2017 $'000	2016 $'000
Operating loss	222	(225)
Amortisation of dollar note issue expenses	111	266
Operating cash inflows before movements in working capital	333	41
Decrease / (increase) in receivables	20,233	(1,599)
Increase in payables	2,037	3,474
Exchange translation differences	(53)	103
Cash outflow from operations	22,550	2,019
Taxes paid	(925)	(982)
Interest paid	(7,750)	(7,962)
Net cash inflow / (outflow) from operating activities	13,875	(6,925)

(xv) Pensions

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

As the Scheme is a multi-employer scheme, in which the employers are unable to identify their respective shares of the underlying assets and liabilities (because there is no segregation of the assets), and does not prepare valuations on an IAS 19 basis, the company accounts for the Scheme as if it were a defined contribution scheme. The company's share of the total employer contribution is 5.4 per cent.

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 result 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. A discretionary contribution of £28,000 - $34,000 (2016: nil) was required to fund an inflation adjustment to pensions in payment relating to pre-1997 accrued entitlements which would not otherwise have been subject to full indexation.

The 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 2017 nor is any projected for 2018.

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 valuation will not be available until the second half of this year and is therefore not reflected in these financial statements.

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	2017 $'000	2016 $'000
PT Cipta Davia Mandiri	5,028	14,561
PT KCC Resources Indonesia	12,422	12,622
Makassar Investments Limited	14,216	14,216
REA Finance B.V.	–	3,008
PT REA Kaltim Plantations	73,191	70,531
R.E.A. Services Limited	26,468	24,086
	131,325	139,024

Dividends received from subsidiaries	2017 $'000	2016 $'000
R.E.A. Services Limited	–	4,028
	–	4,028

Interest received from subsidiaries	2017 $'000	2016 $'000
PT Cipta Davia Mandiri	683	417
REA Finance B.V.	265	283
PT REA Kaltim Plantations	5,887	6,612
	6,835	7,312

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".

	2017 $'000	2016 $'000
Short term benefits	1,364	1,405
Termination benefits	258	–
	1,622	1,405

Other than the ex-gratia payment for loss of office made in 2017 there is no remuneration other than short term benefits.

Loan from related party

During the year, REA Trading Limited, a related party, made unsecured loans to the company on commercial terms. The maximum amount was $7.4 million, all of which had been repaid by 31 December. This disclosure also complies with the requirements of the Listing Rule 9.8.4.

(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 £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 $125 million (2016: $126 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 $226,000 (2016: $199,000). The commitment expires after nine years (2016: after ten years). The lease does not contain any contingent rentals or an option to purchase the property.

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

	2017 $'000	2016 $'000
Within one year	226	113
In the second to fifth year inclusive	906	797
After five years	906	996
	2,038	1,906

(xix) Events after the reporting period

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-eighth 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 2018 at 10.00 am to consider and, if thought fit, to pass the following resolutions. Resolutions 12 and 13 will be proposed as special resolutions, all other resolutions will be proposed as ordinary resolutions.

1. To receive the company's annual accounts for the financial year ended 31 December 2017, 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 2017.

3. To approve the directors' remuneration policy to take effect immediately following the Annual General Meeting.

4. To re-elect as a director David Blackett, who having been a non-executive director for more than nine years, retires as required by the UK Corporate Governance Code and submits himself for re-election.

5. To re-elect as a director 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.

6. 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.

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

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

9. That 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 2019 (or, if earlier, on 30 June 2019)

   provided further that:

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

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

10. That the 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 2019), 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.

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, 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 £13,000,000, such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2019), 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.

12. 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 10 set out in the notice of the 2018 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 10; 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 2019), 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.

13. 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
26 April 2018

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

Registered in England and Wales no: 00671099

Notice of annual general meeting
continued

Notes

The sections of the accompanying Directors' report entitled "Directors", "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 4 to 6 and 9 to 13 set out above in this notice of the 2018 annual general meeting of the company (the "2018 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 2018 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 accompanies this notice. 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, Link Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU by no later than 10.00 am on 11 June 2018.

Alternatively, appointment of a proxy may be submitted electronically by using either Link'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 2018) or the CREST electronic proxy appointment service as described below. Shareholders who have not already registered for Link's share portal may do so by registering as a new user at www.signalshares.com and giving the investor code shown on the accompanying 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 2018. 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 director's service agreement 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 2018 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 2018 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 2018 Notice, the issued share capital of the company comprises 40,509,529 ordinary shares, of which 132,500 are held as treasury shares, and 72,000,000 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 2018 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 2018 Notice (or any other related document including the form of proxy) to communicate with the company for any purposes other than those expressly stated.

Under section 338 and section 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the company (i) to give, to members of the company entitled to receive notice of the annual general meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the company not later than the date 6 clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

This report has been managed by Perivan Financial Limited. (249315)

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R.E.A. HOLDINGS PLC

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

www.rea.co.uk

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