R.E.A. HOLDINGS PLC - ANNUAL REPORT
2012

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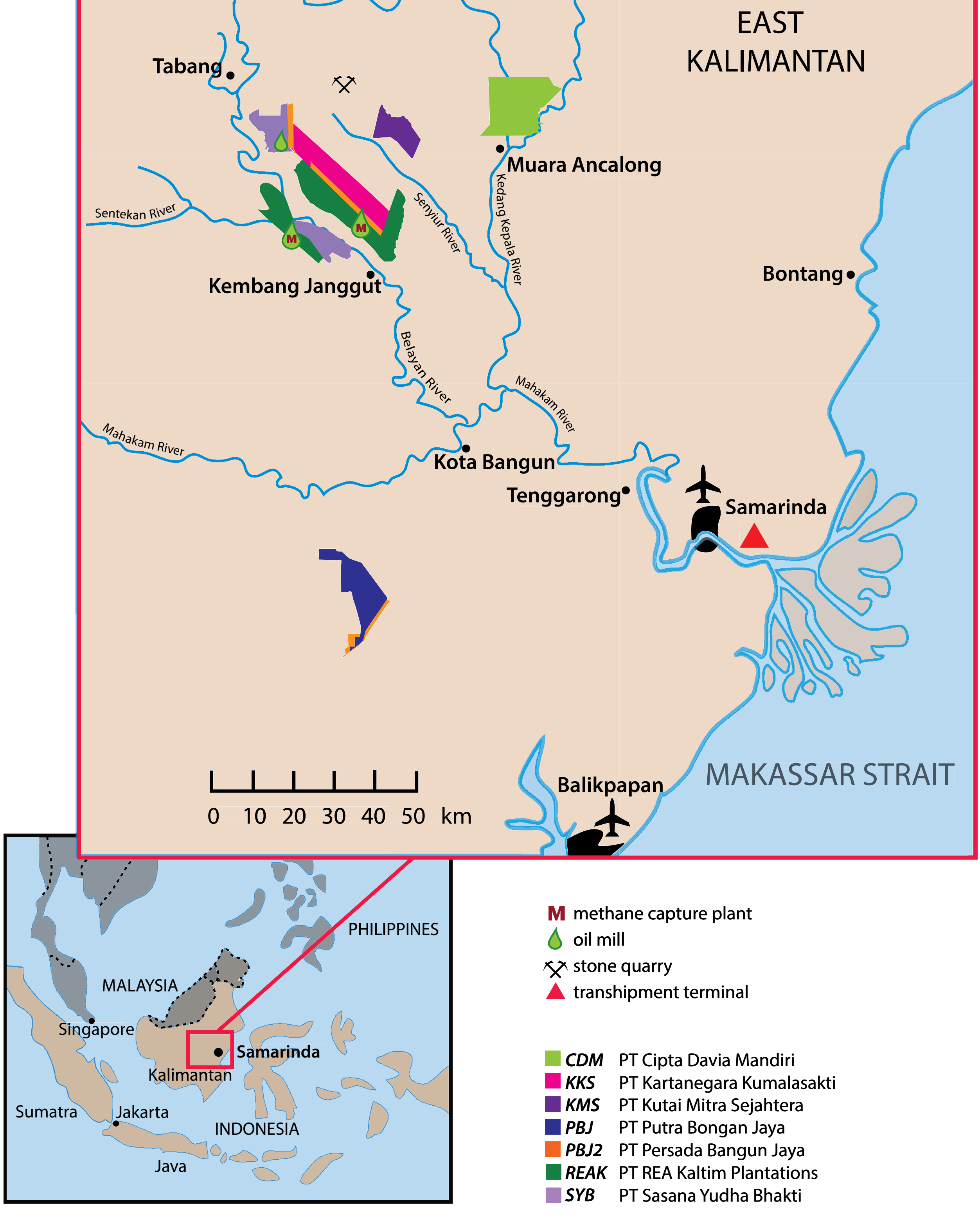
Maps

as at 31 December 2012



Summary of results

for the year ended 31 December 2012

	2012 $'000	2011 $'000	Change %
Revenue	124,600	147,758	- 16
Earnings before interest, tax, depreciation, amortisation and biological gain [1]	38,083	70,818	- 46
Profit before tax	30,558	64,173	- 52
Profit for the year	17,703	45,614	- 61
Profit attributable to ordinary shareholders	11,342	40,453	- 72
Cash generated by operations [2]	55,110	59,854	- 8
Earnings per ordinary share (diluted) in US cents	33.9	121.0	- 72
Dividend per ordinary share in pence [3]	7.0	6.5	+ 8

Average exchange rates	2012	2011	2010	2009	2008
Indonesian rupiah to US dollar	9,392	8,790	9,078	10,356	9,757
US dollar to pound sterling	1.59	1.61	1.55	1.56	1.84

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

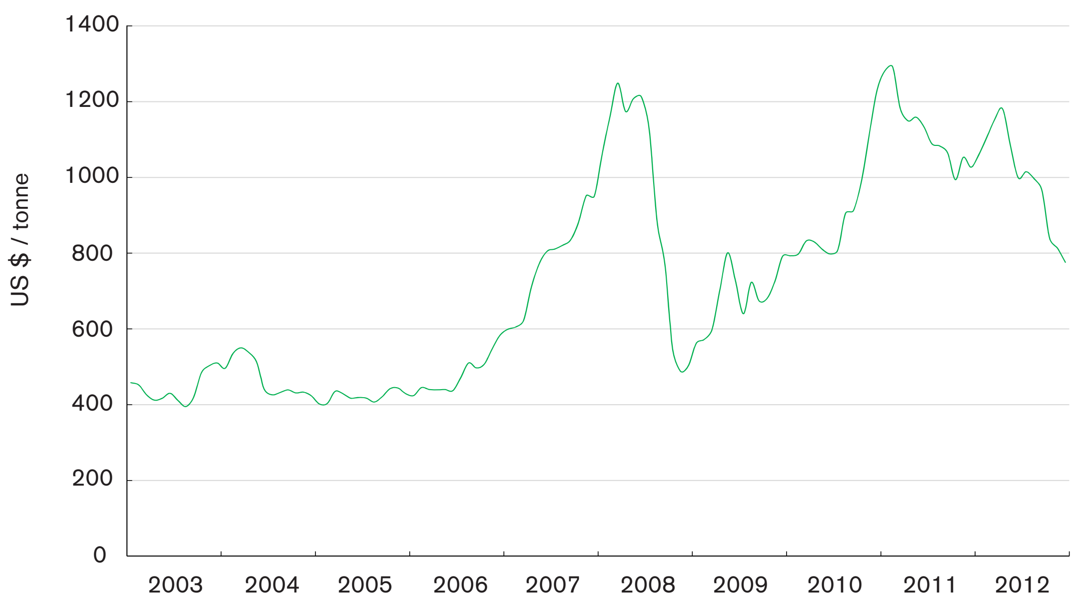
Key statistics

for the year ended 31 December 2012

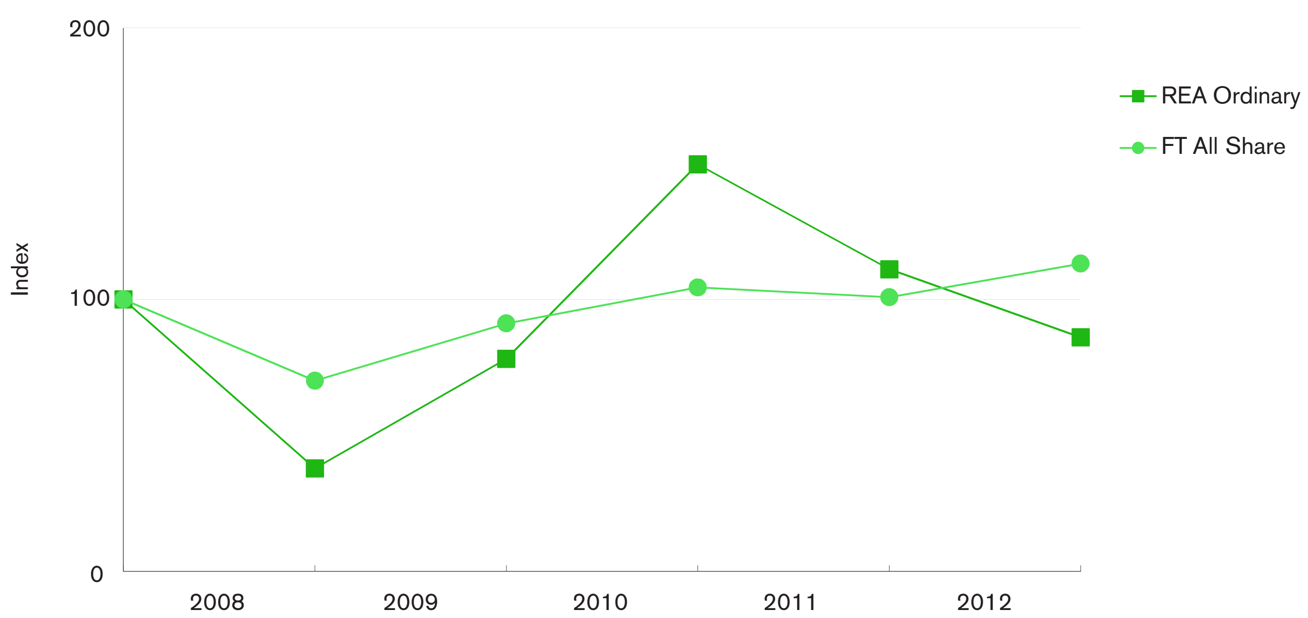
	2012[1]	2011[1]	2010	2009	2008
Allocated area - Hectares					
Mature oil palm	26,688	25,415	21,984	18,736	16,487
Immature oil palm (prior years)	2,051	3,318	8,850	8,171	9,032
Oil palm development (current year)	8,055	8,351	1,249	4,083	2,781
	36,794	37,084	32,083	30,990	28,300
Reserve area [2]	65,391	60,614	62,680	83,828	86,541
Total	102,185	97,698	94,763	114,818	114,841
Production - Tonnes					
Oil palm fresh fruit bunch crop - group	597,722	607,335	518,742	490,178	450,906
Oil palm fresh fruit bunch crop - external	64,014	34,146	20,089	13,248	6,460
	661,736	641,481	538,831	503,426	457,366
Crude palm oil	151,516	147,455	127,256	118,357	105,597
Palm kernel	30,734	28,822	24,614	23,740	20,846
Total palm products	182,250	176,277	151,870	142,097	126,443
Oil extraction rate	22.9%	23.0%	23.6%	23.5%	23.1%
Kernel extraction rate	4.6%	4.5%	4.6%	4.7%	4.6%
Yields - Tonnes per mature hectare					
Fresh fruit bunches	22.4	23.9	23.6	26.2	27.3
Crude palm oil	5.2	5.5	5.6	6.2	6.3
Palm kernel	1.0	1.1	1.1	1.2	1.2
Total palm products	6.2	6.6	6.7	7.4	7.5

1. Before implementation of proposed exchange of land areas subject to overlapping mineral rights.
2. Includes conservation areas, roads and other infrastructure and areas available for planting and under negotiation. For the reasons stated on page 28 of the "Review of the group" section of this annual report, planned oil palm development is no longer disclosed separately but is included within the reserve area.

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 2012 or are in prospect.

Results

Group profit before tax for 2012 at $30.6 million was some 52 per cent lower than the $64.2 million reported for 2011.

The significant fall in profits as compared with 2012 reflected the weather impact on crops in the first half and the effect of lower CPO and CPKO prices during the year, combined with what will hopefully prove to be non-recurring losses arising from the decisions taken in relation to the coal operations and from the village issues described under "Community relations" below. The following table provides estimates of the effect on profit before taxation as respects each of the items concerned:

	$'m
Agricultural operations	
Trading items:	
Value impact of lower prices on crop harvested	(12.6)
Value impact of reduced crop due to weather	(5.6)
Village disruptions:	
Value impact of reduced crop	(5.7)
Value impact of reduced prices due to high FFA oil	(6.6)
Coal operations	
Losses	(4.1)
Provision against concessions	(3.0)
	(37.6)

Revenue for 2012 at $124.6 million was less than in 2011 ($147.8 million) with the reduction reflecting lower revenue from both the agricultural operations ($122.1 million against $129.5 million) and the coal operations ($2.5 million against $18.2 million). In the agricultural operations, this was the result of the trading factors referred to above while, in the coal operations, it was the direct consequence of the suspension of the coal trading activities.

Excluding movements on agricultural inventory, cost of sales attributable to the agricultural operations amounted to $59.5 million against $51.3 million. The increase reflected continuing cost inflation and cropping on a larger area. Under normal circumstances, it could have been expected that the increased cost of sales would have been offset by increased crop volumes but the combination of weather factors and village issues resulted in the 2012 crop falling significantly short of budget and, with most components of cost of sales being fixed costs, there was no commensurate reduction in cost of sales. In the coal operation, cost of sales reduced from the prior year $16.7 million to $4.0 million in line with the reduction in trading activity.

IFRS fair value adjustments, aggregating $0.3 million in 2012, were significantly below the aggregate adjustments of $11.4 million reported in the preceding year. The net gain from changes in the fair value of biological assets ($6.0 million against $7.4 million in 2011) reflected the further development of the group's plantations while the loss arising from changes in the fair value of agricultural produce inventory ($5.7 million against a profit of $4.0 million in 2011) was the product of a small reduction in inventory volume over 2012 and the fall in CPO and CPKO prices during the year exacerbated by the need to allow for a discount on the closing inventory to reflect the high FFA content of that inventory.

Administrative expenses for 2012 amounted to $18.9 million against $17.0 million in 2011. The increase was in

part the result of inflation, but also reflected costs of management transition, costs incurred in connection with the resolution of village issues and a further provision of $1.0 million for additional funding of the group's UK pension scheme following a recent triennial actuarial valuation of the scheme.

Losses on the coal trading operations reflected provisions made against outstanding trading items following the decision to suspend trading. In addition, a provision of $3 million has been made against the coal concessions.

At the after tax level, profit fell to $17.7 million (2011: $45.6 million) while profit attributable to ordinary shareholders was $11.3 million against $40.5 million. Earnings per share amounted to US 33.9 cents (2011: US 121.0 cents).

Adjustments for the non-cash components of operating profit and for movements in working capital meant that cash generated by operations for 2012 amounted to $55.1 million, as compared with $59.9 million reported for 2011. The positive overall movement on working capital was principally attributable to an increase in payables, a significant proportion of which represented deferred payments due in respect of the group's development programme. Tax and interest payments remained at much the same levels as in the preceding year with the result that net cash from operating activities for 2012 amounted to $32.5 million against $33.8 million for 2011.

Agricultural operations

Operational matters

The crop out-turn for 2012 amounted to 597,722 tonnes of oil palm fresh fruit bunches. This was a little below the FFB crop of 607,335 tonnes for the corresponding period in 2011 but some 12 per cent below the budgeted crop for the year of 682,000 tonnes. The group purchased 64,014 tonnes of FFB from smallholders and other third parties (2011: 34,146 tonnes).

Rainfall across the estates averaged 3,241 mm for 2012, similar to the level of 3,414 mm for the previous year. A widely predicted El Nino weather phenomenon did not materialise.

Processing of the group's own FFB production and the externally purchased FFB, together totalling 661,736 tonnes (2011: 641,481 tonnes) produced 151,516 tonnes of CPO (2011: 147,455 tonnes), 30,734 tonnes of palm kernels (2011: 28,822 tonnes) and 11,549 tonnes (2011: 10,815 tonnes) of CPKO reflecting extraction rates of, respectively, 22.9 per cent for CPO (2011: 23.0 per cent), 4.6 per cent for kernels (2011: 4.5 per cent) and 37.7 per cent for CPKO (2011: 38.4 per cent).

Most of the crop shortfall against budget arose in the first half of 2012 and was attributable to a combination of delayed ripening of crops in the early part of the year (reflecting the particular weather patterns of the latter months of 2011) and crop losses resulting from harvesting disruptions generated by disputes with certain surrounding villages. It had been hoped that the second half of the year would see at least a partial recovery of the crop shortfall of the first half but further disruptions by villages meant that this recovery did not materialise. Further information regarding disputes with villages is provided under "Community relations" below.

Upgrading and expansion of the group's oil mills is now substantially complete and has ensured that the group has, for the immediate future, sufficient processing capacity to handle all crop from its own estates and from the growing number of maturing smallholder plantings in the vicinity. The third, newest mill, which commenced operation in September 2012 and incorporates a second kernel crushing plant, has been designed to permit the

installation of a second processing line so as to double its capacity and thereby provide the ability to cope with further processing demands in the future.

In February 2013 the company published its first carbon footprint report providing an assessment of the greenhouse gas emissions associated with the group's agricultural operations in 2011. The report identifies and quantifies greenhouse gas emissions in the production of CPO and CPKO at the group's palm oil mills and related estate supply base and, going forward, will facilitate the design and implementation of effective strategies for reducing the group's greenhouse gas emissions as well as providing a baseline against which progress in achieving such reductions can be monitored and reported. The report is available for downloading from the company's website at www.rea.co.uk. Following on from the carbon footprint report, the company is currently in the process of compiling its first standalone sustainability report which is due to be published later in 2013.

The group's two new methane capture plants were commissioned in April and October 2012 respectively with methane from each plant currently driving two generators (each of one megawatt capacity). The electricity generated from the captured methane now supplies electricity to a significant proportion of the group's mills, offices and housing, thereby having a substantial impact on the group's consumption of diesel oil for power generation with material consequential savings in energy costs and in greenhouse gas emissions.

Current methane production has exceeded expectations and is averaging about four times that needed to drive the installed generators and this offers opportunities for generating additional returns from the investment made in the plants. In furtherance of such returns, the group has recently reached an outline agreement with the Indonesian state electricity company ("PLN") under which the group will install an additional three megawatts of generating capacity, which it will dedicate to PLN and which PLN will use to supply power to the villages surrounding the group's estates by way of a local grid to be constructed by PLN. Payment for the power so utilised will be made by PLN at a fixed rate determined by Indonesian state regulations. This equates to about $1 million per megawatt year but it is not yet known what utilisation PLN will make of the available capacity. PLN will also consider linking the national grid to the new local grid and may in that event be able to increase its power capacity requirement to six megawatts.

There have recently been substantial increases in government directed minimum wage levels. A reasonable proportion of the group's employees are paid at a level above the minimum wage but the need to maintain differentials makes it inevitable that the new minimum wage levels will result in a significant increase in the group's employment costs. In 2012, these represented about one third of the cost of sales attributable to the group's agricultural operations. Cost saving efforts in 2013 will therefore have a particular focus on labour efficiency and, specifically, on reducing overtime working.

Land allocations and development

The overall area of the group's fully titled agricultural land remained at 70,584 hectares with further land allocations subject to the completion of titling totalling some 35,000 hectares. Of the land not yet titled, some 15,000 hectares are conditional not only upon satisfaction of the normal titling requirements but also upon completion of a necessary rezoning of the area concerned.

Work is continuing to complete a conditional agreement between a group subsidiary and an Indonesian third party company relating to overlapping mineral rights on certain land areas held by the group subsidiary. This would increase the fully titled agricultural land held by the group to 76,124 hectares. The delay in completing this

agreement has been caused by the need to obtain confirmation of the continuing validity of the land titles held by the company to be acquired pursuant to the agreement.

The directors believe that, of the prospective 76,124 hectares of fully titled land, between 50,000 and 55,000 hectares will ultimately be plantable with oil palms. The remaining land allocations may in due course provide a further 10,000 plantable hectares.

Areas planted and in the course of development as at 31 December 2012 amounted in total to some 37,000 hectares. Of this total, mature plantings comprised 26,688 hectares having a weighted average age of 10 years. A further 621 hectares planted in 2009 was scheduled to come to maturity at the start of 2013. The total of 37,000 hectares includes 2,164 hectares (of which 272 hectares were planted in 2008) to be relinquished upon completion of the land settlement arrangement described above.

Negotiations with villages in the next planned development area of the subsidiary company PT Putra Bongan Jaya are substantially complete and clearing of a substantial component of the 11,602 plantable hectares is expected to commence shortly.

Community relations and smallholder schemes

The group has always seen the maintenance of harmonious relations with, and the encouragement of development within, the local communities in its areas of operation as an essential component of its agricultural business. Inevitably in the period of over twenty years since the group's East Kalimantan operations were first established, there have been occasional disagreements between the group and the local communities but, until recently, such disagreements have been minor, rapidly resolved and without significant impact on the group.

That situation changed during 2012 with disputes concentrated into two waves, the first in the second quarter of the year running into early July and the second in the final weeks of the year and continuing into 2013. These disputes were more serious than those previously experienced because of actions by villagers to enforce their position by stopping harvesting access to certain areas of the group's estates and blockading group oil mills to prevent processing of FFB.

The 2012 village dissatisfaction with the group covered a number of issues and different villages had different claims. However, a common theme was a demand that the group procure the land necessary to establish additional cooperative smallholder oil palm plantings in each village. The acquisition of PT Persada Bangun Jaya in July 2012 provided the group with sufficient land to satisfy, appropriately and in aggregate, outstanding village demands for oil palm cooperative developments but did not, of itself, immediately resolve such demands and other village claims. That was because resolution was complicated, as respects land allocations for cooperatives, by the need for complete and accurate government mapping of all village boundaries to provide a consistent basis for allocation between villages and, as respects other claims, by past fraud by certain third party intermediaries who were legally appointed by villagers and entrusted with distributing land compensation to individual villagers.

Substantial progress has been made since the beginning of 2013 and settlement agreements in respect of most material issues were reached in late January or early February with all of the larger villages that had land rights historically overlapping REA Kaltim and SYB land. Settlement discussions are continuing in respect of outstanding disputes. To date, agreements concluded with villages have been adhered to but there have been some subsequent disruptions by individual villagers. One such disruption caused a harvesting blockage in one area

of the REA Kaltim estates for a period of nearly four weeks during March and April 2013 but otherwise these later disruptions have been limited as to duration and scale. All three mills have been operating normally since early February.

The current improved position has been reached at a significant cost but that cost should not be without benefit given that the funds committed to procuring additional cooperative oil palm developments will, in due course, provide a return to the group from further increases in group revenues from processing cooperative FFB. Moreover, the stronger relationships forged with the East Kalimantan authorities during the period of the disruptions and the better mutual understanding achieved between the group and its local communities should enhance the group's ability to continue the development of its East Kalimantan operations.

Plans for further expansion of the smallholder plasma schemes during 2012 were held up by the delays in identifying and agreeing allocations of additional land areas suitable for smallholder development. The plasma scheme areas planted at 31 December 2012 amounted to some 2,900 hectares. With the further allocations of land now substantially agreed, the group expects a useful increase in the plasma areas during 2013.

Conservation and accreditation

The group continues to manage a network of conservation reserves within its titled land areas with the aim of conserving the natural biodiversity and ecosystem functions of the landscapes in which the group operates. To date, over 20,000 hectares have been set aside as conservation reserves.

Camera trapping and other biodiversity surveys continue to record the presence of orang-utans within the conservation reserves. Sighting of a baby orang-utan and a camera trap photograph of a baby sun-bear, as well as the first record of an orang-utan in one of the northern estates, are encouraging signs of the ability of the group's conservation reserves to support healthy populations of these species.

A member of the Roundtable on Sustainable Palm Oil ("RSPO"), the group has now achieved accreditation under RSPO of its two older oil mills, and most of the group's mature estates, as well as some of the smallholder oil palm plantings. It is planned to obtain accreditation of the newly constructed oil mill by 2015. As a further step in the process of RSPO accreditation, the group achieved certification of its supply chain under the RSPO Supply Chain Certification System ("SCCS") during 2012. This accreditation provides buyers of CPO and CPKO with the ability to identify oil purchased as coming from RSPO certified sources. Separately in 2012, the group also obtained International Sustainability and Carbon Certification ("ISCC"), which allows the CPO produced from the estates of the group's mature estates and mills to be used to produce biofuel that meets the requirements of the European Union Renewable Energy Directive.

Coal and stone operations

The directors took the decision in mid 2012 that, for the time being, coal trading activities should be suspended and further capital committed to the coal operations should be limited and concentrated on maximising returns from the concessions in which the group had already invested.

The group is in discussions with two third parties that have coal mining interests adjacent to one of the coal concessions. A successful outcome to these discussions would result in one of the parties mining the concession on a basis that would limit the group's downside and provide a return to the group that, at current coal prices

(which have risen to an extent from their lows of June 2012), could reasonably be expected to recover the group's investment and, if coal prices improve further, could yield a reasonable profit. A similar arrangement may be possible in relation to the other two coal concessions and this could provide a better outcome than an outright sale of these concessions. On the coal trading side, steps are being taken to close out contractual commitments made prior to the suspension of trading and no new trades have been initiated.

The group remains confident of the economic viability of its stone concession and work is continuing on plans to quarry the concession to provide stone for building and maintenance of infrastructure in the group's agricultural operations and for sale to users of stone in the area of those operations.

In view of the uncertainties affecting the coal concessions, the group has made a provision of $3.0 million against its investment in the concessions at 31 December 2012.

Finance

In September 2012, 3.9 million new preference shares were issued for cash at a price of 105p per share by way of a placing to raise £4.0 million net of expenses. The proceeds of the placing of new preference shares were retained within the group to fund continuing development of the agricultural operations. This issue was followed in September 2012 by the issue of a further 2,004,872 new preference shares by way of capitalisation of share premium account pursuant to the capitalisation issue to ordinary shareholders referred to under "Dividends" below.

In November 2012, $34.0 million of 7.5 per cent dollar notes 2017 ("2017 dollar notes") were issued as to some $19 million by way of an exchange offer to holders of existing 7.5 per cent dollar notes 2012/14 ("2012/14 dollar notes") and as to the balance by way of a placing.

Following these transactions, group indebtedness and related engagements at 31 December 2012 amounted to $163.5 million, made up of $15.9 million nominal of 2012/14 dollar notes (carrying value: $15.5 million), $34.0 million nominal of 2017 dollar notes (carrying value: $33.2 million), £34.5 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes") (carrying value: $54.3 million), $8.4 million in respect of the hedge of the principal amount of the sterling notes, a term loan from an Indonesian bank of $36.1 million and other indebtedness comprising drawings under working capital lines of $16.0 million. Against this indebtedness, at 31 December 2012 the group held cash and cash equivalents of $26.4 million.

Recent years have seen substantial investment by the group in FFB milling capacity. Final payments will fall due in 2013 for the newly completed third oil mill but current crop projections suggest that, apart from expanding the capacity of this third mill from 40 to 80 tonnes of FFB per hour, no further expenditure on milling capacity will be required until work commences on the construction of a fourth mill to be brought into production in 2017 at the earliest.

Significant expenditure was also incurred during 2012 on the provision of land to meet the cooperative smallholder development aspirations of the group's local communities (as discussed under "Community relations" above). The directors do not believe that there will be a recurring requirement for material expenditure on the provision of cooperative land (although there may be a requirement for the group to make short term advances to meet cooperative planting expenditure pending the refinancing of such expenditure by the banks funding the cooperative developments).

As a result, group capital expenditure can, for the immediate future, be concentrated on extension planting and on the provision of the additional estate buildings and general plant and equipment that become needed following any expansion of the group's planted hectarage. This will involve the group in continuing capital expenditure for several years to come but the directors will set the extension planting programme at a level that they reasonably expect that the cash resources available to the group can support.

The directors intend that further cash advances to the coal and quarry operations should be limited and concentrated on realising value from the three existing coal concessions and on bringing the stone quarry into economic production.

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2012 were duly paid. An interim dividend in respect of 2012 of 3½p per ordinary share was paid in January 2013 and the directors recommend the payment of a final dividend in respect of 2012 of 3½p per ordinary share to be paid on 26 July 2013 to ordinary shareholders on the register of members on 28 June 2013. The total dividend payable per ordinary share during 2013 in respect of 2012 will thus amount to 7p. This compares with the total paid during 2012 in respect of 2011 of 6½p.

In addition, the company made a capitalisation issue of 2,004,872 new preference shares to ordinary shareholders on 28 September 2012 on the basis of 3 new preference shares for every 50 ordinary shares held (2011: 2,004,872 new preference shares on the basis of 3 new preference share for every 50 ordinary shares held). The directors will consider a further such issue during 2013 if they feel that this is merited by the group's performance.

Strategic direction

Early in 2012, the directors concluded that, given the significant enlargement of the group's operations over the past decade, the continuing growth of the Indonesian economy and the progressive maturing of South East Asian capital markets, there would be significant advantages to the company and its shareholders in increasing local Indonesian participation in the ownership of the group's agricultural operations. Accordingly, the directors have been proceeding with their previously announced plans for the amalgamation of all of the company's Indonesian plantation subsidiaries into a single sub-group headed by the company's principal operating subsidiary, PT REA Kaltim Plantations ("REA Kaltim"), with the aim that this be followed in due course by a public offering of a minority shareholding in REA Kaltim (probably 20 per cent) combined with a listing of REA Kaltim's shares on the Indonesia Stock Exchange in Jakarta.

It had been hoped to complete the planned restructuring in Indonesia by 31 December 2012 but this did not prove possible because of delays in obtaining the necessary regulatory approvals from the Indonesian Investment Coordinating Board. Such approvals were required for the intra-group transfer of ownership to REA Kaltim of five other existing subsidiaries of the company and, whilst consents for three of these five transfers had been obtained by 31 December 2012, consents for the remaining two were only received after that date. With all required consents now obtained, it should be possible to complete the restructuring in the near future.

With the restructuring completed, there should be no further technical hurdles to proceeding with the planned public offering and listing of shares in REA Kaltim other than compliance with normal regulatory formalities and, in particular, provision of audited financial statements for the restructured REA Kaltim sub-group as of a date not more

than six months earlier than the date of the public offering. However, the recent village issues detailed under "Community relations" in "Agricultural operations" above have unfortunately had a negative impact on the crops and profits of 2012 and the early months of 2013 (with the impact on 2013 greater in the local Indonesian accounts of REA Kaltim than in the consolidated accounts of the group because the different accounting standards applied mean that the group has recognised in 2012 the effect that the sale of high FFA oil held in inventory at 31 December 2012 will have on 2013 sales proceeds whereas REA Kaltim has not). This may affect the pricing of an early public offering of shares in REA Kaltim.

The directors do not believe that factors that should exist only in the short term and have now been largely resolved should be allowed materially to compromise shareholder value. They remain of the view that it remains desirable for the group to list REA Kaltim on the Indonesia stock exchange and are now reviewing their options for pursuing this strategy, given the probable need to postpone its implementation until sufficient time has elapsed for the proposed REA Kaltim group to have reported figures that reflect normal cropping levels.

The directors are aware that the market in the company's ordinary shares is at times limited, that purchases and sales of small numbers of shares can have a disproportionate effect on the ordinary share price and that the spread between the bid and offer prices of the ordinary shares is often large. The directors believe that there is potential demand for the company's ordinary shares but that this demand comes mainly from investors who wish to have holdings of a certain size and are generally not prepared to spend time accumulating such holdings from the trickle of small offerings that are normally available. Should the Indonesian listing of REA Kaltim proceed, the directors hope that better analyst coverage of the company following the listing will improve the marketability of the ordinary shares but, as mentioned above, the directors are currently reviewing their strategic plans including in respect of the listing. Therefore, in an effort to address in the short term what they see as a mismatch between demand for and availability of ordinary shares, the directors are considering seeking shareholder approval for the company itself to buy back into treasury limited numbers of ordinary shares with the intention that, whenever a holding of a reasonable size has been accumulated, such holding be placed with one or more new investors.

Board changes

Mark Parry, the group's regional director based in Singapore and Indonesia with overall local responsibility for the Indonesian operations, was appointed president director of REA Kaltim during 2012 and a director of the company on 1 January 2013.

As previously announced, the four long serving independent non-executive directors, Messrs Green-Armytage, Keatley, Letts and Lim, retired from the board of the company at the end of 2012, and Ms Irene Chia was appointed as a new non-executive director in conjunction with Mr Parry's appointment as executive director. This has reduced the number of board members from eight to six. Along with my remaining fellow directors, I would like to record my appreciation of the significant contribution made to the group by the four retiring directors and for their invaluable support over a number of years.

Corporate governance

At the performance evaluation conducted in 2012, the board as then constituted concluded that it was for the time being continuing to perform effectively but that, having decided to restructure the group's Indonesian plantation subsidiaries into a single sub-group headed by

REA Kaltim and to move towards a listing REA Kaltim on the Indonesia stock exchange, it would be appropriate, in due course, to make certain changes to the board. Those changes were implemented at the end of 2012 as described above and the directors consider that the new composition of the board is appropriate and effective for the current strategic direction of the company.

Prospects

Against the background of the continuing village issues in January and early February and the subsequent more limited harvesting blockages, the FFB crop to the end of March 2013 amounted to 137,576 tonnes, against 136,702 tonnes for the same period in 2012. The limited harvesting blockages will also have some impact on the crops reported for April but, thereafter, if as is hoped the agreements now reached in relation to village issues continue to be respected, the directors expect the group's own FFB crops to return to more normal levels. The effect of the disruptions to harvesting in 2012 is likely to have affected the normal fruiting cycle so that it must be expected that monthly cropping levels may be below average for the next few months and above average for the closing months of 2013.

A significant feature of 2012 was the increasing throughput of third party FFB. This provides the group with a valuable additional revenue stream, the benefit of which more than outweighs a slight negative impact on extraction rates. With the continuing expansion of smallholder plantings in the vicinity of the group's estates, further increases in third party FFB throughput can be expected going forward

The CPO price currently stands at $830 per tonne. At this level, the price is at an unusually large discount to the soya oil price but, with reports of large current season plantings of soybean in both the United States and South America (spurred no doubt by the high soybean prices of 2012), there is a concern that the discount will narrow as a result of reducing soya oil prices rather than rising CPO prices. Against this, there is now evidence of falling stocks and past experience suggests that lower price levels will lead to increased Indian and Chinese consumption.

East Kalimantan is a recently democratised and rapidly developing society and this has added a social dimension to the challenges of infrastructure and remote location that the group has always faced. Nevertheless, East Kalimantan does offer excellent conditions for the cultivation of oil palm and provides opportunity for further expansion of established oil palm estates. The directors believe that the challenges are being surmounted, that the group will be successful in taking advantage of the expansion opportunities and that there will be further scope for enhancing returns through the now proven methane capture initiatives. This should ensure that the group will continue to accrue value from its oil palm operations which already represent a high quality large scale agricultural business.

RICHARD M ROBINOW
Chairman
25 April 2013

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 and stone 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 crude palm kernel oil ("CPKO"). 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 operation in Indonesia. Following this decision, the group acquired rights in respect of three coal concessions in East Kalimantan and in 2010 started to develop an open cast coal mining operation and coal trading activity based on these concessions. Subsequent events have shown that coal mining and trading activities have specific complexities that are not shared by the group's agricultural operations. The directors have therefore decided that, for the time being, further capital committed to the coal operations should be limited. Further information concerning the coal activities as well as a prospective stone quarry operation is provided under "Coal and stone operations" below.

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

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 important to the group are its established base of operations, an experienced 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 and to foster economic progress in the localities of the group's activities, while maintaining high standards of sustainability. Achievement of these objectives is dependent upon, among other things, the group's ability to generate the operating profits that are needed to finance such achievement.

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

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

Sustainability

The group is committed to responsible management of the environmental and social consequences of its activities. As part of this commitment, in February 2013 the company published its first carbon footprint report providing an assessment of the greenhouse gas emissions associated with the group's agricultural operations in 2011. The report identifies and quantifies greenhouse gas emissions in the production of CPO and CPKO at the group's palm oil mills and related estate supply base and, going forward, will facilitate the design and implementation of effective strategies for reducing the group's greenhouse gas emissions as well as providing a baseline against which progress in achieving such reductions can be monitored and reported. The report is available for downloading from the company's website at www.rea.co.uk.

Following on from the carbon footprint report, the company is currently in the process of compiling its first

standalone sustainability report. This is due to be published later in 2013 and it is intended that it should establish a baseline against which both internal and external stakeholders can monitor the group's sustainability performance.

Diversification

The group recognises that its agricultural operations, of which the total assets at 31 December 2012 represented some 90 per cent of the group's total assets and which, in 2012, contributed all of the group's profits, lie within a single locality and rely on a single crop. This permits significant economies of scale but brings with it some risks. The coal and stone activities provide only a small diversification and whilst further diversification would provide the group with some offset against such risks, the directors believe that, for the foreseeable future, the interests of the group and its shareholders will be best served by growing the existing operations. They therefore have no plans for further diversification.

Strategic direction

Early in 2012, the directors concluded that, given the significant enlargement of the group's operations over the past decade, the continuing growth of the Indonesian economy and the progressive maturing of South East Asian capital markets, there would be significant advantages to the company and its shareholders in increasing local Indonesian participation in the ownership of the group's agricultural operations. Accordingly, the directors have been proceeding with their previously announced plans for the amalgamation of all of the company's Indonesian plantation subsidiaries into a single sub-group headed by the company's principal operating subsidiary, PT REA Kaltim Plantations ("REA Kaltim") with the aim that this be followed in due course by a public offering of a minority shareholding in REA Kaltim (probably 20 per cent) combined with a listing of REA Kaltim's shares on the Indonesia Stock Exchange in Jakarta.

The directors believe that establishing a more local profile for the group and facilitating local Indonesian investment in the group's plantation operations is likely to become an increasingly important factor in relation to land matters affecting the group. A listing of REA Kaltim in Indonesia can be expected to encourage coverage of the group by South East Asian investment analysts and, as a listed company, REA Kaltim should be treated as a local rather than foreign company for Indonesian regulatory purposes.

It had been hoped to complete the planned restructuring in Indonesia by 31 December 2012 but this did not prove possible because of delays in obtaining the necessary regulatory approvals from the Indonesian Investment Coordinating Board. Such approvals were required for the intra-group transfer of ownership to REA Kaltim of five other existing subsidiaries of the company and, whilst consents for three of these five transfers had been obtained by 31 December 2012, consents for the remaining two were only received after that date. This will permit the restructuring to be completed in the near future.

With the restructuring completed, there should be no further technical hurdles to proceeding with the planned public offering and listing of shares in REA Kaltim other than compliance with normal regulatory formalities and, in particular, provision of audited financial statements for the restructured REA Kaltim sub-group as of a date not more than six months earlier than the date of the public offering. However, the recent village issues detailed under "Community relations" in "Agricultural operations" above have unfortunately had a negative impact on the crops and profits of 2012 and the early months of 2013 (with the impact on 2013 greater in the local Indonesian accounts of REA Kaltim than in the consolidated accounts of the group because the different accounting

standards applied mean that the group has recognised in 2012 the effect that the sale of high FFA oil held in inventory at 31 December 2012 will have on 2013 sales proceeds whereas REA Kaltim has not). This may affect the pricing of an early public offering of shares in REA Kaltim.

The directors do not believe that factors that should only exist in the short term and have now been largely resolved should be allowed materially to compromise shareholder value. They remain of the view that it remains desirable for the group to list REA Kaltim on the Indonesia stock exchange and are now reviewing their options for pursuing this strategy, given the probable need to postpone its implementation until sufficient time has elapsed for the proposed REA Kaltim group to have reported figures that reflect normal cropping levels.

The directors are aware that the market in the company's ordinary shares is at times limited, that purchases and sales of small numbers of shares can have a disproportionate effect on the ordinary share price and that the spread between the bid and offer prices of the ordinary shares is often large. The directors believe that there is potential demand for the company's ordinary shares but that this demand comes mainly from investors who wish to have holdings of a certain size and are generally not prepared to spend time accumulating such holdings from the trickle of small offerings that are normally available. Should the Indonesian listing of REA Kaltim proceed, the directors hope that better analyst coverage of the company following the listing will improve the marketability of the ordinary shares but, as mentioned above, the directors are currently reviewing their strategic plans including in respect of the listing. Therefore, in an effort to address in the short term what they see as a mismatch between demand for and availability of ordinary shares, the directors are considering seeking shareholder approval for the company itself to buy back into treasury limited numbers of ordinary shares with the intention that, whenever a holding of a reasonable size has been accumulated, such holding be placed with one or more new investors

Management development

Mark Parry, the group's regional director based in Singapore and Indonesia with overall local responsibility for the Indonesian operations, was appointed president director of REA Kaltim during 2012 and a director of the company on 1 January 2013. The senior executive management of REA Kaltim has been further expanded during 2013 to date with the appointment of the incumbent head of human resources to the board of REA Kaltim and the extension of his responsibilities to include government and village relations, security, safety and conservation. The appointee not only brings particular expertise to the board but is an Indonesian national and as such, together with the president commissioner who is also an Indonesian national, complements the established expatriate leadership of the president director and the chief operating and financial officers.

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 Indonesian staff to handle its local interface is therefore a significant asset upon which the group continues to build. This asset is augmented by the local support and advice that the group obtains from local advisers and from the local non-controlling investors in, and local non-executive directors of, the company's Indonesian subsidiaries.

The directors believe that basing senior management in the same time zone as the group's operations facilitates management oversight and improves its effectiveness. They intend that, over time, overall executive responsibility for the management of the group will progressively be transferred from the UK to Singapore and Indonesia and

that following the eventual retirement of the company's current managing director and chairman, the group's London office will be reduced to a secretariat managing the company's London listing and liaising with its European shareholders. In the interim, the current managing director and chairman will remain UK based and have indicated their willingness to remain in office for a period sufficient to ensure continuity.

As previously announced, the four long serving independent non-executive directors, Messrs Green-Armytage, Keatley, Letts and Lim, retired from the board of the company at the end of 2012, and Ms Irene Chia was appointed as a new non-executive director in conjunction with Mr Parry's appointment as executive director. This has reduced the number of board members from eight to six.

The Indonesian context

Domestic consumption accounts for 65 per cent of gross domestic product in Indonesia, a nation of some 240 million people. Whilst the global economic slowdown placed commodity prices under pressure, buoyant consumer demand provided a buffer against the global malaise and permitted Indonesia to record growth of 6.2 per cent for 2012, only slightly below the figure of 6.3 per cent reported in 2011. With the ratio of debt to gross domestic product remaining under good control and foreign currency reserves reported as $112 billion at 31 December 2012, the outlook for the economy remains positive. The World Bank Quarterly Report has its baseline outlook at 6.4 per cent growth for 2013. According to this report, a worsening of global conditions with a freezing of international financial markets contributing to a drop in trading partner growth and a further slowdown in exports could mean reduction in the forecast to 4.7 per cent. A prolonged global downturn encompassing the major emerging economies could see a further reduction to 3.8 per cent.

Following the weakening of the Indonesian rupiah against the US dollar in the second half of 2011, which saw the rupiah fall from Rp 8,500 = $1 at the end of the second quarter to Rp 9,046 = $1 at 31 December 2011, the currency declined further during 2012 to close the year at Rp 9,670 = $1. Indonesian inflation over 2012 amounted to 4.3 per cent as compared with 3.8 per cent over 2011.

New policies to increase local value-added were introduced by the Indonesian government during 2012. These included a decrease in the export tax on refined palm oil products and a ban, after a certain date, on the export of certain mineral ores, both measures being aimed at increasing downstream processing within Indonesia. The dissolution of oil and gas regulator, BPMigas, is also seen as a move designed to enhance local control of natural resource assets.

The Jakarta mayoral elections saw the replacement of the incumbent mayor by Joke Widodo, the former mayor of Solo, whose candidacy was supported by the opposition Gerinada Party led by Probowo Subianto, a prospective presidential candidate. A key component of the incoming mayor's campaign was a commitment to infrastructural improvement. Jakarta is home to over 10 million people and accounts for one sixth of Indonesia's gross domestic product. As such, it is an important barometer of both political sentiment and economic confidence. Presidential elections are due in mid 2014 while gubernatorial elections in East Kalimantan will be held in September 2013.

Decisions during 2012 to proceed with several major new infrastructural projects in East Kalimantan, including a container port in Balikpapan and an airport in the Berau district, should encourage continuing growth within the province. Less welcome has been the announcement of a dramatic increase in the local minimum wage. Minimum wage rates are published annually in each province (the "UMP" rate) and subsequently in each provincial regency

(the "UMK" rate). These rates vary markedly across Indonesia. The UMP and UMK increases for East Kalimantan and for the Kutai Kartenegara regency (in which most of the group's operations are located) were respectively 49 per cent and 52 per cent. These were at the top end of increases announced across Indonesia.

Indonesian production of CPO continues to grow with 2012 production now estimated at around 28 million tonnes, significantly ahead of Malaysia with an estimated 2012 production of 19 million tonnes. There is anecdotal evidence that increasing restrictions on expansion of oil palm plantations are having an impact and that this will lead to a curtailment in the rate of growth of Indonesian CPO production over the coming few years.

Export duty differentials between refined palm oil products and crude palm oil have been a key tool in promoting domestic refining in both Indonesia and Malaysia. Since these duties also impact international competitiveness, both Indonesia and Malaysia monitor their tariff rates closely in an attempt to ensure that they retain competitiveness against each other and against competing vegetable oils in the world market. During 2012, as international prices for CPO dropped and domestic stock levels increased significantly, Malaysia reviewed its long standing flat rate tariff on CPO exports and in October 2012 announced a new CPO export tariff structure ranging from 4½ per cent, when the international price is at or above the equivalent of $725 per tonne (FOB Malaysian ports), to 8½ per cent, when the international price is at or above the equivalent of $1,125 per tonne (FOB Malaysian ports). These new tariffs were introduced with effect from 1 January 2013 and meant that there was no charge to export duty in January and February 2013, when the price fell below the $725 minimum.

Indonesia has so far retained its established CPO export tariff scale with a base threshold of $750 per tonne CIF Rotterdam (equivalent to about $680 per tonne FOB Indonesian ports) above which a tariff of 7½ per cent applies plus an additional 1½ per cent for every $50 increase over this base threshold up to a maximum 22½ per cent at prices above $1,250 per tonne CIF Rotterdam. There have been calls in the Indonesian Parliament and by the Indonesian palm oil producers' association ("GAPKI") for reductions in the Indonesian tariffs to match the tariff levels of Malaysia but there is as yet no indication that such calls will result in any changes.

Evaluation of performance

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

The directors do, however, rely 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 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 2012 and comparable quantifications for 2011 (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. In the past, the group has published future targets for the key indicators but, in view of the regulatory restrictions on forward looking statements that are expected to apply to the group if there is a public offering of securities in REA Kaltim, the directors have concluded that no such targets should be published in future.

While the former coal trading operations remain suspended and stone quarry operations have not yet started, the directors do not consider it appropriate to maintain any key performance indicators for those operations.

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 2012 and comparable figures for 2011 (derived from figures extracted from the audited consolidated financial statements of the company) are provided under “Group results” and “Financing policies” in “Finances” below. As with key performance indicators for the agricultural operations and for the same reason, the directors have concluded that no targets for key performance indicators of financial performance should be published in future.

Pending finalisation of the indicators to be covered in the sustainability report referred to under “Sustainability” above, the directors continue to rely principally on qualitative rather than quantitative assessments in relation to environmental and social performance. The qualitative commentary under “Employees” and “Responsible agricultural practice” in “Agricultural operations” below does however include quantitative data on examination results in the group’s primary schools, incidence of vector borne diseases, serious accidents sustained, pollution of water courses and substitution of organic for inorganic fertiliser. Specific quantitative data on diesel and petrol consumption per tonne of CPO produced is no longer included as information provided in the carbon footprint reports, the first of which was published in February 2013 as noted under “Sustainability” above, is considered to offer a more meaningful assessment of the company’s greenhouse gas emissions.

Identification, assessment, management and mitigation of the risks associated with environmental, social and governance matters forms part of the group’s system of internal control for which the board of the company has ultimate responsibility. The board discharges that

responsibility as described in 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 relations", "Community development", "Conservation", "Smallholder schemes", "Responsible agricultural practice" and "Carbon footprint" 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" 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 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 Kumalasakti ("KKS"), PT Kutai Mitra Sejahtera ("KMS"), PT Putra Bongan Jaya ("PBJ") and PT Sasana Yudha Bhakti ("SYB"). Each of these subsidiaries is currently owned as to 95 per cent by group companies and 5 per cent by Indonesian local investors. Pursuant to the group restructuring referred to under "Strategic direction" in "Overview" above, the 95 per cent ownership of each of these subsidiaries is being transferred to REA Kaltim, with each of the local investors retaining their respective 5 per cent ownership.

It was agreed during 2012 to acquire a further Indonesian company, PT Persada Bangun Jaya ("PBJ2"), with additional land allocations. Upon completion of necessary legal formalities, it is intended that PBJ2 should be owned as to at least 95 per cent by KKS and as to the balance by a local investor.

Land areas

The operations of REA Kaltim are located some 140 kilometres north west of Samarinda, the capital of East Kalimantan, and lie either side of the Belayan river, a tributary of the Mahakam, one of the major river systems of South East Asia. The 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. There are three strips of land pertaining to PBJ2, two of these lie adjacent to the land areas held by REA Kaltim and KKS, while the third borders the PBJ land area.

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

constructed during 2012. Unfortunately the bridge was subsequently washed away and a replacement bridge is now being built further downstream.

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

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

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.

A particular complication since the end of 2009 has been a requirement to meet new Ministry of Forestry regulations so that any company proposing to clear land, in respect of which HGU certificates have not already been obtained, must first obtain a timber cutting permit (“izin pemanfaatan kayu” or “IPK”). As pre-requisites to the issue of an IPK, the zoning of the land to be covered by the IPK has to be checked to confirm that it has been earmarked for plantation development and the land concerned then has to be surveyed by representatives of the Ministry of Forestry to establish the stand of commercial timber (if any). For areas in respect of which HGU certificates have already been obtained, a timber utilisation permit (“surat keterangan syah kayu bulat” or “SKSKB”) is needed, the issue of which involves a shorter process than the issue of an IPK.

During 2012, the overall area of the group’s fully titled agricultural land remained at 70,584 hectares (pending implementation of the SYB conditional land settlement arrangements agreed in 2011 and as referred to below), comprising 9,784 hectares held by CDM, 7,321 hectares held by KMS, 11,602 hectares held by PBJ, 30,106 hectares held by REA Kaltim and 11,771 hectares held by SYB.

In addition, at 31 December 2012, the group held land allocations subject to completion of titling totalling 31,601 hectares, comprising 3,061 hectares in CDM, 12,050 hectares in KKS, 2,212 hectares in SYB and 7,537 hectares in PBJ2. It is intended that application will be made for a renewed allocation in respect of a further 6,741 hectares at CDM, where the existing allocation recently lapsed. A substantial proportion of the PBJ2 land allocation will be transferred to smallholder cooperatives as discussed under “Community relations” below. The KKS allocation is conditional not only upon satisfaction of the normal titling requirements but also upon completion of a necessary rezoning of the area concerned.

Work is continuing with a view to completing the conditional settlement agreement between SYB and an Indonesian third party company relating to overlapping mineral rights on certain land areas held by SYB. Under the agreement, SYB would swap 3,557 hectares of fully titled land, the subject of the claims, for 9,097 hectares of fully titled land held by another company, PT Prasetia Utama ("PU"), the whole of the issued share capital of which would be transferred to SYB, and would also relinquish its 2,212 hectares land allocation that is still subject to completion of titling. The PU land is located on the southern side of the Belayan River opposite the retained SYB northern areas and is linked by a government road to the southern REA Kaltim areas. The continuing delay in completing these arrangements has been caused by the need to obtain comfort as to the continuing validity of the land titles held by PU.

Subject to completion of the agreed SYB settlement arrangements, the fully titled land areas held by the group would increase to 76,124 hectares, while the land allocations still subject to titling would reduce to 25,562 hectares. Titling of the remaining land allocations may be expected to result in full titles being granted to only part of the allocated areas as land the subject of conflicting claims or deemed unsuitable for oil palm cultivation may be excluded. Moreover, not all of the areas in respect of which full HGU titles are issued can be planted with oil palms. Some fully titled land may be unsuitable for planting, a proportion will be set aside for conservation and a further proportion is required for roads, buildings and other infrastructural facilities. The directors believe that of the prospective 76,124 hectares of fully titled land between 50,000 and 55,000 hectares will ultimately be plantable with oil palms. The remaining land allocations may in due course provide a further 10,000 plantable hectares.

In addition to actively pursuing the titling of its land allocations, the group continues to look at acquiring further areas suitable for planting with oil palms within the general vicinity of its existing land allocations and is currently negotiating to acquire an area of approximately 800 hectares close to KMS. With land prices rising and increasing interest in plantation development, land is much less available than was the case in 1991 when the group was first established in East Kalimantan. Moreover, the Indonesian government is now applying a "use it or lose it" policy to land. Pursuant to this policy, land allocations and titles may be rescinded if the land concerned is not utilised within a reasonable period for the purposes for which it was allocated. The group must therefore be careful in expanding its land bank to ensure that it can demonstrate clear plans for the development of all of its undeveloped land holdings.

Land development

Areas planted and in the course of development as at 31 December 2012 amounted in total to some 37,000 hectares. Of this total, mature plantings comprised 26,688 hectares having a weighted average age of 10 years. A further 621 hectares planted in 2009 was scheduled to come to maturity at the start of 2013. The total of 37,000 hectares includes 2,164 hectares (of which 272 hectares was planted in 2008) to be relinquished by SYB upon completion of the SYB land swap arrangement described under "Land areas" above.

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 those local villagers who have claims in respect of their previous use of the land. The group's target for new development during 2012 was delayed because a decision was taken against the background of the issues that the group had been experiencing with villages surrounding the REA Kaltim and SYB estates that development in new areas, such as those held by PBJ and CDM, should not start until the group had ensured that, to the maximum extent

reasonably practicable, compensation due to affected villagers had been settled and registered with the appropriate Indonesian authorities. Issues with villages are discussed in detail under "Community relations" below.

Negotiations with villages adjacent to PBJ are substantially complete and clearing for further expansion in the substantial plantable areas held by PBJ is expected to commence shortly. Negotiations are continuing with villages adjacent to CDM with a view to achieving sufficient agreement regarding village compensation to permit resumption of land clearing on the CDM areas in the near future. It is intended to complete the planting out of some 5,000 hectares of KMS (being areas already prepared for planting during 2011) by mid 2013, although a minor proportion of this area is likely to be transferred to a village cooperative as explained under "Community relations" below.

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

Processing and transport facilities

The group currently operates three oil mills in which the FFB crops harvested from the mature oil palm areas are processed into CPO and palm kernels. The oldest mill dates from 1998 and a major overhaul initiated in 2010, involving the upgrading of machinery and the installation of a new boiler to restore the effective mill capacity to 80 tonnes per hour, is now substantially complete. The second oil mill, which was brought into production in 2006, was expanded during 2010 to increase capacity from 60 to 80 tonnes per hour. The newest mill, which commenced operation in September 2012, has a current capacity of 40 tonnes per hour. With this new mill and the recent upgrading of the other two mills, the group should, for the immediate future, have sufficient processing capacity to handle all crop from its own estate and from the growing number of maturing smallholder plantings in the vicinity. The newest mill has been designed to permit the installation of a second processing line which would double the mill's capacity to 80 tonnes per hour and thereby provide the ability to cope with further processing demands.

Once the plantings currently underway at KMS and planned for CDM reach a certain level of maturity, a further oil mill is likely to be needed to process the additional FFB production from these new areas. Because the PBJ areas are some distance away from the group's other planted areas, it will not be possible to process fruit from PBJ in any of the group's three existing mills or prospective fourth mill. It is planned that early fruit from PBJ will be sold to neighbouring mills but as FFB production from PBJ grows, it is likely that PBJ will need its own oil mill. The directors do not currently foresee either of the two further oil mills that may eventually be needed being required before 2017.

Each of the group's two newer oil mills incorporates, within the overall facility, a palm kernel crushing plant in which palm kernels are further processed to extract the CPKO that the palm kernels contain. The processing of kernels into CPKO avoids the material logistical difficulties and cost associated with the transport and sale of kernels. Each kernel crushing plant has a final design

capacity of 150 tonnes of kernels per day which is sufficient to process kernel output from the group's three oil mills. Total installed capacity is presently 250 tonnes per day.

The group maintains a fleet of barges for transport of CPO and CPKO. The fleet is used in conjunction with tank storage adjacent to the oil mills and a transhipment terminal owned by the group downstream of the port of Samarinda. The fleet now comprises one barge of 4,000 tonnes, which the group time charters, and a number of smaller barges, ranging between 750 and 2,000 tonnes, which are owned by the group. The smaller barges can be used for transporting CPO and CPKO from the upriver operations to points downstream for transfer either to the transhipment terminal for subsequent collection by buyers or directly to buyers' own vessels. The 4,000 tonne barge is equipped for sea voyages and can be used to make deliveries to customers in other parts of Indonesia and overseas. On occasions, the group also time charters barges for additional shipments and to provide temporary storage if required.

The directors believe that flexibility of delivery options is helpful to the group in its efforts to optimise the net prices, FOB port of Samarinda, that it is able to realise for its produce. Moreover, the group's ability itself to deliver CPO and CPKO allows the group to make sales without the collection delays sometimes experienced with FOB buyers. Typically, in recent years, over half of the group's CPO production has been sold for delivery to ports in East Malaysia employing the group's largest barge almost exclusively in sailing between Samarinda and Sabah. However, the pattern of the group's sales is changing following the recent construction of bulking facilities in the major sea port of Balikpapan and the group is now selling increasing volumes of CPO for delivery to Balikpapan.

The new Balikpapan facilities provide better access to the local CPO market than is available from Samarinda and allow onshore transhipment of palm products to ocean going vessels. This facilitates palm product shipments to Europe when differentials between European and South East Asian prices for CPO and CPKO make such shipments worthwhile, as for example may be the case when oil has been segregated and certified by internationally recognised bodies as sustainably produced. The Balikpapan facilities are to be enhanced by the construction during 2013 of a CPO refinery under a joint venture arrangement between two major international oil traders and this will provide a further option for sale of CPO delivered to Balikpapan. The group can transport oil by barge direct to Balikpapan from its upstream oil storage tanks and the voyage time is significantly shorter than the voyage time to Sabah. Delivery to Balikpapan rather than Sabah therefore means that more efficient use can be made of the group's larger barge and the costs of transhipping in Samarinda can be reduced.

During periods of lower rainfall (which normally occur for short periods during the drier months of May to August of each year), river levels on the upper part of the Belayan become volatile and CPO and CPKO at times have to be transferred by road from the mills to a point 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 and intends to develop its own permanent loading facilities on the site for use during dry periods once the local government has completed the construction of suitable access roads. The group is also investigating the possibility of using alternative routes (by obtaining licences to access third party owned roads) for the transfer of palm products to downstream loading points so that, as volumes increase, the group can continue to evacuate all palm product output promptly during drier periods.

The river route downstream from the mature estates currently follows the Belayan River to Kota Bangun (where the Belayan joins the Mahakam River), and then

the Mahakam through Tenggarong, the capital of the Kutai Kartanegara regency, Samarinda, the East Kalimantan provincial capital, and ultimately through the Mahakam's mouth into the Makassar Straits. An alternative route for evacuating CPO and CPKO, which will also be used for the newer estates in KMS and CDM, is via the Senyiur River which joins the Mahakam between Kota Bangun and Tenggarong.

Crops and extraction rates

FFB crops for the years from 2008 to 2012 are shown in the "Key statistics" section of this annual report. The crop out-turn for 2012 amounted to 597,722 tonnes of FFB. This was a little below the FFB crop of 607,335 tonnes for the corresponding period in 2011 but some 12 per cent below the budgeted crop for the year of 682,000 tonnes. The group purchased 64,014 tonnes of FFB from smallholders and other third parties (2011: 34,146 tonnes).

Rainfall across the estates averaged 3,241 mm for 2012, similar to the level of 3,414 mm for the previous year. The widely predicted El Nino weather phenomenon did not materialise.

Processing of the group's own FFB production and the externally purchased FFB, together totalling 661,736 tonnes (2011: 641,481 tonnes) produced 151,516 tonnes of CPO (2011: 147,455 tonnes), 30,734 tonnes of palm kernels (2011: 28,822 tonnes) and 11,549 tonnes (2011: 10,815 tonnes) of CPKO reflecting extraction rates of, respectively, 22.9 per cent for CPO (2011: 23.0 per cent), 4.6 per cent for kernels (2011: 4.5 per cent) and 37.7 per cent for CPKO (2011: 38.4 per cent).

Most of the crop shortfall against budget arose in the first half of 2012 and was attributable to a combination of delayed ripening of crops in the early part of the year (reflecting the particular weather patterns of the latter months of 2011) and crop losses resulting from harvesting disruptions generated by disputes with certain surrounding villages. It had been hoped that the second half of the year would see at least a partial recovery of the crop shortfall of the first half but further disruptions by villages meant that this recovery did not materialise. Further information regarding disputes with villages is provided under "Community relations" below.

A significant feature of 2012 was the increasing throughput of third party FFB. This provides the group with a valuable additional revenue stream, the benefit of which more than outweighs a slight negative impact on extraction rates. With the continuing expansion of smallholder plantings in the vicinity of the group's estates, further increases in third party FFB throughput can be expected going forward.

Against the background of the continuing village issues in January and early February and the subsequent more limited harvesting blockages (all as referred to under "Community relations" below), the FFB crop to the end of March 2013 amounted to 137,576 tonnes, against 136,702 tonnes for the same period in 2012. The limited harvesting blockages will also have some impact on the crops reported for April but, thereafter, if as is hoped the agreements now reached in relation to village issues continue to be respected, the directors expect the group's own FFB crops to return to more normal levels. The effect of the disruptions to harvesting in 2012 is likely to have affected the normal fruiting cycle so that it must be expected that monthly cropping levels may be below average for the next few months and above average for the closing months of 2013. In view of the regulatory restrictions on forward looking statements that would be expected to apply to the group if certain of the strategic options referred to under "Strategic direction" in "Overview" above were to be pursued, the directors have concluded that no forecast of crops for the year or target extraction rates should be published.

Markets

According to Oil World, worldwide consumption of the 17 major vegetable and animal oils and fats increased by 3.75 per cent to 182.7 million tonnes in the year to 30 September 2012. The increased consumption was reflected in increased world production during the same period of 182.9 million tonnes with CPO accounting for 51.5 million tonnes of this (28.2 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 production during the year to 31 December 2012 is estimated to have accounted for some 13 per cent of all vegetable and animal oil and fat produced.

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

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

In recent years, bio-fuel has become an important factor in the vegetable oil and animal 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. There is a growing body of evidence that, in recent years, vegetable oil and petroleum oil prices have moved in tandem and that petroleum oil prices create a floor for vegetable and animal oil and fat prices at the level at which such oils and fats can be converted to bio-fuel at an overall cost (net of any available subsidies) that is competitive with the prevailing price of petroleum oil.

The directors believe that demand for, supply of and consequent pricing of, vegetable and animal oils and fats will ultimately be driven by fundamental market factors. However, they also recognise that normal market mechanisms can be affected by government intervention. It has long been the case that some areas (such as the EU) have provided subsidies to encourage the growing of oilseeds and that such subsidies have distorted the natural economics of producing oilseed crops. More recently there have been actions by governments attempting to reduce dependence on fossil fuels. These have included steps to enforce mandatory blending of 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 effects of such actions in reducing food availability and in encouraging deforestation may limit further measures to encourage the production of bio-fuel but the directors consider it 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 $1,292 per tonne and a low of $330 per tonne. The monthly average price over the ten years as a whole has been $725 per tonne.

After opening 2012 at $1,065 per tonne, CIF Rotterdam, the CPO price weakened during the second half of the year to a low of $745 per tonne but then recovered slightly to end the year at $810 per tonne. Prices have appreciated a little from this level in 2013 to-date and currently stand at $830 per tonne. The weaker price levels now being seen may be attributed to a combination of higher stock levels at origin, and concern that the current world economic situation may reduce consumption of CPO and other vegetable oils in industrial applications such as bio-diesel. The current CPO price is at an unusually large discount to the soya oil price but, with reports of large current season plantings of soybean in both the United States and South America (spurred no doubt by the high soybean prices of 2012), there is a concern that the discount will narrow as a result of reducing soya oil prices rather than rising CPO prices. Against this, there is now evidence of falling stocks and past experience suggests that lower price levels will lead to increased Indian and Chinese consumption.

Revenues

In 2012, approximately 65 per cent by volume of group CPO sales was made to the local Indonesian market and the balance of 35 per cent was exported. The proportion of local sales was higher than for 2011 and partly reflects the development of the local market and modifications to the tariff structure of the Malaysian market, hitherto the group's principal export market, where as noted under "The Indonesian context" in "Overview" above, duties have been brought into line with those in Indonesia. As a consequence, the differential between FOB prices realisable for CPO in the local and international markets has narrowed. With production volumes increasing, the group is broadening its customer base to ensure that it can access both domestic and export markets.

A complicating factor in 2012, was the impact of the delays to harvesting caused by the village disruptions referred to under "Crops and extraction rates" above. These meant that significant volumes of FFB were harvested late with a negative impact both on extraction rates and on the free fatty acid ("FFA") content of CPO production. The sales volumes and prices achievable for high FFA oil produced during the closing months of 2012 were materially lower than the prices that might otherwise have been expected to be realised for the CPO production of that period.

In past years, the CPKO price has almost always been at a premium to the CPO price and CPKO has been an important second product for the group. Over the course of 2012, the CPKO premium disappeared and, in recent months, CPKO has been at a discount to the CPO price. CPKO is similar to coconut oil and the anomalous recent pricing of CPKO is attributed to unusually good harvests of coconuts in the Philippines and other coconut producing areas. Exports of CPKO represented 31 per cent of CPKO sales by volume in 2012 against 38 per cent in 2011.

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.

During 2012, the group completed the RSPO supply chain certification ("SCCS") and obtained International Sustainability and Carbon Certification ("ISCC") referred to under "Accreditation" below, enabling it to sell some of its production as certified sustainable oil. There are four models established by RSPO for the marketing of oil from RSPO certified sources: "identity preserved", "segregated", "mass balance" and "book and claim". These differ in the extent to which buyers of CPO and CPKO obtain delivery of identifiable sustainable oil. Under the identity preserved and segregated models, oil delivered is fully identified as sustainable (with the identity preserved model further requiring that the delivered oil is identified as coming from a specific mill). Under the mass balance model, certified and uncertified oil can be mixed and the proportion of the mix representing certified oil can be delivered as sustainable oil. With the book and claim model, RSPO certified producers do not deliver sustainable oil to buyers but "book" the volume of their CPO and CPKO production and are awarded "Greenpalm certificates" in exchange. These certificates can then be sold to end users of CPO and CPKO who wish to support RSPO but do not wish to complicate their supply chains by sourcing oil only from RSPO certified producers.

Existing logistics for storage and transportation make it difficult for the group to sell its output under the RSPO identity preserved and segregated models but sales may now be made under the mass balance model. The group made its first sales of ISCC certified oil during the last few months of 2012 comprising 44,000 tonnes of CPO and also sold Greenpalm certificates in respect of 56,051 tonnes of CPO and 9,250 tonnes of CPKO. Sales of certified sustainable CPO and CPKO can command premium prices as well as broadening the potential market for the group's oil production in both the local and export markets. In the first quarter of 2013, the group sold further Greenpalm certificates in respect of some 19,000 tonnes of 2012 production of CPO.

As noted under "The Indonesian context" in "Overview" above, Indonesia continues to impose a sliding scale of duty on exports of CPO The progressive nature of the duty means that the Indonesian state takes an increasingly large part of the benefit of prices above $750 per tonne CIF Rotterdam. Although local sales do not attract export duty, arbitrage between the local and international markets ensures that the price differential between the markets is normally an almost exact reflection of the additional imposts incurred on exports.

As a general rule, all CPO and CPKO produced by the group is sold on the basis of prices prevailing immediately ahead of delivery but, on occasions when market conditions appear favourable, the group may make forward sales at fixed prices. The fact that export duty is levied on prices prevailing at date of delivery, not on prices realised, does act as a disincentive to making forward fixed price sales since a rise in CPO prices prior to delivery of such sales will mean that the group will not only forego the benefit of a higher price but may also pay export tax on, and at a rate calculated by reference to, a higher price than it has obtained. 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 2012 and the group currently has no sales outstanding on this basis.

The average prices per tonne realised by the group in respect of 2012 sales of CPO and CPKO, adjusted to FOB, Samarinda, and net of export duty were, respectively, $800 (2011: $861) and $862 (2011: $1,194).

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 overall costs and to spread central overheads over as large a cultivated hectarage as possible.

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

The group's two new methane capture plants (described under "Carbon footprint" below) were commissioned in April and October 2012 respectively. Methane from each plant is currently driving two generators (each of one megawatt capacity). The power from these generators is having a substantial impact on the group's consumption of diesel oil for power generation with material consequential savings in energy costs. In addition, the group is accruing carbon credits amounting to some 31,057 for 2012 which are expected to be realised later in 2013 at a price agreed at the outset of the methane plant project. Current methane production is averaging about four times that needed to drive the installed generators and this offers opportunities for generating additional returns from the investment made in the plants.

In furtherance of such returns, the group has recently reached an outline agreement with the Indonesian state electricity company ("PLN") under which the group will install an additional three megawatts of generating capacity, which it will dedicate to PLN and which PLN will use to supply power to the villages surrounding the group's estates by way of a local grid to be constructed by PLN. Payment for the power so utilised will be made by PLN at a fixed rate determined by Indonesian state regulations. This equates to about $1 million per megawatt year but it is not yet known what utilisation PLN will make of the available capacity. PLN will also consider linking the national grid to the new local grid and may in that event be able to increase its power capacity requirement to six megawatts.

Whilst the transaction agreed with PLN offers immediate returns for limited further investment (estimated at $1 million per megawatt of installed capacity), the group is also considering a project to use methane as an alternative fuel source for vehicles and other diesel or petrol powered equipment. Preliminary research indicates that such a project would be feasible using existing well established technology and would offer the prospect of attractive returns. It would, however, require initial capital investment of approaching $10 million. If the group is successful in securing further profitable uses for methane, methane production could be increased by installing a further methane capture plant in the third, recently commissioned, mill.

Other cost saving initiatives that have been implemented by the group in recent years include measures to reduce the use of pesticides, partial substitution of inorganic fertiliser with natural fertiliser, increased mechanical handling of FFB collection and transport, and the establishment of an "in house" road maintenance capability. Development of the stone quarry concession, described under "Coal and stone operations" below, should permit further economies in respect of building and maintenance of the group's infrastructure.

As noted under “The Indonesian context” in “Overview” above, there have recently been substantial increases in government directed minimum wage levels. A reasonable proportion of the group's employees are paid at a level above the minimum wage but the need to maintain differentials makes it inevitable that the new minimum wage levels will result in a significant increase in the group's employment costs. In 2012, these represented about one third of the cost of sales attributable to the group’s agricultural operations. Cost saving efforts in 2013 will therefore have a particular focus on labour efficiency and, specifically, on reducing overtime working.

Employees

By the end of 2012, the workforce numbered over 7,000.

Following the reorganisation of the human resources department (completed in 2011) and the appointment of new management, the process of developing a more consistent and formal approach to the management of human resources continued throughout 2012. Work commenced on establishing a comprehensive employee database, incorporating, in addition to personal data and salaries, information on the allocation of benefits and facilities, such as housing, training and development, productivity, performance and absenteeism. A dedicated manager is now responsible for human resource matters within each subsidiary company helping to enhance operational practices and to improve productivity.

Phasing in of a performance management system linked to key performance indicators and a competitive remuneration structure continued during 2012 and the system should be applicable to all staff levels by 2014. There are formal processes for recruitment, particularly for key managerial positions, where psychometric testing is used to support the selection and hiring decisions. Exit interviews are also conducted with departing staff to ensure that management can address any significant issues.

The group has established a number of new initiatives for 2013. These include a review of salary structures to ensure consistency against industry benchmarks throughout the group hierarchy, formal processes for performance evaluation (including employee feedback) and individual development programmes to facilitate effective succession planning and promotion, and an employee satisfaction survey in order to make continuing improvements to the working environment.

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 grounding in the technical aspects of oil palm estate management. Those successfully completing the programme are offered management positions.

Wherever possible, the group fills available staff positions by internal promotion. The continuing expansion of the agricultural operations gives the group the ability to offer graduates the prospect of an attractive career path. Hitherto, graduate intake has focused on those holding agricultural and engineering qualifications but, as the group’s requirements for more sophisticated administrative data and financial systems develop, recruitment is broadening to include a wider spectrum of graduates, with qualifications in finance, accounting and office administration.

Continued general and competency based training is provided for staff at all levels to support the requirements associated with external accreditations, which are integral to the daily operations of group, as well as for practical purposes. 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 work ethics and company values, health and safety, sustainability, communication skills and English language courses. The group continues to take total quality management initiatives with the aim of further improving the effectiveness of the group's operations.

Almost all members of the workforce and their dependants are housed in group housing in a network of villages across the group estates. Group housing is extended as the workforce expands. Villages are equipped with potable water and electricity and provided with a range of amenity buildings including mosques, churches, shops, schools and crèches.

A trust funded by the group operates a network of primary schools and crèches across the group's estates for over 2,000 children. The group also provides support to state secondary schools serving the children of the group's employees. In 2012, 158 pupils from the group's primary schools sat examinations for entry to state secondary schools and a 100 per cent pass rate was achieved (2011: 143 pupils and 100 per cent). As the workforce expands and the number of children graduating from primary schools grows, the group is exploring the possibility of providing estate secondary schools, where local state secondary schools may be insufficient. Initially, use would be made of existing classrooms within the estate primary schools but in due course there may be a requirement for additional estate school facilities. The availability of suitable schooling is essential for attracting and retaining staff in the remote locations of the group's operations.

The group runs its own health service with a resident doctor, medical clinics on each established estate and a central clinic as well as, from 2013, a resident dentist. It also has partnership links with larger hospitals in Samarinda and Jakarta. The estate and central clinics 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 2012.

The group has health and safety policies that are clearly communicated to all employees and are managed through regular training as well as meetings on each operating unit attended by management and employee representatives. Senior management is ultimately accountable to the group managing director for all health and safety matters and appropriate action is taken to remedy any deficiencies identified. There were no serious accidents during 2012.

During 2012, the group committed to strengthening, and investing further in, its occupational health and safety practices. Following an independent review of the existing occupational health and safety management system, improvements have been, and continue to be, made to align existing procedures with international standards of best practice, guided by the requirements of the internationally recognised occupational health and safety standard OSHAS 18001. The group aims to be certified to be in full compliance with this standard by 2015.

The group promotes a policy for the creation of equal and ethnically diverse employment opportunities, including with respect to gender, and encourages the establishment of forums in which employees or their representatives can have free and open dialogue with the group's management. In 2012, the group established a gender committee to ensure that the gender policy is properly implemented. For a second year, in 2012 one of the group subsidiaries received an award for the provision

of equal opportunities for female workers from the local government.

Community relations

The group's estate areas are surrounded by a network of villages and sub-villages (with the latter administered through the villages).

The group has always seen the maintenance of harmonious relations with, and the encouragement of development within, the local communities in its areas of operation as an essential component of its agricultural business. As explained under "Land areas" above, all new plantation development by the group involves payment of compensation to affected local villages as well as consultation with the surrounding communities to identify overlapping land use rights and ensure that these are transferred to the group in a way that meets legal requirements (and in recent years, since the establishment of RSPO, the requirements of RSPO). Thereafter the group provides assistance with community development projects and supports the local communities in establishing smallholder plantings of oil palms. A significant proportion of the group's workforce is drawn from the local communities and there is regular interaction at a social level between the group's staff and employees and members of the local communities.

Inevitably in the period of over twenty years since the group's East Kalimantan operations were first established, there have been occasional disagreements between the group and the local communities but until recently, such disagreements have been minor, rapidly resolved and without significant impact on the group. That situation changed during 2012 with disputes concentrated into two waves, the first in the second quarter of the year running into early July and the second in the final weeks of the year and continuing into 2013. These disputes were more serious than those previously experienced because of actions by villagers to enforce their position by stopping harvesting access to certain areas of the group's estates and blockading group oil mills to prevent processing of FFB.

The 2012 village dissatisfaction with the group covered a number of issues and different villages had different claims. However, a common theme was a demand that the group procure the land necessary to establish additional cooperative smallholder oil palm plantings in each village. This demand was based on 2007 Indonesian legislation (the "2007 legislation") that requires that any company receiving a land allocation for oil palm development after the date on which the applicable legislation became effective must provide land for, and develop, smallholder oil palm plantings equal to 20 per cent of the area to be planted with oil palm by the company, such plantings to be owned and paid for (from funding organised by the company) by co-operatives from the villages whose land use rights overlap with the company's land titles.

Substantially all the REA Kaltim and SYB plantings are on land allocated prior to the 2007 legislation and, whilst the group has to-date successfully supported smallholder development, such developments have been almost entirely on land provided by villagers and, the group has not hitherto, as a general rule, itself provided land for smallholder plantings by villages surrounding the REA Kaltim and SYB estate areas. Legal advice has confirmed that the group is under no obligation to do so. Nevertheless, the group has for some time recognised that it should endeavour to meet the expectations of villagers who have difficulty understanding why villages adjacent to newer oil palm developments are entitled to be given land while they are not. It did, however, take time to identify and acquire suitable land for cooperative development and the resultant delay has certainly exacerbated and may well have provoked the village problems experienced by the group.

The acquisition of PBJ2 in July 2012 provided the group with sufficient land to meet the smallholder development obligations to which the group would have been subject had the REA Kaltim and SYB estates been developed after the 2007 legislation was enacted but did not, of itself, immediately resolve outstanding village demands for oil palm cooperative developments and other village claims. That was because such resolution was complicated, as respects land allocations for cooperatives, by the need for complete and accurate government mapping of all village boundaries to provide a consistent basis for allocation between villages and, as respects other claims, by past fraud by certain intermediaries who were legally appointed by villagers and entrusted with distributing land compensation to individual villagers.

Fortunately, the group received excellent support from the local authorities who assisted with mediation and, where necessary, police intervention. It is clear that village actions interfering with the normal running of the group's estates are illegal but both the police and the group were concerned to achieve resolutions of outstanding issues by dialogue rather than force and to retain a situation in which, notwithstanding the issues, discussion remained possible between the group and the various villages without mutual antipathy.

Substantial progress has been made since the beginning of 2013 and settlement agreements in respect of most material issues were reached in late January or early February with all of the larger villages that had land rights historically overlapping REA Kaltim and SYB land. Settlement discussions are continuing in respect of outstanding disputes. To-date agreements concluded with villages have been adhered to but there have been some subsequent disruptions by individual villagers. One such disruption caused a harvesting blockage in one area of the REA Kaltim estates for a period of nearly four weeks during March and April 2013 but otherwise these later disruptions have been limited as to duration and scale. All three mills have been operating normally since early February. Maintenance of this much improved situation will be subject to continued adherence by villages to the terms of the agreements reached with them and satisfactory resolution of the few remaining unresolved issues and of any new issues that may surface.

The current improved position has been reached at a significant cost but that cost should not be without benefit given that the funds committed to procuring additional cooperative oil palm developments will, in due course, provide a return to the group from further increases in group revenues from processing cooperative FFB. Moreover, the stronger relationships forged with the East Kalimantan authorities during the period of the disruptions and the better mutual understanding achieved between the group and its local communities should enhance the group's ability to continue the development of its East Kalimantan operations.

It is clear that the group and the villages around its estates are interdependent. The group requires the acceptance of its operations by the villages while the villages are reliant upon the group as an employer, as a market for services and produce, and as a purchaser of smallholder grown FFB. Villages will benefit further from the group's activities once the recent agreement to supply power to PLN, as described under "Costs" above, has been implemented as this will provide the villages with access to electricity generated by the group's methane capture plants. Whilst it is probably inevitable that there will on occasions in the future be issues between the group and surrounding villages, the directors hope that with a better appreciation of the symbiotic relationship between the group and the villages, such issues will be more readily resolved than was the case with the issues that arose during 2012.

Against the background of the 2012 issues, the group reviewed the organisational structure and responsibilities of the departments dealing with the local communities

and increased the allocation of resources to this area of the group's business. The head of corporate affairs has now been appointed to the board of REA Kaltim and has extended his responsibilities to include overall responsibility for smallholder schemes, land compensation, village liaison and community development. In addition, a new head of village affairs, based on the plantations, is being appointed with responsibility for coordinating the daily activities of these departments and ensuring their close interaction with the local communities.

Community development

Community development assistance provided by the group comprises infrastructural and other general assistance to the local communities.

Infrastructural assistance includes the provision of access to electric power, assistance with repairs of village roads and bridges, schools and community buildings and the provision of water for daily domestic use. Other forms of general assistance include donations to support the celebration of religious festivals and regular fogging for mosquitoes in areas of the surrounding communities to reduce the incidence of vector borne diseases in those communities.

Smallholder schemes

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 established its first smallholder scheme in 2000 and continues to support and invest in the development of smallholder plantings.

Prior to 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, individual smallholders cultivate oil palm on their own plot of, typically, two hectares. The group provides technical advice and supplies the smallholders with seedlings, fertilisers and herbicides on deferred terms on the basis that when a 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. Some 1,561 hectares of smallholder plantings across 13 local villages have 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". Under the plasma scheme model, the land areas for development are provided by or allocated to 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 local external sources, supplemented if necessary by the group and 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.

Plans for further expansion of the plasma schemes during 2012 were held up by delays in identifying and agreeing allocations of additional land areas suitable for smallholder development (as further discussed under

"Community relations" above). The plasma scheme areas planted at 31 December 2012 amounted to some 2,900 hectares. With the further allocations of land that have now been substantially agreed, the group expects a useful increase in the plasma areas during 2013.

It was originally planned that cooperative members would form the core labour force for the plasma scheme developments but, with urban migration reducing village numbers, the cooperative members available to work on the plasma schemes have proved insufficient to provide more than a minor proportion of the workforce needed to maintain and harvest the scheme plantings. The balance of the required workforce is therefore being supplied by the group from its own labour force. Whilst the group levies an appropriate charge for this service, it means that the group now sizes its labour force at a level sufficient to operate not only its own estates but also the plasma schemes. The group will be expanding the estate worker housing and facilities to accommodate the additional permanent workers.

Financing for the group supported plasma schemes initiated to-date has been agreed with a local development bank in the form of fifteen year loans secured on the land and assets of the schemes and guaranteed by the group. These facilities are designed to finance most of the initial development costs of the schemes but will be supplemented to the extent necessary by funds advanced by the group. There are currently three facilities in place for the current schemes.

Whilst the group views its support for smallholder oil palm plantings in the local communities adjacent to its operations as part of its social responsibility to those communities, the expansion of smallholder plantings in the vicinity of the group's mills will be mutually beneficial to the communities and the group. The communities will benefit from the significant economic development generated as a result of the smallholder 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 manage a network of conservation reserves within its titled land areas with the aim of conserving the natural biodiversity and ecosystem functions of the landscapes in which the group operates. Conservation reserves are designated on the basis of environmental impact and high conservation value assessments, which are conducted by both the group's conservation department (known as "REA Kon") and external experts prior to each new agricultural development undertaken by the group. To date, over 20,000 hectares have been set aside as conservation reserves.

The activities of REA Kon cover three distinct areas as follows:

- a biodiversity programme, which aims to compile comprehensive species inventories and implement long-term species monitoring programmes to inform the management actions necessary to maintain and enhance the natural biodiversity of the landscape;
- a community programme, which aims to engage with and educate the communities living in and around the group's oil palm concessions to reduce the negative environmental impacts of the oil palm activities and to promote the sustainable use of natural resources; and
- a plantation programme to monitor and reduce the environmental impact of the group's operations and of the people living in and around the plantation in order to maintain the integrity of the conservation reserves and the quality of the human and natural environment.

Surveys conducted by REA Kon, together with assessments undertaken by visiting scientists and students, have to date confirmed the presence in the conservation reserves of a total of 495 species (66 species of mammals, 185 species of birds, 53 species of reptiles, 32 species of amphibians, 84 species of fish and 75 species of invertebrates). These species include 76 that are listed on the International Union for the Conservation of Nature's ("IUCN") Red List of Threatened Species as being in the categories of "Near Threatened", "Vulnerable", "Endangered" and "Critically Endangered".

Camera trapping and other biodiversity surveys continue to record the presence of orang-utans within the conservation reserves. Sighting of a baby orang-utan and a camera trap photograph of a baby sun-bear, as well as the first record of an orang-utan in SYB northern estate, are encouraging signs of the ability of the group's conservation reserves to support healthy populations of these species. REA Kon maintains a nursery of native timber and fruiting tree species, which it uses to enrich both the natural habitat within the conservation reserves and the estate villages. In 2012, some 650 seedlings from REA Kon's nursery were distributed for enrichment planting.

REA Kon continues to provide small grants and field assistance to enable undergraduate students from local universities to conduct final year research projects within the group's conservation reserves in an effort to encourage young Indonesian scientists to study the relationship between oil palm and biodiversity. In 2012, six undergraduate students and one postgraduate student from universities in Samarinda, Jakarta and Yogykarta participated in this programme. In addition, REA Kon assisted two postgraduate students from Utrecht University in the Netherlands in conducting biomass assessments within the conservation reserves as part of their postgraduate research projects.

The water quality of rivers which flow through the conservation reserves, as well as other key environmental parameters which indicate the health of these habitats, are monitored on a monthly basis. A key component of REA Kon's efforts to reduce the negative environmental impacts of the people living within and around the group's plantations is the provision of weekend long conservation education camps for children from estate and local village schools. These camps aim to educate and enthuse the local population about the importance of protecting the conservation reserves and the species that inhabit them. In 2012, REA Kon's community team held five conservation education camps, and visited a number of village schools in the vicinity of the group's new developments.

In 2009, the group established Yayasan Ulin ("YU") (meaning the Ironwood Foundation) as an Indonesian charitable foundation, with a feeder charity registered in the UK. The aim of the YU is to promote and facilitate the protection of certain habitats of importance for biodiversity conservation. The majority of YU's activities have to date focused on the Mesangat wetlands in Kutai Timur district, East Kalimantan. This valuable wetland ecosystem, which is known to support a number of Critically Endangered and Endangered species, overlaps with and extends into the landscape surrounding the CDM land areas. Research by both local and international scientists has concentrated on identifying and developing an understanding of the population status and ecology of the rare, threatened and endangered species that inhabit these wetlands, monitoring the harvesting of fish and reptiles by the local community and implementing schemes to encourage sustainable use of these natural resources.

Responsible agricultural practice

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, the group has endeavoured in recent years to reduce its dependence on inorganic fertiliser by developing organic 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 and fixes nitrogen but is also a prolific generator of vegetative matter that acts as a soil improver. This promotes oil palm growth, particularly in the immature phase. Composting of processing waste produces a nutrient rich compost that can be applied in the oil palm areas in substitution for inorganic fertiliser.

Composting is effected by delivering all empty fruit bunches and oil mill effluent (in the latter case after treatment in methane recovery lagoons and/or mill 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 (supplied by the contractor), mixing the residues and macerating the mix to encourage biodegradation. The contractor then sells the resultant compost back to the group at an agreed price with a guaranteed minimum nutrient content. The area in respect of which compost substituted for inorganic fertiliser amounted to 9,654 hectares in 2012 (2011: 9,636 hectares) and is projected to amount to close to 11,000 hectares in 2013.

Handling arrangements are designed to ensure that no CPO, CPKO or oil mill effluent passes into water courses. On one occasion in 2012, during very heavy rains, an effluent pond within one composting area overflowed but the overflow was contained within the perimeter drains around the composting area. There were no reported incidents of accidental spillage into water courses during 2012. Steps are being taken to educate and incentivise the group's resident workforce and its dependants to segregate domestic waste so as to permit recycling of organic and plastic waste. During 2011, the group acquired a heavy duty plastic macerating unit. This is used for shredding larger clean plastic containers into flakes for onward sale and the resultant proceeds are used to sponsor special events for the workforce and its dependants.

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 and the kernel crushing plants but also to provide power to several estate villages.

Carbon footprint

The company published its first carbon footprint report in February 2013. This report identifies and quantifies the greenhouse gas emissions associated with the longer established component of the group's agricultural operations. The carbon footprint report will facilitate the design and implementation of strategies for further reducing emissions in the future, as well as providing a baseline against which progress in reducing greenhouse gas emissions can be monitored and reported.

Although steam generated electricity from the oil mills is effective in meeting a proportion of the group's energy needs, the available power is not sufficient for all villages and power can anyway only be provided by this means when the mills are running. Accordingly, in an effort significantly to reduce the group's greenhouse gas emissions and thereby reduce its carbon footprint, the group has constructed two methane capture plants which were commissioned in, respectively, April and October 2012. The plants lead to a reduction in greenhouse gas in two ways: first, methane emissions from anaerobic digestion in the open mill effluent ponds are lower and, secondly, less diesel oil is required to generate power.

Each methane capture plant is adjacent to an existing oil mill and is based around a lagoon sealed by a cover fabricated from high density polyethylene sheeting. After initial cooling, mill effluent passes to the lagoon, which is equipped with a liquid agitation system designed to accelerate the anaerobic digestion of the effluent. The methane released during the digestion process is captured under the lagoon cover, passed through a biological scrubber and used to fuel biogas powered generators. Methane that is surplus to the current requirements for electricity generation is flared off. The digested effluent is discharged from the lagoon to the existing mill effluent ponds and subsequently passed to the composting process. The electricity generated from the captured methane supplies a significant proportion of the group's mills, offices and housing, thereby eliminating the requirement for diesel generated electricity in these areas.

Performance of the methane capture plants has exceeded expectations and, as discussed under "Costs" above, measures are being taken to make more productive use of surplus methane.

Accreditation

The group seeks to follow international and industry standards of best practice throughout its operations. 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, defined as production which is "legal, economically viable, environmentally appropriate and socially beneficial". To obtain RSPO certification, members are required to comply with RSPO principles and criteria and to have their operations audited by RSPO approved independent auditors. The directors believe that the group's operational practices have always been of a high standard but the RSPO certification process requires that such operational practices are embedded in formal systems and are subject to controls that are auditable.

The group has now achieved RSPO certification of the two REA Kaltim oil mills, all of the REA Kaltim estates and the SYB Tepian estate, as well as some of the smallholder oil palm plantings. It is planned to obtain certification of the newly constructed SYB oil mill by 2015. Development of KMS has been carried out in accordance with the RSPO New Plantings Procedures. As a further step in the process of RSPO certification of its operations, the group achieved certification of its supply chain under the RSPO Supply Chain Certification System ("SCCS") during 2012. This certification provides buyers of CPO and CPKO with the ability to identify oil purchased as coming from RSPO certified sources, thereby permitting the group to sell it production as certified under the RSPO "mass balance" model. The "mass balance model" is one of the four mechanisms established by RSPO for the marketing of oil from RSPO certified sources as described under "Revenues" above.

Separately in 2012, the group also obtained International Sustainability and Carbon Certification ("ISCC"), which

allows the CPO produced from the REA Kaltim estates and mills to be used to produce biofuel that meets the requirements of the European Union Renewable Energy Directive. In addition to verifying that biofuel feed stocks have been produced, processed and transported in accordance with a series of sustainability criteria, this certification scheme requires members of the supply chain to demonstrate that the net greenhouse gas emissions associated with the production and use of this biofuel will be lower than if the equivalent amount of energy was generated by fossil fuels. ISCC certified CPO generally commands a small price premium in Europe over CPO that has not been ISCC certified.

All of the operations of REA Kaltim and the northern estates of SYB have been certified or recertified, as appropriate, as ISO 14001 compliant.

Coal and stone operations

Concessions and structure

The group holds rights in respect of three coal mining concessions and a stone deposit, all of which are located in East Kalimantan in Indonesia. Stone quarrying is classified as a mining activity for Indonesian licensing purposes and is therefore subject to the same regulatory regime as coal mining.

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

Operating activities

During 2010 and 2011, the group started to develop an open cast coal mining operation and coal trading activity based on the three coal concessions. Subsequent events showed that coal mining and trading have specific complexities that are not shared by the group's agricultural operations. Moreover, coal prices fell significantly between early 2011 and mid 2012. The directors therefore decided in mid 2012 that, for the time being, coal trading activities should be suspended and further capital committed to the coal operations should be limited and concentrated on maximising returns from the concessions in which the group had already invested.

The group is in discussions with two third parties in relation to the coal concession at Kota Bangun. Both such parties have coal mining interests adjacent to the group's concession. A successful conclusion to the discussions would result in one of the parties mining the concession on a basis that would limit the group's downside and provide a return to the group that, at current coal prices (which have risen to an extent from their lows of June 2012), could reasonably be expected to recover the group's investment and, if coal prices improve further, could yield a reasonable profit. A similar arrangement may be possible in relation to the other two coal concessions, which are in the southern part of East Kalimantan. The group had previously thought that an outright sale of these two concessions might be preferable to such an arrangement but is now inclining to the view that retention of the concessions with a third party mining arrangement may provide a better final outcome.

In view of the uncertainties affecting the coal concessions, the group has made a provision of $3 million against its investment in the concessions at 31 December 2012.

On the coal trading side, steps are being taken to close out contractual commitments made prior to the suspension of trading and no new trades are being initiated. Prior to the suspension, the group had made one significant shipment of traded coal. As noted in the half yearly report for 2012, the buyer for this shipment repudiated its contractual obligations and this meant that the group had to sell the shipment elsewhere at a loss. The group is pursuing recovery of this loss but has provided against it to the extent of $0.8 million in the results to 31 December 2012.

The group remains confident of the economic viability of its stone concession and work is continuing on plans to quarry the concession to provide stone for the group's agricultural operations and for sale to users of stone in the area of those operations.

Sustainable practices

The group remains committed to observing international standards of environmental and corporate social practice in its coal mining and stone quarry activities. Health and safety procedures have been established to protect and safeguard the welfare of all persons involved and, upon resumption of existing, or commencement of any new, activities, suitable measures would be designed to ensure the proper management of waste water and land areas affected by these activities.

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 2012 has been derived by the directors on a discounted cash flow basis by reference to the FFB projected to be harvested from the group's oil palms over the full remaining productive lives of the palms and an estimated profit margin per tonne of FFB so harvested. Such estimated unit margin is based on an average of historic FFB profit margins for the 20 years to 2012 buffered to restrict the implied annual movement in such estimated unit margin to 5 per cent and to prevent any change in estimated unit margin that runs contrary to the trend in current margins. For this purpose, the historic profit margin for each applicable year has been derived either from the budgeted unit cost of FFB production and the actual historic average of CPO prices (FOB Port of Samarinda and net of export duties) for such year or, for earlier years for which such detailed information is not available, an appropriate estimate of the historic profit margin for the year.

The discount rates used for the purposes of the biological asset revaluation at 31 December 2012 were 15 per cent for the estates owned by the company's two principal

subsidiaries, REA Kaltim and SYB, and 18 per cent for all other group companies (2011: 16 per cent and 17½ per cent for, respectively, REA Kaltim and SYB, and 19 per cent for all other group companies). The reduction in discount rates is designed to reflect appropriately the improved credit rating now accorded to Indonesian sovereign exposures as well as a perceived reduction in the risks of achieving future harvests of fresh fruit bunches ("FFB") on the SYB estates following the completion of the group's third oil mill which is owned by SYB.

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 directors therefore welcome the forthcoming issue by the International Accounting Standards Board of an exposure draft outlining possible amendments to IAS 41 (the standard that imposes the current policy on biological assets) and hope that this will result in an eventual reversion to the accounting policies that were widely applied by plantation companies prior to the introduction of IAS 41.

The biological assets in the group balance sheet at 31 December 2012 amounted to $266 million. An increase or reduction of $5 per tonne in the estimated profit margin used for the purpose of the valuation (namely $55.2 per tonne of FFB) would increase or reduce the valuation by approximately $26 million.

Correction of previous accounting error

After discussion with the Financial Reporting Council's Conduct Committee, the group has concluded that it has been incorrectly applying cash flow hedge accounting to certain cross-currency interest rate swaps.

The background to this error is that during 2007 and 2008 the company's subsidiary, REA Finance B.V. ("REAF") issued £37 million nominal of guaranteed sterling notes 2015/17 ("sterling notes") and lent the resultant proceeds to REA Kaltim and SYB on terms that were substantively back to back with the terms of the sterling notes. The latter companies entered into cross-currency interest rate swaps to hedge against US dollars their sterling interest and principal exposure in respect of their borrowings from REAF. Later these arrangements were restructured in some respects but in a way that did not materially affect the commercial substance of the arrangements.

The group considered that the underlying commercial reality of these arrangements was that the sterling notes had been issued to finance its US dollar denominated plantation business in Indonesia and that, in group terms, the cross currency interest rate swaps in the Indonesian subsidiaries were hedging a group exchange rate exposure between a sterling liability (in the form of the sterling notes) and US dollar assets in the Indonesian subsidiaries. On this basis, the directors designated the cross-currency interest rate swaps as hedges of the sterling notes and treated them for accounting purposes as hedges eligible for cash flow hedge accounting.

Interpretations of IAS 39 published during 2008 in IFRIC 16 concluded that a group could not have a functional currency and that cash flow hedge accounting could not be applied to a hedge of a group's presentational currency. The functional currency of REAF is sterling while the functional currency of both REA Kaltim and SYB

is US dollars. This means that, whilst the cross-currency interest rate swaps can be treated within REA Kaltim and SYB as fully effective cash flow hedges of those companies' sterling borrowings, at the group level the swaps represented hedges of the group's presentational currency. The group's application of cash flow hedge accounting in respect of the swaps was therefore incorrect.

The consequential corrections needed have been booked in the accompanying financial statements for 2012 and the differences in profit before tax, tax, profit for the period and the component of that profit attributable to non-controlling interests that would have been reported for the years 2009 to 2011 had the correct accounting treatment been applied are detailed in note 33 to the accompanying financial statements. The adjustments detailed in note 33 have no implications for the cash flows reported from 2009 to 2011 because the adjustments relate to exchange translation and mark to market differences that do not impact cash.

Group results

Group operating profit for 2012 amounted to $37.8 million and profit before tax to $30.6 million. The comparable figures for the preceding year were, respectively, $72.7 million and $64.2 million.

The significant fall in profits as compared with 2012 reflected the weather impact on crops in the first half and the effect of lower CPO and CPKO prices during the year, combined with what will hopefully prove to be non-recurring losses arising from the decisions taken in relation to the coal operations and from the village issues described under "Community relations" in "Agricultural operations" above. The following table provides estimates of the effect on profit before taxation as respects each of the items concerned:

	$'m
Agricultural operations	
Trading items:	
Value impact of lower prices on crop harvested	(12.6)
Value impact of reduced crop due to weather	(5.6)
Village disruptions:	
Value impact of reduced crop	(5.7)
Value impact of reduced prices due to high FFA oil	(6.6)
Coal operations	
Losses	(4.1)
Provision against concessions	(3.0)
	(37.6)

Revenue for 2012 at $124.6 million was less than in 2011 ($147.8 million) with the reduction reflecting lower revenue from both the agricultural operations ($122.1 million against $129.5 million) and the coal operations ($2.5 million against $18.2 million). In the agricultural operations, this was the result of trading factors referred to above while, in the coal operations, it was the direct consequence of the suspension of the coal trading activities as discussed under "Operating activities" in "Coal operations" above.

Excluding movements on agricultural inventory, cost of sales attributable to the agricultural operations amounted to $59.5 million against $51.3 million. The increase reflected continuing cost inflation and cropping on a larger area. Under normal circumstances, it could have been expected that the increased cost of sales would have been offset by increased crop volumes but, as already noted, the combination of weather factors and village issues resulted in the 2012 crop falling significantly short of budget and, with most components of cost of sales being fixed costs, there was no commensurate reduction in cost of sales. In the coal operation, cost of sales reduced from the prior year $16.7 million to $4.0 million in line with the reduction in trading activity.

IFRS fair value adjustments, aggregating $0.3 million in 2012, were significantly below the aggregate adjustments of $11.4 million reported in the preceding year. The net gain from changes in the fair value of biological assets ($6.0 million against $7.4 million in 2011) reflected the further development of the group's plantations while the loss arising from changes in the fair value of agricultural produce inventory ($5.7 million against a profit of $4.0 million in 2011) was the product of a small reduction in inventory volume over 2012 and the fall in CPO and CPKO prices during the year exacerbated by the need to allow for a discount on the closing inventory to reflect the high FFA content of that inventory.

Administrative expenses for 2012 amounted to $18.9 million against $17.0 million in 2011. The increase was in part the result of inflation, but also reflected costs of management transition, costs incurred in connection with the resolution of village issues and a further provision of $1.0 million for additional funding of the group's UK pension scheme following a recent triennial actuarial valuation of the scheme. Before deduction of the interest component added to biological assets, interest payable in 2012 amounted to $12.5 million (2011: $14.1 million). Interest cover for 2012 (measured as the ratio of earnings before interest, tax, depreciation and amortisation, biological gain and provision against coal concessions to interest payable) was 3.1 (2011: 5.2).

Losses on the coal trading operations reflected provisions made against outstanding trading items following the decision to suspend trading. In addition, a provision of $3 million has been made against the coal concessions.

Taxation for 2012 was lower than in the preceding year ($12.9 million against $18.6 million in 2011), as a result of the reduced profit before tax, but the group tax rate rose from 28.9 per cent to 42.1 per cent mainly for two reasons: first, there was no reduction in the amount of Indonesian withholding tax incurred on intra-group dividends between the Indonesian subsidiaries and the UK parent group and, secondly, the group elected not to take credit for deferred tax on losses of the coal operations (being losses that could not be offset against the profits of the agricultural operations).

At the after tax level, profit fell to $17.7 million (2011: $45.6 million) while profit attributable to ordinary shareholders was $11.3 million against $40.5 million. Earnings per share amounted to US 33.9 cents (2011: US 121.0 cents).

The group's target long term average annual return on adjusted equity is 20 per cent. The return achieved for 2012 was 11 per cent (2011: 28 per cent).

During the first half of 2012, the Indonesian Tax Court handed down judgements on the remaining elements of the 2006 Indonesian assessment of tax which had been disputed by REA Kaltim. The Tax Court found in favour of REA Kaltim on certain elements and against it on others. A repayment of tax amounting to some $1.2 million was made to REA Kaltim. Later in 2012 both parties lodged appeals to the Indonesian Supreme Court with each party appealing against certain of the Tax Court's findings against it.

REA Kaltim's appeal against an Indonesian assessment of tax on its 2008 profits continues. The 2008 assessment seeks to deny tax relief claimed in respect of mark to market losses on cross currency interest rate swaps entered into by REA Kaltim to hedge, against US dollars, the group's sterling liability in respect of part of the group's outstanding 9.5 per cent sterling notes 2015/17. Hearing of the appeal was completed in October 2012. An early judgement is thought to be unlikely.

The 2006 and 2008 disputed tax assessments were both paid in full ahead of the appeals. The group has previously provided in full against the 2006 assessment

and as to $5.5 million (representing at the time approximately half of the tax demanded) against the 2008 assessment. The aggregate amount provided has been retained but has been reallocated to provide a full provision against those components of the 2006 assessment as respects which REA Kaltim is appealing findings against it by the Tax Court and a provision of approximately 75 per cent against the 2008 assessment. Some $600,000, representing components of the 2006 assessment as respects which REA Kaltim is not appealing findings against it by the Tax Court, has been written off by the group within the 2012 tax charge. No credit has been taken for interest due REA Kaltim on tax repayments already received in relation to the 2006 assessment as such interest will only become payable after receipt by REA Kaltim of final judgement from the Supreme Court confirming the repayments concerned.

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2012 were duly paid. An interim dividend in respect of 2012 of 3½p per ordinary share was paid in January 2013 and the directors recommend the payment of a final dividend in respect of 2012 of 3½p per ordinary share to be paid on 26 July 2013 to ordinary shareholders on the register of members on 28 June 2013. The total dividend payable per ordinary share during 2013 in respect of 2012 will thus amount to 7p. This compares with the total paid during 2012 in respect of 2011 of 6½p. In addition, the company made a capitalisation issue of 2,004,872 new preference shares to ordinary shareholders on 28 September 2012 on the basis of 3 new preference shares for every 50 ordinary shares held (2011: 2,004,872 new preference shares on the basis of 3 new preference share for every 50 ordinary shares held).

The continuing development of the group's agricultural operations requires major capital expenditure and the need to fund this expenditure constrains the rates at which the directors feel that they can prudently declare, or recommend the payment of, ordinary dividends. They believe that capitalisation issues of new preference shares to ordinary shareholders provide a useful mechanism for augmenting returns to ordinary shareholders in periods in which good profits are achieved but demands on cash resources limit the scope for payment of cash dividends. The directors will consider a further such issue during 2013 if they feel that this is merited by the group's performance.

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

Capital structure

The group is financed by a combination of debt and shareholder funds. Total shareholder funds less non-controlling interests at 31 December 2012 amounted to $313.0 million as compared with $300.7 million at 31 December 2011. Non-controlling interests at 31 December 2012 amounted to $2.0 million (2011: $2.2 million).

In September 2012, 3.9 million new preference shares were issued for cash at a price of 105p per share by way of a placing to raise £4 million net of expenses. The proceeds of the placing of new preference shares were retained within the group to fund continuing development of the agricultural operations. This issue was followed in September 2012 by the issue of a further 2,004,872 new preference shares by way of capitalisation of share premium account pursuant to the capitalisation issue to ordinary shareholders referred to under "Dividends" above.

In November 2012, $34.0 million of 7.5 per cent dollar notes 2017 ("2017 dollar notes") were issued as to some $19 million by way of an exchange offer to holders of existing 7.5 per cent dollar notes 2012/14 ("2012/14 dollar notes") and as to the balance by way of a placing.

Following these transactions, group indebtedness and related engagements at 31 December 2012 amounted to $163.5 million, made up of $15.9 million nominal of 2012/14 dollar notes (carrying value: $15.5 million), $34.0 million nominal of 2017 dollar notes (carrying value: $33.2 million), £34.5 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes") (carrying value: $54.3 million), $8.4 million in respect of the hedge of the principal amount of the sterling notes as described below, a term loan from an Indonesian bank of $36.1 million and other short term indebtedness comprising drawings under working capital lines of $16.0 million. Against this indebtedness, at 31 December 2012, the group held cash and cash equivalents of $26.4 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 schemes" in "Agricultural operations" above, guaranteed the bank borrowings of the cooperatives concerned, the outstanding balance of which at 31 December 2012 was equivalent to $10.5 million.

The 2012/14 and 2017 dollar notes are unsecured obligations of the company. The 2012/14 dollar notes are repayable by three instalments commencing 31 December 2012 but repayment obligations are reduced to the extent that notes have been previously redeemed or cancelled. A substantial nominal amount of the original issue of 2012/14 dollar notes has now been purchased and cancelled (including the $19.0 million nominal of the notes acquired under the exchange offer for dollar notes 2017). As a result, and subject to any further purchases and cancellations, slightly under $1 million of the outstanding 2012/14 dollar notes will fall due for repayment at the end of 2013 and the balance at the end of 2014. The 2017 dollar notes are repayable on 30 June 2017.

The sterling notes are issued by REA Finance B.V., a wholly owned subsidiary of the company, are guaranteed by the company and another wholly owned subsidiary of the company, R.E.A. Services Limited ("REAS"), are secured principally on unsecured loans made by REAS to Indonesian plantation operating subsidiaries of the company and, save to the extent previously redeemed or cancelled, 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 original issue of the sterling notes (but in the case of interest only as respects interest payments falling due up to 31 December 2015).

The term loan from an Indonesian bank comprises the equivalent of $36.0 million drawn by SYB from PT Bank DBS Indonesia ("DBS") under an Indonesian rupiah denominated amortising loan facility of Rp 350 billion ($38.6 million) agreed with DBS during 2011. The loan is secured on the assets of SYB and is guaranteed by the company and REA Kaltim. The aggregate outstanding balance of the loan at 31 December 2012 is repayable as follows: 2014: $2.7 million; 2015: $6.3 million; and 2016 and thereafter: $27.0 million.

Group cash flow

Group cash inflows and outflows are analysed in the consolidated cash flow statement. Cash and cash equivalents reduced over 2012 from $30.6 million to

$26.4 million. The reduction of $4.0 million (excluding the negative impact of $0.2 million from the effect of exchange rate movements) represented that component of the net outflow on investing activities that was not covered by the combination of net cash from operating activities and net cash from financing activities.

As noted under “Group results” above, operating profit for 2012 amounted to $37.8 million as compared with $72.7 million in the preceding year. Adjustments for the non-cash components of operating profit and for movements in working capital meant that cash generated by operations for 2012 amounted to $55.1 million, a small decrease from the $59.9 million reported for 2011. The positive overall movement on working capital was principally attributable to an increase in payables, a significant proportion of which represented deferred payments due in respect of the group’s development programme. Tax and interest payments remained at much the same levels as in the preceding year with the result that net cash from operating activities for 2012 amounted to $32.5 million against $33.8 million for 2011.

Investing activities for 2012 involved a net outflow of $72.6 million (2011: $51.0 million). This represented new investment totalling $73.0 million (2011: $53.9 million), offset by inflows from interest and minor items of $0.4 million (2011: $2.9 million). The new investment comprised expenditure of $65.3 million (2011: $37.5 million) on further development of the group's agricultural operations, $2.2 million (2011: $6.7 million) on land rights and titling, $1.6 million on the acquisition of a new subsidiary and $3.9 million (2011: $9.7 million) on the coal and stone operations, with activity in respect of coal operations halted during the year.

The increased level of expenditure on the agricultural operations reflected the payments made during the year for work on construction of the group’s new oil mill and methane capture plants. The expenditure on land rights and titling related to land added through the acquisition of PT Persada Bangun Jaya (see note 12 to the financial statements) and expenditure in connection with the titling of this land and its allocation to smallholder cooperatives.

The net cash inflow on financing activities of $36.2 million (2011: $11.6 million) was made up of net inflows of $6.5 million (2011: $24.3 million) from issue of new preference shares and $33.6 million from the issue of new dollar notes (after deduction of the aggregate net costs incurred in the purchase and sale and the purchase and cancellation of existing dollar notes), net additions to bank debt of $25.4 million (2011: $9.2 million) and outflows in respect of dividend payments and US dollar redemptions of $10.1 million and $19.0 million respectively (2011, outflows in respect of dividend payments and redemptions of sterling and dollar notes of respectively: $7.9 million and $13.9 million).

Liquidity and financing adequacy

As noted above, at 31 December 2012, the group held cash and cash equivalents of $26.4 million. The group’s agricultural operations continue to generate substantial positive cash flows. During 2013, the group has arranged an increase in the working capital line with DBS by the equivalent of $15 million.

Recent years have seen substantial investment by the group in FFB milling capacity. Final payments will fall due in 2013 for the newly completed third oil mill but current crop projections suggest that, apart from expanding the capacity of this third mill from 40 to 80 tonnes of FFB per hour, no further expenditure on milling capacity will be required until work commences on the construction of a fourth mill to be brought into production in 2017 at the earliest.

Significant expenditure was also incurred during 2012 on the provision of land to meet the cooperative smallholder

development aspirations of the group's local communities (as discussed under "Community relations" in "Agricultural operations" above). The directors do not believe that there will be a recurring requirement for material expenditure on the provision of cooperative land (although there may be a requirement for the group to make short term advances to meet cooperative planting expenditure pending the refinancing of such expenditure by the banks funding the cooperative developments).

As a result, group capital expenditure can, for the immediate future, be concentrated on extension planting and on the provision of the additional estate buildings and general plant and equipment that become needed following any expansion of the group's planted hectarage. This will involve the group in continuing capital expenditure for several years to come but the directors will set the extension planting programme at a level that they reasonably expect that the cash resources available to the group can support. This should ensure that cash availability remains adequate to meet the group's commitments.

The directors intend that further cash advances to the coal and stone operations should be limited and concentrated on realising value from the three existing coal concessions and on bringing the stone quarry into economic production.

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 DBS working capital line and 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 coal and stone operations will cause any material swings in the group's utilisation of cash for the funding of its routine activities.

Financing policies

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

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

The directors believe that the group's existing capital structure is consistent with these policy objectives but recognise that the planned further development of the group, and the inevitable shortening of the maturity profile of the group's current indebtedness caused by the passage of time, mean that further action will be required to ensure that the group's capital structure continues to meet the objectives. Specifically, the directors 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 debt of a longer tenor.

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 have available 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.

Net debt at 31 December 2012 was 43.5 per cent of total shareholder funds against a level of 32 per cent at 31 December 2011. The directors intend at least to maintain the overall amount of the group's prior ranking capital (other than short term borrowings under working capital lines) but would expect that, with growth in the net assets attributable to ordinary shareholders, prior ranking capital will, over time, fall as a percentage of equity (used in this context to refer to funds attributable to ordinary shareholders). If debt continues over time to be replaced by preference capital, net debt as a percentage of shareholder funds may be expected to fall to an even greater extent.

The sterling notes and the two series of dollar notes carry interest at fixed rates of, respectively, 9.5 and 7.5 per cent per annum. 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 2012 would have resulted in an annual cost to the group of approximately $522,000 (2011: $290,000).

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 2011 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 the wisdom of this policy and, for the moment at least, the group has decided not to hedge its rupiah borrowings. The group has never covered, and does not intend in future to cover, the currency exposure in respect of the component of the investment in its operations that is financed with sterling denominated shareholder capital.

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

Where risks are reasonably capable of mitigation, the group seeks to mitigate them. Beyond that, the directors endeavour to manage the group's finances on a basis that leaves the group with some capacity to withstand adverse

impacts from identified areas of risk but such management cannot provide insurance against every possible eventuality.

Agricultural operations

Certain of the risks identified below in relation to the agricultural operations are described as risks affecting crop. Any loss of crop or reduction in the quality of harvest will reduce revenues and thus negatively impact cash flow and profitability.

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. In that event, harvesting may have to be suspended and crop may be lost.

Cultivation risks

As in any agricultural business, there is a risk that the group's estate operations may be affected by pests and diseases with a consequential negative impact on crop. Agricultural best practice can to some extent mitigate this risk but it 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. Processing of over-ripe FFB usually results in the production of CPO that has an above average free fatty acid content and is saleable only at a discount to normal market prices. Any hiatus in FFB collection or processing may therefore lead to a loss of crop and/or a reduction in the quality and value of the resultant CPO. The group endeavours to maintain resilience in its palm oil mills with each of the mills operating separately and some ability within each mill to switch from steam based to biogas or diesel based electricity generation 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 (such as occurred in 2011 when a bridge over the Mahakam river at Tenggarong collapsed), 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. However, no assurance can be given that such insurance is in fact adequate, will continue to be available or that it will be available at economically reasonable premia. 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 reasonably feasible by management practices but an occurrence of an adverse uninsured event could result in the group sustaining material losses with a consequential negative impact on cash flows and profitability.

Produce prices

The profitability and cash flow of the agricultural operations depend upon world prices of CPO and CPKO and upon the group's ability to sell these 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 "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 result in uneconomic profit margins.

Above average CPO and CPKO prices during 2007 and the early months of 2008 and again more recently from 2010 to 2012 did not lead 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.

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 or capital raised from further issues of preference

shares and the planned issue of shares in REA Kaltim to local Indonesian investors. 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 continued growth of the group's agricultural operations 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 arising from which are dealt with in 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.

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 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 development of oil palm and adopts the measures described under “Responsible agricultural practice” 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 has obtained RSPO certification for most of its current operations.

Community relations

The agricultural operations of the group can be seriously disrupted by any material breakdown in relations between the group and the host population in the area 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 to encourage local farmers and tradesmen to act as suppliers to the group, its employees and their dependents and (as described under "Smallholder schemes" in "Agricultural operations" above) 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 establishment of the group's first operations. However, some areas of land were previously used by local villagers for the cultivation of crops. Accordingly, when acquiring such areas, the group negotiates with, and pays compensation to, the affected parties and, as respects developments initiated since 2007 (in compliance with Indonesian legislation enacted in that year) procures land for the establishment of cooperative smallholder schemes for such 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.

As explained under "Community relations" in "Agricultural operations" above, prior to 2012 such difficulties and risk periodically caused disruptions but the group had been successful in managing such periodic disruptions so as to limit their negative impact. This situation changed during 2012 and the disruptions sustained during 2012 and January 2013 had a material negative impact on the group. Negotiations concluded in January and early February 2013 should have resolved the material known issues but only the passage of time will confirm this. Should there be a recurrence of disruptions at the level and of the intensity sustained during 2012, the group could again suffer material negative impacts.

Coal and stone operations

Following the directors' decision to suspend the group's coal trading activities, to limit, for the time being, further capital committed to the coal mining operations and to maximise returns from the concessions in which the group has already invested, the directors believe that the most material risk attaching to the group's coal and stone operations is the risk that those operations prove not to be fully viable and that a proportion of the capital invested in the operations is lost. To the extent that the operations continue and the concessions are brought, or brought back, into production, the more material risks specific to such operations that the directors currently foresee are as described below.

Operational risks

Delivery volumes from the group's concessions will be dependent upon efficiency of production and this can be disrupted by external factors outside the group's control such as the heavy rains that are common in East Kalimantan. Heavy seas can cause delays to the barging of coal and stone to point of sale. Failure to achieve budgeted delivery volumes increases unit costs and may result in operations becoming unprofitable. Whilst weather related impacts cannot be avoided, the group will seek to mitigate such risks by using experienced contractors, supervising them closely and taking care to ensure that they have equipment of capacity appropriate for the planned delivery volumes.

Traded coal delivery volumes are dependent upon supplier and customer performance of contract obligations. The group endeavours to ensure such performance by exercising care in the selection of

suppliers and customers and direct supervision of deliveries but such efforts may not always be sufficient to avoid material contractual disputes such as has occurred in relation to one shipment made in 2012.

Mining plans are based on geological assessments and the group seeks to ensure the accuracy of those assessments by 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 any future coal production is likely to depend upon world prices of coal and 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 demand.

Environmental, social and governance practices

The areas that the group proposes to mine or quarry are not large and the group is committed to international standards of best environmental and social practice and, in particular, to proper management of waste water and reinstatement of mined areas on completion of mining operations. Nevertheless, the group could sustain reputational damage as a result of environmental criticisms of the mining industry in Indonesia as a whole.

General

Currency

CPO and CPKO are essentially dollar based commodities. As a result, the group's revenues and the underlying value of the group's operations are principally US dollar denominated. Moreover, substantial proportions of the group's borrowings and costs are US dollar denominated or hedged against or linked to the US dollar.

Accordingly, the principal currency risk faced by the group is that those components of group costs and funding that arise in, or are denominated in, in Indonesian rupiah and sterling and, as respects group funding, are not hedged against the US dollar, may, if such currencies strengthen against the US dollar, negatively impact the group's financial position in US dollar terms.

As respects costs and share capital, the directors consider that this risk is inherent in the group's business and structure and the group does not therefore normally hedge against such risk. As respects borrowings, hedging may itself give rise to risks 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 hedging derivatives may not be deducted from chargeable profits for Indonesian tax purposes. The directors believe that, pending clarification of this issue, it is better for the group to accept some currency risks in respect of borrowings than to constrain the group either to borrow only in US dollars (which may limit the group's ability to borrow or require it to borrow on terms that are in the directors' opinion sub-optimal as respects tenor, covenants or cost) or to hedge all non US dollar borrowings against the US dollar.

Counterparty risk

Export sales of CPO and CPKO are made either against letters of credit or on the basis of cash against documents. However, domestic sales of CPO and CPKO may require the group to provide some credit to buyers. The position as respects future sales of coal will be similar. Purchase contracts for coal concluded prior to suspension of the coal trading activities have required the group to part pay ahead of delivery. The group seeks to limit the counterparty risk that credit to buyers 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. The directors are not currently aware of any specific changes that would adversely affect the group to a material extent.

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 and interests held by the group are subject to the satisfaction of various continuing conditions, including conditions requiring utilisation of the rights and, 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 as respects which it does not have all necessary permits.

The UK 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. Such failure may be defended if the organisation has "adequate procedures" in place to combat bribery and the group has established appropriate procedures. The group has traditionally had strong controls in this area because the group operates predominantly in Indonesia, which has been classified as relatively high risk by the International Transparency Corruption Perceptions Index.

Country exposure

All of the group's operations are located in Indonesia. 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. In the recent past, Indonesia has been stable and the Indonesian economy has continued to grow.

Freedom to operate in a stable and secure environment is critical to the group and the existence of security risks in Indonesia should never be ignored. However, the group has always sought to mitigate those risks and has never, since the inception of its East Kalimantan operations in 1989, been adversely affected by regional security problems.

Although there can be no certainty as to such matters, the directors are not aware of any circumstances that would lead them to believe that, under current political conditions, any government authority would impose exchange controls or otherwise seek to restrict the group's freedom to manage its operations. The Indonesian government has recently introduced a "use it or lose it" policy in respect of registered titles to undeveloped land. This could result in registered titles to the group's undeveloped land areas being revoked although the directors do not believe that this will happen if development of such areas proceeds as planned.

Miscellaneous relationships

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

Relationships with shareholders in Indonesian group companies are also important to the group. 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. Should such efforts fail and a breakdown in relations result, the group would be obliged to fall back on enforcing, in the Indonesian courts, the agreements governing its arrangements with its local partners with the uncertainties that any juridical process involves. Failure to enforce the agreements relating to the mining concessions in which the group holds interests could have a material negative impact on the value of the coal and stone operations because the concessions are at the moment legally owned by the group's local partners and, if the arrangements with those partners were successfully to be repudiated (an eventuality that the directors consider highly unlikely), the group could lose its entire interest in the concessions.

Eurozone

The directors are conscious of the possibly heightened financial risks currently prevailing in relation to the Eurozone and to banks. The group has no direct exposures to the Eurozone but would clearly be affected by any consequential impact on demand for CPO and CPKO that could follow a financial collapse in the Eurozone or other major economic area. The group is careful in its commitments and is ready to scale these back rapidly should the need arise. With regard to banks, the board endeavours to ensure that the group's liquid funds are deposited in a manner likely to minimise the risk of loss. A significant proportion of the group's deposits are placed with banks that are majority owned by sovereign governments.

By order of the board
R.E.A. SERVICES LIMITED
Secretary
25 April 2013

Directors

Richard Robinow
Chairman (67)

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

John Oakley
Managing director (64)

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.

Mark Parry
Executive director (52)

Mr Parry was appointed an executive director on 1 January 2013. Mr Parry joined the group in May 2011, as the group's regional director based in Singapore, and was appointed president director of REA Kaltim in July 2012. He worked for 10 years as a surveyor and engineer in the mining and oil and gas industries and, following completion of an MBA at the London Business School, spent 15 years with an international bank, ultimately as managing director, project finance. He established and ran a private consultancy business for two years prior to joining the group.

David Blackett
Senior independent non-executive director (62)

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.

Irene Chia
Independent non-executive director (72)

Ms Chia was appointed a non-executive director on 1 January 2013. Ms Chia has extensive corporate, investment and entrepreneurial experience in Asia, the USA and the UK. A graduate in economics and formerly a director of one of the Jardine Matheson Group companies, Ms Chia now lives in Singapore and is currently self-employed with Far Eastern interests in consulting, property and financial investment as well as in the charitable sector.

David Killick, FCIS
Independent non-executive director (75)

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.

Directors' report

The directors present their annual report on the affairs of the group, together with the financial statements and auditor's reports, for the year ended 31 December 2012.

Principal activities and business review

The group is principally engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production of crude palm oil ("CPO") and crude palm kernel oil ("CPKO"). In addition, the group holds rights in respect of three coal mining concessions and a stone deposit located in East Kalimantan.

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 22 to the consolidated financial statements.

The group does not undertake significant research and development activities.

Details of significant events since 31 December 2012 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 2012 were duly paid. A first interim dividend in respect of 2012 of 3½p per share was paid on the ordinary shares on 25 January 2013 and the board recommends that a final dividend in respect of the year of 3½p per share be paid on 26 July 2013 to ordinary shareholders on the register of members on 28 June 2013. Resolution 3 in the company's notice of 2013 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 particular, the review highlights the risks associated with village disruptions. In addition, note 22 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, the vast majority of that indebtedness is medium term and the group is reliant on short term borrowing facilities to only a limited extent. The directors fully expect such short term facilities to be renewed. Moreover, the group's operations are generating significant positive cash flows and, whilst it is planned to utilise those cash flows to fund capital expenditure, a large proportion of such capital expenditure is discretionary and could be cancelled should the need arise. As a consequence, the directors believe that the group is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence

for the foreseeable future. Accordingly, they continue to adopt the going concern basis 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 2012, save for Mr Parry and Ms Chia who were appointed respectively as an executive director and a non-executive director with effect from 1 January 2013. Four long-serving non-executive directors, Messrs Green-Armytage, Keatley, Letts and Lim, who served throughout 2012, retired on 31 December 2012. Mr Parry and Ms Chia hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Mr Killick retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election, such retirement being in compliance with the company's articles of association providing for the rotation of directors. Mr Robinow retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election, such retirement being in compliance with the provisions of the UK Corporate Governance Code requiring the annual re-election of non-executive directors who have served as such for more than nine years. 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 directors consider that, following the changes to the board at the end of 2012, the composition of the board is appropriate and effective for the current strategic direction of the company. 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 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 2012, 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	-
I Chia	-	-
J M Green-Armytage *	13,288	90,704
J R M Keatley *	92,519	680,878
D H R Killick	-	30,000
L E C Letts *	21,480	108,008
C L Lim *	-	-
J C Oakley	-	442,493
M A Parry	41,457	5,088

* retired 31 December 2012

There have been no changes in the interests of the directors between 31 December 2012 and the date of this report.

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 2012 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	6,043,129	18.09
Alcatel Bell Pensioenfonds VZW	4,167,049	12.47
Artemis UK Smaller Companies	1,919,400	5.74

In addition, the company had been notified that the above interest of Prudential plc group of companies includes 6,021,116 ordinary shares (18.02 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 2012 are set out in note 31 to the company's financial statements. At 31 December 2012, the preference share capital and the ordinary share capital represented, respectively, 85.7 and 14.3 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 31 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 ("2012/14 dollar notes") and the 7.5 per cent dollar notes 2017 ("2017 dollar notes") of the company (together, the "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 case of the dollar notes, of $1 and, in the case of the sterling notes, of £1,000. There is no maximum limit on the size of any holding in either case.

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 2012 were as follows:

	Preference shares '000	2012/14 Dollar notes $'000	2017 Dollar notes $'000	Sterling notes £'000
Bank of New York (Nominees) Limited	–	–	–	9,840
Euroclear Nominees Limited EOC01 acct	–	4,477	–	–
HSBC Global Custody Nominee (UK) Limited 641898 Account	–	–	–	4,667
KBC Securities NV Client Acct	–		11,169	–
NCB Trust Limited Bearnet Acct	-	12,145	–	–
Rulegale Nominees Limited JAMSCLT Account	6,873	–	–	–
Securities Services Nominees Limited 2300001 Account	–	–	–	3,495
State Street Nominees Limited OM04 Account	–	–	–	5,500

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 24 and 25 to the consolidated financial statements.

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 but as explained under "Strategic direction" in "Overview" in the "Review of the group" section of this report, the directors intend to seek shareholder authority for the company to buy back into treasury limited numbers of ordinary shares with the intention that, whenever a holding of a reasonable size has been accumulated, such holding will be placed with one or more new investors. A circular detailing the proposals and seeking the requisite authority should be despatched to shareholders in the near future.

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 £60,250,000 to £75,250,000 by the creation of 15,000,000 9 per cent cumulative preference shares of £1 each ranking pari passu in all respects with the existing preference shares and representing 30 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 capitalisation issues of new preference shares to ordinary shareholders provide a useful mechanism for augmenting returns to ordinary shareholders in periods in which good profits are achieved but demands on cash resources limit the scope for payment of cash dividends. The directors also believe that, when circumstances permit, it is sensible to replace group debt funding with preference capital. The proposed creation of additional preference shares is designed to give the company sufficient authorised but unissued preference capital to permit the directors to issue 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).

If the intended listing of PT REA Kaltim Plantations on the Indonesia Stock Exchange (as referred to in the "Review of the group" section of this annual report) proceeds and it is decided that the listing should be accompanied by a scrip issue of preference shares, the directors would expect to seek specific shareholder authorisation for that issue.

Authorities to allot share capital

At the annual general meeting held on 10 June 2012, 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 £15,000,000 (being the additional preference share capital proposed to be created at the forthcoming annual general meeting and representing 30 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 2014 or on 30 June 2014 (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.

The foregoing powers (if granted) will expire on the date of the annual general meeting to be held in 2014 or on 30 June 2014 (whichever is the earlier).

General meeting notice period

At the forthcoming annual general meeting, a resolution (resolution 14 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 2014 or on 30 June 2014 (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 disapply pre-emption rights" and the proposal to permit general meetings (other than annual general meetings) to be held on just 14 clear days' notice as detailed under "General meeting notice 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 resolutions10 to 14 as set out in the notice of the forthcoming annual general meeting.

Auditor

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 auditor is 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 auditor is aware of that information.

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

Deloitte LLP have expressed their willingness to continue in office as auditor and 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 auditor.

By order of the board
R.E.A. SERVICES LIMITED
Secretary
25 April 2013

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 UK Corporate Governance Code issued in 2010 by the Financial Reporting Council (the "Code") provide a widely endorsed model for achieving this. The directors are also mindful of the revised Code issued in 2012 for reporting periods beginning on or after 1 October 2012. The Code is 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 2012, the company was in compliance with the provisions set out in the Code.

Board of directors

Four long serving independent non-executive directors, Messrs Green-Armytage, Keatley, Letts and Lim, retired from the board of the company at the end of 2012, and, on 1 January 2013, Ms Irene Chia was appointed as a new non-executive director and Mr Parry as a new executive director.

As a result, the board currently comprises two executive directors and four 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 strategic planning and decision making for the long-term success of the company in the context of the company's obligations and responsibilities both as the owner of a business in Indonesia and as a UK listed entity. In particular, the board believes that the skills and experience of its different members complement each other and that 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 leadership and management of the board in discharging its duties; the managing director has responsibility for the executive management of the group. Neither has unfettered powers of decision. All of the non-executive directors, with the exception of the chairman, are considered by the board to be independent directors.

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

It is now the policy of the company that the board should in future be refreshed on the basis that length of service by independent non-executive directors will be limited to nine years.

Directors' conflicts of interest

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

Board responsibilities

The board is responsible for the proper management of the company. 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 the group's objectives and for reviewing performance, financial controls, risk and compliance with the group's policy and procedures with respect to bribery.

The company carries appropriate insurance against legal action against its directors. The current policy was in place throughout 2012 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, efficacy and accountability to stakeholders are reviewed by the board as a whole and the performance of the chairman is appraised by the independent non-executive directors led by the senior independent director. The appraisal process includes assessments against a detailed set of criteria covering a variety of matters from the commitment and contribution of the board in developing strategy and enforcing disciplined risk management, pursuing areas of concern, if any, and setting appropriate commercial and social responsibility objectives to the adequacy and timeliness of information made available to the board.

At the performance evaluation conducted in 2012, the board as then constituted concluded that it was for the time being continuing to perform effectively but that, having decided to restructure the group's Indonesian plantation subsidiaries into a single sub-group headed by the principal operating subsidiary, PT REA Kaltim Plantations ("REA Kaltim"), and to list REA Kaltim on the Indonesia stock exchange, it would be appropriate, in due course, to make certain changes to the board. Those changes were implemented at the end of 2012 as described under "Board of directors" above.

Professional development and advice

In view of their previous relevant experience and, in some cases, length of service on the board, all directors are familiar with the financial and operational characteristics of the group's activities. Directors are required to ensure that they maintain that familiarity and keep themselves fully cognisant of the affairs of the group and matters affecting its operations, finances and obligations (including environmental, social and governance responsibilities). Whilst there are no formal training programmes, the board regularly reviews its own

competences, receives periodic briefings on legal, regulatory, operational and political developments affecting the group and may arrange training on specific matters where it is thought to be required. Directors are able to seek the advice of the company secretary and, individually or collectively, may take independent professional advice at the expense of the company if necessary.

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

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 directors, unless travelling, are normally present at full board meetings. Where appropriate, telephone discussions take place between the chairman and the other non-executive directors outside the formal meetings. Committee meetings are held as and when required. All proceedings of committee meetings are reported to the full board.

The attendance of individual directors, who served during 2012, at the regular and "ad hoc" board meetings held in 2012 was as follows:

	Regular meeting	Ad hoc meeting
R M Robinow	4	1
J C Oakley	4	1
D J Blackett	4	1
J M Green-Armytage *	4	1
J R M Keatley *	4	1
D H R Killick	4	1
L E C Letts *	4	0
C L Lim *	3	0

* retired 31 December 2012

In addition, during 2012, there were three meetings of the audit committee, one meeting of the remuneration committee and two meetings of the nomination committee. All committee meetings were attended by all of the committee members appointed at the time of each meeting.

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

Nomination committee

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

During the year, in response to an invitation from the board to make a recommendation for the appointment of a non-executive director, as four long-serving directors were retiring at the end of 2012, the committee recommended the appointment of Ms Irene Chia. In establishing the criteria for this appointment, the committee concurred with the view of the board that,

given the specific nature and location of the group's operations and taking into consideration the intention to reduce the size of the board following the proposed listing in Jakarta, the prospective director should have skills and experience relevant to the plantation industry and Indonesian commerce. The committee also agreed that, given the specialist nature of the knowledge required, it was not considered appropriate to advertise the position widely or to employ consultants. Instead a short list of prospective was assembled and put forward to the committee, taking into consideration the specific qualifications required as well as recent guidelines for such appointments. Ms Chia, who has relevant experience and a good understanding and knowledge of the business environment in Indonesia, was selected from this short list.

Audit committee

The audit committee 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 auditor, their remuneration and terms of engagement; and
- reviewing and monitoring the independence of the external auditor and the effectiveness of the audit process.

The audit committee also monitors the engagement of the auditor to perform non-audit work. During 2012, the only non-audit work undertaken by the auditor was, as in the previous year, routine compliance reporting in connection with covenant obligations applicable to certain group loans (as respects which the governing instruments require that such compliance reporting is carried out by the auditor). The audit committee considered that the nature and scope of, and remuneration payable in respect of, these engagements were such that the independence and objectivity of the auditor was not impaired.

The members of the audit committee discharge their responsibilities by informal discussions between themselves, by meetings with the external auditor, the internal auditors in Indonesia and management and by consideration of reports by management, the Indonesian internal audit function and the external auditor 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 auditor. That recommendation reflected an assessment of the qualifications, expertise, resources and independence of the auditor based upon reports produced by the auditor, the committee's own dealings with the auditor and feedback from management. The committee took into account the likelihood of withdrawal of the auditor from the market and noted that there were no contractual obligations to restrict the choice of external auditor. 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 auditor in connection with the financial statements are detailed in the "Directors' responsibilities" section of this report and in the auditor's report.

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

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

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 as soon as practicable after the meeting.

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

Internal control

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

The board has established a continuous process for identifying, evaluating and managing any significant risks which the group faces (including risks arising from environmental, social and governance matters). The board regularly reviews the process, which was in place throughout 2012 and up to the date of approval of this report and which is in accordance with the current guidance on internal control (the Turnbull Guidance) and is mindful of the proposed update to such guidance.

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.

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

The board, assisted by the audit committee, 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 2012 (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. Subsequently, the board was made aware that, in connection with issues that have arisen between the group and villages in areas neighbouring the group's operations (as detailed under "Community relations" in "Agricultural operations" in the "Review of the group" section of this annual report), on certain occasions unauthorised commitments have been made to villages. Action has been taken to reconfirm that all such commitments must be recorded in writing and signed only with the specific authority of the group's regional director. The November 2012 review, as amended by this subsequent finding and action, 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 who report to the head of the Singapore regional office and 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. Monthly meetings are held between management in London and Indonesia by way of conference call, of which minutes are taken and circulated, to consider operational matters. At least four supervisory visits are made each year to the overseas operations by the managing director and other directors also make periodic visits to these operations. Such visits are reported on and reviewed by the non-exective directors at the regular board meetings. In addition the president director of REA Kaltim visits the operations in Indonesia on a regular basis and has a continuing dialogue with the managing director and with other members of the board.

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 25 April 2013

RICHARD M ROBINOW

Chairman

Directors' remuneration report

Introduction

This report has been prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (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 UK Corporate Governance Code issued in 2010 by the Financial Reporting Council (the "Code"). The directors are aware of the draft revised regulations for directors' remuneration reports published by the Department for Business, Innovation and Skills and will adopt the revised regulations when they have been finalised and are in force.

As required by the Act, a resolution to approve this 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 auditor 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 the discussion of his own remuneration.

Remuneration policy

The committee sets the remuneration and benefits of the chairman and the executive directors. The committee is also responsible for the long term incentive arrangements for key senior executives in Indonesia.

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 sustainability and matters of governance as well as to overall corporate performance) against the prevailing business environment, 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 in similar business organisations. Account is taken of the remuneration both of senior employees of the group who are not directors and of staff across the group's operations generally. Due allowance is made 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 while 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 2012 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 and certain benefits-in-kind, principally a company car. In addition, an executive director should be paid performance related bonuses. These are to be awarded annually in arrears on a discretionary basis taking into account the progress of the group during the relevant year and the contribution to progress that a director is assessed by the committee to have made against specific commercial and other objectives for that year. Bonuses should not normally exceed 50 per cent of salary and are paid in cash.

Prior to January 2013, the company had only one executive director and, given that the business of the group is inherently long term and not susceptible to influence by short term decision making, it was not thought necessary to establish a longer term incentive pay arrangement for just one long serving director. Following the appointment of a second director, Mr Parry, to the board with effect from 1 January 2013, the directors are now giving consideration to some form of longer term incentive scheme which will be performance related and will be proposed to shareholders for approval in due course. The criteria against which annual bonuses are awarded in any event include aspects of progress that promote the longer term success of the group.

In the past, executive directors were eligible to join the REA Pension Scheme. That scheme is now closed to new members and, as explained in more detail under "Director's pension arrangements – Mr J C Oakley" below, Mr Oakley is no longer an active member of the scheme. Mr Parry is based in Singapore and any future executive directors of the company would be likely to be based in Singapore or Indonesia. Accordingly, it is no longer the policy of the company to offer pensionable remuneration to directors.

Matters particularly taken into account in setting Mr Oakley's basic salary for 2012 were the general level of salary increases in the group for both employees and managers in the UK and Indonesia (where a substantial part of Mr Oakley's responsibilities are discharged), the rate of inflation and confirmation that Mr Oakley's salary was reasonable by comparison with the salaries of managing directors of listed companies of a size or business similar to that of the group. Specifically with respect to Mr Oakley's salary for 2012, the committee took account of the growth of the group's oil palm operations and the commensurate increase in Mr Oakley's workload, the profitability of the group and the continuing creation of value for shareholders.

Specific achievements reflected in the bonus paid to Mr Oakley in 2012 (being in respect of 2011 performance) included progress in achieving the group's planned expansion of its plantation business, the strengthening of the expatriate management team (including the recruitment of a new regional director based in Singapore), initiatives with respect to sustainability and responsible agricultural practice, and progress in developing robust systems of group reporting and in managing governance and compliance matters. Account was taken of the disappointing performance of the new coal sub-group but it was noted that overall the group results for 2011 were good.

The committee has agreed that Mr Oakley should be paid a bonus of £105,000 during 2013 in respect of 2012. In setting this bonus, the committee noted the completion and successful commissioning of the group's two new methane plants, leading to a substantial reduction in diesel consumption across the operations with consequential savings in energy costs going forward, completion and commissioning of the third oil mill, further certification under RSPO with respect to the supply chain and the successful development of the executive management team in Singapore and Indonesia. The committee also noted the exceptional stress caused by the village disruptions which contributed to the shortfall in budgeted production for 2012 as described in the "Review of the group". Against this, the committee took account of the coal operations which had fallen short of expectations.

Continuing performance objectives for the executive directors take into consideration the company's long term agricultural objectives, including increased crop levels, plantings and cost efficiencies, further initiatives with respect to sustainability, including reporting of the group's carbon footprint and the development of strategies for managing and reducing greenhouse gas emissions in future.

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. Following the approval of shareholders granted at the 2011 annual general meeting to increase the service fees of each director, non-executive remuneration was increased from £20,000 per annum to £22,000 per annum with effect from 1 January 2012.

Service contracts

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

Mr Oakley has two service agreements whereby his working time and remuneration are shared between two employing companies to reflect the division of his responsibilities between different parts of the group. Each contract may be terminated by either party by giving notice to the other party of not less than six months. At 31 December 2012, 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.

Mr Parry's service contract may be terminated by either party by giving notice to the other party of not less than three months. At 31 December 2012, the unexpired term under Mr Parry's contract remained as three months. There are no provisions for compensation for early termination save that Mr Parry 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 2008 to December 2013. 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 ended on 31 December 2012 (the "performance periods"). As noted under "Remuneration of executive directors" above, the directors are giving consideration to a further long term incentive scheme.

Under the existing plans, participants were awarded potential entitlements over notional ordinary shares of the company. These potential entitlements then vested to an extent that was 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 414.69p in the case of the first plan and 224.82p 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. For both plans, this period has now ended. Under the first plan, 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 there were two key performance targets with each target governing the vesting of one half of each potential entitlement. The two targets related to total shareholder return and cost per tonne of crude palm oil produced. Under each plan there were threshold, target and maximum levels of performance determining the extent of vesting in relation to each performance target. Targets were subject to adjustment at the discretion of the remuneration committee where, in the committee's opinion, warranted by actual performance.

The exercise of vested entitlements is dependent upon continued employment with the group. If a participant with a vested entitlement leaves, 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, vested entitlements will be exercisable for a period of one month following the date of the change of control or other relevant event (as determined by the remuneration committee).

At 31 December 2012, entitlements to a total of 36,002 notional ordinary shares had vested under the first plan. Because the performance period for the second plan ended only on 31 December 2012, the vested entitlements under that plan have still to be determined but they will not exceed the potential maximum total entitlement of 41,188 ordinary shares. On the basis of

the market price of the ordinary shares on 31 December 2012 of 432.5p per share, the total gain to participants in respect of their vested entitlements under the first plan would have been £6,412 and under the second plan would have been £85,540 were it to be determined that the potential entitlements had vested in full.

Audited information

Directors' remuneration

The following table shows details of the remuneration of individual directors holding office during the year ended 31 December 2012 (with comparative totals for 2011):

	Salary and fees £'000	Other* £'000	2012 Total £'000	2011 Total £'000
R M Robinow (chairman)	197	5	202	193
J C Oakley	315	184	499	414
D J Blackett	24	-	24	22
J M Green-Armytage **	22	-	22	20
J R M Keatley **	22	-	22	20
D H R Killick	24	-	24	22
L E C Letts **	22	-	22	20
C L Lim **	22	-	22	20
	648	189	837	731

* comprises benefits plus, in the case of Mr Oakley a bonus of £112,500, and payments in lieu of pension contributions of £59,000 (see "Director's pension arrangements – Mr J C Oakley" below).

** retired 31 December 2012

Fees paid to Mr Blackett and Mr Killick in respect of 2012 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 64 at 31 December 2012) 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 given 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 2012 was £59,000 (2011: £56,000).

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:	£
In payment at beginning of year	67,892
Increase during the year	2,611
In payment at end of year	70,503

Transfer value:	£
At beginning of year	1,505,496
Contributions made by the director during the year	–
Increase during the year	21,293
At end of year	1,526,789

The increase in the year in annual pension in excess of inflation was £746.

Approved by the board on 25 April 2013

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 ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

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

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
25 April 2013

Auditor's report (group)

Independent auditor's 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 2012 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 44. 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 auditor

As explained more fully in the Directors' Responsibilities Statement, 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012 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.

Auditor's 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 2012 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 Auditor
London, England
25 April 2013

Consolidated income statement

for the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Revenue	2	124,600	147,758
Net (loss) / gain arising from changes in fair value of agricultural produce inventory	4	(5,677)	4,011
Cost of sales		(63,566)	(68,056)
Gross profit		55,357	83,713
Net gain arising from changes in fair value of biological assets	13	5,979	7,375
Other operating income	2	12	339
Distribution costs		(1,601)	(1,719)
Administrative expenses	5	(18,899)	(16,959)
Impairment loss	16	(3,000)	–
Operating profit		37,848	72,749
Investment revenues	2, 7	411	2,889
Finance costs	8	(7,701)	(11,465)
Profit before tax	5	30,558	64,173
Tax	9	(12,855)	(18,559)
Profit for the year		17,703	45,614
Attributable to:			
Ordinary shareholders		11,342	40,453
Preference shareholders	10	6,713	5,006
Non-controlling interests	35	(352)	155
		17,703	45,614
Earnings per 25p ordinary share	11		
Basic		33.9 cents	121.0 cents
Diluted		33.9 cents	121.0 cents

All operations for both years are continuing

Consolidated balance sheet

as at 31 December 2012

	Note	2012 $'000	2011 $'000
Non-current assets			
Goodwill	12	12,578	12,578
Biological assets	13	265,663	244,433
Property, plant and equipment	14	145,610	102,185
Prepaid operating lease rentals	15	26,630	23,497
Indonesian coal and stone interests	16	29,480	28,580
Investments	19	–	1,430
Deferred tax assets	28	6,063	4,689
Non-current receivables		2,470	1,835
Total non-current assets		488,494	419,227
Current assets			
Inventories	18	20,712	25,559
Investments	19	1,256	963
Trade and other receivables	20	32,155	34,162
Cash and cash equivalents	21	26,393	30,601
Total current assets		80,516	91,285
Total assets		569,010	510,512
Current liabilities			
Trade and other payables	30	(30,051)	(19,895)
Current tax liabilities		(4,348)	(8,349)
Bank loans	23	(1,000)	(2,000)
US dollar notes	25	(691)	(4,527)
Other loans and payables	29	(1,105)	(1,353)
Total current liabilities		(37,195)	(36,124)
Non-current liabilities			
Bank loans	23	(51,194)	(27,018)
Sterling notes	24	(54,279)	(51,332)
US dollar notes	25	(48,007)	(29,414)
Preference shares issued by a subsidiary	26	(54)	(1,500)
Derivative financial instruments	27	(11,622)	(16,216)
Deferred tax liabilities	28	(44,372)	(40,283)
Other loans and payables	29	(7,257)	(5,680)
Total non-current liabilities		(216,785)	(171,443)
Total liabilities		(253,980)	(207,567)
Net assets		315,030	302,945
Equity			
Share capital	31	97,565	87,939
Share premium account	32	18,680	21,771
Translation reserve	33	(4,854)	(11,762)
Retained earnings	34	201,630	202,763
		313,021	300,711
Non-controlling interests	35	2,009	2,234
Total equity		315,030	302,945

Approved by the board on 25 April 2013 and signed on behalf of the board.

RICHARD M ROBINOW

Chairman

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Profit for the year		17,703	45,614
Other comprehensive income			
Changes in fair value of cash flow hedges:			
Gains / (losses) arising during the year		–	1,700
Reclassification adjustments for losses included in the consolidated income statement		–	894
		–	2,594
Changes in fair value of hedged instrument		–	(303)
Reclassification adjustments for gains included in the consolidated income statement		–	(611)
Exchange differences on translation of foreign operations		(2,064)	4,102
Tax relating to components of other comprehensive income	9	–	(329)
		(2,064)	5,453
Total comprehensive income for the year		15,639	51,067
Attributable to:			
Ordinary shareholders		9,151	45,867
Preference shareholders		6,713	5,006
Non-controlling interests		(225)	194
		15,639	51,067

Consolidated statement of changes in equity

for the year ended 31 December 2012

	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 2011	60,548	24,901	(18,197)	166,228	233,480	2,040	235,520
Prior year reclassification	–	–	1,021	(1,021)	–	–	–
Total comprehensive (loss) / income	–	–	5,414	45,459	50,873	194	51,067
Issue of new preference shares (cash)	24,248	13	–	–	24,261	–	24,261
Issue of new preference shares (scrip)	3,143	(3,143)	–	–	–	–	–
Dividends to preference shareholders	–	–	–	(5,006)	(5,006)	–	(5,006)
Dividends to ordinary shareholders	–	–	–	(2,897)	(2,897)	–	(2,897)
At 31 December 2011	87,939	21,771	(11,762)	202,763	300,711	2,234	302,945
Correction of previous accounting error (note 33)	–	–	9,099	(9,099)	–	–	–
Total comprehensive income	–	–	(2,191)	18,055	15,864	(225)	15,639
Issue of new preference shares (cash)	6,389	146	–	–	6,535	–	6,535
Issue of new preference shares (scrip)	3,237	(3,237)	–	–	–	–	–
Dividends to preference shareholders	–	–	–	(6,713)	(6,713)	–	(6,713)
Dividends to ordinary shareholders	–	–	–	(3,376)	(3,376)	–	(3,376)
At 31 December 2012	97,565	18,680	(4,854)	201,630	313,021	2,009	315,030

Consolidated cash flow statement

for the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Net cash from operating activities	36	32,470	33,776
Investing activities			
Interest received		411	2,889
Proceeds from disposal of property, plant and equipment		4	11
Purchases of property, plant and equipment		(50,264)	(19,487)
Expenditure on biological assets		(15,033)	(18,001)
Expenditure on prepaid operating lease rentals		(2,241)	(6,729)
Acquisition of subsidiary company		(1,616)	–
Investment in Indonesian coal interests		(3,900)	(9,717)
Net cash used in investing activities		(72,639)	(51,034)
Financing activities			
Preference dividends paid		(6,713)	(5,006)
Ordinary dividends paid		(3,376)	(2,897)
Repayment of borrowings		(10,603)	(13,469)
Proceeds of issue of preference shares		6,535	24,260
Issue of US dollar notes, net of expenses		33,593	–
Redemption of US dollar notes		(19,000)	(10,000)
Redemption of sterling notes		–	(3,949)
Net sale and repurchase of US dollar notes		(259)	–
New bank borrowings drawn		36,027	22,649
Net cash from financing activities		36,204	11,588
Cash and cash equivalents			
Net decrease in cash and cash equivalents	37	(3,965)	(5,670)
Cash and cash equivalents at beginning of year		30,601	36,710
Effect of exchange rate changes		(243)	(439)
Cash and cash equivalents at end of year	21	26,393	30,601

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 82 to 117 are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU as at the date of approval of the financial statements and therefore comply with Article 4 of the EU IAS Regulation. The statements are prepared under the historical cost convention except where otherwise stated in the accounting policies.

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

Details regarding the correction of a previous accounting error in respect of hedge accounting can be found under "Correction of previous accounting error" under "Derivative financial instruments" on page 93, and in notes 33 and 34.

Presentational currency

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

Adoption of new and revised standards

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 7 (amended): "Financial instruments: disclosures"
- IFRS 9: "Financial instruments: classification and measurement"
- IFRS 10: "Consolidated financial statements"
- IFRS 11: "Joint arrangements"
- IFRS 12: "Disclosure on interests in other entities"
- IFRS 13: "Fair value measurement"
- Amendments to IAS 27 and IAS 28 reflecting the changes from the new IFRS 10 and IFRS 11 above
- IAS 19 (amended): "Employee benefits"
- IAS 32 (amended): "Financial instruments: presentation - offsetting financial assets and financial liabilities"
- IFRIC 20: "Stripping costs in the production phase of a surface mine"

The effective date of IFRS 9 was deferred by the International Accounting Standards Board (IASB) and it now has mandatory application for accounting periods beginning on or after 1 January 2015. This standard represented the first phase of the IASB's project to replace IAS 39 Financial instruments: recognition and measurement. It sets out the classification and measurement criteria for financial assets and financial liabilities. It is not considered that the effect of applying the standard in its current form would have a material impact on the group's reported profit or equity. The impact on the group of further changes to IFRS 9 and the impact of the second and third phases of the IASB's project, covering impairment and hedge accounting respectively, will be assessed when the IASB has finalised the proposed requirements. IFRS 9 has not been endorsed by the EU and will only become applicable once that endorsement has occurred.

The adoption of IFRS 10 Consolidated financial statements, which is mandatory for accounting periods beginning on or after 1 January 2013, may alter the composition of those subsidiary companies which are included in the consolidated financial statements of the company.

IFRS 13 Fair value measurement has been issued. This standard aims to provide a single source of fair value measurement and disclosure requirements for use across

IFRS. The implementation of IFRS 13 does not change where fair value is or is not applied under IFRS and will not require a restatement of historical transactions. Mandatory application is from 1 January 2013.

An amendment to IAS 1 Presentation of financial statements has been issued and has mandatory application for accounting periods beginning on or after 1 July 2012. This amendment changes the disclosure of items presented in other comprehensive income grouping them into items which recycle to profit and loss and items which do not. Apart from the change in disclosure, this amendment will have little impact on the group financial statements.

IAS 19 Employee benefits has been revised and has mandatory application from 1 January 2013. The new standard does not substantially change the values of retirement benefit liabilities on the balance sheet, but it has eliminated an option that allowed an entity to defer recognition of changes in the net benefit liability; this will have a non-material impact on the unrecognised actuarial loss in relation to the group's Indonesian retirement benefit obligations. In addition, the revised standard has extended and amended some of the disclosure requirements for multi-employer plans, which the directors are currently evaluating.

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

Basis of consolidation

The consolidated financial statements consolidate the financial statements of the company and its subsidiary companies (as listed in note (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. The share of total comprehensive income is attributed to the owners of the parent and to non-controlling interests even if this results in the non-controlling interests having a deficit balance. Results of subsidiaries acquired or disposed of are included in the consolidated income statement from the effective date of acquisition or to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the group.

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

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

Goodwill

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

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in respect of goods and services provided in the normal course of business, net of VAT and other sales related taxes. Sales of goods are recognised when the significant risks and rewards of ownership of the goods are

transferred to the buyer and include contracted sales in respect of which the contracted goods are available for collection by the buyer in the accounting period. Income from services is accrued on a time basis by reference to the rate of fee agreed for the provision of services.

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

Leasing

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

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

Foreign currencies

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

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

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

Borrowing costs

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

Operating profit

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

Pensions and other post employment benefits

United Kingdom

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

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

Indonesia

In accordance with local labour law, the group's employees in Indonesia are entitled to lump sum payments on retirement. These obligations are unfunded and provision is made annually on the basis of a periodic assessment by independent actuaries. Actuarial gains and losses not recognised at the balance sheet date are amortised to income over the expected average remaining lives of the participating employees. 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

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

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

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

Biological assets are revalued at each accounting date on a discounted cash flow basis by reference to the FFB expected to be harvested over the full remaining productive life of the trees, applying a standard pre-tax profit margin and then deriving the present value of the resultant profit stream. For this purpose, the standard pre-tax profit margin is taken to be the average of the historic pre-tax profit margins for the 20 years ending with the year of the valuation subject to buffering of year to year changes, such that the change in the standard pre-tax margin does not exceed 5 per cent and any change in the standard pre tax margin that runs contrary to the trend in current margins is ignored. The historic pre-tax profit margin for each year represents the transfer value of FFB less standard production costs (including an allowance for overheads and a recovery charge in respect of buildings and plant and machinery). FFB transfer value is derived from the average price of crude palm oil FOB Samarinda (itself based on

the CIF Rotterdam price less transport costs and export duty) over the relevant year, less processing costs. Assets which are not yet mature at the accounting date, and hence are not producing FFB, are valued on a similar basis but with the discounted value of the estimated cost to complete planting and to maintain the assets to maturity being deducted from the discounted FFB value.

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

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

Property, plant and equipment

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

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

Prepaid operating lease rentals

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

Inventories

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

Recognition and 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 '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 potentially irrecoverable amounts.

Cash and cash equivalents

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

Held-to-maturity investments

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

Non-derivative financial liabilities

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

Note issues, bank borrowings and finance leases

Redeemable instruments (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.

Financial liabilities at FVTPL

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

Derivative financial instruments

The group enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk; further details are disclosed in note 22. Derivatives are initially recognised at fair value at the date of the contract and remeasured to their fair value at the balance sheet date. The resulting gain or loss is recognised immediately in profit or loss, through finance costs (note 8) with the foreign exchange element recognised through administrative expenses (note 5), unless the derivative is designated and qualifies as a hedging instrument (either as a cash flow hedge or a fair value hedge), in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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

Cash flow and fair value hedges

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

Correction of previous accounting error

In previous years, the group accounted for certain cross-currency interest rate swaps as cash flow hedges of the group's liability in respect of 9.5 per cent guaranteed sterling notes 2015/17 issued by REA Finance B.V.. After discussion with the Financial Reporting Council's Conduct Committee, the group has concluded that this accounting treatment was incorrect because the swaps represented a hedge of the group's presentational currency and cash flow hedge accounting may not be applied in respect of such a hedge. The consequential corrections needed have been booked in the accompanying financial statements as set out in note 33. Because the overall impact of the accounting error on the 2011 financial statements is not considered material, comparative figures have not been adjusted but the differences in profit before tax, tax, profit for the period and the component of that profit attributable to non-controlling interests that would have been reported for each of the years 2009 to 2011 had the cross-currency interest rate swaps been correctly accounted for are detailed in note 33.

Equity instruments

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

Notes to the consolidated financial statements

1. Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, which are set out in 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.

Derivatives

As described in note 22, the directors use their judgement in selecting appropriate valuation techniques for financial instruments not quoted in an active market. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for the specific features of the instruments.

Key sources of estimation uncertainty

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

Biological assets

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

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 estimating 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

	2012 $'000	2011 $'000
Sales of goods	122,621	147,523
Revenue from services	1,979	235
	124,600	147,758
Other operating income	12	339
Investment revenue	411	2,889
Total revenue	125,023	150,986

In 2012, three customers accounted for respectively 42 per cent, 21 per cent and 12 per cent of the group's sales of agricultural goods (2011: two customers, 51 per cent and 13 per cent). As stated in note 22 "Credit risk", substantially all sales of goods are made on the basis of cash against documents or letters of credit and accordingly the directors do not consider that these sales result in a concentration of credit risk to the group.

The crop of oil palm fresh fruit bunches for 2012 amounted to 597,722 tonnes (2011: 607,335 tonnes). The fair value of the crop of fresh fruit bunches was $78,468,000 (2011: $90,906,000), based on the price formulae determined by the Indonesian government for purchases of fresh fruit bunches from smallholders (see note 13).

3. Segment information

In the table below, the group's sales of goods are analysed by geographical destination and the carrying amount of net assets is analysed by geographical area of asset location.

	2012 $'m	2011 $'m
Sales by geographical destination:		
Indonesia	73.4	53.2
Rest of Asia	51.2	94.3
	124.6	147.5
Carrying amount of net assets by geographical area of asset location:		
UK, Continental Europe and Singapore	51.5	44.6
Indonesia	263.5	258.3
	315.0	302.9

The group has three reportable segments under IFRS 8. These comprise two operating segments, cultivation of oil palms, coal and stone operations, and a head office segment comprising the activities of the parent company and its UK, European and Singaporean subsidiaries. The accounting policies of the reportable segments are the same as the group's accounting policies set out on pages 87 to 93. Segment profit is the operating profit or loss earned by each segment before investment revenues, finance costs and taxation. This is the measure by which the group's chief executive assesses segment performance. The resolution of competing rights over certain plantation areas referred to in note 42 concerns assets in the group's segment 'cultivation of oil palms'.

3. Segment information - continued

Year to 31 December 2012	Plantations	Coal and stone	Head office	Total
	$'000	$'000	$'000	$'000
Revenue	122,134	2,466	–	124,600
Gross profit / (loss)	56,870	(1,513)	–	55,357
Net gain from changes in fair value of biological assets	5,979	–	–	5,979
Other operating income	2	–	10	12
Distribution costs	(1,601)	–	–	(1,601)
Administrative expenses	(10,239)	(2,268)	(6,392)	(18,899)
Impairment loss	–	(3,000)	–	(3,000)
Operating profit / (loss)	51,011	(6,781)	(6,382)	37,848
Investment revenues				411
Finance costs				(7,701)
Profit before taxation				30,558
Taxation				(12,855)
Profit for the year				17,703
Consolidated total assets	523,276	34,137	11,597	569,010
Consolidated total liabilities	141,639	439	111,902	253,980
Depreciation charged to consolidated income statement	6,125	10	79	6,214
Additions to non-current assets	75,258	903	3	76,164

Year to 31 December 2011	Plantations	Coal and stone	Head office	Total
	$'000	$'000	$'000	$'000
Revenue	129,542	18,216	–	147,758
Gross profit	82,218	1,495	–	83,713
Net gain from changes in fair value of biological assets	7,375	–	–	7,375
Other operating income	339	–	–	339
Distribution costs	(1,719)	–	–	(1,719)
Administrative expenses	(10,756)	(1,158)	(5,045)	(16,959)
Operating profit / (loss)	77,457	337	(5,045)	72,749
Investment revenues				2,889
Finance costs				(11,465)
Profit before taxation				64,173
Taxation				(18,559)
Profit for the year				45,614
Consolidated total assets	453,384	36,403	20,725	510,512
Consolidated total liabilities	113,379	2,341	91,847	207,567
Depreciation charged to consolidated income statement	5,385	7	52	5,444
Additions to non-current assets	51,686	9,721	1,630	63,037

4. Agricultural produce inventory movement

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

5. Profit before tax

Salient items charged / (credited) in arrriving at profit before tax	2012 $'000	2011 $'000
Administrative expenses (see below)	18,899	16,959
Movement in inventories (at historic cost)	220	(5,943)
Operating lease rentals	456	405
Depreciation of property, plant and equipment	5,812	5,292
Amortisation of prepaid operating lease rentals	223	152

Administrative expenses

	2012 $'000	2011 $'000
Net foreign exchange (gains) / losses	(845)	519
Increase / (release) of provision for UK pension (see note 38)	1,072	(253)
Loss on disposal of fixed assets	39	408
Net loss on financial liabilities at FVTPL	190	-
Indonesian operations	13,681	11,445
Head office	4,762	4,840
Administrative expenses before capitalisation	18,899	16,959

Amounts payable to the company's auditor

The amount payable to Deloitte LLP for the audit of the company's financial statements was $136,000 (2011: $124,000). Amounts payable to Deloitte LLP for the audit of accounts of subsidiaries of the company pursuant to legislation were $18,000 (2011: $16,000).

Amounts payable to Deloitte LLP for other services were $10,000 (2011: $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 auditor) and for group accountancy services.

Amounts payable to affiliates of Deloitte LLP for the audit of subsidiaries' financial statements were $26,000 (2011: amounts payable to affiliates of Deloitte LLP for the audit of subsidiaries were $24,000).

Earnings before interest, tax, depreciation and amortisation and net biological gain	2012 $'000	2011 $'000
Operating profit	37,848	72,749
Depreciation and amortisation	6,214	5,444
Net biological gain	(5,979)	(7,375)
	38,083	70,818

6. Staff costs, including directors

	2012 Number	2011 Number
Average number of employees (including executive directors):		
Agricultural - permanent	4,720	4,668
Agricultural - temporary	2,524	2,850
Head office	9	7
	7,253	7,525

	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	23,869	23,651
Social security costs	692	893
Pension costs	1,604	423
	26,165	24,967

7. Investment revenues

	2012 $'000	2011 $'000
Interest on bank deposits	164	507
Other interest income	247	2,382
	411	2,889

8. Finance costs

	2012 $'000	2011 $'000
Interest on bank loans and overdrafts	4,145	2,510
Interest on US dollar notes	3,433	3,671
Interest on sterling notes	5,598	5,679
Change in value of sterling notes arising from exchange fluctuations	1,029	–
Change in fair value of derivative financial instruments	(2,108)	–
Reclassification from translation reserve in equity	–	283
Other finance charges	372	1,942
	12,469	14,085
Amount included as additions to biological assets	(4,768)	(2,620)
	7,701	11,465

The reclassification from translation reserve in equity arose from the early repurchase for cancellation of £2.46 million of 9.5 per cent guaranteed sterling notes 2015/17 (see note 24) which was hedged by a cross currency interest swap (see note 27). Deferred tax previously provided in respect of this amount was also reclassified to income (see note 9).

Amounts included as additions to biological assets and construction in progress arose on borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 34.9 per cent (2011: 20.9 per cent); there is no directly related tax relief.

9. Tax

	2012 $'000	2011 $'000
Current tax:		
UK corporation tax	534	–
Foreign tax	9,638	14,634
Prior year	557	–
Total current tax	10,729	14,634
Deferred tax:		
Current year	2,068	3,925
Prior year	58	–
Total deferred tax	2,126	3,925
Total tax	12,855	18,559

Taxation is provided at the rates prevailing for the relevant jurisdiction. For Indonesia, the current and deferred taxation provision is based on a tax rate of 25 per cent (2011: 25 per cent) and for the United Kingdom, the taxation provision reflects a corporation tax rate of 24.5 per cent (2011: 26.5 per cent) and a deferred tax rate of 23 per cent (2011: 26 per cent).

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

	2012 $'000	2011 $'000
Profit before tax	30,558	64,173
Notional tax at the UK standard rate of 24.5 per cent (2011: 26.5 per cent)	7,487	17,006
Tax effect of the following items:		
Expenses not deductible in determining taxable profit	796	532
Non taxable income	(85)	(135)
Overseas tax rates above / (below) UK standard rate	267	(793)
Overseas withholding taxes, net of relief	1,890	1,947
Tax effect of change in rate on UK net deferred tax assets	160	41
Tax credit on loss in overseas subsidiary not recognised	1,739	–
Tax losses in overseas subsidiaries time expired	58	–
Reduction in recoverable amounts relating to disputed Indonesian tax assessments	557	–
Additional tax provisions	(14)	(39)
Tax expense at effective tax rate for the year	12,855	18,559

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

	2012	2011
Tax relating to cash flow hedges:		
Current	–	286
Deferred	–	(73)
	–	213
Reclassification to income statement (see note 8)	–	116
	–	329

10. Dividends

	2012 $'000	2011 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share	6,713	5,006
Ordinary dividends of 6.5p per share (2011: 5.5p per share)	3,376	2,897
	10,089	7,903

An interim dividend of 3.5p per ordinary share in respect of the year ended 31 December 2012 was paid on 25 January 2013. In accordance with IAS10 "Events after the reporting period", this dividend, amounting in aggregate to $1,852,000, has not been included in the 2012 financial statements.

11. Earnings per share

	2012 $'000	2011 $'000
Earnings for the purpose of basic and diluted earnings per share *	11,342	40,453

* being net profit attributable to ordinary shareholders

	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	33,415	33,415
Effect of dilutive potential ordinary shares	–	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	33,415	33,415

12. Goodwill and acquisition of subsidiary

	2012 $'000	2011 $'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 standard unit profit margin calculated by reference to a five year average of historic profit margins rather than the longer term average assumed in determining fair value. The directors consider this to be an appropriate method for determining value in use as it maintains consistency of methodology between estimations of value in use and the IAS 41 valuation. Based upon the recent review, the directors have concluded that no impairment of goodwill is required.

Acquisition of subsidiary

Pursuant to contracts dated 13 March and 6 June 2012, the group acquired 95 per cent of the issued share capital of PT Persada Bangun Jaya ("PBJ2") for a cash consideration of $1,616,000. At the date of acquisition, PBJ2 held land permits (izin lokasi) in respect of 5,192 hectares in East Kalimantan, Indonesia. The transaction has been accounted for by the purchase method of accounting. The book values of the net assets acquired were:

	$'000
Prepaid operating lease rentals	1,641
Satisfied by:	
Cash payment by group	1,616
Subscription by Indonesian investor	25
	1,641

13. Biological assets	2012 $'000	2011 $'000
Beginning of year	244,433	221,883
Additions to planted area and costs to maturity including finance costs (see note 8)	15,369	15,502
Transfers to property, plant and equipment (see note 14)	–	(76)
Transfers from prepaid operating lease rentals (see note 15)	45	–
Transfers to non-current receivables	(79)	(3)
Transfers to current receivables	(84)	(248)
Net biological gain	5,979	7,375
End of year	265,663	244,433
Net biological gain comprises:		
Fair value of crops harvested during the year (see note 2)	(78,468)	(90,906)
Gain arising from movement in fair value attributable to other physical changes	72,226	87,186
Gain arising from movement in fair value attributable to price changes	12,221	11,095
	5,979	7,375

The nature of the group's biological assets and the basis of determination of their fair value is explained under "Biological assets" in "Accounting policies (group)". Critical judgements in relation to these matters are detailed in note 1. The fair value determination assumed a discount rate of 15 per cent in the case of PT REA Kaltim Plantations ("REA Kaltim"), 15 per cent in the case of PT Sasana Yudha Bhakti ("SYB") and 18 per cent in the case of all other group companies (2011: 16 per cent in the case of REA Kaltim, 17.5 per cent in the case of SYB and 19 per cent in the case of all other group companies) and a standard unit margin of $55.20 per tonne of oil palm fresh fruit bunches ("FFB") (2011: standard unit margin of $52.50 per tonne of FFB).

The fair valuation of the group's biological assets as at 31 December 2012 determined on the basis of the methodology utilised as at 31 December 2011 would have amounted to $251 million.

The valuation of the group's biological assets would have been reduced by $14,250,000 (2011: $13,600,000) if the crops projected for the purposes of the valuation had been reduced by 5 per cent; by $13,570,000 (2011: $12,890,000) if the discount rates assumed had been increased by 1 per cent and by $25,810,000 (2011: $25,880,000) if the assumed unit profit margin per tonne of oil palm FFB 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 2012, the group had no outstanding forward sale contracts at fixed prices (2011: none).

At 31 December 2012, the group had no outstanding forward sales for delivery in 2013, on terms that the sales price of each delivery be determined immediately ahead of delivery by reference to prevailing open market prices (31 December 2011: 6,000 tonnes per month for the eleven month period to 30 November 2012).

At the balance sheet date, biological assets of $67,580,000 (2011: $64,349,000) had been charged as security for bank loans (see note 23) but there were otherwise no restrictions on titles to the biological assets (2011: none). Expenditure approved by the directors for the development of immature areas in 2013 amounts to $20,000,000 (2011: $47,000,000).

Notes to the consolidated financial statements continued

14. Property, plant and equipment

	Buildings and structures	Plant, equipment and vehicles	Construction in progress	Total
	$'000	$'000	$'000	$'000
Cost:				
At 1 January 2011	53,818	39,464	11,410	104,692
Additions	3,329	1,747	17,116	22,192
Exchange differences	–	(17)	–	(17)
Disposals	(76)	(234)	–	(310)
Transfers (see note 13)	2,035	7,193	(9,152)	76
At 31 December 2011	59,106	48,153	19,374	126,633
Additions	16,533	18,847	14,638	50,018
Exchange differences	–	31	–	31
Disposals	–	(462)	–	(462)
At 31 December 2012	75,639	66,569	34,012	176,220
Accumulated depreciation:				
At 1 January 2011	4,373	14,831	–	19,204
Charge for year	2,047	3,379	–	5,426
Exchange differences	–	(12)	–	(12)
Eliminated on disposals	(11)	(159)	–	(170)
At 31 December 2011	6,409	18,039	–	24,448
Charge for year	2,573	3,994	–	6,567
Exchange differences	–	17	–	17
Eliminated on disposals	–	(422)	–	(422)
At 31 December 2012	8,982	21,628	–	30,610
Carrying amount:				
End of year	66,657	44,941	34,012	145,610
Beginning of year	52,697	30,114	19,374	102,185

The depreciation charge for the year includes $171,000 (2011: $135,000) 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 (2011: $nil).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $5,212,000 (2011: $37,849,000).

15. Prepaid operating lease rentals

	2012 $'000	2011 $'000
Cost:		
Beginning of year	25,261	18,532
Additions	3,857	6,729
Transfers to biological assets (note 13)	(45)	–
Transfers to non-current assets	(291)	–
End of year	28,782	25,261
Accumulated amortisation:		
Beginning of year	1,764	1,255
Charge for year	388	509
End of year	2,152	1,764
Carrying amount:		
End of year	26,630	23,497
Beginning of year	23,497	17,277

Additions in the year include $1,641,000 (2011: $nil) in respect of a subsidiary acquired during the year.

The amortisation charge for the year includes $164,000 (2011: $357,000) which has been capitalised as part of the additions to biological assets.

Balances classified as prepaid operating lease rentals represent amounts invested in land utilised for the purpose of the plantation operations in Indonesia. At 31 December 2012, certificates of hak guna usaha had been obtained in respect of areas covering 70,584 hectares (2011: 70,584 hectares). An hak guna usaha (literally a "right of agricultural use") is effectively a government lease entitling the lessee to utilise the land leased for agricultural and related purposes. Retention of an hak guna usaha is subject to payment of annual land taxes in accordance with prevailing tax regulations. Hak guna usaha are granted for an initial term of 30 years and are renewable on expiry of such term.

16. Indonesian coal and stone interests

The balance of $29,480,000 (2011: $28,580,000) comprises interest bearing loans made to two Indonesian companies that, directly and through a further Indonesian company, own rights in respect of certain coal and stone concessions in East Kalimantan Indonesia, together with related balances; such loans are repayable not later than 2020. Pursuant to the arrangements between the group and its local partners, KCC Resources Limited ("KCC") has the right, subject to satisfaction of local regulatory requirements, to acquire the three concession holding companies at original cost on a basis that will give the group (through KCC) 95 per cent ownership with the balance of five per cent remaining owned by the local partners. 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 directors have carried out an impairment review of the loans from PT KCC Resources Indonesia ("KCCI") by which the group is funding the concession holding companies. Each concession holding company has been treated as a cash-generating unit and its recoverable amount has been estimated on the basis of value in use, applying a discount rate of 10 per cent. In view of the uncertainties arising from the potential difficulties on the extraction and marketing of coal from one of the concessions, the directors have concluded that an impairment charge of $3.0 million should be recognised in the 2012 consolidated income statement (2011: $nil).

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.

18. Inventories	2012 $'000	2011 $'000
Agricultural produce	11,220	16,169
Engineering and other operating inventory	9,492	9,390
	20,712	25,559

19. Investments	2012 $'000	2011 $'000
Shares (non-current assets)	–	1,430
US dollar notes (current assets)	1,256	963
	1,256	2,393

The investments are categorised as held-to-maturity and are carried at amortised cost. The shares comprise redeemable participating preference shares of $10 each issued by KCC Resources Limited as described in note 26, of which the company owned 146,050 (2011: 143,050). For the reasons given in note 26, at 31 December 2012 the investment has been netted off against the corresponding liability. The US dollar notes comprise $1,256,000 nominal of the 7.5 per cent dollar notes 2017 issued by the company, as described in note 25. The fair value of these investments is set out in note 22 under the heading 'Fair value of financial instruments'.

20. Trade and other receivables	2012 $'000	2011 $'000
Due from sale of goods	3,545	2,507
Prepayments and advance payments	10,527	11,380
Advance payment of taxation	14,022	13,226
Deposits and other receivables	4,061	7,049
	32,155	34,162

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 4 days (2011: 4 days). The directors consider that the carrying amount of trade and other receivables approximates their fair value.

21. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the group and short-term bank deposits and UK government securities with maturities of less than three months. Cash balances amounting to $555,000 (2011: $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 24). The Moody's prime rating of short term bank deposits amounting to $26.3 million is set out in note 22 under the heading 'Credit risk'.

22. 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 23 to 26, 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.

Net debt to equity ratio

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

	2012 $'000	2011 $'000
Debt and related engagements *	163,536	126,588
Cash and cash equivalents	(26,393)	(30,601)
Net debt and related engagements	137,143	95,987

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

	2012	2011
Equity (including non-controlling interests)	315,030	302,945
Net debt to equity ratio	43.5%	31.7%

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 2012 comprised loans, investments and receivables (including Indonesian coal and stone interests) and cash and cash equivalents amounting to $65,558,000 (2011: $67,127,000).

Non-derivative financial liabilities as at 31 December 2012 comprised liabilities at amortised cost amounting to $170,850,000 (2011: $123,694,000).

Derivative financial instruments at 31 December 2012 comprised instruments not in designated hedge accounting relationships at fair value representing a liability of $11,622,000. In 2011, as explained in "Accounting policies (group)", the group incorrectly accounted for certain cross-currency interest rate swaps as cash flow hedges and, on that basis, reported liabilities at 31 December 2011 of $15,321,000 in respect of derivative financial instruments in designated hedge accounting relationships at fair value and $895,000 in respect of derivative financial instruments not in designated hedge accounting relationships at fair value.

22. Financial instruments - continued

As explained in note 16, conditional arrangements exist for the group to acquire at historic cost the shares in the Indonesian companies owning rights over certain coal and stone 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.

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 an Indonesian rupiah term loan facility at 3.5 per cent (2011: 3.5 per cent) above the Jakarta Inter Bank Offer Rate. In addition, the interest rate formula includes an allowance for the bankers' cost of funds. Interest is payable on drawings under US dollar short-term facilities at floating rates varying between 4.9 per cent and 9.9 per cent (2011: between 6.9 per cent and 8.0 per cent).

A one per cent increase in interest applied to those financial instruments shown in the table below entitled "Fair value of financial instruments" as held at 31 December 2012 which carry interest at floating rates would have resulted over a period of one year in a pre-tax profit (and equity) decrease of approximately $258,000 (2011: pre-tax profit (and equity) increase of $16,000).

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 and, for the immediate future, 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 in its operations 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.

22. Financial instruments - continued

At the balance sheet date, the group had non US dollar monetary items denominated in pounds sterling and Indonesian rupiah. A 5 per cent strengthening of the pound sterling against the US dollar would have resulted in a gain dealt with in the consolidated income statement and equity of $974,000 on the net sterling denominated non-derivative monetary items (excluding the sterling notes which are hedged) (2011: gain of $421,000). A 5 per cent strengthening of the Indonesian rupiah against the US dollar would have resulted in a loss dealt with in the consolidated income statement and equity of $1,439,000 on the net Indonesian rupiah denominated, non-derivative monetary items (2011: loss of $1,151,000).

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 2012, 66 per cent of bank deposits were held with banks with a Moody's prime rating of P1, 2 per cent with a Moody's prime rating of P2, 26 per cent with a bank with a Moody's prime rating of P3 and the balance with banks with no Moody's prime rating. Substantially all sales of goods are made on the basis of cash against documents or letters of credit. At the balance sheet date, no trade receivables were past their due dates, nor were any impaired; accordingly no bad debt provisions were required. The maximum credit risk exposures in respect of the group's financial assets at 31 December 2012 and 31 December 2011 equal the amounts reported under the corresponding balance sheet headings.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors of the company, which has established an appropriate framework for the management of the group's short, medium and long-term funding and liquidity requirements. Within this framework, the board continuously monitors forecast and actual cash flows and endeavours to maintain adequate liquidity in the form of cash reserves and borrowing facilities while matching the maturity profiles of financial assets and liabilities. Undrawn facilities available to the group at balance sheet date are disclosed in note 23.

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

Non-derivative financial instruments

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

	Weighted average interest rate	Under 1 year	Between 1 and 2 years	Over 2 years	Total
2012	%	$'000	$'000	$'000	$'000
Bank loans	9.0	5,703	18,951	38,517	63,171
US dollar notes	8.5	4,739	18,676	40,388	63,803
Sterling notes	10.4	5,324	5,318	67,045	77,687
KCC preference shares (see note 26)		–	–	54	54
Trade and other payables, and customer deposits		13,373	–	–	13,373
		29,139	42,945	146,004	218,088

22. Financial instruments - continued

2011	Weighted average interest rate %	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
Bank loans	11.3	4,988	2,797	30,223	38,008
US dollar notes	9.1	7,625	17,250	16,125	41,000
Sterling notes	10.4	5,080	5,070	69,118	79,268
KCC preference shares (see note 26)		–	–	1,500	1,500
Trade and other payables, and customer deposits		10,997	–	–	10,997
		28,690	25,117	116,966	170,773

At 31 December 2012, the group's non-derivative financial assets (other than receivables) comprised cash and deposits of $26,400,000 (2011: $30,601,000) carrying a weighted average interest rate of 1.4 per cent (2011: 2.3 per cent) all having a maturity of under one year, and Indonesian coal interests of $29,480,000 (2011: $28,580,000) details of which are given in note 16.

Derivative financial instruments

The following table details the amounts due in respect of the group's derivative financial instruments. These arise under the cross currency interest rate swaps ("CCIRS") described in note 27. 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 2012	7,197	7,138	75,798	90,133
At 31 December 2011	7,296	7,197	82,936	97,429

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 2012 (2011: none).

	2012 Book value $'000	2012 Fair value $'000	2011 Book value $'000	2011 Fair value $'000
Cash and deposits +	26,393	26,393	30,601	30,601
Bank debt - within one year +	(1,000)	(1,000)	(2,000)	(2,000)
Bank debt - after more than one year +	(51,194)	(51,194)	(27,018)	(27,018)
Preference shares issued by a subsidiary	(54)	–	(1,500)	(1,500)
US dollar notes o	(48,698)	(48,813)	(33,941)	(35,000)
Sterling notes o	(54,279)	(59,233)	(51,332)	(56,094)
Cross currency interest rate swaps - hedge against principal liabilities	(8,311)	(8,311)	(10,797)	(10,797)
Net debt and related engagements	(137,143)	(142,158)	(95,987)	(101,808)
Cross currency interest rate swaps - hedge against interest liabilities	(2,416)	(2,416)	(4,524)	(4,524)
Cross currency interest rate swaps - hedge against interest liabilities	(894)	(894)	(895)	(895)
	(140,453)	(145,468)	(101,406)	(107,227)

+ bearing interest at floating rates
o bearing interest at fixed rates

22. Financial instruments - continued

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

For 2012, the book value of the preference shares issued by a subsidiary is net of the investment held by the company (see note 19). 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.

The fair value of the CCIRS has been derived by a discounted cash flow analysis using quoted foreign forward exchange rates and yield curves derived from quoted interest rates with maturities corresponding to the applicable cash flows. The valuation of the CCIRS at 31 December 2012 at fair value resulted in a loss of $11,622,000 (2011: loss of $16,216,000). The movement in 2012 has been dealt with through the consolidated income statement. In 2011, as explained in "Accounting policies (group)", the group incorrectly accounted for the CCIRS as a cash flow hedge and the movement of $1,510,000, before related tax relief, was dealt with as follows: a loss of $190,000 was included in finance charges in the consolidated income statement and a gain of $1,700,000 was recognised in other comprehensive income.

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 $1,192,000 (2011: $1,607,000).

23. Bank loans

	2012 $'000	2011 $'000
Bank loans	52,194	29,018
The bank loans are repayable as follows:		
On demand or within one year	1,000	2,000
Between one and two years	17,714	–
After two years	33,480	27,018
	52,194	29,018
Amount due for settlement within 12 months (shown under current liabilities)	1,000	2,000
Amount due for settlement after 12 months	51,194	27,018
	52,194	29,018

All bank loans are denominated in either US dollars ($16.0 million - 2011: $2.0 million) or Indonesian rupiahs ($36.2 million - 2011: $27.0 million) and are at floating rates, thus exposing the group to interest rate risk. The weighted average interest rate in 2012 was 9.9 per cent (2011: 11.3 per cent). Bank loans of $37,194,000 (2011: $27,018,000) are secured on the land, plantations, property, plant and equipment owned by PT Sasana Yudha Bhakti ("SYB"), having an aggregate book value of $121 million (2011: $91 million), and are the subject of an unsecured guarantee by the company and REA Kaltim. The banks are entitled to have recourse to their security on usual banking terms.

At the balance sheet date, the group had undrawn US dollar denominated bank facilities of $9.0 million (2011: $10.0 million) and undrawn Indonesian rupiah denominated facilities of $nil (2011: $11.6 million).

24. Sterling notes

The sterling notes comprise £34.54 million (2011: £34.54 million) nominal of 9.5 per cent guaranteed sterling notes 2015/17 issued by the company's subsidiary, REA Finance B.V. ("REAF"). The sterling notes are guaranteed by the company and another wholly owned subsidiary of the company, R.E.A. Services Limited ("REAS"), and are secured principally on unsecured loans made by REAS to Indonesian plantation operating subsidiaries of the company. Unless previously redeemed or purchased and cancelled by the issuer, the sterling notes are repayable in three equal instalments commencing on 31 December 2015.

The repayment obligation in respect of the sterling notes of £34.54 million ($56.1 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. The gain or loss on the ineffective portion of these contracts is reflected in finance costs in the consolidated income statement.

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.

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

25. US dollar notes

The US dollar notes comprise US$16 million (2011: $35 million) nominal of 7.5 per cent dollar notes 2012/14 ("2012/14 dollar notes") and US$34.0 million (2011: nil) nominal of 7.5 per cent dollar notes 2017 ("2017 dollar notes") of the company, and are stated net of the unamortised balance of the note issuance costs.

$34 million nominal of 2017 dollar notes were issued in November 2012, as to some $19 million nominal by way of an exchange offer to holders of existing 2012/14 dollar notes and as to the balance by way of a placing at par. Pursuant to the placing R.E.A. Services Limited ("REAS"), a subsidiary of the company, agreed to subscribe for $2.0 million nominal of 2017 dollar notes, pending investment decisions by certain external prospective placees. At 31 December 2012 REAS had resold, at the placing price, $0.7 million nominal of the notes so subscribed by it, leaving a balance as at that date of $1.26 million nominal (see note 19). REAS has, subsequent to the year-end, sold its remaining holding.

The 2012/14 and 2017 dollar notes are unsecured obligations of the company. The 2012/14 dollar notes are repayable by three instalments commencing 31 December 2012 but repayment obligations are reduced to the extent that notes have been previously redeemed or purchased and cancelled. A substantial nominal amount of the original issue of 2012/14 dollar notes has now been purchased and cancelled (including the $19.0 million nominal of the notes acquired under the exchange offer referred to above). As a result, and subject to any further purchases and cancellations, slightly under $1 million of the outstanding 2012/14 dollar notes will fall due for repayment at the end of 2013 and the balance at the end of 2014. The 2017 dollar notes are repayable on 30 June 2017.

26. 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 and stone 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 pursuant to a placing agreement dated 28 January 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 and stone 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.

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 and stone 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 pursuant to a placing agreement dated 28 January 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 and stone 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.

At 31 December 2012 the company had acquired 146,050 KCC preference shares (2011: 143,050). Following conclusion by the directors that it is unlikely that the required level of earnings will be achieved, the KCC preference shares at 31 December 2012 have been carried net of the company's holding.

27. Derivative financial instruments

At both 31 December 2012 and 31 December 2011, the group had outstanding three contracts providing in aggregate for the forward purchase of £37 million and sale of $68.6 million maturing in 2015 pursuant to the cross currency interest rate swaps ("CCIRS") entered into by the group to hedge the foreign currency exposure of the group arising from the interest and principal repayment obligations of its 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes"). Either party to the CCIRS had or has the option to terminate the CCIRS as to £22 million on 14 February 2012 (not exercised), as to £8 million on 30 September 2013 and as to £7 million on any of 24 October 2013, 2014 and 2015 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. As described in Accounting policies (group), the group has concluded that these instruments do not qualify to be accounted for as cash flow hedges and has transferred the balance in hedging reserve at 1 January 2012 to retained earnings (note 33).

28. 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	Biological assets	Income/ expenses*	Agricultural produce inventory	Tax losses	Total
	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2011	(22,670)	(17,278)	4,766	(983)	898	(35,267)
(Charge) / credit to income for the year	(1,816)	(2,260)	416	(1,003)	760	(3,903)
Effect of change in tax rate	(1)	–	–	–	(21)	(22)
Charge to equity for the year	–	–	(271)	–	–	(271)
Exchange differences **	4,060	–	(160)	–	(31)	3,869
At 31 December 2011	(20,427)	(19,538)	4,751	(1,986)	1,606	(35,594)
(Charge) / credit to income for the year	(1,706)	(1,818)	(1,712)	1,420	1,371	(2,445)
Effect of change in tax rate	–	–	–	–	–	–
Charge to equity for the year	–	–	(338)	–	–	(338)
Exchange differences **	83	–	83	–	(98)	68
At 31 December 2012	(22,050)	(21,356)	2,784	(566)	2,879	(38,309)
Deferred tax assets	17	–	3,167	–	2,879	6,063
Deferred tax liabilities	(22,067)	(21,356)	(383)	(566)	–	(44,372)
At 31 December 2012	(22,050)	(21,356)	2,784	(566)	2,879	(38,309)
Deferred tax assets	247	–	4,822	–	1,606	6,675
Deferred tax liabilities	(20,674)	(19,538)	(71)	(1,986)	–	(42,269)
At 31 December 2011	(20,427)	(19,538)	4,751	(1,986)	1,606	(35,594)

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

** forming part of the exchange differences on translation of foreign operations.

At the balance sheet date, the group had unused tax losses of $11.8 million (2011: $6.4 million) available to be applied against future profits. A deferred tax asset of $2,879,000 (2011: $1,606,000) has been recognised in respect of these losses. A tax loss of $5.6 million incurred by the group's coal subsidiary in 2012 has not been so recognised.

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 $11,125,000 (2011: $11,869,000). 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.

29. Other loans and payables

	2012 $'000	2011 $'000
Retirement benefit obligations (see note 38):		
UK	3,429	2,230
Indonesia	4,659	4,260
Other	274	543
	8,362	7,033
The amounts are repayable as follows:		
On demand or within one year (shown under current liabilities)	1,105	1,353
In the second year	1,473	1,316
In the third to fifth years inclusive	2,509	2,524
After five years	3,275	1,840
Amount due for settlement after 12 months	7,257	5,680
	8,362	7,033
Amounts of liabilities by currency:		
Sterling	3,523	2,469
US dollar	180	304
Indonesian rupiah	4,659	4,260
	8,362	7,033

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

	2012 $'000	2011 $'000
Trade purchases and ongoing costs	11,414	7,013
Customer deposits	585	3,695
Other tax and social security	4,464	2,982
Accruals	12,088	5,694
Other payables	1,500	511
	30,051	19,895

The average credit period taken on trade payables is 37 days (2011: 38 days).

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

31. Share capital

	2012 £'000	2011 £'000
Authorised (in pounds sterling):		
50,000,000 - 9 per cent cumulative preference shares of £1 each (2011: 45,000,000)	50,000	45,000
41,000,000 - ordinary shares of 25p each (2011: 41,000,000)	10,250	10,250
	60,250	55,250

31. Share capital - continued

	2012	2011
Issued and fully paid (in US dollars):	$'000	$'000
50,000,000 - 9 per cent cumulative preference shares of £1 each (2011: 44,068,553)	83,007	73,381
33,414,545 - ordinary shares of 25p each (2011: 33,414,545)	14,558	14,558
	97,565	87,939

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 17 September 2012, 3,926,575 9 per cent cumulative preference shares were issued, fully paid, by way of a placing at 105p per share (total consideration £4,123,000 - $6,708,000)
- on 28 September 2012, 2,004,872 9 per cent cumulative preference shares were issued, credited as fully paid, to ordinary shareholders by way of capitalisation of share premium account.

32. Share premium account

	$'000
At 1 January 2011	24,901
Issue of new preference shares (cash and scrip)	(3,130)
At 31 December 2011	21,771
Issue of new preference shares (cash and scrip)	(3,091)
At 31 December 2012	18,680

33. Translation reserve

	Hedging reserve $'000	Other reserve $'000	Total $'000
At 1 January 2011	(10,451)	(7,746)	(18,197)
Prior year reclassification (note 34)	–	1,021	1,021
Change in fair value of cash flow hedge	1,700	–	1,700
Exchange differences on translation of foreign operations	(303)	4,102	3,799
Other movements in the year	283	–	283
Taxation for the year	(329)	–	(329)
Attributable to non-controlling interests	1	(40)	(39)
At 31 December 2011	(9,099)	(2,663)	(11,762)
Correction of previous accounting error	9,099	–	9,099
Change in fair value of cash flow hedge	–	–	–
Exchange differences on translation of foreign operations	–	(2,064)	(2,064)
Other movements in the year	–	–	–
Taxation for the year	–	–	–
Attributable to non-controlling interests	–	(127)	(127)
At 31 December 2012	–	(4,854)	(4,854)

33. Translation reserve - continued

As described in Accounting policies (group), the group has concluded that its hedging instruments do not qualify to be accounted for as cash flow hedges and has transferred the balance in hedging reserve at 1 January 2012 to retained earnings.

Had the correct accounting been applied in the years 2009 to 2011 the effect on reported profit before tax, tax, profit for the period and the component of that profit attributable to non-controlling interests would have been as follows:

	As reported $'000	Correction $'000	As corrected $'000
2009:			
Profit before tax	41,717	6,674	48,391
Tax	(11,861)	(1,791)	(13,652)
Profit after tax	29,856	4,883	34,739
Attributable to non controlling interests	518	(39)	479
2010:			
Profit before tax	50,447	(2,292)	48,155
Tax	(15,474)	(4,944)	(20,418)
Profit after tax	34,973	(7,236)	27,737
Attributable to non controlling interests	288	16	304
2011:			
Profit before tax	64,173	1,680	65,853
Tax	(18,559)	(329)	(18,888)
Profit after tax	45,614	1,351	46,965
Attributable to non controlling interests	155	1	156

The cumulative amount recognised in equity in respect of the erroneous hedge accounting was $9,099,000, which has been reclassified at the beginning of the current year from translation reserve to retained earnings.

34. Retained earnings

	2012 $'000	2011 $'000
Beginning of year	202,763	166,228
Correction of previous accounting error (note 33)	(9,099)	–
Prior year reclassification	–	(1,021)
Profit for the year	11,342	40,453
Ordinary dividend paid	(3,376)	(2,897)
End of year	201,630	202,763

35. Non-controlling interests

	2012 $'000	2011 $'000
Beginning of year	2,234	2,040
Share of profit for the year	(352)	155
Share of items taken directly to equity	–	(1)
Exchange translation differences	127	40
Subscription to share capital of new subsidiary	–	–
End of year	2,009	2,234

36. Reconciliation of operating profit to operating cash flows

	2012 $'000	2011 $'000
Operating profit	37,848	72,749
Depreciation of property, plant and equipment	6,162	5,292
Decrease / (increase) in fair value of agricultural produce inventory	5,678	(4,011)
Amortisation of prepaid operating lease rentals	388	152
Amortisation of sterling and US dollar note issue expenses	645	1,012
Biological gain	(5,979)	(7,375)
Impairment loss	3,000	–
Loss on disposal of property, plant and equipment	39	419
Operating cash flows before movements in working capital	47,781	68,238
Increase in inventories (excluding fair value movements)	(831)	(7,661)
Decrease / (increase) in receivables	2,070	(9,028)
Increase in payables	6,891	8,490
Exchange translation differences	(801)	(185)
Cash generated by operations	55,110	59,854
Taxes paid	(16,200)	(15,176)
Tax refund received	1,261	–
Interest paid	(7,701)	(10,902)
Net cash from operating activities	32,470	33,776

No additions to property, plant and equipment during the year were financed by new finance leases (2011: $nil).

37. Movement in net borrowings

	2012 $'000	2011 $'000
Change in net borrowings resulting from cash flows:		
Decrease in cash and cash equivalents	(3,965)	(5,670)
Net increase in borrowings	(25,424)	(9,180)
	(29,389)	(14,850)
Issue of US dollar notes, net of amortisation of issue expenses	(33,593)	–
Redemption of US dollar notes, net of amortisation of issue expenses	18,355	9,328
Redemption of sterling notes, net of amortisation of issue expenses	–	3,609
Investments netted off against preference shares liability	(1,430)	–
Net sale and repurchase of US dollar notes	259	–
	(45,798)	(1,913)
Currency translation differences	2,156	501
Net borrowings at beginning of year	(85,190)	(83,778)
Net borrowings at end of year	(128,832)	(85,190)

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.

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

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

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

The normal contributions paid by the group in 2012 were £17,000 - $27,000 (2011: £16,000 - $26,000) and represented 23.4 per cent (2011: 23.4 per cent) of pensionable salaries. The additional contribution applicable to the group for 2012 was £231,000 - $367,000 (2011: £225,000 - $362,000). Under the valuation as at 31 December 2011 the normal contributions will increase to the rate of 36.4 per cent of pensionable salaries and the additional contribution will rise to £396,000 - $643,000 for 2013, £407,000 - $661,000 for 2014 and thereafter by 2.75 per cent per annum. A provision of £2,109,000 - $3,429,000 (2011: £1,435,000 - $2,230,000) 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, net of related tax relief. To the extent that the group makes additional contribution to the scheme, a relevant portion of such provision will credited to income.

The net charge/ (credit) to administrative expenses was as follows:

	2012 $'000	2011 $'000
Release of provision relating to additional contributions paid in the year	(367)	(253)
Additional provision arising from the 2011 actuarial valuation	1,439	–
Net charge/ (credit) to administrative expenses (note 5)	1,072	(253)

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

38. Retirement benefit obligations - continued

The company has a contingent liability of $3.8 million (2011: $2.5 million) for additional contributions payable by other (non-group) employers in the Scheme; such liability will only arise if other (non-group) employers do not pay their contributions. There is no expectation of this at the present time, and, therefore, no provision has been made.

Indonesia

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

	2012	2011
Discount rate	6.3%	7.1%
Salary increases per annum	6%	7%
Mortality table (Indonesia)	TM11-2009	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:

	2012	2011
	$'000	$'000
Balance at 1 January	4,260	2,779
Current service cost	846	849
Interest expense	327	285
Actuarial (gain) / loss	(2)	725
Effect of curtailments	(52)	–
Effect of settlements	(20)	–
Exchange	(285)	(71)
Paid during the year	(415)	(307)
Balance at 31 December (see note 29)	4,659	4,260

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

	2012	2011
	$'000	$'000
Current service cost	846	849
Interest expense	327	285
Actuarial (gain) / loss	(2)	725
Effect of curtailments	(52)	–
	1,119	1,859
Amount included as additions to biological assets	(100)	(337)
	1,019	1,522

38. Retirement benefit obligations - continued

Unrecognised actuarial losses at 31 December 2012 amounted to $512,000 (2011: $448,000). The movement in the present value of the employee service entitlements (including such unrecognised actuarial losses) were as follows:

	2012 $'000	2011 $'000
Balance at 1 January	4,708	3,096
Current service cost	846	849
Interest expense	327	285
Actuarial loss	100	856
Effect of curtailments	(52)	–
Effect of settlements	(20)	–
Exchange	(323)	(71)
Paid during the year	(415)	(307)
Balance at 31 December	5,171	4,708

Estimated benefit payments in 2013 are $261,000 (2012: $885,000).

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".

	2012 $'000	2011 $'000
Short term benefits	1,484	1,315
Post employment benefits	–	–
Other long term benefits	–	–
Termination benefits	–	–
Share based payments	–	–
	1,484	1,315

40. Rates of exchange

	2012 Closing	2012 Average	2011 Closing	2011 Average
Indonesia rupiah to US dollar	9,670	9,392	9,046	8,790
US dollar to pound sterling	1.6255	1.59	1.554	1.61

41. Events after the reporting period

An interim dividend of 3½p per ordinary share in respect of the year ended 31 December 2012 was paid on 25 January 2013. In accordance with IAS 10 "Events after the reporting period" this dividend, amounting in aggregate to $1,852,000, has not been reflected in these financial statements.

42. Resolution of competing rights over certain plantation areas

The fully titled land areas held by PT Sasana Yudha Bhakti ("SYB"), a plantation subsidiary of the company, include 3,557 hectares that are the subject of third party claims in respect of the rights to coal underneath such land. On 30 December 2011, SYB entered into a conditional settlement arrangement to resolve such claims. Under this agreement, SYB has agreed to swap the 3,557 hectares the subject of the claims for 9,097 hectares of fully titled land held by another company, PT Prasetia Utama ("PU"), the whole of the issued share capital of which is to be transferred to SYB. As a term of the settlement, SYB has also agreed to relinquish the 2,212 hectares in respect of which it holds a land allocation still subject to completion of titling (being land that is also subject to overlapping mineral rights). The book value of the assets to be relinquished by SYB amounted as at 31 December 2012 to $8.8 million (2011: $13.9 million), comprising prepaid operating lease rentals of $2.8 million (2011:$2.9 million) and biological assets of $6.0 million (2011:$11.0 million). The reduction in value of $5.1 million results mainly from the group's decision to exclude the SYB hectarage to be swapped from the group's core plantation land areas, to reduce upkeep expenditure thereon to a minimum and to reflect this decision in the valuation of biological assets as at 31 December 2012.

The arrangements are conditional, inter alia, upon the consent of the holders of the 9.5 per cent guaranteed sterling notes 2015/17 (see note 24) which was obtained on 14 March 2012.

During 2012, progress was made in regard to satisfying other conditions. However, completion has been delayed by a need to obtain comfort as to the continuing validity of the land titles held by PU.

43. 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 and 2010 PT REA Kaltim Plantations ("REA Kaltim") and PT Sasana Yudha Bhakti ("SYB") , both wholly owned subsidiaries of the company, entered into agreements with three cooperatives to develop and manage land owned by the cooperatives as oil palm plantations. To assist with the funding of such development, the cooperatives have concluded various long term loan agreements with Bank Pembangunan Daerah Kalimantan Timur ("Bank BPD"), a regional development bank, under which the cooperatives may borrow in aggregate up to Indonesian rupiah 157 billion ($16.3 million) with amounts borrowed repayable over 15 years and secured on the lands under development ("the bank facilities"). REA Kaltim has guaranteed the obligations of two cooperatives as to payments of principal and interest under the respective bank facilities and, in addition, has committed to lend to the cooperatives any further funds required to complete the agreed development. REA Kaltim is entitled to a charge over the developments when the bank facilities have been repaid in full. SYB has guaranteed the obligations of the third cooperative on a similar basis.

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

As at 31 December 2012 the aggregate outstanding balances owing by the three cooperatives to Bank BPD amounted to Indonesian rupiah 101 billion ($10,513,000) (2011: Indonesian rupiah 54 billion - $5,963,000).

44. 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 50 months, and do not include contingent rentals, or options to purchase the properties.

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

	2012 $'000	2011 $'000
Within one year	356	93
In the second to fifth year inclusive	570	508
After five years	–	–
	926	601

Auditor's report (company)

Independent auditor's 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 2012 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 (xiii). 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 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 auditor

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 and express an opinion on 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012;
- 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 2012.

Mark McIlquham ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, England
25 April 2013

Company balance sheet

as at 31 December 2012

	Note	2012 £'000	2011 £'000
Fixed and non-current assets			
Investments	(i)	145,166	130,678
Deferred tax asset	(ii)	432	223
		145,598	130,901
Current assets			
Debtors	(iii)	3,258	5,957
Cash		2,716	6,122
Total current assets		5,974	12,079
Creditors: amounts falling due within one year	(iv)	(8,248)	(14,465)
Net current liabilities		(2,274)	(2,386)
Total assets less current liabilities		143,324	128,515
Creditors: amounts falling due after more than one year			
Borrowings	(v)	(67,044)	(56,532)
Net assets		76,280	71,983

	Note	2012 £'000	2011 £'000
Capital and reserves			
Share capital	(vi)	58,353	52,422
Share premium account	(vii)	9,233	11,148
Profit and loss account	(vii)	8,694	8,413
Total shareholders' funds		76,280	71,983

Approved by the board on 25 April 2013 and signed on behalf of the board.

RICHARD M ROBINOW

Chairman

Movement in total shareholders' funds

for the year ended 31 December 2012

	2012 £'000	2011 £'000
Total recognised gains for the year	6,686	8,734
Dividends to preference shareholders	(4,233)	(3,201)
Dividends to ordinary shareholders	(2,172)	(1,838)
Issue of new preference shares by way of placing	4,123	15,450
Issue costs of ordinary shares, preference shares and debt securities	(107)	(443)
	4,297	18,702
Shareholders' funds at beginning of year	71,983	53,281
Shareholders' funds at end of year	76,280	71,983

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

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.

Leases

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

Notes to the company financial statements

(i) Investments

	2012 £'000	2011 £'000
Shares in subsidiaries	57,760	58,004
Loans to subsidiaries	87,406	72,674
	145,166	130,678

The movements were as follows:

	Shares £'000	Loans £'000
Beginning of year	58,004	72,674
Additions to shares in and loans to subsidiaries	10	15,665
Exchange translation difference arising on foreign currency hedge	(254)	(933)
End of year	57,760	87,406

Shares in subsidiaries include an investment in KCC Resources Limited's redeemable participating preference shares of $10 each. 3,000 of these shares were purchased from the original placees during June and July 2012 at a cost of $15,600 (£9,990) representing a price of $5.20 per share (2011: 143,050 of these shares were purchased at a price of $11.07 per share).

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 Resources Indonesia (Indonesia)	Coal operations	Ordinary	95
PT Kutai Mitra Sejahtera (Indonesia)	Plantation agriculture	Ordinary	95
PT Persada Bangun Jaya (Indonesia)	Plantation agriculture	Ordinary	95
PT Putra Bongan Jaya (Indonesia)	Plantation agriculture	Ordinary	95
PT REA Kaltim Plantations (Indonesia)	Plantation agriculture	Ordinary	100
PT Sasana Yudha Bhakti (Indonesia)	Plantation agriculture	Ordinary	95
KCC Resources Limited	Group finance	Ordinary	100
KCC Resources Limited	Group finance	Preference	97
REA Finance B.V. (Netherlands)	Group finance	Ordinary	100
R.E.A. Services Limited (England and Wales)	Group finance and services	Ordinary	100
REA Services Private Limited (Singapore)	Group services	Ordinary	100

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

The following dormant UK subsidiaries, together with their company registration number have taken advantage of the exemption pursuant to Companies Act 2006 s394A from preparing individual accounts:

Subsidiary	Company registrarion number
Cairnhill Investments Limited	6424228
Jentan Plantations Limited	6662767
Kutai Plantations Limited	4740407
Sandan Investments Limited	6419813

(ii) Deferred tax asset	2012 £'000	2011 £'000
Deferred tax:		
Beginning of year	223	–
Net amount credited to profit and loss account	209	223
End of year	432	223
Included in non-current assets	432	223
Net deferred tax asset at end of year	432	223
The deferred tax asset is made up as follows:		
Timing differences	–	–
Tax losses available	432	223
Undiscounted deferred tax	432	223

At the balance sheet date, the company had unused tax losses available to be applied against future profits amounting to £1,880,000 (2011: £860,000). A deferred tax asset of £432,000 (2011: £223,000) has been recognised in respect of these losses as the company considers, based on financial projections, that the losses will be utilised.

(iii) Debtors	2012 £'000	2011 £'000
Trade debtors	464	–
Amount owing by group undertakings	2,458	5,921
Other debtors	336	4
Prepayments and accrued income	–	32
	3,258	5,957

(iv) Creditors: amounts falling due within one year	2012 £'000	2011 £'000
US dollar notes	425	2,913
Amount owing to group undertakings	7,633	11,431
Other creditors	20	22
Accruals	170	99
	8,248	14,465

(v) Creditors: amounts falling due after more than one year	2012 £'000	2011 £'000
US dollar notes	29,569	19,057
Amount owing to group undertaking	37,475	37,475
	67,044	56,532
Amounts due between two and five years	67,044	44,040
Amounts due after five years	–	12,492
	67,044	56,532

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

The US dollar notes comprise US$16 million (2011: $35 million) nominal of 7.5 per cent dollar notes 2012/14 ("2012/14 dollar notes") and US$34.0 million (2011: nil) nominal of 7.5 per cent dollar notes 2017 ("2017 dollar notes") of the company, and are stated net of the unamortised balance of the note issuance costs.

US$34 million nominal of 2017 dollar notes were issued in November 2012, as to some $19 million nominal by way of an exchange offer to holders of existing 2012/14 dollar notes and as to the balance by way of a placing at par. Pursuant to the placing R.E.A. Services Limited ("REAS"), a subsidiary of the company, agreed to subscribe for $2.0 million nominal of 2017 dollar notes, pending investment decisions by certain external prospective placees. At 31 December 2012 REAS had resold, at the placing price, $0.7 million nominal of the notes so subscribed by it, leaving a balance as at that date of $1.26 million nominal (see note 19 to the consolidated financial statements). REAS has, subsequent to the year-end, sold its remaining holding.

The 2012/14 and 2017 dollar notes are unsecured obligations of the company. The 2012/14 dollar notes are repayable by three instalments commencing 31 December 2012 but repayment obligations are reduced to the extent that notes have been previously redeemed or purchased and cancelled. A substantial nominal amount of the original issue of 2012/14 dollar notes has now been purchased and cancelled (including the $19.0 million nominal of the notes acquired under the exchange offer referred to above). As a result, and subject to any further purchases and cancellations, slightly under $1 million nominal of the outstanding 2012/14 dollar notes will fall due for repayment at the end of 2013 and the balance at the end of 2014. The 2017 dollar notes are repayable on 30 June 2017.

As disclosed in note (viii), 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.

(vi) Share capital

	2012 £'000	2011 £'000
Authorised:		
50,000,000 - 9 per cent cumulative preference shares of £1 each (2011: 45,000,000)	50,000	45,000
41,000,000 - ordinary shares of 25p each (2011: 41,000,000)	10,250	10,250
	60,250	55,250
Called-up and fully paid:		
50,000,000 - 9 per cent cumulative preference shares of £1 each (2011: 44,068,553)	50,000	44,069
33,414,545 - ordinary shares of 25p each (2011: 33,414,545)	8,353	8,353
	58,353	52,422

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 17 September 2012, 3,926,575 9 per cent cumulative preference shares were issued, fully paid, by way of a placing at 105p per share (total consideration £4,123,000).
- on 28 September 2012, 2,004,872 9 per cent cumulative preference shares were issued, credited as fully paid, to ordinary shareholders by way of capitalisation of share premium account.

(vii) Movement in reserves

	Share premium account £'000	Profit and loss account £'000
Beginning of year	11,148	8,413
Recognised gains for the year	–	6,686
Dividends to preference shareholders	–	(4,233)
Dividends to ordinary shareholders	–	(2,172)
Issue of preference shares (scrip)	(2,004)	–
Issue of preference shares (cash)	196	–
Costs of issues	(107)	–
End of year	9,233	8,694

As permitted by section 408 of the Companies Act 2006, a separate profit and loss account dealing with the results of the company has not been presented. The profit before dividends recognised in the company's profit and loss account for the year is £6,686,000 (2011: profit £8,734,000) - see statement of total recognised gains and losses.

(viii) 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.

	2012 Book value £'000	2012 Fair value £'000	2011 Book value £'000	2011 Fair value £'000
Cash and deposits	2,716	2,716	6,122	6,122
US dollar notes	(29,994)	(30,030)	(21,970)	(21,970)
Net debt	(27,278)	(27,314)	(15,848)	(15,848)

The fair value of the US dollar notes reflects the last price at which transactions in those notes were effected prior to 31 December 2012 (2011: 31 December 2011). The interest expense in the year relating to the US dollar notes was £1.8 million (2011: 2.0 million).

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 2012, the company had outstanding US$16 million nominal (2011: $35 million) of 7.5 per cent dollar notes 2012/14 and US$34 million nominal (2011: $nil) of 7.5 per cent dollar notes 2017. 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.

(viii) Financial instruments and risks - continued

A limited degree of interest rate risk is accepted. A substantial proportion of the company's financial instruments at 31 December 2012 carried interest at fixed rates rather than floating rates. On the basis of the company's analysis, it is estimated that a rise of one percentage point in interest rates applied to those financial instruments which carry interest at floating rates would have resulted in an increase of £nil (2011: £nil) in the company's interest revenues in its profit and loss account.

(ix) Pensions

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

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

A non-FRS 17 valuation of the Scheme was last prepared, using the attained age method, as at 31 December 2011. This method was adopted in the previous valuation as at 31 December 2008, as it was considered the appropriate method of calculating future service benefits as the Scheme is closed to new members. At 31 December 2011 the Scheme had an overall shortfall in assets (deficit), when measured against the Scheme's technical provisions, of £5,197,000. The technical provisions were calculated using assumptions of an investment return of 4.70 per cent pre-retirement and 3.20 per cent post-retirement and annual increases in pensionable salaries of 3.0 per cent. The basis for the inflationary revaluation of deferred pensions and increases to pensions in payment was changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) with effect from 1 January 2011 in line with the statutory change, except that the change does not apply to pension accrual from 1 January 2006, where the RPI still applies. The rates of increase in the RPI and the CPI were assumed to be 3.0 per cent and 2.25 per cent respectively. It was further assumed that both non-retired and retired members' mortality would reflect S1PXA tables at 85 per cent and that non-retired members would take on retirement the maximum cash sums permitted from 1 January 2012. Had the Scheme been valued at 31 December 2011 using the projected unit method and the same assumptions, the overall deficit would have been similar.

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

The normal contributions paid by the group in 2012 were £17,000 (2011: £16,000) and represented 23.4 per cent (2011: 23.4 per cent) of pensionable salaries. The additional contribution applicable to the group for 2012 was £231,000 (2011: £225,000). Under the valuation as at 31 December 2011 the normal contributions will increase to the rate of 36.4 per cent of pensionable salaries and the additional contribution will rise to £396,000 for 2013, £407,000 for 2014 and thereafter by 2.75 per cent per annum. A provision of £2,109,000 (2011: £1,435,000) for these additional contributions adjusted for the time value of money has been recognised under retirement benefit obligations with an equal charge to income, net of related tax relief. To the extent that the group makes additional contribution to the scheme, a relevant portion of such provision will credited to income.

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

Notes to the company financial statements continued

(ix) Pensions - continued

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.

(x) Related party transactions

	2012 £'000	2011 £'000
Aggregate directors' remuneration:		
Salaries and fees	650	613
Benefits	77	48
Annual bonus	112	70
	839	731

During 2012 and 2011, 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.

(xi) Rates of exchange

See note 40 to the consolidated financial statements.

(xii) Contingent liabilities and commitments

Sterling notes

The company has guaranteed the obligations for both principal and interest relating to the outstanding £35 million nominal (2011: £35 million) 9.5 per cent guaranteed sterling notes 2015/17 issued by REA Finance B.V.. The directors consider the risk of loss to the company from this guarantee to be remote.

Bank borrowings

The company has given, in the ordinary course of business, guarantees in support of the subsidiary company borrowings from, and other contracts with, banks (including cross currency interest rate swaps) amounting in aggregate to £32 million (2011: £29 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 (ix) above.

Operating leases

The company has an annual commitment under a non-cancellable operating lease of £111,000 (2011: £105,000). The commitment expires after 4 years. The lease does not contain any contingent rentals or an option to purchase the property.

(xiii) Post balance sheet event

A first interim dividend of 3½p per ordinary share in respect of the year ended 31 December 2012 was paid on 25 January 2013. In accordance with IAS10 "Events after the reporting period" this dividend, amounting in aggregate to £1,002,000, 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-third annual general meeting of R.E.A. Holdings plc will be held at the London office of Ashurst LLP at Broadwalk House, 5 Appold Street, London EC2A 2HA on 11 June 2013 at 10.00 am to consider and, if thought fit, to pass the following resolutions. Resolution 13 and 14 will be proposed as special resolutions; all other resolutions will be proposed as ordinary resolutions.

1 To receive the company's annual accounts for the financial year ended 31 December 2012, together with the directors' report, the directors' remuneration report and the auditor's report.

2 To approve the directors' remuneration report for the financial year ended 31 December 2012.

3 To declare a final dividend in respect of the year ended 31 December 2012 of 3½p per ordinary share to be paid on 26 July 2013 to ordinary shareholders on the register of members at the close of business on 28 June 2013.

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

5 To re-elect as a director Mr M A Parry, who was appointed as a director since the last annual general meeting and submits himself for re-election.

6 To re-elect as a director Ms I Chia, who was appointed as a director since the last annual general meeting and submits herself for re-election.

7 To re-elect as a director Mr D H R Killick, who, having been a director at each of the two preceding annual general meetings and who was not re-appointed by the company in general meeting at or since either of such meetings, retires in accordance with the articles of association and submits himself for re-election.

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

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

10 That 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 £60,250,000 to £75,250,000 by the creation of 15,000,000 9 per cent cumulative preference shares of £1 each ranking pari passu in all respects with the existing 9 per cent cumulative preference shares of £1 each in the capital of the company.

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 2014), 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), subject to the passing of resolution 10 set out in the notice of the 2013 annual general meeting of the company of £15,000,000; such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2014), 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 notice of the 2013 annual general meeting of the company (the "2013 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 2013 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 for cash in connection with a rights issue or open offer in favour of holders of ordinary shares and to the sale of treasury shares by way of an invitation made by way of rights to holders of ordinary shares, in each case in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them on the record date for participation in the rights issue, open offer or invitation (and holders of any other class of equity securities entitled to participate therein or, if the directors consider it necessary, as permitted by the rights of those securities) but subject in each case to such exclusions or other arrangements as the directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares (other than treasury shares being sold), record dates or legal, regulatory or practical difficulties which may arise under the laws of any territory or the requirements of any regulatory body or stock exchange in any territory whatsoever; and

(ii) otherwise than as specified at paragraph (i) of this resolution, to the allotment of equity securities and the sale of treasury shares up to an aggregate nominal amount (calculated, in the case of the grant of rights to subscribe for, or convert any security into, shares in the capital of the company, in accordance with sub-section (6) of section 551 of the Act) of £417,681

and shall expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2014), save that the company may before such expiry make any offer or agreement which would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry and the directors may allot equity securities or sell treasury shares, in pursuance of any such offer or agreement as if the power conferred hereby had not expired.

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

By order of the board
R.E.A. SERVICES LIMITED
Secretary
25 April 2013

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

Registered in England and Wales no: 00671099

Notes

The sections of the accompanying Directors' report entitled "Results and dividends", "Directors", "Increase in share capital", "Authorities to allot share capital", "Authority to disapply pre-emption rights", "General meeting notice period" and "Recommendation" contain information regarding, and recommendations by the board of the company as to voting on, resolutions 3 to 7 and 10 to 14 set out above in this notice of the 2013 annual general meeting of the company (the "2013 Notice").

The company specifies that in order to have the right to attend and vote at the annual general meeting (and also for the purpose of determining how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the company at 6.00 pm on 9 June 2013 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, PXS, 34 Beckenham Road, Beckenham BR3 4TU by no later than 10.00 am on 9 June 2013.

Alternatively, appointment of a proxy may be submitted electronically by using either Capita Registrars' share portal service at www.capitashareportal.com or the CREST electronic proxy appointment service as described below (and so that the appointment is received by the service by no later than 10.00 am on 9 June 2013). 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 9 June 2013. 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 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 2013 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 2013 Notice, and other information required by section 311A of the Companies Act 2006, may be found on the company's website www.rea.co.uk.

Under section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the company to publish on a website (in accordance with section 528 of the Companies Act 2006) a statement setting out any matter that the members propose to raise at the relevant annual general meeting relating to (i) the audit of the company's annual accounts that are to be laid before the annual general meeting (including the auditor's report and the conduct of the audit); or (ii) any circumstance connected with an auditor of the company having ceased to hold office since the last annual general meeting of the company. The company may not require the members requesting any such website publication to pay its expenses in complying with section 527 or section 528 of the Companies Act 2006. Where the company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the company's auditor by not later than the time when it makes the statement available on the website. The business which may be dealt with at the annual general meeting includes any statement that the company has been required under section 527 of the Companies Act 2006 to publish on a website.

As at the date of this 2013 Notice, the issued share capital of the company comprises 33,414,545 ordinary shares and 50,000,000 9 per cent cumulative preference shares. Only holders of ordinary shares (and their proxies) are entitled to attend and vote at the annual general meeting. Accordingly, the voting rights attaching to shares of the company exercisable in respect of each of the resolutions to be proposed at the annual general meeting total 33,414,545 as at the date of this 2013 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 2013 Notice (or any other related document including the form of proxy) to communicate with the company for any purposes other than those expressly stated.

Under section 338 and section 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the company (i) to give, to members of the company entitled to receive notice of the annual general meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the company

not later than the date 6 clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

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