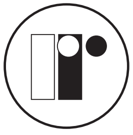

R.E.A. HOLDINGS PLC

Annual Report and Accounts

2018

R.E.A. Holdings plc ("REA") is a UK company of which the shares are admitted to the Official List and to trading on the main market of the London Stock Exchange.

The REA group is principally engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production and sale of crude palm oil and crude palm kernel oil.

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Currency

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

Key statistics

	2018	2017	2016	2015	2014
Results ($'000)					
Revenue	105,479	100,241	79,265	90,515	125,865
Earnings before interest, tax, depreciation and amortisation *	12,287	20,051	15,933	15,123	38,797
(Loss) / profit before tax	(5,474)	(21,862)	(9,289)	(12,245)	23,744
(Loss) / profit for the year	(18,208)	(24,901)	(11,308)	(12,931)	21,981
(Loss) / profit attributable to ordinary shareholders	(22,021)	(27,408)	(17,800)	(20,912)	14,153
Cash (contributed to) / generated by operations	(9,811)	45,816	25,371	37,286	33,053
Returns per ordinary share					
(Loss) / earnings (US cents)	(54.4)	(67.0)	(48.2)	(59.0)	40.3
Dividend (pence)	–	–	–	–	7.75
Land areas (hectares) **					
Mature oil palm	33,292	34,076	31,521	29,367	28,275
Immature oil palm	3,208	10,018	11,325	7,730	6,339
Planted areas	36,500	44,094	42,846	37,097	34,614
Infrastructure and undeveloped	28,025	32,033	27,738	33,487	35,970
Fully titled	64,525	76,127	70,584	70,584	70,584
Subject to completion of title	17,837	34,347	37,631	37,631	37,631
Total	82,362	110,474	108,215	108,215	108,215
FFB Harvested (tonnes) **					
Group	800,050	530,565	468,371	600,741	631,728
Third party	191,228	114,005	98,052	138,657	149,002
Total	991,278	644,570	566,423	739,398	780,730
Production (tonnes) **					
Total FFB processed	969,356	630,600	560,957	728,871	774,420
CPO	217,721	143,916	127,697	161,844	169,371
Palm kernels	45,425	29,122	26,371	33,877	35,812
CPKO	16,095	11,052	9,840	12,557	12,610
CPO extraction rate ***	22.5%	22.8%	22.8%	22.2%	21.9%
Yields (tonnes per mature hectare) **					
FFB	23.1	15.6	14.9	20.5	22.3
CPO	5.4	3.6	3.4	4.5	4.9
CPKO	0.4	0.3	0.3	0.3	0.4
Average exchange rates					
Indonesian rupiah to US dollar	14,215	13,400	13,369	13,377	11,908
US dollar to sterling	1.33	1.29	1.36	1.53	1.65

* see note 5

** 2018 hectarage excludes PBJ, 2018 FFB harvested and production includes PBJ to August 2018. See note 8

*** The group cannot separately determine extraction rates for its own FFB and for third party FFB. CPO extraction rate and CPO and CPKO yields are therefore calculated applying uniform extraction rates across all FFB processed

Highlights

Overview

- Second year of operational recovery, with record crop production in 2018 and further increase expected in 2019
- Improved operational performance not reflected in financial results due to material decline in the CPO price during 2018
- Sale of 95 per cent interest in PBJ to KLK group completed

Financial

- Revenue up 5.3 per cent to $105.5 million (2017: $100.2 million), as reduced CPO and CPKO prices largely offset the production gains
- Cost of sales increased to $99.6 million (2017: $86.3 million) reflecting greater purchases of external FFB and increased estate operating costs due to higher volumes, costs of remedial upkeep and an unusually high requirement for downstream loading; nevertheless, estate operating costs increased at a lower rate than FFB volumes
- Pre-tax loss of $5.5 million (2017: loss $21.9 million) after reflecting a gain on the disposal of PBJ of $10.4 million
- Net indebtedness at $189.5 million (2017: $211.7 million), with existing bank facilities repaid and replaced in 2018 with new longer dated facilities to align better with projected future cash flows
- Further discussions with Indonesian bankers to refinance bank loan repayments falling due in 2019 and reduce interest costs through partial conversion of rupiah loans to dollars
- Provision for deferred tax increased by $9.5 million resulting in tax charge of $12.7 million (2017: $3.0 million)

Agricultural operations

- 51 per cent increase in FFB production to 800,050 tonnes (2017: 530,565 tonnes), reflecting the benefit of close focus on field disciplines and supervision
- Increase in third party FFB purchased to 191,228 tonnes (2017: 114,005 tonnes)
- Extraction rates generally stable despite some logistical challenges associated with sudden crop increase, CPO averaging 22.5 per cent (2017: 22.8 per cent)
- Yields up by 48 per cent to 23.1 tonnes per mature hectare (2017: 15.6 tonnes per mature hectare)
- 2018 extension planting largely concentrated on PBJ to maximise proceeds from PBJ disposal

Coal operations

- Access to and licensing of loading point on the Mahakam River secured in preparation for mining at the Kota Bangun concession
- Existing coal stockpile of 16,000 tonnes from previous mining operations sold
- Dewatering recently completed giving access to the Kota Bangun northern pit

Outlook

- Record production in 2018 expected to be followed by a further increase in 2019 to some 900,000 tonnes of FFB, with 166,000 tonnes in first quarter (2017: 135,000)
- Indications that the CPO price recovery will continue through 2019 and beyond as global consumption of palm oil increases, production reduces and restocking continues
- Undeveloped land bank of 6,000 hectares immediately available for extension planting but programme on hold pending further recovery in CPO price
- Capacity of the third oil mill to be increased to 80 tonnes per hour to meet rising crop levels, with work expected to be completed in second half of 2019 in time for peak cropping period
- Discussions advanced with potential partners and third-party contractors for the resumption of coal mining at Kota Bangun

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Map

The map provides a plan of the operational areas and of the river system by which access is obtained to the main areas.

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

Companies	
CDM	PT Cipta Davia Mandiri
KKS	PT Kartanegara Kumalasakti
KMS	PT Kutai Mitra Sejahtera
PBJ2	PT Persada Bangun Jaya
REAK	PT REA Kaltim Plantations
SYB	PT Sasana Yudha Bhakti
PU	PT Prasetia Utama
SYB	SYB land transfer

Chairman's statement

While 2018 saw continued improvement in crop production and yields, the financial results were dominated by the marked fall in crude palm oil ("CPO") prices, particularly during the second half of the year, and the consequent impact on profitability. Foreign exchange gains which positively impacted results in the first half of the year, principally as a result of the decline in the value of the Indonesian rupiah against the US dollar, were partly reversed during the second half of the year. As a consequence, the group's overall financial performance for the year was less than might have been expected.

Total revenue for 2018 amounted to $105.5 million, compared with $100.2 million in 2017, reflecting the impact of weak CPO prices on production that increased by more than 50 per cent on the previous year. While CPO prices have recovered significantly since the year end, they have not yet rallied to the levels seen at the beginning of 2018.

The loss before tax for 2018 was $5.5 million. This included a profit on disposal of PT Putra Bongan Jaya ("PBJ") of $10.4 million. The latter figure differs from the loss of $8.0 million estimated by the group in its announcement of 11 February 2019 because of two technical adjustments involving the release of deferred tax liabilities and prior year translation gains relating to PBJ as detailed under "Group results" in the "Finance" section of the Strategic Report.

Fresh fruit bunches ("FFB") harvested amounted to some 800,000 tonnes, compared with 530,000 tonnes in 2017, surpassing the group's previous highest production and producing a yield per mature hectare of 23 tonnes compared with 16 tonnes in 2017. These yields take account of the PBJ sale which led to slight decrease in mature hectarage from 34,076 hectares to 33,292 hectares in 2018. FFB purchases from smallholders and other third parties also increased significantly to some 191,000 tonnes compared with 114,000 tonnes in 2017.

CPO production totalled 218,000 tonnes in 2018, compared with the 144,000 tonnes in 2017. Notwithstanding a more rigorous maintenance programme, the rapid escalation of throughput in the second half of the year with consequent pressure on evacuation and increased equipment wear and tear restricted overall CPO extraction rates which decreased to 22.5 per cent compared with 22.8 per cent in 2017. Crude palm kernel oil ("CPKO") extraction rates however, improved to 40.2 per cent compared with 38.0 per cent in 2017. Overall yields for CPO and CPKO were, respectively 5.4 and 0.4 tonnes per mature hectare compared with, respectively 3.6 and 0.3 tonnes per hectare in 2017.

Changes to work programmes and new incentive targets for harvesters contributed to steady improvements in efficiencies in the field through the year and contributed to effective management of the sudden upsurge in crop. With crop levels continuing to increase, the group is pushing ahead with the expansion of the group's newest mill to almost double its capacity to 80 tonnes per hour to ensure adequate processing capacity going forward. These works are expected to be completed in time for the peak cropping period in the second half of the year.

The CPO price, CIF Rotterdam, fell sharply over 2018 from $677 per tonne to a low in mid November of $439 per tonne on the back of considerably higher levels of CPO production in Indonesia and Malaysia and increasing stocks of CPO and other vegetable oils worldwide. Prices started to recover towards the end of the year, closing the year at $506 per tonne, and this trend has continued, albeit with some intermittent volatility, into 2019 as the supply surplus has started to reduce. The CPO price currently stands at $536 per tonne. Indications are that prices will recover further during 2019 and beyond as consumption increases, fuelled by restocking and the expansion of biodiesel usage, and stock levels at origin gradually reduce with the seasonal slowdown in production in the first half of the year.

CPKO prices were similarly affected by a supply surplus, opening at $1260 per tonne, CIF Rotterdam, in 2018, declining to $651 per tonne in November and closing the year at $783 per tonne. The CPKO price, CIF Rotterdam is currently at $594 per tonne.

The group has an undeveloped land bank with some 6,000 hectares immediately available for extension planting. While nursery areas have been established to ensure availability of seedlings for later development, the directors have decided to wait for further recovery in the CPO price before recommencing any expansion.

Preparations to reopen the mine at the group's principal coal concession interest at Kota Bangun are progressing with dewatering of the site recently completed. Having secured access to a loading point on the Mahakam River and a licence to export coal, the group disposed of the existing stockpile of some 16,000 tonnes during 2018. Refurbishment of the port, loading point and conveyor acquired during 2018 should be completed in the next few months. Discussions with potential third party contractors are reaching an advanced stage.

The group continues to be financed by a combination of debt and equity. Total equity (including preference share capital) amounted to $261.3 million as at 31 December 2018 compared to $276.7 million as at 31 December 2017. Net indebtedness at 31 December 2018 amounted to $189.5 million compared with $211.7 million as at 31 December 2017. In August 2018, two new rupiah bank facilities, equivalent in total to some $32.2 million, were arranged and

drawn and certain existing facilities, amounting to $10.3 million, were repaid. Subsequently, to align better the repayment profile of the group's bank loans with projected future cash flows, two further new rupiah loans, equivalent to some $82.2 million, were arranged and drawn and existing, shorter dated facilities of some $59.4 million, were repaid.

In view of the financial performance of the group in 2018, the directors have not declared or recommended the payment of any ordinary dividend in respect of the year.

Production in the first months of 2019 was well ahead of the levels achieved in the same period in 2018, with group FFB to the end of March of 166,000 tonnes (2018: 135,000 tonnes). Some slowdown in production can be expected through to the middle of the year in line with the normal monthly phasing of crops but indications are that production for the year overall will be comfortably ahead of 2018 with a budgeted FFB crop of some 900,000 tonnes.

While the directors remain optimistic about the operations and the prospects for the group, there remains much to be done this year to ensure that the group realises its full potential. It will be particularly important to maximise FFB collection and optimise evacuation and processing. To this end, capital expenditure will be focused on works that will ensure resilience and availability of sufficient capacity in the group's mills. With current CPO prices still at depressed levels (albeit that prices are significantly ahead of those of the last quarter of 2018), measures are also in hand to reduce costs particularly in administrative and support departments. It should also be possible to reduce the employment of temporary workers for remedial upkeep as the work being undertaken is progressively completed.

To ensure the availability of sufficient funding to meet the costs of the third mill extension and planned enhancements to the group's other mills, the group is in discussion with its Indonesian bankers regarding a further facility of some $11 million. There are also continuing discussions aimed at reducing interest costs by conversion of a proportion of the group's rupiah loans to dollar loans.

Looking ahead, CPO prices are expected to increase further with continued growth in consumption and a general slowdown in CPO production with fewer new plantings in both Indonesia and Malaysia. Subject to this proving the case, further improvements in operating performance are expected to translate into an improvement in underlying profitability and cash flows through 2019 and thereafter.

Finally, I would like to welcome Rizal Satar who joined the board in December 2018 as an independent non-executive director. Rizal was educated in the United States and Belgium, where he majored in computer science, accounting and finance, and worked for 20 years for PricewaterhouseCoopers, Indonesia, as a senior partner in their advisory services business.

DAVID J BLACKETT
Chairman

Introduction and strategic environment

Introduction

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

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

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

The report is divided into the following sections:

- Introduction and strategic environment
- Agricultural operations
- Coal and stone operations
- Sustainability
- Finance
- Risks and uncertainties

The balance of this first section discusses the group's business model and resources, its objectives and strategy for achieving these, the market context in which the group operates and the quantitative indicators that the directors consider relevant to assessment of the group's performance. The sections on "Agricultural operations" and "Coal and stone operations" review the current status of and trends within the group's activities and the group's plans for their further development. "Sustainability" deals with environmental and social issues facing the group while "Finance" provides explanations regarding amounts disclosed in the financial statements, the group's financial resources and its ability to fund its declared strategies. "Risks and uncertainties" itemises those risks and uncertainties currently faced by the group that the directors consider to be material.

Business model and resources

The group is principally engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production and sale of crude palm oil ("CPO") and crude palm kernel oil ("CPKO"). Ancillary to these activities, the group generates renewable energy from its methane capture plants to provide power for its own operations and also for sale to local villages via the Indonesian state electricity company, Perusahaan Listrik Negara ("PLN"). The group also holds interests in respect of two coal mining concessions and two stone deposits, all of which are located in East Kalimantan.

Detailed descriptions of the group's oil palm and related activities and of its coal and stone interests are provided under, respectively, "Agricultural operations" and "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 the London Stock Exchange while using capital raised by the company (or with the company's support) to develop natural resource based operations in Indonesia from which the group believes good returns can be achieved.

The knowledge and expertise gained from the group's long involvement in the plantation industry represent significant intangible resources that underpin the group's credibility. This is important when sourcing capital, working closely with the Indonesian authorities in relation to project development and recruiting a high calibre experienced management team familiar with Indonesian regulatory processes and social customs and committed to sustainable practices. Other resources important to the group are its established base of operations, large, and near contiguous, land concessions, and a trained workforce with strong links to the local community.

Objectives and general strategy

The group's objectives are both to provide attractive overall returns to investors in the shares and other securities of the company from the operation and expansion of the group's existing businesses and to foster social and economic progress in the localities of the group's activities, while maintaining high standards of sustainability.

CPO and CPKO are primary commodities that, as such, are sold at prices determined by world supply and demand. Such prices fluctuate in ways that are difficult to predict and that the group cannot control. The group's operational strategy is therefore to concentrate on minimising unit production costs, without compromising on quality or its objectives as respects sustainable practices, with the expectation that, as a lower cost producer, the group will have greater resilience in any downturn in prices than competitor producers.

In the agricultural operations, the group adopts a two-pronged approach in seeking production cost efficiencies. First, the group aims to capitalise on its available resources by developing its land bank as rapidly as logistical, financial and regulatory constraints permit while utilising the group's existing agricultural management capacity to manage the resultant larger business. Secondly, the group strives continually to improve the productivity and efficiency of its established agricultural operations.

The directors have considered the potential impact on the group of global climate change. Between 5 and 10 per cent of the group's existing plantings are in areas that are low lying and prone to flooding if not protected by bunding. Were climate change to cause an increase in water levels in the rivers running though the estates, this could be expected to increase the requirement for bunding or, if the increase was so extreme that bunding became impossible, could lead to the loss of low lying plantings, the percentage of which could be expected to increase. Changes to levels and regularity of rainfall and sunlight hours could also adversely affect production. However, it seems likely that any climate change impact negatively affecting group production would similarly affect many other oil palm growers in South East Asia leading to a reduction in CPO and CPKO supply. This would be likely to result in higher prices for CPO and CPKO which should provide at least some offset against reduced production.

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

The group's financial strategy is discussed under "Financing policy" in the "Finance" section of this report below.

The group recognises that its agricultural operations, of which the total assets at 31 December 2018 represented over 90 per cent of the group's total assets and which, in 2018, contributed substantially all of the group's revenue, lie within a single locality and rely on a single crop. This permits significant economies of scale but brings with it some risks. Whilst further diversification would afford the group some offset against these risks, the directors believe that, for the foreseeable future, the interests of the group and its shareholders will be best served by growing and developing the existing operations. They therefore have no plans for further diversification.

Development

A gradual shift in Indonesian political opinion towards encouraging and potentially mandating increased local ownership of Indonesian oil palm operations prompted the group in 2016 to increase Indonesian participation in the ownership of the group's agricultural operations through a strategic investor in the group's principal operating subsidiary, PT REA Kaltim Plantations ("REA Kaltim"). As a consequence, subsidiary companies of PT Dharma Satya Nusantara Tbk ("DSN"), an Indonesian natural resources company listed on the Indonesia Stock Exchange in Jakarta, currently have a 15 per cent equity interest in REA Kaltim. DSN is engaged in the business of oil palm plantations and wood products, with plantation estates based in East, Central and West Kalimantan. Through its association with DSN, the group benefits from exchanges of information on agronomic and related practices.

The group has acknowledged that DSN may increase its participation in REA Kaltim to an eventual level of 49 per cent by gradual stages over a period of five years from 2016, but on the basis that each increase will be subject to agreement of the price and other terms at the time of such increase and to the receipt of all necessary consents and approvals, including the approval of the company's shareholders to the extent required.

During 2018, the group concluded the sale of REA Kaltim's 95 per cent interest in PT Putra Bongan Jaya ("PBJ") to the Kuala Lumpur Kepong Berhad ("KLK") group. This disposal has relieved the group of the further substantial investment that would have been required to take the PBJ estates to full maturity and to build an oil mill to process production from PBJ. The divestment permits the group to focus its efforts on its remaining plantings and as yet undeveloped areas, all of which are concentrated within a single near contiguous geographical area.

Between 2011 and 2017, the group had to contend with a number of challenges in its operations which resulted in sub-optimal crop levels. These challenges had an adverse impact on cash generation which left the group with a level of debt and preference capital that at lower CPO prices represents a considerable burden on the group's income. 2018 saw a welcome return of crops to an acceptable level and the sale of PBJ provided a helpful injection of cash. However, the group recognises that there is more to do to restore the financial balance of the group and comply with the group's strategic objective of prudence in financial leverage. To this end the group is currently concentrating on further enhancing crop yields and seeking cost efficiencies.

Introduction and strategic environment

continued

The vegetable oil market context

According to Oil World, worldwide consumption of the 17 major vegetable and animal oils and fats increased by 4 per cent to 226 million tonnes in the year to 30 September 2018 (of which vegetable oils represented 167 million tonnes). World production of the same group of vegetable oils and fats during the same period was 230 million tonnes with vegetable oils accounting for 170 million tonnes of which CPO represented 72 million tonnes (some 31 per cent of the total). Total vegetable oil production is currently forecast by Oil World to rise by 2 per cent in 2019 to 234 million tonnes, with total CPO production projected to account for approximately 75 million tonnes of the total.

Vegetable and animal oils and fats have conventionally been used principally for the production of cooking oil, margarine and soap. Consumption of these basic commodities correlates with population growth and, in less developed areas, with per capita incomes and thus economic growth. Demand is therefore driven by the increasing world population and economic growth in the key markets of China and India. Vegetable and animal oils and fats can also be used to provide biofuels and, in particular, biodiesel.

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

In recent years, biofuel has become an important factor in the vegetable oil markets. According to Oil World, biofuel production in the year to 30 September 2018 accounted for some 24 per cent of global vegetable oil consumption. An increasing element of biofuel use reflects government mandates. In Indonesia, for example, fuel for use in transport and in power stations is, in each case, required to contain a stipulated minimum percentage of biodiesel. Moreover, a levy on exports of CPO is used to subsidise biodiesel production. As a result, an increasing amount of Indonesian CPO is being converted to biodiesel for internal consumption.

A graph of CIF Rotterdam spot CPO prices for the last ten years, as derived from prices published by Oil World, is shown on the adjacent page. The monthly average price over the ten years has moved between a high of $1,292 per tonne and a low of $439 per tonne. The monthly average price over the ten years as a whole has been $802 per tonne.

Although vegetable oil consumption (both for conventional uses and in biofuel) continued to grow steadily during 2017 and 2018, the rate of growth in vegetable oil production for those two years reached unprecedented levels and was such that supply outstripped demand. This led to a significant build up in CPO stock in both Malaysia and Indonesia and saw the CPO price fall sharply over 2018 from $677 per tonne, CIF Rotterdam, in January to reach a low in mid November of $439 per tonne.

Current projections indicate that the rate of growth in vegetable oil supply in 2019 and the years immediately thereafter will be significantly lower than in 2017 and 2018. Consumption growth on the other hand is projected to accelerate in the second half of 2019 and beyond, fuelled by lower CPO prices and further expansion of biodiesel consumption (particularly in Indonesia). This should result in an increasing supply deficit. CPO prices have already recovered from the low of November 2018 to a current level of $536, CIF Rotterdam, and it seems likely that prices will recover more through 2019, as stocks at origin are absorbed and India and China move to restock.

In late November 2018, responding to the depressed CPO prices then prevailing, the Indonesian authorities announced changes to the Indonesian export levy regime and the regime has subsequently been further amended. As a result, the levy is no longer payable when the CPO CIF Rotterdam price is below $570 per tonne. At prices between $571 and $619 per tonne, the levy is imposed at $10 per tonne; at prices above $619 per tonne, the levy increases to $20 per tonne (reduced from the previous level of $50 per tonne).

The Indonesian context

2018 was another good year for the Indonesian economy under the administration of President Joko Widodo ("Jokowi"). Gross domestic product expanded by 5.2 per cent in 2018 compared to 5.1 per cent in 2017. Many international economists have commented that this was an excellent achievement against the backdrop of a slowdown in the global economy and high levels of uncertainty in financial markets.

For the fourth year in a row, Indonesian inflation remained at modest levels, reportedly at 3.1 per cent which was below the target of 3.5 percent set in the 2018 Indonesian State Budget and also lower than the subsequent prediction of 3.25 percent from the Indonesian Central Bank.

Nevertheless, the Indonesian rupiah came under huge pressure in the second half of 2018, weakening from Rp 13,548 = $1 at the start of the year to over Rp 15,200 = $1

by mid October 2018. This may be attributed to monthly increases in trade deficits as a result of imports of the primary goods and services needed to support the new investment required to maintain economic growth. Following a number of decisive steps taken by the Ministry of Finance, the currency recovered by the end the year to Rp 14,451 = $1. It subsequently strengthened further but now appears to have stabilised around Rp 14,100 = $1.

A series of major infrastructure projects initiated by President Jokowi have become increasingly visible. In Jakarta, the first phase of the new Mass Rail Transit opened in March 2019 and, elsewhere in Java, there has been substantial progress with an intercity toll road to connect the west (Jakarta) with the east (Surabaya). Outside Java, some 980 kilometres of new roads have been constructed and these will assist local economies. An international airport in Samarinda, East Kalimantan (where the group's estates are located), was commissioned late in 2018. The group is already benefitting from this as it reduces the travel time from Jakarta to the group's estates.

During 2018, the economy in East Kalimantan has continued to grow boosted by the return of better coal prices, although the benefit of these was offset to an extent by the very weak CPO prices experienced by the oil palm industry in the second half of 2018. The Gubernatorial elections held during the year saw the election as Governor of East Kalimantan of the former Regent of the East Kalimantan Province of Kutai Timur.

Presidential and Legislative Assembly elections took place on 17 April 2019 following a peaceful campaign period. Only one candidate, Prabowo Subianto Djojohadikusomo, who also ran in 2014, contested the Presidency against the current incumbent, Jokowi, who is running for a second term. Exit polls suggest that Jokowi will be re-elected but a formal declaration of the outcome of the election is still pending.

The inauguration of the new President is due to take place in October 2019.

Evaluation of performance

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

The directors do, however, rely on regular reporting of certain key performance indicators that are comparable from one year to the next, in addition to monitoring the key components of the group's profit and loss account and balance sheet. These performance indicators are summarised in the table below.

Quantifications of the indicators for 2018 with, where available, comparative figures for 2017 are provided in the succeeding sections of this report, with each category of indicators being covered in the corresponding section of the report.

Introduction and strategic environment

continued

Performance indicator	Measurement	Purpose
Agricultural operations		
New extension area planted	The area in hectares of new land planted out during the applicable period	To measure performance against the group's expansion objective
Crop of fresh fruit bunches ("FFB") harvested	The weight in tonnes of FFB delivered to oil mills from the group's estates during the applicable period	To measure field efficiency and assess the extent to which the group is achieving its objective of maximising output from its operations
CPO extraction rate achieved	The percentage by weight of CPO extracted from FFB processed	To measure mill efficiency and assess the extent to which the group is achieving its objective of maximising output from its operations
Palm kernel extraction rate achieved	The percentage by weight of palm kernels extracted from FFB processed	To measure mill efficiency and assess the extent to which the group is achieving its objective of maximising output from its operations
CPKO extraction rate achieved	The percentage by weight of CPKO extracted from palm kernels crushed	To measure mill efficiency and assess the extent to which the group is achieving its objective of maximising output from its operations
Coal and stone operations		
Coal or stone produced	The weight in tonnes of coal or stone extracted from each applicable concession during the applicable period	To measure production efficiency and assess the extent to which the group is achieving its objective of maximising output from its operations
Sustainability		
Work related fatalities	Number of work related fatalities during the applicable period	To measure the efficacy of the group's health and safety policies
Smallholder percentage	The area of associated smallholder plantings expressed as a percentage of the planted area of the group's estates	To measure performance against the group's smallholder expansion objective
Greenhouse gas emissions per tonne of CPO and per planted hectare	Greenhouse gas emissions measured in tonnes of CO_2 equivalent divided, respectively, by the weight of CPO extracted from FFB processed and by the number of group planted hectares supplying the group mills	To measure the intensity of the group's greenhouse gas emissions
Finance		
Return on adjusted equity	Profit before tax for the period less amounts attributable to preferred capital expressed as a percentage of average total equity (less preferred capital) for the period	To measure the group's financial performance
Net debt to total equity	Borrowings and other indebtedness (other than intra group indebtedness) less cash and cash equivalents expressed as a percentage of total equity	To assess the risks of the group's capital structure

International Women's Day photo competition celebrating diversity in the workplace

Agricultural operations

Structure

All of the group's agricultural operations are located in East Kalimantan and have been established pursuant to an understanding dating from 1991 whereby the East Kalimantan authorities undertook to support the group in acquiring, for its own account and in cooperation with local interests, substantial areas of land in East Kalimantan for planting with oil palms.

The group's land areas, the first of which were acquired in 1991and planted in1994, are owned through the group's principal operating subsidiary, REA Kaltim, in which a group company holds an 85 per cent interest. Over a four year period from 2005 to 2008 the company established or acquired five additional Indonesian subsidiaries, each bringing with it a substantial allocation of land in the vicinity of the original REA Kaltim estates. One such subsidiary, PBJ, was divested during 2018. Each of the four remaining subsidiaries is currently owned as to 95 per cent by REA Kaltim and 5 per cent by Indonesian local investors. Further land was acquired more recently through two more subsidiaries: PBJ2 (acquired in 2012) and PU (acquired in 2017), which are similarly owned.

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

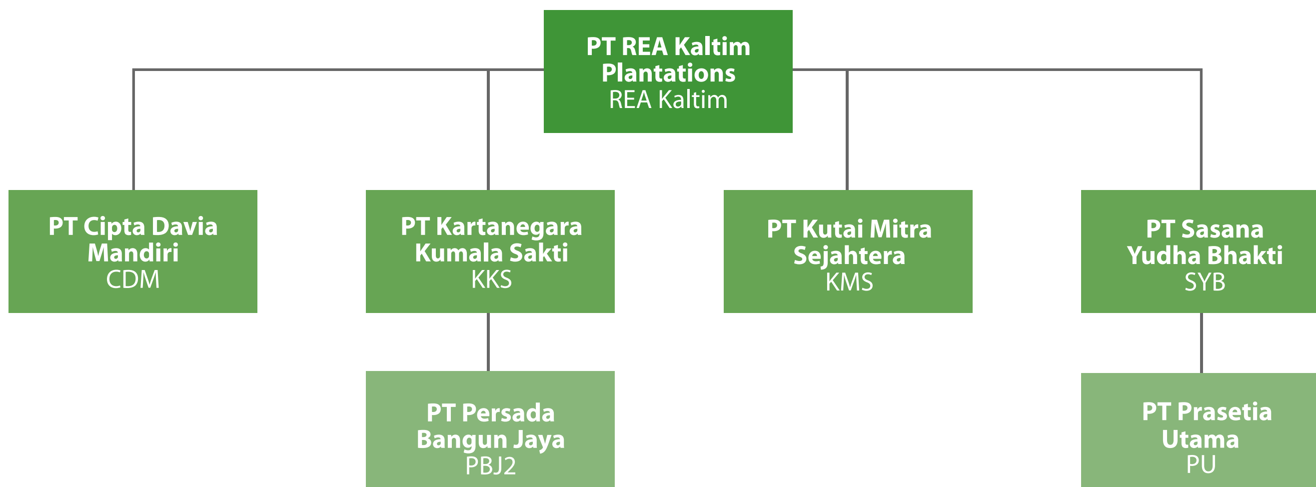
Land areas

The operations of REA Kaltim are located some 140 kilometres north west of Samarinda, the capital of East Kalimantan, and lie either side of the Belayan river, a tributary of the Mahakam, one of the major river systems of South East Asia. The SYB area is contiguous with the REA Kaltim areas and together these form a single site falling within the Kutai Kartanegara regency of East Kalimantan. The CDM, KMS and KKS areas are located in close proximity to each other in the East Kutai regency of East Kalimantan, less than 30 kilometres to the east of the REA Kaltim areas. PBJ2 and PU land is adjacent to the land areas held by REA Kaltim and SYB.

Until recently, the REA Kaltim and adjacent areas were most readily accessed by river but, in 2015, a new road was constructed between Tabang (a town to the north of the REA Kaltim estates) and Kota Bangun connecting via a bridge over the Mahakam River with an existing road from Kota Bangun to Samarinda (the capital of East Kalimantan). This road passes through the REA Kaltim estates and now provides the group with alternative transport options which are of particular value when excessively dry periods limit river access to the estates. A bridge across the Senyiur River links REA Kaltim and the KMS, CDM and KKS areas.

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

REA Kaltim sub-group



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

During 2018, the overall area of the group's fully titled agricultural land decreased from 76,127 hectares to 64,525 hectares as a consequence of the divestment of PBJ (holding fully titled land areas of 11,602 hectares) which was completed at the end of August 2018. Included within the overall retained area are 9,097 hectares of fully titled land areas pertaining to PU, which are located on the southern side of the Belayan River opposite the SYB northern areas and linked by a government road to the southern REA Kaltim areas. Transfer of PU shares to SYB and its local partner was completed in 2017 pursuant to exchange arrangements agreed in 2015 with PT Ade Putra Tanrajeng ("APT"). In exchange for such shares, SYB has agreed to transfer to APT 3,554 hectares of fully titled SYB land and has relinquished 2,212 hectares of untitled land allocations, both areas being the subject of overlapping mineral rights held by APT. Pending completion of the transfer of the 3,554 hectares, APT and its associates have been granted access to commence mining in this area.

In addition, at 31 December 2018, the group holds, or has held and can potentially renew, land allocations totalling 17,837 hectares. This figure excludes a provisional allocation of 12,050 hectares granted many years ago to KKS that was conditional upon rezoning of the area concerned. No rezoning has yet occurred and, in any event, parts of the area have become the subject of mining licences. The group retains its rights in respect of this area but considers that it is no longer appropriate to classify it as part of the land areas held by the group.

It is the group's policy to apply for renewal of land allocations when they are due to expire.

Details of the land areas held by the group as at 31 December 2018 are set out below:

Land areas	Hectares
Fully titled land	
CDM	9,784
KMS	7,321
PU	9,097
REA Kaltim	30,106
SYB	8,217
	64,525
Land subject to completion of titling	
CDM	5,454
KKS (area adjacent to CDM)	5,150
KMS	1,964
PBJ2	5,269
	17,837

Areas not yet fully titled can be expected to result in some reduction in hectarage upon renewal of allocations, as was the case with CDM in 2017 and is likely for KMS and PBJ2. Moreover, areas the subject of land allocations may be further reduced on full titling as land the subject of conflicting claims or allocated for smallholder cooperatives may be excluded.

Not all areas in respect of which full HGU titles are issued can be planted with oil palms. Some land may be unsuitable for planting, high conservation value areas must not be developed and some land will be required for roads, buildings and other infrastructural facilities. Following the sale of PBJ, the directors believe that the remaining fully titled land and land allocations, augmented by some potentially available adjacent plots, should permit extension of the group's retained oil palm plantings to an eventual total planted area approaching 50,000 hectares.

With land prices rising, increasing interest in plantation development and sustainability obligations severely restricting land development, plantable 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 manage its land bank carefully to ensure that it can demonstrate clear plans for the utilisation of all of its undeveloped land holdings. The group does not believe that any land intended for further expansion is likely to be lost as a consequence of this policy.

Land development

Areas planted as at 31 December 2018 amounted in total to 36,500 hectares, after taking account of the sale of plantings

Agricultural operations
continued

in PBJ. Of this total, mature plantings comprised 33,292 hectares having a weighted average age of 15 years. A further 131 hectares planted in 2015 were scheduled to come to maturity at the start of 2019.

The breakdown by planting year of the total of 36,500 planted hectares (which exclude planted areas to be relinquished by SYB upon completion of the SYB land swap agreement described under "Land areas" above) is shown below.

Planted areas	Hectares
Mature areas	
1994	416
1995	1,956
1996	2,272
1997	2,479
1998	4,829
1999	351
2000	874
2004	3,190
2005	2,279
2006	3,362
2007	3,455
2008	991
2009	319
2010	1,419
2011	1,073
2012	1,903
2013	1,806
2014	318
	33,292
Immature areas	
2015	131
2016	1,802
2017	1,000
2018	275
	36,500

Planted areas that complete a planned planting programme for a particular year but are planted in the early months of the succeeding year are normally allocated to the planting year for which they were planned. The above table includes a total of 232 hectares of flood prone areas forming part of the 2009 and 2010 plantings at CDM that were previously abandoned but may be recoverable and transferred to a local village cooperative.

As previously reported, development and planting in 2018 was concentrated on completion of the areas required at PBJ to maximise the proceeds from the sale of PBJ, with some additional areas totalling 268 hectares planted at CDM to round off certain, near contiguous blocks so as to optimise the efficiency of the CDM development. Some additional areas were also planted out in KMS where there remain areas for planting that, in due course, should increase the 4,500 hectares planted to date to an eventual total of some 4,800 hectares. Of this total, some 800 hectares of 2013 plantings and related infrastructure are expected to be transferred to village cooperatives.

The directors are continuing to review the best options for managing CDM so as to preserve and protect the important conservation reserves in the wetland areas within CDM while maintaining the existing plantings and meeting the group's obligation to develop smallholder plantings for local village cooperatives.

Extension planting in areas adjacent to the existing developed areas offers the prospect of good returns. It remains the policy of the directors, therefore, to continue the group's extension planting programme but only when funding so permits so that, over time, all suitable undeveloped land available to the group (other than areas set aside by the group for conservation) will be planted with oil palms. As previously acknowledged, such expansion involves 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. For the time being, the group's extension planting programme remains on hold and further development will be reinstated only when the CPO price has sufficiently recovered and the directors are confident that this recovery will be sustained. In the meantime, nurseries are being established to ensure availability of seedlings for the planned further development as soon as such seedlings become needed. Some 1,000 hectares of mature areas that have been damaged over the years by periodic flooding are being bunded in 2019 and will then be resupplied.

Processing and transport facilities

The group currently operates three oil mills in which the FFB crops harvested from the mature oil palm areas are processed into CPO and palm kernels. The two older mills date from 1998 and 2006 respectively and each was designed to have effective processing capacity of 80 tonnes per hour. The third mill, operating since 2012, has a current capacity of 45 tonnes per hour but is now being expanded to increase its capacity to 80 tonnes per hour. Works to effect this expansion are expected to complete during the second half of 2019 in readiness for the peak cropping period. The group also intends to make minor modifications to the two older mills with a view to increasing slightly their processing capacity during peak cropping periods. Such modifications and the expansion of the third mill to almost double its current capacity should mean that the group will, for the foreseeable future, have sufficient processing capacity for its own requirements and to process the anticipated crop from third party growers.

There is a continuing programme of routine maintenance and upgrading work in the mills to optimise extraction rates, minimise oil losses and ensure that the design throughput of each mill is maintained. Having two boilers in each mill provides resilience and facilitates downtime for this ongoing programme.

Two of the group's oil mills incorporate, within the overall facilities, palm kernel crushing plants in which palm kernels are further processed to extract the CPKO that the palm kernels contain. The processing of kernels into CPKO avoids the material logistical difficulties and cost associated with the transport and sale of kernels. Each kernel crushing plant has a final design capacity of 150 tonnes of kernels per day which is sufficient to process current kernel output from the group's three oil mills. Total installed capacity is currently 250 tonnes per day.

A fleet of barges for transporting CPO and CPKO is used in conjunction with tank storage adjacent to the oil mills and a transhipment terminal owned by the group downstream of the port of Samarinda. The core river barge fleet, which is operated under time charter arrangements to ensure compliance with current Indonesian cabotage regulations, comprises a number of small vessels, ranging between 750 and 2,000 tonnes. These barges are used for transporting CPO and CPKO from the estates to the transhipment terminal for bulking and then either loading to buyers' own vessels on an FOB basis or for loading to either a 4,000 tonne or 2,400 tonne sea-going barge. The sea-going barges, also operated under time charter arrangements, make deliveries to customers on a CIF basis in other parts of Indonesia. On occasion, the group also spot charters additional barges for shipments and to provide temporary storage if required.

During periods of lower rainfall (which normally occur for short periods during the drier months of May to August of each year), river levels on the upper part of the Belayan become more volatile and CPO and CPKO must be transferred by road from the mills to a point some 70 kilometres downstream at Pendamaran where the group has established a permanent loading facility so that the year round loading of barges of up to 2,400 tonnes is possible. Additional tank storage is being constructed at Pendamaran to provide additional capacity that will be required during peak periods and as oil production increases.

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

Flexibility of delivery options is helpful to the group in its efforts to optimise the net prices, FOB port of Samarinda, that it is able to realise for its produce. Moreover, the group's ability itself to deliver CPO on a CIF basis, buyer's port, allows the group to make sales without exposure to the collection delays sometimes experienced with FOB buyers. The majority of CPO sales are now made to Indonesian refineries in Balikpapan, East Kalimantan, and Kota Baru, South Kalimantan, which can be easily accessed from the group's bulking station on the Mahakam River and to which the voyage time is much shorter than that to East Malaysia where historically the majority of CIF sales were made.

The current river route downstream from the mature estates follows the Belayan River to Kota Bangun (where the Belayan joins the Mahakam River), and then the Mahakam through Tenggarong, the capital of the Kutai Kartanegara regency, Samarinda, the East Kalimantan provincial capital, and ultimately through the Mahakam delta into the Makassar Straits.

Crops and extraction rates

Key agricultural statistics for the year to 31 December 2018 (with comparative figures for the corresponding period of 2017) were as follows:

FFB crops (tonnes)	2018	2017
Group harvested	800,050	530,565
Third party harvested	191,228	114,005
Total	991,278	644,570
Production (tonnes)		
Total FFB processed	969,356	630,600
CPO	217,721	143,916
Palm kernels	45,425	29,122
CPKO	16,095	11,052
Extraction rates (percentage)		
CPO	22.5	22.8
Palm kernels	4.7	4.6
CPKO*	40.2	38.0
Rainfall (mm)		
Average across the estates	2,934	3,620

* Based on kernels processed

Building on the restorative measures implemented in 2017, the group saw a marked further improvement in operations in 2018. Crops were up more than 50 per cent on the previous year, surpassing the group's previous highest level of FFB harvested and producing a yield per mature hectare of some 23.1 tonnes per hectare compared with 15.6 tonnes per hectare in 2017.

The continuing recovery in crop reflected the combined effect of the enhanced fertiliser regime introduced late in 2016, restoration of upkeep standards, the improved field access afforded by the upgrading of the road network and expansion of the truck fleet to provide greater evacuation capacity, as well as more favourable weather conditions. However, the surge in crop during the second half of the year brought certain challenges for harvesting, collection and processing in the group's mills. As a result, CPO extraction rates fell short of the levels to which the group aspires. Such challenges are

being addressed and mill operations will be an area of particular focus during 2019 with a view to ensuring that extraction rates are maximised.

With greater consistency in field disciplines and supervision, the production recovery seen in 2018 has continued into the current year with projected FFB for the year of some 900,000 tonnes. Group FFB amounted to 165,692 tonnes in the first quarter of 2019, compared with 135,363 for the same period in 2018. Third party FFB amounted to 43,384 in the first quarter against 33,901 for the comparable period in 2017.

Revenues

As in recent years, all of the group's CPO and CPKO was sold in the local Indonesian market during 2018, reflecting continuing demand from easily accessible local refiners and the delivery efficiencies achievable from selling to this nearby customer base. The group has established relationships with each of the four main refineries now operating in the region. Competition between these refineries ensures that prices achieved are competitive. Local sales do not attract export levies or duties but arbitrage between the local and international markets means that the price differential between the markets is normally an appropriate reflection of the additional imposts incurred on exports.

CPO and CPKO sales are made on contract terms that are comprehensive and standard for each of the markets into which the group sells. The group therefore has no current need to develop its own terms of dealing with customers. CPO and CPKO are widely traded and the group does not therefore see the concentration of its sales on a small number of customers as a significant risk. Were there to be problems with any one customer, the group could readily arrange for sales to be made further afield and, whilst this could result in additional delivery costs, the overall impact would not be material.

Average premia realised during the year for sales of certified oil amounted to $8 per tonne for CPO sold with International Sustainability and Carbon Certification and, respectively, $3 and $27 per tonne for CPO and CPKO sold with Roundtable on Sustainable Palm Oil certification.

As a rule, all CPO and CPKO produced by the group is sold in the local market on the basis of average prices prevailing immediately ahead of delivery but, on occasions when market conditions appear favourable, the group may make forward sales at fixed prices. Such prices, whether spot or forward, reflect and are net of the then current rates of export tax and export levy and the markets expectations of changes in the same. The fact that export duty is levied on prices prevailing at date of delivery, not on prices realised, does act as a disincentive to making forward fixed price sales since a rise in CPO prices prior to delivery of such sales will mean that the group will not only forego the benefit of a higher price but may also pay export tax on, and at a rate calculated by reference to, a higher price than it has obtained. No deliveries were made against forward fixed price sales of CPO or CPKO during 2018 and the group currently has no sales outstanding on this basis. The group made no direct exports of CPO or CPKO during the year as it considers the local market to offer better average prices.

The average prices per tonne realised by the group in respect of 2018 sales of CPO and CPKO, adjusted to FOB, Samarinda, and net of export duty were, respectively, $472 (2017: $592) and $1,007 (2017: $1,134). The significant decline in CPO price realised as compared with the preceding year reflected the fact that the pattern of the group's crops in 2018 meant that the heaviest selling period for the group's CPO coincided with the period when the CPO market was at a low point.

Operating efficiency

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

The group's operations lie in an area where average rainfall levels are high. The group endeavours to capitalise on this advantage by striving to achieve economic efficiencies and best agricultural practice. In particular, careful attention is given to ensuring that new oil palm areas are planted with high quality seed from proven seed gardens and that all oil palm areas receive appropriate husbandry.

Methane from the group's two methane capture plants, which were commissioned in 2012, drives four generators (each of one megawatt capacity) providing power for the group's own use. These generators have enabled the group to achieve material savings in energy costs with consumption of diesel oil for electricity largely eliminated on the REA Kaltim and SYB estates.

An additional three megawatts of generating capacity are dedicated to the Indonesian government-owned energy company, PLN, to use in supplying power to villages and sub-villages surrounding the group's estates by way of a local grid. Payment for the power so utilised is made by PLN to the company at fixed rates determined by Indonesian state regulations. The rate of uptake grows steadily and, as further households install prepay meters, power offtake from the

group is projected to increase. Revenue from electricity sales amounted to some $698,000 in 2018, compared with $627,000 in 2017. PLN may, in due course, be able to increase its power capacity requirement to eight megawatts.

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

Use of handheld devices in the field to input harvesting data into the group's information system was successfully rolled out across most of the group's operations during 2018. This should improve recording accuracy, speed up the generation of operational reports and, in due course, lead to some savings in estate administrative costs.

Coal and stone operations

Concessions

The group holds interests in respect of two coal mining concessions and two stone deposits, all of which are located in East Kalimantan in Indonesia. The coal mining concessions comprise a high calorific value deposit near Kota Bangun and the lower grade Liburdinding concession in the southern part of East Kalimantan. The stone concessions comprise a substantial deposit of high grade andesite stone located to the north east of the SYB northern plantations and a much smaller limestone deposit adjacent to the PBJ plantations that were divested in 2018. The directors believe that, in due course, quarrying of the group's stone deposits will improve the durability of infrastructure in the group's operations and could also provide useful additional revenue from the sale of stone to third parties.

Structure

Stone quarrying is classified as a mining activity for Indonesian licensing purposes and is subject to the same regulatory regime as coal mining. The group's stone interests are therefore managed in conjunction with the group's coal interests through an Indonesian subsidiary company, PT KCC Resources Indonesia ("KCCRI"), which is 95 per cent owned by the company's UK subsidiary company, KCC Resources Limited, and five per cent owned by local partners.

The coal mining and andesite stone concessions are held by Indonesian concession holding companies, which are currently wholly owned by the group's local partners but with the group having the right, subject to satisfaction of certain conditions (the "applicable conditions"), to acquire 95 per cent of each of the concession holding companies at the local partners' original cost. In the meanwhile, the concession holding companies are financed by loan funding from the group on terms such that no dividends or other distributions or payments may be paid or made by the concession holding companies to the local partners without the prior agreement of the group.

Changes to the Indonesian regulatory regime applicable to foreign investment in mining since the above arrangements were agreed are likely to mean that the applicable conditions cannot be satisfied in their existing form. Accordingly, the concession holding companies have not been consolidated. In the meanwhile, in consideration of the group's continuing support for KCCRI and all the concession holding companies, the andesite stone concession holding company has guaranteed the obligations to the group of the coal concession holding companies.

Operating activities

The directors decided in 2012 to limit further capital commitments to the coal operations and to concentrate the group's efforts on maximising recoveries of the amounts already invested. Then in 2014, there was a substantial fall in international coal prices and coal activities were suspended. With a subsequent recovery in prices, in 2017 the group began working to reopen the more important coal concession at Kota Bangun which principally contains semi-soft coking coal and high calorific value thermal coal.

As a necessary preliminary to resuming mining at Kota Bangun, during 2018 the group acquired an established loading point on the Mahakam River, together with a coal conveyor that crosses the group's concession and runs to the loading point via a coal crushing facility. After relicensing the loading point, refurbishment works to the loading point and conveyor commenced toward the end of the year and these are expected to complete in mid 2019. The loading point and related infrastructure offer the potential for the group to process and load coal from neighbouring third party mines in addition to its own coal.

Having secured access to the Mahakam via the loading point and a licence to export coal from the Kota Bangun concession, the group was able to dispose of an existing coal stockpile of some 16,000 tonnes deriving from previous mining operations. Dewatering to provide access to the previously mined Kota Bangun northern pit commenced in 2018 and has now been completed. The group is currently reviewing a range of options with various contractors to recommence mining of the concession.

The operating licence required to establish a simple quarrying and crushing operation on the andesite stone concession was obtained in 2014. The agricultural operations can utilise significant quantities of crushed stone for their building and infrastructure construction programmes. In addition, indications are encouraging that there would also be good third party demand for crushed stone for road building and use as a concrete aggregate. Following a positive feasibility study undertaken in 2017, the group has under review options for developing and operating the andesite stone concession for which suitable road access is a necessary preliminary to commencing extraction operations. For the moment, however, to the extent that any further capital is to be committed to its coal and stone operations, the group is giving priority to the reopening of its Kota Bangun concession, as it believes that this offer quicker returns with lower risk than the andesite or Liburdinding concession.

The limestone concession, which is adjacent to the group's previously held PBJ property, is held by an independent Indonesian third party. Pursuant to arrangements agreed in respect of the limestone quarry during 2017, KCCRI purchases crushed stone from a third party contractor with exclusive rights to quarry the concession. The stone is quarried at the concession site and then delivered to a site within the PBJ property for crushing by the same contractor. Pursuant to the sale agreements for PBJ, KCCRI may

continue to use the existing site within PBJ for crushing stone and KLK will procure that PBJ offers KCCRI first refusal on all future contracts for the supply of stone to PBJ.

The Kota Bangun concession holding company has been served with an arbitration claim by two parties (connected with one another) with whom the concession holding company previously had agreements to, amongst other things, fund the development and operate the concession. The concession holding company believes that these agreements did not become effective as respects the concerned counterparties because, inter alia, certain pre-conditions were never satisfied. The concession holding company, therefore, considers the claim to be without merit.

Transparency

The group is committed to operating in a responsible and transparent manner and has made its policy framework publicly available since 2015. In addition to the sustainability information published each year in the annual report, the group publishes detailed information regarding the group's environmental and social performance, as well as the sustainability challenge, in accordance with the internationally recognised Global Reporting Initiative ("GRI") standard. This allows the group's sustainability performance to be compared with that of other oil palm growers and allows stakeholders to monitor the group's progress in meeting its sustainability commitments. This additional sustainability information is updated regularly and is now made available on the group's website at www.rea.co.uk. Accordingly it will no longer be published in a standalone sustainability report.

Each year, the group participates in the Sustainable Palm Oil Transparency Toolkit ("SPOTT") assessment by the Zoological Society of London ("ZSL"). SPOTT uses publicly available information to produce a score based on a number of criteria, in particular the presence and implementation of sustainability policies, certification and supply chain traceability. The toolkit also focuses on social, ecological and environmental indicators, such as how the company deals with forests, peatlands, water management, community rights and smallholders. The group's score has increased in the past two years from 64 per cent in 2016, to 67 per cent in 2017 and to 70 per cent in 2018, reflecting improvements in the presentation of data and clarification of certain policies. In 2018, the group was ranked 19th out of 70 participating oil palm companies, compared with 16th out of 50 participating companies in 2017, although year on year comparisons are complicated by the increasing number of categories, indicators and companies.

Policies

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

Certification

Certification provides third-party verification that a company is operating in accordance with national and international standards. Further, it encourages companies to improve their policies and practices by establishing higher premia for certified products. These standards are embodied in various certification schemes, specifically the Roundtable on Sustainable Palm Oil ("RSPO"), Indonesian Sustainable Palm Oil ("ISPO") and International Sustainability and Carbon Certification ("ISCC"), which focus on zero-deforestation, transparent feedstock supply chains and measurement of greenhouse gas emissions. It is the group's aim that all of its plantations and mills achieve and maintain certification under these internationally recognised schemes.

RSPO

The group has been a member of RSPO since 2007. RSPO is a multi-stakeholder organisation that aims to promote the sustainable production of palm oil. It has developed the RSPO standard, which is voluntary and consists of a set of Principles and Criteria designed to ensure that entities within the supply chain are audited against the RSPO Supply Chain Certification Standard. REA Kaltim's two oldest oil mills, Perdana ("POM") and Cakra ("COM"), were first certified in 2011 along with their supply chains. Each year since, these mills and their supply chains have undergone assessments to monitor their continued compliance with the RSPO standard. In 2016, POM, COM, the COM kernel crushing plant ("KCP") and their supply chains along with the group's downstream bulking station successfully passed the full recertification audits that are required every five years. Their certification, therefore, remains valid until 2021. Annual surveillance audits were also successfully completed during 2018.

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

As previously reported, there remains an outstanding High Conservation Value ("HCV") compensation liability at Satria estate regarding a small area of land that was cleared in 2008 prior to conducting an HCV assessment. The group's proposal that clarifies the precise extent and location of the land in question and sets out how the group intends to compensate for the cleared land is being reviewed by the RSPO. SOM and its supply base underwent a stage 1 preliminary audit in November 2018 and a follow-up certification audit is now scheduled for December 2019.

A second HCV compensation proposal regarding approximately 959 hectares of land cleared at CDM has also been submitted to the RSPO in furtherance of the group's commitment to achieve full RSPO certification for all of its operations. RSPO has responded positively to the objectives, timeline and proposed compensation set out in the plan. Once

implementation has been agreed, the compensation payments will be settled over several years as part of a time-bound plan which was agreed with RSPO for RSPO certification of CDM by 2023.

ISCC

CPO produced from mills certified under the voluntary ISCC scheme may be sold for biofuel under the European Union Renewable Energy Directive ("EU RED"). Following recertification audits, certificates were renewed in respect of all three of the group's oil mills during 2018.

ISPO

The ISPO standard is a policy adopted by the Ministry of Agriculture on behalf of the Indonesian Government and is mandatory for all oil palm companies operating in Indonesia. REA Kaltim's estates and mills first achieved ISPO certification in 2016 and have passed annual surveillance audits each year subsequently. The SYB mill and estates obtained ISPO certification in November 2018. ISPO does not apply to immature or development estates.

Certified sales

The group uses the RSPO PalmTrace system for certifying transfers of oil palm products from mills to refineries. Sales of CPO and CPKO are registered in one of three available categories: "Identity Preserved", "Segregated" or "Mass Balance". RSPO PalmTrace also offers a marketplace and the option to register off market deals through a "Book and Claim" system for RSPO credits; such registration confirms that the applicable CPO or CPKO was produced by an RSPO certified company.

Each sale of CPO and CPKO can only be made with one certificate, so the group has to decide which certification should apply to each sale. In reality, little physical CPO and CPKO is sold under RSPO certification because, in the context of the overall market for such oils, the group's monthly production is relatively small which makes the logistics of finding a suitable buyer challenging. CPO and CPKO sustainability credits are therefore sold though the PalmTrace system or off market to specific buyers.

Production and sales of CPO and CPKO are shown below:

Tonnes	2018 Production		2018 Sales	
	CPO	CPKO	CPO	CPKO
RSPO physical	25,058	8,376	3,001	–
RSPO credits	–	–	11,503	1,127
ISCC	118,828	–	88,131	–
Other (not certified)	73,835	7,719	89,590*	14,370
Total	217,721	16,095	192,225	15,497

* includes some certified CPO production that was sold without any sustainability premium

Environment

ISO 14001 is the international standard for an effective environmental management system that supports organisations in the development and implementation of environmental policies and objectives. The group maintains certification, which is subject to annual renewal, for all of the REA Kaltim and SYB estates and mills as well as the bulking station.

The group's mills are rated annually under the Program for Pollution Control Evaluation and Rating ("PROPER") at both provincial and national levels. A blue rating denotes that environmental management standards meet the regulatory requirements.

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

* Palm oil mill effluent

2018 is the eighth year for which the company has calculated and reported its carbon footprint using RSPO's PalmGHG calculation tools. For the last three years, the company has applied RSPO PalmGHG calculator version 3.0.1. Changes in the calculation methodologies have led to some discrepancies between current and historic greenhouse gas emission calculations. In addition, accounting adjustments to reflect the proportion of FFB that is processed in the group's own mills each year will automatically lead to variations in the calculation of emissions from year to year.

Gross carbon dioxide emissions for 2018 were higher than in 2017, reflecting overall higher emissions from land conversion and higher fuel consumption. Nonetheless, there were lower emissions from fertiliser application due to a reduced amount of fertiliser that was applied as a proportion of total FFB processed in the group's own mills. Also, there were lower emissions from POME due to improvements in POME treatment and methane capture for the production of renewable energy. In contrast to the gross emissions, net carbon emissions were almost similar in 2018 compared to 2017 due to higher overall crop sequestration. However, the increased CPO production volume in 2018 resulted in lower net emissions per tonne of CPO produced.

Responsible agricultural practices

Maintaining clean air and fresh water resources is vitally important for the villages in and surrounding the group's estates, as well as for the group's operations in the estates and mills. The quality of air, river water, ground water and tap water is monitored regularly across the group's plantations and employee facilities to ensure that their biological oxygen demand ("BOD") and chemical oxygen demand ("COD") remain within the applicable regulatory standards. The group's mills operate a zero-effluence policy, whereby no by-products

resulting from the production of CPO or CPKO are discharged into local water courses.

Production of CPO and CPKO uses high quantities of water, so this must be carefully managed to minimise waste and to reduce the risks associated with droughts during the dry seasons. Water usage inevitably increases as FFB production increases, so the group is working to improve the efficiency of water consumption in its mills and has developed a time bound plan with the objective of keeping water usage below 1.5 m^3 per tonne FFB throughout 2019.

Greenhouse gas emissions from POME have been substantially reduced following the installation in 2012 of the methane capture facilities at POM and COM. Such facilities utilise a substantial portion of the POME produced at POM and COM for the generation of renewable energy. POME that is not used for methane capture, including the POME from SOM, together with the digested POME residue from the methane capture facilities is pumped through a series of open ponds to reduce its BOD. Thereafter, it is used for land application in flat beds between rows of oil palm, allowing the remaining nutrient content to be used as a fertiliser. The BOD of the POME in the final open pond at each mill is subject to monthly testing by a third party to ensure that it remains within the legal standard for land application use.

Fertiliser application is optimised by analysing the nutrient content of systematically selected oil palm frond samples, supplemented by visual inspection of palm canopies and soil sampling. The analysis is conducted by an in-house agronomy team and verified by independent agronomy consultants. To overcome a nutrient deficiency detected in 2015, following some reductions from historic levels in annual inorganic fertiliser applications over the period 2012 to 2014, applications of inorganic fertilisers were returned to, and are now maintained at, their historic levels.

The group seeks to optimise the quantity of organic and inorganic fertiliser that it applies and supplements inorganic applications with empty fruit bunches ("EFB"), a waste product from the mills. The application of EFB for mulching provides the palms with organic matter that helps to retain ground moisture which is important during dry weather periods and also helps to minimise the quantities of inorganic fertiliser required.

Employees

At the end of 2018, the group's workforce numbered 9,540 compared to 10,959 at the end of 2017. The reduction in headcount was primarily due to the sale of PBJ during the year which resulted in around 1,260 employees at PBJ ceasing to be part of the group's workforce. Other reductions were achieved through operating efficiencies.

To improve productivity, the group aims to ensure that employees at every level within the organisation are rewarded based on their performance. Performance of management staff is evaluated annually in relation to a pre-agreed set of quantitative and objective key performance indicators ("KPIs"). The reward system for all levels of employees is reviewed regularly. In 2018, the system of compensation and benefits for harvesters was refined to incentivise productivity by awarding quarterly bonuses to harvesters who achieve certain graduated targets. In addition, the group introduced a special allowance for harvesting tall trees. This enhanced compensation package has led to a marked improvement in harvester performance.

The group endeavours to provide competitive salary packages, opportunities for career development and a decent standard of living on the estates for employees and their families. This is particularly important given the remote location of the group's estates. Good quality housing and community facilities for employees are a priority. The group continues to build houses using bataco blocks, which are produced in-house by mixing boiler ash from the mills with cement. Use of this material has significantly reduced both the cost and environmental footprint of new houses in recent years. In 2018, new houses were built for 138 families on the group's estates. There is an annual competition for the best house and best estate village to encourage respect for the environment. The group provides each village emplacement with a medical clinic, church, mosque, sports facilities and a market.

In 2018, with the support of the group's community development department, the first employee cooperative shop ("REA Mart") was established on one of the group's older estates. REA Mart supplies everyday groceries and household items for the benefit of employees living in estate housing. This initiative has proved popular and will be extended to other estates during 2019 and, in due course, should allow the cooperative shops to bulk purchase and thereby source products more competitively than has hitherto been the case.

In 2008, the group established a foundation to manage the network of schools across the estates. The foundation now manages 28 schools, including 13 pre-schools, 14 primary schools and one secondary school. At the end of 2018, 676 pre-school children, 1,788 primary school children and 216 secondary school students were enrolled in the group's school system.

The group aims to maintain and improve management standards by facilitating the upward mobility of promising employees and by recruiting and training new graduates. The mechanism for this is the group's long established cadet training programme. The programme is run from the group's central training school and provides participants with 14 months of theoretical and practical training in all aspects of plantation management. Cadets who successfully complete the training are appointed as assistants on the group's estates,

in the mills and various other departments. Over the last 20 years, 383 cadets have participated in this programme of whom two-thirds are still employed by the group. 24 people enrolled in the 2017/2018 programme, all of whom successfully graduated and progressed to positions in the group's mills, the established and developing estates, and the technical services and health and safety departments.

Help with career advancement is not restricted to the cadet training programme. To equip employees at every level with the skills and knowledge to perform effectively and to advance their careers, the group also runs an annual training programme for established staff. The programme is designed by the group's training manager, based on input received from every department, and consists of both in-house training and participation in external training and conferences.

The group takes seriously its duty to protect and respect the human rights of any person affected by its operations and is committed to adhering to the core conventions of the International Labour Organisation's Fundamental Principles and Rights at Work, as well as Indonesian labour regulations and the provisions of the Modern Slavery Act 2015. The policy on human rights is displayed at every work site in order to communicate the group's commitments in this regard to employees at every level. This policy includes a commitment to promote diversity and equality in the workplace and states clearly that discrimination based on age, disability, ethnicity, gender, marital status, political opinion, race, religion or sexual orientation will not be tolerated. As at 31 December 2018, 40 ethnicities and 5 religions were represented in the group's workforce.

The group pays careful attention to the gender balance within its workforce. At the end of 2018, women accounted for 27 per cent of the group's workforce, including 17 per cent of the management team.

	2018		2017	
	Number of male staff	Number of female staff	Number of male staff	Number of female staff
Directors	4	2	4	2
Management	64	13	66	13
Rest of workforce	6,895	2,562	7,670	3,214
Total	6,963	2,577	7,730	3,229

To drive and improve gender diversity in the workplace, a gender committee was established in 2018. The committee's members are managers and staff with relevant knowledge and expertise to advise on and help implement the group's policy with respect to equality and diversity. In collaboration with the human resources department, the committee considers relevant changes in regulatory guidance and recommends policy changes accordingly. Through sub-committees at the estates and in the mills the committee seeks to ensure equality of opportunity and treatment at all levels in the group.

Management

Overall responsibility for the group's operations resides with the group managing director, who is based in the UK. The president director of the group's principal operating subsidiary, REA Kaltim, together with four fellow directors, has overall local responsibility for the group's affairs in Indonesia, covering the estate operations, corporate affairs, commercial administration and finance.

As a foreign investor in Indonesia, the group is conscious that it is in essence a guest in Indonesia and an understanding of local customs and sensitivities is important. The group's ability to rely on senior Indonesian staff to handle its local interface is therefore a significant asset upon which the group continues to build. This asset is augmented by the support and advice that the group obtains from local advisers and from the local non-controlling investors in, and local commissioners of, the company's Indonesian subsidiaries.

Health and safety

The group is continuing to work towards full implementation of the international standards of Operational Health and Safety Management System ("OHSAS") 18001 to better understand and manage potential hazards that may occur in both daily operations and unusual circumstances.

Monthly internal audits and inspections are conducted across all of the company's operations in accordance with OHSAS 18001 standards and regular safety training is provided to highlight the importance and implementation of safe practices for both employees and contractors. Routine training covers the identification, control and communication of potential hazards, management of plantation and forest fires, safe working practices to avoid accidents and the use of protective equipment, especially when working in confined spaces or with chemicals. Roads in and around the group's operations can be hazardous, particularly after heavy rain, so drivers of all vehicles are required to pass a company driving test. Motorcycle safety training is also provided for employees and their family members as motorcycles are their standard mode of transport. Additionally, the group provides training on action in the event of natural disasters, the impact of which could potentially be significant given the remote location of the group's operations.

Regrettably there was one non-work related fatality on the group's estates in 2018. The company treats any fatality within its premises extremely seriously and responds in the same way irrespective of whether the incident is considered to be work-related or not. There is a rigorous incident investigation and reporting procedure to ensure that the cause of any incident is properly identified and that the senior management operations teams understand any remedial action required.

Sustainability

continued

External healthcare provision is extremely limited in the remote locations of the group's operations. The group, therefore, has established a network of 18 healthcare clinics to treat employees, their families and members of the local communities. There is a team of two doctors, 16 paramedics, 12 midwives, one permanent dentist and one pharmacist on site. Training in first aid and basic life support is provided throughout the group operations and in 2018 an additional programme was introduced to promote better health and to educate workers in the prevention of harm and disease. Monthly immunisation programmes are provided for families, including polio-immunisation in collaboration with external medical professionals as part of the Indonesian government programme. Blood and lung tests are conducted twice a year to check for chemical exposure in workers who come into regular contact with pesticides. If workers test positive for pesticide exposure, they are rotated out of spraying into other roles. Random drug testing is conducted throughout the year to prevent drug usage and addiction amongst employees.

Communities

Good relations and mutual respect between the group and the communities impacted by its operations are of fundamental importance to the living conditions of the local communities and to the company's ability to operate sustainably and efficiently. Regular meetings take place between members of an experienced in house team from the village affairs department ("DVA") and representatives of these communities to establish, maintain and improve relationships, offering the opportunity to discuss and resolve concerns that may arise relating to the company's operations.

Establishing an oil palm plantation in Indonesia can involve various land claims by communities as a result of overlaps between plantation land allocations and land customarily used by the communities. Not all land claims lodged by villagers are found to be legitimate and DVA works to resolve any such claims effectively and transparently. Land rights claims against the group have decreased considerably over the last three years, from 70 in 2016 to 27 in 2017 and only three claims in 2018. The three claims lodged in 2018 related to some 342 hectares and proved legitimate.

Over the last 20 years, the company has invested considerable time and effort to ensure that its operations do not negatively impact local communities but rather contribute to their livelihoods. This has evolved into schemes designed to ensure that local communities share in the benefits generated by the group's operations without being dependent upon them. Initiatives include maximising employment opportunities for local people, supporting and improving local businesses, expanding smallholder schemes and investing in infrastructure projects that will catalyse further development. In supporting projects, the group recognises the importance of local villages having control over the management and maintenance of their own resources.

Renewable energy generated by the group and distributed through the infrastructure of the Indonesian government-owned energy company, PLN, is made available to 26 villages in the vicinity of the group's operations. These villages comprise some 6,733 households that have so far opted to install the prepay meters supplied by PLN.

In 2018, an additional village water treatment facility was installed, serving three local villages, so that, with the seven facilities installed in previous years, 17 local villages now have access to clean drinking water.

Smallholders

The group engages with smallholder farmers in the surrounding communities by way of three smallholder schemes: through a programme known as "Program Pemberdayaan Masyarakyat Desa" ("PPMD"), through "plasma" schemes and by purchasing FFB directly from independent smallholders. Smallholder schemes and purchasing FFB from oil palm smallholders creates mutually beneficial business relationships, increases local employment and offers opportunities to educate local farmers in more sustainable agricultural practices.

The group started working with smallholders in 2001 under the 'Smallholder Farmers Program' which became the PPMD scheme in 2005. Under this scheme, the group assisted cooperatives of local people with access to land to cultivate oil palm by providing them with oil palm seedlings, fertilisers, herbicides and technical assistance. The costs of the inputs provided are repaid by the members of these cooperatives, interest free, through deductions made when their FFB is sold to the group's palm oil mills. In 2018, the group provided technical training on oil palm cultivation and other assistance through visits to smallholders' farms in 14 different PPMD cooperatives.

Plasma smallholder schemes are established for the benefit of the communities that surround the group's plantations, as part of the group's obligation of responsible development of new land for oil palm, in accordance with regulations introduced by the Indonesian government in 2007. Plasma schemes are not required for the group's estates that were established prior to 2007 but, in the interests of equitable treatment, the group has committed to develop plasma cooperatives for villages whose land overlaps with the group's land allocations developed prior to 2007.

Plasma schemes differ from PPMD in their financing and management. Plasma schemes established to date have been financed by loans to the cooperatives from the group and local development banks. The cooperatives themselves are not responsible for, or involved in, the management of the plasma plantations, but rather the group manages these areas in return for a pre-agreed management fee. The cooperatives,

therefore, receive an income based on the value of FFB harvested minus loan repayments and management fees in accordance with government regulations. The development of oil palm plantations under a plasma scheme can take longer to organise than the development of PPMD or group-owned estates, due to the more complex nature of the funding, legal aspects and management of these areas. Before development begins, it is critical that members of each cooperative fully understand how plasma schemes work, including the cost of cultivating oil palm, the terms of the financial agreements with the group or bankers to the schemes and the predicted income over time to the members of each cooperative.

The group has mapped all independent smallholdings that are delivering FFB to the mills to create a comprehensive database of all smallholder land within the group's supply base in order to improve traceability of the FFB supply chain. The volume of FFB purchased by the group from each smallholder farmer is verified against the farmer's registered details. Regular assistance is provided to each independent smallholders' cooperative through direct visits to the smallholdings of the cooperative members to provide training and advice.

The group currently purchases FFB from 14 PPMD cooperatives, 7 plasma scheme cooperatives and 10 independent smallholder cooperatives. Together they accounted for some 18 per cent of the FFB processed in the group's mills and received revenue equivalent to some $16.6 million in 2018.

FFB purchased (tonnes)	2018	2017
Plasma	32,698	12,179
PPMD	102,879	91,822
Independent smallholders	30,008	10,004
Total	165,585	114,005
Revenue ($ million)	16.6	14.4

Conservation

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

The group's conservation work is integral to the group's policy and efforts in relation to sustainability. Areas designated as conservation reserves within the group's titled land bank total approximately 20,000 hectares, accounting for some 23 per cent of the group's titled areas. The group's conservation department ("REA Kon") was established in 2008 and has evolved substantially over the last ten years. REA Kon aspires to exceed, rather than merely to meet, the requirements of the various sustainability bodies by which the group is certified. REA Kon staff have an important role as the primary contributors of information pertinent to the long-term sustainability of all the designated conservation reserves within the group's operational areas and to international certification requirements.

REA Kon's original mandate was an adjunct to the group's plantation operations. It began by initiating a programme based on an empirical description of the landscape covered by the group's land allocations and a set of objectives designed to conserve or enhance the original values of the landscape, to minimise negative impacts of human activities and to provide long-term benefits for all. The department's findings were then used to develop a set of practical conservation principles that could be integrated into the group's operations.

REA Kon has made vigorous efforts over the last two years to upgrade the department's knowledge of the biological landscape within its boundaries, creating a permanent database of recorded observations of species, noting their richness, distribution and abundance. This information provides a basis for more efficient prioritising of resources, both financial and human, and for directing conservation efforts to where they are most needed. Linked to this is the day-to-day monitoring of environmental challenges within the group's plantation blocks to potentially improve pest management (through biological control), with the aim of reducing quantities of chemically-based pesticides.

Following a recent review of REA Kon activities, the department has been reorganised to enhance its role and better reflect its responsibilities. Such responsibilities comprise: plantation ecology (evaluating the long-term ecological impacts and dynamics of the planted blocks); biodiversity management (understanding trends within and conservation management of the natural species of the landscape covered by the group's land allocations); and communities and forests (conservation and management of the designated conservation reserves areas).

Quarterly water quality testing and monthly programmes of forest restoration and enrichment are conducted in all of the conservation reserves and selected areas that are no longer designated for planting. Together with the biodiversity team, the ecology team has developed plans to investigate the relationship between forest species and planted blocks so as to seek a scientific answer to the question of whether forest birds forage for insects within the plantation. This could be of significant assistance in reducing pests within oil palm plantations. Seedlings of native shade, timber and fruit trees are produced for distribution to local villages as well as to schools and emplacements within the group's estates.

Rambutan and durian trees planted by REA Kon in 2008 are now fruiting abundantly for the benefit of staff.

REA Kon continues to undertake biodiversity point surveys, camera trapping, and belt-transects and phenology plot monitoring. By mid 2018, a total of 55 camera traps were organised into a 40 unit per month rotation throughout the conservation reserves and plantation blocks. The GPS locations of all Rare, Threatened and Endangered Species are now mapped via geographic information system mapping technology. Using the camera traps and direct observation, a total of 51 mammal, 114 bird and 14 reptile species were detected. Their GPS position and observation dates were recorded and relevant conservation data entered into the 2018 database. Species listed by IUCN as Critically Endangered (CR) or Endangered (EN) that were detected and mapped during surveys in 2018 are: Sunda Pangolin (*Manis javanica*) (CR); Sunda freshwater crocodile (*Crocodylus siamensis*) (CR); Bornean Orangutan (*Pongo pygmaeus morio* (EN); Flat-headed Cat (*Prionailurus planiceps*) (EN); Bornean gibbon (*Hylobates muelleri*) (EN); Proboscis monkey (*Nasalis larvatus*) (EN); and Storm's stork (*Ciconia stormi*) (EN).

REA Kon maps the location of each individual orangutan presumed presence through camera trapping and conducting walking surveys along permanent transects. The previous nest surveys, vulnerable to misinterpretation, have now been replaced by camera trap monitoring which produces superior population estimates since individual animals can be identified, and characteristics of age, sex, general condition (health) and reproductive success can be determined. In 2018, monthly permanent transect walks revealed a minimum of 11 individual orangutans in the forested conservation reserves areas. Information on the current distribution and abundance of individual orangutans and the current conservation status of the orangutan population will continue to be refined in 2019 and beyond.

To encourage long-term, widespread participation in forest conservation, REA Kon also engages with local communities, schools and emplacements within or adjacent to the group's operational area through discussions and presentations. Education camps for school age children have been running at the conservation research station since 2008. These camps provide a practical approach to conservation as well as an overview of REA Kon's duties and activities, with fieldwork sessions to teach species identification and acquaint students with the ecology of local flora, fauna and forest restoration. Discussion forums are arranged with senior members of local communities and government departments to explain REA Kon's role within the group and to encourage species conservation whether through protection (Endangered or officially protected species) or through sustainable use. To enhance the efficacy of such engagement, there is a long-term partnership arrangement with the Provincial Government's Natural Resources Conservation Agency.

Conservation area boundaries are carefully monitored and conservation reserves are clearly marked with conspicuous signposts. Working alongside other group departments and external consultants, REA Kon uses satellite imagery to monitor for signs of human disturbance or damage to forested areas within the group's boundaries. Where there are incidences of encroachment, REA Kon has begun taking steps to restore the natural vegetation subject to constraints as regards effective regeneration and cost. This initiative has proved highly successful in the conservation reserves of one of the group's older estates and will be extended further in 2019.

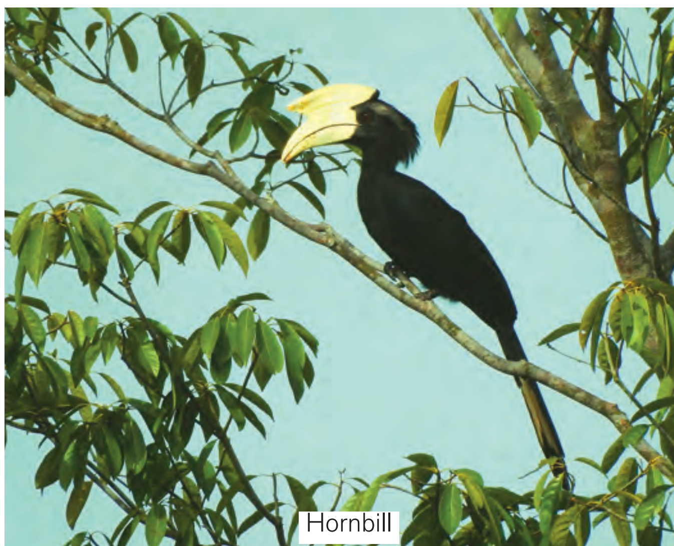
Managing encroachment of conservation reserves is a significant sustainability challenge faced by the group. The problem is exacerbated by Indonesia's complicated land rights system. A standard operating procedure has been developed to ensure that REA Kon and the plantation, conservation, village affairs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

REA Kon's conservation efforts are enhanced by close technical cooperation with research scientists and experts from local and international institutions and universities, as well as with Indonesia's environmental NGOs. These provide sound empirical information for valid, evidence-based decisions on the current conservation status and effective management of biodiversity and high conservation value areas.

Blue eared Kingfisher

Male lesser swamp frog

Swallowtail butterfly


Hornbill

Proboscis monkey

Orangutan

Finance

Accounting policies

The group and the company continue to report in accordance with International Financial Reporting Standards ("IFRS") and to present their financial statements in dollars.

In the current year the group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for accounting periods beginning on or after 1 January 2018. There have been no significant changes to the group's accounting policies resulting from the adoption of these amendments to IFRSs, although certain disclosures have been amended to reflect the new requirements. In particular the Amendments to IFRS 15 (Revenue from contracts with customers) require certain information to be provided regarding the nature of contracts with customers. The group has also applied IFRS 9 (Financial instruments), although there is no material impact from this standard on the results of the group.

Group results

Group revenue, operating loss and loss before tax for 2018, with comparative figures for 2017, were as follows:

	2018 $'m	2017 $'m
Revenue	105.5	100.2
Operating loss	(10.7)	(2.2)
Loss before tax	(5.5)	(21.9)

The slight increase in revenue in 2018 reflected the substantially higher crop harvested during the year but the financial benefit of this was considerably offset by a reduction in selling prices achieved for the group's CPO and CPKO. The extent to which this reduction impacted revenue can be gauged from the fact that, if 2018 CPO output, excluding estimated CPO production from externally sourced FFB, had been sold at the average price realised for CPO sales in 2017, the group would have received an additional $23.1 million of revenue.

Cost of sales reported for 2018 was made up as follows (with comparative figures for 2017):

	2018 $'m	2017 $'m
Depreciation and amortisation	23.0	22.2
Purchase of external FFB	18.4	14.4
Estate operating costs	58.2	49.7
	99.6	86.3

Higher costs of external FFB reflect the increase in volumes purchased at a lower price per tonne.

The increase in estate operating costs was principally caused by two factors: first, a higher average number of employees in 2018 as compared with the preceding year as a result of the successful drive to restore harvester numbers and the recruitment of additional workers required short term to complete the exceptional remedial upkeep work commenced in 2017; and, secondly, extra despatch costs incurred in trucking unusually high volumes of CPO and CPKO to the downstream loading point because of low river levels coinciding with the period of peak production in the second half of the year. Notwithstanding this, estate operating costs increased at a lower rate than the increase in crops.

Lower capitalisation rates than in 2017 were applied during 2018 to administrative expenses and finance costs as a result of the reduction over 2018 in the proportion of total planted areas represented by immature plantings. As respects administrative expenses, this meant that of the total costs of $20.4 million incurred in 2018 (2017: $20.4 million) only $4.8 million was capitalised (2017: $6.7 million).

Investment revenues in 2017 comprised $1.1 million received in respect of tax amounts refunded as a result of Jakarta Tax Court decisions. This was a one off benefit and therefore did not recur in 2018.

Finance costs for 2018 totalled $5.4 million compared with $20.8 million in 2017. The reported amount benefited from an exchange gain of $14.8 million on bank loans and sterling notes (2017: exchange loss of $3.6 million) partially offset by lower capitalisation of interest, for the reason noted above, of $4.8 million (2017: $9.1 million).

The loss before tax for 2018 of $5.5 million (2017: $21.9 million) included a profit on disposal of PBJ of $10.4 million. The latter figure differs from the loss of $8.0 million which the group had estimated in its announcement of 11 February 2019. The reason is that the loss as originally calculated has had to be adjusted to take into account the release of deferred tax balances of $10.1 million relating to PBJ and the recognition of translation gains of $7.4 million from past years that have been reclassified from translation reserve to income on the disposal of PBJ. That the disposal of PBJ did not result in a greater gain reflected the fact that the carrying cost of the PBJ estates had previously been written up under the former provisions of IAS 41 on a basis that assumed that the estates would be retained for the long term. Additionally, the group was unable to obtain value for the areas of PBJ that had not yet been planted although significant costs had previously been incurred in titling and compensating such areas.

The taxation charge on the loss for the year amounted in 2018 to $12.7 million (2017: $3.0 million) of which $10.6 million (2017: credit of $0.8 million) represented deferred tax. A revision of the methodology applied to calculating deferred tax liabilities on the group's non-current assets resulted in a

charge of $9.5 million and inclusion of this charge within the deferred tax charge for the year principally accounts for the high level of this charge. The 2018 charge also reflects the write off of $0.5 million of deferred tax on unutilised tax losses (2017: $2.2 million). Tax losses in Indonesia can only be carried forward for a maximum of five years.

The change in methodology for calculating the group deferred tax liability also resulted in some reallocation of previously calculated deferred tax balances between individual members of the group. The review of the group deferred tax liability also resulted in some reallocation of previously calculated deferred tax balances between individual members of the group. This reallocation, coupled with the charge arising from the change in methodology, resulted in the net deferred tax liability of PBJ at the date of sale increasing to the level released on the disposal of PBJ as detailed above.

The directors plan to establish a target long term average return on equity once group profitability has been restored. The negative return for 2018 was 9.1 per cent (2017: negative 16.1 per cent).

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December were duly paid. In view of the results reported for 2018, the directors have concluded that they should not declare or recommend the payment of any dividend on the ordinary shares in respect of 2018.

Capital structure

The group is financed by a combination of debt and shareholder funds. Total shareholder funds less non-controlling interests at 31 December 2018 amounted to $246.8 million as compared with $259.1 million at 31 December 2017. Non-controlling interests at 31 December 2018 amounted to $14.5 million (2017: $17.6 million).

On 31 August 2018, REA Kaltim completed the sale of its 95 per cent subsidiary, PBJ, to the KLK group. The consideration was calculated by reference to agreed values for the underlying assets and liabilities of PBJ and amounted to $77.2 million (net of selling costs). In addition, the purchaser refinanced balances due from PBJ to the group amounting to the equivalent of $43.2 million and procured the discharge of a rupiah amortising term loan provided by PT Bank UOB Indonesia ("UOB") to PBJ of the equivalent of $24.7 million which had been guaranteed by the company and REA Kaltim.

During 2018, the group successfully reorganised its local rupiah bank borrowings by repaying borrowings from PT Bank DBS Indonesia ("DBS") and drawing down new borrowings from PT Bank Mandiri (Persero) Tbk ("Mandiri") of longer average maturity. This reorganisation was completed in two steps. In August, SYB repaid its borrowings from DBS equivalent in total to $10.3 million and drew down a new term loan from Mandiri of the equivalent of $32.2 million. Then, in November, REA Kaltim repaid its borrowings from DBS equivalent in total to $59.4 million and drew down from Mandiri a new term loan and working capital line of the equivalent of, respectively, $77.3 million and $4.9 million.

There were two changes during 2018 in the group's listed note obligations. In February, $2.7 million nominal of 7.5 per cent dollar notes 2022 ("2022 dollar notes") held in treasury at end 2017 were sold for a consideration of $2.6 million. In October, the company purchased for cancellation £1 million nominal of 8.75 per cent guaranteed 2020 sterling notes ("2020 sterling notes").

The acquisition of the shares in PU in exchange for SYB's agreement to transfer or surrender certain of its land areas, as detailed under "Land areas" in "Agricultural operations" above has been recognised in the group's financial statements during 2018. As a result, land rights and plantings formerly held by SYB having a total book value of $8.6 million have been treated as divested and the land rights held by PU as acquired at that amount.

Group indebtedness at 31 December 2018 amounted to $215.8 million against which the group held cash and cash equivalents of $26.3 million. The composition of the resultant net indebtedness of $189.5 million was as follows:

	$'m
7.5 per cent dollar notes 2022 ($24.0 million nominal)	23.7
8.75 per cent guaranteed sterling notes 2020 (£31.9 million nominal)	38.2
Loans from non-controlling shareholder	22.9
Indonesian term bank loans	126.2
Drawings under working capital lines	4.8
	215.8
Cash and cash equivalents	(26.3)
Net indebtedness	189.5

The group has no material contingent indebtedness save that, in connection with the development of oil palm plantings owned by village cooperatives and managed by the group, the group has, as noted under "Smallholder schemes" in "Sustainability" above, guaranteed the bank borrowings of the cooperatives concerned. The outstanding balance of these at 31 December 2018 was equivalent to $7.2 million.

The 2022 dollar notes are unsecured obligations of the company and are repayable in a single instalment on 30 June 2022. The sterling notes are issued by REA Finance B.V., a wholly owned subsidiary of the company, are guaranteed by the company and REA Services Limited (a wholly owned UK subsidiary of the company) ("REAS") and are secured almost

wholly on unsecured loans made by REAS to Indonesian plantation operating subsidiaries of the company. The 2020 sterling notes are repayable in a single instalment on 31 August 2020.

Following the reorganisation of local rupiah bank borrowings referred to above, Indonesian bank borrowings at 31 December 2018 comprised Indonesian rupiah denominated amortising term loans provided by Mandiri to REA Kaltim, SYB and KMS and an Indonesian rupiah denominated working capital loan provided by Mandiri to REA Kaltim.

The REA Kaltim loans are secured on certain assets of REA Kaltim and are guaranteed by the company. The outstanding balance of such loans at 31 December 2018 was the equivalent of $82.2 million made up of a term loan of $77.4 million and a working capital loan of $4.8 million. The term loan is repayable as follows: 2019: $4.8 million, 2020: $7.7 million and thereafter $64.9 million. The working capital loan falls due for renewal in 2019.

The SYB loan is secured on certain assets of SYB and is supported by a guarantee from the company and a deficit cash guarantee from REA Kaltim. The outstanding balance of the loan at 31 December 2018 was the equivalent of $32.0 million repayable as follows: 2019: $2.9 million, 2020: $3.1 million and thereafter $26.0 million.

The KMS loan is secured on certain assets of KMS and is guaranteed by the company. The outstanding balance of the loan at 31 December 2018 was the equivalent of $16.8 million repayable as follows: 2019: $1.4 million, 2020: $2.8 million and thereafter $12.6 million.

There are no undrawn facilities as at 31 December 2018.

The company has shareholder authority to buy back limited numbers of ordinary shares into treasury with the intention that, once a holding of a reasonable size has been accumulated, the holding be placed with one or more investors. No acquisitions pursuant to this authority were made in 2018 but 132,500 ordinary shares had been previously acquired and remain held in treasury.

Group cash flow

Group cash inflows and outflows are analysed in the consolidated cash flow statement. Cash and cash equivalents increased over 2018 from $5.5 million to $26.3 million.

As noted under "Group results" above, the operating loss for 2018 amounted to $10.7 million compared to a loss of $2.2 million in the prior year. After adjusting for depreciation, amortisation and other non-cash items ($22.6 million) and an increase in working capital ($21.6 million), cash contributed to operations was $9.8 million (2017: cash generated by operations $45.8 million).

There were $0.3 million of net taxes paid during the year (2017: taxes paid net of refunds $1.2 million). Interest paid amounted to $25.0 million (2017: $24.9 million) including some one off prepayment charges incurred in connection with the refinancing of the bank borrowings repaid during the year and realised exchange gains were $8.2 million (2017: $nil).

Investing activities for 2018 involved a net outflow of $27.5 million (2017: $33.7 million). This represented new investment of $30.4 million (2017: $33.7 million) offset by a small amount of interest received and proceeds of disposal of subsidiary of $2.8 million. The new investment comprised expenditure of $23.8 million (2017: $32.0 million) on further development of the group's agricultural operations, $1.0 million (2017: $0.9 million) on land rights and titling and $5.6 million (2017: $0.7 million) on the coal and stone operations. A significant component of the expenditure on the coal and stone operations related to the acquisition and refurbishment of the loading point on the Mahakam River adjacent to the Kota Bangun coal concession and related infrastructure, as detailed under "Operating activities" in "Coal and stone operations" above.

The net cash inflow from financing activities amounted to $75.4 million (2017: outflow of $4.9 million) made up as follows:

	2018 $'m	2017 $'m
Issue of new preference shares	–	10.9
Redemption of 2017 dollar notes	–	(20.2)
Redemption of 2017sterling notes	–	(11.1)
Redemption of 2020 sterling notes	(1.3)	–
Sale of investments	2.7	7.1
Borrowings from non-controlling shareholder	(6.5)	16.6
Net change in other borrowings	14.2	(0.4)
Settlement of PBJ debt	50.0	–
Repayment of balances owed by PBJ	24.7	–
Dividend payments	(8.4)	(7.8)
	75.4	(4.9)

Liquidity and financing adequacy

Although the group reported an increased operational loss in 2018 ($10.7 million against $2.2 million in the preceding year), operational performance was much improved year on year with a 51 per cent increase in FFB production. Accordingly, the loss principally reflected the serious down turn in the CPO market in the second half of the year although, as noted under "Group results" above, estate operating costs were to an extent inflated by temporary additional workers undertaking remedial upkeep and unusually high despatch costs.

In both 2018 and 2017, the group had to contend with a level of financing charges disproportionate to the profitability of the group, a problem that would be resolved by higher CPO prices.

The net prices being realised by the group for sales of its CPO (net, FOB East Kalimantan port) have already recovered from a low of $349 per tonne in November 2018 to an estimated level of $475 per tonne in April 2019. Further recovery is widely predicted with vegetable oil consumption exceeding supply and stocks of CPO beginning to fall. With the Indonesian export levy now reduced to nil at prices below $575 per tonne (CIF Rotterdam) and increasing only to the level of $20 tonne at higher prices, the group can expect that increased CPO prices will materially increase group revenues and result in the group becoming increasingly cash generative and better able to sustain its financing costs.

Cash generation will be assisted by further increases in FFB production. Crop collection for 2019 is running ahead of budget and bunch census figures (through to July) indicate that FFB production will continue to run in line with budget and support the projection of FFB production of some 900,000 tonnes for 2019. Although some limited further revenue expenditure on upgrading mill maintenance will be required, on the estates remedial works are now substantially complete so that the projected increase in crop should not entail a proportionate increase in operating costs. Indeed, with operational performance now converging with group expectations, the group believes that cost savings can now be found in several areas.

In order to ensure availability of sufficient mill capacity to meet projected increases in FFB mill throughput, the group is proceeding in 2019 with the extension of its newest oil mill and some works to enhance the efficiency of the two older mills. However, following the sale of PBJ, no further mills will be required for the foreseeable future. Moreover, until CPO prices recover further, the group's extension planting programme has been deferred. As a result, future levels of annual capital expenditure can be expected to be significantly lower than those of recent years. This should mean that as cash flows recover, increased cash generation can be used to reduce debt levels. Planned resumption of mining at the Kota Bangun coal concession should provide an additional source of cash through the repayment of the loan due to the group.

The group had hoped that in reorganising its local bank borrowings it would be possible to convert Indonesian rupiah borrowings to dollar borrowings which attract a lower rate of interest than rupiah borrowings.   In the event, this did not prove immediately possible but the group's bankers have acknowledged that the group wishes to replace rupiah borrowings with dollar borrowings and have indicated that they are open to agreeing to this provided that the group can demonstrate that the dollar can properly be regarded as the group's functional currency for the purposes of Bank Indonesia rules. Discussions to this end are continuing.

As noted under "Capital structure" above, as at 31 December 2018, the group held cash of $26.3 million but against that had material indebtedness, in the form of bank loans and listed notes. Some $9.1 million of bank term indebtedness falls due for repayment during 2019 and a further $52.3 million in 2020 to 2022. In August 2020, £31.9 million ($40.2 million) of 2020 sterling notes will become repayable and in December 2022, $24 million of 2022 dollar notes.

The group is at an advanced stage in discussions with its Indonesian bankers for a new term loan of $11 million to fund the planned capital expenditure on mills in 2019. This loan would, in effect, refinance the bank loan repayments falling due in 2019. Provided that CPO prices continue to recover, the group believes future Indonesian term loan repayments can be aligned with the group's cash generation capabilities.

Consideration will be given later in 2019 to submission of proposals to the holders of the 2020 sterling notes to refinance these with securities of longer tenor.   A decision regarding the 2022 dollar notes will be taken in early 2022 in the light of the group's financial position at that time.

The group recognises that it may need to seek additional equity funding if CPO prices recover at a slower rate than it expects.

The group's oil palms fruit continuously throughout the year and there is therefore no material seasonality in the funding requirements of the agricultural operations in their ordinary course of business. It is not expected that development of the 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.

Whilst the directors retain the above stated policy regarding borrowings, they recognise that the current level of the group's borrowings is too high and will aim to reduce debt to the extent that cash generation permits. Net debt of 72.5 per cent of total shareholder funds at 31 December 2018 was slightly improved against a level of 76.5 per cent at 31 December 2017. However, the total net debt at 31 December 2018 of $189.5 million was much improved compared with the position at 31 December 2017 of $211.8 million. This improvement was primarily the result of the sale of PBJ during the year.

The 2020 sterling notes and the 2022 dollar notes carry interest at fixed rates of, respectively, 8.75 and 7.5 per cent per annum. Interest is payable on rupiah bank borrowings by

Finance
continued

REA Kaltim and SYB at a fixed rate of 11.0 per cent and by KMS at a fixed rate of 11.5 per cent. As a policy, the group does not hedge its exposure to floating rates but maintains a balance between floating and fixed rate borrowings. A one per cent increase in the floating rates of interest payable on the group's floating rate borrowings at 31 December 2018 would have resulted in an additional annual cost to the group of approximately $0.2 million (2017: $1.3 million). This reduction is due to the new Indonesian bank facilities being at fixed interest rates.

The group regards the dollar as the functional currency of most of its operations. The directors believe that the group will be best served going forward by simply maintaining a balance between its borrowings in different currencies and avoiding currency hedging transactions. Accordingly, the group regards some exposure to currency risk on its non-dollar borrowing as an inherent and unavoidable risk of its business. The group has never covered, and does not intend in future to cover, the currency exposure in respect of the component of the investment in its operations that is financed with sterling denominated shareholder capital.

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

Risks and uncertainties

The group's business involves risks and uncertainties. Identification, assessment, management and mitigation of the risks associated with environmental, social and governance matters forms part of the group's system of internal control for which the board of the company has ultimate responsibility. The board discharges that responsibility as described in "Corporate governance" below.

Those risks and uncertainties that the directors currently consider to be material or prospectively 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.

The risks detailed below as relating to "Agricultural operations – Expansion" and "Coal and stone operations" are prospective rather than immediate material risks because the group is currently not expanding its agricultural operations and not mining its coal and stone concessions. However, such risks will apply when, as is contemplated, expansion and mining are resumed. The effect of an adverse incident relating to the coal and stone operations, as referred to below, could impact the ability of the coal and stone companies to repay their loans.

Material risks, related policies and the group's successes and failures with respect to environmental, social and governance matters and the measures taken in response to any failures are described in more detail under "Sustainability" above. Where risks are reasonably capable of mitigation, the group seeks to mitigate them. Beyond that, the directors endeavour to manage the group's finances on a basis that leaves the group with some capacity to withstand adverse impacts from identified areas of risk but such management cannot provide insurance against every possible eventuality.

The directors have carefully reviewed the potential impact on its operations of the various possible outcomes to the current discussions on the termination of UK membership of the European Union ("Brexit"). The directors expect that certain outcomes may result in a movement in sterling against the US dollar and Indonesian rupiah with consequential impact on the group dollar translation of its sterling costs and sterling liabilities. The directors do not believe that such impact (which could be positive or negative) would be material in the overall context of the group. Were there to be an outcome that resulted in a reduction in UK interest rates, this may negatively impact the level of the technical provisions of the REA Pension Scheme but given the Scheme's estimated funding position, the directors do not expect that this impact would be material in the overall context of the group. Beyond this, and considering that the group's entire operations are in Indonesia, the directors do not see Brexit as posing a significant risk to the group.

The directors have considered the potential impact on the group of global climate change. Between 5 and 10 per cent of the group's existing plantings are in areas that are low lying and prone to flooding if not protected by bunding. Were climate change to cause an increase in water levels in the rivers running though the estates, this could be expected to increase the requirement for bunding or, if the increase was so extreme that bunding became impossible, could lead to the loss of low lying plantings, the percentage of which could be expected to increase. Changes to levels and regularity of rainfall and sunlight hours could also adversely affect production. However, it seems likely that any climate change impact negatively affecting group production would similarly affect many other oil palm growers in South East Asia leading to a reduction in CPO and CPKO supply. This would be likely to result in higher prices for CPO and CPKO which should provide at least some offset against reduced production.

Risks assessed by the directors as being of particular significance are those detailed below under:

- "Agricultural operations – Produce prices"
- "General – Funding"
- "Agricultural operations – Climatic factors"
- "Agricultural operations – Other operational factors".

The directors' assessment, as respects produce prices and funding, reflects the key importance of those risks in relation to the matters considered in the "Viability statement" in the "Directors' report" below and, as respects climatic and other factors, the negative impact that could result from adverse incidence of such risks.

Risks and uncertainties
continued

Risk	Potential impact	Mitigating or other relevant considerations
Agricultural operations		
Climatic factors		
Material variations from the norm in climatic conditions	A loss of crop or reduction in the quality of harvest resulting in loss of potential revenue	Over a long period, crop levels should be reasonably predictable
Unusually low levels of rainfall that lead to a water availability below the minimum required for the normal development of the oil palm	A reduction in subsequent crop levels resulting in loss of potential revenue; the reduction is likely to be broadly proportional to the cumulative size of the water deficit	Operations are located in an area of high rainfall. Notwithstanding some seasonal variations, annual rainfall is usually adequate for normal development
Overcast conditions	Delayed crop formation resulting in loss of potential revenue	Normal sunshine hours in the location of the operations are well suited to the cultivation of oil palm
Low levels of rainfall disrupting river transport or, in an extreme situation, bringing it to a standstill	Inability to obtain delivery of estate supplies or to evacuate CPO and CPKO (possibly leading to suspension of harvesting)	The group has established a permanent downstream loading facility, where the river is tidal. In addition, road access between the ports of Samarinda and Balikpapan and the estates offers a viable alternative route for transport with any associated additional cost more than outweighed by the potential negative impact of disruption to the business cycle by any delay in evacuating CPO
Cultivation risks		
Failure to achieve optimal upkeep standards	A reduction in harvested crop resulting in loss of potential revenue	The group has adopted standard operating practices designed to achieve required upkeep standards
Pest and disease damage to oil palms and growing crops	A loss of crop or reduction in the quality of harvest resulting in loss of potential revenue	The group adopts best agricultural practice to limit pests and diseases
Other operational factors		
Shortages of necessary inputs to the operations, such as fuel and fertiliser	Disruption of operations or increased input costs leading to reduced profit margins	The group maintains stocks of necessary inputs to provide resilience and has established biogas plants to improve its self-reliance in relation to fuel
A hiatus in harvesting, collection or processing of FFB crops	FFB crops becoming rotten or over-ripe leading either to a loss of CPO production (and hence revenue) or to the production of CPO that has an above average free fatty acid content and is saleable only at a discount to normal market prices	The group endeavours to maintain a sufficient complement of harvesters within its workforce to harvest expected crops and 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

Risk	Potential impact	Mitigating or other relevant considerations
Disruptions to river transport between the main area of operations and the Port of Samarinda or delays in collection of CPO and CPKO from the transhipment terminal	The requirement for CPO and CPKO storage exceeding available capacity and forcing a temporary cessation in FFB harvesting or processing with a resultant loss of crop and consequential loss of potential revenue	The group's bulk storage facilities have adequate capacity and further storage facilities are afforded by the fleet of barges. Together, these have hitherto always proved adequate to meet the group's requirements for CPO and CPKO storage and may be expanded to accommodate anticipated increases in production
Occurrence of an uninsured or inadequately insured adverse event; certain risks (such as crop loss through fire or other perils), for which insurance cover is either not available or is considered disproportionately expensive, are not insured	Material loss of potential revenues or claims against the group	The group maintains insurance at levels that it considers reasonable against those risks that can be economically insured and mitigates uninsured risks to the extent reasonably feasible by management practices
Produce prices		
Volatility of CPO and CPKO prices which as primary commodities may be affected by levels of world economic activity and factors affecting the world economy, including levels of inflation and interest rates	Reduced revenue from the sale of CPO and CPKO production and a consequent reduction in cash flow	Price swings should be moderated by the fact that the annual oilseed crops account for the major proportion of world vegetable oil production and producers of such crops can reduce or increase their production within a relatively short time frame
Restriction on sale of the group's CPO and CPKO at world market prices including restrictions on Indonesian exports of palm products and imposition of high export duties (as has occurred in the past for short periods)	Reduced revenue from the sale of CPO and CPKO production and a consequent reduction in cash flow	The Indonesian government allows the free export of CPO and CPKO but applies a sliding scale of duties on exports, which is varied from time to time in response to prevailing prices, to allow producers economic margins. The extension of this sliding scale to incorporate an export levy to fund biodiesel subsidies is designed to support the local price of CPO and CPKO
Distortion of world markets for CPO and CPKO by the imposition of import controls or taxes in consuming countries, for example, by imposition of reciprocal trade barriers or tariffs between major economies	Depression of selling prices for CPO and CPKO if arbitrage between markets for competing vegetable oils proves insufficient to compensate for the market distortion created	The imposition of controls or taxes on CPO or CPKO in one area can be expected to result in greater consumption of alternative vegetable oils within that area and the substitution outside that area of CPO and CPKO for other vegetable oils
Expansion		
Failure to secure in full, or delays in securing, the land or funding required for the group's planned extension planting programme	Inability to complete, or delays in completing, the planned extension planting programme with a consequential reduction in the group's prospective growth	The group holds significant fully titled or allocated land areas suitable for planting. It works continuously to maintain up to date permits for the planting of these areas and aims to manage its finances to ensure, in so far as practicable, that it will be able to fund any planned extension planting programme
A shortfall in achieving the group's planned extension planting programme impacting negatively the continued growth of the group	A possible adverse effect on market perceptions as to the value of the company's securities	The group maintains flexibility in its planting programme to be able to respond to changes in circumstances

Risks and uncertainties
continued

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

Risk	Potential impact	Mitigating or other relevant considerations
Coal and stone operations		
Operational factors		
Failure by external contractors to achieve agreed production volumes with optimal stripping values or extraction rates	Loss of prospective revenue	The group endeavours to use experienced contractors, to supervise them closely and to take care to ensure that they have equipment of capacity appropriate for the planned production volumes
External factors, in particular weather, delaying or preventing delivery of extracted coal and stone	Delays to receipt or loss of revenue	Deliveries are not normally time critical and adverse external factors would not normally have a continuing impact for more than a limited period
Geological assessments, which are extrapolations based on statistical sampling, proving inaccurate	Unforeseen extraction complications causing cost overruns and production delays or failure to achieve projected production	The group seeks to ensure the accuracy of geological assessments of any extraction programme
Prices		
Volatility of international coal prices and local competition reducing stone prices	Reduced revenue and a consequent reduction in cash flow and profit	The high quality of the coal in the group's main coal concession may limit volatility. There are currently no other stone quarries in the vicinity of the group's deposits and the cost of transporting stone should restrict competition
Imposition of additional royalties or duties on the extraction of coal or stone	Reduced revenue and a consequent reduction in cash flow and profit	The Indonesian government has not to date imposed measures that would seriously affect the viability of Indonesian stone quarrying or coal mining operations
Unforeseen variations in quality of deposits	Inability to supply product within the specifications that are, at any particular time, in demand with consequent loss of revenue	Geological assessments ahead of commencement of extraction operations should have identified any material variations in quality
Environmental, social and governance practices		
Failure by the coal and stone operations to meet the expected standards	Reputational and financial damage	The areas of the coal and stone concessions are relatively small and should not be difficult to supervise. The group is committed to international standards of best environmental and social practice and, in particular, to proper management of waste water and reinstatement of quarried and mined areas on completion of extraction operations
General		
Currency		
Strengthening of sterling or the Indonesian rupiah against the dollar	Adverse exchange movements on those components of group costs and funding that arise in Indonesian rupiah or sterling	As respects costs and sterling denominated shareholder capital, the group considers that this risk is inherent in the group's business and structure and must simply be accepted. As respects borrowings, where practicable the group seeks to borrow in dollars but, when borrowing in another currency, considers it better to accept the resultant currency risk than to hedge that risk with hedging instruments

Risks and uncertainties
continued

Risk	Potential impact	Mitigating or other relevant considerations
Funding		
Bank debt repayment instalments and other debt maturities coincide with periods of adverse trading and negotiations with bankers and investors are not successful in rescheduling instalments, extending maturities or otherwise concluding satisfactory refinancing arrangements	Inability to meet liabilities as they fall due	The group maintains good relations with its bankers and other holders of debt who have generally been receptive to reasonable requests to moderate debt profiles when circumstances require; moreover, the directors believe that the fundamentals of the group's business will facilitate procurement of additional equity capital should this prove necessary
Counterparty risk		
Default by a supplier, customer or financial institution	Loss of any prepayment, unpaid sales proceeds or deposit	The group maintains strict controls over its financial exposures which include regular reviews of the creditworthiness of counterparties and limits on exposures to counterparties. Sales are generally made on the basis of cash against documents
Regulatory exposure		
New, and changes to, laws and regulations that affect the group (including, in particular, laws and regulations relating to land tenure, work permits for expatriate staff and taxation)	Restriction on the group's ability to retain its current structure or to continue operating as currently	The directors are not aware of any specific planned changes that would adversely affect the group to a material extent; current regulations restricting the size of oil palm growers in Indonesia will not impact the group for the foreseeable future
Breach of the various continuing conditions attaching to the group's land rights and the coal and stone quarry concessions (including conditions requiring utilisation of the rights and concessions) or failure to maintain all permits and licences required for the group's operations	Civil sanctions and, in an extreme case, loss of the affected rights or concessions	The group endeavours to ensure compliance with the continuing conditions attaching to its land rights and concessions and that activities are conducted within the terms of the licences and permits that are held and that licences and permits are obtained and renewed as necessary
Failure by the group to meet the standards expected in relation to bribery, corruption and slavery	Reputational damage and criminal sanctions	The group has traditionally had, and continues to maintain, strong controls in this area because Indonesia, where all of the group's operations are located, has been classified as relatively high risk by the International Transparency Corruption Perceptions Index
Restrictions on foreign investment in Indonesian mining concessions, limiting the effectiveness of co-investment arrangements with local partners	Constraints on the group's ability to earn an equity return on its investment	Maintenance of good relations with local partners to ensure that returns appropriately reflect agreed arrangements

Risk	Potential impact	Mitigating or other relevant considerations
Country exposure		
Deterioration in the political or economic situation in Indonesia	Difficulties in maintaining operational standards particularly if there was a consequential deterioration in the security situation	In the recent past, Indonesia has been stable and the Indonesian economy has continued to grow but, in the late 1990s, Indonesia experienced severe economic turbulence and there have been subsequent occasional instances of civil unrest, often attributed to ethnic tensions, in certain parts of Indonesia. The group has never, since the inception of its East Kalimantan operations in 1989, been adversely affected by regional security problems
Introduction of exchange controls or other restrictions on foreign owned operations in Indonesia	Restriction on the transfer of fees, interest and dividends from Indonesia to the UK with potential consequential negative implications for the servicing of UK obligations and payment of dividends; loss of effective management control	The directors are not aware of any circumstances that would lead them to believe that, under current political conditions, any Indonesian government authority would impose exchange controls or otherwise seek to restrict the group's freedom to manage its operations
Mandatory reduction of foreign ownership of Indonesian plantation operations	Forced divestment of interests in Indonesia at below market values with consequential loss of value	The group accepts there is a significant possibility that foreign owners may be required over time to divest partially ownership of Indonesian oil palm operations but has no reason to believe that such divestment would be at anything other than market value. Moreover, the group has local participation in all its Indonesian subsidiaries
Miscellaneous relationships		
Disputes with staff and employees	Disruption of operations and consequent loss of revenues	The group appreciates its material dependence upon its staff and employees and endeavours to manage this dependence in accordance with international employment standards as detailed under "Employees" in "Sustainability" above
Breakdown in relationships with the local shareholders in the company's Indonesian subsidiaries	Reliance on the Indonesian courts for enforcement of the agreements governing its arrangements with local partners with the uncertainties that any juridical process involves and with any failure of enforcement likely to have a material negative impact on the value of the coal and stone operations because the concessions are at the moment legally owned by the group's local partners	The group endeavours to maintain cordial relations with its local investors by seeking their support for decisions affecting their interests and responding constructively to any concerns that they may have

Approved by the board on 26 April 2019 and signed on behalf of the board by
DAVID J BLACKETT
Chairman

Board of directors

David Blackett

Chairman (independent)

Committees: audit, nomination (chairman), remuneration

David Blackett was appointed a non-executive director in July 2008. After qualifying as a chartered accountant in Scotland, he worked for over 25 years in South East Asia, where he concluded his career as chairman of AT&T Capital Inc's Asia Pacific operations. Previously, he was a director of an international investment bank with responsibility for the bank's South East Asian operations and until October 2014 served as an independent non-executive director of South China Holdings Limited (now Orient Victory China Holdings Limited), a company listed on the Hong Kong Stock Exchange. He was appointed chairman on 1 January 2016 following the retirement of Richard Robinow from that position.

Irene Chia

Independent non-executive director

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

Carol Gysin

Executive director

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

John Oakley

Non-executive director

After early experience in investment banking and general management, John Oakley joined the group in 1983 as divisional managing director of the group's then horticultural operations. He was appointed to the main board in 1985 and in the early 1990s he took charge of the day to day management of the group's then embryonic East Kalimantan agricultural operations. He was appointed managing director in January 2002 and, until the appointment of a regional executive director in 2013, was the sole executive director of the group. He retired as managing director on 1 January 2016 but remains on the board as a non-executive director and for a transitional period undertaking some additional responsibilities, in particular overseeing completion of the group's new information systems as well as making twice yearly visits to the group's estate operations to advise on operational matters.

Richard Robinow

Non-executive director

Richard Robinow was appointed a director in 1978 and became chairman in 1984. Following his seventieth birthday, he retired from the chairmanship on 1 January 2016. He remains on the board as a non-executive director and, for a transitional period, is undertaking some additional responsibilities particularly as respects the financing of the group. After early investment banking experience, he has been involved for over 40 years in the plantation industry. He is a non-executive director of M. P. Evans Group plc, a UK plantation company of which the shares are admitted to trading on the Alternative Investment Market of the London Stock Exchange, and of a Kenyan plantation company, REA Vipingo Plantations Limited (substantially all of the shares in which are indirectly owned by his family).

Rizal Satar

Independent non-executive director

Rizal Satar was appointed to the board on 31 December 2018. Mr Satar is an Indonesian national, educated in the United States and Belgium where he majored in computer science, accounting and finance. Until 2017, Rizal worked for 20 years for PricewaterhouseCoopers, Indonesia ("PwC"), as a director/senior partner in Advisory Services, where he was also managing partner between 2005 and 2011. Prior to joining PwC, he worked for various companies in Indonesia specialising in finance, leasing and computer systems. Rizal is also an independent commissioner (a non-executive director) and head of the audit committee of PT Centratama Telekomunikasi Indonesia Tbk, a company listed on the Indonesia Stock Exchange and engaged in the provision of infrastructure for cellular networks and broadband internet services.

Michael St. Clair-George

Senior independent non-executive director

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

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

Directors' report

The directors present their annual report on the affairs of the group, together with the financial statements and auditor's report, for the year ended 31 December 2018. The "Corporate governance report" below forms part of this report.

There are no significant events since 31 December 2018 to be disclosed. An indication of likely future developments in the business of the company and details of research and development activities are included in the "Strategic report" above.

Information about the use of financial instruments by the company and its subsidiaries is given in note 24 to the consolidated financial statements.

Results and dividends

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

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2018 were duly paid. Although the operational performance and financial condition of the group is improving, the directors do not consider that the results reported for the year ended 31 December 2018 justify the declaration of any dividend on the ordinary shares in respect of 2018.

With the continuing improvement in operating performance, the directors will keep under review their intentions as regards ordinary dividends with a view to a resumption of payments when CPO prices improve further and the group's financial performance so justifies.

Viability statement

The group's business activities, together with the factors likely to affect its future development, performance and position are described in the "Strategic report" above which also provides (under the heading "Finance") a description of the group's cash flow, liquidity and financing adequacy and treasury policies. In addition, note 24 to the consolidated financial statements includes information as to the group's policy, objectives and processes for managing capital, its financial risk management objectives, details of financial instruments and hedging policies and exposures to credit and liquidity risks.

The "Risks and uncertainties" section of the Strategic report describes the material risks faced by the group and actions taken to mitigate those risks. In particular, there are risks associated with the group's local operating environment and the group is materially dependent upon selling prices for crude palm oil ("CPO") and crude palm kernel oil ("CPKO") over which it has no control.

As respects funding risk, the group has material indebtedness, in the form of bank loans and listed notes. Some $9.1 million of bank indebtedness falls due for repayment during 2019 and a further $52.3 million over the period 2020 to 2022. In addition, £30.9 million ($39.1 million) of 8.75 per cent guaranteed sterling notes 2020 (the "sterling notes") will become repayable in August 2020 and $24.0 million of 7.5 per cent dollar notes 2022 (the "dollar notes") will become repayable in June 2022. In view of the material component of the group's indebtedness falling due in the period to 31 December 2022, as described above, the directors have chosen this period for their assessment of the long-term viability of the group.

With the improvement in operating performance and CPO prices firming since 2018, the group's plantation operations can be expected to generate increasing cash flows going forward. In addition, the arrangements to recommence operations at the group's principal coal concession can be expected to enhance future cash flow. Whilst the group hopes to resume its extension planting programme when funding permits, for the moment this is on hold. Moreover, the successful completion of the divestment of PT Putra Bongan Jaya in 2018 and the extension of the group's third mill to almost double its capacity in 2019 means that the group is unlikely to require an additional mill for several years, if at all. Accordingly, the group can reasonably expect that from 2020 onwards a much greater proportion of operational cash flows will be available to reduce debt than has been the case for many years.

In 2019, the group will still incur significant capital expenditure on the third mill extension, necessary enhancements to the other mills and upkeep of existing immature areas. To ensure the availability of sufficient funding for these purposes, the group is at an advanced stage in discussions to refinance the bank indebtedness falling due in 2019 with longer term bank indebtedness. Following completion of this refinancing, the group will resume discussions with its Indonesian bankers on reduction of interest costs by conversion of a proportion of the group's rupiah loans to dollar loans.

The directors expect that the improving outlook for the group's internally generated cash flows will permit the group to repay the group indebtedness falling due for repayment during the period of assessment other than a proportion of the sterling notes falling due for repayment in 2020 which the directors would expect to be able to refinance with new notes. However, should this not prove the case, or should additional funding otherwise be required, the group will seek to raise additional capital by an issue of shares or of a share linked instrument.

Based on the foregoing and after making enquiries, the directors therefore have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the period to 31 December 2022 and to remain viable during that period.

Directors' report

continued

Going concern

Material risks faced by the group are set out in the "Risks and uncertainties" section of the "Strategic report" with an indication of those risks regarded by the directors as potentially significant together with mitigating and other relevant considerations for the management of risks. Financing policies are described on pages 33 and 34 of the Strategic report and 2018 developments relating to capital structure are detailed in the "Finance" section of the Strategic report under "Capital structure". The directors have set out their assessment of liquidity and financing adequacy on pages 32 and 33 of the Strategic report.

Based on the foregoing, having made due enquiries, the directors reasonably expect that the company and the group have adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements, and therefore they continue to adopt the going concern basis of accounting in preparing the financial statements.

Greenhouse gas ("GHG") emissions

GHG emissions data for the period 1 January 2018 to 31 December 2018 is as shown below, and compared to amended emissions figures for 2017:

Tonnes of CO_2e	2018	2017
Gross emissions associated with oil palm operations in Indonesia[1]	663,409	625,912
Net emissions associated with oil palm operations in Indonesia	205,259	202,670
Net emissions per tonne of CPO produced	0.9	1.4
Net emissions per planted hectare	3.3	3.4
Electricity, heat, steam and cooling purchased for own use[2]	59.3	57.0

1 In addition to all material Scope 1 emissions, some Scope 3 emissions have also been included in this category. Examples include GHG emissions associated with the manufacture and transport of the inorganic fertilisers used by, and an estimate of the GHG emissions associated with, the cultivation of fresh fruit bunches purchased by the group's mills from third parties.

2 The Greenhouse Gas Protocol defines direct GHG emissions as emissions from sources that are owned or controlled by the reporting entity. These are categorised as Scope 1 emissions. The Protocol defines indirect GHG emissions as emissions that are a consequence of the activities of the reporting entity but occur at sources owned or controlled by another entity. Indirect GHG emissions are further categorised into Scope 2 (indirect GHG emissions from the consumption of purchased electricity, heat and steam) and Scope 3 emissions (all other indirect GHG emissions, such as the extraction and production of purchased materials and fuel and transport in vehicles not owned or controlled by the reporting entity). PalmGHG takes into account all Scope 1 emissions and some Scope 2 and Scope 3 GHG emissions.

The group calculates the carbon footprint of its oil palm operations in Indonesia by applying the PalmGHG tool (v. 3.0.1). The PalmGHG tool has been developed by a multi-stakeholder group of the Roundtable on Sustainable Palm Oil ("RSPO") which includes leading scientists in the field of GHG accounting for oil palm operations. Since 2016, all RSPO member palm oil producers are required to publish their GHG emissions using the PalmGHG tool.

The PalmGHG tool uses a lifecycle assessment approach, whereby all of the major sources of GHG emissions (carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O)) linked to the cultivation, processing and transport of oil palm products are quantified and balanced against carbon sequestration and GHG emissions' avoidance. All direct and the majority of the indirect emissions associated with the group's oil palm operations in Indonesia are reflected.

The group has reported both the gross and net GHG emissions associated with its oil palm operations in Indonesia. The net GHG emissions were calculated by deducting from the gross GHG emissions the CO_2 that is estimated to have been fixed (sequestered) by the oil palms and conserved set-aside forest through the process of photosynthesis. A further deduction was made to account for the GHG emissions that have been avoided as a result of the export of renewable electricity from the group's methane capture facilities to domestic buildings and local communities that were previously supplied with electricity by diesel powered generators.

The boundary of calculation includes all three of the group's palm oil mills and their supply bases, which is the unit of calculation for the PalmGHG tool. The boundary for the GHG emissions reporting thus differs from that used for financial reporting, as the emissions linked to oil palm estates which do not yet supply fresh fruit bunches to one of the group's mills are not directly included. Instead, emissions associated with the land use change component of new oil palm developments (which represent the majority of emissions from new developments) are accumulated over the immaturity period of each development and then amortised over the 25 year oil palm lifecycle.

The group's net GHG emissions have been expressed per tonne of CPO produced and per planted hectare (immature and mature). It is deemed necessary to consider both measures because the trend in GHG emissions per planted hectare is not influenced by the maturity of the oil palm within the supply base, whereas this does impact the GHG emissions per tonne of CPO.

The group's Scope 2 emissions are limited to the electricity purchased by the group's offices in Balikpapan and London. These GHG emissions are not accounted for in the PalmGHG methodology. These emissions were therefore estimated separately by multiplying the amount of electricity consumed in kilowatt hours by the electricity emission coefficients for the UK and Indonesia respectively. Since these emissions are immaterial by comparison with the GHG emissions associated with the

group's oil palm operations they have not been included in the net GHG emissions to ensure that the methodology used to calculate the intensity of the group's GHG emissions is consistent with what is the standard oil palm industry methodology for reporting GHG emission intensity.

Control and structure of capital

Details of the company's share capital are set out in note (xi) to the company's financial statements. There were no changes in share capital during 2018. At 31 December 2018, the issued preference share capital and the issued ordinary share capital represented, respectively, 87.3 and 12.7 per cent of the nominal value of the total issued share capital.

The rights and obligations attaching to the ordinary and preference shares are governed by the company's articles of association and prevailing legislation. A copy of the articles of association is available on the company's website at www.rea.co.uk. Rights to income and capital are summarised in note (xi) to the company's financial statements.

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

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

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

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

The dollar notes of the company and the sterling notes that have been issued by REA Finance B.V. and guaranteed by the company are transferable either through the CREST system where held in uncertificated form or by instrument of transfer. Transfers may be in any usual or common form duly executed in amounts and multiples: in the case of the dollar notes of $120,000 and integral multiples of $1 in excess thereof; and, in the case of the sterling notes, of £100,000 and integral multiples of £1,000 in excess thereof. There is no maximum limit on the size of any holding in each case.

Substantial holders

On 31 December 2018, the company had received notifications in accordance with chapter 5 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority of the following voting rights held by them as holders of ordinary shares of the company:

Substantial holders of ordinary shares	Number of ordinary shares	Percentage of voting rights
Emba Holdings Limited	11,082,420	27.4
M & G Investment Management Limited	6,043,129	15.0
Nokia Bell Pensioenfonds OFP	4,068,000	10.0
Artemis UK Smaller Companies	3,563,620	8.8
Aberforth LLP	2,946,902	7.3
The Capital Group Companies, Inc	2,162,000	5.4

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

Directors' report

continued

During the period from 31 December 2018 to the date of this report, the company did not receive any further notifications in accordance with chapter 5 of the Disclosure Rules and Transparency rules.

Significant holdings of preference shares, dollar notes and sterling notes shown by the respective registers of members and noteholders at 31 December 2018 are set out below.

Substantial holders of securities	Preference shares £'000	Dollar notes 2022 £'000	Sterling notes 2020 £'000
HSBC Global Custody Nominee (UK) Limited 641898 acct	–	–	6,867
State Street Nominees Limited OU61 acct	11,546	9,080	10,051
The Bank of New York (Nominees) Limited AHIF account	–	–	4,875
Vidaco Nominees Limited CLRLUX acct	–	4,210	–
Vidaco Nominees Limited KBCCLINT acct	–	5,331	–

A change of control of the company would entitle holders of the sterling notes to require repayment of the notes held by them as detailed in note 26 to the consolidated financial statements.

The directors are not aware of any agreements between the company and its directors or between any member of the group and a group employee that provides for compensation for loss of office or employment that occurs because of a takeover bid.

Directors

The directors who served during 2018 (who include all of the directors proposed for election or re-election) are listed under "Board of directors" above, which is incorporated by reference in this "Directors' report". Rizal Satar was appointed as an independent non-executive director on 31 December 2018.

Irene Chia and Rizal Satar retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election and election respectively, such retirement being in compliance with the company's articles of association providing for the rotation of directors. Resolutions 3 and 4 which are set out in the accompanying notice of the forthcoming annual general meeting ("the 2019 Notice") and will be proposed as ordinary resolutions, deal with the re-election of Irene Chia and the election of Rizal Satar.

Irene Chia, who is based in Singapore, has extensive experience of commercial and financial investment in SE Asia and is in a position to offer informative insights into regional matters, making regular visits to the group's operations in East Kalimantan. Rizal Satar, who is based in Indonesia, has extensive experience in accounting and finance and previously worked for PricewaterhouseCoopers, Indonesia, as a director/senior partner in Advisory Services. He is also an independent commissioner and chairman of the audit committee of PT Centratama Telekomunikasi Indonesia Tbk, a company listed on the Indonesia Stock Exchange, and provides a valuable addition to the board in terms of both relevant commercial and financial experience and local knowledge.

David Blackett, John Oakley and Richard Robinow retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election, such retirement being in compliance with the provisions of the UK Corporate Governance Code requiring the annual re-election of non-executive directors who have served for more than nine years. Resolutions 5, 6 and 7, which are set out in the accompanying notice of the forthcoming annual general meeting ("the 2019 Notice") and will be proposed as ordinary resolutions, deal with the re-election of David Blackett, John Oakley and Richard Robinow.

Michael St. Clair George, as senior independent non-executive director, confirms that, following a formal performance evaluation of the chairman, David Blackett's performance continues to be effective and to demonstrate his commitment to the role. Accordingly, Michael St. Clair George, together with fellow non-executive directors, recommend the re-election of David Blackett as a non-executive director. In making such recommendation, it is acknowledged that David Blackett, who was first appointed to the board in 2008 and was appointed chairman in 2016, has served on the board for more than nine years. The board considers that David Blackett's terms as chairman should be extended beyond that recommended under the 2018 Corporate Governance Code as he provides valuable support to the company and management during a period of continuing recovery in the operations. David Blackett makes yearly visits to the operations in Indonesia and has considerable knowledge of the business of the company, offering valuable insights based on his previous experience in the region. In fulfilling his role as chairman, David Blackett promotes healthy debate amongst directors and the board considers that his objectivity and judgement are not compromised by his length of service.

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

The chairman confirms that, following a formal evaluation, the performance of each of the non-executive directors continues to be effective and recommends each of Irene Chia, John Oakley, Richard Robinow and Rizal Satar for re-election or

election as non-executive directors. The chairman particularly welcomes the valuable commitment and extensive experience of all of the directors.

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 2018 and remain in force at the date of this report.

Political donations

No political donations were made during the year.

Acquisition of the company's own shares

The company's articles of association permit the purchase by the company of its own shares subject to prevailing legislation which requires that any such purchase (commonly known as a "buy-back"), if a market purchase, has been previously authorised by the company in general meeting and, if not, is made pursuant to a contract of which the terms have been authorised by a special resolution of the company in general meeting.

The company currently holds 132,500 of its ordinary shares of 25p each, representing 0.33 per cent of the called up ordinary share capital, as treasury shares which were acquired with the intention that, once a holding of reasonable size has been accumulated, such holding be placed with one or more substantial investors on a basis that, to the extent reasonably possible, broadens the spread of substantial shareholders in the company. Save to the extent of this intention, no agreement, arrangement or understanding exists whereby any ordinary shares acquired pursuant to the share buy-back authority referred to below will be transferred to any person.

The directors are seeking renewal at the forthcoming annual general meeting (resolution 10 set out in the 2019 Notice) of the buy-back authority granted in 2018 to purchase up to 5,000,000 ordinary shares, on terms that the maximum number of ordinary shares that may be bought back and held in treasury at any one time is limited to 400,000 ordinary shares. The directors may, if it remains appropriate, seek further annual renewals of this authority at subsequent annual general meetings. The authorisation being sought will continue to be utilised only for the limited purpose of buying back ordinary shares into treasury with the expectation that the shares bought back will be re-sold when circumstances permit. The new authority, if provided, will expire on the date of the annual general meeting to be held in 2020 or on 30 June 2020 (whichever is the earlier).

The renewed buy-back authority is sought on the basis that the price (exclusive of expenses, if any) that may be paid by the company for each ordinary share purchased by it will be not less than £1.00 and not greater than an amount equal to the higher of: (i) 105 per cent of the average of the middle market quotations for the ordinary shares in the capital of the company as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which such share is contracted to be purchased; and (ii) the higher of the last independent trade and the current highest independent bid on the London Stock Exchange.

Any ordinary shares held in treasury by the company will remain listed and form part of the company's issued ordinary share capital. However, the company will not be entitled to attend meetings of the members of the company, exercise any voting rights attached to such ordinary shares or receive any dividend or other distribution (save for any issue of bonus shares). Sales of shares held in treasury will be made from time to time as investors are found, following which the new legal owners of the ordinary shares will be entitled to exercise the usual rights from time to time attaching to such shares and to receive dividends and other distributions in respect of the ordinary shares.

The consideration payable by the company for any ordinary shares purchased by it will come from the distributable reserves of the company. The proceeds of sale of any ordinary shares purchased by the company would be credited to distributable reserves up to the amount of the purchase price paid by the company for the shares, with any excess over such price being credited to the share premium account of the company. Thus, as regards its impact on both cash resources and distributable reserves, it is intended that exercise of the share buy-back authority will be broadly neutral.

The company will continue to comply with its obligations under the Listing Rules of the Financial Conduct Authority ("the Listing Rules") in relation to the timing of any share buy-backs and re-sales of ordinary shares from treasury.

Authorities to allot share capital

At the annual general meeting held on 13 June 2018, 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 2019 annual general meeting (resolutions 11 and 12 set out in the 2019 Notice) to authorise the directors (a) to allot and to grant rights to subscribe for, or to convert any security into, ordinary shares in the capital of the company (other than 9 per cent cumulative preference shares) up to an aggregate nominal amount of £2,372,617 representing 23.5 per cent of the issued ordinary share capital (excluding treasury shares) at the date of this report, and (b) to allot and to grant rights to subscribe for, or to convert any security into, 9 per cent cumulative preference shares in the capital of the company up

to an aggregate nominal amount of £13,000,000 representing 18.1 per cent of the issued preference share capital of the company at the date of this report.

The new authorities, if provided, will expire on the date of the annual general meeting to be held in 2020 or on 30 June 2020 (whichever is the earlier). The directors have no present intention of exercising these authorities.

Authority to disapply pre-emption rights

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

In addition, the resolution to provide these powers (resolution 13 set out in the 2019 Notice) will, if passed, empower the directors to make issues of ordinary shares for cash other than by way of a rights issue or open offer up to a maximum nominal amount of £1,009,425 (representing 10 per cent of the issued ordinary share capital of the company (excluding treasury shares) at the date of this report).

The foregoing powers (if granted) will expire on the date of the annual general meeting to be held in 2020 or on 30 June 2020 (whichever is the earlier).

General meeting notice period

At the 2019 annual general meeting a resolution (resolution 14 set out in the 2019 Notice) will be proposed to authorise the directors to convene a general meeting (other than an AGM) on 14 clear days' notice (subject to due compliance with requirements for electronic voting). The authority will be effective until the date of the annual general meeting to be held in 2020 or on 30 June 2020 (whichever is the earlier). This resolution is proposed following legislation which, notwithstanding the provisions of the company's articles of association and in the absence of specific shareholder approval of shorter notice, has increased the required notice period for general meetings of the company to 21 clear days. While the directors believe that it is sensible to have the flexibility that the proposed resolution will offer to convene general meetings on shorter notice than 21 days, this flexibility will not be used as a matter of routine for such meetings, but only where use of the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

Directors' remuneration report

Resolution 2 as set out in the 2019 Notice provides for approval of the company's remuneration report regarding the remuneration of directors as detailed in the "Directors' remuneration report" below.

Recommendation

The board considers that the proposals to grant the directors the authorities and powers as detailed under "Acquisition of the company's own shares", "Authorities to allot share capital" and "Authority to disapply pre-emption rights" above and the proposal to permit general meetings (other than annual general meetings) to be held on just 14 clear days' notice as detailed under "General meeting notice period" above are all in the best interests of the company and shareholders as a whole and accordingly the board recommends that shareholders vote in favour of resolutions 10 to 14 as set out in the 2019 Notice.

Auditor

Each director of the company at the date of approval of this report has confirmed that, so far as such director is aware, there is no relevant audit information of which the company's auditor is unaware; and that such director has taken all the steps that ought to be taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

Deloitte LLP have expressed their willingness to continue in office as auditor and Resolution 8 set out in the 2019 Notice proposes their re-appointment.

Disclosure requirements of Listing Rule 9.8.4R

The following table references the location of information required to be disclosed in accordance with Rule 9.8.4R of the Listing Rules published by the Financial Conduct Authority.

Listing Rule	Disclosure requirement	Disclosure in annual report
9.8.4(1)	The amount of interest capitalised during the year with an indication of the amount and treatment of any related tax relief	Note 9 to the consolidated financial statements
9.8.4(2)	Revision of previously published estimate of loss on sale of PT Putra Bongan Jaya	Under "Group results" in "Finance" section of Strategic Report
9.8.4(4)	Details of long-term incentive scheme as required under LR 9.4.3R (2) (for a sole director to facilitate recruitment or retention)	Not applicable
9.8.4(5)	Any arrangements under which a director has waived or agreed to waive any emoluments from the company or any subsidiary undertaking	Not applicable
9.8.4(6)	Any arrangement under which a director has agreed to waive future emoluments	Not applicable
9.8.4(7)	Allotments for cash of equity securities made during the period under review otherwise than to the holders of the company's equity shares in proportion to their holdings of such equity shares and which has not been specifically authorised by the company's shareholders	Not applicable
9.8.4(8)	Allotments of shares for cash by a major subsidiary of the company other than pro-rata to existing shareholdings	Not applicable
9.8.4(9)	Participation by a parent company in any placing made by the company	Not applicable
9.8.4(10)	Any contract of significance: (i) to which the listed company, or one of its subsidiary undertakings, is a party and in which a director of the listed company is or was materially interested; and (ii) between the listed company, or one of its subsidiary undertakings, and a controlling shareholder	Note 39 (related parties) to the consolidated financial statements
9.8.4(11)	Contracts for the provision of services to the company or any of its subsidiary undertakings by a controlling shareholder	Not applicable
9.8.4(12)	Arrangements under which a shareholder has waived or agreed to waive any dividends	Not applicable
9.8.4(13)	Arrangements under which a shareholder has agreed to waive future dividends	Not applicable
9.8.4(14)	Board statement in respect of relationship agreement with the controlling shareholder	Not applicable

By order of the board
R.E.A. SERVICES LIMITED
Secretary
26 April 2019

Corporate governance report

This directors' report on corporate governance in respect of the year ended 31 December 2018 is made pursuant to the UK Corporate Governance Code 2016 (the "2016 Code"). However, in preparing their report and in consideration of matters of governance as respects the company, the directors are mindful of the UK Corporate Governance Code 2018 (the "2018 Code") issued by the Financial Reporting Council ("FRC") in July 2018 and taking effect for accounting periods on or after 1 January 2019, certain exemptions as regards smaller companies having been removed.

Throughout the year ended 31 December 2018, the company was in compliance with the provisions set out in the 2016 Code save, for the reasons explained under "Board committees" below, as respects Code provision B.2.1 regarding nomination committees, Code provision C.3.1 regarding audit committees and Code provision D.2.1 regarding remuneration committees. With the appointment of a new independent non-executive director on 31 December 2018, the company is in compliance with Provision 11 of the 2018 Code regarding independence of at least half the board, excluding the chairman. The 2016 Code and the 2018 Code are available from the Financial Reporting Council's website at "www.frc.org.uk".

Chairman's statement on corporate governance

The directors appreciate the importance of ensuring that the group's affairs are managed effectively and with integrity and acknowledge that the principles laid down in the Code provide a widely endorsed model for achieving this. The directors seek to apply the Code principles in a manner proportionate to the group's size but, as the Code permits, reserving the right, when it is appropriate to the individual circumstances of the company, not to comply with certain Code principles and to explain why.

At the performance evaluation conducted in 2018 and following a further formal evaluation conducted in the first quarter of 2019, directors concluded that the board performed effectively as constituted during 2018 and, following the appointment of the additional independent director at the end of 2018, continues to do so during 2019. It was further concluded that the complementary skills of individual board members are appropriate for the size and strategic direction of the group and for the challenges that it faces. It was considered that each director brings separate valuable insights into, variously, the plantation industry, business in Indonesia and the group's affairs. Taking account of the nature and size of the company and the limited number of directors on the board, it was concluded that an externally facilitated board evaluation was not required.

The directors are conscious that the group relies not only on its shareholders but also on the holders of its debt securities for the provision of the capital that the group utilises. The comments below regarding liaison with shareholders apply equally to liaison with holders of debt securities.

Role and responsibilities of the board

The board is responsible for the proper leadership of the company for the long term success of the company and the community in which it operates. The board has a schedule of matters reserved for its decision which is kept under review. Such matters include strategy, material investments and financing decisions and the appointment or removal of executive directors and the company secretary. In addition, the board is responsible for ensuring that resources are adequate to meet the group's objectives and for reviewing performance, financial and operational controls, risk and compliance with the group's policies and procedures with respect to its strategy and values regarding business ethics, human rights, diversity and sustainability.

The chairman and managing director (being the chief executive) have defined separate responsibilities under the overall direction of the board. The chairman has responsibility for leadership and management of the board in the discharge of its duties; the managing director has responsibility for the executive management of the group overall. Neither has unfettered powers of decision.

Irene Chia, Michael St. Clair-George and Rizal Satar are considered by the board to be independent directors. Further, the chairman on appointment was considered to meet the board of directors' criteria for independence. There is a regular and robust dialogue, both formal and informal, between all directors and senior management and communication is open and constructive and non-executive directors are able to express their views, speak frankly and raise issues or concerns. Executive management is responsive to feedback from non-executive directors and to requests for clarification and amplification.

The company carries appropriate insurance against legal action against its directors. The current policy was in place throughout 2018 in compliance with the Code requirement to carry such insurance.

Composition of the board

The board currently comprises the chairman, one executive director and five non-executive directors. Rizal Satar, who is based in Indonesia, was appointed a non-executive director on 31 December 2018.

Biographical information concerning each of the directors of the company is set out under "Board of directors" above. The variety of backgrounds brought to the board by its members provides perspective and facilitates balanced and effective strategic planning and decision making for the long-term success of the company in the context of the company's obligations and responsibilities both as the owner of a business in Indonesia and as a UK listed entity. In particular, the board believes that the respective skills and experience of its members complement each other and that their knowledge and commitment is of specific relevance to the nature and

geographical location of the group's operations.

The group's London office comprises the managing director and a small number of executives managing the company's London listing and liaising with its European shareholders. Other executive functions, including day to day responsibility for the plantation operations, are managed by a local senior team in Indonesia and Singapore.

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. Further, any director appointed during the year holds office until the next annual general meeting and may then submit himself or herself for re-election. It is intended that all non-executive directors will be subject to annual re-election by shareholders in future years, in compliance with Provision 21 of the 2018 Code.

It is the policy of the company that the board should be refreshed on the basis that independent non-executive directors will not normally be proposed for reappointment if, at the date of reappointment, they have served on the board for more than nine years. David Blackett, who was first appointed to the board in 2008 and was appointed chairman in 2016, has served on the board for more than nine years. However, the board is mindful of maintaining a suitable balance between independence and relevant experience and considers that, as chairman, David Blackett's objectivity and judgement are not compromised by his length of service and that the value brought to the board by continuity outweighs other factors. Accordingly, as explained in the Directors' report above, the board considers that the chairman's term should be extended beyond that recommended under the 2018 Code. The board intends to consider extensions to David Blackett's term annually, taking account of the views of the company's major shareholders.

Directors' conflicts of interest

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

Professional development and advice

In view of their previous relevant experience and, in some cases, length of service on the board, all directors are familiar with the financial and operational characteristics of the group's activities. Directors are required to ensure that they maintain that familiarity and keep themselves fully cognisant of the affairs of the group and matters affecting its operations, finances and obligations (including environmental, social and governance responsibilities). Whilst there are no formal training programmes, the board regularly reviews its own competences, receives periodic briefings on legal, regulatory, operational and political developments affecting the group and may arrange training on specific matters where it is thought to be required. Directors are able to seek the advice of the company secretary and, individually or collectively, may take independent professional advice at the expense of the company if necessary.

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

Information and support

Monthly operational and financial reports are issued to all directors for their review and comment. These reports are augmented by annual budgets and positional papers on matters of a non routine nature and by prompt provision of such other information as the board periodically decides that it should have to facilitate the discharge of its responsibilities.

Board evaluation

A formal rigorous internal evaluation of the performance of the board, the committees and individual directors is undertaken annually. Balance of powers, mix of skills, experience and knowledge, 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 covering how the board works together as a unit, key board relationships, effectiveness of individual directors and committees and the commitment and contribution of all directors in developing strategy and enforcing disciplined risk management, pursuing areas of concern, if any, and in addition setting appropriate commercial and social responsibility objectives to the adequacy and timeliness of information made available to the board.

Following the 2018 evaluation, the chairman confirmed that the performance of each of the non-executive directors continues to be effective and particularly welcomes the valuable commitment and extensive experience of all of the directors.

Board committees

The board has appointed nomination, audit and remuneration committees to undertake certain of the board's functions, with written terms of reference which are available for inspection on the company's website and are updated as necessary. The directors have been conscious for some time that the board

Corporate governance report
continued

committees have not recently met the independence criteria specified by the 2016 Code and the 2018 Code. This has reflected the desire to maintain a board of a size that is appropriate to the needs and circumstances of the company, to retain a suitable balance between independence and recent and relevant financial or industry experience on each committee and to avoid unnecessary duplication of the oversight exercised by the commissioners of PT REA Kaltim Plantations (the Indonesian sub-holding company of all of the group's plantation interests) of which a majority are independent. The board considers that the independence of judgement of the nomination, audit and remuneration committees has not been compromised as a consequence of their composition. However, following the recent appointment of Rizal Satar to the board, it is intended that, in due course, Rizal will be invited to join certain board committees, whereupon the company will be in compliance with the provisions of the 2018 Code as respects independence and the composition of such committees.

There is a committee of the board, currently comprising any two of David Blackett, Carol Gysin and Richard Robinow, to deal with various matters of a routine or executory nature.

Nomination committee

The nomination committee comprises David Blackett (chairman) and Michael St. Clair-George. The committee is responsible for submitting recommendations for the appointment of directors for approval by the full board. In making such recommendations, the committee pays due regard to the group's diversity policy and takes into consideration the ethos of the company and the specific nature and location of the group operations. Experience and understanding of the plantation industry and business in Indonesia is an important factor in considering a potential appointment.

Audit committee

The audit committee reports on its composition and activities in the "Audit committee report" below. This also provides information concerning the committee's relationship with the external auditor.

Remuneration committee

The remuneration committee reports on its composition and activities in the "Directors' remuneration report" below. This also provides information concerning the remuneration of the directors and includes details of the basis upon which such remuneration is determined.

Board proceedings

Four meetings of the board are scheduled each year. Other board meetings are held as required to consider corporate and operational matters with all directors consulted in advance regarding significant matters for consideration and provided with relevant supporting information. Minutes of board meetings are circulated to all directors. The managing director is 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 2018, at the board meetings held in 2018 is set out below.

	Regular meeting	Ad hoc meeting
David Blackett	4	2
Irene Chia	4	2
Carol Gysin	4	2
John Oakley	4	2
Richard Robinow	4	2
Michael St. Clair-George	4	2
Rizal Satar (appointed 31 December 2018)	0	0

In addition, during 2018 there was one meeting of the nomination committee, three meetings of the audit committee and two meetings of the remuneration 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. Two of the directors reside permanently in the Asia Pacific region and some UK based directors travel extensively. Since the regular board meetings are fixed to fit in with the company's budgeting and reporting cycle and ad hoc meetings normally have to be held at short notice to discuss specific matters, it may not always be practical to fix meeting dates to ensure that all directors are able to attend each meeting. In the event that a director is unable to attend a meeting, the company ensures that the director concerned is fully briefed so that the director's views can be made known to other directors ahead of time and be reported to, and taken into account, at the meeting.

Risk management and internal control

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

The board has established a continuous process for identifying, evaluating and managing the principal risks which the group faces (including risks arising from environmental, social and governance matters) and considering any such risks in the context of the group's overall strategic objectives.

The board regularly reviews the process and internal control systems, which were in place throughout 2018 and up to the date of approval of this report, in accordance with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

The board attaches importance not only to the process established for controlling risks but also to promoting an internal culture in which all group staff are conscious of the risks arising in their particular areas of activity, are open with each other in their disclosure of such risks and combine together in seeking to mitigate risk. In particular, the board has always emphasised the importance of integrity and ethical dealing and continues to do so, in accordance with the group's policies on business ethics and human rights.

Policies and procedures in respect of diversity and anti bribery and corruption are in place for all of the group's operations in Indonesia as well as in the UK. These include detailed guidelines and reporting requirements, a comprehensive, continuous training programme for all management and employees and a process for on-going monitoring and review. To further support implementation of the group's policies and procedures, a local third party has recently been engaged to assist with corporate governance and anti-bribery training for employees in Indonesia. The training will cover local and international standards for good governance and anti-bribery laws and regulations, with specific reference to the Bribery Act 2010. In addition, a professional third party is being engaged to assist with whistleblowing procedures in Indonesia.

In particular, as regards the group's diversity policy, the group's objective is to encourage an open approach to recruitment, promotion and career development irrespective of age, gender, national origin or professional background. Applicable policies are designed to recognise this open approach. Substantial progress has been made in implementing the diversity policy as evidenced by the composition of the group board, Indonesian subsidiary boards and senior management. Gender committees have been established for each department in Indonesia and further details are set out under the "Employees" section of the Sustainability report above.

In accordance with the Modern Slavery Act 2015, the group also seeks to ensure that its partners abide by its ethical principles, including those with respect to slavery as set out in the policies on human rights and business ethics. All full time employees, casual workers and third party contractors are provided with clear terms of engagement, including a defined notice period for termination and the group's policy with respect to slavery or trafficked labour. The statement on modern slavery is available on the group's website and is reviewed annually by the board in light of the group's policies and practices.

The group has in place measures to ensure that it remains compliant with the General Data Protection Regulation ("GDPR") which came into effect in May 2018.

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

As discussed under "Risk management and internal control" in the "Audit committee report" below, during 2018 the group commissioned a third party review of its information technology controls and financial reporting system to ensure compliance with best practice. Following this review, a number of actions have been taken to enhance certain controls (including the group's internal audit arrangements). The board has concluded that the group's systems are effective and sufficient for their purpose.

Internal audit and reporting

The group's internal audit arrangements are described in the "Audit committee report" below.

The group has established a management hierarchy which is designed to delegate the day to day responsibility for specific departmental functions within each working location, including financial, operational and compliance controls and risk management, to a number of senior managers and department heads who in turn report to the managing director.

Management reports to the audit committee and the board on a regular basis by way of the circulation of progress reports, management reports, budgets and management accounts. Management is required to seek authority from the board in respect of any transaction outside the normal course of trading which is above an approved limit and in respect of any matter that is likely to have a material impact on the operations that the transaction concerns. Monthly meetings to consider operational matters are held in London and Indonesia and regular meetings are held between the two offices by way of conference calls. Directors based in London make frequent visits to the overseas operations each year. The managing director has a continuous dialogue with the chairman and with other members of the board.

Relations with stakeholders

The "Chairman's statement" and "Strategic report" above, when read in conjunction with the financial statements, the "Directors' report" above and the "Audit committee report" and "Directors' remuneration report" below are designed to present a comprehensive and understandable assessment of the group's position and prospects. The respective responsibilities of the directors and auditor in connection with the financial statements are detailed in "Directors' responsibilities" below and in the "Auditor's report".

Corporate governance report
continued

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

All ordinary shareholders may attend the company's annual and other general meetings and put questions to the board. As noted above, two directors reside permanently in the Asia Pacific region and the nature of the group's business requires that other directors travel frequently to Indonesia. It is therefore not always feasible for all directors to attend general meetings, but those directors who are present are available to talk on an informal basis to shareholders after the meeting's conclusion. At least twenty working days' notice is given of the annual general meeting and related papers are made available to shareholders at least twenty working days ahead of the meeting. For every general meeting, proxy votes are counted and details of all proxies lodged for each resolution are reported to the meeting and made available on the company's website as soon as practicable after the meeting.

The board is mindful of the company's other key stakeholders, specifically employees. Rizal Satar, who is also a non-executive director of the group's principal operating subsidiary in Indonesia and chairman of the local audit committee, has been designated since his appointment as the non-executive director with responsibility for engagement with employees. This engagement mechanism is to ensure that the board understands the views of all stakeholders and that employee interests have been considered in board discussions and decision making in order to promote the long term success of the company.

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

Approved by the board on 26 April 2019 and signed on behalf of the board by

DAVID J BLACKETT
Chairman

Audit committee report

Summary of the role of the audit committee

The terms of reference of the audit committee are available for download from the company's website at www.rea.co.uk.

The audit committee is responsible for:

- monitoring the integrity of the financial statements, reviewing formal announcements of financial performance and the significant reporting issues and judgements that such statements and announcements contain
- reviewing the effectiveness of the internal control functions (including the internal financial controls and internal audit function in the context of the company's overall risk management system, as well as arrangements whereby internally raised staff concerns as to financial reporting and other relevant matters are considered);
- making recommendations to the board in relation to the appointment, reappointment, removal, remuneration and terms of engagement of the external auditor, and overseeing the relationship with and reviewing the audit findings of the external auditor; and
- reviewing and monitoring the independence of the external auditor and the effectiveness of the audit process.

The audit committee also monitors the engagement of the external auditor to perform non-audit work. During 2018, non-audit work undertaken by the auditor was, as in the previous year, routine compliance reporting in connection with covenant obligations applicable to certain group loans (as respects which the governing instruments require that such compliance reporting is carried out by the auditor) and routine taxation compliance services. In addition, further non-audit services were provided during 2018 in relation to the sale of PT Putra Bongan Jaya ("PBJ") and the prospectus in connection therewith. The audit committee considered that the nature and scope of, and remuneration payable in respect of, these engagements were such that the independence and objectivity of the auditor was not impaired. Fees payable are detailed in note 5 to the consolidated financial statements.

The members of the audit committee discharge their responsibilities by formal meetings and informal discussions between themselves, meetings with the external auditor, with the internal auditor in Indonesia and with management in Indonesia and London and by consideration of reports from management, the Indonesian audit committee and the external auditor.

The committee provides advice and recommendations to the board with respect to the financial statements to ensure that these offer fair, balanced and comprehensive information for the purpose of informing and protecting the interests of the company's shareholders.

Composition of the audit committee

The audit committee currently comprises Michael St. Clair-George (chairman) and David Blackett both of whom are considered by the directors to have relevant financial and professional experience, as well as experience of the business sector and region in which the company operates, in order to be able to fulfil their specific duties with respect to the audit committee.

Meetings

Three audit committee meetings are scheduled each year to match the company's budgeting and reporting cycle. There are additional ad hoc meetings held to discuss specific matters when required.

Significant issues related to the financial statements

The committee reviewed the half year financial statements to 30 June 2018 (on which the auditor did not report) and the full year consolidated financial statements for 2018 (the "2018 financial statements") contained in this annual report. The external audit report on the latter was considered together with a paper to the committee by the auditor reporting on the principal audit findings. The audit partner of Deloitte LLP responsible for the audit of the group attended the audit planning meeting prior to the year end as well as the meeting of the committee at which the full year audited consolidated financial statements were considered and approved. Senior members of staff of Deloitte LLP who were involved in the audit also attended the meetings.

In relation to the group's audited 2018 financial statements, the committee considered the significant accounting and judgement issues set out below.

Audit committee report

continued

Significant accounting and judgement issues

Issues	Relevant considerations
A deferred tax asset of $9.5 million (2017: $8.8 million) is recognised in the consolidated financial statements as a result of carried forward income tax losses in Indonesia. The risk is that insufficient profits are generated within the relevant plantation subsidiaries in the five year statutory expiry limit imposed in Indonesia.	The group seeks to limit uncertainty in respect of utilisation of losses by preparing detailed forecasts by company which are flexed for a range of outcomes, for example, ten per cent decrease in price and production. Provisions are made to the extent that losses may not be utilised.
The group has reviewed the deferred tax liability that is recognised in the consolidated financial statements as a result of differences between the carrying amounts of financial assets and liabilities in those statements and the corresponding fiscal balances used in reporting taxable results.	The computation of deferred tax liabilities is complicated by the complexity of Indonesian tax legislation and by the extent of differences between group and local carrying amounts that have accumulated over many years, in part due to the past requirements of IAS 41 to restate plantings at fair value for group reporting purposes. The group revised the methodology for estimating the deferred tax liabilities and an appropriate adjustment for deferred tax has been recognised in the 2018 income statement.
Valuation of coal and stone loans: the value of these loans is based on the ability of the coal and stone concession companies to generate revenue in the future. Following a review in 2012, a provision of $3.0 million was booked in the 2012 consolidated financial statements.	The coal concession company continues to make progress on its coal extraction activity. Following acquisition of the port facilities adjacent to the coal concession work is underway to complete the refurbishment of the port, loading point and conveyor. The stockpile of 16,000 tonnes was sold in 2018. Dewatering of the coal concession has been completed and work to prepare for further drill testing and evaluation before recommencement of mining is ongoing. Following a positive feasibility study in 2017, options for developing and operating the principal stone concession are under review but priority is being given to the concessions that will offer quicker returns with lower risk and, accordingly, capital commitments have been postponed. Various studies undertaken indicate that the values of the coal and stone operations exceed the loan value and support the conclusion that no further impairment charge is required.

Significant accounting and judgement issues

Issues	Relevant considerations
Revenue recognition: compliance with the "bill and hold" sale revenue recognition requirements of IAS18 "Revenue" and those relating to forward sales.	There are long-standing operating procedures for the storage of product where the buyer has requested a delivery delay, and these comply with IFRS. In addition, the shift of delivery method over recent years from FOB Samarinda to CIF has reduced the occurrence and the materiality of this issue. Any forward sales made by the group are priced relevant to benchmarks at the time of delivery and so are not at fixed prices.
Amortisation of land rights: the group has reviewed the estimated economic life of its non-current plantation operating assets with a view to applying appropriate depreciation rates.	In particular, the committee has studied the Indonesian land tenure law and regulation as applied to oil palm plantations. The system of awarding land certificates (an "hak guna usaha" or "HGU") grants HGUs for an initial long period of time (35 years) and these can be renewed relatively easily and at minimal cost for further periods of up to 60 years. All land rights in the past have always been generally renewed without issues. Although the current framework is silent on whether further extensions will be allowed it is the working assumption of the industry in Indonesia, when considering such matters as extension planting, that the current HGUs will be extendible when the time comes. Land suitable for oil palm development and subject to HGUs can be readily bought and sold. Indonesian accounting standards prescribe that the costs associated with acquiring and licensing such land may not be depreciated. Based on these and other considerations, the group continues to follow a policy of not amortising land rights. The committee will monitor applicable accounting standards and Indonesian law and regulation which could have an impact on the assessment of the economic lives of the land titles.

Audit committee report
continued

In its review of the annual report and the consolidated financial statements, the committee considered management's submissions on the matters above, together with the conclusions reached by the auditor, in order to ensure that the annual report and the consolidated financial statements are fair, balanced and understandable and provide sufficient information to enable shareholders to make an assessment of the group's performance, business model and strategy.

External audit

The external auditor was appointed as the company's external auditor in 2002. There has been no tender for audit services since that time. In accordance with the EU Audit Directive and Audit Regulation, consideration will be given to tendering for future audits in due course.

Colin Rawlings has been the company's audit engagement partner since June 2015.

The audit committee has recommended to the board that it should seek the approval of the company's shareholders for the reappointment of the company's current auditor. That recommendation reflects an assessment of the qualifications, expertise, resources and independence of the auditor based upon reports produced by the auditor, the committee's own dealings with the auditor and feedback from management. The committee took into account the possibility of the withdrawal of the auditor from the market and noted that there were no contractual obligations to restrict the choice of external auditor. However, given the current level of audit fees, the limited choice of audit firms with sufficient international coverage and experience and the costs that a change would be likely to entail, the committee did not recommend that the company's audit be put out to tender.

In its assessment of the external auditor, the audit committee considered the following criteria:

- delivery of a thorough and efficient audit of the group in accordance with agreed plans and timescales
- provision of accurate, relevant and robust advice on key accounting and audit judgements, technical issues and best practice
- the degree of professionalism and expertise demonstrated by the audit staff
- sufficient continuity within the core audit team
- adherence to independence policies and other regulatory requirements.

Risk management and internal control

The board of the company has primary responsibility for the group's risk management and internal control systems. The audit committee supervises the internal audit function, which forms a key component of the control systems, and keeps the systems of financial, operational and compliance controls generally under review. Any deficiencies identified are drawn to the attention of the board.

During the past few years the group has been upgrading its information technology (IT) systems both as regards the management of the plantation operations and their integration into the group's new accounting and reporting functions, which went live during 2017. Following implementation, the IT access and control systems and procedures (which had had to accommodate many users during the development and implementation stages) required strengthening to ensure compliance with best practice and with the Financial Reporting Council's code on Internal Control Management. During 2018, the group commissioned an independent review of its information technology controls and financial reporting system and a number of actions were taken to enhance control processes and procedures. The committee is satisfied that the group's systems are effective and sufficient for their purpose.

Internal audit

The group's Indonesian operations have a fully staffed in-house internal audit function supplemented where necessary by the use of external consultants. The function issues a full report on each internal audit topic for consideration by the audit committee in Indonesia. Report summaries and remedial actions are submitted for consideration to the group audit committee. An internal audit programme is agreed at the beginning of each year and supplemented by special audits through the year as and when required by management. In addition, follow-up audits are undertaken to ensure that the necessary remedial action has been taken. In the opinion of the audit committee and the board, there is no need for an internal audit function outside Indonesia due to the limited nature of the non-Indonesian operations.

Approved by the audit committee on 26 April 2019 and signed on behalf of the committee by:
MICHAEL A ST. CLAIR-GEORGE
Chairman

Directors' remuneration report

This report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the "Regulations") as amended in August 2013. The report is split into three main sections: the statement by the chairman of the remuneration committee, the annual report on remuneration and the policy report. The annual report on remuneration provides details of directors' remuneration during 2018 and certain other information required by the Regulations. The overall report, excluding the policy report, will be put to an advisory shareholder vote at the company's 2019 annual general meeting. The remuneration policy detailed in the policy report was previously approved at the company's 2018 annual general meeting.

The Companies Act 2006 requires the auditors to report to shareholders on certain parts of the annual report on remuneration and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the annual report on remuneration that have been audited are indicated in that report. The statement by the chairman of the remuneration committee and the policy report are not subject to audit.

Statement by Michael St. Clair-George, chairman of the remuneration committee

The succeeding sections of this directors' remuneration report cover the activities of the remuneration committee during 2018 and provide information regarding the remuneration of executive and non-executive directors. In particular, the report is designed to compare the remuneration of directors with the performance of the company.

The policy and principles applied by the remuneration committee in fixing the remuneration of executive directors takes account of the company's commercial goals and achievements as well as its sustainability objectives.

In considering bonuses in respect of 2018, the committee confirmed the importance of striking an appropriate balance between positive and negative factors, reward and incentive. In particular, the committee took note of the progress made in working with the president director of the group's principal operating subsidiary, PT REA Kaltim Plantations, to achieve the improvement in operational performance in 2017 and 2018: the continuing recovery in production; reorganisation of bank finance in Indonesia; further changes to local management structures and training programmes; improvements in operational and information technology systems and processes to gain greater efficiencies; closer focus on and integration of sustainability considerations with the operations; the sale of PBJ; disposal of the coal stockpile; and preparations for the resumption of coal mining operations.

The committee reflected these factors in awarding bonuses in respect of 2018 and setting the executive remuneration and specific objectives for 2019.

The committee believes that remuneration should continue to motivate and reward individual performance in a way that is consistent with the best long term interests of the company and its shareholders. In approving remuneration packages for 2019, the committee took account of remuneration awards for senior managers of the company in Indonesia, Singapore and London and considers that it has struck an appropriate balance between reward and incentive.

Annual report on remuneration

The information provided below under "Single total figure of remuneration for each director", "Pension entitlements", "Scheme interests" and "Directors' shareholdings" has been audited.

Directors' remuneration report

continued

Single total figure of remuneration for each director

The remuneration of the executive and non-executive directors for 2017 and 2018 was as follows (stated in sterling as all the directors are remunerated in sterling). There was no remuneration in respect of any long term incentive plan in 2018.

2018	Salary and fees £'000	All taxable benefits * £'000	Annual bonus** £'000	Other remuneration £'000	Total £'000
Managing director					
C E Gysin	325.0	31.1	108.3	–	464.4
Chairman and non-executive directors					
D J Blackett	100.0	–	–	–	100.0
I Chia	27.0	–	–	–	27.0
J C Oakley	82.0	22.7	–	–	104.7
R M Robinow	100.0	6.5	–	–	106.5
M A St. Clair-George	29.5	–	–	–	29.5
Total	663.5	60.3	108.3	–	832.1

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

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

Fees paid to Michael St Clair George included additional remuneration at the rate of £2,500 per annum in respect of his membership of the audit committee.

Pension entitlements

In the past, executive directors were eligible to join the R.E.A. Pension Scheme, a defined benefit scheme of which details are given in note 38 to the consolidated financial statements. That scheme is now closed to new members and it is no longer the policy of the company to offer pensionable remuneration to directors, except to the extent as may be or may become required under local legislation.

Mr Oakley (who was aged 70 at 31 December 2018) is a pensioner member of the scheme. Details of Mr Oakley's annual pension entitlement are set out below.

	£
In payment at beginning of year	75,966
Increase during the year	2,197
In payment at end of year	78,163

Scheme interests awarded during the financial year

There were no scheme interests awarded during the financial year.

Payment for loss of office

Pursuant to a resolution approved by the company shareholders at the 2017 Annual General Meeting, following his resignation on 20 February 2017, Mark Parry received an ex gratia payment of £200,000 and a contribution of £15,000 plus VAT towards reasonable legal fees incurred by him with regard to these arrangements. No payments for loss of office were made to directors during 2018.

Directors' shareholdings

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

At 31 December 2018, the interests of directors (including interests of connected persons as defined in section 96B (2) of the Financial Services and Markets Act 2000 of which the company is, or ought upon reasonable enquiry to have been, aware) in the 9 per cent cumulative preference shares of £1 each and the ordinary shares of 25p each of the company were as set out in the table below.

Directors	Preference shares	Ordinary shares
D J Blackett	250,600	25,000
I Chia	–	1,000
C E Gysin	91,957	1,132
J C Oakley	–	442,493
R M Robinow	–	11,082,420
M A St. Clair-George	2,108	20,134

There have been no changes in the interests of the directors between 31 December 2018 and the date of this report.

Scheme interests

No director currently holds any scheme interests in ordinary shares and there is no current intention that any such interests should be granted.

A long term incentive plan (the "2015 scheme") was approved by shareholders in June 2015. The 2015 scheme is linked to the market price performance of ordinary shares in the company, designed with a view to participation over the long term in value created for the group.

Under the 2015 scheme, participants are awarded potential entitlements over notional ordinary shares of the company. These potential entitlements then vest to an extent that is dependent upon the achievement of certain targets. Vested entitlements are exercisable in whole or part at any time within the six years following the date upon which they vested. On exercising a vested entitlement, a participant receives a cash amount for each ordinary share over which the entitlement is exercised, equal to the excess (if any) of the market price of an ordinary share on the date of exercise over the price at which the entitlement was granted, subject to adjustment for subsequent variations in the share capital of the company in accordance with the rules of the plan.

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

The exercise of vested entitlements depends upon continued employment with the group. If the participant leaves, he may exercise a vested entitlement within six months of leaving.

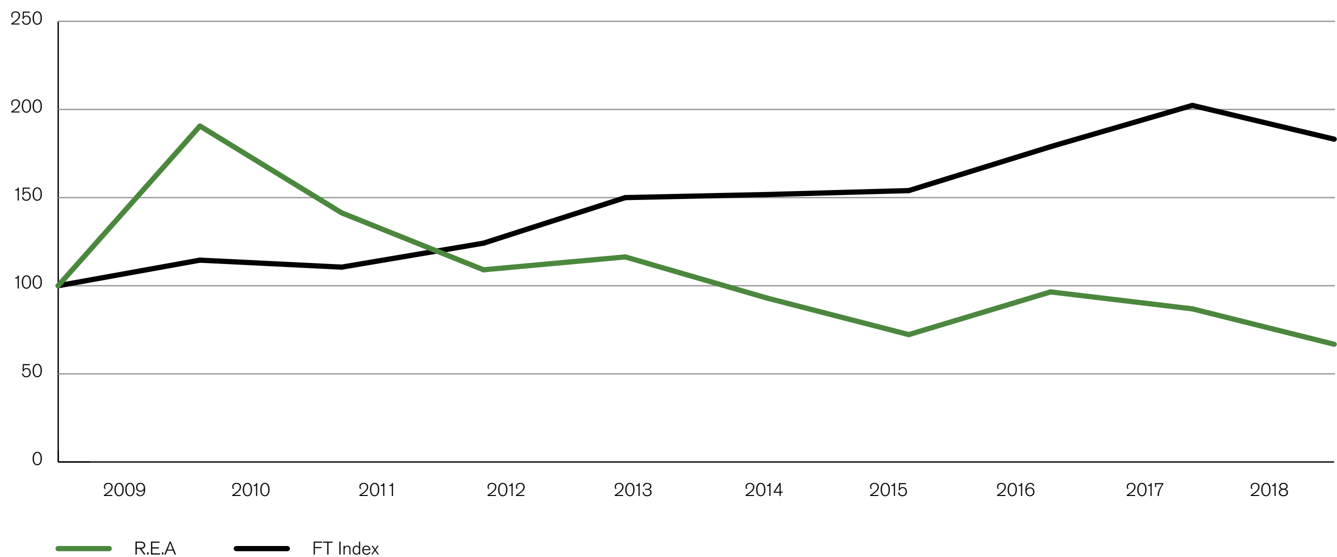
In the event of a change in control of the company as a result of a takeover offer or similar corporate event, vested entitlements would be exercisable for a period of one month following the date of the change of control or other relevant event (as determined by the remuneration committee).

Directors' remuneration report

continued

Performance graph and managing director remuneration table

The following graph shows the company's performance, measured by total shareholder return, compared with the performance of the FTSE All Share Index also measured by total shareholder return. The FTSE All Share index has been selected for this comparison as there is no index available that is specific to the activities of the company.



Record of remuneration of the managing director

The table below provides details of the remuneration of the managing director over the ten years to 31 December 2018.

Managing director's remuneration		Single figure of total remuneration £'000	Annual bonus pay-out against maximum %	Long term incentive vesting rates against maximum opportunity %
2018	C E Gysin	464.4	67	N/A
2017	C E Gysin (for the period 21 February to 31 December 2017)	400.3	50	N/A
2017	M A Parry (for the period 1 January to 20 February 2017*)	412.8	N/A	N/A
2016	M A Parry	617.3	92	N/A
2015	M A Parry	541.7	88	N/A
2015	J C Oakley	473.9	60	N/A
2014	J C Oakley	453.3	67	N/A
2013	J C Oakley	488.8	65	N/A
2012	J C Oakley	499.5	71	N/A
2011	J C Oakley	428.7	47	N/A
2010	J C Oakley	419.4	46	N/A
2009	J C Oakley	358.8	40	N/A

* Includes £200,000 ex gratia payment for loss of office

Percentage change in remuneration of the managing director

The table below shows the percentage changes in the remuneration of the managing director and in the average remuneration of certain senior management and executives in Indonesia and Singapore between 2017 and 2018. The selected comparator employee group is considered to be the most relevant taking into consideration the nature and location of the group's operations. Using the entire employee group would involve comparison with a workforce in Indonesia, whose terms and conditions are substantially different from those pertaining to employment in the UK and Singapore and of which the changes from year to year reflect local employment conditions. In order to achieve a meaningful comparison, the 2017 remuneration of the selected comparator employee group has been restated to reflect only the remuneration in that year of those employees comprising the 2018 selected comparator employee group. The 2017 remuneration of the selected group has also been restated at prevailing

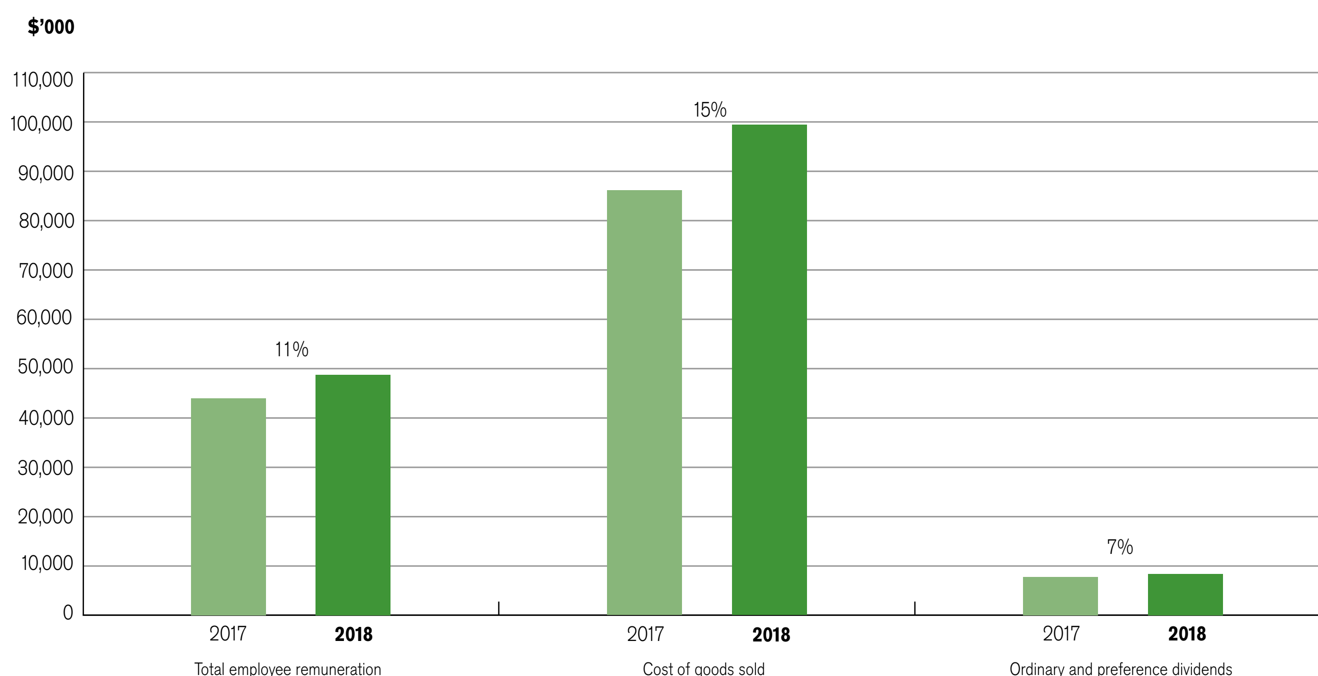
average exchange rates for 2018 so as to eliminate distortions based on exchange rate movements of the Indonesian rupiah, US dollar and Singapore dollar against sterling.

Percentage change in managing director's remuneration	2018 £'000	2017 £'000	change %
Salary	325.0	325.0	–
Benefits	31.1	6.1	410
Annual bonus	108.3	81.3	33
Total	464.4	412.4	13

The current managing director was appointed in February 2017. Accordingly, salary for the managing director in 2017 is shown as an annualised figure for the purpose of comparison. Benefits comprise a housing allowance, for which the first payment was made in December 2017.

Percentage change in selected employee group remuneration	2018 £'000	2017 £'000	change %
Salary	289.6	247.8	17
Benefits	11.4	11.0	4
Annual bonus	46.3	30.2	53
Total	347.3	289.0	20

Relative importance of spend on pay



The graph above shows the movements between 2017 and 2018 in total employee remuneration, cost of goods sold and ordinary and preference dividends. Cost of goods sold has been selected as an appropriate comparator as it provides a reasonable measure of the growth in the group's activities.

Functions of the remuneration committee

The remuneration committee currently comprises an independent non-executive director, Michael St. Clair-George (chairman) and the chairman, David Blackett. The committee sets the remuneration and benefits of the executive directors. The committee is also responsible for long term incentive arrangements, if any, for key senior executives in Indonesia.

The committee does not use independent consultants but takes into consideration external guidance, including the annual publication by Deloitte LLP regarding directors' remuneration in smaller companies. The chairman plays no part in the discussion of his own remuneration, which is a matter for determination between the other member of the committee and fellow directors.

Directors' remuneration report

continued

Service contracts of directors standing for re-election

David Blackett, Irene Chia, John Oakley, Richard Robinow and Rizal Satar are proposed for re-election or election, as applicable, at the forthcoming annual general meeting. All the non-executive directors have a contract for services to the company which is terminable at will by either party. Continuation of their appointment depends upon satisfactory performance and re-election at annual general meetings in accordance with the articles of association of the company.

Statement of voting at general meeting

At the annual general meeting held on 13 June 2018, votes lodged by proxy in respect of the resolution to approve the 2017 directors' remuneration report were as follows:

	Votes for	Percentage for	Votes against	Percentage against	Total votes cast	Votes withheld
Voting on remuneration report	28,908,988	99.9991	265	0.0009	28,909,253	310
Voting on remuneration policy	28,909,063	99.9993	190	0.0007	28,909,253	310

The company pays due attention to voting outcomes. Where there are substantial votes against resolutions in relation to directors' remuneration, the reasons for any such vote will be sought, and any actions in response will be detailed in the next directors' remuneration report.

Policy Report

The information provided in this part of the directors' remuneration report is not subject to audit.

Future policy tables

The table below provides a summary of the key components that it will in future be the policy of the company to provide in the remuneration package of each executive director. It is not the policy of the company to provide for possible recovery after payment of directors' remuneration except in respect of awards, if any, under the 2015 long term incentive plan.

	Purpose	Operation	Opportunity	Applicable performance measures
Executive directors				
Salary and fees	To provide a competitive level of fixed remuneration aligned to market practice for comparable organisations, reflecting the demands, seniority and location of the position and the expected contribution to achievement of the company's strategic objectives	Reviewed annually with annual increases effective from 1 January by reference to: the rate of inflation, specific responsibilities and location of the executive, current market rates for comparable organisations, rates for senior employees and staff across the operations, and allowing for differences in remuneration applicable to different geographical locations	Within the second or third quartile for similar sized companies	None

	Purpose	Operation	Opportunity	Applicable performance measures
Executive directors				
Taxable benefits	To attract, motivate, retain and reward fairly individuals of suitable calibre	Company car; and, where relevant, other benefits customarily provided to equivalent senior management in their country of residence	The cost of providing the appropriate benefits, subject to regular review to ensure that such costs are competitive	None
Annual bonus	To incentivise performance over a 12 month period, based on achievements linked to the company's strategic objectives	Annual review of performance measured against prior year progress in corporate development, both commercial and financial, and including objectives relating to sustainability and governance	Up to a maximum of 50 per cent of annual base salary	A range of objectives for the respective director, reflecting specific goals for the relevant year, with weighting assessed annually on a discretionary basis depending upon the dominant influences during the year to which a bonus relates
Long term incentives	To provide incentives, linked to ordinary shares, with a view to participation by the director over the long term in the value that a director helps to create for the group	The grant of rights to acquire shares or to receive cash payments vesting by reference to the achievement over a defined period of certain key performance targets	Cumulative unvested awards, measured at face value on dates of grant, limited to 150 per cent of prevailing annual base salary (200 per cent in exceptional circumstances)	Total shareholder return, cost per tonne of crude palm oil produced, and the annual extension planting rate achieved in proportions considered at the remuneration committee's discretion appropriate to the company's objectives at the time of making any award
Pensions	Compliance with prevailing legislation	Compliance with prevailing legislation	Compliance with prevailing legislation	None
Non-executive directors				
Fees	To attract and retain individuals with suitable knowledge and experience to serve as directors of a listed UK company engaged in the plantation business in Indonesia	Determined by the board within the limits set by the articles of association and by reference to comparable organisations and to the time commitment expected; reviewed annually		
Fees for additional duties	An additional flat fee in each year in respect of membership of certain committees and additional fees in respect of particular services performed	Determined by the board having regard to the time commitment expected and with no director taking part in the determination of such additional remuneration in respect of himself; reviewed annually		
Taxable benefits	Continuance of previously agreed arrangements	The provision of private medical insurance, subject to regular review to ensure that the cost is competitive		

Directors' remuneration report

continued

The policies on remuneration set out above in respect of executive directors are applied generally to the senior management and executives of the group but adjusted appropriately to reflect the position, role and location of an individual. Remuneration of other employees, almost all of whom are based in Indonesia, is based on local and industry benchmarks for basic salaries and benefits, subject as a minimum to an annual inflationary adjustment, and with additional performance incentives as and where this is appropriate to the nature of the role.

Where any arrangements have been agreed with a director within the existing policies on remuneration, such arrangements shall be deemed to be arrangements falling within the new policy on remuneration set out above.

Approach to recruitment remuneration

In setting the remuneration package for a newly appointed executive director, the committee will apply the policy set out above. Base salary and bonuses, if any, will be set at levels appropriate to the role and the experience of the director being appointed and, together with any benefits to be included in the remuneration package, will also take account of the geographical location in which the executive is to be based. The maximum variable incentive which may be awarded by way of annual bonus will be 50 per cent of the annual base salary and by way of long term incentive will be 150 per cent of annual base salary, except in exceptional circumstances when the maximum long term incentive would be 200 per cent of annual base salary.

In instances where a new executive is to be domiciled outside the United Kingdom, the company may provide certain relocation benefits to be determined as appropriate on a case by case basis taking account of the specific circumstances and costs associated with such relocation.

Directors' service agreements and letters of appointment

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

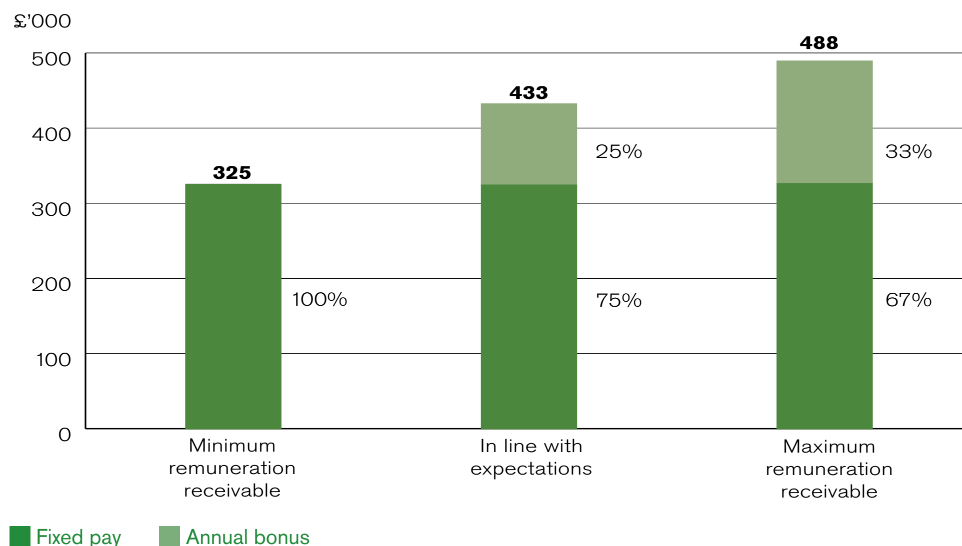
Contracts for the services of non-executive directors may be terminated at the will of either party, with fees payable only to the extent accrued to the date of termination. Continuation of the appointment of each non-executive director depends upon satisfactory performance and re-election at annual general meetings in accordance with the articles of association of the company and the provisions of the UK Corporate Governance Code.

Carol Gysin has two service agreements whereby her working time and remuneration are shared between two employee companies to reflect the division of responsibility between different parts of the group. The contracts state that her appointment shall continue until automatically terminated on 31 January 2021 without the need for notice unless it is previously terminated by either party giving the other at least 12 months' prior written notice expiring before 31 January 2021. As at the date of this report, the unexpired term under Carol Gysin's contracts was 12 months.

Illustration of application of remuneration policy

The charts below provide estimates of the potential remuneration receivable pursuant to the remuneration policy by the managing director (being the only executive director) and the potential split of such remuneration between its different components (being the fixed component, the annual variable component and the long term variable component) under three different performance scenarios: minimum, in line with expectations and maximum. The long term variable component in respect of 2018 is nil.

Managing director



The figures reflected in the chart above have been calculated against the policies that were applicable throughout 2018 and on the basis of remuneration payable in respect of 2019.

Payment for loss of office

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

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

Consideration of employment conditions elsewhere in the company

In setting the remuneration of executive directors, regard will be had to the levels of remuneration of expatriate employees overseas and to the increments granted to employees operating in the same location as the relevant director. Employee views are not specifically sought in determining this policy. Employee salaries will normally be subject to the same inflationary adjustment as the salaries of executive directors in their respective locations.

Shareholder views

Shareholders are not specifically consulted on the remuneration policy of the company. Shareholders who have expressed views on remuneration have supported the company's policies and the application of those policies to date. Were a significant shareholder to express a particular concern regarding any aspect of the policy, the views expressed would be carefully weighed.

Approved by the board on 26 April 2019 and
signed on behalf of the board by
MICHAEL A ST. CLAIR-GEORGE
Chairman

Directors' responsibilities

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

UK company law requires the directors to prepare financial statements for each financial year. The directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU") and Article 4 of the IAS Regulation and have also elected from 2013 to prepare the parent company financial statements in accordance with IFRSs as adopted by the EU. Under company law, the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

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

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

Responsibility statement

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

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the "Strategic report" section of this annual report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

By order of the board
R.E.A. SERVICES LIMITED
26 April 2019

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

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of R.E.A. Holdings plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

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

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: ▪ Classification of Plantation Assets ▪ Valuation of Loans to Coal and Stone Interests ▪ Recognition of Deferred Tax Assets The plantation assets valuation and the investments in coal and stone key audit matters included within this report were also considered key audit matters in the prior period.
Materiality	The materiality that we used for the group financial statements was $6.2m which was determined on the basis of 1.75% of plantation assets.
Scoping	The scope of our audit of the group remains unchanged from the previous year. We continue to focus our group audit scope primarily on the audit work of the 7 largest plantation entities and the 3 UK based entities, all of which were subject to full scope audits.
Significant changes in our approach	We have identified a new key audit matter: recognition of deferred tax assets, due to the loss making position of the group and the 5 year statutory expiry limit imposed in Indonesia for the setting off of tax losses against future profits. Due to IT improvements made in the year, we are no longer treating the implementation of Sun 6 as a key audit matter.

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

Conclusions relating to going concern, principal risks and viability statements

Going concern

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

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

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

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

Principal risks and viability statement

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

- the disclosures on pages 35 to 41 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 44 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on pages 44 to 45 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

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

Key audit matters

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

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

Clarification of Plantation Assets	
Key audit matter description	Plantation assets disclosed within property plant and equipment comprise predominantly 'plantings' and 'buildings and structures'. Due to the size and importance of these assets to the group, we identified a key audit matter relating to the capitalisation and classification of costs into plantation assets. Plantation assets had a book value of $347m at 31 December 2018 ($419m as at 31 December 2017). There is a risk of potential fraud in incorrectly classifying capitalised costs into classes of property, plant and equipment. The calculation of the split is complex and the methodology judgmental. Plantings are depreciated over a useful economic life of 24 years while building and structures are depreciated over a useful economic life of between 20 and 67 years (page 85). Incorrect classification of capitalised costs between these two asset classes could lead to a material difference to the carrying value of fixed assets in future years. At 31 December 2018 the carrying value of plantings is $146.0m (2017: $184.4m) and the carrying value of buildings and structures is $198.5m (2017: 242.3m). The value of additions in the period to plantings is $7.6m and to buildings and structures is $12.28m (accounting policies and note 15).
How the scope of our audit responded to the key audit matter	Our work on the split of deemed cost between asset classes has included: ▪ Reviewing the nature of the costs which have been capitalised to assess whether they are appropriate; ▪ Challenging the split of costs between plantings and buildings and structures, by reference to the testing of capitalised additions to immature plantations performed by our component audit team in Indonesia, our knowledge of the business and our interpretation of the revised IAS 41 standard; ▪ Challenge if the plantings and buildings and structures are being depreciated over appropriate useful economic lives, by comparing to scientific literature, the licensing agreements and future land rights; and ▪ Assessing the carrying value of plantings and buildings and structures for impairment as required by IAS 16 on an individual plantation (CGU) basis by creating an independent estimate for the recoverable amount of each CGU and comparing to the carrying value of plantings and buildings and structures for each.
Key observations	Based on the audit evidence obtained from the work performed above, we have concluded that additions have been split appropriately between PPE plantation classes.

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

Valuations of Loans to Coal and Stone Interests	
Key audit matter description	The group holds loans made to coal and stone concessions in Indonesia for which control is outside of the group and which are discussed in the audit committee report on page 55. The recoverability of these loans rely on certain assumptions and estimates in relation to the likelihood of the underlying investments generating suitable future cash flows. These have the potential to be subject to management bias and include the discount rate, the timing of commencement of future mining operations and expected commodity sale prices. At 31 December 2018 the carrying value of the loans was $46.0m, an increase from $37.9m at 31 December 2017 (note 17, and the accounting policy is disclosed in note 1). In previous years, management decided to guarantee the value of the coal loans using the ATP stone concession. This meant no impairment was recognised even though the coal operations remained suspended. The coal price has now sufficiently increased such that mining operations are expected to resume shortly, as evidenced by the establishment of a loading point on the Mahakam river and the refurbishment of the conveyor. In addition, during October 2018 the coal stockpile at the group's Kota Bangun concession was sold.
How the scope of our audit responded to the key audit matter	We have performed procedures on the ATP Andesite stone concession and the IPA and PSS coal concession discounted cash flows to assess the underlying value of coal and stone and therefore the recoverability of the loans. These forecasts calculate a value in use sufficient to justify the carrying value of all loans to the coal and stone companies. Our procedures on the cashflow forecasts included: ▪ Detailed sensitivity analysis to assess the outcome of a change in variables such as price, discount rates and production volume to determine the critical variables in the model; ▪ Agreement of total reserves to external third party evidence; ▪ Challenge of the discount rates used by management (involving Deloitte corporate finance specialists), the forecast figures used and other assumptions in the DCF; ▪ Checks of the numerical accuracy of the DCF; and ▪ Challenge over the expected price of coal and stone to be used in the valuation by comparison to recent price quotes and expected increases in demand, and expenses in the profit margin per year used within the calculation.
Key observations	Our audit testing found there to be sufficient headroom in the DCFs, when considering the prudent discount factor used by management. There is therefore no indication that the loans require impairment in the current year.

Recognition of Deferred Tax Assets	
Key audit matter description	A significant deferred tax asset balance arises in the consolidated financial statements because a number of items are carried at fair value, which may result in a different valuation to that used for tax purposes. This gives rise to judgements, and the potential for fraud, in how much deferred tax should be recognized. We identified this as a key audit matter because the deferred tax assets relating to historical losses can only be used against future profits before the 5 year statutory expiry limited imposed in Indonesia. The deferred tax asset as at 31 December 2018 is £10.1m, an increase from £9.9m as at 31 December 2017.

How the scope of our audit responded to the key audit matter	We have engaged our tax experts in the UK and Indonesia in order to understand the potential impacts of Indonesian tax regulations on the group's operations. We have challenged management's assumptions in determining deferred tax asset balances by independently re-computing temporary differences on those assets which are expected to give rise to significant deferred tax, as well as reviewing profit forecasts entity by entity to assess the recoverability of the assets and consistency between this forecast and the forecasts used to support the deferred tax asset and those used to assess the going concern and viability statements.
Key observations	We agree with management's assessment that all the deferred tax assets arising from historical losses are recoverable.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

	Group financial statements	Parent company financial statements
Materiality	$6.2m (2017: $7.3m)	$4.4m (2017: $5.9m)
Basis for determining materiality	1.75% of HY18 plantation assets. (2017 1.75% of plantation assets) We have defined planation assets as the sum of: ▪ Plantings - $149m ▪ Buildings & Structures - $203m ▪ Biological Assets - $3m	Group materiality adjusted for net assets as a percentage of group net assets (2016: 3% of net assets)
Rationale for the benchmark applied	We consider that the valuation of plantation assets is a key indicator for the current and future performance of the company. It is the KPI of critical interest to users of the financial statements of R.E.A. Holdings plc as it is the key measure of the company's success in developing its palm oil plantations.	The parent company is a holding company whose purpose is to consolidate the active trading entities and a number of other group companies. We consider net assets to be the most important balance to the users of the financial statements.

We determine performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality for the financial statements as a whole.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $250k (2017: $250k) for the group and $250k (2017: $250k) for the parent company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

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

The audit of the 7 plantation companies has been performed by a Deloitte Indonesia component team. The UK group team have been involved in the planning, risk assessment, performing and reviewing stages of the component audit. The group audit team continued to follow a programme of planned visits to Indonesia that has been designed so that appropriately qualified members of the group audit team visit the group's operations and component auditors in Indonesia annually and visit the plantation estates at least once every three years, with the most recent visit to the plantations being in April 2017.

They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the 10 active legal entities was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from $2.5m to $5.0m (2017: $3.5m to $6.0m).

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Other information

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

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

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

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

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

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

We have nothing to report in respect of these matters.

- *Audit committee reporting* – section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;

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

- discussing among the engagement team including significant component audit teams and involving relevant internal specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: allocation of assets between plantings and buildings and structures, commencement date of coal and stone operations; recoverability of deferred tax assets; advanced payments of sales and management override in the consolidation adjustment process; and
- obtaining an understanding of the legal and regulatory frameworks that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context: Local Indonesian Laws, UK Companies Act, Listing Rules and both UK and Indonesian tax legislation.

Audit response to risks identified

As a result of performing the above, we identified Classification of Plantation Assets, Valuation of Loans to Coal and Stone Interests and Recognition of Deferred Tax Assets as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the audit committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with both HMRC and the Indonesian tax authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments, including consolidation adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.
- in addressing the risk of fraud in revenue recognition, we tested transactions where advance payments had been received by tracing to signed contracts and delivery documentation, and assessing whether recognition criteria had been met.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we report by exception

Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure
Following the recommendation of the audit committee, we were appointed by the board of directors in 2002 to audit the financial statements for the year ending 31 December 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17, covering the years ending 31 December 2002 to 31 December 2018.

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Colin Rawlings, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
26 April 2019

Consolidated income statement

for the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Revenue	2	105,479	100,241
Net gain / (loss) arising from changes in fair value of agricultural produce inventory	4	305	(1,069)
Cost of sales:			
Depreciation and amortisation		(23,014)	(22,215)
Other costs		(76,571)	(64,062)
Gross profit		6,199	12,895
Distribution costs		(1,258)	(1,378)
Administrative expenses	5	(15,668)	(13,681)
Operating loss		(10,727)	(2,164)
Investment revenues	2, 7	292	1,072
Profit on disposal of subsidiary	8	10,373	–
Finance costs	9	(5,412)	(20,770)
Loss before tax	5	(5,474)	(21,862)
Tax	10	(12,734)	(3,039)
Loss for the year		(18,208)	(24,901)
Attributable to:			
Ordinary shareholders		(22,021)	(27,408)
Preference shareholders	11	8,353	7,777
Non-controlling interests	35	(4,540)	(5,270)
		(18,208)	(24,901)
Basic and diluted loss per 25p ordinary share (US cents)	12	(54.4)	(67.0)

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

All operations for both years are continuing

Consolidated balance sheet

as at 31 December 2018

	Note	2018 $'000	2017 $'000
Non-current assets			
Goodwill	13	12,578	12,578
Intangible assets	14	2,581	3,477
Property, plant and equipment	15	407,164	482,341
Land titles	16	35,890	35,178
Coal and stone interests	17	46,011	37,877
Deferred tax assets	28	10,088	9,867
Non-current receivables		7,544	4,996
Total non-current assets		521,856	586,314
Current assets			
Inventories	19	22,637	11,497
Biological assets	20	2,589	1,927
Investments	21	–	2,730
Trade and other receivables	22	50,714	39,280
Cash and cash equivalents	23	26,279	5,543
Total current assets		102,219	60,977
Total assets		624,075	647,291
Current liabilities			
Trade and other payables	30	(59,779)	(62,212)
Current tax liabilities		–	(11)
Bank loans	25	(13,966)	(28,140)
Other loans and payables	29	(718)	(10,469)
Total current liabilities		(74,463)	(100,832)
Non-current liabilities			
Bank loans	25	(117,008)	(96,991)
Sterling notes	26	(38,213)	(41,364)
Dollar notes	27	(23,724)	(23,649)
Deferred tax liabilities	28	(79,247)	(79,600)
Other loans and payables	29	(30,146)	(28,120)
Total non-current liabilities		(288,338)	(269,724)
Total liabilities		(362,801)	(370,556)
Net assets		261,274	276,735
Equity			
Share capital	31	132,528	132,528
Share premium account	32	42,401	42,401
Translation reserve	33	(42,470)	(50,897)
Retained earnings	34	114,360	135,074
		246,819	259,106
Non-controlling interests	35	14,455	17,629
Total equity		261,274	276,735

Approved by the board on 26 April 2019 and signed on behalf of the board.

DAVID J BLACKETT
Chairman

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Loss for the year		(18,208)	(24,901)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Actuarial gains / (losses)		1,732	(205)
Deferred tax on actuarial (gains) / losses	28	(425)	41
		1,307	(164)
Items that will not be reclassified to profit and loss:			
Exchange differences on translation of foreign operations		14,087	(11,419)
Exchange differences on deferred tax	28	3,110	(279)
		18,504	(11,862)
Total comprehensive income for the year		296	(36,763)
Attributable to:			
Ordinary shareholders		(3,517)	(39,270)
Preference shareholders		8,353	7,777
Non-controlling interests		(4,540)	(5,270)
		296	(36,763)

Consolidated statement of changes in equity

for the year ended 31 December 2018

	Share capital (note 31) $'000	Share premium (note 32) $'000	Translation reserve (note 33) $'000	Retained earnings (note 34) $'000	Subtotal $'000	Non-controlling interests (note 35) $'000	Total equity $'000
At 1 January 2017	121,426	42,585	(39,127)	161,839	286,723	22,827	309,550
Total comprehensive income	–	–	(11,770)	(19,795)	(31,565)	(5,198)	(36,763)
Sale of shareholding in sub-group	–	–	–	807	807	–	807
Issue of new preference shares (cash)	11,102	(184)	–	–	10,918	–	10,918
Dividends to preference shareholders	–	–	–	(7,777)	(7,777)	–	(7,777)
At 31 December 2017	132,528	42,401	(50,897)	135,074	259,106	17,629	276,735
Total comprehensive income	–	–	15,831	(12,361)	3,470	(3,174)	296
Disposal of subsidiary	–	–	(7,404)	–	(7,404)	–	(7,404)
Dividends to preference shareholders	–	–	–	(8,353)	(8,353)	–	(8,353)
At 31 December 2018	132,528	42,401	(42,470)	114,360	246,819	14,455	261,274

Consolidated cash flow statement

for the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Net cash (used in) / from operating activities	36	(26,861)	19,670
Investing activities			
Interest received		94	29
Purchases of property, plant and equipment		(23,793)	(31,960)
Purchases of intangible assets		(33)	(112)
Expenditure on land titles		(1,005)	(949)
Investment in coal and stone interests		(5,593)	(669)
Proceeds of disposal of subsidiary		2,793	–
Net cash used in investing activities		(27,537)	(33,661)
Financing activities			
Preference dividends paid		(8,353)	(7,777)
Repayment of bank borrowings	24	(105,768)	(6,754)
New bank borrowings drawn	24	119,847	6,356
New borrowings from related party		13,440	7,400
Repayment of borrowings from related party		(13,440)	(7,400)
Repayment of borrowings from non-controlling shareholder	29	(6,469)	–
New borrowings from non-controlling shareholder		–	16,586
Proceeds of issue of preference shares, less costs of issue		–	10,918
Redemption of 2017 dollar notes		–	(20,156)
Redemption of 2017 sterling notes		–	(11,154)
Redemption of 2020 sterling notes	26	(1,307)	–
Proceeds of sale of investments		2,730	7,078
Repayment of balances from divested subsidiary		50,027	–
Settlement of bank loan by purchaser of subsidiary		24,748	–
Net cash from / (used in) financing activities		75,455	(4,903)
Cash and cash equivalents			
Net increase / (decrease) in cash and cash equivalents	37	21,057	(18,894)
Cash and cash equivalents at beginning of year		5,543	24,593
Effect of exchange rate changes	37	(321)	(156)
Cash and cash equivalents at end of year	23	26,279	5,543

Accounting policies (group)

General information

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

Basis of accounting

The consolidated financial statements set out on pages 79 to 111 are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU as at the date of approval of the financial statements and therefore comply with Article 4 of the EU IAS Regulation. The statements are prepared under the historical cost convention except where otherwise stated in the accounting policies.

The directors have conducted a review of the projected cash flows from operations, investing and financing and have set out their assessment of liquidity and financing adequacy on pages 32 and 33 of the strategic report, including the actions either in progress or contemplated in order to ensure adequate liquidity for the next twelve months. Accordingly, having made due enquiries, the directors reasonably expect that the company and the group have adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements and, therefore, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Presentational currency

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

Adoption of new and revised standards

In the current year the group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period beginning on 1 January 2018.

The group has adopted IFRS 9 "Financial Instruments", which became mandatory for the first time in 2018. IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement', introducing new guidance on the classification and measurement of financial assets, an expected credit loss impairment model, and new hedge accounting requirements. The group completed an impact assessment on transition to IFRS 9, including an assessment of its financial assets under the new impairment model, and concluded there was no impact on the group's equity at 1 January 2018.

The group assessed which business models apply to the financial assets held by the group and classified its financial instruments into the appropriate IFRS 9 categories. Financial assets previously classified as loans, investments and receivables were reclassified as financial assets held at amortised cost. There was no impact on the measurement bases of these assets and as a result no restatement or opening balance reconciliation on transition to IFRS 9 has been presented. There were no changes to the classification or measurement of financial liabilities.

The group was required to revise its impairment methodology under IFRS 9 to adopt the expected credit loss impairment model. The company does not apply hedge accounting. IFRS 9 accounting policies adopted in the period are presented below.

The group has also adopted IFRS 15 "Revenue from contracts with customers", which became mandatory for the first time in 2018. IFRS 15 introduced a 5-step approach to revenue recognition. There have been no changes to the group's accounting policies resulting from the adoption of this IFRS, although certain disclosures have been amended to reflect the new requirements.

At the date of authorisation of these financial statements, the standards and interpretations which were in issue but not yet effective (and in certain cases had not yet been adopted by the EU) have not been applied in these financial statements) are set out below together with their effective dates of implementation:

IFRS 16: Leases	1 January 2019
IFRIC 23: Uncertainty over income tax treatments	1 January 2019
Amendments to IAS 19: Plan amendment, curtailment or settlement	1 January 2019
Amendments to IAS 28: Long term interests in associates and joint ventures	1 January 2019
Annual improvements to IFRS standards 2015-2017 cycle	1 January 2019
Amendment to IFRS 3, business combinations, IAS 1 and IAS 8: definition of material	1 January 2020
IFRS 17: Insurance contracts	1 January 2022

The directors are considering the impact of IFRS 16: Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the

Accounting policies (group)

continued

distinction between operating and finance leases. The only material impact on the group would occur if it decided to treat its land titles as leases. This assessment is ongoing.

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

Basis of consolidation

The consolidated financial statements consolidate the financial statements of the company and its subsidiary companies (as listed in note (iv) to the company's individual financial statements) made up to 31 December of each year.

The acquisition method of accounting is adopted with assets and liabilities valued at fair values at the date of acquisition. The interest of non-controlling shareholders is stated at the non-controlling shareholders' proportion of the fair values of the assets and liabilities recognised. The share of total comprehensive income is attributed to the owners of the parent and to non-controlling interests even if this results in the non-controlling interests having a deficit balance. Results of subsidiaries acquired or disposed of are included in the consolidated income statement from the effective date of acquisition or to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the group.

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

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

Goodwill

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

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

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

Other intangible assets

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

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

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

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

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

Revenue recognition

Revenue is recognised where performance obligations under a contract are satisfied and it is probable the economic benefits will flow to the entity and the revenue can be reliably measured.

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 contractual entitlement to the goods is transferred to the buyer and include 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 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 dollar are treated as assets and liabilities of that entity and are translated at the closing rate of exchange.

Borrowing costs

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

Operating profit

Operating profit is stated after any gain or loss arising from changes in the fair value of agricultural produce inventory but before investment income and finance costs.

Pensions and other post-employment benefits

United Kingdom

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

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

Indonesia

In accordance with local labour law, the group's employees in Indonesia are entitled to lump sum payments on

retirement. These obligations are unfunded and provision is made annually on the basis of a periodic assessment by independent actuaries. Actuarial gains and losses are recognised in the statement of comprehensive income; any other increase or decrease in the provision is recognised in the consolidated statement of income, net of amounts added to plantings within property, plant and equipment.

Taxation

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

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

Property, plant and equipment - plantings

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

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

Property, plant and equipment - other

All property, plant and equipment other than plantings is carried at original cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is computed using the straight line method so as to write off the cost of assets, other than property and plant under construction, over the estimated useful lives of the assets as follows: buildings and structures – 20 to 67 years; plant, equipment and vehicles - 5 to 16 years. Construction in progress is not depreciated. Where the directors consider that the residual value of an asset exceeds its carrying value, no depreciation will be provided.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the terms of the relevant leases.

The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds, less costs of disposal, and the carrying amount of the asset and is recognised in the consolidated income statement.

Land

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

Impairment of tangible and intangible assets excluding goodwill

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

The recoverable amount of an asset (or cash-generating unit) is the higher of fair value less costs to sell and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and those risks specific to the asset (or cash-generating unit) for which the estimates of future cash flows have not been adjusted. If the recoverable

amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

Inventories

Inventories of agricultural produce harvested from the group's oil palms are stated at fair value at the point of harvest of the fresh fruit bunches ("FFB") from which the produce derives plus costs incurred in the processing of such FFB (including direct labour costs and overheads that have been incurred in bringing such inventories to their present location and condition) or at net realisable value if lower. Inventories of engineering and other items are valued at the lower of cost, on the weighted average method, or net realisable value.

For these purposes, net realisable value represents the estimated selling price (having regard to any outstanding contracts for forward sales of produce) less all estimated costs of processing and costs incurred in marketing, selling and distribution.

Biological assets

Biological assets comprise the growing produce (fresh fruit bunches – "FFB") on oil palm trees and are carried at fair value using a formulaic methodology to determine the estimated value of the oil content of FFB which develops in the fruitlets in the five to six weeks immediately prior to harvest. The oil content so derived, both CPO and CPKO, is valued at market value, after deducting harvesting, processing and transport costs.

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

Recognition and de-recognition of financial instruments

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

Non-derivative financial assets

The group's non-derivative financial assets comprise receivables and loans (including coal and stone interests) held at amortised cost and cash and cash equivalents. At each reporting date the company reviews the carrying amount of each asset carried at amortised cost. The company accounts for expected credit losses and changes in those expected credit losses to reflect changes in credit risk since initial recognition of the financial asset.

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.

Non-derivative financial liabilities

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

Note issues, bank borrowings and finance leases

Redeemable instruments being dollar and sterling note issues, bank borrowings and finance leases are classified in accordance with the substance of the relative contractual arrangements. Finance costs are charged to income on an accruals basis, using the effective interest method, and comprise, with respect to redeemable instruments, the coupon payable together with the amortisation of issuance costs (which include any premiums payable or expected by the directors to be payable on settlement or redemption) and, with respect to bank borrowings and finance leases, the contractual rate of interest together with the amortisation of costs associated with the negotiation of, and compliance with, the contractual terms and conditions. Redeemable instruments are recorded in the accounts at their expected redemption value net of the relative unamortised balances of issuance costs. Bank borrowings

Accounting policies (group)

continued

and finance leases are recorded at the amounts of the proceeds received less subsequent repayments with the relative unamortised balance of costs treated as non-current receivables.

Trade payables

All trade payables owed by the group are non-interest bearing and are stated at their nominal value.

Equity instruments

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

Notes to the consolidated financial statements

1. Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the group's accounting policies

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

Capitalisation of interest and other costs

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

Land

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

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.

Taxes

The group has recognised $9.5 million in respect of deferred tax assets in relation to tax losses of $41.0 million in Indonesia. Uncertainties may arise if a company generates profits later or at a lower rate than expected as Indonesian tax losses must be used against profits by the company which generated them within 5 years. The group seeks to limit uncertainty in respect of the utilisation of losses by preparing detailed forecasts by company which are flexed for a range of outcomes eg 10% decrease in price and production. Provisions are made to the extent that losses may not be utilised.

Coal and stone interests

Coal and stone interests are carried in the group accounts at $46.0 million ($49.0 million cost less a provision for impairment of $3.0 million). At each reporting date the investments are tested for impairment using the expected credit loss model. The directors have performed an expected credit loss impairment assessment and concluded that no impairment charge is necessary in the 2018 consolidated income statement (2017: $nil).

Notes to the consolidated financial statements

continued

2. Revenue

	2018 $'000	2017 $'000
Sales of goods	105,297	99,956
Revenue from services	182	285
	105,479	100,241
Investment revenue	292	1,072
Total revenue	105,771	101,313

In 2018, three customers accounted for respectively 44 per cent, 27 per cent and 26 per cent of the group's sales of agricultural goods (2017: two customers, 60 per cent and 24 per cent). As stated in note 24 "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 2018 amounted to 800,050 tonnes (2017: 530,565 tonnes). The fair value of the crop of fresh fruit bunches was $96.5 million (2017: $61.6 million), based on the price formulae determined by the Indonesian government for purchases of fresh fruit bunches from smallholders.

3. Segment information

In the table below, the group's sales of goods are analysed by geographical destination and the carrying amount of net assets is analysed by geographical area of asset location. The group operates in two segments: the cultivation of oil palms and coal and stone operations. In 2018 and 2017, the latter did not meet the quantitative thresholds set out in IFRS 8 "Operating segments" and, accordingly, no analyses are provided by business segment.

	2018 $'m	2017 $'m
Sales by geographical destination:		
Indonesia	105.5	100.2
Rest of World	–	–
	105.5	100.2
Carrying amount of net assets by geographical area of asset location:		
UK, Continental Europe and Singapore	26.4	58.0
Indonesia	234.9	218.7
	261.3	276.7

4. Agricultural produce inventory movement

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

5. Loss before tax

Salient items charged / (credited) in arriving at loss before tax	2018 $'000	2017 $'000
Administrative expenses (see below)	15,668	13,681
Movement in inventories (at historic cost)	(8,395)	(883)
Movement in fair value of growing produce	662	(110)
Operating lease rentals	274	284
Amortisation of intangible assets	929	812
Depreciation of property, plant and equipment	22,011	21,419
Profit on disposal of subsidiary	(10,373)	–

Administrative expenses	2018 $'000	2017 $'000
Loss on disposal of property, plant and equipment	10	–
Indonesian operations	14,728	14,685
Head office	5,696	5,665
	20,434	20,350
Amount included as additions to property, plant and equipment	(4,766)	(6,669)
	15,668	13,681

Amounts payable to the company's auditor

The amount payable to Deloitte LLP for the audit of the company's financial statements was $175,000 (2017: $162,000). Amounts payable to Deloitte LLP for the audit of accounts of subsidiaries of the company pursuant to legislation were $18,000 (2017: $19,000).

Amounts payable to Deloitte LLP for other services were $267,000 (2017: $9,000) for reporting accountant services in connection with the disposal of the subsidiary PT Putra Bongan Jaya, the provision of certificates of group compliance with covenants under certain debt instruments (being certificates that those instruments require to be provided by the company's auditor) and for tax compliance services.

Amounts payable to affiliates of Deloitte LLP for the audit of subsidiaries' financial statements were $196,000 (2017: $214,000) and for other services to subsidiaries were $6,000 (2017: $nil).

Earnings before interest, tax, depreciation and amortisation	2018 $'000	2017 $'000
Operating loss	(10,727)	(2,164)
Depreciation and amortisation	23,014	22,215
	12,287	20,051

6. Staff costs, including directors

	2018 Number	2017 Number
Average number of employees (including executive directors):		
Agricultural – permanent	7,505	5,928
Agricultural – temporary	3,251	4,086
Head office	12	12
	10,768	10,026
	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	45,414	40,173
Social security costs	960	969
Pension costs	2,445	2,925
	48,819	44,067

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

7. Investment revenues

	2018 $'000	2017 $'000
Interest on bank deposits	94	32
Other interest income	198	1,040
	292	1,072

8. Profit on disposal of subsidiary

On August 31 2018, the group disposed of one of its subsidiaries, PT Putra Bongan Jaya ("PBJ") to Kuala Lumpur Kepong Berhad ("KLK"). The net cash consideration for the disposal was $11.8 million, and the profit recorded on disposal was $10.4 million including foreign exchange reclassification of $7.4 million. As a term of disposal, KLK procured the repayment of all balances owed by PBJ to the group and the discharge of a bank loan to PBJ that had been guaranteed by members of the group.

9. Finance costs

	2018 $'000	2017 $'000
Interest on bank loans and overdrafts	15,485	15,665
Interest on dollar notes	1,877	2,669
Interest on sterling notes	4,085	5,184
Interest on other loans	2,549	1,896
Change in value of sterling notes arising from exchange fluctuations	(2,297)	4,800
Change in value of loans arising from exchange fluctuations	(12,547)	(1,190)
Other finance charges	1,022	817
	10,174	29,841
Amount included as additions to property, plant and equipment	(4,762)	(9,071)
	5,412	20,770

Amounts included as additions to property, plant and equipment arose on borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 15.9 per cent (2017: 23.5 per cent); there is no directly related tax relief.

10. Tax

	2018 $'000	2017 $'000
Current tax:		
UK corporation tax	–	28
Overseas withholding tax	1,552	1,538
Foreign tax	9	27
Total current tax	1,561	1,593
Deferred tax:		
Current year	10,628	(794)
Prior year	545	2,240
Total deferred tax	11,173	1,446
Total tax	12,734	3,039

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 (2017: 25 per cent) and for the United Kingdom, the taxation provision reflects a corporation tax rate of 19 per cent (2017: 19.25 per cent) and a deferred tax rate of 19 per cent (2017: 19 per cent).

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

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

	2018 $'000	2017 $'000
Loss before tax	(5,474)	(21,862)
Notional tax at the UK standard rate of 19 per cent (2017: 19.25 per cent)	(1,040)	(4,208)
Tax effect of the following items:		
Interest not deductible	4,353	4,724
Other expenses not deductible	902	629
Adjustment in respect of deferred tax	9,540	–
Non taxable income	(3,124)	(49)
Overseas tax rates above UK standard rate	678	189
Overseas withholding taxes, net of relief	349	6
Tax credit on loss in overseas subsidiary not recognised	201	(548)
Tax losses in overseas subsidiaries time expired	545	2,240
Deferred tax credit for underlying local tax loss	360	–
Change in rate of tax applicable to UK tax losses	(3)	49
Additional tax credits	(27)	7
Tax expense at effective tax rate for the year	12,734	3,039

The prior year deferred tax charge of $545,000 (2017: $2.2 million) relates to a portion of the tax losses of the Indonesian plantation subsidiaries as at 31 December 2018 which may not be recoverable against future taxable profits within the statutory five year limit.

The company's principal subsidiary in Indonesia has been involved for several years in two tax disputes with the tax authorities. The principal case relates to a disputed assessment with respect to mark-to-market losses recorded in 2008 by a subsidiary on its cross-currency interest rate swaps. In May 2014 the Jakarta Tax Court found in favour of the subsidiary, following which the disputed tax was refunded in full. The second tax dispute relates to a disputed 2006 assessment and this was decided by the Jakarta Tax Court in 2012, in part in favour of the subsidiary, following which the related disputed tax was refunded.

10. Tax - continued

The tax authorities have the right to apply to the Supreme Court of Indonesia for a judicial review of the Tax Court decision. This comprises an examination of the reasoning of the lower court judges, consideration of the consistency of the judgement with the evidence presented and with the relevant law, and consideration of any new evidence submitted by either party which could have a bearing on the matter. It is the normal practice of the tax authorities to file such an appeal in cases which have been decided by the lower court in favour of the taxpayer. In February 2015, the subsidiary was notified that, in regard to the first disputed case, the tax authorities filed an appeal for judicial review with the Supreme Court of Indonesia and the subsidiary filed its counter submission in February 2015 within the prescribed time limit. Those elements of the judgement in favour of the subsidiary in the second dispute have also been appealed by the tax authorities to the Supreme Court for judicial review. There is no further progress to report on either appeal cases.

It had been the practice of the tax authorities to withhold interest on refunds of disputed tax until the outcome of judicial review by the Supreme Court has been handed down. However, a regulation issued in late 2015 now permits tax payers to apply for such interest following receipt of the disputed tax refunds. Following the Tax Court decisions, the subsidiary applied to the tax office for the payment to it of interest of up to 48 per cent of the disputed tax that had been refunded. This amounted to some IDR 52 billion (some $4 million) in aggregate which was received by the subsidiary in 2016. During later discussions with the local tax office, the tax officials rejected the subsidiary's claim for interest on that part of the repayment which represented a refund to the subsidiary of the tax which had been voluntarily paid at the time of the disputed assessment. The subsidiary disagreed with this interpretation and in 2017 lodged an appeal with the Supreme Court. Meanwhile it is the policy of the group to recognise in income only the undisputed interest which is received in cash.

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

11. Dividends

	2018 $'000	2017 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share (2017: 9p per share)	8,353	7,777
	8,353	7,777

12. Loss per share

	2018 $'000	2017 $'000
Basic and diluted loss for the purpose of calculating loss per share *	(22,021)	(27,408)

	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	40,510	40,510

* Being net loss attributable to ordinary shareholders

13. Goodwill

	2018 $'000	2017 $'000
Beginning of year	12,578	12,578
End of year	12,578	12,578

The goodwill of $12.6 million arose from the acquisition by the company in 2006 of a non-controlling interest in the issued ordinary share capital of Makassar Investments Limited, the parent company of PT REA Kaltim Plantations ("REA Kaltim"), for a consideration of $19.0 million and has an indefinite life. The goodwill is reviewed for impairment as explained under "Goodwill" in "Accounting policies (group)".

13. Goodwill - continued

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

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

14. Intangible assets

	2018 $'000	2017 $'000
Beginning of year	5,377	5,265
Additions	33	112
End of year	5,410	5,377
Amortisation:		
Beginning of year	1,900	1,089
Additions	929	811
End of year	2,829	1,900
Carrying amount:		
Beginning of year	3,477	4,176
End of year	2,581	3,477

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

15. Property, plant and equipment

	Plantings $'000	Buildings and structures $'000	Plant, equipment and vehicles $'000	Construction in progress $'000	Total $'000
Cost:					
At 1 January 2017	185,856	258,873	111,672	5,595	561,996
Opening balance reclassification	3,966	(3,966)	–	–	–
Additions	11,547	17,605	1,008	1,678	31,838
Transfers to / (from) construction in progress	–	2,128	69	(2,197)	–
At 31 December 2017	201,369	274,640	112,749	5,076	593,834
Additions	7,617	12,228	2,545	6,165	28,555
Disposals - property, plant and equipment	–	(6,000)	(258)	–	(6,258)
Disposal of subsidiary	(26,437)	(47,075)	(1,730)	(1,487)	(76,729)
Transfers to / (from) construction in progress	–	2,494	18	(2,512)	–
At 31 December 2018	182,549	236,287	113,324	7,242	539,402
Accumulated depreciation:					
At 1 January 2017	17,771	27,098	45,205	–	90,074
Charge for year	9,190	5,281	6,948	–	21,419
At 31 December 2017	26,961	32,379	52,153	–	111,493
Charge for year	9,861	5,651	6,499	–	22,011
Disposals - property, plant and equipment	–	–	(249)	–	(249)
Disposal of subsidiary	(257)	(209)	(551)	–	(1,017)
At 31 December 2018	36,565	37,821	57,852	–	132,238

15. Property, plant and equipment - continued

	Plantings	Buildings and structures	Plant, equipment and vehicles	Construction in progress	Total
	$'000	$'000	$'000	$'000	$'000
Carrying amount:					
At 31 December 2018	145,984	198,466	55,472	7,242	407,164
At 31 December 2017	174,408	242,261	60,596	5,076	482,341

The depreciation charge for the year includes $103,000 (2017: $15,000) which has been capitalised as part of additions to plantings and buildings and structures.

At the balance sheet date, the book value of finance leases included in property, plant and equipment was $nil (2017: $nil).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $1.1 million (2017: $8.2 million).

At the balance sheet date, property, plant and equipment of $153.0 million (2017: $328.5 million) had been charged as security for bank loans.

16. Land titles

	2018 $'000	2017 $'000
Cost:		
Beginning of year	39,851	38,903
Additions	9,605	948
Disposal	(2,600)	–
Disposal of subsidiary	(6,585)	–
End of year	40,271	39,851
Accumulated amortisation:		
Beginning of year	4,673	4,673
Charge for year	–	–
Disposal of subsidiary	(292)	–
End of year	4,381	4,673
Carrying amount:		
End of year	35,890	35,178
Beginning of year	35,178	34,230

Balances classified as land titles represent amounts invested in land utilised for the purpose of the plantation operations in Indonesia. At 31 December 2017, certificates of HGU had been obtained in respect of areas covering 64,525 hectares (2017: 76,127 hectares). An HGU is effectively a government lease entitling the lessee to utilise the land leased for agricultural and related purposes. Retention of an HGU is subject to payment of annual land taxes in accordance with prevailing tax regulations. HGUs are normally granted for an initial term of 30 years and are renewable on expiry of such term.

The group has acquired the rights to 9,097 hectares valued at $8.6 million by way of exchange arrangements agreed in 2015 with PT Ade Putra Tanrajeng ("APT"), whereby the group has also agreed to transfer to APT 3,554 hectares of fully titled land and to relinquish 2,212 hectares of untitled land allocations, both areas being the subject of overlapping mineral rights held by APT. The carrying value of the land transferred is $6.0 million (being property, plant and equipment) and relinquished is $2.6 million (being land titles).

At the balance sheet date, land titles of $9.9 million (2017: $13.2 million) had been charged as security for bank loans (see note 25).

17. Coal and stone interests

	2018 $'000	2017 $'000
Coal companies	27,291	21,705
Stone company	21,720	19,172
Provision against loan to coal companies	(3,000)	(3,000)
	46,011	37,877

Interest bearing loans have been 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, the company's subsidiary, KCC Resources Limited ("KCC"), has the right, subject to satisfaction of local regulatory requirements, to acquire the three concession holding companies at original cost on a basis that will give the group (through KCC) 95 per cent ownership with the balance of 5 per cent remaining owned by the local partners. Under current regulations such rights cannot be exercised. In the meantime, the concession holding companies are being financed by loan funding from the group and no dividends or other distributions or payments may be paid or made by the concession holding companies to the local partners without the prior agreement of KCC. A guarantee has been executed by the stone concession company in respect of the amounts owed to the group by the two coal concession companies.

The directors have performed an expected credit loss impairment assessment and concluded that no impairment charge is necessary in the 2018 consolidated income statement (2017: $nil).

The Kota Bangun concession holding company has been served with an arbitration claim by two parties (connected with one another) with whom the concession holding company previously had agreements to, amongst other things, fund the development and operate the concession. The concession holding company believes that these agreements did not become effective as respects the concerned counterparties because, inter alia, certain pre-conditions were never satisfied. The concession holding company, therefore, considers the claim to be without merit. The group is not a party to the claim. If a claim were to be successful, certain loans from the group to the coal and stone companies might be impaired.

18. Subsidiaries

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

19. Inventories

	2018 $'000	2017 $'000
Agricultural produce	14,308	4,417
Engineering and other operating inventory	8,329	7,080
	22,637	11,497

Agricultural produce inventory is carried at fair value less selling costs. Engineering and other operating inventory is carried at cost less any amounts provided against which approximates its fair value.

At the balance sheet date, inventories of $nil (2017: $11.1 million) had been charged as security for bank loans (see note 25).

20. Biological assets

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

	2018 $'000	2017 $'000
Beginning of year	1,927	2,037
Fair value gain / (loss) taken to income	662	(110)
End of year	2,589	1,927

At the balance sheet date, biological assets of $2.6 million (2017: $1.9 million) had been charged as security for bank loans (see note 25).

21. Investments

	2018 $'000	2017 $'000
R.E.A. Holdings plc 7.5 per cent dollar notes 2022	–	2,730
	–	2,730

The $2.7 million nominal of the 7.5 per cent dollar notes 2022 held at 31 December 2017 by R.E.A. Services Limited ("REAS") (a wholly owned subsidiary of the company) were sold in February 2018 at 96.75 per cent. of the nominal value of the notes.

At 31 December 2017 the company had designated the above holding as available-for-sale investments carried at cost. The directors considered that the fair value of the investments approximated cost. The investments are listed on the London Stock Exchange.

22. Trade and other receivables

	2018 $'000	2017 $'000
Due from sale of goods	5,439	1,940
Contract assets	10,510	6,975
Advance payment of taxation	14,013	11,321
Deposits and other receivables	20,752	19,044
	50,714	39,280

Sales of goods are normally made on a cash against documents basis with an average credit period (which takes account of customer deposits as disclosed in note 29) of 7 days (2017: 19 days). The directors consider that the carrying amount of trade and other receivables approximates their fair value.

At the balance sheet date, trade and other receivables of $nil (2017: $11.0 million) had been charged as security for bank loans (see note 25).

23. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the group and short-term bank deposits. The Moody's prime rating of short term bank deposits amounting to $26.3 million (2017: $5.5 million) is set out in note 24 under the heading "Credit risk". At 31 December 2018 $5.1 million (2017: $20,000) of total bank deposits were subject to charges.

24. Financial instruments

Capital risk management

The group manages as capital its debt, which includes the borrowings disclosed in notes 25 to 27 and notes 29 to 30, 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 financial institutions and the public debt market, in proportions which suit, and as respects borrowings that have a maturity profile which suits, the assets that such capital is financing. In so doing, the directors regard the company's preference share capital as permanent capital and then seek to structure the group's borrowings so that shorter term bank debt is used only to finance working capital requirements while debt funding for the group's development programme is sourced from issues of listed debt securities and medium term borrowings from financial institutions.

Whilst the group retains this policy, the directors recognise that the group's current borrowings are not compliant with the policy. The group will aim to overcome this by reducing borrowings to the extent that cash generation permits.

Net debt to equity ratio

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

	2018 $'000	2017 $'000
Debt *	215,830	220,008
Cash and cash equivalents	(26,279)	(5,545)
Investments	–	(2,730)
Net debt	189,551	211,733

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

	2018	2017
Equity (including non-controlling interests)	261,274	276,735
Net debt to equity ratio	72.5%	76.5%

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 2018 comprised receivables and loans (including coal and stone interests) held at amortised cost and cash and cash equivalents amounting to $99.8 million (2017: $65.2 million held at amortised cost).

Non-derivative financial liabilities as at 31 December 2018 comprised liabilities at amortised cost amounting to $238.8 million (2017: $263.5 million).

As explained in note 17, 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 interests in view of the prior claims of loans to the concession owning companies and the present stage of the operations.

24. Financial instruments - continued

Financial risk management objectives

The group manages the financial risks relating to its operations through internal reports which permit the degree and magnitude of such risks to be assessed. These risks include market risk, credit risk and liquidity risk.

The group seeks to reduce risk by using, where appropriate, derivative financial instruments to hedge risk exposures. The use of derivative financial instruments is governed by group policies set by the board of directors of the company. The board also sets policies on foreign exchange risk, interest rate risk, credit risk, the use of non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed on a continuous basis. The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The financial market risks to which the group is primarily exposed are those arising from changes in interest rates and foreign currency exchange rates.

The group's policy as regards interest rates is to borrow whenever economically practicable at fixed interest rates, but where borrowings are raised at floating rates the directors would not normally seek to hedge such exposure. The 2020 sterling notes and the 2022 dollar notes carry interest at fixed rates of, respectively, 8.75 and 7.5 per cent per annum. In addition, the company's preference shares carry an entitlement to a fixed annual dividend of 9 pence per share.

Interest is payable on drawings under Indonesian rupiah term loan facilities at fixed rates of 11.0 or 11.5 per cent (2017: varying between 1.2 per cent and 4.8 per cent above the Jakarta Inter Bank Offer Rate with the exception of one bank loan bearing interest at a fixed rate of 11.5 per cent).

A one per cent increase in interest applied to those financial instruments shown in the table below entitled "Fair value of financial instruments" as held at 31 December 2018 which carry interest at floating rates would have resulted over a period of one year in a pre-tax profit (and equity) increase or decrease of nil (2017: pre-tax profit (and equity) decrease of $1.3 million).

The group regards the dollar as the functional currency of most of its operations. The directors believe that the group will be best served going forward by simply maintaining a balance between its borrowings in different currencies and avoiding currency hedging transactions. Accordingly, the group regards some exposure to currency risk on its non dollar borrowing as an inherent and unavoidable risk of its business. The group has never covered, and does not intend in future to cover, the currency exposure in respect of the component of the investment in its operations that is financed with sterling denominated shareholder capital.

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

At the balance sheet date, the group had non dollar monetary items denominated in pounds sterling and Indonesian rupiah. A 5 per cent strengthening of the pound sterling against the dollar would have resulted in a loss dealt with in the consolidated income statement and equity of $1.9 million on the net sterling denominated non-derivative monetary items (2017: loss $2.1 million). A 5 per cent strengthening of the Indonesian rupiah against the dollar would have resulted in a loss dealt with in the consolidated income statement and equity of $8.8 million on the net Indonesian rupiah denominated, non-derivative monetary items (2017: loss of $8.6 million).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The directors consider that the group is not exposed to any major concentrations of credit risk. At 31 December 2018, 69 per cent of bank deposits were held with banks with a Moody's prime rating of P1 and 31 per cent with a bank with a Moody's prime rating of P2. Substantially all sales of goods are made on the basis of cash against documents or letters of credit. At the balance sheet date, no trade receivables were past their due dates, nor were any impaired; accordingly no bad debt provisions were required. The maximum credit risk exposures in respect of the group's financial assets at 31 December 2018 and 31 December 2017 equal the amounts reported under the corresponding balance sheet headings.

24. Financial instruments - continued

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 to meet the projected obligations of the group. There are no undrawn facilities available to the group at the balance sheet date as disclosed in note 25.

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.

2018	Weighted average interest rate %	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
Bank loans	11.1	27,150	23,826	109,372	160,348
Dollar notes - repayable 2022	7.5	1,803	1,803	26,739	30,345
Sterling notes - repayable 2020	8.8	3,622	44,286	–	47,908
Non-controlling shareholder loans - dollar	5.8	961	11,627	6,632	19,220
Non-controlling shareholder loans - sterling	10.0	675	7,387	–	8,062
Trade and other payables, and customer deposits	–	45,927	–	–	45,927
		80,138	88,929	142,743	311,810

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

At 31 December 2018, the group's non-derivative financial assets (other than receivables) comprised cash and deposits of $26.3 million (2017: $8.3 million) carrying a weighted average interest rate of nil per cent (2017: 2.8 per cent) all having a maturity of under one year, and coal and stone interests of $46.0 million (2017: $37.9 million) details of which are given in note 17.

24. Financial instruments - continued

Fair value of financial instruments

The table below provides an analysis of the book values and fair values of financial instruments, excluding receivables and trade payables and Indonesian coal interests, as at the balance sheet date. Investments, cash and deposits, dollar notes and sterling notes are classified as level 1 in the fair value hierarchy prescribed by IFRS 7 "Financial instruments: disclosures". (Level 1 includes instruments where inputs to the fair value measurements are quoted prices in active markets). All other financial instruments are classified as level 3 in the fair value hierarchy. (Level 3 includes instruments which have no observable market data to provide inputs to the fair value measurements). No reclassifications between levels in the fair value hierarchy were made during 2018 (2017: none).

	2018 Book value $'000	2018 Fair value $'000	2017 Book value $'000	2017 Fair value $'000
Cash and deposits*	26,279	26,279	4,142	4,142
Cash and deposits (subsidiary disposed in 2018)*	–	–	1,403	1,403
Total cash and deposits*	26,279	26,279	5,545	5,545
Investments**	–	–	2,730	2,730
Bank debt - within one year**	(13,966)	(13,966)	(295)	(295)
Bank debt – within one year*	–	–	(26,763)	(26,763)
Bank debt – within one year (subsidiary disposed in 2018)*	–	–	(1,082)	(1,082)
Total bank debt - within one year*	–	–	(27,845)	(27,845)
Bank debt - after more than one year**	(117,008)	(117,008)	(17,936)	(17,936)
Bank debt - after more than one year*	–	–	(58,488)	(58,488)
Bank debt - after more than one year (subsidiary disposed in 2018)*	–	–	(20,567)	(20,567)
Total bank debt - after more than one year*	–	–	(79,055)	(79,055)
Loans from non-controlling shareholder - after more than one year*	(22,919)	(22,919)	(29,864)	(29,864)
Dollar notes - repayable 2022**	(23,724)	(22,833)	(23,649)	(23,074)
Sterling notes - repayable 2020**	(38,213)	(39,735)	(41,364)	(42,857)
Net debt	(189,551)	(190,182)	(211,733)	(212,651)

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

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

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

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

	At 1 January 2018 $'000	Financing cash flows $'000	Non-cash other changes $'000	At 31 December 2018 $'000
Bank debt	(103,482)	(34,016)	6,524	(130,974)
Bank debt (subsidiary disposed in 2018)	(21,649)	19,937	1,712	–
Total bank debt	(125,131)	(14,079)	8,236	(130,974)
Loan from non-controlling shareholder	(29,864)	6,469	476	(22,919)
Dollar notes - repayable 2022	(23,649)	–	(75)	(23,724)
Sterling notes - repayable 2020	(41,364)	1,307	1,844	(38,213)
Total liabilities from financing activities	(220,008)	(6,303)	10,481	(215,830)

25. Bank loans

	2018 $'000	2017 $'000
Bank loans	130,974	125,131

	2018 $'000	2017 $'000
The bank loans are repayable as follows:		
On demand or within one year	13,966	27,058
On demand or within one year (subsidiary divested in 2018)	–	1,082
Total on demand within one year	13,966	28,140
Between one and two years	13,498	41,519
Between one and two years (subsidiary divested in 2018)	–	3,247
Total between one and two years	13,498	44,766
After two years	103,510	34,905
After two years (subsidiary divested in 2018)	–	17,320
After two years	103,510	52,225
	130,974	125,131

	2018 $'000	2017 $'000
Amount due for settlement within 12 months	13,966	27,058
Amount due for settlement within 12 months (subsidiary divested in 2018)	–	1,082
Total amount due for settlement within 12 months (shown under current liabilities)	13,966	28,140
Amount due for settlement after 12 months	117,008	76,424
Amount due for settlement after 12 months (subsidiary divested in 2018)	–	20,567
Amount due for settlement after 12 months	117,008	96,991
	130,974	125,131

All bank loans are denominated in Indonesian rupiah (2017: all denominated in Indonesian rupiah) and are at fixed rates (2017: fixed and floating rates). The weighted average interest rate in 2018 was 11.1 per cent (2017: 10.9 per cent). Bank loans of $130.8 million (2017: $125.1 million) are secured on certain land titles, property, plant and equipment, biological assets and cash assets held by REA Kaltim, PT Kutai Mitra Sejahtera and PT Sasana Yudha Bhakti having an aggregate book value of $171.0 million (2017: $366.0 million), and are the subject of an unsecured guarantee by the company. The banks are entitled to have recourse to their security on usual banking terms.

Under the terms of its bank facilities, certain plantation subsidiaries are restricted to an extent in the payment of interest on borrowings from, and on the payment of dividends to, other group companies. The directors do not believe that the applicable covenants will affect the ability of the company to meet its cash obligations.

At the balance sheet date, the group had undrawn Indonesian rupiah denominated facilities of $nil (2017: $7.9 million).

26. Sterling notes

The sterling notes comprise £30.9 million nominal of 8.75 per cent guaranteed 2020 sterling notes (2017: £31.9 million nominal) issued by the company's subsidiary, REA Finance B.V..

In October 2018 £1.0 million nominal of the sterling notes were purchased for cancellation at 101.5 per cent of the nominal value plus accrued interest.

The sterling notes are guaranteed by the company and another wholly owned subsidiary of the company, REAS, and are secured principally on unsecured loans made by REAS to Indonesian plantation operating subsidiaries of the company. Unless previously redeemed or purchased and cancelled by the issuer, the sterling notes are repayable on 31 August 2020.

The repayment obligation in respect of the sterling notes of £30.9 million ($38.2 million) is carried in the balance sheet net of the unamortised balance of the note issuance costs.

26. Sterling notes - continued

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 the nominal value, plus any interest accrued thereon up to the date of completion of the repayment.

27. Dollar notes

The dollar notes comprise $24.0 million nominal of 7.5 per cent dollar notes 2022 (2017: $24.0 million nominal) and are stated net of the unamortised balance of the note issuance costs.

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

28. Deferred tax

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

Deferred tax assets / (liabilities)	Plantings $'000	Other property, plant and equipment $'000	Income/ expenses* $'000	Agricultural produce and other inventory $'000	Tax losses $'000	Total $'000
At 1 January 2017	(43,223)	(22,725)	(13,850)	(614)	12,363	(68,049)
Credit/(charge) to income for the year	49	1,098	(269)	312	(2,636)	(1,446)
Credit to comprehensive income for the year**	–	–	41	–	–	41
Exchange differences***	(249)	(3)	48	–	(75)	(279)
At 31 December 2017	(43,423)	(21,630)	(14,030)	(302)	9,652	(69,733)
Credit/(charge) to income for the year	1,925	(11,944)	(2,134)	(811)	1,713	(11,251)
Credit to comprehensive income for the year**	–	–	(425)	–	–	(425)
Exchange differences***	743	1,991	965	8	(597)	3,110
Transfers	14,188	(14,078)	–	–	(110)	–
Disposal of subsidiary	2,434	5,461	1,891	(43)	(603)	9,140
At 31 December 2018	(24,133)	(40,200)	(13,733)	(1,148)	10,055	(69,159)
Deferred tax assets	–	–	33	–	10,055	10,088
Deferred tax liabilities	(24,133)	(40,200)	(13,766)	(1,148)	–	(79,247)
At 31 December 2018	(24,133)	(40,200)	(13,733)	(1,148)	10,055	(69,159)
Deferred tax assets	–	4	211	–	9,652	9,867
Deferred tax liabilities	(43,423)	(21,634)	(14,241)	(302)	–	(79,600)
At 31 December 2017	(43,423)	(21,630)	(14,030)	(302)	9,652	(69,733)

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

At the balance sheet date, the group had unused tax losses of $41.0 million (2017: $39.7 million) available to be applied against future profits. A deferred tax asset of $10.1 million (2017: $9.7 million) has been recognised in respect of these losses, which are expected to be used in the future based on the group's projections. Tax losses of $3.5 million (2017: $3.5 million) incurred by the Indonesian plantation subsidiaries have not been recognised in deferred tax as these may not be recoverable against future taxable profits within the statutory five-year limit (see also note 10). A tax loss of $1.6 million incurred by the group's coal subsidiary in 2018 (2017: tax loss $0.8 million) has not been recognised and at the balance sheet date; tax losses aggregating $5.5 million incurred by the group's coal subsidiary have not been recognised; these tax losses expire after five years. Capital tax losses totalling $8.5 million in the company and REAS are not recognised in deferred tax as they are not expected to be used.

28. Deferred tax - continued

At the balance sheet date, the aggregate amount of net temporary differences (gross differences after 10.0 per cent withholding tax) associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was $5.7 million (2017: $8.6 million). No liability has been recognised in respect of these differences because the group is in a position to control the reversal of the temporary differences and it is probable that such differences will not reverse significantly in the foreseeable future.

The temporary difference of $24.1 million (2017: $43.4 million) in respect of plantings arises from their recognition prior to 2015 at fair value in the group accounts, compared with their historic base cost in the local accounts of overseas subsidiaries.

From 2015 onwards this temporary difference reverses as the plantings are depreciated over their remaining useful life.

29. Other loans and payables

	2018 $'000	2017 $'000
Indonesian retirement benefit obligations	7,945	8,725
Loans from non-controlling shareholder	22,919	29,864
	30,864	38,589
Repayable as follows:		
On demand or within one year (shown under current liabilities)	718	10,469
In the second year	17,906	10,469
In the third to fifth years inclusive	7,885	11,497
After five years	4,355	6,154
Amount due for settlement after 12 months	30,146	28,120
	30,864	38,589
Liabilities by currency:		
Sterling	6,352	10,441
Dollar	16,567	19,423
Indonesian rupiah	7,945	8,725
	30,864	38,589

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

30. Trade and other payables

	2018 $'000	2017 $'000
Trade purchases and ongoing costs	21,120	11,520
Contract liabilities	21,822	23,784
Other tax and social security	6,912	4,054
Accruals	6,940	14,903
Other payables	2,985	7,951
	59,779	62,212

The average credit period taken on trade payables is 94 days (2017: 68 days).

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

Notes to the consolidated financial statements
continued

31. Share capital

	2018 £'000	2017 £'000
Authorised (in sterling):		
85,000,000 – 9 per cent cumulative preference shares of £1 each (2017: 85,000,000)	85,000	85,000
50,000,000 – ordinary shares of 25p each (2017: 50,000,000)	12,500	12,500
	97,500	97,500
Issued and fully paid (in dollars):		
72,000,000 – 9 per cent cumulative preference shares of £1 each (2017: 72,000,000)	116,516	116,516
40,509,529 – ordinary shares of 25p each (2017: 40,509,529)	17,013	17,013
132,500 – ordinary shares of 25p each held in treasury (2017: 132,500)	(1,001)	(1,001)
	132,528	132,528

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.

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

32. Share premium account

	$'000
At 1 January 2017	42,585
Cost of issues	(184)
At 31 December 2017	42,401
At 31 December 2018	42,401

33. Translation reserve

	2018 $'000	2017 $'000
Beginning of year	(50,897)	(39,127)
Currency translation differences	17,197	(11,698)
Disposal of subsidiary	(7,404)	–
Attributable to non-controlling interests	(1,366)	(72)
End of year	(42,470)	(50,897)

34. Retained earnings

	2018 $'000	2017 $'000
Beginning of year	135,074	161,839
Sale of non-controlling shareholding in a subsidiary	–	807
Loss for the year after preference dividend	(20,714)	(27,572)
End of year	114,360	135,074

35. Non-controlling interests

	2018 $'000	2017 $'000
Beginning of year	17,629	22,827
Share of result for the year	(4,540)	(5,270)
Exchange translation differences	1,366	72
End of year	14,455	17,629

36. Reconciliation of operating loss to operating cash flows

	2018 $'000	2017 $'000
Operating loss	(10,727)	(2,164)
Amortisation of intangible assets	929	811
Depreciation of property, plant and equipment	22,011	21,419
(Increase) / decrease in fair value of agricultural produce inventory	(305)	1,137
(Increase) / decrease in value of growing produce	(662)	110
Amortisation of sterling and dollar note issue expenses	572	648
Loss on disposal of property, plant and equipment	10	–
Operating cash flows before movements in working capital	11,828	21,961
(Increase) / decrease in inventories (excluding fair value movements)	(11,623)	3,133
(Increase) / decrease in receivables	(25,000)	649
Increase in payables	1,053	20,174
Exchange translation differences	13,931	(101)
Cash (contributed to) / generated by operations	(9,811)	45,816
Taxes paid	(1,771)	(6,627)
Tax refunds received	1,504	5,398
Interest paid	(25,018)	(24,917)
Realised exchange differences	8,235	–
Net cash (to) / from operating activities	(26,861)	19,670

No additions to property, plant and equipment during the year were financed by new finance leases (2017: $nil).

Notes to the consolidated financial statements
continued

37. Movement in net borrowings

	2018 $'000	2017 $'000
Change in net borrowings resulting from cash flows:		
Increase / (decrease) in cash and cash equivalents, after exchange rate effects	20,736	(19,050)
Net (increase) / decrease in bank borrowings	(14,079)	398
Net decrease / (increase) in related party borrowings	6,469	(16,586)
	13,126	(35,238)
Redemption of 2017 sterling notes	–	11,154
Redemption of 2017 dollar notes	–	20,156
Redemption of 2020 sterling notes	1,307	–
Amortisation of sterling note issue expenses	(497)	(537)
Amortisation of dollar note issue expenses	(75)	(111)
	13,861	(4,576)
Currency translation differences	11,053	(4,780)
Net borrowings at beginning of year	(214,465)	(205,109)
Net borrowings at end of year	(189,551)	(214,465)

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. The company's share of the total employer contribution is 4.0 per cent.

A non-IAS 19 valuation of the Scheme was last prepared, using the attained age method, as at 31 December 2017. This method had been adopted in the previous valuation as at 31 December 2014 and in earlier valuations, as it was considered the appropriate method of calculating future service benefits as the Scheme is closed to new members. At 31 December 2017 the Scheme had an overall marginal surplus of assets, when measured against the Scheme's technical provisions, of £3.1 million - $3.9 million. The technical provisions were calculated using assumptions of an investment return of 3.6 per cent pre-retirement and 2.10 per cent post-retirement and annual increases in pensionable salaries of 3.4 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 3.4 per cent and 2.65 per cent respectively. It was further assumed that both non-retired and retired members' mortality would reflect S2PXA tables (light version) at 100 per cent and that non-retired members would take on retirement the maximum cash sums permitted from 1 January 2018. Had the Scheme been valued at 31 December 2017 using the projected unit method and the same assumptions, the overall surplus would have been similar.

The Scheme has agreed a statement of funding principles with the principal employer and has also agreed a schedule of contributions with participating employers covering normal contributions which are payable at a rate calculated to cover future service benefits under the Scheme. Total employer contributions for 2019 are estimated to be $13,000 (2018: $12,000).

There are no agreed allocations of any surplus on either the wind-up of the Scheme or on any participant's withdrawal from the Scheme.

38. Retirement benefit obligations - continued

The sensitivity of the surplus as at 31 December 2017 to variations in certain of the principal assumptions underlying the actuarial valuation as at that date is summarised below:

	Decrease in surplus $'000
Decrease in post-retirement investment returns by 0.1%	(457)
Decrease in base table mortality rates by 10%	(1,255)
Increase in long term rate of mortality by 0.25%	(276)

The next actuarial valuation will be made as at 31 December 2020.

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

Indonesia

In accordance with Indonesian labour laws, group employees in Indonesia are entitled to lump sum payments on retirement at the age of 55 years. The group records a provision in the financial statements which is not financed by a third party: accordingly there are no separate assets set aside to fund these entitlements. The provision was assessed at each balance sheet date by an independent actuary using the projected unit credit method. The principal assumptions used were as follows:

	2018	2017
Discount rate (per cent)	8.50	7.19
Salary increases per annum (per cent)	6	6
Mortality table (Indonesia) (TM1)	111-2011	111-2011
Retirement age (years)	55	55
Disability rate (per cent of the mortality table)	10	10

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

	2018 $'000	2017 $'000
Balance at 1 January	8,562	7,037
Current service cost	1,226	1,208
Interest expense	590	595
Actuarial gain recognised in statement of comprehensive income	1,307	–
Exchange	(3,431)	(76)
Paid during the year	(309)	(202)
Balance at 31 December (see note 29)	7,945	8,562

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

	2018 $'000	2017 $'000
Current service cost	1,226	1,208
Interest expense	590	595
	1,816	1,803

Estimated lump sum payments to Indonesian employees on retirement in 2019 are $500,000 (2018: $504,000).

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.

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 "Related party disclosures". Further information about the remuneration of, and fees paid in respect of services provided by, individual directors is provided in the audited part of the "Directors' remuneration report".

	2018 $'000	2017 $'000
Short term benefits	1,564	1,364
Termination benefits	–	258
	1,564	1,622

Loan from related party

During the year, R.E.A. Trading Limited ("REAT"), a related party, made unsecured loans to the company on commercial terms. REAT is owned by Richard Robinow (a director of the company) and his brother who, with members of their family, also own Emba Holdings Limited, a substantial shareholder in the company. The maximum amount loaned was $13.4 million, all of which had been repaid by 31 December (2017: $7.4 million). Total interest paid during the year was $243,000 (2017: $97,000). This disclosure is also made in compliance with the requirements of Listing Rule 9.8.4.

40. Rates of exchange

	2018 Closing	2018 Average	2017 Closing	2017 Average
Indonesian rupiah to US dollar	14,481	14,215	13,548	13,400
US dollar to sterling	1.2689	1.33	1.3435	1.29

41. Events after the reporting period

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

42. Contingent liabilities

In furtherance of Indonesian government policy which requires the owners of oil palm plantations to develop smallholder plantations, during 2009 and 2010 PT REA Kaltim Plantations ("REA Kaltim") and PT Sasana Yudha Bhakti ("SYB"), both subsidiaries of the company, entered into agreements with three cooperatives to develop and manage land owned by the cooperatives as oil palm plantations. To assist with the funding of such development, the cooperatives concluded various long term loan agreements with Bank Pembangunan Daerah Kalimantan Timur ("Bank BPD"), a regional development bank, under which the cooperatives could borrow in aggregate up to Indonesian rupiah 157 billion ($11.6 million) with amounts borrowed repayable over 14 years and secured on the lands under development ("the bank facilities"). REA Kaltim has guaranteed the obligations of two cooperatives as to payments of principal and interest under the respective bank facilities and, in addition, has committed to lend to the cooperatives any further funds required to complete the agreed development. REA Kaltim is entitled to a charge over the developments when the bank facilities have been repaid in full. SYB has guaranteed the obligations of the third cooperative on a similar basis.

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

As at 31 December 2018 the aggregate outstanding balances owing by the three cooperatives to Bank BPD amounted to Indonesian rupiah 103.6 billion ($7.2 million) (2017: Indonesian rupiah 113.3 billion - $8.4 million).

43. Operating lease commitments

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

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

	2018 $'000	2017 $'000
Within one year	312	304
In the second to fifth year inclusive	950	1,049
After five years	649	906
	1,911	2,259

Company balance sheet

as at 31 December 2018

	Note	2018 $'000	2017 $'000
Non-current assets			
Investments	(iv)	245,265	264,892
Deferred tax assets	(v)	547	843
Total non-current assets		245,812	265,735
Current assets			
Trade and other receivables	(vi)	4,385	5,482
Cash and cash equivalents	(vii)	17,756	724
Total current assets		22,141	6,206
Total assets		267,953	271,941
Current liabilities			
Trade and other payables	(viii)	(14,750)	(6,710)
Total current liabilities		(14,750)	(6,710)
Non-current liabilities			
Dollar notes	(ix)	(23,724)	(23,649)
Amount owed to group undertaking	(x)	(39,750)	(43,433)
Total non-current liabilities		(63,474)	(67,082)
Total liabilities		(78,224)	(73,792)
Net assets		189,729	198,149
Equity			
Share capital	(xi)	132,528	132,528
Share premium account	(xii)	42,401	42,401
Exchange reserve	(xii)	(4,300)	(4,300)
Profit and loss account	(xii)	19,100	27,520
Total equity		189,729	198,149

The company reported a loss in the financial year ended 31 December 2018 of $67,000 (2017: loss $1.5 million).

Approved by the board on 26 April 2019 and signed on behalf of the board.

DAVID J BLACKETT

Chairman

Company statement of changes in equity

for the year ended 31 December 2018

	Note	Share capital $'000	Share premium $'000	Exchange reserve $'000	Profit and loss $'000	Total $'000
At 1 January 2017		121,426	42,585	(4,300)	36,775	196,486
Total comprehensive income	(xii)	–	–	–	(1,478)	(1,478)
Issue of new preference shares (cash)	(xi)	11,102	(184)	–	–	10,918
Dividends to preference shareholders	(iii)	–	–	–	(7,777)	(7,777)
At 31 December 2017		132,528	42,401	(4,300)	27,520	198,149
Total comprehensive income	(xii)	–	–	–	(67)	(67)
Dividends to preference shareholders	(iii)	–	–	–	(8,353)	(8,353)
At 31 December 2018		132,528	42,401	(4,300)	19,100	189,729

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

Company cash flow statement

for the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Net cash inflow from operating activities	(xiv)	3,407	13,875
Investing activities			
Interest received		6,888	7,104
Repayment of loans by subsidiary companies *		23,731	9,533
Repayment of loan by third party		568	–
New loans made to third parties *		(2,312)	–
Further investment in coal and stone interests		(5,593)	(2,339)
Net cash used in investing activities		23,282	14,298
Financing activities			
Preference dividends paid	(iii)	(8,353)	(7,777)
Proceeds of issue of preference shares, less costs of issue		–	10,918
Redemption of 2017 dollar notes	(ix)	–	(20,156)
Repayment of loan to subsidiary company		(1,307)	(11,156)
New borrowings from related party		13,440	7,400
Repayment of borrowings from related party		(13,440)	(7,400)
Net cash (to) financing activities		(9,660)	(28,171)
Cash and cash equivalents			
Net increase in cash and cash equivalents		17,029	2
Cash and cash equivalents at beginning of year		724	614
Effect of exchange rate changes		3	108
Cash and cash equivalents at end of year	(vii)	17,756	724

* Excluding amounts dealt with within “Further investment in coal and stone interests”

Accounting policies (company)

The accounting policies of R.E.A. Holdings plc (the "company") are the same as those of the group, save as modified below.

Basis of accounting

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

Separate financial statements of the company are required by the Companies Act 2006, and these have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed for use by the European Union as at the date of approval of the financial statements and therefore comply with Article 4 of the EU IAS Regulation. The statements are prepared under the historic cost convention except where otherwise stated in the accounting policies.

By virtue of section 408 of the Companies Act 2006, the company is exempted from presenting a profit and loss account.

Presentational currency

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

Adoption of new and revised standards

The directors do not expect that the adoption of the standards listed on page 83 in Accounting policies (group) will have a material impact on the financial statements of the company in future periods.

Investments

The company's investments in its subsidiaries are stated at cost less any provision for impairment. Impairment provisions are charged to the profit and loss account. Dividends received from subsidiaries are credited to the company's profit and loss account.

Financial risk

The company's financial risk is managed as part of the group's strategy and policies as discussed in note 24 to the consolidated financial statements.

Taxation

Current tax including UK corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is calculated on the liability method. Deferred tax is provided on a non discounted basis on timing and other differences which are expected to reverse, at the rate of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of timing differences can be deducted.

Leases

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

Notes to the company financial statements

(i) Critical accounting judgements and key sources of estimation uncertainty

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

In the opinion of the directors, all critical accounting judgements and key sources of estimation uncertainty relate to the group's operations as disclosed in note 1 to the consolidated financial statements with the exception of the investments in, and loans to group companies which are a source of estimation uncertainty to the company only as eliminated in the consolidated financial statements. As at 31 December 2018 the investments are carried at cost of $91.8 million (2017: $91.8 million) and the group loans at $104.4 million (2017: $131.3 million) as disclosed in note (xvi). The directors are satisfied that no impairment is required to these values. The board continuously monitors the realisable value of group companies and their ability to repay loans via monthly management accounts and regular reviews of forecasts and actual cashflows. The plantation subsidiaries prepare forecasts by company which are flexed for a range of outcomes eg 10% decrease in price and production.

(ii) Auditor's remuneration

The remuneration of the company's auditor is disclosed in note 5 to the company's consolidated financial statements as required by section 494(4)(a) of the Companies Act 2006.

(iii) Dividends

	2018 $'000	2017 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share (2017: 9p per share)	8,353	7,777
	8,353	7,777

(iv) Investments

	2018 $'000	2017 $'000
Shares in subsidiaries	91,775	91,775
Loans	153,490	173,117
	245,265	264,892

The movements were as follows:

	Shares $'000	Loans $'000
At 1 January 2017	91,775	178,052
Repayment of loans	–	(13,030)
Additions to loans	–	2,763
Effect of exchange	–	5,332
At 31 December 2017	91,775	173,117
Repayment of loans	–	(24,298)
Additions to loans	–	7,905
Effect of exchange	–	(3,234)
At 31 December 2018	91,775	153,490

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

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

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

Covenants contained in credit agreements between certain of the company's plantation subsidiaries and banks restrict the amount of dividend that may be paid to the UK without the consent of the banks to certain proportions of the relevant subsidiaries' pre-tax profits. The directors do not consider that such restrictions will have any significant impact on the liquidity risk of the company.

A dormant UK subsidiary, Jentan Plantations Limited, company registration number 06662767, has taken advantage of the exemption pursuant to Companies Act 2006 s394A from preparing and filing individual accounts.

(v) Deferred tax asset

	$'000
At 1 January 2017	929
Effect of change in tax rate	(86)
At 31 December 2017	843
Charge to income for the year	(296)
At 31 December 2018	547

There were no deferred tax liabilities at 1 January 2017, 31 December 2017 or 31 December 2018.

At the balance sheet date, the company had unused tax losses of $3.0 million (2017: $4.7 million) available to be applied against future profits. A deferred tax asset of $547,000 (2017: $843,000) has been recognised in respect of these losses as the company considers, based on financial projections, that these losses will be utilised.

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which tax liabilities have not been recognised are disclosed in note 28 to the consolidated financial statements.

Notes to the company financial statements (continued)

(vi) Trade and other receivables

	2018 $'000	2017 $'000
Amount owing by group undertakings	4,326	5,398
Other debtors	54	71
Prepayments and accrued income	5	13
	4,385	5,482

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

(vii) Cash and cash equivalents

Cash and cash equivalents comprise short-term bank deposits. The Moody's prime ratings of these deposits amounting to $17.8 million (2017: $724,000) is set out in note 24 to the consolidated financial statements under the heading "Credit risk".

(viii) Trade and other payables

	2018 $'000	2017 $'000
Amount owing to group undertakings	14,582	2,202
Other creditors	27	25
Accruals	141	4,483
	14,750	6,710

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

(ix) Dollar notes

The dollar notes comprise $24.0 million nominal of 7.5 per cent dollar notes 2022 (2017: $24.0 million nominal of 2022 dollar notes) and are stated net of the unamortised balance of the note issuance costs.

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

(x) Amount owed to group undertaking

Amount owed to group undertaking comprises an unsecured interest-bearing loan of £31.3 million - $39.8 million (2017: £32.3 million - $43.4 million) from REA Finance B.V.

(xi) Share capital

	2018 £'000	2017 £'000
Authorised (in sterling):		
85,000,000 – 9 per cent cumulative preference shares of £1 each (2017: 85,000,000)	85,000	85,000
50,000,000 – ordinary shares of 25p each (2017: 50,000,000)	12,500	12,500
	97,500	97,500
	$'000	$'000
Issued and fully paid (in dollars):		
72,000,000 – 9 per cent cumulative preference shares of £1 each (2017: 72,000,000)	116,516	116,516
40,509,529 – ordinary shares of 25p each (2017: 40,509,529)	17,013	17,013
132,500 – ordinary shares of 25p each held in treasury (2017: 132,500)	(1,001)	(1,001)
	132,528	132,528

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.

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

(xii) Movement in reserves

	Share premium account $'000	Exchange reserve $'000	Profit and loss account $'000
At 1 January 2017	42,585	(4,300)	36,775
Total comprehensive income	–	–	(1,478)
Dividends to preference shareholders	–	–	(7,777)
Costs of issues	(184)	–	–
At 31 December 2017	42,401	(4,300)	27,520
At 1 January 2018	42,401	(4,300)	27,520
Total comprehensive income	–	–	(67)
Dividends to preference shareholders	–	–	(8,353)
At 31 December 2018	42,401	(4,300)	19,100

As permitted by section 408 of the Companies Act 2006, a separate profit and loss account dealing with the results of the company has not been presented. The loss before dividends recognised in the company's profit and loss account for the year is $67,000 (2017: loss $1.5 million).

Notes to the company financial statements (continued)

(xiii) Financial instruments and risks

Financial instruments

The company's financial instruments comprise borrowings, cash and liquid resources and in addition certain debtors and trade creditors that arise from its operations. The main purpose of these financial instruments is to raise finance for, and facilitate the conduct of, the company's operations. The hierarchy for determining and disclosing the fair value of financial instruments is set out in note 24 to the consolidated financial statements. Loans from group undertakings are not included in the consolidated financial statements but are considered to be level 3 in the hierarchy due to the lack of observable market data available. The table below provides an analysis of the book and fair values of financial instruments excluding trade receivables and trade payables at the balance sheet date.

	2018 Book value $'000	2018 Fair value $'000	2017 Book value $'000	2017 Fair value $'000
Cash and cash equivalents	17,756	17,756	724	724
Dollar notes - repayable 2022	(23,724)	(22,833)	(23,649)	(23,074)
Loan from REA Finance B.V. - repayable 2020	(39,750)	(39,750)	(43,433)	(43,433)
Net debt	(45,718)	(44,827)	(66,358)	(65,783)

The fair value of the dollar notes reflects the last price at which transactions in those notes were effected prior to the balance sheet dates.

Risks

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

The company finances its operations through a mixture of share capital, retained profits, loans from a group undertaking, borrowings in dollars at fixed rates and credit from suppliers. At 31 December 2018, the company had outstanding $24.0 million nominal of 7.5 per cent dollar notes 2022 (2017: $24.0 million nominal).

The policy for liquidity risk management is disclosed in note 24 to the consolidated financial statements together with the contractual maturity of the company's dollar notes.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The directors consider that the company is not exposed to any major concentrations of credit risk. At 31 December 2018, all bank deposits were held with banks with a Moody's prime rating of P1. At the balance sheet date, no trade receivables were past their due dates, nor were any impaired; accordingly no bad debt provisions were required. The maximum credit risk exposures in respect of the company's financial assets at 31 December 2018 and 31 December 2017 equal the amounts reported under the corresponding balance sheet headings.

A limited degree of interest rate risk is accepted, however both non-derivative financial instruments at 31 December 2018 in the table below carried interest at fixed rates rather than floating rates.

Non-derivative financial instruments

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

2018	Weighted average interest rate %	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
Dollar notes - repayable 2022	7.5	1,803	1,803	26,739	30,345
Loan from REA Finance B.V. - repayable 2020	8.9	3,752	45,018	–	48,770
		5,555	46,821	26,739	79,115

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

At 31 December 2018, the company's non-derivative financial assets (other than receivables) comprised cash and deposits of $17.8 million (2017: $724,000) carrying a weighted average interest rate of nil per cent (2017: nil per cent) all having a maturity of under one year and loans (including Indonesian coal and stone interests) of $49.1 million (2017: $41.8 million).

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

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

2018	At 1 January 2018 $'000	Financing cash flows $'000	Non-cash other changes $'000	At 31 December 2018 $'000
US dollar notes - repayable 2022	23,649	–	75	23,724
Loan from REA Finance B.V. - repayable 2020	43,433	(1,307)	(2,376)	39,750
Total liabilities from financing activities	67,082	(1,307)	(2,301)	63,474

Notes to the company financial statements (continued)

(xiv) Reconciliation of operating profit to operating cash flows

	2018 $'000	2017 $'000
Operating profit	47	222
Amortisation of US dollar note issue expenses	75	111
Operating cash inflows before movements in working capital	122	333
Decrease in receivables	1,096	20,233
Increase in payables	8,818	2,037
Exchange translation differences	77	(53)
Cash outflow from operations	10,113	22,550
Taxes paid	(967)	(925)
Interest paid	(5,739)	(7,750)
Net cash inflow from operating activities	3,407	13,875

(xv) Pensions

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

As the Scheme is a multi-employer scheme, in which the employers are unable to identify their respective shares of the underlying assets and liabilities (because there is no segregation of the assets), and does not prepare valuations on an IAS 19 basis, the company accounts for the Scheme as if it were a defined contribution scheme. The company's share of the total employer contribution is 4.0 per cent.

A non-IAS 19 valuation of the Scheme was last prepared, using the attained age method, as at 31 December 2017. This method had been adopted in the previous valuation as at 31 December 2014 and in earlier valuations, as it was considered the appropriate method of calculating future service benefits as the Scheme is closed to new members. At 31 December 2017 the Scheme had an overall marginal surplus of assets, when measured against the Scheme's technical provisions, of £3.1 million - $3.9 million. The technical provisions were calculated using assumptions of an investment return of 3.6 per cent pre-retirement and 2.10 per cent post-retirement and annual increases in pensionable salaries of 3.4 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 3.4 per cent and 2.65 per cent respectively. It was further assumed that both non-retired and retired members' mortality would reflect S2PXA tables (light version) at 100 per cent and that non-retired members would take on retirement the maximum cash sums permitted from 1 January 2018. Had the Scheme been valued at 31 December 2017 using the projected unit method and the same assumptions, the overall surplus would have been similar.

The Scheme has agreed a statement of funding principles with the company 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. Total employer contributions for 2019 are estimated to be $13,000 (2018: $12,000).

There are no agreed allocations of any surplus on either the wind-up of the Scheme or on any participant's withdrawal from the Scheme.

The next actuarial valuation will be made as at 31 December 2020.

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

(xvi) Related party transactions

Loans to subsidiaries	2018 $'000	2017 $'000
PT Cipta Davia Mandiri	–	5,028
PT KCC Resources Indonesia	12,422	12,422
Makassar Investments Limited	14,216	14,216
PT REA Kaltim Plantations	52,727	73,191
R.E.A. Services Limited	24,997	26,468
	104,362	131,325

Loan from subsidiary	$'000	$'000
REA Finance B.V.	(39,750)	(43,533)
	(39,750)	(43,433)

Interest received from subsidiaries	$'000	$'000
PT Cipta Davia Mandiri	267	683
REA Finance B.V.	–	265
PT REA Kaltim Plantations	6,312	5,887
	6,579	6,835

Interest paid to subsidiary	$'000	$'000
REA Finance B.V.	3,694	5,094
	3,694	5,094

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 "Related party disclosures". Further information about the remuneration of, and fees paid in respect of services provided by, individual directors is provided in the audited part of the "Directors' remuneration report".

	2018 $'000	2017 $'000
Short term benefits	1,564	1,364
Termination benefits	–	258
	1,564	1,622

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

Loan from related party

During the year, R.E.A. Trading Limited ("REAT"), a related party, made unsecured loans to the company on commercial terms. REAT is owned by Richard Robinow (a director of the company) and his brother who, with members of their family, also own Emba Holdings Limited, a substantial shareholder in the company. The maximum amount loaned was $13.4 million, all of which had been repaid by 31 December (2017: $7.4 million). Total interest paid during the year was $243,000 (2017: $97,000). This disclosure is also made in compliance with the requirements of Listing Rule 9.8.4.

(xvii) Rates of exchange

See note 40 to the consolidated financial statements.

Notes to the company financial statements (continued)

(xviii) Contingent liabilities and commitments

Sterling notes

The company has guaranteed the obligations for both principal and interest relating to the outstanding £30.9 million nominal 8.75 per cent guaranteed sterling notes 2020 issued by REA Finance B.V. The directors consider the risk of loss to the company from these guarantees to be remote.

Bank borrowings

The company has given, in the ordinary course of business, guarantees in support of subsidiary company borrowings from, and other contracts with, banks amounting in aggregate to $131.0 million (2017: $125.0 million). The directors consider the risk of loss to the company from these guarantees to be remote.

Pension liability

The company's contingent liability for pension contributions is disclosed in note (xv) above.

Operating leases

The company has an annual commitment under an operating lease of $216,000 (2017: $226,000). The commitment expires after eight years with a break clause in three years, being January 2022 (2017: nine years). The lease does not contain any contingent rentals or an option to purchase the property.

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

	2018 $'000	2017 $'000
Within one year	216	226
In the second to fifth year inclusive	865	906
After five years	649	906
	1,730	2,038

(xix) Events after the reporting period

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

Notice of annual general meeting

This notice is important and requires your immediate attention. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if you are not so resident, another appropriately authorised independent adviser. If you have sold or otherwise transferred all your ordinary shares in R.E.A. Holdings plc, please forward this document 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-ninth annual general meeting of R.E.A. Holdings plc will be held at the London office of Ashurst LLP at 1 Duval Square, London Fruit and Wool Exchange, London E1 6PW on 20 June 2019 at 10.00 am to consider and, if thought fit, to pass the following resolutions. Resolutions 13 and 14 will be proposed as special resolutions, all other resolutions will be proposed as ordinary resolutions.

1. To receive the company's annual accounts for the financial year ended 31 December 2018, together with the accompanying statements and reports including the auditor's report.

2. To approve the directors' remuneration report for the financial year ended 31 December 2018.

3. To re-elect as a director Irene Chia, who, having been a director at each of the preceding two annual general meetings and who was not re-appointed by the company in general meeting at or since either such meetings, retires in accordance with the articles of association and submits herself for re-election.

4. To elect as a director Rizal Satar, who, having been appointed a non-executive director on 31 December 2018, retires in accordance with the articles of association and submits himself for election.

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

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

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

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

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

10. That the company is generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of any of its ordinary shares on such terms and in such manner as the directors may from time to time determine provided that:

    (a) the maximum number of ordinary shares which may be purchased is 5,000,000 ordinary shares;

    (b) the minimum price (exclusive of expenses, if any) that may be paid for each ordinary share is £1.00;

    (c) the maximum price (exclusive of expenses, if any) that may be paid for each ordinary share is an amount equal to the higher of: (i) 105 per cent of the average of the middle market quotations for the ordinary shares in the capital of the company as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which such share is contracted to be purchased and (ii) the higher of the last independent trade and the current highest independent bid on the London Stock Exchange; and

    (d) unless previously renewed, revoked or varied, this authority shall expire at the conclusion of the annual general meeting of the company to be held in 2020 (or, if earlier, on 30 June 2020)

    provided further that:

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

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

11. That the directors be and are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the company to allot, and to grant rights to subscribe for or to convert any security into, shares in the capital of the company (other than 9 per cent cumulative preference shares) up to an aggregate nominal amount (within the meaning of sub-sections (3) and (6) of section 551 of the Act) of £2,372,617; such

authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2020), save that the company may before such expiry make any offer or agreement which would or might require shares to be allotted, or rights to be granted, after such expiry and the directors may allot shares, or grant rights to subscribe for or to convert any security into shares, in pursuance of any such offer or agreement as if the authorisations conferred hereby had not expired.

12. That the directors be and are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the company to allot, and to grant rights to subscribe for or to convert any security into, 9 per cent cumulative preference shares in the capital of the company ("preference shares") up to an aggregate nominal amount (within the meaning of sub-sections (3) and (6) of section 551 of the Act) of £13,000,000, such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2020), save that the company may before such expiry make any offer or agreement which would or might require preference shares to be allotted or rights to be granted, after such expiry and the directors may allot preference shares, or grant rights to subscribe for or to convert any security into preference shares, in pursuance of any such offer or agreement as if the authorisations conferred hereby had not expired.

13. That the directors be and are hereby given power:

(a) for the purposes of section 570 of the Companies Act 2006 (the "Act") and subject to the passing of resolution 11 set out in the notice of the 2019 annual general meeting, to allot equity securities (as defined in sub-section (1) of section 560 of the Act) of the company for cash pursuant to the authorisation conferred by the said resolution 11; and

(b) for the purposes of section 573 of the Act, to sell ordinary shares (as defined in sub-section (1) of section 560 of the Act) in the capital of the company held by the company as treasury shares for cash.

as if section 561 of the Act did not apply to the allotment or sale, provided that such powers shall be limited:

(i) to the allotment of equity securities for cash in connection with a rights issue or open offer in favour of holders of ordinary shares and to the sale of treasury shares by way of an invitation made by way of rights to holders of ordinary shares, in each case in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them on the record date for participation in the rights issue, open offer or invitation (and holders of any other class of equity securities entitled to participate therein or, if the directors consider it necessary, as permitted by the rights of those securities) but subject in each case to such exclusions or other arrangements as the directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares (other than treasury shares being sold), record dates or legal, regulatory or practical difficulties which may arise under the laws of any territory or the requirements of any regulatory body or stock exchange in any territory whatsoever; and

(ii) otherwise than as specified at paragraph (i) of this resolution, to the allotment of equity securities and the sale of treasury shares up to an aggregate nominal amount (calculated, in the case of the grant of rights to subscribe for, or convert any security into, shares in the capital of the company, in accordance with sub-section (6) of section 551 of the Act) of £1,009,425;

and shall expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2020), 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
26 April 2019

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

Registered in England and Wales no: 00671099

Notice of annual general meeting
continued

Notes

The sections of the accompanying Directors' report entitled "Directors", "Acquisition of the company's own shares", "Authorities to allot share capital", "Authority to disapply pre-emption rights", "General meeting notice period" and "Recommendation" contain information regarding, and recommendations by the board of the company as to voting on, resolutions 3 to 7 and 10 to 14 set out above in this notice of the 2019 annual general meeting of the company (the "2019 Notice").

The company specifies that in order to have the right to attend and vote at the annual general meeting (and also for the purpose of determining how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the company at close of business on 18 June 2019 or, in the event of any adjournment, at close of business on the date which is two days before the day of the adjourned meeting. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Only holders of ordinary shares are entitled to attend and vote at the annual general meeting. A holder of ordinary shares may appoint another person as that holder's proxy to exercise all or any of the holder's rights to attend, speak and vote at the annual general meeting. A holder of ordinary shares may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to (a) different share(s) held by the holder. A proxy need not be a member of the company. A form of proxy for the meeting can be requested from the company's registrars: Link Asset Services, 34 Beckenham Road, Beckenham BR3 4TU (telephone number 0871 664 0391). To be valid, forms of proxy and other written instruments appointing a proxy must be received by post or by hand (during normal business hours only) by the company's registrars, Link Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU by no later than 10.00 am on 18 June 2019.

Alternatively, appointment of a proxy may be submitted electronically by using either Link's share portal at www.signalshares.com (and so that the appointment is received by the service by no later than 10.00 am on 18 June 2019) or the CREST electronic proxy appointment service as described below. Shareholders who have not already registered for Link's share portal may do so by registering as a new user at www.signalshares.com and giving the investor code as 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 18 June 2019. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST applications host) from which the company's registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear does not make available special procedures in CREST for particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that such member's CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The rights of members in relation to the appointment of proxies described above do not apply to persons nominated under section 146 of the Companies Act 2006 to enjoy information rights ("nominated persons") but a nominated person may have a right, under an agreement with the member by whom such person was nominated, to be appointed (or to have someone else appointed) as a proxy for the annual general meeting. If a nominated person has no such right or does not wish to exercise it, such person may have a right, under such an agreement, to give instructions to the member as to the exercise of voting rights.

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

Any member attending the annual general meeting has the right to ask questions. The company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential

information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the company or the good order of the meeting that the question be answered.

Copies of the executive director's service agreements and letters setting out the terms and conditions of appointment of non-executive directors are available for inspection at the company's registered office during normal business hours from the date of this 2019 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 2019 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 2019 Notice, the issued share capital of the company comprises 40,509,529 ordinary shares, of which 132,500 are held as treasury shares, and 72,000,000 9 per cent cumulative preference shares. Only holders of ordinary shares (and their proxies) are entitled to attend and vote at the annual general meeting. Accordingly, the voting rights attaching to shares of the company exercisable in respect of each of the resolutions to be proposed at the annual general meeting total 40,377,029 as at the date of this 2019 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 2019 Notice (or any other related document) 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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