R.E.A. HOLDINGS PLC - ANNUAL REPORT

2010

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00671099 (England and Wales)

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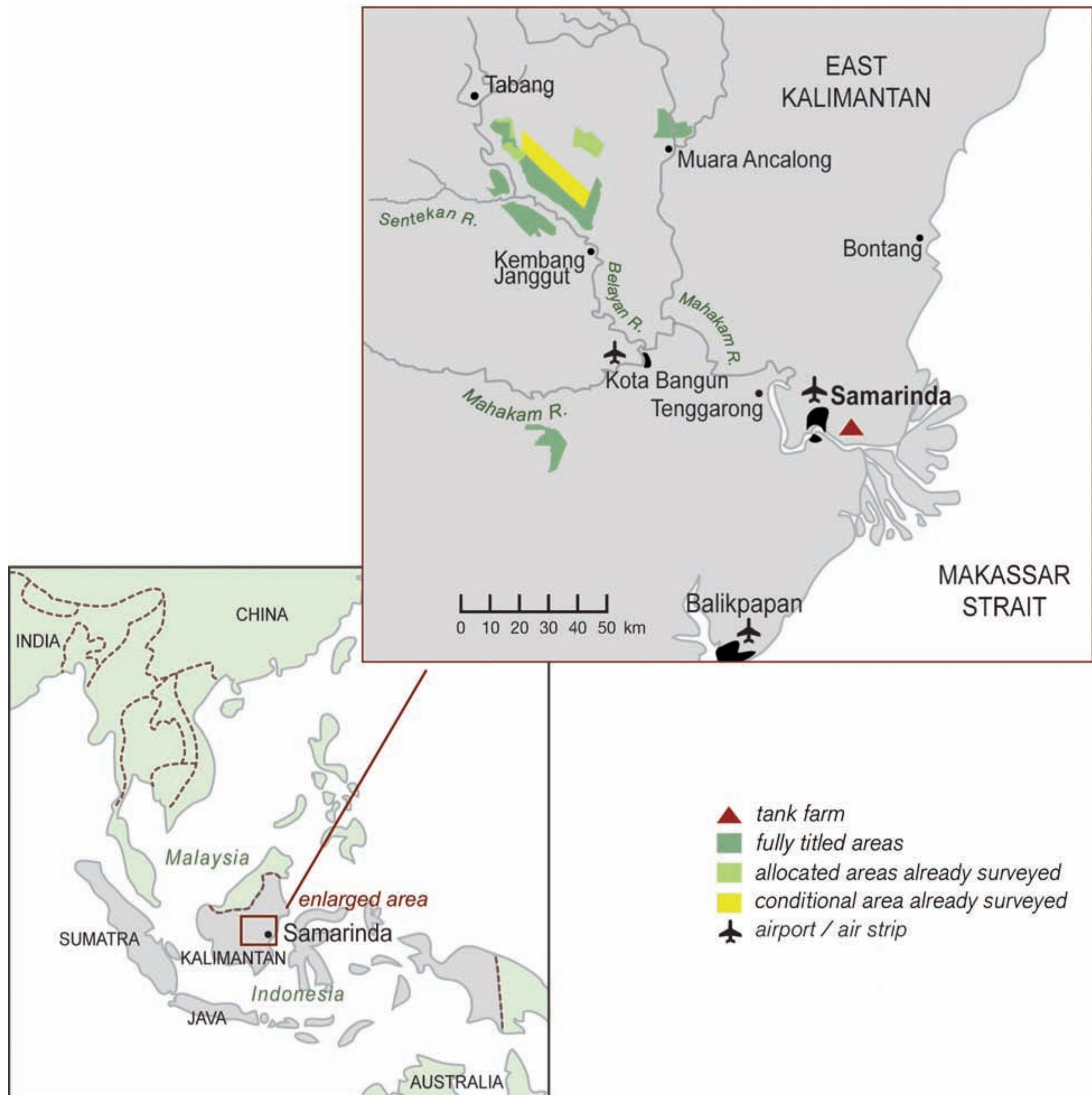
Maps showing plantation areas

as at 31 December 2010



Summary of results

for the year ended 31 December 2010

	2010 $'000	2009 $'000	Change %
Revenue	114,039	78,885	+ 45
Earnings before interest, tax, depreciation, amortisation and biological gain [1]	58,394	41,290	+ 41
Profit before tax	50,447	41,717	+ 21
Profit for the year	34,973	29,856	+ 17
Profit attributable to ordinary shareholders	32,325	27,119	+ 19
Cash generated by operations [2]	50,210	38,829	+ 29
Earnings per ordinary share (diluted) in US cents	96.8	81.4	+ 19
Dividend per ordinary share in pence [3]	5.0	4.0	+ 25

Average exchange rates	2010	2009	2008	2007	2006
Indonesian rupiah to US dollar	9,078	10,356	9,757	9,166	9,129
US dollar to pound sterling	1.55	1.56	1.84	2.01	1.86

1. See note 5 to consolidated financial statements
2. See note 36 to consolidated financial statements
3. Paid in respect of the year

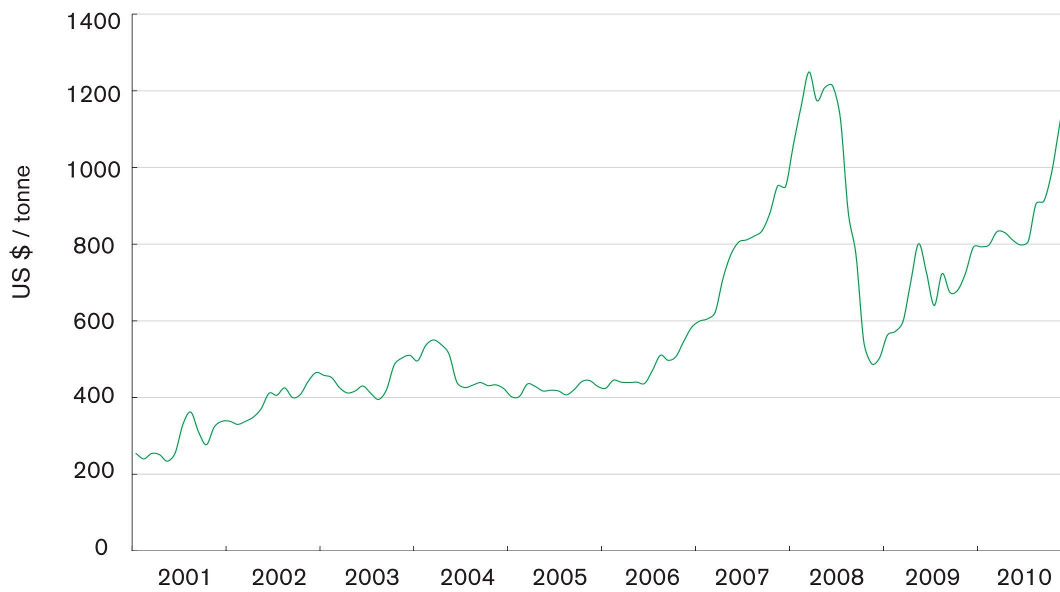
Key statistics

for the year ended 31 December 2010

	2010	2009	2008	2007	2006
Allocated area - Hectares					
Mature oil palm	21,984	18,736	16,487	13,080	13,080
Immature oil palm (prior years)	8,850	8,171	9,032	11,814	5,250
Oil palm development (current year) [1]	1,249	4,083	2,781	1,514	6,564
	32,083	30,990	28,300	26,408	24,894
Planned oil palm development (succeeding year)	6,907	4,000	–	11,500	6,500
Reserve area [2]	55,773	79,828	86,541	84,018	34,022
Total	94,763	114,818	114,841	121,926	65,416
Production - Tonnes					
Oil palm fresh fruit bunch crop - group	518,742	490,178	450,906	393,217	332,704
Oil palm fresh fruit bunch crop - external	20,089	13,248	6,460	2,767	1,372
	538,831	503,426	457,366	395,984	334,076
Crude palm oil	127,256	118,357	105,597	93,229	77,597
Palm kernel	24,614	23,740	20,846	15,660	12,698
Total palm products	151,870	142,097	126,443	108,889	90,295
Oil extraction rate	23.6%	23.5%	23.1%	23.5%	23.2%
Kernel extraction rate	4.6%	4.7%	4.6%	4.0%	3.8%
Yields - Tonnes per mature hectare					
Fresh fruit bunches	23.6	26.2	27.3	29.6	25.5
Crude palm oil	5.6	6.2	6.3	7.1	5.9
Palm kernel	1.1	1.2	1.2	1.2	1.0
Total palm products	6.7	7.4	7.5	8.3	6.9

1. Includes 156 hectares in 2010, 1,393 hectares in 2009 and 889 hectares in 2008 also included as oil palm development in the preceding year.
2. Includes conservation areas, roads and other infrastructure and areas available for planting and under negotiation.

Crude palm oil monthly average price



Share performance graph

Chairman's statement

Introduction

The "Review of the group" section of this annual report gives detailed information intended to assist shareholders in understanding the group's business and strategic objectives. Because the review is designed to provide a reasonably complete and self-contained description of the group, it does, in many places, repeat what has been said in the reviews of the group contained in previous annual reports. This "Chairman's statement" endeavours to be less repetitive and to provide a synopsis of the more significant matters noted in the review with particular emphasis on developments that occurred during 2010 or are in prospect.

Results

Group profit before tax for 2010 at $50.4 million was well ahead of the $41.7 million reported for 2009.

Underlying the increased profit and cash flow was the higher revenue for 2010 which amounted to $114.0 million, 45 per cent ahead of 2009 revenue of $78.9 million. This reflected the combined effect of the higher average crude palm oil ("CPO") and crude palm kernel oil ("CPKO") prices prevailing during 2010, the larger crop and initial coal sales of $4.2 million.

The benefit of the higher revenue was offset to an extent by an increase in cost of sales which rose by 43 per cent from $34.0 million to $48.6 million. Several factors contributed to this increase: increased production; costs of $3.9 million attributable to the new coal activities; the higher unit cost of cropping in the significant area of newly mature plantings; general cost inflation; and weakening of the US dollar against the Indonesian rupiah which meant that rupiah denominated costs increased in US dollar terms.

IFRS fair value gains for 2010 at $2.0 million were significantly lower than the $11.3 million reported in 2009. The reduction in the net gain arising from changes in fair value of agricultural inventory ($0.4 million against $1.5 million) reflected a lower closing stock at the end of 2010 than at the end of the preceding year. More significant was the reduction in the net gain from changes in the fair value of biological assets ($1.6 million against $9.8 million) which was principally caused by the continuing inflation in planting costs. This meant that the value of additions to prospective crops from new development during 2010 showed a lower surplus over the value of crops harvested during the year than was the case in 2009.

Administrative expenses increased from $7.2 million to $10.2 million in part because of inflation and a lower capitalisation rate (reflecting the increasing ratio of mature to immature areas) but also because of an increased administrative requirement reflecting the growth of the group's business and, in particular, the need to manage the expanding smallholder programmes. Some offset against the costs of this last was provided by management fees paid to the group by smallholder cooperatives which are included in 2010 operating income of $0.4 million.

At the after tax level, group profit for the year was $35.0 million against $29.9 million in 2009 while profit attributable to ordinary shareholders was $32.3 million against $27.1 million. Fully diluted earnings per share amounted to US 96.8 cents (2009: US 81.4 cents).

A provision of $5.5 million relating to tax connected with a cash flow hedge has been charged to other comprehensive income for 2010. This provision relates to tax relief claimed in respect of mark to market losses on cross currency interest rate swaps entered into by the group to hedge, against US dollars, the group's liability in respect of its outstanding 9.5 per cent guaranteed

sterling notes 2015/17. The group has been advised by its professional advisers that mark to market differences arising on annual revaluations of such swaps should be taken as profits or losses for Indonesian tax purposes as they arise, but an Indonesian tax assessment recently received by an Indonesian subsidiary of the company has denied the tax relief claimed by the subsidiary for 2008 in relation to the swaps in question. The group is appealing against this assessment but, pending a decision on the appeal, the directors have felt it appropriate to recognise the inherent uncertainties of the appeal process by making a provision equivalent to approximately half of the tax relief claimed. The disputed Indonesian tax assessment has been paid in full pending appeal.

After reversal of non cash items included in operating profit, operating cash flows before movements in working capital increased during 2010 by $19.3 million from $40.1 million to $59.4 million. However, net cash from operating activities for 2010 amounted to $21.3 million in 2010 against $29.6 million in 2009. The apparent disparity of an increase in operating cash flows before movements in working capital and a reduction in net cash from operating activities is principally the result of two items: increase in receivables, which amounted to $10.3 million in 2010 against $2.7 million in 2009, and taxes paid, which amounted to $21.1 million in 2010 against $2.3 million in 2009. The former reflected additional receivables in the group balance sheet at 31 December 2010 arising from the group's new coal trading activity while the latter was largely attributable to the payment during 2010 of the disputed Indonesian tax assessment referred to above and now the subject of appeal.

Agricultural operations

Operational matters

The crop out-turn for 2010 amounted to 518,742 tonnes of oil palm fresh fruit bunches ("FFB"). This represented an increase of 5.8 per cent on the FFB crop for 2009 of 490,178 tonnes but was below the budgeted crop for the year of 561,680 tonnes. External purchases of FFB from smallholders and other third parties in 2010 totalled 20,089 tonnes (2009: 13,248 tonnes).

Rainfall across the group's estates averaged 4,434 mm for 2010, compared with 3,123 mm for the previous year. Although the high level of rainfall caused some disruptions to harvesting in the last quarter of 2010, the directors believe that the principal reason for the crop shortfall against budget was the extended drier period experienced in 2009 coincident with an occurrence of the El Niño weather phenomenon.

Processing of the group's own FFB production and the externally purchased FFB, together totalling 538,831 tonnes (2009: 503,426 tonnes), produced 127,256 tonnes of CPO (2009: 118,357 tonnes) and 24,614 tonnes of palm kernels (2009: 23,740 tonnes) reflecting extraction rates of 23.62 per cent for CPO (2009: 23.51 per cent) and 4.57 per cent for kernels (2009: 4.72 per cent). Production of CPKO amounted to 9,745 tonnes (2009: 9,636 tonnes) with an extraction rate of 40.07 per cent (2009: 40.04 per cent).

A major overhaul of the group's older oil mill was initiated during 2010. As a result of ageing mill machinery and deterioration in one of the mill boilers, it was becoming difficult to operate the mill at its intended capacity of 80 tonnes per hour. The overhaul involves upgrading of machinery and the installation of a new boiler. This should restore the effective mill capacity to 80 tonnes per hour. The overhaul is currently on schedule and should be

completed before the start of the 2011 peak cropping period in September. Meanwhile, the group's newer oil mill was expanded during 2010 to increase its capacity from 60 to 80 tonnes per hour.

The upgrading of the older mill and expansion of the newer mill should provide the group with sufficient capacity to meet the expected FFB processing requirements of 2011 but by 2012 the group will require a third mill. Work is already in hand on the construction of this third mill and it is expected that mill commissioning will be completed ahead of the peak cropping months of 2012. The third mill will incorporate its own kernel crushing plant.

Investments made in 2009 in increased mechanical handling of FFB collection and transport and in establishing an "in house" road maintenance capability have proved successful and resulted in significant savings during 2010. The relatively new system for composting empty fruit bunches and oil mill effluent is also proving effective. The area in respect of which compost was substituted for inorganic fertiliser in 2010 amounted to 6,763 hectares and is projected to amount to over 9,000 hectares in 2011.

During 2011, the group is aiming to make further cost savings from the recycling of waste by establishing two methane conversion plants. Each plant will be constructed adjacent to an existing oil mill and will be based around a lagoon covered with inflatable high density polyethylene sheeting. Mill effluent will pass to the lagoon which is designed to accelerate the anaerobic digestion of the effluent. The methane released during the digestion process will be captured and used to fuel one or more gas powered generators. Methane that is surplus to requirements for electricity generation will be flared off. The electricity generated from the captured methane will be supplied to a number of estate villages, thereby reducing materially the requirement for diesel generated electricity. Because the methane conversion plants will reduce the group's greenhouse gas emissions (and thus the group's carbon footprint), the group expects to obtain carbon credits under the Clean Development Mechanism for the period from completion of the plants up to 2020.

Land allocations and development

The group's land titling made further progress during 2010 to the extent that the fully titled agricultural land area held by the group amounted at year end to 63,263 hectares (2009: 52,029 hectares). During the year, the group was successful in obtaining a renewed allocation of 15,000 hectares out of a total area of 20,000 hectares in respect of which a land allocation previously held by the group had expired. The renewed allocation is conditional upon completion of a planned rezoning of East Kalimantan which is slowly progressing through the governmental authorities who must approve it. As a result, the group held land allocations at 31 December 2010 covering a total area of 31,500 hectares.

Since 31 December 2010, 7,321 hectares from one land allocation of 7,445 hectares has been granted full HGU title and the 124 hectare balance of the allocation has been relinquished. The full titling of the remaining land allocations must be expected to result in exclusion of further allocated areas. Moreover, not all of the areas in respect of which full titles are issued can be planted with oil palms. Some fully titled land may be unsuitable for planting or subject to zoning or similar restrictions (such as areas potentially available for mining), a proportion will be set aside for conservation and a further proportion is required for roads, buildings and other infrastructural facilities. This means that the prospective maximum area that the group could plant with oil palms on the fully titled and allocated agricultural land areas currently held must be expected to be less than the gross hectarage that those areas comprise.

Areas planted and in course of development as at 31 December 2010 amounted in total to 32,083 hectares. Of this total, mature plantings comprised 21,984 hectares. A further 3,450 hectares planted in 2007 came to maturity at the start of 2011.

Reserve land held by the group only becomes available for development when the titling process has proceeded to a point at which the group has been granted development and necessary land clearing licences, and compensation agreements have been reached with local villagers who have claims in respect of their previous use of the land. During 2010, progress of the group's plans for oil palm extension planting was seriously delayed by hold ups in the issue of necessary permits and in particular of the recently introduced timber cutting licences (*"IPKs"*). This reflected, at least in part, a lack of clarity on the part of the relevant authorities as to the procedure to be followed by plantation company applicants seeking to obtain these newly required permits. As a result, the aggregate area planted or under development increased over 2010 by only some 1,000 hectares, all of which related to areas that were exempted from the IPK requirement having been already under development when this requirement was introduced.

Encouragingly, the group did finally secure its first IPK in January 2011 and a further IPK was issued in March. This has permitted the resumption of extension planting. Moreover, the group believes that the relevant authorities, having now started to issue IPKs, will be able to process the group's further IPK applications more quickly than was the case immediately after the new IPK requirement came into force. The group therefore retains its oil palm planting target for the two year period ending 31 December 2011 of 8,000 hectares in total. The directors believe that this target remains achievable but whether it will actually be achieved will be critically dependent upon land becoming available for development as needed.

Social responsibility

The area planted or under development on the group supported plasma schemes increased during 2010 from 1,578 hectares to 3,076 hectares. The areas developed to-date are owned by cooperatives with members from 9 local villages. During 2011, it is planned to increase the number of villages participating in the schemes by adding further co-operatives. The plasma development programme for 2011 has been budgeted at 1,000 hectares. External financing for the plasma schemes initiated to-date has been agreed with a local development bank in East Kalimantan in the form of fifteen year loans secured on the land and assets of the schemes and guaranteed by the group. If necessary, this financing will be supplemented by funds advanced by the group.

The group's conservation department (conducting its activities under the name "REA Kon") is continuing with its establishment of a permanent database of flora and fauna found within the group's conservation reserves and neighbouring watercourses. Other activities of REA Kon during 2010 included a project to recycle plastic waste, the initiation of a study of the contribution of forest predators to pest control within oil palm plantings and a first children's educational camp at the new REA Kon field station located within the conservation reserves, construction of which was completed in October 2010.

All operations of the company's two main operating subsidiaries in Indonesia have now obtained ISO 14001 accreditation. Audit of one of these subsidiaries and its associated smallholders for Roundtable on Sustainable Palm Oil ("RSPO") accreditation (conducted by an RSPO approved independent auditor) took place in early 2011 and has recommended that the subsidiary and its associated smallholders be granted accreditation. Audit of the second subsidiary for RSPO accreditation is planned for later in 2011.

Coal operations

Whilst it is taking longer than originally hoped to develop the coal operations, good progress has been made.

The major concentration during 2010 was on bringing the Kota Bangun concession into production. Land compensation was completed, mining and environmental management plans settled, necessary permits for mining operations obtained and arrangements for evacuating mined coal concluded. Removal of overburden (being earth and rock overlaying the coal) started in November 2010, the first coal seams were exposed in January 2011 and initial shipments of some 15,000 tonnes of coal are scheduled for April 2011. The stripping ratio (being the amount of overburden required to be removed to gain access to the coal expressed as the number of bank cubic metres of overburden in situ to be removed to extract one tonne of coal) is under the present mining plan expected to be 30 to 1. As previously announced, the group is aiming to build up to a production level within 2011 of at least 16,000 tonnes per month. Arrangements have been agreed for the sale of current production from the Kota Bangun concession to two buyers. Selling prices will be fixed against deliveries of the coal on a basis related to the Newcastle globalCOAL index. The average price currently being realised is $137 per tonne.

Operations at the Liburdinding concession have been less satisfactory. Original plans to mine 150,000 tonnes during 2010 had to be abandoned when it became clear that the relatively high sulphur content of the coal was making it difficult to sell. Coal production at Liburdinding in 2010 therefore amounted to some 21,000 tonnes only. A limited market for the coal has been found in Java and this seems capable of selling 3,000 to 4,000 tonnes per month on a regular basis. For mining to be economic, Liburdinding needs to produce at a level of at least 15,000 tonnes per month and this means that an export market for the coal is needed. The group has looked at blending Liburdinding coal with low sulphur traded coal purchased from third parties and this remains an option. However, with the higher prices for coal that are currently prevailing, the group would prefer to sell the Liburdinding production without blending and to accept a discount for the sulphur content. Discussions to this end with possible purchasers are continuing.

The position as respects the group's plans to establish a limited coal trading activity is more positive. Sales of traded coal in 2010 (which started in the second half of the year) totalled 71,000 tonnes. Since the start of 2011, the group has been able to formalise trading relationships with two major export buyers and is aiming within the current year to be achieving average monthly sales of 100,000 tonnes. The objectives for the coal trading activity are to augment the revenues from the mining of the Kota Bangun and Liburdinding concessions and to establish a customer base on which the group can build. Coal for traded sales is currently being sourced by outright purchase from third party suppliers but the group intends that, in due course, it will enter into long term arrangements to procure a proportion of the coal that it trades by mining third party owned concessions against payment of a royalty.

Finance

840,689 new ordinary shares of the company were issued on 1 February 2010 on exercise of a director's option at an exercise price of 43.753p per share. In addition, in February, with the object of funding the new coal operations, the company issued an additional $15 million nominal of 7.5 per cent dollar notes 2012/14 ("dollar notes") at $90 per $100 nominal of notes in conjunction with the issue by a wholly owned subsidiary of the company, KCC Resources Limited ("KCC"), of 150,000 redeemable participating preference shares of $10 each at par. The effect of the additional dollar note issue was to increase the nominal amount of dollar notes in issue to $45 million.

1,670,727 new preference shares were issued in October 2010 by way of capitalisation of share premium account pursuant to the capitalisation issue to ordinary shareholders referred to under "Dividends" below. This was followed later in the same month by the issue of 9 million new preference shares for cash at par to raise £9 million.

Following these issues, group indebtedness and related engagements at 31 December 2010 amounted to $132.1million, made up of $45 million nominal of dollar notes (carrying value: $43.3 million), £37 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes") (carrying value: $55.2 million), $11.6 million in respect of a hedge of the principal amount of the sterling notes, $1.5 million in respect of the KCC participating preference shares (which are classified as debt), term loans from Indonesian banks of $14.7 million and other short term indebtedness comprising drawings under working capital lines of $5.8 million. Against this indebtedness, at 31 December 2010 the group held cash and cash equivalents of $36.7 million.

Changes to Indonesian tax regulations effective from the beginning of 2010 meant that Indonesian withholding tax on interest payments on certain intra-group loans to Indonesian subsidiaries of the company (being loans that formed part of the assets then charged as security for the sterling notes) which had been payable at the rate of 10 per cent became payable at the rate of 20 per cent. The security for the sterling notes was therefore reorganised during 2010 to achieve a structure in which the withholding tax rate on interest on charged intra-group loans would revert to 10 per cent.

Planned extension planting and the requirement for investment in estate buildings and other estate plant and equipment that follows any expansion of the group's planted hectarage will involve the group in continuing major capital expenditure for several years to come. In addition, construction of the group's third oil mill and the two methane conversion plants is likely to involve an outlay of in excess of $25 million over 2011 and 2012. If CPO prices remain at good levels, the directors expect that such capital expenditure can be funded from internal cash flow possibly supplemented by some additional drawings on existing bank facilities.

Provided that the coal operations evolve as planned, such operations should become cash generative during 2011. If that proves the case, the cash generated may be utilised for further expansion of the coal operations. The directors do not anticipate that the coal operations will require material cash support from elsewhere in the group during 2011, although short term cash advances may be made to meet temporary spikes in the working capital needed for coal trading.

Commodity markets are inherently volatile and the directors believe that it is prudent for the group to hold some cash cushion to ensure that when new oil palm areas are planted, those areas can be brought to maturity even if CPO and CPKO prices fall sharply. However, the cash and cash equivalents held by the group at 31 December 2010, which reflected the proceeds of the issue of new preference shares made in October 2010, was in excess of the amount required for that purpose. Some $5 million of such cash resources has already been applied during 2011 in retiring debt and the directors intend that further cash resources should be applied for the same purposes before the end of 2011.

The directors consider that it will be prudent, when market conditions permit, to retire existing shorter dated debt and to replace it with preference share capital or new debt of a longer tenor. The October 2010 issue of new preference shares was made with this intention and the directors may consider further issues of medium term debt securities or new preference shares for the same purpose.

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2010 were duly paid. Dividends totalling 5p per ordinary share have been paid in respect of 2010 (2009 – 4p per ordinary share). These comprised a first interim dividend of 2½p per ordinary share paid on 1 October 2010 and a second interim dividend of 2½p per ordinary share paid on 28 January 2011. In addition, the company made a capitalisation issue to ordinary shareholders of 1,670,727 new preference shares on the basis of one new preference share for every 20 ordinary shares held on 24 September 2010.

For some years, the directors have followed the practice of declaring two interim dividends in respect of each financial year, the first in late September or early October of the year in question and the other at the start of the succeeding year. This has meant that the company has not in recent years paid a final dividend. One corporate governance agency has criticised this practice as depriving shareholders of the opportunity to vote on the level of overall dividend paid by the company. To respond to this criticism, the directors propose that, notwithstanding that the second interim dividend paid in January was intended to be paid in lieu of final dividend, a dividend should be paid in September 2011 as a final dividend in respect of 2010 and that this dividend should substitute for the interim dividend in respect of 2011 that the directors would otherwise have expected to declare for payment at that time. Dividends declared or proposed by directors in respect of 2011 and subsequent years would then be expected to comprise an interim dividend in the January following the end of the applicable year and a final dividend payable in the following September.

Accordingly, the directors recommend the payment of a final dividend in respect of 2010 of 3p per ordinary share to be paid on 30 September 2011 to ordinary shareholders on the register of members on 2 September 2011. The directors wish to emphasise that in proposing that a final dividend in respect of 2010 be substituted for a first interim dividend in respect of 2011, they do not intend to signal a change in the prospective level of dividends payable to shareholders during any particular year but only to recharacterise one dividend in each year as a final dividend upon the payment of which shareholders can vote.

The directors continue to believe that capitalisation issues of new preference shares to ordinary shareholders, such as were made in 2010 and on several previous occasions, provide a useful mechanism for augmenting returns to ordinary shareholders in periods in which good profits are achieved but demands on cash resources limit the scope for payment of cash dividends. The directors will therefore consider a further such issue during 2011 if they feel that this is merited by the group's performance.

Staff

The directors extend their thanks to all of the group's staff for their continued loyalty and hard work.

In particular, the directors would like to record their appreciation of the contribution made to the group by Mr Derrick Egerton who sadly died in January 2011 after a short illness. He had worked for the group for nearly twenty years in what was originally intended to be a part time capacity after his retirement as finance director of Harrisons & Crosfield Limited and, almost single-handedly, held together the group's accounting and secretarial functions during the difficult period experienced by the group during and following the economic and political turbulence in Indonesia in the late 1990s. His ability to take on and competently deal with a vast range of administrative tasks will be much missed.

Succession

The group is proceeding with its previously announced plan to establish a small regional office in Singapore. A senior executive has recently been recruited to head this office and it is intended that the office should begin operating during 2011. Thereafter, staffing will be increased to an extent appropriate to enable the Singapore office progressively to assume many of the management functions currently performed by the group's head office in London.

The group has also taken steps to enhance management capacity in Indonesia with the appointment of an additional senior executive to fill the newly created position of chief financial officer for the agricultural operations. With this position filled, the group believes that it now has in place the senior management needed to handle the planned further expansion of the agricultural operations. Some further recruitment for the coal operations is likely to be necessary if those operations develop as is hoped.

The directors have previously expressed concern as to whether the current ownership of the group's Indonesian businesses through a UK listed company is an appropriate long term structure for the group or whether the group would be better structured as an entirely South East Asian based entity with a parent company listed in that region. Arguments in favour of such a move include the reduction in head office costs that could be expected, the better rating of the group's parent company's shares that might be achieved on, for example, the Singapore Stock Exchange and the arguably wider research coverage of South East Asian companies operating in the agricultural sector. Against this, the company's existing investor base is almost entirely in Europe and the company's UK listing has, in recent years, afforded the company good access to equity and debt when needed.

In the "Review of the group" in the company's 2009 annual report, the directors stated that they had concluded that, whilst the matter should be kept under review, the current status quo of the group with a UK listed parent company should be retained. That conclusion is currently being reconsidered by the directors.

Two factors have prompted such reconsideration. First, in the face of emigrations by some major UK companies and suggestions that more may follow in an effort to avoid UK tax and in some cases restrictions on bonus payments, there have been reports of possible UK legislation to inhibit UK companies transferring themselves overseas. Any decision by the group to move from the UK would not be motivated by either tax or bonus restriction avoidance (indeed there would be no benefit to the group in either respect) but the directors are concerned that legislation designed to prevent others from transferring might remove the flexibility to transfer that the group currently enjoys. Secondly, whilst the group remains in the UK, it requires staff to undertake its administrative functions. This requires periodic recruitment and such recruitment is made more complicated if the company's continued presence in the UK remains uncertain. If an eventual transfer is contemplated, both of the foregoing factors militate against leaving such transfer pending.

Prospects

The group's own FFB crop for 2011 has been budgeted at 611,000 tonnes with a normal budgetary assumption of average rainfall (both as to quantum and distribution). The FFB crop to end March 2011 amounted to 135,424 tonnes against the budget for the period of 141,117 tonnes. The directors do not believe that any conclusions as to the likelihood of the group achieving its budgeted crop for 2011 should be drawn from the slight shortfall as variations from year to year in the monthly phasing of

each year's crop are normal. External purchases of FFB during 2011 have been budgeted at 25,000 tonnes.

The rise in CPO prices seen in 2009 continued into 2010. After opening the year at a little above $800 per tonne, CIF Rotterdam, and remaining broadly at that level for the first six months of 2010, the price rose further in the third quarter of the year to $935 per tonne at the end of September 2010 and then again, and even more sharply, in the last quarter to close the year at $1,285 per tonne. Prices have remained comfortably over the $1,000 per tonne level so far in 2011 and at times CPO has traded at above $1,300 per tonne. At these higher prices, the progressive nature of the Indonesian duty levied on exports of CPO does however mean that the major proportion of any price in excess of $900 per tonne accrues to the Indonesian state rather than CPO producers.

The current historically high prices of CPO and other vegetable oils (which have appreciated commensurately) are attributable to a number of factors: the demand drivers of population growth and developing world economic growth; increasing petroleum oil prices that are improving the economics of converting vegetable oils to bio-fuels; and the combined impact of the El Niño and La Niña weather phenomena that have held back production. For 2011, consumption may outstrip production and with stocks low and the annual oilseed crops competing for land with wheat and corn, which are also at high prices and in strong demand, CPO prices could reasonably be expected to remain at good levels throughout 2011.

The current unrest in the Middle East and the after effects of the Japanese tsunami could negatively impact the world economy leading to some downturn in food demand for vegetable oil but, against this, they could also result in higher petroleum oil prices and a consequential increase in the floor price for vegetable oil that the bio-diesel conversion option provides. Nevertheless, the directors retain their view that vegetable oil markets will remain cyclical and that it is therefore likely that the current high prices will eventually result in increased supply and lead to lower prices albeit probably not in 2011.

The directors remain cautious as to the extent and speed to and at which the planned continued expansion of the group's oil palm hectarage can be delivered and are reluctant to assume the success of the group's new venture in coal before this has been proved by bankable results. That said, they are encouraged that, in recent months, the group has made progress in resolving outstanding land issues and can see that, if successful, the new coal operations could be further expanded into a material activity for the group. With CPO and CPKO prices looking set to remain at or near current levels for several months to come, the directors believe that 2011 should be another good year for the group.

RICHARD M ROBINOW
Chairman
20 April 2011

Review of the group

Introduction

This review 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 review should not be relied upon by any persons other than shareholders or for any purposes other than those stated. The review 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 review. 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 review, the directors have complied with section 417 of the Companies Act 2006. They have also sought to follow best practice as recommended by the reporting statement on operating and financial reviews published by the Accounting Standards Board but this review may not comply with that reporting standard in all respects.

This review 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 review is divided into five sections: overview; agricultural operations; coal operations; finances; and risks and uncertainties.

Overview

Nature of business and resources

The group is principally engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production of crude palm oil ("CPO") and by-products from fruit harvested from its oil palms. A detailed description of the group's oil palm activities is provided under "Agricultural operations" below.

During 2008, the directors decided to augment the traditional agricultural operations of the group by developing a modest coal mining business in Indonesia. Following this decision, the group has acquired rights in respect of three coal concessions in East Kalimantan and is now in the process of establishing an open cast coal mining operation and coal trading activity based on these concessions. Details of this diversification are provided under "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. The group today sees itself as marrying developed world capital and Indonesian opportunity by offering investors in, and lenders to, the company the transparency of a company listed on a stock exchange of international standing and then using capital raised by the company (or with the company's support) to develop natural resource based operations in Indonesia from which the group believes that it can achieve good returns. In this endeavour, the group's inheritance from its past and the group's recent track record represent significant intangible resources because they underpin the group's credibility. This assists materially in sourcing capital, in negotiating with the Indonesian authorities in relation to project development and in recruiting management of a high calibre.

Other resources that are important to the group are its developed base of operations, bringing with it an established management team familiar with Indonesian regulatory processes and social customs, a trained workforce and the group's land and concession rights.

Objectives

The group's objectives are 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, to foster economic progress in the localities of the group's activities and to develop the group's operations in accordance with best corporate social responsibility and sustainability standards. Achievement of these objectives is dependent upon, among other things, the group's ability to generate the operating profits that are needed to finance such achievement.

CPO and coal are primary commodities and as such must be sold at prices that are determined by world supply and demand. Such prices may, and do, fluctuate in ways that are difficult to predict and which the group cannot control. The group's operational strategy is therefore to concentrate on minimising unit production costs with the expectation that the lower cost producer of any primary commodity is better placed to weather any downturn in price than less efficient competitor producers of the same commodity.

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 the group's land bank as rapidly as logistical, financial and regulatory constraints permit with a view to increasing production volumes without commensurate increases in the fixed overhead of the group's agricultural management. Secondly, the group strives to manage its established agricultural operations as productively as possible. Ancillary to the first component of this approach, the group seeks to add to its land bank when circumstances are conducive to its doing so. The directors intend that, as the coal operations come into production, the group will similarly seek production cost efficiencies in those operations by increasing volumes and focusing on productivity.

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

Diversification

The group recognises that its agricultural operations, which represent the major part of the group's assets and, in 2010, contributed all of the group's profits, lie within a single locality and rely on a single crop. This permits significant economies of scale but brings with it risks. The directors hope that the coal operations now being established will, if successful and further expanded, provide the group with some offset against such risks. The directors have no plans for further diversification and believe that, for the foreseeable future, the group's interests will be best served by growing the existing agricultural and coal operations.

Strategic direction and succession

Whilst the group's continuing commitment to expansion by organic growth in its existing businesses provides reasonable clarity as to future management requirements, it does not relieve the group of the need constantly to review and upgrade its management resources. That need stems from a combination of factors: the expanding operations; growth in external expectations of the group

(reflecting both the group's increasing size and an international trend towards greater public corporate accountability by listed companies); and the inevitable ageing of the group's senior management with a consequential requirement to provide for succession.

Faced with this need, the group is proceeding with its previously announced plan to establish a small regional office in Singapore. A senior executive has recently been recruited to head this office and it is intended that the office should begin operating during 2011. Thereafter, staffing will be increased to an extent appropriate to enable the Singapore office progressively to assume many of the management functions currently performed by the group's head office in London. The group believes that the close proximity of Singapore to Indonesia and the limited time differences between the two countries will be conducive to greater senior management oversight of Indonesian operational matters than has hitherto been possible for senior management based in London.

The group has also taken steps to enhance management capacity in Indonesia with the appointment of an additional senior executive to fill the newly created position of chief financial officer for the agricultural operations. With this position filled, the group believes that it now has in place the senior management needed to handle the planned further expansion of the agricultural operations. Some further recruitment for the coal operations is likely to be necessary if those operations develop as is hoped.

Whilst the group continues to rely on expatriate staffing for some functions, the group is increasingly managed by local Indonesian staff and now has senior Indonesian nationals in overall charge of both the agricultural and the coal operations. As a foreign investor in Indonesia, the group needs to remain aware 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 Indonesians to handle its interface with Indonesia is therefore a significant asset upon which the group plans to build. The group also derives valuable local support and advice from local advisers and from the local non-controlling investors in, and local non-executive directors of, the company's Indonesian subsidiaries.

The directors have previously expressed concern as to whether the current ownership of the group's Indonesian businesses through a UK listed company is an appropriate long term structure for the group or whether the group would be better structured as an entirely South East Asian based entity with a parent company listed in that region. Arguments in favour of such a move include the reduction in head office costs that could be expected, the better rating of the group's parent company's shares that might be achieved on, for example, the Singapore Stock Exchange and the arguably wider research coverage of South East Asian companies operating in the agricultural sector. Against this, the company's existing investor base is almost entirely in Europe and the company's UK listing has, in recent years, afforded the company good access to equity and debt when needed. In the "Review of the group" in the company's 2009 annual report, the directors stated that they had concluded that, whilst the matter should be kept under review, the current status quo of the group with a UK listed parent company should be retained. That conclusion is currently being reconsidered by the directors.

This has been prompted by two factors. First, in the face of emigrations by some major UK companies and suggestions that more may follow in an effort to avoid UK tax and in some cases restrictions on bonus payments, there have been reports of possible UK legislation to inhibit UK companies transferring themselves overseas. Any decision by the group to move from the UK would not be motivated by either tax or bonus restriction avoidance (indeed there would be no benefit to the group in either

respect) but the directors are concerned that legislation designed to prevent others from transferring might remove the flexibility to transfer that the group currently enjoys. Secondly, whilst the group remains in the UK, it requires staff to undertake its administrative functions. This requires periodic recruitment and such recruitment is made more complicated if the company's continued presence in the UK remains uncertain. If an eventual transfer is contemplated, both of the foregoing factors militate against leaving such transfer pending.

The directors retain their previously stated intention that the board of the company should continue as currently constituted until the new Singapore office becomes fully operational (which it is planned will be during 2012) but should then be reconstituted and thereafter refreshed on the basis of a policy that length of service by independent non executive directors be limited to nine years. The chairman and managing director have indicated their willingness to continue in their present roles for a period sufficient to ensure management continuity.

The Indonesian context

In 2010, the Indonesian economy grew by 6 per cent per annum, the level last achieved in 2006 and 2007 ahead of the world economic problems of 2008. A reduction during 2010 in the ratio of debt to gross domestic product was reflected in an improving credit rating and, with increasing foreign currency reserves, encouraged foreign investment inflows. The Indonesian credit rating has continued to improve during 2011 and Standard & Poors has recently raised the sovereign debt and credit ratings from BB to BB+.

Political controversy over alleged improprieties in a government funded rescue of an Indonesian bank was eventually resolved by compromise between what are seen as liberal technocrats pushing for reforms of the political process and an anti reform lobby. The compromise was accompanied by the replacement of the incumbent Minister of Finance (generally regarded as a reformist) and the appointment of a new Governor of the Indonesian Central Bank. Some believe that this compromise will further constrain the President's legislative agenda but it may equally be argued that the compromise is no more than a reminder of the constraints that already existed as a result of the minority position of the President's party in the lower house of the Indonesian parliament.

The strengthening of the Indonesian rupiah seen in the latter months of 2009 continued into 2010 with the rate against the US dollar improving from Rp 9,400 = $1 at 31 December 2009 to Rp 8,991 = $1 at 31 December 2010. However, Indonesian inflation, driven by strong domestic demand and rising commodity prices, increased to nearly 7 per cent in 2010 compared with 3 per cent in the preceding year.

Growing Indonesian awareness of environmental and conservation issues was given impetus by the signature during 2010 of a letter of intent between Indonesia and Norway on a proposed two year moratorium on further conversion of natural forest in exchange for an undertaking by Norway to invest up to $1 billion in creating monitoring and pilot projects under the United Nations backed forest preservation scheme known as "REDD" (reduced emissions from deforestration and degradation). Whilst regulations to implement the proposed moratorium have not yet been issued, it appears that the increased accountability that such regulations threaten to impose on government officials is already having the effect of further restricting the issue of permits for new plantation development even when development is in areas that are without conservation value such as the areas that the group develops.

The Indonesian province of East Kalimantan remained stable and prosperous during 2010 which saw efforts by

the provincial government to develop and improve the provincial infrastructure.

Evaluation of performance

In seeking to meet its expansion and efficiency 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 in the agricultural operations on regular reporting of certain key performance indicators that are comparable from one year to the next. These indicators for any given period comprise:

- the new extension planting area developed; this is measured as the area in hectares of land cleared and planted out or cleared and prepared for planting out during the applicable period;
- the crop of fresh fruit bunches ("FFB") harvested; this is measured as the weight in tonnes of FFB delivered to the group's oil mills from the group's estates during the applicable period; and
- the CPO, palm kernel and crude palm kernel oil ("CPKO") extraction rates achieved; the first two of these are measured as the percentage by weight of CPO or palm kernels extracted from FFB processed and the third is measured as the percentage by weight of CPKO extracted from palm kernels crushed.

Of these indicators, the first provides a measure of the group's performance against its expansion objective. The second and third indicators are measures of field and mill efficiency and, as such, provide a basis for assessing the extent to which the group is achieving its objective of maximising output from its operations. Quantifications of the above indicators for 2010 and comparable quantifications for 2009 (in both cases as sourced from the group's internal management reports) are provided under "Land development" and "Crops and extraction rates" in "Agricultural operations" below, together with targets for 2011.

The coal operations are still at an early stage but the directors are in the process of establishing appropriate performance indicators for those operations and intend to publish these in future annual reports.

Key indicators used by the directors in evaluating the group's financial performance for any given period comprise:

- return on adjusted equity which is measured as 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; and
- net debt to total equity which is measured as borrowings and other indebtedness (other than intra group indebtedness) less cash and cash equivalents expressed as a percentage of total equity.

Because of the group's material dependence on CPO prices, which have a direct impact on revenues and on periodic revaluations of biological assets, in targeting return on total equity the directors set a norm that they hope will represent an average of the annual returns achieved over a period of seven years.

Percentages for the above two indicators for 2010 and comparable figures for 2009 (derived from figures extracted from the audited consolidated financial

statements of the company) are provided under "Group results" and "Financing policies" in "Finances" below, together with target percentages.

In relation to social and environmental matters, the directors continue to rely principally on qualitative rather than quantitative assessments but have now established some quantitative indicators to assist evaluation of the group's performance in these areas. Accordingly the qualitative commentary under "Employees", "Community development", "Smallholders", "Conservation" and "Sustainable practices" in "Agricultural operations" below includes quantitative data on examination results in the group's primary schools, incidence of vector borne diseases, serious accidents sustained, pollution of water courses, use of diesel oil and substitution of organic for inorganic fertiliser.

The group has appointed consultants to assist the group in assessing its carbon footprint and will aim to publish carbon footprint data once this has been satisfactorily measured.

The directors recognise the significance of environmental, social and governance matters to the business of the group. Identification, assessment, management and mitigation of the risks associated with such 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 the "Corporate governance" section of this annual report. Material risks and related policies regarding environmental, social and governance matters are described under "Risks and uncertainties" below and under "Employees", "Community development", "Smallholders", "Conservation" and "Sustainable practices" in "Agricultural operations" below. The latter sections also detail the group's successes and failures in environmental, social and governance areas and the measures taken in response to failures. Independent verification of the group's performance in these areas is provided as described under "Accreditation and verification" in "Agricultural operations" below.

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 co-operation 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 operations, are owned through PT REA Kaltim Plantations ("REA Kaltim") in which a group company holds a 100 per cent economic interest. With the REA Kaltim land areas approaching full utilisation, over the four year period from 2005 to 2008 the company established or acquired several additional Indonesian subsidiaries, each potentially bringing with it a substantial allocation of land in the vicinity of the REA Kaltim estates. These additional subsidiaries comprise PT Cipta Davia Mandiri ("CDM"), PT Kartanegara Kumala Sakti ("KKS"), PT Kutai Mitra Sejahtera ("KMS"), PT Putra Bongan Jaya ("PBJ") and PT Sasana Yudha Bhakti ("SYB"). Each of these subsidiaries is, or will on completion of necessary legal formalities be, owned as to 95 per cent by group companies and 5 per cent by Indonesian local investors.

Land areas

Although the 1991 understanding established a basis for the provision of land for development by or in cooperation with the group, all applications to develop previously undeveloped land areas have to be agreed by the Indonesian Ministry of Forestry and to go through a titling

and permit process. This process begins with the grant of a land allocation. This is followed by 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 land titling process is 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"* certificate).

Permits are then required for the development of fully titled land and these are often issued in stages. In particular, since the end of 2009, the Ministry of Forestry has required that all companies clearing land for plantation development obtain a so-called timber cutting permit (*"izin pemanfaatan kayu"* or *"IPK"*) before commencing land development. As pre-conditions of the issue of an IPK to a plantation company, the Ministry of Forestry requires that the zoning of the land to be covered by the IPK is checked to ensure that plantation development occurs only in areas that have been approved for agricultural development and, further, that the land concerned is surveyed by representatives of the Ministry.

In the group's experience, the land titling and permit process, which was never straightforward, has become more complicated in recent years. This has followed the devolution of significant authority in relation to land matters from the Indonesian central government to Indonesian provincial and district authorities. This has resulted in an increase in the number of official bodies involved in the titling process.

The group's land titling made further progress during 2010 to the extent that the fully titled agricultural land area held by the group amounted by year end to 63,263 hectares, comprising 9,784 hectares held by CDM, 11,602 hectares held by PBJ, 30,106 hectares held by REA Kaltim and 11,771 hectares held by SYB. In the case of SYB, the total takes into account the excision from the titled areas of some 750 hectares of undeveloped land following the group's agreement to release such land for a government smallholder scheme.

During the year, KKS was successful in obtaining a renewed allocation of 15,100 hectares out of a total area of 20,000 hectares in respect of which its previous land allocation had expired (the balance of such land being subject to Ministry of Forestry licences for logging activities although those activities ceased many years ago). The renewed allocation is conditional upon completion of a planned rezoning of East Kalimantan which is slowly progressing through the governmental authorities who must approve it. Against this, parts of several of the land allocations previously held by the group had to be relinquished either because they comprised land that was found not to be zoned for plantation development or because of conflicting land claims. As a result, the land allocations still subject to titling that were held within the group at 31 December 2010 comprise 6,741 hectares in CDM, 15,100 hectares in KKS, 7,445 hectares in KMS and 2,214 hectares in SYB.

In February 2011, KMS was granted full HGU title in respect of 7,321 hectares of its 7,445 hectares land allocation and the balance of 124 hectares was relinquished. The titling of the remaining land allocations may result in exclusion of further areas, particularly in the case of the CDM where the land allocation is known to include a number of smallholder settlements. Moreover, not all of the areas in respect of which full HGU titles are issued can be planted with oil palms. Some fully titled land may be unsuitable for planting or subject to zoning or similar restrictions (such as areas potentially available for mining), a proportion will be set aside for conservation and a further proportion is required for roads, buildings and other infrastructural facilities. This means that the

prospective maximum area that the group could plant with oil palms on the fully titled and allocated agricultural land areas currently held must be expected to be less than the gross hectarage that those areas comprise.

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 KKS and SYB areas are contiguous with the REA Kaltim areas so that the three areas together form a single site. All of these areas fall within the Kutai Kartanegara district of East Kalimantan. The PBJ area sits some 70 kilometres to the south of the REA Kaltim areas in the West Kutai district of East Kalimantan while the CDM and KMS areas are located in close proximity of each other in the East Kutai district of East Kalimantan less than 30 kilometres to the east of the REA Kaltim areas.

At present, access to the REA Kaltim, SYB, KKS, CDM and KMS areas can be obtained only by river and by air although the completion in 2005 of a road bridge over the Mahakam at Kota Bangun may eventually permit road access as well. The PBJ area is already accessible by road. The CDM and KMS areas can be accessed from the REA Kaltim area by way of abandoned logging roads.

The group continues to look at acquiring further areas suitable for planting with oil palms within the general vicinity of its existing land allocations but, with land prices rising and increasing interest in plantation development, land is much less available than was the case in 1991 when the group first established itself in East Kalimantan.

Land development

Areas planted and in course of development as at 31 December 2010 amounted in total to 32,083 hectares. Of this total, mature plantings comprised 21,984 hectares. A further 3,450 hectares planted in 2007 came to maturity at the start of 2011.

Reserve land held by the group only becomes available for development when the titling process has proceeded to a point at which the group has been granted development and necessary land clearing licences, and compensation agreements have been reached with local villagers who have claims in respect of their previous use of the land. During 2010, progress of the group's plans for oil palm extension planting was seriously delayed by hold ups in the issue of necessary permits and, in particular, of the recently introduced IPKs. This reflected, at least in part, a lack of clarity on the part of the relevant authorities as to the procedure to be followed by plantation company applicants seeking to obtain these newly required permits. As a result, the aggregate area planted or under development increased over 2010 by only some 1,000 hectares, all of which related to areas that were exempted from the IPK requirement having been already under development when this requirement was introduced.

Encouragingly, the group did finally secure its first IPK in January 2011 and a further IPK was issued in March. This has permitted the resumption of extension planting. Moreover, the group believes that the relevant authorities, having now started to issue IPKs, will be able to process the group's further IPK applications with less delay than was the case immediately after the new IPK requirement came into force. The group therefore retains its oil palm planting target for the two year period ending 31 December 2011 of 8,000 hectares in total. The directors believe that this target remains achievable but whether it will actually be achieved will be critically dependent upon land becoming available for development as needed.

At current cost levels and CPO prices, extension planting in areas adjacent to the existing developed areas still offers the prospect of attractive 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 will continue to be dependent upon the rate at which the group can make additional land areas available for planting.

Processing and transport facilities

The group currently operates two oil mills in which the FFB crops harvested from the mature oil palm areas are processed into CPO and palm kernels.

The first mill, which dates from 1998, was developed to give an intended capacity of 80 tonnes per hour but, by 2009, the combined effect of a reduction in available power (following deterioration in one of the two boilers) and inefficiencies in other ageing mill machinery was making it difficult to operate the mill at the intended capacity over any extended period. A major overhaul of the mill was initiated in 2010 to address this problem. This has involved upgrading of machinery and the installation of a new boiler. The overhaul, which will restore the effective mill capacity to 80 tonnes per hour, is currently on schedule and should be completed before the start of the 2011 peak cropping period in September.

The capacity of the second oil mill, which was brought into production in 2006, was expanded during 2010 from 60 to 80 tonnes per hour.

The upgrading of the older mill and expansion of the newer mill should provide the group with sufficient capacity to meet the expected FFB processing requirements of 2011 but by 2012 the group will require a third mill. Work is already in hand on the construction of this third mill and it is expected that mill commissioning will be completed ahead of the peak cropping months of 2012.

The group's newer oil mill incorporates, within the overall facility, a palm kernel crushing plant in which palm kernels can be further processed to extract the CPKO that the palm kernels contain. The kernel crushing plant is economic to run because the oil mill in which the plant is located is able to generate sufficient power, from the combustion of waste products from the mill's processing of FFB, to operate the kernel crushing plant and to meet the other power requirements of the mill. Moreover, processing kernels into CPKO avoids the material logistical difficulties and cost associated with the transport and sale of kernels. The kernel crushing plant has a capacity of 150 tonnes of kernels per day which is sufficient to process all kernel output from the group's two existing oil mills. Further kernel crushing capacity will be needed in 2012 and the third mill now under construction will therefore incorporate its own kernel crushing plant.

The group maintains a fleet of barges for transport of CPO and CPKO. The fleet is used in conjunction with tank storage adjacent to the oil mills and a transhipment terminal owned by the group downstream of the port of Samarinda. The fleet now comprises one barge of 4,000 tonnes, which the group time charters (and which, in 2010, replaced a 3,000 tonne barge that the group previously time chartered), and a number of smaller barges, ranging between 750 and 2,000 tonnes, which are owned by the group. The smaller barges are used for transporting palm products from the upriver operations to the transhipment terminal for collection from that terminal by buyers or for transfer to the larger barge. The latter is

then used for sea voyages to make deliveries to customers in Malaysia and other parts of Indonesia.
The directors believe that flexibility of delivery options is helpful to the group in its efforts to optimise the net prices, FOB port of Samarinda, that it is able to realise for its produce. Moreover, the group's ability itself to deliver CPO and CPKO allows the group to make sales without the collection delays sometimes experienced with FOB buyers. Currently, a significant proportion of the group's CPO is sold for delivery to ports in Sabah in East Malaysia. As a result, the 4,000 tonne barge is employed almost exclusively in sailing between Samarinda and Sabah. Because of the relatively short distance involved, this is proving very efficient in minimising transformation costs.

A trial made in 2005 established that it is both feasible and economic to use the barge fleet to transfer CPO from the Samarinda transhipment terminal to ships anchored offshore outside the port of Samarinda. This potentially provides access to vessels of much greater tonnage than the vessels that can be loaded within the port of Samarinda (which are effectively limited to 6,000 tonnes). Moreover, the recent construction of bulking facilities in the port of Balikpapan means that larger vessels may now also be accessed by barging from the upstream oil storage tanks to Balikpapan and transhipping there rather than in Samarinda. Access to larger vessels would permit the group to ship palm products to Europe when differentials between European and South East Asian prices for CPO and CPKO make it worthwhile to do so. This is not currently the case but the situation may change when the group becomes able to deliver palm products that have been certified as sustainably produced.

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 reaches of the Belayan become volatile and palm products at times have to be transferred by road from the mills to a point some 70 kilometres downstream where year round loading of barges of up to 2,000 tonnes is possible. The group owns a riverside site in this downstream location. Road access to this site was washed away in 2005 but restored during 2009. The group is now considering the development of its own permanent loading facilities on the site for use during dry periods. The group is also seeking (by obtaining licences to use third party owned roads) to establish alternative routes for the transfer of palm products to the downstream loading point during drier periods to ensure that, as volumes increase, the group can continue during such periods promptly to evacuate all palm product output.

Crops and extraction rates

FFB crops for the years from 2006 to 2010 are shown in the "Key statistics" section of this annual report. The crop out-turn for 2010 amounted to 518,742 tonnes of oil palm fresh fruit bunches. This represented an increase of 5.8 per cent on the FFB crop for 2009 of 490,178 tonnes but was below the budgeted crop for the year of 561,680 tonnes. External purchases of FFB from smallholders and other third parties in 2010 totalled 20,089 tonnes (2009: 13,248 tonnes).

Rainfall across the group's estates averaged 4,434 mm for 2010, compared with 3,123 mm for the previous year. Although the high level of rainfall caused some disruptions to harvesting in the last quarter of 2010, the directors believe that the principal reason for the crop shortfall against budget was the extended drier period experienced in 2009 coincident with an occurrence of the El Niño weather phenomenon. Theoretical calculations based on average daily rainfall had indicated that rainfall during 2009 was sufficient to avoid palms suffering moisture stress (which is known to have a temporary effect on subsequent cropping levels) but 2010 cropping experience suggests that these calculations were unfortunately over-optimistic and underestimated the

variations in moisture levels across the estates and in particular the negative effects on moisture absorption of run-off in hilly areas.

The group's own FFB crop for 2011 has been budgeted at 611,000 tonnes with a normal budgetary assumption of average rainfall (both as to quantum and distribution). The FFB crop to end March 2011 amounted to 135,424 tonnes against the budget for the period of 141,117 tonnes. The directors do not believe that any conclusions as to the likelihood of the group achieving its budgeted crop for 2011 should be drawn from the slight shortfall of the first quarter as variations from year to year in the monthly phasing of each year's crop are normal. External purchases of FFB during 2011 have been budgeted at 25,000 tonnes.

Processing of the group's own FFB production and the externally purchased FFB, together totalling 538,831 tonnes (2009: 503,426 tonnes), produced 127,256 tonnes of CPO (2009: 118,357 tonnes) and 24,614 tonnes of palm kernels (2009: 23,740 tonnes) reflecting extraction rates of 23.62 per cent for CPO (2009: 23.51 per cent) and 4.57 per cent for kernels (2009: 4.72 per cent). Production of CPKO amounted to 9,745 tonnes (2009: 9,636 tonnes) with an extraction rate of 40.07 per cent (2009: 40.04 per cent).

The group's target extraction rates for 2010 were 24.0 per cent for CPO, 4.75 per cent for palm kernels and 42 per cent for CPKO. These target rates are being retained for 2011.

Markets and revenues

According to Oil World, worldwide consumption of the 17 major vegetable and animal oils and fats increased by 4.1 per cent to 169.5 million tonnes in the year to 30 September 2010. The increased consumption was reflected in increased world production during the same period of 168.8 million tonnes with CPO accounting for 46.7 million tonnes of this (27.6 per cent of the total).

Vegetable and animal oils and fats have conventionally been used principally for the production of cooking oil, margarine and soap. Consumption of these basic commodities correlates with population growth and, in less developed areas, with per capita incomes and thus economic growth. Demand is therefore driven by the increasing world population and economic growth in the key markets of India and China. Vegetable and animal oils and fats can also be used to provide bio-fuels and, in particular, bio-diesel. According to Oil World, bio-fuel use during the year to 31 December 2010 accounted for 12 per cent of all vegetable and animal oil and fat consumption.

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 oils and fats complex can be expected to oscillate about a mean at which adequate returns are obtained from growing the annual oilseed crops.

Since the oil yield per hectare from oil palms (at between 4 and 7 tonnes) is much greater than that of the principal annual oilseeds (less than 1 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 those 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 hydrogenation. Poly-unsaturated oils, such as soybean oil, rape oil and

sunflower oil, require hydrogenation before they can be used for shortening or other solid fat applications but CPO does not.

Bio-fuel has become an important factor in the vegetable and animal oil and fat markets, not so much because of the oil and fats that it currently consumes, although this is not insignificant, but because the size of the energy market means that bio-fuel can provide a ready outlet for large volumes of oils and fats over a short period when surpluses in supply depress prices to levels at which bio-fuel can be produced at a cost that is competitive with prevailing petroleum oil prices. This should provide a floor for vegetable and animal oil and fat prices.

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. It is however possible that normal market mechanisms may, for a time at least, be affected by government intervention. It has long been the case that some areas (such as the EU) have provided subsidies to encourage the growing of oilseeds and that such subsidies have distorted the natural economics of producing oilseed crops. More recently there have been actions by governments attempting to reduce dependence on fossil fuels. These have included steps to enforce mandatory blending of bio-fuel as a fixed minimum percentage of all fuels and subsidies to support the cultivation of crops capable of being used to produce bio-fuel. Concerns as to the side effect of such actions in reducing food availability and in encouraging despoliation of forest lands may limit further measures to encourage the production of bio-fuel but it appears likely that measures already in place will remain in force for some time to come.

A graph of CIF Rotterdam spot CPO prices for the last ten years, as derived from prices published by Oil World, is shown in the "Key statistics" section of this annual report. The monthly average price over the ten years has moved between a high of $1,249 per tonne and a low of $234 per tonne. The monthly average price over the ten years as a whole has been $580 per tonne.

The rise in CPO prices seen in 2009 continued into 2010. After opening the year at a little above $800 per tonne, CIF Rotterdam, and remaining broadly at that level for the first six months of 2010, the price rose further in the third quarter of the year to $935 per tonne at the end of September 2010 and then again, and even more sharply, in the last quarter to close the year at $1,285 per tonne. Prices have remained comfortably over the $1,000 per tonne level so far in 2011 and at times CPO has traded at above $1,300 per tonne.

The current historically high prices of CPO and other vegetable oils (which have appreciated commensurately) are attributable to a number of factors: the demand drivers of population growth and developing world economic growth referred to above; increasing petroleum oil prices that are improving the economics of converting vegetable oils to bio-fuels and the combined impact of the El Niño and La Niña weather phenomena that have held back production. For 2011, consumption may outstrip production and with stocks low and the annual oilseed crops competing for land with wheat and corn, which are also at high prices and in strong demand, CPO prices could reasonably be expected to remain at good levels throughout 2011.

The current unrest in the Middle East and the after effects of the Japanese tsunami could negatively impact the world economy leading to some downturn in food demand for vegetable oil but, against this, they could also result in higher petroleum oil prices and a consequential increase in the floor price for vegetable oil that the bio-diesel conversion option provides. Nevertheless, the directors retain their view that vegetable oil markets will remain cyclical and that it is therefore likely that the current high

prices will eventually result in increased supply and lead to lower prices, albeit probably not in 2011.

In 2010, approximately 37 per cent by volume of group CPO sales was made to the local Indonesian market and the balance of 63 per cent was exported. FOB prices realised for CPO in the local market during 2010 were for the most part broadly in line with those available in the export market but, with production volumes increasing, the group wishes to ensure that it can access both domestic and international CPO markets. Sales continued to be made to a small number of buyers with export sales concentrated within the South East Asian region and the vast majority of exports going to refineries in East Malaysia owned by one customer (a major company of international standing).

With CPKO prices rising to an even greater extent than CPO prices during 2010, CPKO became a more important second product for the group. To ensure that full value was being captured, the group expanded its CPKO customer base and started selling CPKO for export as well as domestically. As a result, exports represented 34 per cent of CPKO sales by volume in 2010 against nil in 2009.

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. The group will give consideration to separate marketing of segregated sustainable oil once it has obtained accreditation from the Roundtable on Sustainable Palm Oil as referred to under "Accreditation and verification" below.

The Indonesian regulations imposing sliding scales of duty on exports of CPO and CPKO remain in place. The rate of duty payable on CPO currently rises from nil per cent on sales at prices of up to the equivalent of $700 per tonne, CIF Rotterdam, to 25 per cent on sales at prices above the equivalent of $1,250 per tonne. Whilst the progressive nature of this duty means that the Indonesian state takes a large part of the benefit of high prices, an effect of the duty is to constrain the impact of rising international CPO prices on the local Indonesian price of cooking oil. This may be important to continuing political stability in Indonesia which is certainly beneficial to foreign investors in Indonesia.

As a general rule, all CPO and CPKO produced by the group is sold on the basis of prices prevailing immediately ahead of delivery but, on occasions when market conditions appear favourable, the group may consider making 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 (and in this context it should be noted that if CPO prices were to rise significantly above $1,250 per tonne CIF Rotterdam, the current sliding scale of export duties might well be extended). When making forward fixed price sales, the group would not normally commit a volume equivalent to more than 60 per cent of its projected CPO or CPKO production for a forthcoming period of twelve months. No deliveries were made against forward fixed price sales of CPO or CPKO during 2010 and the group currently has no sales outstanding on this basis.

The average US dollar prices per tonne realised by the group in respect of 2010 sales of CPO and CPKO, adjusted to FOB, Samarinda, and net of export duty were, respectively, $779 (2009: $591) and $1,066 (2009: $579).

Costs

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

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

With inorganic fertiliser representing a major and increasing cost, the group has endeavoured in recent years to develop natural fertilisers. Two consequences have been the extensive planting of *macuna bracteata* as a cover crop in the oil palm areas and the composting of residues of the CPO production process. *Macuna bracteata* (of which the group was an early user in Indonesia) not only keeps down noxious weeds but is also a prolific generator of vegetative matter that acts as a natural fertiliser and soil improver, thereby promoting oil palm growth, particularly in the immature phase. Composting too produces substantial volumes of natural fertiliser by converting empty fruit bunches and oil mill effluent into a nutrient rich compost.

Composting is effected by delivering all empty fruit bunches and oil mill effluent (in the latter case after treatment in effluent ponds) to a composting contractor at sites adjacent to the group’s oil mills. The contractor takes title to these residues and manages the composting process (this takes 45 days and involves seeding the residues with an accelerant of micro-organisms (which the contractor supplies), mixing the residues and macerating the mix to encourage biodegradation). The contractor then sells back the resultant compost to the group at an agreed price with a guaranteed nutrient content.

The expellate from the milling of palm kernels has hitherto been used as a further substitute for inorganic fertiliser but with rising demand for this expellate for use in animal feeds, the group will in future sell its palm kernel expellate production at times when the sales value of the expellate exceeds its value as a fertiliser substitute.

During 2011, the group is aiming to make further cost savings from the recycling of waste by establishing two methane conversion plants. Each plant will be constructed adjacent to an existing oil mill and will be based around a lagoon covered with inflatable high density polyethylene sheeting. After initial cooling, mill effluent will pass to the lagoon which is designed to accelerate the anaerobic digestion of the effluent. The methane released during the digestion process will be captured within the lagoon cover, passed through a biological scrubber and used to fuel one or more gas powered generators. Methane that is surplus to requirements for electricity generation will be flared off. The digested effluent will be discharged from the lagoon to the existing mill effluent ponds and subsequently passed to the composting process. The electricity generated from the captured methane will be supplied to a number of estate villages, thereby reducing materially the requirement for diesel generated electricity. It is expected that each lagoon will have a methane production capacity sufficient to generate about 3 megawatts of power.

Because the methane conversion plants will reduce the group's greenhouse gas emissions, the group expects to obtain carbon credits under the Clean Development Mechanism for the period from completion of the plants up to 2020. Taking these credits into account, the methane conversion plants are expected to generate acceptable investment returns and reduce considerably the group's carbon footprint.

Investments made in 2009 in increased mechanical handling of FFB collection and transport and in establishing an "in house" road maintenance capability have proved successful and resulted in significant savings during 2010. Further efficiencies are likely as staff become fully accustomed to the new arrangements.

The group is persevering with its development of a new management information and accounting database but implementation has proved more complex than originally foreseen. This has caused some delays and it is now hoped that the new database will be operational for 2012. The new database should facilitate analysis by reference to much smaller units than has hitherto been possible and should thus permit management to identify and remedy underperformance on a more focused basis.

The group's costs are currently subject to many inflationary pressures. Fertiliser, diesel and steel prices all rose during 2010 and are continuing to rise. Higher Indonesian inflation coupled with a firm Indonesian rupiah is putting pressure on Indonesian labour costs in US dollar terms whilst the rapid expansion of the oil palm sector is increasing competition for senior staff and pushing up salary costs. The group will not be immune to these pressures but the impact on unit costs may be mitigated over time by increased cropping from newly mature areas.

Employees

The workforce in the group's agricultural operations continues to expand in line with the growth in the operations so that, by the end of 2010, the workforce numbered over 7,400 (2009: 6,900).

The reorganisation of the human resources department that was initiated in 2009 is now nearing completion. Employment manuals have been overhauled, new defined indicators introduced for evaluating performance and positions re-graded so as to ensure that the group's remuneration in the ongoing is competitive and fair and appropriately reflects the grading of positions and industry benchmarks. Formal processes have been introduced for recruitment, particularly for key managerial positions. The changes, which are intended to ensure a more consistent approach to the management of human resources, have been well received.

Almost all members of the workforce and their dependants are housed in group housing in a network of villages across the group estates. All villages are equipped with potable water and electricity and provided with a range of amenity buildings including mosques, churches, shops, schools and crèches. A full review of housing and related facilities is planned for 2011 to assess future housing requirements and investigate the scope for further enhancing workforce amenities.

A trust funded by the group operates a network of primary schools and crèches across the group's estates and the group provides support to state secondary schools serving the children of the group's employees. In 2010, 90 pupils from the group's primary schools sat examinations for entry to state secondary schools and a 100 per cent pass rate was achieved (2009: 88 pupils and 100 per cent).

The group runs its own health service with a medical clinic in each estate village and a central hospital. It also has partnership links with larger hospitals in Samarinda and Jakarta. The estate clinics and hospital are open not only to the group's employees and their dependants but also to members of the local communities. The group actively supports measures to control endemic diseases and to further the education of its workforce in hygiene and similar health matters. No incidents of vector borne diseases (such as dengue fever and malaria) in which infection occurred on the group's estates were reported during 2010 or 2009. 29 cases of malaria were treated during 2010 and, in each case, the affected persons had been infected prior to arrival on, or return to, the estates.

The group has health and safety policies that are clearly communicated to all employees and are managed through regular meetings on each operating unit attended by management and employee representatives. The minutes from all such meetings are reviewed by senior management ultimately accountable to the group managing director and appropriate action is taken to remedy any deficiencies identified. There were no serious accidents to members of the group's workforce during 2010 or 2009.

Having available staff in the numbers and with the skills and commitment that are required is vital to the group in its efforts to establish best practice in all aspects of its agricultural activities. In most years, graduates from Indonesian universities are recruited to join a twelve month training programme organised by the group's training school that provides a grounding in oil palm estate management. Those successfully completing the programme are offered management positions.

Wherever possible, the group fills available staff positions by internal promotion. With the continuing expansion of the agricultural operations, this gives the group the ability to offer graduates the prospect of an attractive career path. Until recently, the graduate intake was limited to graduates holding agricultural qualifications but this was broadened in 2009 to include engineering graduates. Future graduate recruitment may be further broadened to include a wider spectrum of graduates with the aim of providing the group with a pool of staff qualified to manage all aspects of the group's plantation activities.

Continued training is provided for staff at all levels. Regular programmes are constructed by, and operated out of, the group's own training school. These are supplemented by external management development courses and attendance at industry conferences. A wide variety of topics is covered including health and safety, sustainability, communication skills and English language courses. An analysis of training needs was conducted during 2010 to identify any competency gaps and to ensure that future training programmes address these effectively.

In 2010, the group introduced a system of total quality management for all levels of the workforce with the objectives of encouraging teamwork and motivating employees to achieve improvements in productivity. This involved intensive training and the formation of quality control circle teams. The teams participated and were assessed in an internal competition and the best performing team was selected to participate in a national competition in Batam, where the team came second out of 197 participants from 94 different companies. The group intends to pursue additional total quality management initiatives during 2011 with the aim of further improving the effectiveness of the group's operations.

The group promotes a policy for the creation of equal and ethnically diverse employment opportunities and encourages the establishment of forums in which employees or their representatives can have free and open dialogue with the group's management.

Community development

The group believes that maintenance of good relations with, and encouraging the development of, local communities in its areas of operation is an essential component of its agricultural operations. To this end, the group provides assistance to adjacent villages in a variety of ways and encourages joint social and cultural activities between its employees and local villagers. Formal liaison with the communities is conducted through a committee made up of representatives of the group and the communities. The committee meets regularly and provides a forum in which the concerns of any of the parties represented can be freely aired.

Responsibility for day to day dealings with the local communities is now split between three departments: community development, smallholder and conservation. The activities of the smallholder and conservation departments are dealt with under "Smallholder programmes" and "Conservation" below. The community development department is primarily responsible for overseeing infrastructural assistance to, and supporting self-help projects within, the local communities. The department is overseen by the group's head of estates and is managed by three senior members of staff.

Infrastructural assistance provided to local villages to-date has included provision of generating sets, assistance with repairs of village roads, replacement of a village bridge and drilling of tube wells to provide drinking water. In addition, regular fogging for mosquitoes in the surrounding communities is helping to reduce the incidence of vector borne diseases in those communities. Self-help projects supported by the group are intended to promote economic development in the local communities by encouraging the communities to take advantage of the readily accessible local market for produce that the proximate group workforce provides. The community development department assists in the establishment of such projects by assisting with sale arrangements and providing financial and technical assistance. Projects undertaken to-date have included chicken, duck and pig rearing, fish farming, fruit, vegetable and rice cultivation and bee keeping. Such projects have hitherto, for the most part, been organised by small groups of individual villagers but the group has now started also to encourage village cooperatives to undertake projects. This permits projects on a slightly larger scale and widens the opportunity for members of each village to participate in the projects.

In addition to the foregoing responsibilities, the community development department has a particular role in the titling of new agricultural land areas allocated to the group. It oversees the production by external consultants of the community needs assessment that the group now commissions in all new areas prior to any development of such areas. It explains to the local communities the implications of oil palm development and it seeks to identify and meet local concerns so that the free, prior and informed consent of local people is obtained for new developments.

Smallholder programmes

The availability of the group's oil mills to process FFB harvested from plantings in the vicinity of the group's estates provides an opportunity for the local communities to further their economic progress by developing smallholdings of oil palms in areas surrounding the group's estates. The group continues to support such development and has established its smallholder department as a dedicated department to manage that support.

Until 2009, the group's smallholder support was provided to individuals pursuant to a scheme known as *"Program Pemberdayaan Masyarakyat Desa"* or *"PPMD"*. Under this scheme, each individual smallholder cultivates oil palm on

his own two hectare plot. The group provides technical advice and supplies each smallholder with fertilisers and chemicals on deferred terms on the basis that when the smallholder's oil palm plantings reach maturity, all FFB produced will be sold to the group for processing and the group will, on an agreed basis, recover from the amounts payable for the FFB, the deferred amounts owed to the group. At 31 December 2010, some 1,561 hectares of smallholder plantings across 14 local villages had been established following this model. In addition, the group now treats as if they were PPMD plantings a further 795 hectares of smallholder plantings originally developed under a government scheme for which the group has effectively assumed responsibility.

While continuing to support established smallholdings developed under the PPMD scheme, since 2009 the group's efforts to procure further smallholder development have been concentrated on encouraging the formation of local village cooperatives to develop oil palm on larger areas pursuant to what are known as "plasma schemes" (such terminology reflecting an analogy with elementary particle physics in which a company's estates represent a "nucleus" and the associated smallholders a "plasma" of linked particles). This shift in emphasis was prompted by a wish to accelerate the rate of smallholder development as it became progressively clearer that the logistical constraints of dealing with a large number of individuals, each operating on a relatively small area, would inevitably limit the rate at which the group could expand the smallholdings that it was supporting under the PPMD scheme.

Under the plasma scheme model, the land areas for development are provided by village cooperatives but the development is managed by the group for a fee, with the advantage that development and production standards similar to those of the group can be established in the plasma areas. The costs of development are borne by the cooperatives but with funding from external sources provided on terms that FFB produced by the cooperatives will be sold to the group and that the group will ensure that, out of the proceeds of such sale, the cooperatives meet their debt service obligations in respect of the external funding.

The area planted or under development on the group supported plasma schemes increased during 2010 from 1,578 hectares to 3,076 hectares. The areas developed to-date are owned by cooperatives with members from 9 local villages. During 2011, it is planned to increase the number of villages participating in the schemes by adding further co-operatives. The plasma development programme for 2011 has been budgeted at 1,000 hectares.

It was originally planned that cooperative members would form the core labour force for the plasma scheme developments but would be supplemented when necessary by labour from the group's estates for which the group would render an appropriate charge. It has now become clear that, with urban migration reducing village numbers, the cooperative members available to work on the plasma schemes will be insufficient to provide more than a minor proportion of the workforce needed to maintain and harvest the scheme plantings. Whilst this does not change the basic principle that the labour force for the scheme development will be made up of a combination of cooperative members and labour supplied under contract by the group, it does mean that the group must be in a position to supply contract labour in much greater numbers than was originally expected. The group is taking steps to expand estate village housing and facilities to permit recruitment of the additional permanent workers that it will in consequence need.

Financing for the group supported plasma schemes initiated to-date has been agreed with a local development bank in the form of fifteen year loans secured on the land and assets of the schemes and

guaranteed by the group. It is expected that the loans provided by the development bank will finance most of the initial development costs of the scheme but will be supplemented to the extent necessary by funds advanced by the group.

Whilst the group views its support for smallholder oil palm plantings in the local communities adjacent to its operations as part of its social obligations to those communities, the discharge of those obligations will be mutually beneficial to the communities and the group. The communities will benefit from the economic development generated as a result of the plantings while the group will benefit from the additional throughput in its oil mills that will result from the processing of FFB from the plantings.

Conservation

The group continues to plan the development of its agricultural operations on the basis of environmental impact assessments and advice provided by independent experts. Within the areas already developed, approximately 6,000 hectares have been left intact as conservation reserves with the aim of conserving flora and fauna and enhancing the biodiversity of the landscape. Areas identified as requiring conservation and set aside as part of the planning process for each new development area will be added to the conservation reserves as the group expands.

The group's conservation department (conducting its activities under the name "REA Kon") is responsible for implementing the group's conservation objectives. Led by an experienced local manager with a staff of eight and advised by an international conservation expert, the department has established a long term development plan for the period 2010 to 2015 with the following objectives:

- within the locality of the group's agricultural operations, compiling a detailed record of the physical attributes of the landscape, of its bio-diversity resources and of the status and value of those resources in a local, national and international context;
- minimising or eliminating adverse human impacts from the group's plantation operations on soil, water and biological communities;
- achieving biodiversity conservation through education and cooperation with local communities to promote both protection and sustainable use; and
- seeking conservation outcomes that provide long term benefits to species, local communities and the group.

REA Kon augments its effectiveness through partnerships with local bodies and international non governmental organisations. Since commencing operations in 2008, the department has organised clear physical demarcation of all existing conservation reserves and has established a permanent database on flora and fauna that are found within the reserves and neighbouring watercourses. Up to the end of 2010, REA Kon had confirmed the presence in the land reserves of a total of 42 species of mammals, 154 species of birds and 74 species of cold-blooded vertebrates (such as frogs, snakes and lizards). In addition, collaboration in studies of aquatic fauna conducted with the Indonesian Institute for Sciences and Dr Maurice Kottelat, a leading ichthyologist, had recorded in total over 120 species of fish and described over 10 previously unknown to science. A total of 13 species of crustacean have been identified around the Belayan river including prawns found to be endemic to Kalimantan.

Camera trapping and walking surveys within the conservation reserves and adjacent estate areas have so far recorded a total 26 orang-utans of various ages. At

least two baby orang-utans are known to have been born on the conservation reserves during 2009 and a further two in 2010. REA Kon is monitoring the health of the orang-utan population in the conservation reserves and will consider enrichment planting in the reserves if it appears that the naturally available food resources need to be enhanced although this has not, to-date, appeared necessary.

Quarterly monitoring of water quality in all rivers in the conservation reserves on the north of the Belayan continued during 2010 and this will be extended to the tributaries in the conservation reserves on the south bank during 2011. REA Kon has initiated a study of the contribution that forest predators can make to pest control within oil palm plantings. Pest levels on the group's estates are relatively low against industry norms and there is indirect evidence that pests are controlled by natural predators in forested conservation reserves.

During 2010, REA Kon again organised a number of children's conservation education camps and children from both the group's primary school and local village schools participated. The camps included a first camp at the new REA Kon field station located within the conservation reserves, construction of which was completed in October 2010. Conservation for added value schemes continue with seedlings of rattan and fruit trees being provided to local villages for planting in, and at the periphery of, the group's conservation reserves. These schemes are intended to enhance sustainable use and deter destruction of areas by local slash and burn farming. Demand for seedlings has been such that the REA Kon tree nursery has had to be expanded.

New initiatives undertaken by REA Kon during 2010 included the establishment of a model organic vegetable garden and a project to recycle plastic waste. As respects the latter, REA Kon is currently trialling a machine for shredding plastic bottles and producing plastic flakes for resale.

A charitable foundation, the Yayasan Ulin ("YU") or Ironwood Foundation, was set up by the group in 2009 to extend conservation activities into the wider Belayan river basin and beyond the immediate areas of the group's agricultural operations that are managed by REA Kon. YU works with non-governmental organisations, academic bodies, zoos and other third parties and focuses on promoting conservation in areas external to the group's plantations. Projects undertaken to-date include monitoring of water levels and a tag and release programme for endangered or threatened aquatic species caught by traditional fishermen in the wetlands around the group's agricultural areas. YU is assisted by a board of respected international and local scientific advisers. In addition to the group, donors to YU have to-date included a number of zoological and conservation organisations as well as private individuals.

Sustainable practices

The group recognises its social obligations with respect to pollution and energy efficiency. The group operates a zero burning policy in relation to land development and, in dry periods, maintains active fire patrols in an effort to limit the risks of accidental fires. Corridors are used to separate all plantings from water courses and the latter are regularly monitored to ensure that they are not contaminated by leaching of fertilisers and chemicals. The group actively promotes integrated pest management throughout its operations. Wherever possible, natural predators are preferred to pesticides for pest control. Selective varieties of flowering plants have been planted throughout the group's estates to promote the population of wasps, the natural predators of bagworm and caterpillars. As noted under "Costs" above, processing waste is converted into compost which is applied in the oil palm areas. The area in respect of which

compost substituted for inorganic fertiliser in 2010 amounted to 6,763 hectares and is projected to amount to over 9,000 hectares in 2011.

Handling arrangements are designed to ensure that no CPO, CPKO or effluent passes into water courses. There were no incidents of accidental spillage during 2010 (2009: one minor incident). Steps are being taken to educate the group's resident workforce and its dependants to segregate domestic waste so as to permit recycling of organic waste and, if the conservation department plastic recycling project referred to under "Conservation" above proves successful, also plastic waste.

Fibre extracted during the milling of oil palm fruit is used to fuel oil mill boilers from which steam is generated. The steam is then used to drive steam turbines for generating electricity. This electricity is sufficient to power not only the group's oil mills but also to provide power to several estate villages. However, the power is not sufficient for all villages and power can anyway only be provided when the mills are running. Estate villages are therefore heavily dependent on diesel generated power and this, coupled with fuel used in vehicles, results in a currently estimated consumption of 45 litres of diesel oil and petrol per tonne of CPO produced. Power generation from the planned methane conversion plants referred to under "Costs" above should materially reduce this diesel consumption and should also substantially eliminate methane emissions from effluent ponds.

Accreditation and verification

During 2010, REA Kaltim extended its ISO 14001 certification so as to cover all of its operations. ISO 14001 audits of the SYB estate units were conducted in February 2011 and ISO certification of SYB's operations has also now been obtained.

The group is a member of the Roundtable on Sustainable Palm Oil ("RSPO") which has produced a set of eight principles and 39 criteria for the sustainable production of palm oil. Members of RSPO are required, within a stipulated period after joining RSPO, to obtain accreditation that they comply with such principles and criteria. The directors believe that the group's operational practices have always been of a high standard but the accreditation process requires that such operational practices are embedded in formal systems and are subject to controls that are auditable. Measures to ensure that this was the case were completed during 2010. Audit of REA Kaltim and its associated smallholders for RSPO accreditation (conducted by an RSPO approved independent auditor) took place in early 2011 and has recommended that both REA Kaltim and its associated smallholders be granted accreditation. Audit of SYB for RSPO accreditation is planned for later in 2011.

ISO 14001 and RSPO accreditations are subject to periodic independent recertification.

ISO 14001 rules and RSPO principles and criteria impose internationally agreed obligations but, as a substantial Indonesian plantation operator, REA Kaltim is also subject to, and monitored for compliance with, local regulations applicable to the Indonesian palm oil industry. Hitherto, such monitoring has been conducted under a programme managed by the Indonesian Ministry of Environment and known as "PROPER". However, the Indonesian government is now introducing a new certification programme for oil palm growers who will in future be required to comply with recently promulgated regulations defining Indonesian Sustainable Palm Oil ("ISPO"). It seems likely that ISPO certification will replace the PROPER programme but, in the meantime, REA Kaltim has retained its previously awarded PROPER status.

Coal operations

Concessions and structure

The group holds rights in respect of three mining concessions in Indonesia. These comprise the Liburdinding and Muser concessions located together near Tanah Grogot in the southern part of East Kalimantan, which were acquired in the second half of 2008, and the Kota Bangun concession in the central part of East Kalimantan which was added in late 2009. The Liburdinding and Muser concessions cover areas of, respectively, 1,000 hectares and 2,100 hectares and the Kota Bangun concession an area of 4,400 hectares. Coal extraction, in each case, is or will be by open cast mining.

Until recently, Indonesian law restricted foreign direct ownership of Indonesian companies holding coal mining concessions but a new Indonesian mining law enacted in December 2008 allows such ownership (subject to a provision that foreign controlled mining companies must be owned locally to the extent of not less than 20 per cent within a prescribed period after such companies commence commercial mining operations).

Because the Liburdinding, Muser and Kota Bangun concessions were acquired prior to publication of regulations implementing the new mining law, the group entered into temporary arrangements with a local investor and members of his family (together the group's "local partners") for the acquisition of the concessions in a manner that did not require the group to take immediate control of the Indonesian companies owning the concessions. Pursuant to these arrangements, the Liburdinding and Muser concessions are currently held by two companies which are wholly owned by the group's local partners and which in turn own the company holding the Kota Bangun concession. A fourth company, PT KCC Mining Services Indonesia, incorporated under the Indonesian foreign investment law and owned 95 per cent by KCC Resources Limited ("KCC") (a subsidiary of the company incorporated in England and Wales that acts as a co-ordinating company for the group's coal operations) and five per cent by the local partners, has been established by KCC to spearhead the group's coal operations.

Pursuant to the arrangements between the group and its local partners, KCC has the right to acquire the three coal concession holding companies at original cost as soon as Indonesian law allows this on a basis that will give the group (through KCC) 95 per cent ownership with the balance of five per cent remaining owned by the local partners. The group has been advised that Indonesian law does now allow this, subject to necessary Indonesian government approvals. Accordingly, the group intends to prepare applications for such approvals. 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.

The rights held by the concession holding companies in respect of the Liburdinding and Kota Bangun concessions are in the form of exploitation licences. These licences are valid for terms expiring, respectively, in 2013 and 2016, but are renewable on expiry. Currently, Muser is held on an exploration licence but this will be converted into an exploitation licence which will be for an initial term of five years and will also be renewable on expiry. Royalties based on coal sales are payable at the rate of 13 per cent in respect of Liburdinding coal, 5 per cent in respect of Muser coal and 13 per cent in respect of Kota Bangun coal. All three concession holding companies will be required to reconstitute the areas mined when coal extraction has been completed.

Geological surveys conducted to date suggest that the concessions contain commercial deposits of coal

accessible by open cast mining and having typical gross calorific values of between 5,800 and 6,200 kilocalories per kilogramme ("kcal/kg") air dried basis ("ADB") in the case of Liburdinding, between 6,000 and 7,000 kcal/kg ADB in the case of Muser and between 8,500 and 9,500 kcal/kg ADB in the case of Kota Bangun. Inferred coal reserves have been estimated at 14.7 million tonnes for Liburdinding, 17.6 million tonnes for Muser and up to 2 million tonnes for Kota Bangun. Economically mineable reserves are likely to be less, and perhaps significantly less, than the inferred reserves. The group has concentrated its continuing geological exploration on proving its immediately mineable reserves and does not therefore yet have geological data sufficient to make an accurate determination of overall mineable reserves.

One of the coal mining concession holding companies has obtained a mining exploration licence in respect of an area near to the group's agricultural estates containing stone deposits. If geological surveys prove satisfactory, application will be made for the exploration licence to be converted into an exploitation licence. This will permit the company to establish a stone quarry and to sell crushed stone to the group's agricultural operations (which have a considerable need for crushed stone) and to third parties operating in the same vicinity.

Operating activities

Whilst it is taking longer than originally hoped to develop the coal operations, good progress has been made.

The major concentration during 2010 was on bringing the Kota Bangun concession into production. Land compensation was completed, mining and environmental management plans settled, necessary permits for mining operations obtained and arrangements for evacuating mined coal concluded. Removal of overburden (being earth and rock overlaying the coal) started in November 2010, the first coal seams were exposed in January 2011 and initial shipments of some 15,000 tonnes of coal are scheduled for April 2011. The stripping ratio (being the amount of overburden required to be removed to gain access to the coal expressed as the number of bank cubic metres of overburden in situ to be removed to extract one tonne of coal) is under the present mining plan expected to be 30 to 1. As previously announced, the group is aiming to build up to a production level within 2011 of at least 16,000 tonnes per month. Arrangements have been agreed for the sale of current production from the Kota Bangun concession to two buyers. Selling prices will be fixed against deliveries of the coal on a basis related to the Newcastle globalCOAL index. The average price currently being realised is $137 per tonne.

Operations at the Liburdinding concession have been less satisfactory. Original plans to mine 150,000 tonnes during 2010 had to be abandoned when it became clear that the relatively high sulphur content of the coal was making it difficult to sell. Coal production at Liburdinding in 2010 therefore amounted to some 21,000 tonnes only. A limited market for the coal has been found in Java and this seems capable of selling 3,000 to 4,000 tonnes per month on a regular basis. For mining to be economic, Liburdinding needs to produce at a level of at least 15,000 tonnes per month and this means that an export market for the coal is needed. The group has looked at blending Liburdinding coal with low sulphur traded coal purchased from third parties and this remains an option. However, with the higher prices for coal that are currently prevailing, the group would prefer simply to sell the Liburdinding production without blending and to accept a discount for the sulphur content. Discussions to this end with possible purchasers are continuing.

The group has established a port facility for the Liburdinding concession and had hoped to generate additional revenue by making this available for use by third parties for an appropriate charge. Some revenues have been generated and the port remains open for use

in this way but throughput levels have been disappointing because third party users of the port have not to date been mining large volumes of coal.

The position as respects the group's plans to establish a limited coal trading activity is more positive. Sales of traded coal in 2010 (which started in the second half of the year) totalled 71,000 tonnes. Since the start of 2011, the group has been able to formalise trading relationships with two major export buyers and is aiming within the current year to be achieving average monthly sales of 100,000 tonnes. The objectives for the coal trading activity are to augment the revenues from the mining of the Kota Bangun and Liburdinding concessions and to establish a customer base on which the group can build. Coal for traded sales is currently being sourced by outright purchase from third party suppliers but the group intends that, in due course, it will enter into long term arrangements to procure a proportion of the coal that it trades by mining third party owned concessions against payment of a royalty.

The majority of traded sales are currently being made in export markets. The group continues to pursue the possibility of domestic sales to the Indonesian state electricity company to which one of the concession holding companies has been approved as a supplier.

Geological assessments of the Muser concession indicate that the Muser coal deposits are complex and that the overburden includes rock that cannot easily be removed without blasting. This may pose problems, given that there are villages located in quite close proximity to the concession. Moreover, the Muser coal has a higher sulphur content than the Liburdinding coal. The group therefore intends to defer bringing the Muser concession into production until increased levels of activity are being achieved by the rest of the group's coal operations.

Markets, revenues and costs

Within the Asia Pacific region, China and India are large coal producers but their internal production is inadequate to meet their energy requirements. The shortfall is made up by imports primarily from Indonesia and Australia. A number of other Asian Pacific countries also have demand for imported coal. Because coal is bulky, economic availability is constrained by logistics. The directors consider that this offers excellent opportunities for Indonesian coal producers because Indonesia is geographically well located for the main Asia Pacific markets and much of its coal (particularly in East Kalimantan) is located adjacent to rivers which provide an economic method of evacuation. Furthermore, in addition to the potential of an expanding export market driven by increasing demand for coal generated power, Indonesia can expect significant growth in internal demand as the Indonesian state electricity company implements plans to expands its generating capacity to meet the growing demand for power within Indonesia.

The directors believe that the published Newcastle globalCOAL weekly index, when adjusted for differences in calorific values (the index being based on coal of net calorific value of 6,000 kcal/kg), has over time provided a reasonable indicator of prevailing East Kalimantan coal prices. This index opened 2010 at $85 per tonne, rose to a temporary high of $109 at the end of April before falling back and trading generally in the $85 to $100 range for the following six months. It then rose sharply in the last two months of the year to close the year at $128. To date in 2011 it has traded in the range $120 to $140. Although increased inflation in China, bringing with it the possibility of higher Chinese interest rates, may scale back Chinese growth in 2011, the current level of Asian coal demand is such that it seems likely that Indonesian coal prices will remain firm for much of 2011.

Unit costs of production within the coal operations will be critically dependent upon production volumes and efficiency of operation.

Sustainable practices

In developing its mining activities, the group remains committed to observing international standards of best environmental practice. Health and safety procedures have been established to protect and safeguard the welfare of all persons involved with the mining operations and measures are in place to ensure the proper management of waste water and to provide for the reinstatement, in so far as reasonably practicable, of land areas affected by mining to their original condition upon completion of mining operations.

Finances

Accounting policies

The group reports in accordance with International Financial Reporting Standards ("IFRS") and presents its financial statements in US dollars. The company continues to prepare its individual financial statements in sterling and in accordance with UK Generally Accepted Accounting Practice; accordingly the company's individual financial statements are presented separately from the consolidated financial statements.

The accounting policies applied under IFRS are set out in the "Accounting policies (group)" section of this annual report. The accounting policy relating to biological assets (comprising oil palm plantings and nurseries) is of particular importance. Such assets are not depreciated but are instead restated at fair value at each reporting date and the movement on valuation over the reporting period, after adjustment for additions and disposals, is taken to income. Deferred tax is provided or credited as appropriate in respect of each such movement.

As in previous years, the fair value of the biological assets at 31 December 2010 has been derived by the directors on a discounted cash flow basis by reference to the FFB expected to be harvested from the group's oil palms over the full remaining productive lives of the palms and to an estimated profit margin per tonne of FFB so harvested. This estimated unit profit margin is based on current costs and an estimated produce value for FFB transferred to mill derived from a twenty year average of historic CPO prices but is buffered to restrict any implied change in margin in contradiction of the trend in current margins. The 20 year average CPO price, FOB port of Samarinda and net of Indonesian export duty, to 31 December 2010 amounted to $472 per tonne which is higher than the 20 year average to 31 December 2009 of $446 per tonne. However, because of inflation, the unit profit margin per tonne of FFB harvested implied by the average price of $472 and the current unit cost of production is lower than the unit profit margin assumed at 31 December 2009 whereas the unit profit margin that is currently being achieved is, in reality, greater than that margin. Accordingly, the same unit profit margin as that assumed as at 31 December 2009 (namely $50 per tonne of FFB) has been applied in valuing the biological assets as at 31 December 2010.

The discount rates used for the purposes of the biological asset revaluation at 31 December 2010 were 16 per cent in the case of REA Kaltim, 17½ per cent in the case of SYB and 19 per cent in the case of all other group companies (31 December 2009: REA Kaltim: 16 per cent; and all other companies: 19 per cent). The directors believe that the risks of successfully harvesting FFB projected to be produced from newly developed areas are significantly greater than those of harvesting the projected FFB crops from established estates. They consider it appropriate to reflect this risk differential by applying a discount rate of 19 per cent to newly established areas, reducing this to 17½ per cent as an area becomes well established and then further to 16 per

cent when plantings in an established area become predominantly mature. The discount rates used at 31 December 2010 and 31 December 2009 were derived accordingly.

The directors recognise that the IFRS accounting policy in relation to biological assets does have theoretical merits in charging each year to income a proper measure of capital consumed (so that, for example, a fair distinction is drawn each year between the cost of the shortening life expectancy of younger plantings still capable of many years of cropping and that of older plantings nearing the end of their productive lives). It does, nevertheless, concern the directors that no estimate of fair value can ever be completely accurate (particularly in a business in which selling prices and costs are subject to very material fluctuations). Moreover, in the case of the group's biological assets, small differences in valuation assumptions can have a quite disproportionate effect on results. The biological assets are recorded in the group balance sheet at 31 December 2010 at $221.9 million. An increase or reduction of $5 per tonne in the estimated profit margin used for the purpose of the valuation (namely $50 per tonne of FFB) would increase or reduce the valuation by approximately $25 million.

Revenue from coal sales represented less than 5 per cent of total 2010 revenues. Accordingly, no separate segmental report in respect of the coal operations has been provided in the notes to the consolidated financial statements.

Group results

Group operating profit for 2010 amounted to $56.3 million and profit before tax to $50.4 million. The comparable figures for the preceding year were, respectively, $47.7 million and $41.7 million.

Revenue for 2010 amounted to $114.0 million which was 45 per cent ahead of 2009 revenue of $78.9 million. The revenue in each case is stated net of Indonesian export duty. The increase in revenue during 2010 reflected the combined effect of the higher average CPO and CPKO prices prevailing during 2010, increased production and initial coal sales of $4.2 million. Cost of sales also rose by 43 per cent from $34.0 million to $48.6 million. Several factors contributed to this increase: the larger crop; costs of $3.9 million attributable to the new coal activities; the higher unit cost of cropping in the significant area of newly mature plantings; general cost inflation; and weakening of the US dollar against the Indonesian rupiah which meant that rupiah denominated costs increased in US dollar terms.

IFRS fair value gains for 2010 at $2.0 million were significantly lower than the $11.3 million reported in 2009. The reduction in the net gain arising from changes in fair value of agricultural inventory ($0.4 million against $1.5 million) reflected a lower closing stock at the end of 2010 than at the end of the preceding year. The more significant reduction in the net gain from changes in the fair value of biological assets ($1.6 million against $9.8 million) was principally caused by the continuing inflation in planting costs which meant that the value of additions to prospective crops from new development during 2010 showed a lower surplus over the value of crops harvested during the year than was the case in 2009.

Administrative expenses increased in 2010 from $7.2 million to $10.2 million in part because of inflation and a lower capitalisation rate (reflecting the increasing ratio of mature to immature areas) but also because of an increased administrative requirement reflecting the growth of the group's business and in particular the need to manage the expanding smallholder programmes. Some offset against the costs of this last was provided by management fees paid to the group by smallholder

cooperatives which are included in 2010 operating income of $0.4 million.

Finance costs net of investment revenues were much in line with those of 2009 so that the movement in group profit before taxation substantially tracked that in group operating profit.

Before deduction of the interest component added to biological assets, interest payable in 2010 amounted to $12.4 million (2009: $10.4 million). Interest cover for 2010 (measured as the ratio of earnings before interest, tax, depreciation and amortisation, and biological gain to interest payable) was 4.8 (2009: 4.0).

An extra $850,000 of withholding tax was incurred by the group as a result of changes to Indonesian tax regulations that came into effect on 1 January 2010 and increased the withholding tax payable on interest on certain intra-group loans to Indonesian subsidiaries of the company. The restructuring of these loans that was completed in November 2010, as referred to under "Capital structure" below, should avoid a recurrence of this additional impost in future years.

At the after tax level, profit for the year for 2010 was $35.0 million against $29.9 million in 2009 while profit attributable to ordinary shareholders was $32.3 million against $27.1 million. Fully diluted earnings per share amounted to US 96.8 cents (2009: US 81.4 cents).

The group's target long term average annual return on adjusted equity is 20 per cent. The return achieved for 2010 was 27 per cent (2008: 26 per cent).

A provision of $5.5 million relating to tax connected with a cash flow hedge has been charged to other comprehensive income for 2010. This provision relates to tax relief claimed in respect of mark to market losses on cross currency interest rate swaps entered into by the group to hedge, against US dollars, the group's liability in respect of its outstanding 9.5 per cent guaranteed sterling notes 2015/17. The group has been advised by its professional advisers that mark to market differences arising on annual revaluations of such swaps should be taken as profits or losses for Indonesian tax purposes as they arise but an Indonesian tax assessment recently received by REA Kaltim has denied the tax relief claimed by REA Kaltim for 2008 in relation to the swaps in question. The group is appealing against this assessment but, pending a decision on the appeal, the directors have felt it appropriate to recognise the inherent uncertainties of the appeal process by making a provision equivalent to approximately half of the tax relief claimed. The disputed Indonesian tax assessment has been paid in full pending appeal.

The group's appeal against a disputed Indonesian assessment of tax on the profits of REA Kaltim for 2006 has still to be decided. The group has previously provided in full through the income statement against this assessment.

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2010 were duly paid. Dividends totalling 5p per ordinary share have been paid in respect of 2010 (2009: 4p per ordinary share). These comprised a first interim dividend of 2½p per ordinary share paid on 1 October 2010 and a second interim dividend of 2½p per ordinary share paid on 28 January 2011. In addition, the company made a capitalisation issue to ordinary shareholders of 1,670,727 new preference shares on the basis of one new preference share for every 20 ordinary shares held on 24 September 2010.

For some years, the directors have followed the practice of declaring two interim dividends in respect of each

financial year, the first in late September or early October of the year in question and the other at the start of the succeeding year. This has meant that the company has not in recent years paid a final dividend. One corporate governance agency has criticised this practice as depriving shareholders of the opportunity to vote on the level of overall dividend paid by the company. To respond to this criticism, the directors propose that, notwithstanding that the second interim dividend paid in January was intended to be paid in lieu of final dividend, a dividend should be paid in September 2011 as a final dividend in respect of 2010 and that this dividend should substitute for the interim dividend in respect of 2011 that the directors would otherwise have expected to declare for payment at that time. Dividends declared or proposed by directors in respect of 2011 and subsequent years would then be expected to comprise an interim dividend in the January following the end of the applicable year and a final dividend payable in the following September.

Accordingly, the directors recommend the payment of a final dividend in respect of 2010 of 3p per ordinary share to be paid on 30 September 2011 to ordinary shareholders on the register of members on 2 September 2011. The directors wish to emphasise that in proposing that a final dividend in respect of 2010 be substituted for a first interim dividend in respect of 2011, they do not intend to signal a change in the prospective level of dividends payable to shareholders during any particular year but only to recharacterise one dividend in each year as a final dividend upon the payment of which shareholders can vote.

As noted under “Agricultural operations” above, the group has ambitious plans for the further development of its agricultural activities during 2011. These will entail major capital expenditure on extension planting, on the buildings and plant needed to support that planting and on the construction of the new SYB oil mill and the two planned methane conversion plants. The need to fund this expenditure and the continuing expansion of the group beyond 2011 will continue to constrain the rates at which the directors feel that they can prudently declare, or recommend the payment of, forthcoming ordinary dividends. The directors retain their previously stated belief that, with the crop increases in prospect over the next few years, it should be possible, notwithstanding the constraints of continuing development, to maintain a progressive dividend policy albeit that the rate of progression may have to be rather conservative.

The directors continue to believe that capitalisation issues of new preference shares to ordinary shareholders, such as were made in 2010 and on several previous occasions, provide a useful mechanism for augmenting returns to ordinary shareholders in periods in which good profits are achieved but demands on cash resources limit the scope for payment of cash dividends. The directors will therefore consider a further such issue during 2011 if they feel that this is merited by the group’s performance.

Capital structure

The group is financed by a combination of debt and equity (which under IFRS includes non-controlling interests and the company's preference capital). Total equity less non-controlling interests at 31 December 2010 amounted to $233.5 million as compared with $193.4 million at 31 December 2009. Non-controlling interests at 31 December 2010 amounted to $2.0 million (2009: $1.3 million).

840,689 new ordinary shares of the company were issued on 1 February 2010 on exercise of a director’s option at an exercise price of 43.753p per share. In addition, in February, with the object of funding the new coal operations, the company issued an additional $15 million nominal of 7.5 per cent dollar notes 2012/14 (“dollar notes”) at $90 per $100 nominal of notes in conjunction with the issue by KCC of 150,000

redeemable participating preference shares of $10 each ("KCC participating preference shares") at par. The effect of the additional dollar note issue was to increase the nominal amount of dollar notes in issue to $45 million.

1,670,727 new preference shares were issued in October 2010 by way of capitalisation of share premium account pursuant to the capitalisation issue to ordinary shareholders referred to under "Dividends" above. This was followed later in the same month by the issue of 9 million new preference shares for cash at par to raise £8.7 million net of expenses.

Following these issues, group indebtedness and related engagements at 31 December 2010 amounted to $132.1 million, made up of $45 million nominal of dollar notes (carrying value: $43.3 million), £37 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes") (carrying value: $55.2 million), $11.6 million in respect of the hedge of the principal amount of the sterling notes as described below, $1.5 million in respect of the KCC participating preference shares (which are classified as debt), term loans from Indonesian banks of $14.7 million and other short term indebtedness comprising drawings under working capital lines of $5.8 million. Against this indebtedness, at 31 December 2010 the group held cash and cash equivalents of $36.7 million.

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 programmes" in "Agricultural operations" above, agreed to guarantee the bank borrowings of the cooperatives concerned, the outstanding balance of which at 31 December 2010 was equivalent to $4.8 million.

The dollar notes are unsecured obligations of the company and are repayable by three equal annual instalments commencing 31 December 2012. The sterling notes are issued by REA Finance B.V., a wholly owned subsidiary of the company. Changes to Indonesian tax regulations effective from the beginning of 2010, meant that Indonesian withholding tax on interest payments on certain intra-group loans to Indonesian subsidiaries of the company (being loans that formed part of the assets then charged as security for the sterling notes) which had been payable at the rate of 10 per cent became payable at the rate of 20 per cent. The security for the sterling notes was therefore reorganised during 2010 so as to achieve a structure in which the withholding tax rate on interest on charged intra-group loans would revert to 10 per cent. As a result, the notes are now guaranteed both by the company and another wholly owned subsidiary of the company, R.E.A. Services Limited ("REAS"), are secured principally on unsecured loans made by REAS to REA Kaltim, SYB and CDM, and are repayable by three equal annual instalments commencing 31 December 2015.

The group has entered into a long term sterling US dollar debt swap to hedge against US dollars the sterling liability for principal and interest payable in respect of the entire issue of the sterling notes (but in the case of interest on £22,000,000 nominal of the sterling notes only as respects interest payments falling due up to 31 December 2015).

The KCC participating preference shares will provide a limited interest in the group's coal operations such that if those operations achieve an average annual level of earnings before interest, tax, depreciation and amortisation of $8 million over the four and a half year period from 1 January 2010 to 30 June 2014 (equivalent to $36 million for the full period), those persons who subscribed dollar notes and KCC participating preference shares in the combined issue of those securities in February 2010, and who retain their notes and shares until redeemed, will receive an overall compound return of

15 per cent per annum on their total investment. If the required level of earnings is not achieved, then, except in certain limited circumstances (such as divestment of all or a significant part of the coal operations or a change in control of the company), no dividends or other distributions will be paid or made on the KCC participating preference shares and after 31 December 2014 such shares will be converted into valueless deferred shares.

The term loans from Indonesian banks comprise a US dollar denominated balance of $8.7 million owed by REA Kaltim to a consortium of Indonesian banks and the equivalent of $6.0 million drawn by SYB from PT Bank DBS Indonesia ("DBS") under an Indonesian rupiah denominated amortising loan facility of Rp 350 billion ($38.9 million) agreed with DBS during 2010. The loans are secured on the assets of, respectively, REA Kaltim and SYB and are guaranteed by the company. The aggregate outstanding balance of the loans at 31 December 2010 of $14.7 million was repayable as follows: 2010: $2.1 million; 2011: $2.7 million; 2012: $3.6 million; and 2013 and thereafter: $6.3 million.

Group cash flow

Group cash inflows and outflows are analysed in the consolidated cash flow statement. Cash and cash equivalents increased over 2010 from $22.0 million to $36.7 million. The increase of $14.5 million (excluding a benefit of $0.2 million from the effect of exchange rate movements) represented that component of the cash inflow from operating activities that was left after funding the $20.1 million outflow on investing activities that was not covered by net cash from operating activities.

As noted under "Group results" above, operating profit for 2010 amounted to $56.3 million, an increase of $8.5 million on the $47.7 million of the preceding year. After reversal of non cash items, operating cash flows before movements in working capital showed an even greater increase of $19.3 million rising from $40.1 million to $59.4 million. However, net cash from operating activities was lower than in 2009 at $21.3 million against $29.6 million. The apparent disparity of an increase in operating cash flows before movements in working capital and a reduction in net cash from operating activities is principally the result of two items: increase in receivables, which amounted to $10.3 million in 2010 against $2.7 million in 2009, and taxes paid, which amounted to $21.1 million in 2010 against $2.3 million in 2009. The former reflected additional receivables in the group balance sheet at 31 December 2010 arising from the group's new coal trading activity while the latter was largely attributable to the payment during 2010 of the disputed Indonesian tax assessment referred to under "Group results" above and now the subject of appeal.

Investing activities for 2010 involved a net outflow of $41.4 million (2009: $34.8 million). This represented new investment totalling $43.8 million (2009: $35.8 million), offset by inflows from interest and other items of $2.4 million (2009: $1.0 million). The new investment comprised expenditure of $34.3 million (2009: $27.0 million) on further development of the group's agricultural operations, of $3.5 million (2009: $1.3 million) on land rights and titling and of $6.0 million (2009: $7.5 million) on the acquisition and development of coal concession rights.

The net cash inflow on financing activities of $34.6 million (2009, outflow: $4.3 million) was made up of a net inflow from issues of new shares and dollar notes of $29.5 million (2009, issue of new preference shares: $2.5 million), net additions to bank debt and finance lease obligations of $10.2 million (2009, net repayments: $2.8 million) and outflows in respect of dividend payments and the restructuring of the sterling notes of, respectively, $4.9 million and $0.2 million (2009: $4.0 million and $nil).

Liquidity and financing adequacy

As noted above, at 31 December 2010, the group held cash and cash equivalents of $36.7 million. In addition, the group had at 31 December 2010 an undrawn balance of Rp 296 million ($32.9 million) under the SYB amortising loan facility with DBS (available for drawing until 31 December 2014) and working capital lines (subject to annual renewal) equivalent to $8.75 million of which $3 million was undrawn.

Planned extension planting and the requirement for investment in estate buildings and other estate plant and equipment that follows any expansion of the group's planted hectarage will involve the group in continuing major capital expenditure for several years to come. In addition, construction of the group's third oil mill and the two proposed methane conversion plants is likely to involve an outlay of in excess of $25 million over 2011 and 2012. If CPO prices remain at good levels, the directors expect that such capital expenditure can be funded from internal cash flow, possibly supplemented by some additional drawings on the SYB term loan facility with DBS.

Provided that the coal operations evolve as planned, such operations should become cash generative during 2011. If that proves the case, the cash generated may be utilised for further expansion of the coal operations. The directors do not anticipate that the coal operations will require material cash support from elsewhere in the group during 2011, although short term cash advances may be made to meet temporary spikes in the working capital needed for coal trading.

Whilst the group's extension planting programme can always be scaled back, once areas have been planted with oil palms, some or all of the benefits of the investment made in such areas will be lost if the areas are not maintained. Commodity markets are inherently volatile and the directors believe that it is prudent for the group to hold some cash cushion to ensure that when new areas are planted, those areas can be brought to maturity even if CPO and CPKO prices fall sharply. However, the cash and cash equivalents held by the group at 31 December 2010, which reflected the proceeds of the issue of new preference shares made in October 2010, is in excess of the amount required for that purpose. Some $5 million of such cash resources has already been applied during 2011 in retiring debt and the directors intend that further cash resources should be applied for the same purposes before the end of 2011.

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

The group's oil palms fruit continuously throughout the year and there is therefore no material seasonality in the funding requirements of the agricultural operations in their ordinary course of business. It is not expected that the development of the coal operations will introduce 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, it is essential that a proportion of the group's funding needs are met

with prior ranking capital, namely borrowings and preference share capital with the latter offering the particular advantage that it represents relatively low risk permanent capital.

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

New projects within the coal operations can be brought into commercial production more rapidly than new oil palm plantings and the coal operations can therefore justify borrowing on a shorter term basis than the agricultural operations. However, the directors believe that no operations of the group should allow themselves to become wholly reliant on bank finance. Accordingly, the directors intend that the coal operations should also be financed principally by issues of listed debt securities.

The directors believe that the group's existing capital structure is consistent with these policy objectives but recognise that the planned further development of the group and the inevitable shortening of the maturity profile of the group's current indebtedness that will result from the passage of time will mean that action will be required to ensure that the group's capital structure continues to meet the objectives. Specifically, the directors consider that it will be prudent, when market conditions permit, to retire existing shorter dated debt and to replace it with preference share capital or new debt of a longer tenor. The October 2010 issue of new preference shares was made with this intention and the directors will consider further issues of medium term debt securities or new preference shares for the same purpose.

Net debt at 31 December 2010 was 40 per cent of total equity against a target of 60 per cent and a level of 42 per cent at 31 December 2009. The directors intend at least to maintain the overall amount of the group's prior ranking capital but would expect that with growth in the net assets attributable to ordinary shareholders and replacement of debt with preference capital, net debt will, over time, fall as a percentage of equity.

Other treasury policies

The sterling notes and the dollar notes carry interest at fixed rates of, respectively, 9.5 and 7.5 per cent per annum. Interest is payable on drawings by REA Kaltim under the Indonesian consortium loan facility at a floating rate equal to Singapore Inter Bank Offered Rate ("SIBOR") plus a margin which, for so long as inter-bank markets remain disrupted, includes a liquidity premium reflecting the differences between SIBOR and the lending banks' costs of funds. Interest is payable by SYB under the DBS amortising term loan at a floating rate equal to Jakarta Inter Bank Offered Rate plus a margin.

As a policy, the group does not hedge its exposure to floating rates but, insofar as is commercially sensible, borrows at fixed rates. A one per cent increase in the floating rates of interest payable on the group's floating rate borrowings at 31 December 2010 would have resulted in an annual cost to the group of approximately $400,000.

The group regards the US dollar as the functional currency of most of its operations and has, until recently, sought to ensure that, as respects that proportion of its investment in the group's operations that is met by

borrowings, it has no material currency exposure against the US dollar. Accordingly, where borrowings were incurred in a currency other than the 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 2010 of an Indonesian tax assessment seeking to disallow for tax purposes losses on currency hedges (as referred to in "Group results" above) has called into question this policy but the directors hope that the assessment will be reversed on appeal and that the policy can be retained. Pending the outcome of the appeal the group has decided not to hedge the rupiah borrowings by SYB under the DBS amortising loan facility. The group does not cover the currency exposure in respect of the component of the investment in its operations that is financed with sterling denominated equity.

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 cash balance in Indonesian rupiahs of up to the amount of its Indonesian rupiah borrowings but, otherwise, to keep all cash balances in US dollars.

Principal risks and uncertainties

The group's business involves risks and uncertainties. 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.

Agricultural operations

Climatic factors

Although the group's agricultural operations are located in an area of high rainfall with sunlight hours well suited to the cultivation of oil palm, climatic conditions vary from year to year and setbacks are possible.

Unusually high levels of rainfall can disrupt estate operations and result in harvesting delays with loss of oil palm fruit or deterioration in fruit quality. Unusually low levels of rainfall that lead to a water availability below the minimum required for the normal development of the oil palm may lead to a reduction in subsequent crop levels. Such reduction is likely to be broadly proportional to the size of the cumulative water deficit. Over a long period, crop levels should be reasonably predictable but there can be material variations from the norm in individual years.

Low levels of rainfall can also disrupt and, in an extreme situation (not to date experienced by the group) could bring to a standstill the river transport upon which the group is critically dependent for estate supplies and the evacuation of CPO and CPKO.

Cultivation risks

As in any agricultural business, there are risks that crops from the group's estate operations may be affected by pests and diseases. Agricultural best practice can to some extent mitigate these risks but they cannot be entirely eliminated.

Other operational factors

The group's agricultural productivity is dependent upon necessary inputs, including, in particular, fertiliser and fuel. Whilst the directors have no reason to anticipate

shortages in the availability of such inputs, should such shortages occur over any extended period, the group's operations could be materially disrupted. Equally, increases in input costs are likely to reduce profit margins.

After harvesting, FFB crops become rotten if not processed within a short period. Any hiatus in FFB collection or processing may therefore lead to a loss of crop. The group endeavours to maintain resilience in its palm oil mills with two mills operating separately and some ability within each factory to switch from steam based to diesel based electricity generation but such resilience would be inadequate to compensate for any material loss of processing capacity for anything other than a short time period.

The group has bulk storage facilities within its main area of agricultural operations and at its transhipment terminal downstream of the port of Samarinda. Such facilities and the further storage facilities afforded by the group's fleet of barges have hitherto always proved adequate to meet the group's requirements for CPO and CPKO storage. Nevertheless, 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, could result in a group requirement for CPO and CPKO storage exceeding the available capacity. This would be likely to force a temporary cessation in FFB processing with a resultant loss of crop.

The group maintains insurance for the agricultural operations to cover those risks against which the directors consider that it is economic to insure. Certain risks (including the risk of crop loss through fire and other perils potentially affecting the planted areas on the group's estates), for which insurance cover is either not available or would in the opinion of the directors be disproportionately expensive, are not insured. These risks are mitigated to the extent feasible by management practices but an occurrence of an adverse uninsured event could result in the group sustaining material losses.

Produce prices

The profitability and cash flow of the agricultural operations depend both upon world prices of CPO and CPKO and upon the group's ability to sell those products at price levels comparable with such world prices.

CPO and CPKO are primary commodities and as such are affected by levels of world economic activity and factors affecting the world economy, including levels of inflation and interest rates. This may lead to significant price swings although, as noted under "Revenues and markets" in "Agricultural operations" above, the directors believe that such 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.

In the past, in times of very high CPO prices, the Indonesian authorities have for short periods imposed either restrictions on the export of CPO and CPKO or very high duties on export sales of such oil. The directors believe that when such measures materially reduce the profitability of oil palm cultivation, they are damaging not only to large plantation groups but also to the large number of smallholder farmers growing oil palm in Indonesia and to the Indonesian economy as a whole (because CPO is an important component of Indonesia's US dollar earning exports). The directors are thus hopeful that future measures affecting sales of CPO and CPKO will not seriously diminish profit margins.

Above average CPO and CPKO prices during 2007 and the early months of 2008 and again more recently in 2010 and 2011 to-date have not led to a re-imposition of export restrictions. Instead, the Indonesian government continues to allow the free export of CPO and CPKO but has introduced a sliding scale of duties on exports. Furthermore, the starting point for this sliding scale is set

at a level such that when CPO and CPKO prices fell back in the last quarter of 2008, the rate of export duty payable was reduced to nil. Nevertheless there have been reports that the Indonesian government may take steps to encourage domestic downstream processing of CPO and CPKO and may impose domestic sale obligations on oil palm growers from 2015.

World markets for CPO and CPKO may be distorted by the imposition of import controls or taxes in consuming countries. The directors believe that the imposition of such controls or taxes on CPO or CPKO will normally result in greater consumption of alternative vegetable oils within the area in which the controls or taxes have been imposed and the substitution outside that area of CPO and CPKO for other vegetable oils. Should such arbitrage fail to occur or prove insufficient to compensate for the market distortion created by the applicable import controls or taxes, selling prices for the group's CPO and CPKO could be depressed.

Expansion

The group is planning further extension planting of oil palm. The directors hope that unplanted land held by or allocated to the group will become available for planting ahead of the land becoming needed for development and that the development programme can be funded from available group cash resources and future operational cash flows, appropriately supplemented with further debt funding. Should, however, land or cash availability fall short of expectations and the group be unable to secure alternative land or funding, the extension planting programme, upon which the group's continued growth will in part depend, may be delayed or curtailed.

Any shortfall in achieving planned extensions of the group's planted areas would be likely to impact negatively the annual revaluation of the group's biological assets, the movements upon which are taken to the group's income statement. Whilst this would not affect the group's underlying cash flow, it could adversely affect market perceptions as to the value of the company's securities.

Environmental, social and governance practices

The group recognises that the agricultural operations are both a large employer and have significant economic importance for local communities in the areas of the group's operations. This imposes environmental, social and governance obligations which bring with them risks that any failure by the group to meet the standards expected of it may result in reputational and financial damage. The group seeks to mitigate such risks by establishing standard procedures to ensure that it meets its obligations, monitoring performance against those standards and investigating thoroughly and taking action to prevent recurrence in respect of any failures identified. In addition, the group commissions independent consultants to undertake periodic reviews of its management performance in relation to various matters and this review pays particular attention to the manner in which the group has discharged its corporate social responsibilities.

The group's existing agricultural operations and the planned expansion of those operations are based on land areas that have been previously logged and zoned by the Indonesian authorities as appropriate for agricultural development on the basis that, regrettable as it may be from an environmental viewpoint, the logging has been so extensive that primary forest is unlikely to regenerate. Such land areas fall within a region that elsewhere includes substantial areas of unspoilt primary rain forest inhabited by diverse flora and fauna. As such, the group, in common with other oil palm growers in Kalimantan, must expect scrutiny from conservation groups and could suffer adverse consequences if its environmental policies were to be singled out for criticism by such groups.

An environmental impact assessment and master plan was constructed using independent environmental experts when the group first commenced agricultural operations in East Kalimantan and this plan is updated regularly with further advice from independent experts to reflect modern practice and to take account of changes in circumstances (including planned additions to the areas to be developed by the group). Substantial conservation reserves have been established in areas already developed by the group and further reserves will be added as new areas are developed. The group actively manages these reserves and endeavours to use them to conserve landscape level biodiversity as detailed under "Conservation" in "Agricultural operations" above.

The group is committed to sustainable oil palm development and adopts the measures described under "Sustainable practices" in "Agricultural operations" above to mitigate the risk of its operations causing damage to the environment or to its neighbours. The group supports the principles and criteria established by RSPO and is at an advanced stage in obtaining RSPO accreditation.

Local relations

The agricultural operations of the group could be seriously disrupted if there were to be a material breakdown in relations between the group and the host population in the vicinity of the operations. The group endeavours to mitigate this risk by liaising regularly with representatives of surrounding villages and by seeking to improve local living standards through mutually beneficial economic and social interaction between the local villages and the agricultural operations. In particular, the group, when possible, gives priority to applications for employment from members of the local population and supports specific initiatives (as described under "Community development" and "Smallholders" in "Agricultural operations" above) to encourage local farmers and tradesmen to act as suppliers to the group, its employees and their dependents and to promote smallholder development of oil palm plantings.

The group's agricultural operations are established in a relatively remote and sparsely populated area which was for the most part unoccupied prior to the group's arrival. However, some areas of land were previously used by local villagers for the cultivation of crops. Accordingly, when taking over such areas, the group negotiates with, and pays compensation to, the affected parties.

The negotiation of compensation payments can involve a considerable number of local individuals with differing views and this can cause difficulties in reaching agreement with all affected parties. There is also a risk that, after an agreement has been completed, a party to the agreement may become disaffected with the terms agreed or the manner in which the agreement has been implemented and may seek to repudiate the agreement. Such difficulties and risk have in the past caused, and are likely to continue periodically to cause, delays to the extension planting programme and other disruptions. The group has to-date been successful in managing such periodic delays and disruptions so that they have not, in overall terms, materially disrupted the group's extension planting programme or operations generally, but there is a continuing risk that they could do so.

Coal operations

The directors have previously expressed their belief that the most material risk attaching to the coal operations is the risk that the directors, with no prior experience of mining, may have misjudged the potential of the operations and that the operations do not become commercially viable. In that event, some or all of the group capital invested in the operations may be lost. This remains a risk but the directors believe that with the levels of activity now being achieved, it is a diminishing risk. The more material risks specific to coal that the directors currently foresee are as described below.

Operational risks

Coal delivery volumes are dependent upon efficiency of production and of transport of extracted coal from mines to points of sale. Both production and transport can be disrupted by heavy rains, such as are common in East Kalimantan. Heavy seas can cause delays to the barging of coal to its point of sale. Failure to achieve budgeted delivery volumes will increase unit costs and may result in operations becoming unprofitable. Whilst weather related impacts cannot be avoided, the group uses experienced contractors, supervises them closely and takes care to ensure that they have equipment of capacity appropriate for the planned delivery volumes.

Failure to load export shipments to an agreed schedule may result in demurrage claims (damages payable for delays) which may be material. The group endeavours to minimise this risk by direct supervision of loading of large shipments and, where possible, by loading barges used for transferring coal from shore to ship ahead of arrival of ships.

Mining plans are based on geological assessments and the group seeks to ensure the accuracy of those assessments by extensive drilling ahead of any implementation of the plans. Nevertheless geological assessments are extrapolations based on statistical sampling and may prove inaccurate to an extent. In that event, unforeseen extraction complications can occur and may cause cost overruns and delays.

Price risk

The profitability and cash flow of the coal operations will depend both upon world prices of coal and upon the group's ability to sell its coal at price levels comparable with such world prices. Coal is a primary commodity and as such is affected by levels of world economic activity and factors affecting the world economy, including levels of inflation and interest rates. This may lead to significant price swings.

Coal is sold on the basis of its calorific value and other aspects of its chemical composition. Supply and demand for specific grades of coal and consequent pricing may not necessarily reflect overall coal market trends and the group may be adversely affected if it is unable to supply coal within the specifications that are at any particular time in high demand.

The Indonesian government has stated that it intends to impose obligations on coal concession holders to sell domestically a proportion of the coal that they mine. If obligations imposed mean that domestic sales of coal have to be made at prices that are below world market prices (and it is not yet known whether this will be the case) the group's prospective revenues from coal sales will be reduced.

Environmental practices

Open cast coal mining, as conducted on the coal concessions in which the group has invested, involves the removal of substantial volumes of overburden to obtain access to the coal deposits. The prospective areas to be mined by the group do not, however, cover a large area and the group is committed to international standards of best environmental practice and, in particular, to proper management of waste water and reinstatement of mined areas on completion of mining operations. Nevertheless, the group could be adversely affected by environmental criticisms of the coal mining industry as a whole.

General

Currency

CPO, CPKO and coal are essentially US dollar based commodities. Accordingly, the group's revenues and the

underlying value of the group's operations are effectively US dollar denominated.

All of the group's borrowings other than the sterling notes (as respects which the group has entered into sterling US dollar debt swap arrangements) and drawings by SYB under the DBS amortising Indonesian rupiah loan facility, are US dollar denominated and a substantial proportion of the group's costs (including fertiliser and machinery inputs) is US dollar denominated or linked.

Accordingly, the principal currency risk faced by the group is that those components of group costs that arise in Indonesian rupiah and sterling may, if such currencies strengthen against the US dollar, negatively impact margins in US dollar terms. The directors consider that this risk is inherent in the group's business and capital structure and the group does not therefore normally hedge against such risk.

The group's hedging strategy as respects the sterling notes may itself give rise to risk given the contention of the Indonesian tax authorities (as referred to under "Group results" in "Finances" above) that mark to market losses in Indonesia on debt swap arrangements hedging the notes may not be deducted from chargeable profits for Indonesian tax purposes.

Counterparty risk

Export sales of CPO, CPKO and coal are made either against letters of credit or on the basis of cash against documents. However, domestic sales of CPO, CPKO and coal may require the group to provide some credit to buyers and purchases of coal for trading may require the group to part pay ahead of delivery. The group seeks to limit the counterparty risk that such credit and prepayments entail by effective credit controls. Such controls include regular reviews of buyer creditworthiness and limits on the term and amount of credit that may be extended to any one buyer and in total.

Regulatory exposure

Changes in existing, and adoption of new, laws and regulations affecting the group (including, in particular, laws and regulations relating to land tenure and mining concessions, work permits for expatriate staff and taxation) could have a negative impact on the group's activities. Many of the licences, permits and approvals held by the group are subject to periodic renewal. Renewals are often subject to delays and there is always a risk that a renewal may be refused or made subject to new conditions.

Agricultural land and mining rights held by the group are subject to the satisfaction by the group of various continuing conditions, including, as respects agricultural land, conditions requiring the group to promote smallholder developments of oil palm.

Although the group endeavours to ensure that its activities are conducted only on the land areas, and within the terms of the licences, that it holds, licensing rules change frequently and boundaries of large land areas are not always clearly demarcated. There is therefore always a risk that the group may inadvertently and to a limited extent conduct operations for which it does not hold all necessary licences or operate on land for the use of which it does not have all necessary permits.

The Bribery Act 2010, which applies worldwide to interests of UK companies, has created an offence of failure by a commercial organisation to prevent a bribe being paid on its behalf. It will be a defence if the organisation has adequate procedures in place to prevent bribery and the group has traditionally had strong controls in this area because the group operates predominantly in Indonesia, which is classified as high risk by the International Transparency Corruption Perceptions Index 2010. To mitigate further the risk that this poses, and in anticipation of the Bribery Act coming into effect in 2011,

the group is reviewing its framework of controls to ensure that it will comply with the provisions of the Act.

Country exposure

All of the group's operations are located in Indonesia and the group is therefore significantly dependent on economic and political conditions in Indonesia. In the late 1990's, in common with other parts of South East Asia, 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. However, during 2010 Indonesia remained stable and the Indonesian economy continued to grow. Whilst freedom to operate in a stable and secure environment is critical to the group and the existence of security risks should never be underestimated, the group has always sought to mitigate those risks and has never, since the inception of its current operations in East Kalimantan, been adversely affected by security problems.

Although there can never be certainty as to such matters, under current political conditions, the directors have no reason to believe that any government authority would revoke the registered land titles or mining rights in which the group has invested or that any such authority would impose exchange controls or otherwise seek to restrict the group's freedom to manage its operations.

Miscellaneous relationships

The group is materially dependent upon its staff and employees and endeavours to manage this dependence as detailed under "Employees" in "Operations" above.

Relationships with shareholders in Indonesian group companies are also important to the group and especially so as respects the mining concessions in which the group holds interests which 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.

By order of the board
R.E.A. SERVICES LIMITED
Secretary
20 April 2011

Directors

Richard Robinow
Chairman (65)

Mr Robinow was appointed a director in 1978 and has been chairman since 1984. After early investment banking experience, he has been involved for over 35 years in the plantation industry. He is non-executive but devotes a significant proportion of his working time to the affairs of the group, dealing principally with matters of strategy and finance. He is a non-executive director of M. P. Evans Group plc, a UK plantation company of which the shares are admitted to trading on the Alternative Investment Market of the London Stock Exchange, and of two overseas listed plantations companies: Sipef NV, Belgium, and REA Vipingo Plantations Limited, Kenya.

John Oakley
Managing director (62)

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

David Blackett
Senior independent non-executive director (60)

Mr Blackett was appointed a non-executive director in July 2008 and was subsequently appointed chairman of the audit and remuneration committees and, more recently, as a member of the nomination committee. 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. Prior to joining that company, he was a director of an international investment bank with responsibility for the bank's South East Asian operations. He is a non-executive director of South China Holdings Limited, a company listed on the Hong Kong Stock Exchange.

John Green-Armytage
Independent non-executive director (65)

Mr Green-Armytage was a non-executive director from 1984 to 1994. He rejoined the board as a non-executive director in 1997 and for several years served as chairman of the audit and remuneration committees. After a career in investment banking, he moved to become managing director of a UK listed company with South East Asian involvement. He has subsequently held directorships of a number of companies in both executive and non-executive capacities. These currently include the chairmanship of AMEC PLC.

John Keatley
Independent non-executive director (77)

Mr Keatley was a non-executive director from 1975 to 1983 and chairman from 1978 to 1983. He rejoined the board as a non-executive director in 1985 and is a member of the nomination committee. After a background in the fertiliser industry, he is now involved in a family business investing in property in the UK and overseas.

David Killick, FCIS
Independent non-executive director (73)

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

Directors continued

Charles Letts
Independent non-executive director (92)

Mr Letts was appointed a non-executive director in 1989. After serving in the British Armed Forces in World War II and thereafter in the British Foreign Office, he was a main board director of Jardine Matheson & Co. Limited for 15 years and then set up his own business. For over 40 years, he has held directorships and advisory posts in companies covering a wide range of activities in various countries, with particular emphasis on the plantation industry. His present directorships include The China Club Limited and China Investment Fund.

Chan Lok Lim
Independent non-executive director (69)

Mr Lim was appointed a non-executive director in 2002. He has been involved for over 30 years in companies in South East Asia engaged in power generation and distribution, water and waste treatment, industrial and agro-industrial engineering (including palm oil mill design and construction) and in the plantation industry. He is chairman of SPC Power Corporation, a public company listed on the Philippines Stock Exchange, and a director of Agusan Plantations Inc, Philippines, Agumil Philippines Inc and Pan Abrasives (Private) Limited, Singapore.

Directors’ report

The directors present their annual report on the affairs of the group, together with the financial statements and auditors’ reports, for the year ended 31 December 2010.

Principal activities and business review

The group is principally engaged in the cultivation of oil palms in the Indonesian province of East Kalimantan and in the production of crude palm oil (“CPO”) and by-products from fruit harvested from its oil palms. In addition, the group holds recently acquired interests in three coal concessions in East Kalimantan and is establishing an open cast coal mining operation and coal trading activity based on these concessions.

A review of the activities and planned future development of the group, together with the principal risks and uncertainties facing the group, is provided in the accompanying “Chairman’s statement” and “Review of the group” sections of this annual report which are incorporated by reference in this “Directors’ report”. In particular, the “Review of the group” includes information as to group policy and objectives regarding the use of financial instruments. Information as to such policy and objectives and the risk exposures arising is also included in note 21 to the consolidated financial statements.

The group does not undertake significant research and development activities.

Details of significant events since 31 December 2010 are contained in note 41 to the consolidated financial statements.

Results and dividends

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

The fixed annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2010 were duly paid. A first interim dividend in respect of 2010 of 2½p per share was paid on the ordinary shares on 1 October 2010 and a second interim dividend of a further 2½p per share on 28 January 2011. Although the second interim dividend was originally intended to be paid in lieu of final dividend, for the reasons explained in the “Review of the group” section of this annual report, the directors now recommend the payment of a final dividend in respect of 2010 of 3p per ordinary share to be paid on 30 September 2011 to ordinary shareholders on the register of members on 2 September 2011. The directors intend that this dividend should substitute for the interim dividend in respect of 2011 that they would otherwise have expected to declare for payment in or about September 2011 and that the dividends declared or recommended by the directors in respect of 2011 and subsequent years should comprise an interim dividend payable in the January following the end of the applicable year and a final dividend payable in the following September. Resolution 3 in the company’s notice of 2011 annual general meeting (the “Notice”) set out at the end of this document, which will be proposed as an ordinary resolution, deals with the payment of this dividend.

Going concern basis

The group's business activities, together with the factors likely to affect its future development, performance and position are described in the “Review of the group” section of this annual report which also provides (under the heading “Finances”) a description of the group's cash flow, liquidity and financing adequacy, and treasury policies. In addition, note 21 to the consolidated financial statements includes information as to the group's policy, objectives, and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risks.

Although the group has indebtedness, that indebtedness is medium term and the group is not materially reliant on short term borrowing facilities. Moreover, the group has considerable cash resources. As a consequence, the directors believe that the group is well placed to manage its business risks successfully.

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

Charitable and political donations

During the year the group made no charitable donations to persons ordinarily resident in the United Kingdom and no political donations. The group provided support for conservation activities in East Kalimantan.

Supplier payment policy

It is the company's policy to establish appropriate payment terms and conditions for dealings with suppliers and to comply with such terms and conditions. The holding company itself does not have trade creditors.

Directors

The directors are listed in the "Directors" section of this annual report which is incorporated by reference in this "Directors' report". All the directors served throughout 2010. Messrs Robinow, Green-Armytage, Keatley and Letts retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election, such retirements being in compliance with the provisions of the UK Corporate Governance Code requiring the annual re-election of non-executive directors who have served as such for more than nine years. Resolutions 4 to 7 in the Notice, which will be proposed as ordinary resolutions, deal with the re-election of the above named directors.

The appointment and replacement of directors is governed by the company's articles of association and prevailing legislation, augmented by the principles laid down in the UK Corporate Governance Code which the company seeks to apply in a manner proportionate to its size as further detailed in the "Corporate governance" section of this annual report.

For the reasons given under "Board of directors" in the "Corporate governance" section of this annual report (which section is incorporated by reference in this Directors' report), the directors believe that the board of the company is effective as currently constituted and that its current composition should be maintained at least until the group's new regional office in Singapore is fully established. The board therefore recommends (each affected director abstaining from such conclusion as it applies to himself) the re-election of all of the directors offering themselves for re-election. The senior independent non-executive director and the chairman have confirmed as regards, respectively, the chairman and the other non-executive directors offering themselves for re-election that, following formal performance evaluations, each such individual's performance continues to be effective and to demonstrate commitment to the role assumed, including commitment of time for board and committee meetings and, where applicable, other assigned duties.

Directors' interests

At 31 December 2010, 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 become, aware) in the 9 per cent cumulative preference shares of £1 each and the ordinary shares of 25p each of the company were as follows:

	Preference shares	Ordinary shares
R M Robinow	-	10,005,833
D J Blackett	250,000	-
J M Green-Armytage	12,481	80,704
J R M Keatley	85,712	680,878
D H R Killick	-	20,000
L E C Letts	20,400	108,008
C L Lim	-	-
J C Oakley	22,637	442,493

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 2010 and remain in force at the date of this report.

Substantial shareholders

As at the date of this report, the company had received notifications required by The Disclosure Rules and Transparency Rules of the Financial Services Authority from the following persons of voting rights held by them as shareholders through the holdings of ordinary shares indicated:

	Number	%
Emba Holdings Limited	9,957,500	29.80
Prudential plc and certain subsidiaries	4,760,229	14.24
Alcatel Bell Pensioenfonds VZW	4,167,049	12.47
Artemis UK Smaller Companies	1,919,400	5.74
JPMorgan Asset Management (UK) Limited	1,703,906	5.10

In addition, the company had been notified that the above interest of Prudential plc group of companies includes 4,030,792 ordinary shares (12.06 per cent) in which M&G Investment Funds 3 is also interested.

The shares held by Emba Holdings Limited ("Emba") are included as part of the interest of Mr R M Robinow shown under "Directors' interests" above. By deeds dated 24 November 1998 and 10 April 2001, Emba has agreed that it will not undertake activities in conflict with those of the group and that it will deal with the group only on a basis that is appropriate between a listed company and its subsidiaries, on the one hand, and a significant shareholder in a listed company, on the other hand.

Control and structure of capital

Details of the company's share capital and changes in share capital during 2010 are detailed in note (vii) to the company's financial statements. At 31 December 2010, the preference share capital and the ordinary share capital represented, respectively, 76.4 and 23.6 per cent 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 (vii) to the company's financial statements.

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

of a proxy or proxies to vote in relation to any resolution to be proposed at a general meeting are governed by the company's articles of association and prevailing legislation and will normally be as detailed in the notes accompanying the notice of the meeting at which the resolution is to be proposed.

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

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

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

The 7.5 per cent dollar notes 2012/14 of the company ("dollar notes") and the 9.5 per cent guaranteed sterling notes 2015/17 of REA Finance B.V. ("sterling notes") (which are guaranteed by the company) are transferable either through the CREST system where held in uncertificated form or by instrument of transfer in any usual or common form duly executed in amounts and multiples, in the former case, of $1 and, in the latter case, of £1,000. There is no maximum limit on the size of any holding in either case.

Significant holdings of preference shares, dollar notes and sterling notes shown by the register of members and registers of dollar and sterling noteholders at 31 December 2010 were as follows:

	Preference shares '000	Dollar notes $'000	Sterling notes £'000
Bank of New York (Nominees) Limited	–	–	17,800
BNY Mellon Nominees Limited BSDTABN Account	–	–	2,596
Euroclear Nominees Limited EOC01 Account	–	12,840	–
HSBC Global Custody Nominee (UK) Limited 993791 Account	3,617	–	–
HSBC Global Custody Nominee (UK) Limited 942436 Account	–	3,797	1,500
HSBC Global Custody Nominee (UK) Limited 641898 Account	–	–	4,000
Rulegale Nominees Limited ISA001 Account	1,174	–	–
Rulegale Nominees Limited JAMSCLT Account	4,179	–	–
Securities Services Nominees Limited 2300001 Account	–	–	2,595
State Street Nominees Limited OM04 Account	–	–	2,000

	Preference shares '000	Dollar notes $'000	Sterling notes £'000
Vidacos Nominees Limited CLRLUX Account	–	3,515	–
Morris Edward Zukerman	–	9,500	–
Morris Edward Zukerman ZFT Account	–	9,500	–

A change of control of the company would entitle holders of the sterling notes and certain holders of the dollar notes to require repayment of the notes held by them as detailed in notes 23 and 24 to the consolidated financial statements. A change in control of the company on or prior to 31 December 2014 would also entitle the holders of the redeemable participating preference shares of the company's subsidiary KCC Resources Limited ("KCC") to redemption of their shares on the next following 31 December (or, if KCC is prohibited by law from effecting such redemption, to require the company to purchase or procure the purchase of such shares).

As referred to under "Directors' interests" above, an option held by Mr J C Oakley to subscribe for ordinary shares of 25p each of the company was exercised on 1 February 2010. At the date of this report, there are no outstanding share options held by directors or employees.

Awards to senior group executives under the company's long term incentive plans will vest and may be encashed within one month of a change of control as detailed under "Long term incentive plans" in the "Directors' remuneration report" section of this annual report. 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.

Treasury shares and power to repurchase shares

No shares of the company are at present held in treasury.

The company's articles of association permit the purchase by the company of its own shares subject to prevailing legislation which requires that any such purchase, if a market purchase, has been previously authorised by the company in general meeting and, if not, is made pursuant to a contract of which the terms have been authorised by a special resolution of the company in general meeting. There is no authority extant for the purchase by the company of its own shares.

Increase in share capital

At the forthcoming annual general meeting, a resolution will be proposed (resolution 10 set out in the Notice) to increase the authorised share capital of the company (being the maximum amount of shares in the capital of the company that the company may allot) from £37,750,000 to £55,250,000 by the creation of 17,500,000 9 per cent cumulative preference shares of £1 each ranking pari passu in all respects with the existing preference shares and representing 63.6 per cent of the existing authorised preference share capital.

As indicated in the "Review of the group" section of this annual report, the directors believe that it will be prudent when market conditions permit for the company to issue additional preference shares and to apply the resultant proceeds in retiring existing group indebtedness. Furthermore, the directors believe that capitalisation issues of new preference shares to ordinary shareholders, such as were made on several previous occasions, provide a useful mechanism for augmenting returns to ordinary shareholders in periods in which good profits are achieved but demands on cash resources limit the scope for payment of cash dividends. The proposed creation of

additional preference shares is designed to give the company sufficient authorised but unissued preference capital to permit the directors to issue preference shares for these purposes without further approval (other than shareholder authority to allot such shares, which authority will be sought at the forthcoming annual general meeting as noted under "Authorities to allot share capital" below).

Authorities to allot share capital

At the annual general meeting held on 8 June 2010, 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 forthcoming annual general meeting (resolutions 11 and 12 set out in the Notice) to authorise the directors (a) to allot and to grant rights to subscribe for, or to convert any security into, shares in the capital of the company (other than 9 per cent cumulative preference shares) up to an aggregate nominal amount of £1,896,363.75 (being all of the unissued ordinary share capital of the company and representing 22.7 per cent. of the issued ordinary share capital at the date of this report), and (b) subject to the passing of resolution 10 set out in the Notice, to allot and to grant rights to subscribe for, or to convert any security into, 9 per cent cumulative preference shares in the capital of the company up to an aggregate nominal amount of £17,936,319 (being the aggregate of the unissued preference share capital of the company at the date of this report and the additional preference share capital proposed to be created at the forthcoming annual general meeting and representing 47.8 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 2012 or on 30 June 2012 (whichever is the earlier). Save in relation to the preference shares as indicated under "Increase in share capital" above, the directors have no present intention of exercising these authorities.

Authority to disapply pre-emption rights

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

In addition, the resolution to provide these powers (resolution 13 set out in the 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 £417,681 (representing 5 per cent of the issued ordinary share capital of the company at the date of this report). The company has not within the three years preceding the date of this report issued any ordinary shares for cash, relying on the annual general disapplication of statutory pre-emption rights pursuant to section 571 of the Companies Act 2006 (or the predecessor sections of the Companies Act 1985.

The foregoing powers (if granted) will expire on the date of the annual general meeting to be held in 2012 or on 30 June 2012 (whichever is the earlier).

Increase of directors' fees

At the forthcoming annual general meeting, a resolution (resolution 14 set out in the Notice) will be proposed to authorise the directors to increase the fees for services of each director from £20,000 per annum as currently provided in the company's articles of association up to an amount not exceeding £25,000 per annum, such fees

being exclusive of any amounts payable under other provisions of the articles. The directors have no immediate intention of increasing the current level of directors' fees but the proposed resolution is designed to provide authority for future increases when deemed appropriate.

General meeting notice period

At the forthcoming annual general meeting, a resolution (resolution 15 set out in the Notice) will be proposed to authorise the directors to convene a general meeting (other than an annual general meeting) on 14 clear days' notice (subject to due compliance with requirements for electronic voting). The authority will be effective until the date of the annual general meeting to be held in 2012 or on 30 June 2012 (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 enable general meetings to be convened on shorter notice than 21 days, this flexibility will not be used as a matter of routine for such meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

Recommendation

The board considers that increasing the authorised share capital of the company by the creation of the additional preference shares proposed as detailed under "Increase in share capital", granting the directors the authorities and powers as detailed under "Authorities to allot share capital" and "Authority to disappy pre-emption rights", the proposal to increase the maximum fee payable to each director 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 periods" above are all in the best interests of the company and shareholders as a whole and accordingly the board recommends that shareholders vote in favour of the resolutions 10 to 15 as set out in the notice of the forthcoming annual general meeting.

Auditors

Each director of the company at the date of approval of this report has confirmed that, so far as he is aware, there is no relevant audit information of which the company's auditors are unaware; and that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are 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 auditors and resolutions to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the forthcoming annual general meeting. Resolutions 8 and 9 set out in the Notice, each of which will be proposed as ordinary resolutions, relate to the re-appointment and remuneration of the auditors.

By order of the board
R.E.A. SERVICES LIMITED
Secretary
20 April 2011

Corporate governance

General

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 Combined Code on Corporate Governance issued in 2008 by the Financial Reporting Council ("the Code"), as revised by the UK Corporate Governance Code 2010, provide a widely endorsed model for achieving this. The Code and information regarding its review are available from the Financial Reporting Council's website at "www.frc.org.uk". 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. Throughout the year ended 31 December 2010, the company was in compliance with the provisions set out in section 1 of the Code. In making this statement, the directors have reflected their view detailed below as to the independence of long serving non-executive directors.

Board of directors

The board currently comprises one executive director and seven non-executive directors (including the chairman). Biographical information concerning each of the directors is set out in the "Directors" section of this annual report. The variety of backgrounds brought to the board by its members provides perspective and facilitates balanced and effective decision making for the long-term success of the company in the context of the company's obligations and responsibilities both as a business in Indonesia and as a UK listed entity. In particular, the board believes that the skills and experience of its different members complement each other and their knowledge is of specific relevance to the nature and geographical location of the group's operations

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 matters of strategy and finance; the managing director has responsibility for operational matters. Neither has unfettered powers of decision. All of the non-executive directors, with the exception of the chairman, are considered by the board to have been independent throughout the year.

The directors acknowledge that some institutional investors take the view that non-executive directors who have served on the board of the company for more than nine years can never be regarded as independent and that, on this basis, three of the non-executive directors whom the board regards as independent would not be treated as such. The Code states that service by a director for more than nine years is to be taken into account by the board in assessing his independence but it is not, under the Code, determinative of independence. All of the long serving non-executive directors considered by the board to be independent are re-elected annually after endorsement of their independence by their co-directors as required by the Code and none of these directors is financially or otherwise materially dependent upon the company. The board continues to be satisfied that the independence of these long serving independent non-executive directors is not affected by their length of service. Nevertheless, the board's plans for refreshment of its composition, as referred to under "Performance evaluation" below, will, in due course, mean that all independent non-executive directors will retire after nine years.

In any event, three independent non-executive directors have served on the board of the company for less than nine years and, accordingly, the company would satisfy the Code requirement that at least two members of the board be independent non-executive directors even if all longer serving non-executive directors were treated as not independent. The Code also requires that some or all members of the audit, remuneration and nomination committees, and the person appointed as senior independent non-executive director, be independent non-

executive directors. Since the reconstitution of the nomination committee in April 2010, as described below, the board considers that the company would now be compliant with these Code requirements even if the more restrictive view of independence of longer serving directors was accepted.

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

Directors' conflicts of interest

In connection with the statutory duty to avoid any situation which conflicts or may conflict with the interests of the company, the board has approved the continuance of potential conflicts notified by Messrs Robinow and Green-Armytage, each of the two directors absenting himself from the discussion in respect of himself. Such notifications relate to each of the directors' interests as shareholders in and/or directors of companies the interests of which might conflict with those of the group but are not at present considered to conflict. No other conflicts or potential conflicts have been notified by directors.

Board responsibilities

The board is responsible for the proper management of the company. Full quarterly operational and financial reports are issued to all directors following the end of each quarter for their review and comment. These reports are augmented by 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.

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 objectives and for reviewing performance, financial controls and risk.

The company carries appropriate insurance against legal action against its directors. The current policy was in place throughout 2010 in compliance with the Code requirement to carry such insurance.

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. Information concerning the remuneration of directors is provided in the "Directors' remuneration report" section of this annual report (which is incorporated by reference in this "Corporate governance" report) together with details of the basis upon which such remuneration is determined.

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

Performance 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, monitoring 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, setting appropriate social responsibility objectives to the adequacy and timeliness of information made available to the board.

At the performance evaluation conducted in 2010 and referred to in "Corporate governance" section of the annual report in respect of 2009, it was concluded that although the board was performing effectively as currently constituted, there was a need for succession planning in relation not only to executive management but also to non executive directors. The board considered that it should continue as currently constituted pending full implementation of plans for the addition of senior executive management and a new regional office in Singapore but that thereafter the composition of the board should be reconstituted, and in the future refreshed, on the basis of a policy that length of service by independent non executive directors be limited to nine years. As detailed under "Strategic direction and succession" in the "Review of the group" section of this annual report, the process of recruiting new senior executive management and establishing a new Singapore office is proceeding as planned. The board retains its previously stated intentions regarding its own reconstitution and future refreshment once this process has been completed (such completion being expected before the end of 2012).

Professional development and advice

In view of their previous relevant experience and, in most 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 and regulatory 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.

Steps are taken to ensure that newly appointed directors become fully informed as to the group's activities.

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. Minutes of board meetings are circulated to all directors. The executive director, unless travelling, is normally present at full board meetings but, 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 at the regular and "ad hoc" board meetings held during 2010 was as follows:

	Regular meeting	Ad hoc meeting
R M Robinow	4	2
J C Oakley	4	2
D J Blackett	4	2
J M Green-Armytage	4	1
J R M Keatley	4	2
D H R Killick	4	2
L E C Letts	4	2
C L Lim	3	1

In addition, during 2010, there were four meetings of the audit committee, two meetings of the remuneration committee and one meeting of the nomination committee. All committee meetings were attended by all of the committee members appointed at the time of each meeting.

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

Nomination committee

The nomination committee comprises Mr D H R Killick (chairman), Mr D J Blackett and Mr J R M Keatley. Messrs Blackett and Killick were appointed to the committee upon Messrs Letts and Robinow stepping down in January 2010 and Mr Killick was subsequently appointed as chairman in succession to Mr Keatley. The committee is responsible for submitting recommendations for the appointment of directors for approval by the full board.

Audit committee

The audit committee currently comprises Mr D J Blackett (chairman) and Mr D H R Killick both of whom are considered by the directors to have the relevant financial experience.

The audit committee is responsible for:

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

The audit committee also monitors the engagement of the auditors to perform non-audit work. During 2010, the only non-audit work undertaken by the auditors 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 auditors). The audit committee considered that the nature and scope of, and remuneration payable in respect of, these engagements was such that the independence and objectivity of the auditors was not impaired.

The members of the audit committee discharge their responsibilities by informal discussions between themselves, by meetings with the external auditors, the internal auditors in Indonesia and management and by consideration of reports by management, the Indonesian internal audit function and the external auditors and by holding at least three formal meetings in each year.

The audit committee has recommended to the board of the company that it should seek the approval of the

company's shareholders for the reappointment of the company's current auditors. That recommendation reflected an assessment of the qualifications, expertise, resources and independence of the auditors based upon reports produced by the auditors, the committee's own dealings with the auditors and feedback from management. The committee took into account the likelihood of withdrawal of the auditor from the market and noted that there were no contractual obligations to restrict the choice of external auditors. Given the current level of audit fees 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.

Relations with shareholders

The “Chairman's statement” and “Review of the group” sections of the annual report, when read in conjunction with the financial statements, “Directors' report” and “Directors’ remuneration report”, are designed to present a comprehensive and understandable assessment of the group's position and prospects. The respective responsibilities of the directors and auditors in connection with the financial statements are detailed in the “Directors’ responsibilities” section of this report and in the auditors’ 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. Some directors reside permanently, or for part of each year, in the Asia Pacific region and the nature of the group’s business requires that the chairman and managing director travel frequently to Indonesia. It is therefore not always feasible for all directors to attend general meetings, but those directors who are present are available to talk on an informal basis to shareholders after the meeting’s conclusion. All proxy votes are counted and full details of all proxies lodged for each resolution are reported to the meeting and made available on the company’s website. 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.

The company maintains a corporate website at “www.rea.co.uk”. This provides information regarding the company, including annual and half yearly reports and photographs illustrating various aspects of the group’s operations, and provides a facility for downloading recent press releases issued by the company and other relevant documentation concerning the company.

Internal control

The board is responsible for the group’s system of internal control and for reviewing its effectiveness. Such a 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 any significant risks which the group faces (including risks arising from environmental, social and governance matters). The board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with the revised guidance on internal control published in October 2005.

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. The board plans to take steps formally to embed this emphasis into the group's standard operating procedures in order to evidence compliance with the principles of the Bribery Act 2011.

The board, assisted by the audit committee, regularly reviews the effectiveness of the group's system of internal control. 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.

The board reviewed the systems of internal control and risk management in November 2010 (including the group's internal audit arrangements) and concluded that these remain effective and sufficient for their purpose. The board did not identify, nor was it advised of, any failings or weaknesses which it determined to be significant. A confirmation, therefore, in respect of the necessary actions to be taken was not considered appropriate. This review has been reconfirmed for the purpose of this annual report.

Internal audit and reporting

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. In addition, follow-up audits are undertaken to ensure that the necessary remedial action has been taken. In the opinion of the board, there is no need for an internal audit function outside Indonesia due to the limited nature of the non-Indonesian operations.

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, reporting through the local senior executive to the managing director.

Management reports to 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. At least four supervisory visits each year are undertaken to the overseas operations by the managing director and other directors make periodic visits to those operations. Reports of such visits are circulated to the board and reviewed by the board at the regular board meetings.

Control and capital structure

Information regarding substantial shareholders, significant interests in the securities of the company and other matters pertaining to the control and rights attaching to the company's capital is provided under "Substantial shareholders" and "Control and structure of capital" in the "Directors' report" section of this annual report.

Approved by the board on 20 April 2011
RICHARD M ROBINOW
Chairman

Directors' remuneration report

Introduction

This report has been prepared in accordance with Schedule 8 to the Accounting Regulations made pursuant to the Companies Act 2006 (the "Act"). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the principles relating to directors' remuneration set out in the Combined Code on Corporate Governance issued in 2008 by the Financial Reporting Council (the "Code"). As required by the Act, a resolution to approve the report will be proposed at the annual general meeting at which the accompanying financial statements are laid before the company's members.

The Act requires the auditors to report to the company's members on certain parts of this report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Accounting Regulations. The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

The remuneration committee

The company has established a remuneration committee whose members comprise Mr D J Blackett (chairman) and Mr D H R Killick.

The committee does not use independent consultants but takes into account the views of the chairman and managing director. Neither the chairman nor the managing director plays a part in any discussion of his own remuneration.

Remuneration policy

The committee sets the remuneration and benefits of the chairman and the managing director. The latter is currently the only executive director but the committee would set the remuneration and benefits of any other executive director who might in future be appointed.

In setting remuneration and benefits, the committee considers the achievement of each individual in attaining the objectives set for that individual (including objectives relating to corporate performance on environmental, social and governance matters as well as to overall corporate performance), the responsibilities assumed by the individual and, where the role is part time, the time commitment involved. The committee draws on data of the remuneration of others performing similar functions in similarly sized organisations and takes account of the remuneration of senior employees of the group who are not directors but with due allowance for differences in remuneration applicable to different geographical locations. The committee aims to set performance related remuneration on a basis that promotes the long-term success of the company whilst at the same time encouraging responsible behaviour in relation to environmental, social and governance matters.

The key objective of the remuneration policy (which applies for 2011 and subsequent years) is to attract, motivate, retain and fairly reward individuals of a high calibre, while ensuring that the remuneration of each individual is consistent with the best interests of the company and its shareholders. In framing its policy on performance related remuneration (which is payable only to executive directors) the committee follows the provisions of schedule A to the Code.

The committee considers all proposals for executive directors to hold outside directorships. Such directorships are normally permitted only if considered to be of value to

the group and on terms that any remuneration payable will be accounted for to the group.

Remuneration of executive directors

The policy on remuneration of executive directors is that basic remuneration of each executive director should comprise an annual salary, part of which may be pensionable, and certain benefits-in-kind, principally a company car. In addition an executive director should be paid non-pensionable performance related bonuses. These are to be awarded annually in arrears on a discretionary basis taking into account the performance of the group during the relevant year and the contribution to performance that a director is assessed by the committee to have made. Bonuses should not normally exceed 50 per cent of salary and are paid in cash. There is no separate pension scheme for executive directors and the only current executive director (the managing director) has, since 31 July 2009, been a pensioner member of the R.E.A. Pension Scheme.

Matters particularly taken into account in setting Mr Oakley's basic salary for 2010 were the general level of salary increases in the group in the UK and in Indonesia (where a substantial part of Mr Oakley's responsibilities are discharged), confirmation that Mr Oakley's salary was reasonable by comparison with the salaries of managing directors of listed companies of a size similar to that of the group, and the additional workload assumed by Mr Oakley in relation to the group's new coal activities (but with a recognition that a further increase in Mr Oakley's salary might be appropriate if the coal activities developed as hoped). Achievements reflected in the bonus paid to Mr Oakley in 2010 (being in respect of 2009 performance) included the overall progress of the group's profits, progress in the agricultural operations in relation to composting, improved handling of oil palm fresh fruit bunches and road maintenance, and the successful establishment of the first group supported co-operative smallholder scheme.

Remuneration of non-executive directors

The remuneration of non-executive directors other than the chairman is determined by the board within the limits set by the articles of association, no director taking part in the determination of his own remuneration. The level of remuneration is determined having regard to that paid by comparable organisations and to the time commitments expected. No non-executive director has any entitlement to remuneration on a basis related to performance.

Service contracts

The company's current policy on 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.

The group entered into a service contract with Mr J C Oakley on 16 December 1988 initially for a period of two years, thereafter determinable by either party by giving notice to the other party of not less than six months. In 2010, Mr Oakley's existing service contract was replaced with a dual contract arrangement to reflect more accurately the division of his responsibilities between different parts of the group. Accordingly, Mr Oakley now has two service agreements whereby his working time and remuneration are shared between two employing companies within the group. The terms of the replacement contracts are substantially the same (in combined effect) as the terms of Mr Oakley's previous contract, save that, in line with benefit arrangements for all employees, Mr Oakley is now responsible for paying his own subscriptions to the company's private health scheme. At 31 December 2010, the unexpired term under each contract remained as six months. There are no provisions for compensation for early termination save that Mr Oakley would be entitled to a payment in lieu of notice if due notice had not been given.

Performance graph

A performance graph is shown in the "Key statistics" section of this annual report. This compares the performance of the company's ordinary shares (measured by total shareholder return) with that of the FTSE all share index for the period from January 2006 to December 2010. The FTSE all share index has been selected as there is no index available that is specific to the activities of the company.

Long term incentive plans

A first long term incentive plan (the "first plan") was established in 2007 and a second similar plan (the "second plan") was put in place in 2009. The first and second plans (together the "plans") were designed to provide incentives, linked to the market price performance of ordinary shares in the company, to a small number of key senior executives in Indonesia with a view to their participating over the long term in value created for the group. No director was eligible to participate under either plan. The first plan period commenced on 1 January 2007 and ended on 31 December 2010 and the second plan period commenced on 1 January 2009 and will end on 31 December 2012 (the "performance periods").

Under the plans, participants were awarded potential entitlements over notional ordinary shares of the company. These potential entitlements then vested or will vest to an extent that is dependent upon the achievement of targets. Vested entitlements may be exercised in whole or part at any time within the six years following the date upon which they vest. On exercising a vested entitlement, a participant will receive 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 423.93p in the case of the first plan and 229.83p in case of the second plan, being the market prices of an ordinary share on the dates with effect from which the plans were agreed after adjustment for subsequent variations in the share capital of the company in accordance with the rules of the plans.

Each plan provided that the vesting of a participants' potential entitlements to notional ordinary shares would be determined by key performance targets with each performance target measured on a cumulative basis over the applicable performance period. Under the first plan, for which the performance period has now ended, there were three key performance targets with each target governing the vesting of one third of each potential entitlement. The three targets related to total shareholder return, cost per tonne of crude palm oil produced and annual planting rate achieved. Under the second plan, for which the performance period is continuing, there are two key performance targets with each target governing the vesting of one half of each potential entitlement. The two targets relate to total shareholder return and cost per tonne of crude palm oil produced. Under the first plan there were, and under the second plan there are, threshold, target and maximum levels of performance determining the extent of vesting in relation to each performance target. Targets were or are subject to adjustment at the discretion of the remuneration committee where, in the committee's opinion, warranted by actual performance.

The vesting of potential entitlements and the exercise of vested entitlements is dependent upon continued employment with the group. If a participant under a plan ceases employment with the group before the end of the performance period applicable to that plan, his potential entitlement will lapse unless he leaves by reason of death, injury, disability, redundancy or retirement or the remuneration committee exercises a discretion to decide that his potential entitlement should not lapse. Where the potential entitlement does not lapse, it will vest on a basis that reflects achievement of performance targets up to

the end of the financial year last ended before the date (the "cessation date") that the affected participant ceases employment with the group (as determined by the remuneration committee) and time apportioned for the elapsed portion of the applicable performance period up to the cessation date expressed as a fraction of the full applicable performance period. The resultant vested entitlement will be exercisable for a period of twelve months from the cessation date. If a participant leaves after the end of the applicable performance period, the participant 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, potential entitlements will vest on a basis that reflects achievement of performance targets up to the date (the "applicable date") of change of control or other relevant event (as determined by the remuneration committee) and time apportioned for the elapsed portion of the applicable performance period up to the applicable date expressed as a fraction of the full applicable performance period. Vested entitlements will be exercisable for a period of one month following the applicable date.

At 31 December 2010, entitlements to a total of 35,218 notional ordinary shares had vested under the first plan and awards of potential entitlements over a maximum of 40,292 notional ordinary shares had been made and remained outstanding under the second plan. On the basis of the market price of the ordinary shares on 31 December 2010 of 781p per share, the total gain to participants in respect of their vested and potential entitlements would, if the latter had vested in full, have been £348,000.

Audited information

Directors' remuneration

The following table shows details of the remuneration of individual directors holding office during the year ended 31 December 2010 (with comparative totals for 2009):

	Salary and fees	Other*	2010 Total	2009 Total
	£'000	£'000	£'000	£'000
R M Robinow (chairman)	180	3	183	172
J C Oakley	280	139	419	288
D J Blackett	22	-	22	17
J M Green-Armytage	20	-	20	17
J R M Keatley	20	-	20	17
D H R Killick	22	-	22	17
L E C Letts	20	-	20	17
C L Lim	20	-	20	17
	584	142	726	562

* comprises benefits and, in the case of Mr Oakley a bonus of £65,000, and payments in lieu of pension contributions of £55,000 (see "Director's pension arrangements – Mr J C Oakley" below) .

The total amount paid to Mr Oakley in respect of 2009 was £71,000 less than the amount to which he would normally have been entitled. It also reflected payments in lieu of pension only for the period 1 August to 31 December 2009 (see "Director's pension arrangements – Mr J C Oakley" below). The reduction of £71,000 reflected an agreement with Mr Oakley that a benefit in kind that he received in 2006 relating to a tax liability arising on a gain on exercise of share options should effectively be refunded by commensurate reductions in the subsequent remuneration to which Mr Oakley would otherwise become entitled from 1 January 2008. The £71,000, with a reduction of £92,000 in 2008 and an agreed further reduction of £15,000 in 2011 will together fully offset the applicable benefit in kind.

Fees paid to Mr Blackett and Mr Killick in respect of 2010 included, in each case, additional remuneration of £2,500 in respect of their membership of the audit committee.

Fees payable in respect of Mr Green-Armytage, Mr Letts and Mr Lim were paid to companies in which such directors were interested.

Director's pension arrangements - Mr J C Oakley

Mr Oakley (who was aged 62 at 31 December 2010) was until 31 July 2009 an ordinary member of the R.E.A. Pension Scheme. That Scheme is a defined benefit scheme of which details are shown in note 38 to the consolidated financial statements. Mr Oakley elected to become a pensioner member of the scheme on 31 July 2009. In recognition of Mr Oakley's withdrawal from ordinary membership of the scheme ahead of attaining the age of 65, the company is paying Mr Oakley an amount in lieu of the pension contributions that the company would otherwise have paid to the pension scheme. The amount in lieu payable in 2010 was £54,000 (2009: £22,000).

Director's pension entitlement - Mr J C Oakley

Details of Mr Oakley's annual pension entitlement and of the transfer value of that entitlement are set out below.

Pension:	£
Accrued at beginning of year before commutation	92,525
Effect of commutation	(22,925)
In payment at beginning of year after commutation	69,600
Increase during the year	–
In payment at end of year	69,600

Transfer value:	£
At beginning of year before commutation	1,933,814
Effect of commutation	(520,123)
At beginning of year after commutation	1,413,691
Contributions made by the director during the year	–
Increase during the year	2,304
At end of year	1,415,995

No part of the increase in transfer value during 2010 related to inflation and the nil change in pension during the year did not reflect any component relating to inflation.

Share options - Mr J C Oakley

Pursuant to an option agreement of 22 May 2002, Mr Oakley was granted an option to subscribe new ordinary shares of 25p each at a price of 45p per share payable in cash. There were no performance conditions attached to the grant of this option as the directors did not consider, in the particular circumstances in which the option was granted, that it would be appropriate to impose any conditions and the option was based on the full market value of the ordinary shares at the date of the grant. The grant of the option to Mr Oakley on this basis was approved by special resolution of the company prior to execution of the option agreement.

The number of shares the subject of the option and the option subscription price were subsequently amended in accordance with the terms of the option agreement to take account of share issues after the option was granted. As a result, at the end of 2009 the number of ordinary shares the subject of the option was 840,689 and the exercise price was 43.753p per share.

On 1 February 2010, Mr Oakley exercised his option (which was due to expire on 21 May 2012) in its entirety. The market price of the ordinary shares on the date of exercise was 405p and the gain on exercise was £3,036,963.

Approved by the board on 20 April 2011

RICHARD M ROBINOW

Chairman

Directors' responsibilities

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

UK company law requires the directors to prepare financial statements for each financial year. The directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Article 4 of the European Commission Regulation 1606/2002 and have elected to prepare the parent company financial statements in accordance with UK Generally Accepted Accounting Practice including UK Accounting Standards and applicable law. Under UK company law, the directors must not approve the financial statements 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 at the date and for the period to which they relate.

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

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

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

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

Directors' confirmation

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

- the financial statements, prepared in accordance with the relevant financial reporting framework, 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; and
- the "Directors' report" section of this annual report including the "Chairman's statement" and "Review of the group" sections of this annual report which the Directors' report incorporates by reference provides 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.

The current directors of the company and their respective functions are set out in the "Directors" section of this annual report.

By order of the board
R.E.A. SERVICES LIMITED
Secretary
20 April 2011

Auditors' report (group)

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

We have audited the group financial statements of R.E.A. Holdings plc for the year ended 31 December 2010 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, the accounting policies and the related notes 1 to 43. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of directors and auditors

As explained more fully in the statement of Directors' responsibilities, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the group financial statements.

Auditors' report (group) continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the Directors' confirmation in relation to going concern;
- the part of the Corporate governance statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of R.E.A. Holdings plc for the year ended 31 December 2010 and on the information in the Directors' remuneration report that is described as having been audited.

Mark McIlquham ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, England
20 April 2011

Consolidated income statement

for the year ended 31 December 2010

	Note	2010 $'000	2009 $'000
Revenue	2	114,039	78,885
Net gain arising from changes in fair value of agricultural produce inventory	4	455	1,556
Cost of sales		(48,581)	(33,951)
Gross profit		65,913	46,490
Net gain arising from changes in fair value of biological assets	13	1,588	9,765
Other operating income	2	449	–
Distribution costs		(1,455)	(1,303)
Administrative expenses	5	(10,228)	(7,234)
Operating profit		56,267	47,718
Investment revenues	2, 7	1,894	827
Finance costs	8	(7,714)	(6,828)
Profit before tax	5	50,447	41,717
Tax	9	(15,474)	(11,861)
Profit for the year		34,973	29,856
Attributable to:			
Ordinary shareholders		32,325	27,119
Preference shareholders	10	2,360	2,219
Non-controlling interests	35	288	518
		34,973	29,856
Earnings per 25p ordinary share	11		
Basic		97.0 cents	83.3 cents
Diluted		96.8 cents	81.4 cents

All operations for both years are continuing

Consolidated balance sheet

as at 31 December 2010

	Note	2010 $'000	2009 $'000
Non-current assets			
Goodwill	12	12,578	12,578
Biological assets	13	221,883	204,087
Property, plant and equipment	14	85,488	72,258
Prepaid operating lease rentals	15	17,277	14,117
Indonesian coal interests	16	18,864	12,859
Deferred tax assets	27	5,743	5,037
Non-current receivables		1,417	1,276
Total non-current assets		363,250	322,212
Current assets			
Inventories	18	14,006	13,376
Trade and other receivables	19	28,662	14,340
Cash and cash equivalents	20	36,710	22,050
Total current assets		79,378	49,766
Total assets		442,628	371,978
Current liabilities			
Trade and other payables	30	(12,833)	(13,169)
Current tax liabilities		(8,973)	(9,016)
Obligations under finance leases	28	–	(64)
Bank loans	22	(7,850)	(1,500)
Other loans and payables	29	(604)	(412)
Total current liabilities		(30,260)	(24,161)
Non-current liabilities			
Bank loans	22	(12,625)	(8,719)
Sterling notes	23	(55,244)	(56,965)
US dollar notes	24	(43,269)	(29,677)
Preference shares issued by a subsidiary	25	(1,500)	–
Hedging instruments	26	(17,726)	(13,609)
Deferred tax liabilities	27	(41,010)	(39,478)
Other loans and payables	29	(5,474)	(4,701)
Total non-current liabilities		(176,848)	(153,149)
Total liabilities		(207,108)	(177,310)
Net assets		235,520	194,668
Equity			
Share capital	31	60,548	43,188
Share premium account	32	24,901	27,297
Translation reserve	33	(18,197)	(13,630)
Retained earnings	34	166,228	136,499
		233,480	193,354
Non-controlling interests	35	2,040	1,314
Total equity		235,520	194,668

Approved by the board on 20 April 2011 and signed on behalf of the board.

RICHARD M ROBINOW

Chairman

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	Notes	2010 $'000	2009 $'000
Profit for the year		34,973	29,856
Other comprehensive income			
Exchange differences on translation of foreign operations		3,644	(6,615)
Changes in fair value of cash flow hedges		(3,492)	12,981
Tax relating to components of other comprehensive income	9	(4,676)	(3,567)
Share based payment - deferred tax credit	9	–	743
		(4,524)	3,542
Total comprehensive income for the year		30,449	33,398
Attributable to:			
Ordinary shareholders		27,758	30,620
Preference shareholders		2,360	2,219
Non-controlling interests		331	559
		30,449	33,398

Consolidated statement of changes in equity

for the year ended 31 December 2010

	Share capital (note 31) $'000	Share premium (note 32) $'000	Translation reserve (note 33) $'000	Retained earnings (note 34) $'000	Sub total $'000	Non-controlling interests (note 35) $'000	Total equity $'000
At 1 January 2009	40,714	27,322	(16,388)	110,383	162,031	580	162,611
Total comprehensive income	–	–	2,758	30,081	32,839	559	33,398
Issue of new preference shares	2,474	(25)	–	–	2,449	–	2,449
Dividends to preference shareholders	–	–	–	(2,219)	(2,219)	–	(2,219)
Dividends to ordinary shareholders	–	–	–	(1,746)	(1,746)	–	(1,746)
Changes in non-controlling interests	–	–	–	–	–	175	175
At 31 December 2009	43,188	27,297	(13,630)	136,499	193,354	1,314	194,668
Total comprehensive income	–	–	(4,567)	34,685	30,118	331	30,449
Issue of new ordinary shares	329	246	–	–	575	–	575
Issue of new preference shares (cash)	14,389	–	–	–	14,389	–	14,389
Issue of new preference shares (scrip)	2,642	(2,642)	–	–	–	–	–
Dividends to preference shareholders	–	–	–	(2,360)	(2,360)	–	(2,360)
Dividends to ordinary shareholders	–	–	–	(2,596)	(2,596)	–	(2,596)
Changes in non-controlling interests	–	–	–	–	–	395	395
At 31 December 2010	60,548	24,901	(18,197)	166,228	233,480	2,040	235,520

Consolidated cash flow statement

for the year ended 31 December 2010

	Note	2010 $'000	2009 $'000
Net cash from operating activities	36	21,292	29,644
Investing activities			
Interest received		1,894	827
Proceeds from disposal of property, plant and equipment		158	–
Purchases of property, plant and equipment		(18,504)	(10,382)
Expenditure on biological assets		(15,824)	(16,626)
Expenditure on prepaid operating lease rentals		(3,505)	(1,303)
Changes in non-controlling interests in subsidiaries		395	175
Investment in Indonesian coal interests		(6,005)	(7,473)
Net cash used in investing activities		(41,391)	(34,782)
Financing activities			
Preference dividends paid		(2,360)	(2,219)
Ordinary dividends paid		(2,597)	(1,746)
Repayment of borrowings		(1,500)	(13,817)
Repayment of obligations under finance leases		(64)	(54)
Proceeds of issue of ordinary shares		575	–
Proceeds of issue of preference shares		14,389	2,449
Proceeds of issue of preference shares by a subsidiary		1,500	–
Issue of dollar notes, net of expenses		13,071	–
Sterling note reconstruction expenses		(180)	–
New bank borrowings drawn		11,743	11,119
Net cash from / (used in) financing activities		34,577	(4,268)
Cash and cash equivalents			
Net increase / (decrease) in cash and cash equivalents	37	14,478	(9,406)
Cash and cash equivalents at beginning of year		22,050	30,316
Effect of exchange rate changes		182	1,140
Cash and cash equivalents at end of year	20	36,710	22,050

Accounting policies (group)

General information

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

Basis of accounting

The consolidated financial statements set out on pages 79 to 113 are prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed for use by the EU as at the date of approval of the financial statements and therefore comply with Article 4 of the EU IAS Regulation. The statements are prepared under the historical cost convention except where otherwise stated in the accounting policies.

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

Functional and presentational currency

The consolidated financial statements of the group are presented in US dollars, which is 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

Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and brought into effect for the latest reporting period have not led to any changes in the group's accounting policies.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9: "Financial instruments"
- IAS 24 (amended): "Related party disclosures"
- IAS 32 (amended): "Classification of rights issues"
- IFRIC 19: "Extinguishing financial liabilities with equity instruments"
- IFRIC 14 (amended): "Prepayments of a minimum funding requirement"

Improvements to IFRSs (May 2010)

The adoption of IFRS 9 which the group plans to adopt for the year beginning on 1 January 2013 will impact both the measurement and disclosures of financial instruments.

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

Basis of consolidation

The consolidated financial statements consolidate those of the company and its subsidiary companies (as listed in note (i) 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. Any subsequent losses attributable to the non-controlling shareholders in excess of the non-controlling interest are allocated against the interest of the parent. 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.

Accounting policies (group) continued

Goodwill

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

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

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

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 with the buyer.

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

Leasing

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

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

Foreign currencies

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

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

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

Borrowing costs

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

Operating profit

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

Pensions and other post employment benefits

United Kingdom

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

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

Indonesia

In accordance with local labour law, the group's employees in Indonesia are entitled to lump sum payments on retirement. These obligations are unfunded and provision is made annually on the basis of a periodic assessment by independent actuaries. Actuarial gains and losses are not recognised at the balance sheet date to the extent permitted by paragraphs 92 and 93 of IAS19 “Employee benefits”. Any increase or decrease in the provision, including adjusted actuarial gains and losses, is recognised in the consolidated statement of income, net of amounts added to biological assets.

Taxation

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

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

Biological assets

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

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

Biological assets are revalued at each accounting date on a discounted cash flow basis by reference to the FFB expected to be harvested over the full remaining productive life of the trees, applying an estimated produce value for transfer to the manufacturing process and allowing for upkeep, harvesting costs and an appropriate allocation of overheads. The estimated produce value is derived from a long term average of historic crude palm oil prices buffered so that the implied movement in unit profit margin in any year does not exceed 5 per cent, and further, so as to restrict any implied change in unit profit margin in contradiction of the trend in current margins. Assets which are not yet mature at the accounting date, and hence are not producing FFB, are valued on a similar basis but with the discounted value of the estimated cost to complete planting and to maintain the assets to maturity being deducted from the discounted FFB value.

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

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

Property, plant and equipment

All property, plant and equipment (including, with effect from 1 January 2007, additions to plantation infrastructure) is carried at original cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is computed using the straight line method so as to write off the cost of assets, other than property and plant under construction, over the estimated useful lives of the assets as follows: buildings - 20 years; plant and machinery - 5 to 16 years.

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

Prepaid operating lease rentals

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

Impairment of tangible and intangible assets excluding goodwill

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

useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

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

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

Inventories

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

Recognition and derecognition of financial instruments

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

Non-derivative financial assets

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

Loans and receivables

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that 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.

Non-derivative financial liabilities

The group's non-derivative financial liabilities comprise redeemable instruments, bank borrowings, finance leases

and trade payables. The group does not hold any financial liabilities classified as held for trading or designated as held at FVTPL.

Note issues, bank borrowings and finance leases

Redeemable instruments (comprising note issues and redeemable preference shares of a subsidiary of the company), 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.

Derivative financial instruments

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

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

Cash flow hedges

Changes in the fair value of derivatives which are designated and qualify as cash flow hedges are deferred in equity to the extent attributable to the components of the derivatives that are effective hedges and as such offset the exchange fluctuations relating to the principal amount of the liability or asset being hedged. Other gains or losses arising are recognised immediately in profit or loss, and are included as 'other gains and losses' in the consolidated income statement. Hedge accounting is discontinued when the group revokes the hedging relationship or the hedging instrument expires, is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at discontinuance remains in equity.

Fair value hedges

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

Equity instruments

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

Share-based payments

The group has applied the transitional provisions of IFRS 2 "Share-based payments" which provide certain exemptions for grants of equity instruments prior to 7 November 2002.

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

Critical judgements in applying the group's accounting policies

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

Biological assets

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

Capitalisation of interest and other costs

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

Key sources of estimation uncertainty

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

Biological assets

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

Derivatives

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

1. Critical accounting judgements and key sources of estimation uncertainty - continued

Income taxes

The group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the group's liability to both current and deferred tax having regard to the uncertainties relating to the availability of tax losses and to the future periods in which timing differences are likely to reverse as well as uncertainty regarding recoverability of tax paid against disputed items in assessments of tax on an Indonesian group company.

2. Revenue

	2010 $'000	2009 $'000
Sales of goods	113,805	78,836
Revenue from services	234	49
	114,039	78,885
Other operating income	449	–
Investment income	1,894	827
Total revenue	116,382	79,712

In 2010, two customers accounted for respectively 57 per cent and 17 per cent of the group's sales of agricultural goods (2009: three customers, 43 per cent, 20 per cent and 13 per cent).

The crop of oil palm fresh fruit bunches for 2010 amounted to 518,742 tonnes (2009: 490,178 tonnes). The fair value of the crop of fresh fruit bunches was $65,344,000 (2009: $44,698,000), based on the price formula 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; the carrying amount of net assets and additions to property, plant and equipment are analysed by geographical area of asset location. The group operates in two segments: the cultivation of oil palms and the development of coal operations. In 2010 and 2009, the latter did not meet the quantitative thresholds set out in IFRS 8 "Operating Segments" and, accordingly, no analyses are provided by business segment.

	2010 $'m	2009 $'m
Sales by geographical destination:		
Indonesia	47.0	40.7
Rest of Asia	66.8	38.2
	113.8	78.9
Carrying amount of net assets by geographical area of asset location:		
UK and Continental Europe	23.8	17.3
Indonesia	211.7	177.4
	235.5	194.7

3. Segment information - continued

	2010 $'m	2009 $'m
Additions to property, plant and equipment by geographical area of asset location:		
UK and Continental Europe	–	–
Indonesia	19.3	13.7
	19.3	13.7

4. Agricultural produce inventory movement

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

5. Profit before tax

	2010 $'000	2009 $'000
Salient items charged / (credited) in arrriving at profit before tax		
Administrative expenses (see below)	10,228	7,234
Movement in inventories (at historic cost)	588	1,311
Operating lease rentals	339	308
Depreciation of property, plant and equipment	3,630	3,147
Amortisation of prepaid operating lease rentals	84	190

Administrative expenses

	2010 $'000	2009 $'000
Net foreign exchange gains	(74)	(859)
(Credit) / charge for additional UK pension liability (see note 38)	(225)	528
National insurance contributions on share options	–	355
Indonesian operations	6,254	3,729
Head office	4,273	3,481
	10,228	7,234

Amounts payable to the company's auditors

The amount payable to Deloitte LLP for the audit of the company's financial statements was $126,000 (2009: $118,000). Amounts payable to Deloitte LLP for the audit of accounts of associates of the company pursuant to legislation were $16,000 (2009: $16,000).

Amounts payable to Deloitte LLP for other services were $7,000 (2009: $3,000) 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 auditors).

Amounts payable to an associate of Deloitte LLP for the audit of a subsidiary's financial statements were $16,000 (2009: $10,000).

Notes to the consolidated financial statements continued

5. Profit before tax - continued

Earnings before interest, tax, depreciation and amortisation and net biological gain

	2010 $'000	2009 $'000
Operating profit	56,267	47,718
Depreciation and amortisation	3,715	3,337
Net biological gain	(1,588)	(9,765)
	58,394	41,290

6. Staff costs, including directors

	2010 Number	2009 Number
Average number of employees (including executive directors):		
Agricultural - permanent	4,135	3,943
Agricultural - temporary	2,315	2,210
Head office	7	7
	6,457	6,160

	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	19,538	15,838
Social security costs	754	576
Pension costs	293	1,272
	20,585	17,686

7. Investment revenues

	2010 $'000	2009 $'000
Interest on bank deposits	257	430
Other interest income	1,637	397
	1,894	827

8. Finance costs

	2010 $'000	2009 $'000
Interest on bank loans and overdrafts	974	587
Interest on US dollar notes	3,883	2,338
Interest on sterling notes	5,666	5,989
Interest on obligations under finance leases	1	6
Other finance charges	1,910	1,467
	12,434	10,387
Amount included as additions to biological assets	(4,720)	(3,559)
	7,714	6,828

Amount included as additions to biological assets arose on borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 39.7 per cent (2009: 30.4 per cent); there is no directly related tax relief.

9. Tax

	2010 $'000	2009 $'000
Current tax:		
UK corporation tax	1,042	–
Foreign tax (includes prior years $nil (2009: $69,000))	12,817	6,858
Total current tax	13,859	6,858
Deferred tax:		
Current year	1,615	5,003
Total deferred tax	1,615	5,003
Total tax	15,474	11,861

Taxation is provided at the rates prevailing for the relevant jurisdiction. For Indonesia, the current taxation provision is based on a tax rate of 25 per cent (2009: 28 per cent) and the deferred tax provision in 2010 and 2009 reflects the reduction in the corporate taxation rate from 30 per cent to 25 per cent, effective from 2010. For the United Kingdom, the taxation provision reflects a corporation tax rate of 28 per cent.

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

	2010 $'000	2009 $'000
Profit before tax	50,447	41,717
Notional tax at the UK standard rate of 28 per cent (2009: 28 per cent)	14,125	11,681
Tax effect of the following items:		
Expenses not deductible in determining taxable profit	560	142
Non taxable income	(123)	(88)
Overseas tax rates below UK standard rate	(1,588)	(672)
Overseas withholding taxes, net of relief	1,855	729
Additional tax provisions	645	69
Tax expense at effective tax rate for the year	15,474	11,861

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2010 $'000	2009 $'000
Current tax:		
Relating to cash flow hedges	4,882	4,179
Deferred tax:		
Relating to cash flow hedges	(206)	(612)
On share based payment	–	(743)
	(206)	(1,355)
Total tax recognised directly in other comprehensive income	4,676	2,824

10. Dividends

	2010 $'000	2009 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share	2,360	2,219
Ordinary dividends	2,596	1,746
	4,956	3,965

An interim dividend of 2½p per ordinary share in respect of the year ended 31 December 2010 was paid on 28 January 2011. In accordance with IAS10 "Events after the reporting period", this dividend, amounting in aggregate to $1,323,550 has not been included in the 2010 financial statements.

11. Earnings per share

	2010 $'000	2009 $'000
Earnings for the purpose of basic and diluted earnings per share *	32,325	27,119

* being net profit attributable to ordinary shareholders

	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	33,343	32,574
Effect of dilutive potential ordinary shares	66	736
Weighted average number of ordinary shares for the purpose of diluted earnings per share	33,409	33,310

12. Goodwill

	2010 $'000	2009 $'000
Beginning of year	12,578	12,578
End of year	12,578	12,578

The goodwill of $12,578,000 arose from the acquisition by the company in 2006 of a non-controlling interest in the issued ordinary share capital of Makassar Investments Limited, the parent company of PT REA Kaltim Plantations, for a consideration of $19 million. The goodwill is reviewed for impairment as explained under "Goodwill" in "Accounting policies (group)". The recoverable amount of the goodwill is based upon value in use of the oil palm business in Indonesia, which is regarded as the cash generating unit to which the goodwill relates. Value in use is assessed by revaluing the biological assets of the oil palm business on the basis of the principles applied in determining their fair value as detailed in note 13 but utilising a unit profit margin calculated by reference to a five year average of historic crude palm oil prices rather than the longer term average assumed in determining fair value. The directors consider this to be an appropriate method for determining value in use as it maintains consistency of methodology between estimations of value in use and the IAS 41 valuation.

13. Biological assets

	2010 $'000	2009 $'000
Beginning of year	204,087	179,745
Reclassification from infrastructure (see note 14)	1,076	773
Additions to planted area and costs to maturity including finance costs (see note 8)	15,028	13,866
Transfers from property, plant and equipment (see note 14)	772	140
Transfers to non-current receivables	(227)	(202)
Transfers to current receivables	(441)	–
Net biological gain	1,588	9,765
End of year	221,883	204,087
Net biological gain comprises:		
Gain arising from movement in fair value attributable to physical changes	1,588	9,765
Gain arising from movement in fair value attributable to price changes	–	–
	1,588	9,765

The nature of the group's biological assets and the basis of determination of their fair value is explained under "Biological assets" in "Accounting policies (group)". Critical judgements in relation to these matters are detailed in note 1. The valuation assumed a discount rate of 16 per cent in the case of PT REA Kaltim Plantations ("REA Kaltim"), 17.5 per cent in the case of PT Sasana Yudha Bhakti ("SYB") and 19 per cent in the case of all other group companies (2009: 16 per cent in the case of REA Kaltim and 19 per cent in the case of all other group companies) and a twenty year average crude palm oil ("CPO") price of $472 per tonne, net of Indonesian export duties, FOB Samarinda (2009: twenty year average of $446 per tonne). The effect of the accounting policy on biological assets was that there was no change in the unit profit margin assumed.

The valuation of the group's biological assets would have been reduced by $12,560,000 (2009: $11,260,000) if the crops projected for the purposes of the valuation had been reduced by 5 per cent; by $12,000,000 (2009: $10,660,000) if the discount rates assumed had been increased by 1 per cent and by $25,100,000 (2009: $22,490,000) if the assumed unit profit margin per tonne of oil palm fresh fruit bunches had been reduced by $5.

As a general rule, all palm products produced by the group are sold at prices prevailing immediately prior to delivery but on occasions, when market conditions appear favourable, the group makes forward sales at fixed prices. When making such sales, the group would not normally commit more than 60 per cent of its projected production for a forthcoming period of twelve months. At 31 December 2010, the group had no outstanding forward sale contracts at fixed prices (2009: none).

At 31 December 2010, the group had outstanding forward sales of 6,000 tonnes per month for the five month period to May 2011, on terms that the sales price of each delivery be determined immediately ahead of delivery by reference to prevailing open market prices (31 December 2009: 6,000 tonnes per month for the five month period to 31 May 2010).

At the balance sheet date, biological assets of $215,700,000 (2009: $165,364,000) had been charged as security for bank loans (see note 22) but there were otherwise no restrictions on titles to the biological assets (2009: none). Expenditure approved by the directors for the development of immature areas in 2011 amounts to $33,000,000 (2009: $37,000,000).

14. Property, plant and equipment

	Buildings and structures	Plant, equipment and vehicles	Construction in progress	Total
	$'000	$'000	$'000	$'000
Cost:				
At 1 January 2009	35,293	32,304	7,086	74,683
Reclassification as biological assets (see note 13)	(773)	–	–	(773)
Additions	3,482	2,587	7,621	13,690
Exchange differences	–	57	–	57
Disposals	–	–	–	–
Transfers (see note 13)	7,705	2,462	(10,307)	(140)
At 31 December 2009	45,707	37,410	4,400	87,517
Reclassification as biological assets (see note 13)	(1,076)	–	–	(1,076)
Additions	7,655	2,075	9,546	19,276
Exchange differences	–	(16)	–	(16)
Disposals	–	(237)	–	(237)
Transfers (see note 13)	1,532	232	(2,536)	(772)
At 31 December 2010	53,818	39,464	11,410	104,692
Accumulated depreciation:				
At 1 January 2009	1,804	9,810	–	11,614
Charge for year	1,058	2,554	–	3,612
Exchange differences	–	33	–	33
Eliminated on disposals	–	–	–	–
At 31 December 2009	2,862	12,397	–	15,259
Charge for year	1,511	2,599	–	4,110
Exchange differences	–	(10)	–	(10)
Eliminated on disposals	–	(155)	–	(155)
At 31 December 2010	4,373	14,831	–	19,204
Carrying amount:				
End of year	49,445	24,633	11,410	85,488
Beginning of year	42,845	25,013	4,400	72,258

The depreciation charge for the year includes $374,000 (2009: $465,000) which has been capitalised as part of the additions to biological assets.

At the balance sheet date, the book value of finance leases included in property, plant and equipment was $nil (2009: $139,000).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $1,367,000 (2009: $360,000).

15. Prepaid operating lease rentals

	2010 $'000	2009 $'000
Cost:		
Beginning of year	15,027	13,723
Additions	3,505	1,304
End of year	18,532	15,027
Accumulated depreciation:		
Beginning of year	910	635
Charge for year	345	275
End of year	1,255	910
Carrying amount:		
End of year	17,277	14,117
Beginning of year	14,117	13,088

The depreciation charge for the year includes $261,000 (2009: $85,000) which has been capitalised as part of the additions to biological assets.

At 31 December 2010, land title certificates had been obtained in respect of areas covering 63,263 hectares (2009: 52,029 hectares).

16. Indonesian coal interests

The balance of $18,864,000 (2009: $12,859,000) comprises interest bearing loans made to two Indonesian companies that, directly and through a further Indonesian company, own rights in respect of certain coal concessions in East Kalimantan Indonesia, together with related balances; such loans are repayable not later than 2020. Arrangements have been agreed whereby the group will have the right to acquire the concession holding companies at original cost as soon as Indonesian law allows this on a basis that will give the group 95 per cent ownership of those companies. In the interim, the group will receive appropriate remuneration for the funding and services that it provides to the concession holding companies and no dividends or other distributions or payments may be paid or made by the concession holding companies to the existing owners of the companies without the prior agreement of the group. The directors do not consider that any provision for impairment of the Indonesian coal interests is required.

17. Subsidiaries

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

Certain borrowings incurred by PT REA Kaltim Plantations ("REA Kaltim") limit the payment of dividends by REA Kaltim to a proportion of REA Kaltim's annual profit after tax.

18. Inventories

	2010 $'000	2009 $'000
Agricultural produce	6,231	5,477
Engineering and other operating inventory	7,775	7,899
	14,006	13,376

19. Trade and other receivables

	2010 $'000	2009 $'000
Due from sale of goods	5,064	2,618
Prepayments and advance payments	5,216	2,375
Advance payment of taxation	12,695	8,121
Deposits and other receivables	5,687	1,226
	28,662	14,340

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 30) of 9 days (2009: 6 days). The directors consider that the carrying amount of trade and other receivables approximates their fair value.

20. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the group and short-term bank deposits with a maturity of one month or less. Cash balances amounting to $4.0 million (2009: nil) are subject to a charge in favour of the trustee for the 9.5 per cent guaranteed sterling notes 2015/17 issued by a subsidiary (see note 23), pending deployment as further loans to Indonesian plantation subsidiaries which were advanced on 25 January 2011.

21. Financial instruments

Capital risk management

The group manages as capital its debt, which includes the borrowings and redeemable preference shares of a subsidiary disclosed in notes 22 to 25, cash and cash equivalents and equity attributable to shareholders of the parent, comprising issued ordinary and preference share capital, reserves and retained earnings as disclosed in notes 31 to 34. 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 banks, development institutions and the public debt market, in proportions which suit, and as respects borrowings 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 medium term listed debt securities and borrowings from development institutions.

21. Financial instruments - continued

Net debt to equity ratio

Whilst the directors believe that it is important that the group retains flexibility as to the percentage of the group's overall funding that is represented by net debt, as a general indication, they believe that, at the present stage of the group's development, net debt should not exceed 100 per cent of total equity. The target for 31 December 2011 is 50 per cent (2010: 60 per cent). Net debt, equity and the net debt to equity ratio at the balance sheet date were as follows:

	2010 $'000	2009 $'000
Debt and related engagements *	132,056	104,580
Cash and cash equivalents	(36,710)	(22,050)
Net debt and related engagements	95,346	82,530

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

	2010	2009
Equity (including non-controlling interests)	235,520	194,668
Net debt to equity ratio	40.5%	42.4%

Significant accounting policies

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

Categories of financial instruments

Non-derivative financial assets as at 31 December 2010 comprised loans and receivables (including Indonesian coal interests) and cash and cash equivalents amounting to $66,293,000 (2009: $38,785,000).

Non-derivative financial liabilities as at 31 December 2010 comprised liabilities at amortised cost amounting to $118,424,000 (2009: $106,714,000).

Derivative financial instruments at 31 December 2010 comprised instruments in designated hedge accounting relationships at fair value amounting to a liability of $17,726,000 (2009: a liability of $13,609,000).

As explained in note 16, arrangements exist for the group to acquire at historic cost the shares in the Indonesian companies owning rights over certain coal concessions. The directors have attributed a fair value of zero to these rights 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.

21. Financial instruments - continued

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

Interest is payable on drawings under the Indonesian consortium loan facilities at a floating rate equal to 2.75 per cent per annum over Singapore Inter Bank Offered Rate ("SIBOR") (2009: 2.75 per cent). In addition, the interest rate formula includes an allowance for the bankers' cost of funds. Interest is payable on drawings under an Indonesian Rupiah term loan facility at 3.5 per cent (2009: nil) above the Jakarta Inter Bank Offer Rate.

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 2010 (other than the cross currency interest rate swap) which carry interest at floating rates would have resulted over a period of one year in a pre-tax profit (and equity) increase of approximately $162,000 (2009: pre-tax profit (and equity) increase of $118,000).

The group regards the US dollar as the functional currency of most of its operations and has, until recently, sought to ensure that, as respects that proportion of its investment in the operations that is met by borrowings, it has 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 a subsidiary of the company during 2010 of an Indonesian tax assessment seeking to disallow for tax purposes losses on currency hedges has called into question this policy but the directors hope that the assessment will be reversed on appeal and that the policy can be retained. Pending outcome of the appeal, the group has not hedged its Indonesian rupiah borrowings. The group does not cover the currency exposure in respect of the component of the investment that is financed with pounds sterling denominated equity. The group's policy is to maintain limited balances in pounds sterling sufficient to meet its projected sterling expenditure for a period of up to twelve months and a balance in Indonesian rupiahs up to the aggregate amount drawn in that currency under local bank facilities but, otherwise, to keep all cash balances in US dollars. The group does not normally otherwise hedge its revenues and costs arising in currencies other than the US dollar.

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 gain dealt with in the consolidated income statement and equity of $157,000 on the net sterling denominated non-derivative monetary items (excluding the sterling notes which are hedged) (2009: gain of $180,000). A 5 per cent strengthening of the Indonesian rupiah against the US dollar would have resulted in a gain dealt with in the consolidated income statement and equity of $373,000 on the net Indonesian rupiah denominated, non-derivative monetary items (2009: gain of $188,000).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The directors consider that the group is not exposed to any major concentrations of credit risk. At 31 December 2010, 68 per cent of bank deposits were held with banks with a Moody's prime rating of P1, 24 per cent with a bank with a Moody's prime rating of P3 and the

21. Financial instruments - continued

balance with banks with no Moody's prime rating. Substantially all sales of goods are made on the basis of cash against documents or letters of credit. At the balance sheet date, no trade receivables were past their due dates, nor were any impaired; accordingly no bad debt provisions were required. The maximum credit risk exposures in respect of the group's financial assets at 31 December 2010 and 31 December 2009 equal the amounts reported under the corresponding balance sheet headings.

Liquidity risk

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

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

Non-derivative financial instruments

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

	Weighted average interest rate	Under 1 year	Between 1 and 2 years	Over 2 years	Total
2010	%	$'000	$'000	$'000	$'000
Bank loans	8.6	9,106	3,708	12,773	25,587
US dollar notes	8.6	3,375	18,375	33,375	55,125
Sterling notes	10.4	5,481	5,467	79,659	90,607
KCC preference shares (see note 25)		–	–	1,500	1,500
Trade and other payables, and customer deposits		7,115	–	–	7,115
		25,077	27,550	127,307	179,934
2009					
Bank loans	6.5	2,126	2,610	7,125	11,861
US dollar notes	8.0	2,250	2,250	34,500	39,000
Sterling notes	10.4	5,663	5,647	87,915	99,225
Trade and other payables, and customer deposits		7,964	–	–	7,964
Obligations under finance leases	10.0	68	–	–	68
		18,071	10,507	129,540	158,118

At 31 December 2010, the group's non-derivative financial assets (other than receivables) comprised cash and deposits of $36,710,000 (2009: $22,050,000) carrying a weighted average interest rate of 0.9 per cent (2009: 1.9 per cent) all having a maturity of under one year, and Indonesian coal interests of $18,864,000 (2009: $12,859,000) details of which are given in note 16.

21. Financial instruments - continued

Derivative financial instruments

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

	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
At 31 December 2010	7,177	7,296	90,133	104,606
At 31 December 2009	7,197	7,178	97,429	111,804

Fair value of financial instruments

The table below provides an analysis of the book values and fair values of financial instruments, excluding receivables and trade payables and Indonesian coal interests, as at the balance sheet date. All financial instruments are classified as level 1 in the fair value hierarchy prescribed by IFRS 7 "Financial instruments: disclosures" other than the cross currency interest rate swaps and the preference shares issued by a subsidiary that are classified as levels 2 and 3 respectively. No reclassifications between levels in the fair value hierarchy were made during 2010 (2009: none).

	2010 Book value $'000	2010 Fair value $'000	2009 Book value $'000	2009 Fair value $'000
Cash and deposits +	36,710	36,710	22,050	22,050
Bank debt - within one year +	(7,850)	(7,850)	(1,500)	(1,500)
Bank debt - after more than one year +	(12,625)	(12,625)	(8,719)	(8,719)
Finance leases o	–	–	(64)	(64)
Preference shares issued by a subsidiary	(1,500)	(1,500)	–	–
US dollar notes o	(43,269)	(42,750)	(29,677)	(27,000)
Sterling notes o	(55,244)	(60,827)	(56,965)	(57,066)
Cross currency interest rate swaps - hedge against principal liabilities	(11,568)	(11,568)	(7,655)	(7,655)
Net debt and related engagements	(95,346)	(100,410)	(82,530)	(79,954)
Cross currency interest rate swaps - hedge against interest liabilities	(6,158)	(6,158)	(5,954)	(5,954)
	(101,504)	(106,568)	(88,484)	(85,908)

+ bearing interest at floating rates
o 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 values of the US dollar notes and sterling notes are based on the latest prices at which those notes were traded prior to the balance sheet dates.

The fair value of the preference shares issued by a subsidiary has been estimated by the directors on the basis of their assessment of the probability of the shares becoming redeemable on 31 December 2014 in accordance with their terms and of the redemption value then applicable discounted for the period from the balance sheet date to 31 December 2014.

21. Financial instruments - continued

The fair value of the cross currency interest rate swaps ("CCIRS") has been derived by a discounted cash flow analysis using quoted foreign forward exchange rates and yield curves derived from quoted interest rates with maturities corresponding to the applicable cash flows. The valuation of the CCIRS at 31 December 2010 at fair value resulted in a loss of $17,726,000 (2009: loss of $13,609,000) which has been taken directly to equity, net of related tax relief. A 50 basis points movement in the spread between the assumed yield curves for pounds sterling and the US dollar would increase or decrease the valuation by approximately $2,173,000 (2009: $2,847,000).

22. Bank loans

	2010 $'000	2009 $'000
Bank loans	20,475	10,219
The bank loans are repayable as follows:		
On demand or within one year	7,850	1,500
Between one and two years	2,700	2,100
After two years	9,925	6,619
	20,475	10,219
Amount due for settlement within 12 months (shown under current liabilities)	7,850	1,500
Amount due for settlement after 12 months	12,625	8,719
	20,475	10,219

All bank loans are denominated in US dollars and are at floating rates, thus exposing the group to interest rate risk. The weighted average interest rate in 2010 was 7.3 per cent (2009: 5.5 per cent). Bank loans of $13,469,000 (2009: $10,219,000) are secured on substantially the whole of the assets and undertaking of PT REA Kaltim Plantations ("REA Kaltim"), having an aggregate book value of $282 million (2009: $277 million), and are the subject of an unsecured guarantee by the company. Bank loans of $6,006,000 (2009: nil) are secured on the land, plantations, property, plant and equipment owned by PT Sasana Yudha Bhakti ("SYB"), having an aggregate book value of $70 million (2009: nil), and are the subject of an unsecured guarantee by the company. The banks are entitled to have recourse to their security on usual banking terms.

At the balance sheet date, the group had undrawn US dollar denominated bank facilities of $2 million (2009: $4.75 million).

23. Sterling notes

The sterling notes comprise £37 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 issued by the company's subsidiary, REA Finance B.V.. Unless previously redeemed or purchased and cancelled by the issuer, the sterling notes are repayable in three equal instalments commencing on 31 December 2015.

The repayment obligation in respect of the sterling notes of £37 million ($59.8 million) is hedged by forward foreign exchange contracts for the purchase of £37 million and for the sale of $68.6 million and is carried in the balance sheet net of the unamortised balance of the note issuance costs.

Details of the restructuring of the security for the sterling notes are set out in note (i) to the company's individual financial statements.

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

24. US dollar notes

The US dollar notes comprise US$45 million nominal of 7.5 per cent dollar notes 2012/14 of the company, and are stated net of the unamortised balance of the note issuance costs. Unless previously redeemed or purchased and cancelled by the company, the US dollar notes are redeemable in three equal annual instalments commencing on 31 December 2012.

Pursuant to a supplemental rights agreement dated 23 January 2006, between the company and the holders of $19 million nominal of US dollar notes, the latter have the right, exercisable under certain limited circumstances, to require the company to purchase the US dollar notes held by them at a price equal to the aggregate of the nominal amount of the notes being purchased and any interest accrued thereon up to the date of completion of the purchase. Such circumstances include a material disposal of assets by the group or a person or group of persons acting in concert obtaining the right to exercise more than 50 per cent of the votes that may generally be cast at a general meeting of the company.

Pursuant to a placing agreement dated 28 January 2010 under which the company placed $15 million nominal of US dollar notes and the company's subsidiary, KCC Resources Limited, issued to placees 150,000 redeemable participating preference shares in the capital of KCC ("KCC preference shares"), the company granted to each placee a non-assignable option, exercisable on the occurrence of any one of certain events and on a basis relating to the number of KCC preference shares retained by the placee at the date of such occurrence, to require the company to purchase or procure the purchase of the US dollar notes acquired by the placee in the placing at a price equal to the aggregate of the nominal value of such notes and any interest accrued thereon up to the date of completion of the purchase. Such events include the disposal of a significant part of the group's coal business or a person or group of persons acting in concert obtaining the right to exercise more than 50 per cent of the votes that may generally be cast at a general meeting of the company.

25. Preference shares issued by a subsidiary

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

26. Hedging instruments

At both 31 December 2010 and 31 December 2009, the group had outstanding three contracts for the forward purchase of £37 million and sale of $68.6 million maturing in 2015 pursuant to the cross currency interest rate swaps ("CCIRS") entered into by the group to hedge the foreign currency exposure of the group arising from the interest and principal repayment obligations of its 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes"). Either party to the CCIRS has the option to terminate the CCIRS on the fifth anniversary of the initial trade date on the basis that, upon such termination, the CCIRS will be closed out at prevailing market value calculated by reference to mid market interest and sterling US dollar exchange rates with no adjustment for specific credit risk. During the year, the hedges were effective in hedging the related sterling interest payment obligations on the sterling notes up to and including 31 December 2015 and in providing the £37 million required to meet the principal repayment obligations. The fair value of the CCIRS has been described in note 21.

27. Deferred tax

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

Deferred tax assets / (liabilities)	Property, plant and equipment $'000	Biological assets $'000	Income/ expenses* $'000	Share based payments $'000	Tax losses $'000	Total $'000
At 1 January 2009	(14,921)	(13,658)	(1,988)	538	995	(29,034)
(Charge) / credit to income for the year	(3,052)	(2,979)	1,614	–	(586)	(5,003)
Credit to equity for the year	–	–	–	743	–	743
Exchange differences	(2,407)	–	846	92	322	(1,147)
At 31 December 2009	(20,380)	(16,637)	472	1,373	731	(34,441)
(Charge) / credit to income for the year	(2,733)	(894)	1,982	175	(145)	(1,615)
Credit / (charge) to equity for the year	–	–	394	(1,021)	–	(627)
Exchange differences	443	253	935	(239)	24	1,416
Unutilised loss on exercise	–	–	–	(288)	288	–
At 31 December 2010	(22,670)	(17,278)	3,783	–	898	(35,267)
Deferred tax assets	287	–	4,558	–	898	5,743
Deferred tax liabilities	(22,957)	(17,278)	(775)	–	–	(41,010)
At 31 December 2010	(22,670)	(17,278)	3,783	–	898	(35,267)
Deferred tax assets	318	–	2,615	1,373	731	5,037
Deferred tax liabilities	(20,698)	(16,637)	(2,143)	–	–	(39,478)
At 31 December 2009	(20,380)	(16,637)	472	1,373	731	(34,441)

* includes income, gains or expenses recognised for reporting purposes, but not yet charged to or allowed for tax.

At the balance sheet date, the group had unused tax losses of $3.5 million (2009: $7.8 million) available to be applied against future profits. A deferred tax asset of $898,000 (2009: $2,104,000) has been recognised in respect of these losses made up of $nil in respect of the share based payment provision (2009: $1,373,000) and $898,000 in respect of other tax losses (2009: $731,000).

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 $9,600,000 (2009: $6,150,000). No liability has been recognised in respect of these differences because the group is in a position to control the reversal of the temporary differences and it is probable that such differences will not significantly reverse in the foreseeable future.

The deferred tax asset in respect of Indonesian tax losses assumes that losses for tax purposes incurred by the operating companies in Indonesia may be carried forward for five years.

28. Obligations under finance leases

	2010 $'000	2009 $'000
Minimum lease payments:		
Amounts payable under finance leases		
Within one year	–	68
In the second to fifth years inclusive	–	–
	–	68
Less: Future finance charges	–	4
Present value of lease obligations	–	64
Representing:		
Amounts payable under finance leases		
Within one year	–	64
In the second to fifth years inclusive	–	–
Present value of lease obligations	–	64
Amount due for settlement within 12 months (shown under current liabilities)	–	64
Amount due for settlement after 12 months	–	–
	–	64

All the group leases of certain items of plant and equipment under finance leases were terminated during the year. The former leases were at fixed interest rates and the average borrowing rate for the year was 10.0 per cent (2009: 10.0 per cent).

29. Other loans and payables

	2010 $'000	2009 $'000
Retirement benefit obligations (see note 38)	5,272	4,573
Other	806	540
	6,078	5,113
The amounts are repayable as follows:		
On demand or within one year (shown under current liabilities)	604	412
In the second year	663	394
In the third to fifth years inclusive	1,773	1,308
After five years	3,038	2,999
Amount due for settlement after 12 months	5,474	4,701
	6,078	5,113
Amounts of liabilities by currency:		
Sterling	2,932	2,909
US dollar	367	436
Indonesian rupiah	2,779	1,768
	6,078	5,113

29. Other loans and payables - continued

Further details of the retirement benefit obligations are set out in note 38. The directors estimate that the fair value of retirement benefit obligations and of other loans and payables approximates their carrying value.

30. Trade and other payables

	2010	2009
	$'000	$'000
Trade purchases and ongoing costs	3,900	5,517
Customer deposits	2,096	1,288
Other tax and social security	3,046	2,098
Accruals	3,021	3,107
Other payables	770	1,159
	12,833	13,169

The average credit period taken on trade payables is 26 days (2009: 37 days).

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

31. Share capital

	2010	2009
	£'000	£'000
Authorised (in pounds sterling):		
27,500,000 - 9 per cent cumulative preference shares of £1 each (2009: 17,500,000)	27,500	17,500
41,000,000 - ordinary shares of 25p each (2009: 41,000,000)	10,250	10,250
	37,750	27,750
Issued and fully paid (in US dollars):	$'000	$'000
27,063,681 - 9 per cent cumulative preference shares of £1 each (2009: 16,392,954)	45,990	28,958
33,414,545 - ordinary shares of 25p each (2009: 32,573,856)	14,558	14,230
	60,548	43,188

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

Changes in share capital:

- on 1 February 2010, 840,689 ordinary shares were issued fully paid on exercise of a director's option at 43.753p per ordinary share.
- on 8 June 2010, the authorised share capital of the company was increased from £27,750,000 to £37,750,000 by the creation of 10,000,000 new 9 per cent cumulative preference shares.
- on 24 September 2010, 1,670,727 9 per cent cumulative preference shares were issued, credited as fully paid, to ordinary shareholders by way of capitalisation of share premium account.
- on 29 October 2010, 9,000,000 9 per cent cumulative preference shares were issued, fully paid, by way of a placing at par.

32. Share premium account

	$'000
At 1 January 2009	27,322
Expenses of issue of new preference shares	(25)
At 31 December 2009	27,297
Issue of new ordinary shares	246
Capitalisation issue of new preference shares	(2,642)
At 31 December 2010	24,901

33. Translation reserve

	Hedging reserve $'000	Other reserve $'000	Total $'000
At 1 January 2009	(406)	(15,982)	(16,388)
Reclassification of balances brought forward	(7,669)	7,669	–
Exchange translation differences arising during the year	(4,653)	(2,086)	(6,739)
Fair value profit on cash flow hedge	9,497	–	9,497
At 31 December 2009	(3,231)	(10,399)	(13,630)
Exchange translation differences arising during the year	1,356	2,653	4,009
Fair value loss on cash flow hedge	(8,576)	–	(8,576)
At 31 December 2010	(10,451)	(7,746)	(18,197)

34. Retained earnings

	2010 $'000	2009 $'000
Beginning of year	136,499	110,383
Profit for the year	32,325	27,119
Ordinary dividend paid	(2,596)	(1,746)
Share based payment - deferred tax credit	–	743
End of year	166,228	136,499

35. Non-controlling interests

	2010 $'000	2009 $'000
Beginning of year	1,314	580
Share of profit after taxation	288	518
Share of items taken directly to equity	(28)	84
Exchange translation differences	71	(43)
Subscription to share capital of new subsidiary	395	175
End of year	2,040	1,314

36. Reconciliation of operating profit to operating cash flows

	2010 $'000	2009 $'000
Operating profit	56,267	47,718
Depreciation of property, plant and equipment	4,110	3,148
Increase in fair value of agricultural produce inventory	(455)	(1,556)
Amortisation of prepaid operating lease rentals	345	190
Amortisation of sterling and US dollar note issue expenses	793	344
Biological gain	(1,588)	(9,765)
Gain on disposal of property, plant and equipment	(52)	–
Operating cash flows before movements in working capital	59,420	40,079
Decrease in inventories (excluding fair value movements)	180	2,158
Increase in receivables	(10,278)	(2,670)
Increase / (decrease) in payables	486	(690)
Exchange translation differences	402	(48)
Cash generated by operations	50,210	38,829
Taxes paid	(21,134)	(2,284)
Interest paid	(7,784)	(6,901)
Net cash from operating activities	21,292	29,644

No additions to property, plant and equipment during the year were financed by new finance leases (2009: $nil).

37. Movement in net borrowings

	2010 $'000	2009 $'000
Change in net borrowings resulting from cash flows:		
Increase / (decrease) in cash and cash equivalents	14,478	(9,406)
Net (increase) / decrease in borrowings	(10,243)	2,698
	4,235	(6,708)
Issue of US dollar notes less amortised expenses	(13,579)	(88)
Sterling note reconstruction expenses less amortisation	(104)	(256)
Proceeds of issue of preference shares by a subsidiary	(1,500)	–
Lease repayments	64	54
	(10,884)	(6,998)
Currency translation differences	1,981	(5,296)
Net borrowings at beginning of year	(74,875)	(62,581)
Net borrowings at end of year	(83,778)	(74,875)

38. 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.

38. Retirement benefit obligations - continued

As the Scheme is a multi-employer scheme, in which the employer is unable to identify its share of the underlying assets and liabilities (because there is no segregation of the assets) and does not prepare valuations on an IAS19 basis, the group accounts for the Scheme as if it were a defined contribution scheme.

A non-IAS 19 valuation of the Scheme was last prepared, using the attained age method, as at 31 December 2008. This method was adopted in the previous valuation as at 31 December 2005, as it was considered the appropriate method of calculating future service benefits as the Scheme is closed to new members. At 31 December 2008 the Scheme had an overall shortfall in assets (deficit), when measured against the Scheme's technical provisions, of £3,850,000. The technical provisions were calculated using assumptions of an investment return of 5.85 per cent pre-retirement and 4.92 per cent post-retirement, an annual increase in pensionable salaries of 3.75 per cent and an annual increase in present and future pensions of 3.0 per cent. The rate of increase in the retail price index was assumed to be 3.0 per cent. It was further assumed that both non-retired and retired members' mortality would reflect PNA00 Ic YOB tables, with males at min 0.75 per cent 110 per cent and females at min 0.5 per cent 110 per cent and that members would take the maximum cash sums permitted from 1 January 2009. Had the Scheme been valued at 31 December 2008 using the projected unit method and the same assumptions, the overall deficit would have been similar.

The Scheme has agreed a statement of funding principles with the principal employer and has also agreed a schedule of contributions with participating employers covering normal contributions which are payable at a rate calculated to cover future service benefits under the Scheme. The Scheme has also agreed a recovery plan with participating employers which sets out the basis for recovery of the deficit shown by the 31 December 2008 valuation through the payment of quarterly additional contributions over the period from 1 January 2010 to 30 September 2018 after taking account of the additional contributions paid in 2009 under the 31 December 2005 valuation.

The normal contributions paid by the group in 2010 were £15,000 - $24,000 (2009: £47,000 - $72,000) and represented 23.4 per cent (2009: 24.9 per cent) of pensionable salaries. The additional contribution applicable to the group for 2010 was £219,000 - $339,000 (2009: £218,000 - $333,000). Under the valuation as at 31 December 2008 the normal contributions will continue at the rate of 23.4 per cent of pensionable salaries and the additional contribution will rise to £225,000 - $353,000 for 2011 and thereafter by 2.7 per cent per annum. A liability of £1,592,000 $2,500,000 (2009:£1,737,000 - $2,805,000) for these additional contributions adjusted for the time value of money has been recognised under retirement benefit obligations (see note 29) with an equal charge to income.

An annual funding review of the Scheme as a 31 December 2010 based on the 31 December 2008 valuation with revised assumptions reflecting changing market conditions, the rolling forward of liabilities and the valuation of the Scheme assets as at 31 December 2010, indicated a reduction in the Scheme deficit to £892,000 (2009: £2,963,000).

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

Indonesia

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

38. Retirement benefit obligations - continued

	2010	2009
Discount rate	9%	10.5%
Salary increases per annum	7%	7%
Mortality table (Indonesia)	TM 1-11	TM 1-11
Retirement age (years)	55	55
Disability rate (% of the mortality table)	10	10

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

	2010	2009
	$'000	$'000
Balance at 1 January	1,781	1,137
Current service cost	594	381
Interest expense	216	147
Actuarial loss	380	65
Exchange	90	229
Paid during the year	(282)	(178)
Balance at 31 December	2,779	1,781

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

	2010	2009
	$'000	$'000
Current service cost	594	381
Interest expense	216	147
Actuarial loss	380	65
	1,190	593
Amount included as additions to biological assets	(425)	(256)
	765	337

Unrecognised actuarial losses at 31 December 2010 amounted to $317,000 (2009: $206,000). The movement in the present value of the employee service entitlements (including such unrecognised actuarial losses) were as follows:

	2010	2009
	$'000	$'000
Balance at 1 January	1,987	1,263
Current service cost	594	382
Interest expense	216	147
Actuarial loss	481	117
Exchange	100	256
Paid during the year	(282)	(178)
Balance at 31 December	3,096	1,987

Estimated benefit payments in 2011 are $206,000.

39. Related party transactions

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

	2010 $'000	2009 $'000
Short term benefits	1,128	877
Post employment benefits	–	48
Other long term benefits	–	–
Termination benefits	–	–
Share based payments	–	–
	1,128	925

40. Rates of exchange

	2010 Closing	2010 Average	2009 Closing	2009 Average
Indonesia rupiah to US dollar	8,991	9,078	9,400	10,356
US dollar to pound sterling	1.566	1.55	1.615	1.56

41. Events after the reporting period

Dividends

A second interim dividend of 2½p per ordinary share in respect of the year ended 31 December 2010 was paid on 28 January 2011. In accordance with IAS10 "Events after the reporting period" this dividend, amounting in aggregate to $1,323,550, has not been reflected in these financial statements.

42. Contingent liabilities

Guarantee given by a subsidiary company

In furtherance of Indonesian government policy which requires the owners of oil palm plantations to develop smallholder plantations, during 2009 PT REA Kaltim Plantations ("REA Kaltim"), a wholly owned subsidiary of the company, entered into an agreement with Koperasi Perkebuman Kahad Bersatu (the "cooperative") to develop and manage 1,500 hectares of land owned by the cooperative as an oil palm plantation. To assist with the funding of such development, the cooperative concluded on 14 October 2009 a long term loan agreement with Bank Pembanguan Daerah Kalimantan Timur ("Bank BPD"), a regional development bank, under which the cooperative may borrow up to Indonesian rupiah 86.6 billion ($9.6 million) with amounts borrowed repayable over 15 years and secured on the land to be developed ("the bank facility"). REA Kaltim has guaranteed the obligations of the cooperative as to payments of principal and interest under the bank facility and, in addition, has committed to lend to the cooperative any further funds required to complete the agreed development. REA Kaltim is entitled to a charge over the development when the bank facility has been repaid in full.

42. Contingent liabilities - continued

On maturity of the development, the cooperative is required to sell all crops from the development to REA Kaltim and to permit repayment of indebtedness to Bank BPD and REA Kaltim out of the sales proceeds.

As at 31 December 2010 the outstanding balance owing by the cooperative to Bank BPD amounted to Indonesian rupiah 43 billion ($4,759,000) (2009: Indonesian rupiah 29 billion - $3,085,000) and the outstanding balance owing by REA Kaltim to the cooperative amounted to Indonesian rupiah 3 billion ($314,000) (2009: Indonesian rupiah 7.8 billion - $829,000). The latter represented the unexpended balance of drawings to date under the facility to be applied for the purposes of the development.

43. Operating lease commitments

The group leases office premises under operating leases in London, Jakarta and Samarinda. These leases, which are renewable, run for periods of between 1 month and 24 months, and do not include contingent rentals, or options to purchase the properties.

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

	2010 $'000	2009 $'000
Within one year	304	72
In the second to fifth year inclusive	23	189
After five years	–	–
	327	261

Auditors' report (company)

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

We have audited the parent company financial statements of R.E.A. Holdings plc for the year ended 31 December 2010 which comprise the balance sheet, the movement in total shareholders' funds, the statement of total recognised gains and losses, the accounting policies and the related notes (i) to (xiv). The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors' 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.

Respective responsibilities of directors and auditors

As explained more fully in the statement of Directors' responsibilities, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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 and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of R.E.A. Holdings plc for the year ended 31 December 2010.

Mark McIlquham ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, England
20 April 2011

Company balance sheet

as at 31 December 2010

	Note	2010 £'000	2009 £'000
Fixed and non-current assets			
Investments	(i)	121,591	62,165
Tangible fixed assets	(ii)	–	84
Deferred tax asset	(vi)	–	989
		121,591	63,238
Current assets			
Debtors	(iii)	3,196	437
Cash		12,417	2,486
Total current assets		15,613	2,923
Creditors: amounts falling due within one year	(iv)	(18,534)	(4,737)
Net current liabilities		(2,921)	(1,814)
Total assets less current liabilities		118,670	61,424
Creditors: amounts falling due after more than one year			
Borrowings	(v)	(65,389)	(18,375)
Provision for liabilities and charges	(vi)	–	(77)
Net assets		53,281	42,972

	Note	2010 £'000	2009 £'000
Capital and reserves			
Share capital	(vii)	35,417	24,536
Share premium account	(viii)	13,146	14,659
Exchange reserve	(viii)	–	181
Profit and loss account	(viii)	4,718	3,596
Total shareholders' funds		53,281	42,972

Approved by the board on 20 April 2011 and signed on behalf of the board.

RICHARD M ROBINOW

Chairman

Movement in total shareholders' funds

for the year ended 31 December 2010

	2010 £'000	2009 £'000
Total recognised gains / (losses) for the year	4,297	(290)
Dividends to preference shareholders	(1,689)	(1,361)
Dividends to ordinary shareholders	(1,486)	(1,140)
Issue of new preference shares by way of placing	9,000	1,490
Issue of new ordinary shares by way of exercise of options	368	–
Issue costs of ordinary shares, preference shares and debt securities	–	(16)
Movement on exchange reserves	(181)	–
	10,309	(1,317)
Shareholders' funds at beginning of year	42,972	44,289
Shareholders' funds at end of year	53,281	42,972

Statement of total recognised gains and losses

for the year ended 31 December 2010

	2010 £'000	2009 £'000
Profit / (loss) for the year	5,148	(767)
Share based payment - deferred tax (charge) / credit	(851)	477
	4,297	(290)

Accounting policies (company)

Accounting convention

Separate financial statements of R.E.A. Holdings plc (the "company") are required by the Companies Act 2006; as permitted by that act they have been prepared in accordance with generally accepted accounting practice in the United Kingdom ("UK GAAP"). The principal accounting policies have been applied consistently and are unchanged from the previous year.

The accompanying financial statements have been prepared under the historical cost convention.

By virtue of section 408 of the Companies Act 2006, the company is exempted from presenting a profit and loss account. Equally, no cash flow statement has been prepared, as permitted by FRS 1 (revised 1996) "Cash flow statements".

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 paid by subsidiaries are credited to the company's profit and loss account.

Foreign exchange

Transactions in foreign currencies are recorded at the rates of exchange at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Differences arising on the translation of foreign currency borrowings have been offset against those arising on an equivalent amount of investment in the equity of, or loans to, foreign subsidiaries and taken to reserves, net of any related taxation. All other exchange differences are included in the profit and loss account.

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.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life as follows: land and buildings (short leasehold) - 10 years, and fixtures and fittings - 5 years.

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.

(i) Investments	2010 £'000	2009 £'000
Shares in subsidiaries	57,374	26,446
Loans to subsidiaries	64,217	35,719
	121,591	62,165

The movement was as follows:

	£'000
Beginning of year	62,165
Additions to shares in and loans to subsidiaries	59,056
Exchange translation difference arising on foreign currency hedge	370
End of year	121,591

The security for £37,000,000 nominal of 9.5 per cent guaranteed sterling notes 2015/17 issued by REA Finance B.V. ("REAF"), a wholly owned subsidiary of the company, was restructured on 29 November 2010. Pursuant to the restructuring, loans made by REAF to Indonesian subsidiaries of the company were assigned by REAF to another wholly owned subsidiary of the company, R.E.A. Services Limited ("REAS"). As consideration for this assignment, the company acknowledged indebtedness to REAF in amounts equal to the principal amounts of indebtedness assigned (being £37,475,000 and $46,500,000) and, in consideration of the company so acknowledging, REAS issued additional shares to and acknowledged indebtedness to the company to an equivalent aggregate value. The resulting indebtedness owed by the company to REAF was reduced by set off against the balance of $46,500,000 then owed by REAF to the company.

The consequent elimination of balances due to the company from REAF and increase in balances due to the company from REAS of £37,475,000 are reflected in loans to subsidiaries at 31 December 2010 while the resultant additional investment of $46,500,000 by the company in REAS is reflected in shares in subsidiaries at that date. The balance of net indebtedness owed by the company to REAF of £37,475,000 is reflected in the amount owing to group undertaking under "creditors: amounts falling due after more than one year" at 31 December 2010 (see note (v)).

The principal subsidiaries at the year end, together with their countries of incorporation, are listed below. Details of UK dormant subsidiaries and UK subsidiary sub-holding companies are not shown.

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

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

(ii) Tangible fixed assets

	Land and buildings (short leasehold) £'000	Fixtures and fittings £'000	Total £'000
Cost:			
Beginning of year	92	45	137
Disposals	(92)	(45)	(137)
End of year	–	–	–
Accumulated depreciation:			
Beginning of year	26	27	53
Charge for year	9	9	18
Disposals	(35)	(36)	(71)
End of year	–	–	–
Carrying amount:			
End of year	–	–	–
Beginning of year	66	18	84

(iii) Debtors

	2010 £'000	2009 £'000
Trade debtors	–	1
Amount owing by group undertakings	3,180	398
Other debtors	9	31
Prepayments and accrued income	7	7
	3,196	437

(iv) Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Amount owing to group undertakings	18,272	4,199
Other creditors	73	49
Accruals	189	489
	18,534	4,737

(v) Creditors: amounts falling due after more than one year

	2010 £'000	2009 £'000
US dollar notes	27,914	18,375
Amount owing to group undertaking	37,475	–
	65,389	18,375
Amounts due between two and five years	40,247	18,375
Amounts due after five years	25,142	–
	65,389	18,375

(v) Creditors: amounts falling due after more than one year - continued

The US dollar notes comprise US$45 million (2009: US$30 million) nominal of 7.5 per cent dollar notes 2012/14 issued by the company ("US dollar notes") and are stated net of the unamortised balance of the issuance costs. Unless previously redeemed or purchased and cancelled by the company, the notes are redeemable in three equal annual instalments commencing on 31 December 2012.

As disclosed in note (ix), the US dollar notes are designated as a hedge against the exchange translation exposure in respect of an equivalent amount of the company's investment in subsidiaries whose functional currency is the US dollar.

Pursuant to a supplemental rights agreement dated 23 January 2006 between the company and holders of $19 million nominal of US dollar notes, those holders have the right, exercisable under certain limited circumstances, to require the company to purchase the US dollar notes held by them at a price equal to the aggregate of the nominal amount of the notes being purchased and any interest accrued thereon up to the date of completion of the purchase. Such circumstances include a material disposal of assets by the group or a person or group of persons acting in concert obtaining the right to exercise more than 50 per cent of the votes that may generally be cast at a general meeting of the company.

Pursuant to a placing agreement dated 28 January 2010 under which the company placed $15 million nominal of US dollar notes and the company's subsidiary, KCC Resources Limited, issued to placees 150,000 redeemable participating preference shares in the capital of KCC ("KCC preference shares"), the company granted to each placee a non-assignable option, exercisable on the occurrence of any one of certain events and on a basis relating to the number of KCC preference shares retained by the placee at the date of such occurrence, to require the company to purchase or procure the purchase of the US dollar notes acquired by the placee in the placing at a price equal to the aggregate of the nominal value of such notes and any interest accrued thereon up to the date of completion of the purchase. Such events include the disposal of a significant part of the group's coal business or a person or group of persons acting in concert obtaining the right to exercise more than 50 per cent of the votes that may generally be cast at a general meeting of the company.

(vi) Deferred tax asset and provision for liabilities and charges

	2010 £'000	2009 £'000
Deferred tax:		
Beginning of year	(912)	(296)
Net amount debited / (credited) to profit and loss account	131	(139)
Net amount debited / (credited) to reserves	781	(477)
End of year	–	(912)
Included in provisions for liabilities and charges	–	77
Included in non-current assets	–	(989)
Net deferred tax asset at end of year	–	(912)
The provision for deferred tax is made up as follows:		
Timing differences	–	77
Tax losses available	–	(989)
Undiscounted deferred tax	–	(912)

At the balance sheet date, the company had unused tax losses available to be applied against future profits amounting to £nil (2009: £3.5 million). A deferred tax asset of £nil (2009: £989,000) has been recognised in respect of these losses.

(vii) Share capital

	2010 £'000	2009 £'000
Authorised:		
27,500,000 - 9 per cent cumulative preference shares of £1 each (2009: 17,500,000)	27,500	17,500
41,000,000 - ordinary shares of 25p each (2009: 41,000,000)	10,250	10,250
	37,750	27,750
Called-up and fully paid:		
27,063,681 - 9 per cent cumulative preference shares of £1 each (2009: 16,392,954)	27,064	16,393
33,414,545 - ordinary shares of 25p each (2009: 32,573,856)	8,353	8,143
	35,417	24,536

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

Changes in share capital:

- on 1 February 2010, 840,689 ordinary shares were issued fully paid on exercise of a director's option at 43.753p per ordinary share.
- on 8 June 2010, the authorised share capital of the company was increased from £27,750,000 to £37,750,000 by the creation of 10,000,000 new 9 per cent cumulative preference shares.
- on 24 September 2010, 1,670,727 9 per cent cumulative preference shares were issued, credited as fully paid, to ordinary shareholders by way of capitalisation of share premium account.
- on 29 October 2010, 9,000,000 9 per cent cumulative preference shares were issued, fully paid, by way of a placing at par.

(viii) Movement in reserves

	Share premium account £'000	Exchange reserve £'000	Profit and loss account £'000
Beginning of year	14,659	181	3,596
Recognised gains / (losses) for the year	–	(181)	4,297
Dividends to preference shareholders	–	–	(1,689)
Dividends to ordinary shareholders	–	–	(1,486)
Capitalisation of preference shares	(1,671)	–	–
Issue of ordinary shares	158	–	–
End of year	13,146	–	4,718

As permitted by section 408 of the Companies Act 2006, a separate profit and loss account dealing with the results of the company has not been presented. The profit before dividends recognised in the company's profit and loss account for the year is £5,148,000 (2009: loss £767,000) - see statement of total recognised gains and losses.

(ix) 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 table below provides an analysis of the book and fair values of financial instruments excluding debtors and creditors at balance sheet date.

	2010 Book value £'000	2010 Fair value £'000	2009 Book value £'000	2009 Fair value £'000
Cash and deposits	12,417	12,417	2,486	2,486
US dollar notes	(27,914)	(27,304)	(18,375)	(16,718)
Net debt	(15,497)	(14,887)	(15,889)	(14,232)

The fair value of the US dollar notes reflects the mid market price at the reporting date (2009: the last price at which transactions in those notes were effected prior to 31 December 2009).

Risks

The main risks arising from the company's financial instruments are liquidity risk, interest rate risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks. These policies have remained unchanged since the beginning of the year. It is, and was throughout the year, the company's policy that no trading in financial instruments be undertaken.

The company finances its operations through a mixture of share capital, retained profits, borrowings in US dollars at fixed rates and credit from suppliers. At 31 December 2010, the company had outstanding US$45 million (2009: $30 million) of 7.5 per cent dollar notes 2012/14. In accordance with a decision of the board of the company at the time of issue of the first tranche of these notes, such notes are treated as a currency hedge against the company's long term loans to subsidiaries (which are denominated in US dollars) and the additional investment in Makassar Investments Limited that was acquired during 2006 for a consideration of US$19 million. The company's policy towards currency risk is not to cover the long-term exposure in respect of its investment in subsidiaries (whose operations are mainly conducted in US dollars) to the extent that this exposure relates to the component of investment that is financed with sterling denominated shareholders' funds.

A limited degree of interest rate risk is accepted. A substantial proportion of the company's financial instruments at 31 December 2010 carried interest at fixed rates and, on the basis of the company's analysis, it is estimated that a rise of one percentage point in all interest rates would give rise to an increase of approximately £124,000 (2009: £25,000) in the company's interest revenues in its profit and loss account.

(x) Pensions

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

As the Scheme is a multi-employer scheme, in which the employer is unable to identify its share of the underlying assets and liabilities (because there is no segregation of the assets) and does not prepare valuations on an FRS 17 "Retirement Benefits" basis, the company accounts for the Scheme as if it were a defined contribution scheme.

(x) Pensions - continued

A non-FRS 17 valuation of the Scheme was last prepared, using the attained age method, as at 31 December 2008. This is considered to be the most appropriate method of calculating contributions to cover future service benefits at 31 December 2008 as the Scheme is closed to new entrants. Had the Scheme been valued at 31 December 2008 using the projected unit method and the same assumptions, the overall deficit would have been similar. The principal actuarial assumptions adopted in this valuation were an annual investment return of 5.85 per cent pre-retirement and 4.92 per cent post-retirement, an annual increase in pensionable salaries of 3.75 per cent and an annual increase in present and future pensions of 3.0 per cent. The rate of increase in the retail price index was assumed to be 3.0 per cent. It was further assumed that both non-retired and retired members' mortality would reflect PNA00 lc YOB tables, with males at min 0.75 per cent 110 per cent and females at min 0.5 per cent 110 per cent. The valuation at 31 December 2008 showed an overall shortfall in assets (deficit), when measured against the Scheme's technical provisions, of £3,850,000. This is applicable to all participants and is being funded by additional deficit funding contributions by participating employers over the period to 30 September 2018, as agreed with the Scheme trustee.

The subsidiary company that is a participating employer and other participating employers in the scheme have entered into an agreement with the Scheme to make special contributions to the Scheme to cover the deficit shown by the 31 December 2008 valuation. The company made no payments to the Scheme in 2010 (2009: £nil). The company has a contingent liability for special contributions payable by other participating employers in the Scheme; such liability will only arise if such other participating employers do not pay their contributions. There is no expectation of this at the present time and, therefore, no provision has been made by the company.

(xi) Related party transactions

	2010 £'000	2009 £'000
Aggregate directors' remuneration:		
Salaries and fees	584	562
Benefits	77	30
Annual bonus	65	–
	726	592

During 2010 and 2009, there were service arrangements with companies connected with certain directors as detailed under "Directors' remuneration" in the "Directors' remuneration report", the costs of which are included in the table above.

(xii) Rates of exchange

See note 40 to the consolidated financial statements.

(xiii) Contingent liabilities and commitments

Sterling notes

The company has guaranteed the obligations for both principal and interest relating to the outstanding £37 million (2009: £37 million) 9.5 per cent guaranteed sterling notes 2015/17 issued by REA Finance B.V.. The directors consider that the risk of loss to the company from this guarantee to be remote.

(xiii) Contingent liabilities and commitments - continued

Bank borrowings

The company has given, in the ordinary course of business, guarantees in support of the borrowings by certain subsidiaries from and other contracts with banks (including cross currency interest rate swaps) amounting in aggregate to £61 million (2009: £49 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 (x) above.

Operating leases

The company has an annual commitment under a non-cancellable operating lease which can be terminated during 2012 of £102,000 (2009 £101,000). The lease does not contain any contingent rentals or an option to purchase the property; the lease is renewable.

(xiv) Post balance sheet event

A second interim dividend of 2½p per ordinary share in respect of the year ended 31 December 2010 was paid on 28 January 2011. In accordance with IAS10 "Events after the reporting period" this dividend, amounting in aggregate to £835,000, has not been reflected in these financial statements.

Notice of annual general meeting

This notice is important and requires your immediate attention. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if you are not so resident, another appropriately authorised independent adviser. If you have sold or otherwise transferred all your ordinary shares in R.E.A. Holdings plc, please forward this document and the accompanying form of proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Notice is hereby given that the fifty-first 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 14 June 2011 at 10.00 am to consider and, if thought fit, to pass the following resolutions. Resolutions 13 and 15 will be proposed as special resolutions; all other resolutions will be proposed as ordinary resolutions.

1 To receive the company's annual accounts for the financial year ended 31 December 2010, together with the directors' report, the directors' remuneration report and the auditors' report.

2 To approve the directors' remuneration report for the financial year ended 31 December 2010.

3 To declare a final dividend in respect of the year ended 31 December 2010 of 3p per ordinary share to be paid on 30 September 2011 to ordinary shareholders on the register of members on the close of business on 2 September 2011.

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

5 To re-elect as a director Mr J M Green-Armytage, who, having been a non- executive director for more than nine years, retires as required by the UK Corporate Governance Code and submits himself for re-election.

6 To re-elect as a director Mr J R M Keatley, who, having been a non-executive director for more than nine years, retires as required by UK Corporate Governance Code and submits himself for re-election.

7 To re-elect as a director Mr L E C Letts, who, having been a non-executive director for more than nine years, retires as required by the UK Corporate Governance Code and submits himself for re-election.

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

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

10 That the authorised share capital of the company (being the maximum amount of shares in the capital of the company that the company may allot) be and is hereby increased from £37,750,000 to £55,250,000 by the creation of 17,500,000 9 per cent cumulative preference shares of £1 each ranking pari passu in all respects with the existing 9 per cent cumulative preference shares of £1 each in the capital of the company.

11 That the directors be and are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the company to allot, and to grant rights to subscribe for or to convert any security into, shares in the capital of the company (other than 9 per cent cumulative preference shares) up to an aggregate nominal amount (within the meaning of sub-sections (3) and (6) of section 551 of the Act) of £1,896,363.75; such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2012), save that the company may before such expiry make any offer or agreement which would or might require shares to be allotted, or rights to be granted, after such expiry and the directors may allot shares, or grant rights to subscribe for or to convert any security into shares, in pursuance of any such offer or agreement as if the authorisations conferred hereby had not expired.

12 That the directors be and are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the company to allot, and to grant rights to subscribe for or to convert any security into, 9 per cent cumulative preference shares in the capital of the company ("preference shares") up to an aggregate nominal amount (within the meaning of sub-sections (3) and (6) of section

551 of the Act) of: (a) £436,319; or (b) subject to the passing of resolution 10 set out in the notice of the 2011 annual general meeting of the company (the "2011 Notice") £17,936,319, such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2012), save that the company may before such expiry make any offer or agreement which would or might require preference shares to be allotted or rights to be granted, after such expiry and the directors may allot preference shares, or grant rights to subscribe for or to convert any security into preference shares, in pursuance of any such offer or agreement as if the authorisations conferred hereby had not expired.

13 That, subject to the passing of resolution 11 set out in the 2011 Notice, the directors be and are hereby given power:

(a) for the purposes of section 570 of the Companies Act 2006 (the "Act"), 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 resolution 11 set out in the 2011 Notice; 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 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 £417,681

and shall expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2012), save that the company may before such expiry make any offer or agreement that would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry and the directors may allot equity securities or sell treasury shares, in pursuance of any such offer or agreement as if the power conferred hereby had not expired.

14 To authorise the directors to increase the fees for services of each director from £20,000 per annum as currently provided in the company's articles of association up to an amount not exceeding £25,000 per annum, such fees being exclusive of any amounts payable under other provisions of the articles of association of the company.

15 That a general meeting of the company other than an annual general meeting may be called on not less than 14 clear days' notice.

By order of the board
R.E.A. SERVICES LIMITED
Secretary
20 April 2011

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

Registered in England and Wales no: 00671099

Notes

The sections of the accompanying Directors' report entitled "Results and dividends", "Increase in share capital", "Authorities to issue share capital", "Powers to issue share capital and sell treasury shares", "Increase of directors' fees", "General meeting notice period" and "Recommendation" contain information regarding, and recommendations by the board of the company as to voting on, resolutions 3 and 10 to 15 set out in the above notice.

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 and section 360B of the Companies Act 2006, the company specifies that in order to have the right to attend and vote at the annual general meeting (and also for the purpose of determining how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the company at 6.00 pm on 12 June 2011 or, in the event of any adjournment, at 6.00 pm on the date which is two days before the day of the adjourned meeting. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Only holders of ordinary shares are entitled to attend and vote at the annual general meeting. A holder of ordinary shares may appoint another person as that holder's proxy to exercise all or any of the holder's rights to attend, speak and vote at the annual general meeting. A holder of ordinary shares may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to (a) different share(s) held by the holder. A proxy need not be a member of the company. A form of proxy for the meeting is enclosed. To be valid, forms of proxy and other written instruments appointing a proxy must be received by post or by hand (during normal business hours only) by the company's registrars, Capita Registrars, at PXS, 34 Beckenham Road, Beckenham BR3 4TU by no later than 10.00 am on 12 June 2011.

Alternatively, appointment of a proxy may be submitted electronically by using either Capita Registrars' share portal service at www.capitashareportal.com (and so that the appointment is received by the service by no later than 10.00 am on 12 June 2011) or the CREST electronic proxy appointment service as described below. Shareholders who have not already registered for Capita Registrars' share portal service may do so by registering as a new user at www.capitashareportal.com and giving the investor code shown on the enclosed proxy form (as also shown on their share certificate). Completion of a form of proxy, or other written instrument appointing a proxy, or any appointment of a proxy submitted electronically, will not preclude a holder of ordinary shares from attending and voting in person at the annual general meeting if such holder wishes to do so.

CREST members may register the appointment of a proxy or proxies for the annual general meeting and any adjournment(s) thereof through the CREST electronic proxy appointment service by using the procedures described in the CREST Manual (available via www.euroclear.com/CREST) subject to the company's articles of association. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction regarding a proxy appointment made or given using the CREST service to be valid, the appropriate CREST message (a "CREST proxy instruction") must be properly authenticated in accordance with the specifications of Euroclear UK and Ireland Limited ("Euroclear") and must contain the required information as described in the CREST Manual (available via www.euroclear.com/CREST). The CREST proxy instruction, regardless of whether it constitutes a proxy appointment or an instruction to amend a previous proxy appointment, must, in order to be valid be transmitted so as to be received by the company's registrars (ID: RA10) by 10.00 am on 12 June 2011. 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 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 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 auditors 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 notice, the issued share capital of the company comprises 33,414,545 ordinary shares and 27,063,681 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 33,414,545 as at the date of this 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 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.