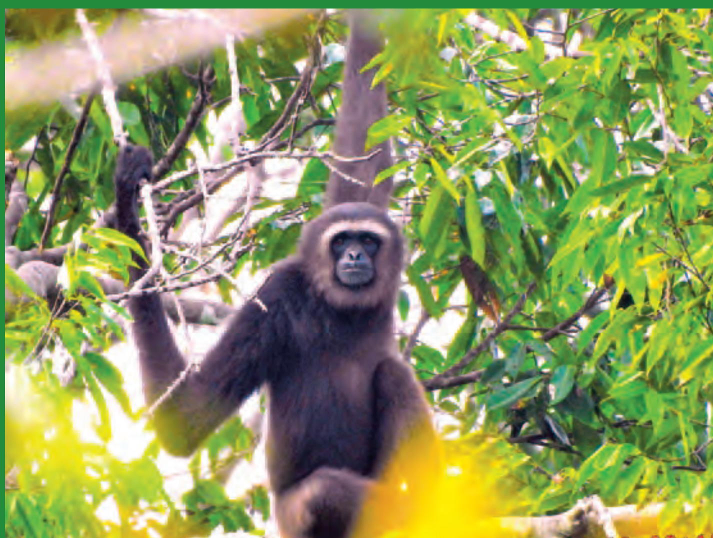
R.E.A. HOLDINGS PLC

Annual Report and Accounts

2019

R.E.A. Holdings plc ("REA") is a UK public listed 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

	2019	2018	2017	2016	2015
Results ($'000)					
Revenue	124,986	105,479	100,241	79,265	90,515
Earnings before interest, tax, depreciation and amortisation *	18,173	12,287	20,051	15,933	15,123
Loss for the year before one-off items, exchange gains / (losses) and tax	(31,806)	(30,691)	(18,252)	(18,381)	(19,885)
Loss attributable to ordinary shareholders	(17,814)	(22,021)	(27,408)	(17,800)	(20,912)
Cash generated by / (contributed to) operations **	26,505	(8,826)	45,816	25,371	37,286
Returns per ordinary share					
Loss (US cents)	(43.1)	(54.4)	(67.0)	(48.2)	(59.0)
Dividend (pence)	–	–	–	–	–
Land areas (hectares) ***					
Mature oil palm	33,055	33,292	34,076	31,521	29,367
Immature oil palm	3,099	3,208	10,018	11,325	7,730
Planted areas	36,154	36,500	44,094	42,846	37,097
Infrastructure and undeveloped	28,371	28,025	32,033	27,738	33,487
Fully titled	64,525	64,525	76,127	70,584	70,584
Subject to completion of title	15,873	17,837	34,347	37,631	37,631
Total	80,398	82,362	110,474	108,215	108,215
FFB Harvested (tonnes) ***					
Group	800,666	800,050	530,565	468,371	600,741
Third party	198,737	191,228	114,005	98,052	138,657
Total	999,403	991,278	644,570	566,423	739,398
Production (tonnes) ***					
Total FFB processed	979,411	969,356	630,600	560,957	728,871
CPO	224,856	217,721	143,916	127,697	161,844
Palm kernels	46,326	45,425	29,122	26,371	33,877
CPKO	15,305	16,095	11,052	9,840	12,557
CPO extraction rate ****	23.0%	22.5%	22.8%	22.8%	22.2%
Yields (tonnes per mature hectare) ***					
FFB	24.2	23.1	15.6	14.9	20.5
CPO	5.6	5.4	3.6	3.4	4.5
CPKO	0.4	0.4	0.3	0.3	0.3
Average exchange rates					
Indonesian rupiah to US dollar	14,158	14,215	13,400	13,369	13,377
US dollar to sterling	1.28	1.33	1.29	1.36	1.53

* see note 5

** see note 37; 2018 restated, see note 17

*** 2018 hectarage excludes PBJ, 2018 FFB harvested and production includes PBJ to August 2018 (see note 9). 2019 hectarage reflects certain adjustments as described in "Agricultural operations" in the Strategic report".

**** 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

- 2019 was a difficult trading period for the group, with weak CPO and CPKO prices impacting on what was otherwise strong operational performance. The strengthening of prices witnessed at the end of 2019 and the start of 2020 was brought to a halt by the Covid-19 pandemic with the consequential collapse in the global economy

- At the beginning of April 2020, the Indonesian government deemed certain activities, notably agriculture and plantations, as essential and, accordingly these are not restricted because of Covid-19. The group's estates are currently operating normally and to-date the pandemic has had no effect on the group's ability to deliver CPO and CPKO to its buyers

- The pandemic has adversely affected the CPO and CPKO markets in which prices have fallen. Going forward, low levels of planting and replanting in Indonesia in recent years are expected to result in slower growth in CPO and CPKO supply and, as demand for vegetable oils is restored, prices are likely to recover

Financial

- Revenue up to $125.0 million (2018: $105.5 million) with the uplift in CPO prices towards the end of the year and stock sales carried over from 2018

- Cost of sales increased to $121.8 million (2018: $99.6 million) largely reflecting the swing in stock movements, with operational costs otherwise similar to 2018

- EBITDA increased to $18.2 million (2018: $12.3 million) benefitting from higher selling prices in the second half

- Pre-tax loss of $43.7 million (2018: loss of $5.5 million) due to negative foreign exchange charge of $8.6 million adversely affecting finance cost, a depreciation charge increased by $4.3 million and a net impairment loss of $3.3 million following the decision not to extend the KMS land allocation

- Repayment date of £30.9 million nominal of 8.75 per cent sterling notes extended in March 2020 from August 2020 to August 2025

Agricultural operations

- A second record year for FFB production at 800,666 tonnes (2018: 800,050 tonnes) despite both an industry wide decline as palms entered a resting phase and several periods of unusually low rainfall in the second half

- FFB yield per mature hectare over 24 tonnes (2018: 23 tonnes)

- Increase in third party FFB purchased to 198,737 tonnes (2018: 191,228 tonnes)

- Extraction rates continuing to improve with CPO averaging 23.0 per cent (2018: 22.5 per cent) owing to the focus on modifications, upgrading and rigorous maintenance in the mills

Stone and coal interests

- Arrangements with a neighbouring coal company for the opening and quarrying of the andesite stone concession held by the group's local partners

- Contractor appointed to mine the Kota Bangun coal concession held by the group's local partners, though currently on hold due to Covid-19 and low coal prices

Sustainability

- Ranked 8 out of 99 companies producing, processing and trading palm oil by ZSL's SPOTT assessment of disclosures and commitment to environmental, social and governance best practice in 2019

- KMS, the group's most recently matured estate, RSPO certified at the start of 2020

Outlook

- Cost saving and efficiency measures implemented in 2019 expected to achieve significant cost savings in 2020

- Capital expenditure limited to completing the mill works and to bunding and resupplying 1,000 hectares of mature areas previously damaged by periodic flooding, while extension planting remains on hold pending a sustained recovery in the CPO price and financial performance

- In light of Covid-19, the group is engaged in positive discussions with its Indonesian bankers to postpone loan repayments due in 2020

- Crop production to date in 2020 is slightly ahead of budget and, with extraction rates achieving expected levels and mill operations continuing to improve, the outlook is positive, subject to the immediate impacts and risks of Covid-19

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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

Trading conditions during 2019 were difficult. Prices of crude palm oil ("CPO") and crude palm kernel oil ("CPKO") remained weak for most of the year. Only towards the end of 2019, when demand for CPO was clearly exceeding supply and global stocks started to fall significantly, did the CPO price start to recover. Consequently, notwithstanding ongoing improvements in operational performance, pressure on margins resulted in an operating loss for the year of $9.1 million, a small reduction on the operating loss of $10.7 million in 2018.

Improvements were made in crop yields with fresh fruit bunches ("FFB") harvested of 800,666 tonnes, marginally ahead of the 800,050 tonnes in 2018. Although FFB in 2019 was below the original target of 900,000 tonnes, it represented a second record year for the group producing a yield per mature hectare of 24.2 tonnes. These improvements should be viewed in the context of an industry wide decline in FFB production reflecting palms entering a resting phase following generally very high levels of cropping in 2018 as well as several periods of unusually low rainfall in the second half of 2019. Measured against these benchmarks, the group's operational performance compares favourably. Third party harvested FFB totalled 198,737 tonnes against 191,228 tonnes in 2018.

Production of CPO in 2019 increased to 224,856 tonnes, compared with 217,721 tonnes in 2018, while CPKO production fell slightly to 15,305 tonnes, compared to 16,095 tonnes in 2018. The reduced CPKO production was entirely due to the temporary suspension of production to allow for maintenance work at one of the kernel crushing plants during the first half of 2019, during which period, uncrushed kernels were sold to third parties. Both CPO and CPKO extraction yields increased to, respectively, 23.0 per cent and 40.7 percent in 2019 compared with, respectively, 22.5 per cent and 40.2 per cent in 2018, as a consequence of the focus on the modifications, upgrading and rigorous maintenance programme in the group's three mills. The majority of these works are due to be completed during 2020, with some works carried over from 2019 owing to delays with contractors and in supplies of materials. Such delays also postponed completion of the expansion of the group's newest mill at Satria until later in 2020 or early 2021.

Revenue for 2019 amounted to $125.0 million, compared with $105.5 in 2018, the increase largely reflecting the uplift in CPO prices towards the end of the year and the sales at the start of 2019 of both CPO and CPKO stocks carried over from 2018. Overall, however, cost of sales were higher in 2019 at $121.8 million, compared with $99.6 million in 2018, principally as a result of the swing in stock movements from $(10.2 million) in 2018 to $9.1 million in 2019. Estate operating costs overall in 2019 were similar to those of 2018, notwithstanding increases in labour costs. Field and harvesting costs were well controlled, but mill processing costs were significantly over budget reflecting running inefficiencies pending completion of necessary maintenance and upgrading work. As in 2018, extra despatch costs were 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.

Earnings before interest, taxation, depreciation and amortisation ("EBITDA"), improved from $12.3 million in 2018 to $18.2 million in 2019. As anticipated at the time of publication of the 2019 half yearly report, the EBITDA of the second half at $18.3 million was significantly better than that of the first half of $(0.1) million, reflecting the weighting of the group's crops to the second half and better selling prices in the last quarter of 2019. With an increase in the depreciation charge of $4.3 million over that charged in 2018 and the impact of adverse exchange rate movements on finance costs, the group incurred a loss before tax in 2019 of $43.7 million, compared with $5.5 million in 2018. Significant steps were taken in 2019 to reduce costs and, whilst these had a limited impact on the results for the year, the group is aiming for a reduction in 2020 of some $10 million against the level of costs that would have been incurred without the cost reduction and efficiency measures.

The CPO price, CIF Rotterdam, opened the year at $517 per tonne and fell to a low of $481 per tonne in July before recovering slowly to reach $860 per tonne by the end of 2019. In the wake of the Covid-19 pandemic, the price has since fallen back with reduced demand in the wake of the dramatic slowdown in the world economies. The price is currently trading at $525 per tonne. CPKO prices opened the year at $783 per tonne, CIF Rotterdam, rose to a high in mid January before falling back to $529 in early June, largely reflecting subdued demand generally and good availability of the competitor coconut oil, and then recovered to $1,080 per tonne by the end of 2019. The CPKO price currently stands at $605 per tonne.

The average selling price for the group's CPO for 2019 on an FOB basis at the port of Samarinda, net of export levy and duty, was $453 per tonne (2018: $472 per tonne). The average selling price for the group's CPKO, on the same basis, was $533 per tonne (2018: $792 per tonne).

Development of the group's land bank of some 6,000 hectares that are available for immediate extension planting continues to be on hold pending a sustained recovery in the CPO price and in the group's financial performance. In the meantime, some 1,000 hectares of mature areas that have been damaged over the years by periodic flooding are being bunded and resupplied.

As previously reported, good progress was made in 2019 by the principal coal concession holding company to reopen the concession at Kota Bangun. Refurbishment of the loading point on the Mahakam River and the conveyor crossing the concession were completed and the requisite licences obtained. A contractor was appointed to provide mining services and to manage the port facility, as well as funding all further expenditure required for infrastructure, land compensation and mobilisation in exchange for a participation in the mine's profits. Following further test drilling and development of a mine plan, it was expected that mobilisation and mining would commence by mid 2020. As a result of the Covid-19 pandemic, however, these plans are currently on hold and it is unlikely that mining operations will commence until the end of 2020 at the earliest.

The group is also finalising arrangements with a neighbouring coal company for the opening and quarrying of the andesite stone concession on similar terms to those agreed for the Kota Bangun coal concession. Work is expected to commence in the second half of 2020.

As at 31 December 2019 the group had total equity (including preference share capital) of $239.7 million, compared with $246.8 million at 31 December 2018. In October 2019, the company issued 3,441,000 ordinary shares for cash at a price of £1.45p per share. Non-controlling interests at 31 December 2019 amounted to $13.0 million, compared with $14.5 million at 31 December 2018.

Net indebtedness, including £30.9 million ($39.0 million) of 8.75 per cent guaranteed sterling notes that were due to mature in August 2020, amounted to $207.8 million at 31 December 2019, compared with $189.6 million at 31 December 2018. On 31 March 2020, the holders of the sterling notes approved proposals to extend the repayment date to 31 August 2025. In consideration for agreeing to these proposals, the notes will now be repayable at a premium of 4 pence per £1.00 nominal loan note and the company has issued to noteholders 4,010,760 warrants, each warrant entitling the holder to subscribe for a period of 5 years, one new ordinary share in the company at a subscription price of £1.26 per share.

The group has repayments due on its indebtedness in Indonesia to PT Bank Mandiri (Persero) Tbk ("Mandiri"). The group has had extensive negotiations with Mandiri over the past twelve months with a view to obtaining additional loans sufficient to finance the repayments falling due on its existing Indonesian rupiah borrowings. However, following measures to control the spread of Covid-19 (including the closure of bank offices), the group has been informed that all state banks have ceased new lending. The group is therefore now seeking the agreement of Mandiri to postpone repayments due during the rest of 2020.

In view of the difficult trading conditions prevailing during 2019, the payment of the fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due in June and December 2019 were deferred. With the major improvement in the CPO price at the end of 2019 and into 2020 it was hoped that the payment of preference dividends arising in 2020 could be resumed and that the deferred dividends could be caught up progressively. Unfortunately, the subsequent disruption wrought by the Covid-19 pandemic has meant that this plan has had to be placed on hold. The directors are well aware that preference shares are bought for income and will aim to recommence the payment of dividends as soon as circumstances permit. However, until there is a recovery in CPO prices and greater certainty as to the future, preference dividends will have to continue to be deferred.

As dividends on the preference shares are now more than six months in arrears, the company is not permitted to pay dividends on its ordinary shares. Notwithstanding this requirement and based on the financial results for 2019, the directors would not have considered it appropriate to declare or recommend the payment of any dividend on the ordinary shares at this time.

As already noted, the beginning of 2020 saw continued strength in CPO prices, largely reflecting low levels of CPO stocks and vegetable oil consumption exceeding supply. This underlying price firmness was brought to a halt as a direct result of the Covid-19 pandemic. The consequential collapse in the global economy had an immediate impact on the CPO market and demand initially fell dramatically. This was reflected in a fall in the CPO price from $860 per tonne on 1 January 2020 to $540 per tonne on 30 April 2020.

At current CPO price levels, the group should be able to operate at slightly above a cash break even position over the year as a whole, excluding debt repayments and preference dividends. With crops weighted to the July to December period, unit cash costs are normally lower in the second half of each year than in the first half, but average selling prices for the first half of 2020 will benefit from the higher CPO prices prevailing at the start of the year. Crop levels and harvested FFB continue to be in line with expectations and mill operations continue to improve. However, there is the possibility of operational disruption should the existing lockdown in Indonesia be extended in a way that would reduce or halt group production or restrict the group's ability to deliver its production to customers, although it should be noted that the current lockdown in Indonesia explicitly excludes agricultural business.

In the longer term, low levels of replanting and little new planting taking place in Indonesia are likely to result in much slower growth in both CPO and CPKO production than in the recent past. Given a return to recent levels of demand for vegetable oils, further improvement in prices are therefore likely and consequently provide a positive outlook for the group.

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.

This 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 incorporates the information required in the non-financial information statement (section 414CB of the Companies Act 2006) , as set out below, the section 172(1) (Companies Act 2006) statement, and a "Finance" section that provides explanations regarding amounts disclosed in the financial statements, the group's financial resources and its ability to fund its declared strategies.

The report is divided into the following sections:

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

Non-financial information statement

The group has complied with the requirements of s414CB of the Companies Act 2006 by including certain non-financial information within the strategic report, set out as below:

(a) The group's business model and resources, its objectives and strategy for achieving these and the market context in which the group operates are set out under "Introduction and strategic environment".

(b) "Sustainability" deals with the environmental and social issues facing the group and provides information regarding the following matters, including the relevant policies (as referred to under "Policies" and which are available for downloading from the Sustainability section of the group's website at www.rea.co.uk, the due diligence process implemented in pursuance of the policies and outcomes of those policies:

- Environment
- Responsible agricultural practices
- Conservation
- Employees
- Respect for human rights
- Anti-corruption and anti-bribery

(c) Where principal risks have been identified in relation to any of the matters listed above, these can be found under the "Risks and uncertainties", including a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed.

(d) The quantitative indicators that the directors consider relevant to assessment of the group's performance, including non-financial indicators, are set out under "Evaluation of performance".

(e) The business performance sections under "Agricultural operations", "Stone and coal interests" and "Sustainability" review the current status of and trends within the group's activities and the group's plans for their further development and include, where appropriate, references to, and additional explanations of, amounts included in the group's annual accounts.

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 has also made loans to certain Indonesian companies with interests in respect of two stone deposits and two coal mining concessions, all of which are located in East Kalimantan.

Detailed descriptions of the group's oil palm and related activities and of the stone and coal concessions are provided under, respectively, "Agricultural operations" and "Stone and coal interests" 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, by optimising efficiencies, the group will have greater resilience to downturns in prices than competitor producers.

In the agricultural operations, the group adopts a two-pronged approach in seeking production cost efficiencies. First, the group strives continually to improve the productivity and efficiency of its established agricultural operations. Secondly, 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.

The principal risks and uncertainties inherent in the group's business are set out under "Risks and uncertainties" below, including as respects global climate change. Between five and ten 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. 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 stone and coal mining interests represented group diversifications. Following a decision in 2012 to limit further capital committed to the concession holding companies, the group's strategy for the coal loans is to maximise the recovery of capital already invested. As respects the loan to the company holding the stone concession, the directors believe that quarrying of the stone deposits will offer a valuable resource for improving the durability of infrastructure in the group's operations and will also provide useful additional revenue from the sale of stone to third parties that will support the repayment of the loan to the group.

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 2019 represented over 95 per cent of the group's total assets and which, in 2019, 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 focusing on the growth and development of 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.

Introduction and strategic environment

continued

The group has acknowledged that DSN may increase its participation in REA Kaltim up to 49 per cent by 2021 but on the basis that such increase will be subject to agreement of the price and other terms at the time and to the receipt of all necessary consents and approvals, including the approval of the company's shareholders to the extent required.

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. Over the last two years, crop levels have been restored to achieve yields that are in line with expectations. However, the dramatic decline in CPO prices over the period from May 2017 to November 2019 offset the financial benefits of the improvement in the operations.

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, for the present the group is continuing to concentrate on optimising yields, extraction rates and efficiencies throughout the group, rather than expanding its land bank or developing unplanted areas. Consideration will be given to development of the group's as yet unplanted land areas when financing so permits to secure future growth without compromising on financial health. Such consideration will also take account of the regulations regarding limitations, if any, of renewals of permits for land not yet developed, so as to ensure that such renewals are not compromised.

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 236.6 million tonnes in the year to 30 September 2019 (of which the 12 vegetable oils represented 208 million tonnes). World production of the same group of vegetable oils and fats during the same period was 236.5 million tonnes, with vegetable oils accounting for 206 million tonnes of which CPO represented 77 million tonnes (some 33 per cent of the total). Total vegetable oil production is currently forecast by Oil World to rise by 1 per cent in 2020 to 208 million tonnes, with total CPO production projected to account for approximately 76 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 2019 accounted for some 17 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 $475 per tonne. The monthly average price over the ten years as a whole has been $790 per tonne. The low of the daily price over the same ten years was reached in mid November 2018 and was $439 per tonne.

Following two years of unprecedented growth in vegetable oil production, the build up in CPO stock in both Malaysia and Indonesia continued negatively to impact prices through most of 2019. It was only in the final quarter of the year that a long awaited rally in CPO prices began to manifest itself, with continuing growth in demand combining with a fall off in the rate of growth in supply. Opening 2019 at $517 per tonne, CIF Rotterdam, CPO prices drifted to a low of $481 per tonne in July before recovering steadily to reach $860 per tonne at the end of December 2019.

Since January 2020, the CPO price has weakened in the wake of the Covid-19 pandemic, but the fundamentals of supply and demand should, over time, outweigh the negative impact of the virus. Before the extent of the pandemic had become apparent, CPO stock levels were expected to fall to a four year low in 2019/20. In addition, the impact of reduced fertiliser applications by some producers in response to the CPO price weakness has yet to be felt. Many oil palm producers are reporting rainfall deficits in the second half of

Crude palm oil monthly average price

2019 which may impact 2020 and 2021 production. Furthermore, much tighter restrictions worldwide on clearing new land for oil palm plantings are likely to result in CPO production growing for the foreseeable future at a much slower rate than in the last decade. In the coming months, the outlook for CPO prices is uncertain with the economic effects of Covid-19 likely to continue to affect demand but with some scaling back of supply as a result of reduced production in Malaysia following a Malaysian lockdown in response to the virus.

The benefit of higher CPO and CPKO prices at the start of 2020 was partially offset by the re-imposition of an Indonesian export levy and tax. Whilst the group's production is sold predominantly in Indonesia, arbitrage between local and export markets results in local prices being reduced when compared with export prices by an amount broadly equivalent to the combined export levy and tax. When the Indonesian reference price is between $571 and $619 per tonne, the levy is imposed at $25 per tonne; if the price is above $619 per tonne, the levy increases to $50 per tonne. In addition, when the Indonesian reference price for CPO exceeds $750 per tonne and then for each incremental increase of $50 per tonne, export tax is payable on a sliding scale starting at $3 per tonne and capped at $200 per tonne when the reference price is above $1,250. An export levy of $50 per tonne was payable in respect of deliveries between January and March 2020. No export tax was payable in respect of January 2020 deliveries, but deliveries in February and March 2020 incurred export tax of, respectively $18 and $3 per tonne.

The Indonesian context

Politically, 2019 was a busy year for Indonesia with both Presidential and Legislative elections taking place that absorbed energy and resources across the country for much of the year. The incumbent President, Joko Widodo (Jokowi), was re-elected, with his supporting political party, Partai Demokrasi Indonesia Perjuangan (“PDIP”) winning the most seats in the Legislative election. Together with the other supporting parties, including Gerindra headed by Prabowo Subianto (appointed as Minister of Defence) who ran against Jokowi in the Presidential election, PDIP now holds a large majority in the national parliament, ensuring that Jokowi will be able to push through his promised economic and social programmes over his second five year term.

During his first term, Jokowi concentrated on the development of Indonesia’s infrastructure. In his second term, Jokowi has announced that the focus will be on education and training, while also continuing with the infrastructure projects started but not yet completed. Jokowi is promoting a shift away from economic reliance on natural resources and primary processing towards manufacturing, technology and services and hopes to encourage young entrepreneurs (both Indonesian and foreign) to set up businesses in Indonesia. To this end, Nadiem Makarim, founder of the Gojek’s online transport company (one of Indonesia’s new “unicorn” companies), has been appointed Minister of Education and Culture.

Despite the uncertainty prevailing ahead of the elections and another year of low prices for both coal and CPO, the Indonesian economy grew by 5.2 per cent in 2019 with low inflation of 2.7 per cent. This growth was reflected in the exchange rate with the rupiah strengthening against the dollar from Rp14,481 = $1 at the start of the year to Rp13,901 = $1 at the end of 2019. Together with political stability and improving commodity prices, this was expected to provide a solid foundation for improved economic performance during 2020.

Introduction and strategic environment

continued

The group's relationships with both central and local government remain strong and the group continues to have the full support of the relevant authorities when needed. During the year the former Bupati (Regent) of Kutai Timur, where both the KMS and CDM estates are located, was, following provincial elections, appointed as the Governor of East Kalimantan for a five year term.

East Kalimantan has become an increasingly important Indonesian province. It continues to be one of the largest in terms of income generated from mining and plantation operations and, in addition, has now been selected as the location for Indonesia's new capital city, as announced by Jokowi late in 2019 following his re-inauguration as President. The site of the new capital will be spread across the regencies of Penajam and Kutai Kartanegara and this is expected to bring many new opportunities and businesses to the Province.

A further significant announcement of the government's economic and environmental policy is the requirement that, starting in 2020, all diesel sold in Indonesia should have a 30 per cent CPO biofuel content (B 30) increased from 20 per cent. If fully implemented throughout Indonesia, this policy will increase the consumption of palm oil biofuel from the current 6.6 million kilolitres to 9.6 million kilolitres per annum and will lead to further savings from reduced imports of crude oil from $3.3 billion to $5.1 billion per annum. There are plans to further increase the mandatory use of CPO based biofuel in the coming years.

Against this very positive outlook for Indonesia, the economy will undoubtably suffer a severe downturn as a result of the global Covid-19 pandemic. In recent weeks, the rupiah had weakened to Rp16,500 = $1 although has now recovered to Rp15,000 = $1.

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 2019 with, where available, comparative figures for 2018 are provided in the succeeding sections of this report, with each category of indicators being covered in the corresponding section of the report.

Performance indicator	Measurement	Purpose
Agricultural operations		
New extension area planted	The area in hectares of new land planted out during the applicable period	To measure performance against the group's expansion objective
Crop of fresh fruit bunches ("FFB") harvested	The weight in tonnes of FFB delivered to oil mills from the group's estates during the applicable period	To measure field efficiency and assess the extent to which the group is achieving its objective of maximising output from its operations
CPO extraction rate achieved	The percentage by weight of CPO extracted from FFB processed	To measure mill efficiency and assess the extent to which the group is achieving its objective of maximising output from its operations
Palm kernel extraction rate achieved	The percentage by weight of palm kernels extracted from FFB processed	To measure mill efficiency and assess the extent to which the group is achieving its objective of maximising output from its operations
CPKO extraction rate achieved	The percentage by weight of CPKO extracted from palm kernels crushed	To measure mill efficiency and assess the extent to which the group is achieving its objective of maximising output from its operations
Stone and coal interests		
Stone or coal produced	The weight in tonnes of stone or coal extracted from each applicable concession during the applicable period	To measure production efficiency and assess the extent to which the group is achieving its objective of maximising output from its operations
Sustainability		
Work related fatalities	Number of work related fatalities during the applicable period	To measure the efficacy of the group's health and safety policies
Smallholder percentage	The area of associated smallholder plantings expressed as a percentage of the planted area of the group's estates	To measure performance against the group's smallholder expansion objective
Greenhouse gas emissions per tonne of CPO and per planted hectare	Greenhouse gas emissions measured in tonnes of CO_2 equivalent divided, respectively, by the weight of CPO extracted from FFB processed and by the number of group planted hectares supplying the group mills	To measure the intensity of the group's greenhouse gas emissions
Finance		
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

Introduction and strategic environment

Section 172(1) statement

All directors recognise their responsibilities to promote the success of the company for its shareholders, other investors, its employees, customers, suppliers and the wider community.

As described in the "Strategic report" under "Agricultural operations", the group's activities necessitate decisions based on long term considerations: from the acquisition of land titles to the development of land to the cultivation of oil palms to the harvesting of fresh fruit bunches and to building oil processing mills to produce CPO. Such considerations take account of the impact of the operations on the local community and physical environment on both of which the group is dependent, as described in the sections of this report dealing with 'Sustainability".

The directors are conscious that the group is in essence a guest in Indonesia and that an understanding of local customs and sensitivities is important, as described under "Management". To enhance their understanding and better inform their decisions, all directors make periodic visits to the group's operations to ensure that they each have a proper understanding of, and learn at first hand about, the day to day issues and challenges for the group. The president director of the group's principal operating subsidiary, who resides permanently in Indonesia, submits a monthly report to the board covering all aspects relating to the group's operations and presents in person a detailed report for discussion at each meeting of the board.

The group has a long established framework of policies that embody the standards to which it has committed, covering NDPE (no deforestation, no peat, no exploitation), business ethics, responsible development, environment and biodiversity conservation, human rights, and health and safety. These policies are available to download from the group's website at www.rea.co.uk. The policies and the internationally recognised certification criteria against which the group is continuously audited drive the group's standards of sustainability and its reputation as a producer of sustainable CPO and CPKO. This brings economic benefits to the group in terms of sales and selling prices of CPO and CPKO, as well as to the group's customers who seek to secure long term supply arrangements with the group. "Transparency", "Certification" and the group's policy framework ("Policies") are discussed in the Sustainability section of this report under such headings.

Employee welfare is central to decisions regarding the interests of the group's employees, given the rural location of the group's operations and the integral part that palm oil plantations play in the local community. This is described in detail under "Employees" and "Health and safety".

The impact of the group's operations on, and interaction with, the community and the environment is described under "Environment", "Responsible agricultural practices", "Communities" and "Conservation".

Further detailed information regarding the group's environmental and social performance is published on the Sustainability pages of the group's website at www.rea.co.uk. This information, which is updated regularly through the year, allows the group's sustainability criteria to be compared with that of other palm oil growers and allows stakeholders to monitor the group's progress in meeting its sustainability commitments.

As described in the "Corporate governance report", the directors seek to ensure that there is a regular dialogue with the group's key stakeholders, particularly shareholders, debt investors and employees, in addition to the day to day dialogue with the group's customers and suppliers as described in the "Directors' report". This is based on a mutual understanding of respective interests. The group encourages key stakeholders to visit the group's operations and to provide feedback to the group which may be brought before the directors.

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 was 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, PT Putra Bongan Jaya ("PBJ"), was divested during 2018. Each of the four other subsidiaries is currently owned as to 95 per cent by REA Kaltim and five 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), each of which is owned as to 95 per cent by a subsidiary of REA Kaltim and 5 per cent by Indonesian local investors.

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

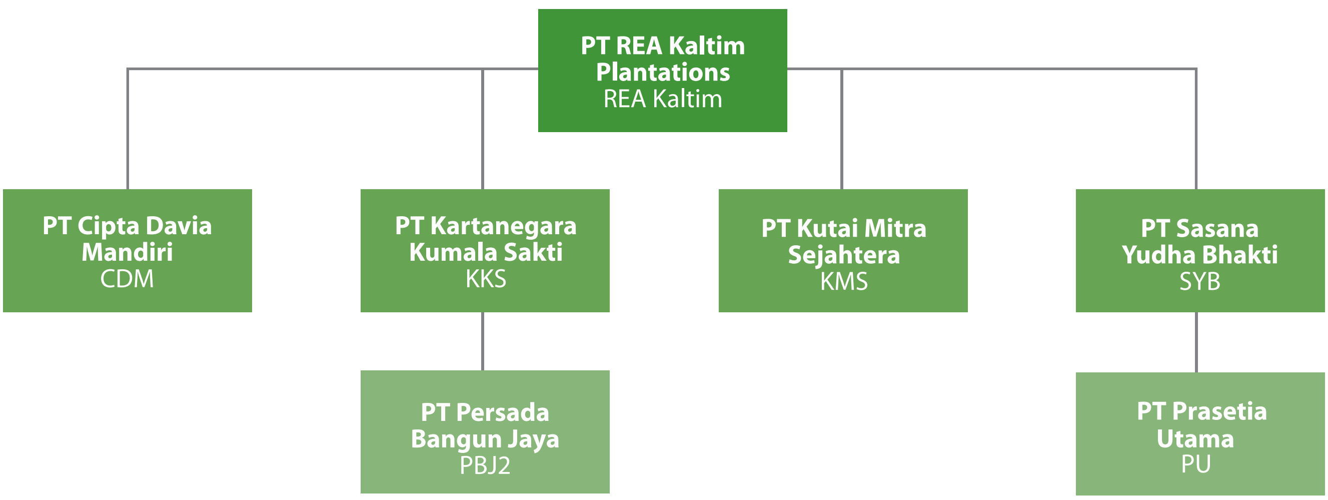
Land areas

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 a few years ago, the REA Kaltim estates and adjacent areas were most readily accessed by river but, in 2015, a 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 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.

Agreement has recently been reached with a coal company operating in an area adjacent to the group's Satria estate on the construction of a road through the group's estates (and then, via a major new bridge over the Belayan River, further to the Mahakam River). This is resulting in the loss of approximately 100 hectares of oil palms but will provide the group with a valuable alternative land route for evacuating its produce at times when river levels restrict barge access to the estates.

REA Kaltim sub-group



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Agricultural operations

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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.

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.

The group’s fully titled agricultural land was unchanged in 2019 totalling 64,525 hectares. Included within this 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 2019, the group holds, or has held and can potentially renew, land allocations totalling 15,873 hectares. This represents a decrease of 1,964 hectares since the end of 2018 following a review of the group’s land reserves which resulted in a decision by the group not to renew an allocation of land held by KMS. While it is the group’s policy to apply for renewal of land allocations when they are due to expire, retention of untitled land areas has become increasingly costly and the directors believe that the group should concentrate its resources on those areas that it is most likely to be able to plant in the foreseeable future. The KMS land in question is zoned as available for agricultural development, but such availability is dependent upon it being declassified as forest and the directors consider that pursuing such declassification would be inconsistent with the group's sustainability policies. Accordingly, the 1,964 hectare allocation has been written off, with a consequential impact to the consolidated income statement as detailed in note 8 to the consolidated financial statements.

A provisional allocation of 12,050 hectares granted many years ago to KKS that was conditional upon rezoning of the area concerned is no longer classified as part of the land areas held by the group as no rezoning has yet occurred and, in any event, parts of the area have become the subject of mining licences.

Details of the land areas held by the group as at 31 December 2019 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
PBJ2	5,269
	15,873

Areas not yet fully titled can be expected to result in some reduction in hectarage upon renewal of allocations. Moreover, areas the subject of land allocations may be further reduced on full titling as land the subject of conflicting claims 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. 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 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 now intended for further expansion is likely to be lost as a consequence of this policy.

Land development

Areas planted as at 31 December 2019 amounted in total to 36,154 hectares, of which mature plantings comprised 33,055 hectares having a weighted average age of 15 years. A further 1,842 hectares planted in 2016 were scheduled to come to maturity at the start of 2020.

The breakdown by planting year of the total of 36,154 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	407
1995	1,956
1996	2,260
1997	2,479
1998	4,832
1999	351
2000	874
2004	3,190
2005	2,279
2006	3,362
2007	3,455
2008	991
2009	132
2010	1,333
2011	1,073
2012	1,903
2013	1,806
2014	301
2015	71
	33,055
Immature areas	
2016	1,842
2017	1,036
2018	221
2019	–
	36,154

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.

As reported in the group's trading update in February 2020, agreement was recently reached on completion of the transfer of 749 hectares of 2013 oil palm plantings at KMS to a plasma cooperative. This area had always been earmarked for cooperative ownership, and accordingly has been excluded from the group's planted hectarage statements in recent years, but constitution of the cooperative to take over ownership was held up by a now resolved dispute between two neighbouring villages as to which would be entitled to the plasma area.

For some time, the directors have been reviewing 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. As a consequence of this review, certain areas amounting to some 90 hectares have been re-designated as conservation. A further 269 hectares of flood prone areas that previously had been abandoned but may be recoverable will, if recovered, be transferred to a local village cooperative. Accordingly, the re-designated areas and the potentially recoverable areas are no longer included in the above table.

In addition, based on a 2019 report from the group's survey department, the amount of both mature and immature plantings in certain years has been adjusted to reflect the outcome of such report. The changes, resulting in a net increase of 13 planted hectares, principally relate to small areas of additional plantings.

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 pending a sustained recovery in the CPO price and in the group's financial performance. In the meantime, some 1,000 hectares of mature areas that have been damaged over the years by periodic flooding are being bunded and resupplied.

The group has continued to maintain the nurseries that have been established to ensure availability of seedlings for both the resupply of the newly bunded areas and, in due course, for the planned further development.

Processing and transport facilities

The group currently operates three oil mills, Perdana ("POM"), Cakra ("COM") and Satria ("SOM"), in which the FFB crops harvested from the mature oil palm areas are processed into CPO and palm kernels. POM and COM date from 1998 and 2006 respectively and each is designed to have effective processing capacity of 80 tonnes per hour. SOM, operating since 2012, initially had a capacity of 45 tonnes per hour but is being expanded to increase its capacity to 80 tonnes per hour and currently can run at 55 tonnes per hour. Works to effect this expansion were expected to complete during 2019 but were postponed owing to delays with contractors and in supplies of materials. Completion is now expected in late 2020 or early 2021.

The group is making minor modifications to POM and COM to improve utilisation of their processing capacity during peak cropping periods. Such modifications and the expansion of SOM 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. This programme was stepped up during 2019 and, with additional focus and support from a recently reorganised mill management team, the upgrading and repair works currently in progress are expected to be completed during 2020.

COM and SOM 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. Each kernel crushing plant has a nominal design capacity of 150 tonnes of kernels per day. Total installed capacity is currently 250 tonnes per day which is normally sufficient to process current kernel output from the group's three oil mills.

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 2,500 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 and East Malaysia. 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. CPO and CPKO must then be transferred by road from the mills to a point some 70 kilometres downstream at Pendamaran where the group has established a permanent loading facility and where the year round loading of barges of up to 2,500 tonnes is possible. Plans to construct tank storage at Pendamaran to provide additional capacity during peak periods and as oil production increases are being reviewed in light of current financial constraints and because the alternative road access that is now under construction through the group's Satria estate, as discussed under "Land areas" above, may ultimately obviate the need for such additional storage.

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 Belayan River levels 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 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 currently made to an Indonesian refinery in Balikpapan, East Kalimantan, which can be easily accessed from the group's bulking station on the Mahakam River. However, a regular monthly sale of CPO is also now being made to a destination in East Malaysia. Deliveries to this destination involve a longer voyage time than deliveries to local refineries but prices realised to-date for East Malaysian deliveries have more than compensated for the additional cost entailed.

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 2019 (with comparative figures for the corresponding period of 2018) were as follows:

FFB crops (tonnes)	2019	2018**
Group harvested	800,666	800,050
Third party harvested	198,737	191,228
Total	999,403	991,278
Production (tonnes)		
Total FFB processed	979,411	969,356
CPO	224,856	217,721
Palm kernels	46,326	45,425
CPKO	15,305	16,095
Extraction rates (percentage)		
CPO	23.0	22.5
Palm kernels	4.7	4.7
CPKO*	40.7	40.2
Rainfall (mm)		
Average across the estates	3,057	2,934

* Based on kernels processed

** 2018 crops include 4,146 tonnes from PBJ which was disposed of on 31 August 2018

An industry wide decline in FFB production as palms entered a resting phase following very high levels of cropping in 2018, as well as several periods of unusually low rainfall in the second half of 2019, meant that crops in 2019 fell short of the targeted 900,000 tonnes, albeit still achieving a record level for the group. This produced a yield per mature hectare of 24.2 tonnes.

With good husbandry and strong field disciplines, including maintenance of the recommended fertiliser regimes, crop levels have now been restored to healthy levels. The focus on further improvements in loose fruit collection, to the efficiency of FFB transport to the mills for processing and on disciplines in the mills should continue to have a positive impact on extraction rates.

Production in the first months of 2020 has continued to be strong and the group has been fortunate in that production has not to-date been adversely impacted by Covid-19. Group FFB amounted to 241,219 tonnes in the first four months to the end of April 2020, compared with 216,815 tonnes for the same period in 2019. Third party FFB amounted to 58,205 tonnes in the four month period against 59,666 tonnes for the comparable period in 2019 when the group was still processing some crop from the formerly owned PBJ estate as well as from a neighbouring company's estate. The CPO extraction rate averaged 23.2 per cent in the first four months of 2020, compared with 22.8 per cent for the same period in 2019.

Revenues

As noted under "Processing and transport facilities" above, during 2019 the group (after an interval of several years) recommenced sales of a proportion of its CPO production to a refinery in East Malaysia. The balance of the group's CPO and all of its CPKO continued to be sold in the local Indonesian market, reflecting continuing demand from easily accessible local refiners. 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 $10 per tonne for CPO sold with International Sustainability and Carbon Certification and, respectively, $2 and $15 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 2019 and the group currently has no sales outstanding on this basis.

Arrangements with the group's customers for the provision of funding in exchange for forward commitments of CPO and CPKO, on the basis that pricing is fixed at the time of delivery by reference to prevailing prices, were extended in 2019 as buyers sought to secure supplies of oil. The average prices per tonne realised by the group in respect of 2019 sales of CPO and CPKO, adjusted to FOB, Samarinda, and net of export duty were, respectively, $453 (2018: $472) and $533 (2018: $792). The group's sales are for the most part priced approximately four weeks ahead of delivery. This means that there was a lag of four weeks in the impact on the group of the strengthening CPO and CPKO prices in the last quarter of the year.

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 supply 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 to PLN amounted to some $746,000 in 2019, compared with $698,000 in 2018. 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.

Following the successful completion in 2019 of the roll out of handheld devices in the field to input harvesting data into the group's information system across all of the group's operations, the use of handheld devices is being extended to other areas of the operations, such as in the mills. This will improve recording accuracy, further speed up the generation of operational reports and, in due course, help to achieve additional savings in administrative costs. Further efficiencies will be derived from the implementation in 2020 of a new human resources IT system and a procurement and inventory management module that will fully integrate with the existing management information system.

Stone and coal interests

Concessions

The group has made loans to certain Indonesian companies with interests in respect of two stone deposits and two coal mining concessions, all of which are located in East Kalimantan in Indonesia. The stone concessions comprise a substantial deposit of high grade andesite stone located to the north east of the SYB northern plantations and a much smaller limestone deposit adjacent to the PBJ plantations that were divested in 2018. The directors believe that quarried stone from the andesite deposits will offer a valuable resource for improving the durability of infrastructure in the group's operations and will also provide useful additional revenue from the sale of stone to third parties that will support the repayment of the loan from the group. The coal mining concessions comprise a high calorific value deposit near Kota Bangun and the lower grade Liburdinding concession in the southern part of East Kalimantan.

Structure

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

The andesite stone and coal mining concessions are held by Indonesian companies, which are currently wholly owned by the group's local partners. Historically, the group had 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. The concession holding companies were financed by loan funding from the group originally on terms such that no dividends or other distributions or payments could be paid or made by the concession holding companies to the local partners without the prior agreement of the group. However, changes to the Indonesian regulatory regime applicable to foreign investment in mining since the above arrangements were agreed in 2008 mean that, since 2014, the applicable conditions can no longer be satisfied in their existing form. Accordingly, the concession holding companies are not consolidated.

In the meanwhile, the group has continued to provide loan funding to the concession holding companies and, 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 work began to reopen the more important coal concession at Kota Bangun, held by PT Indo Pancadasa ("IPA"), which principally contains semi-soft coking coal and high calorific value thermal coal.

As a necessary preliminary to resuming mining at Kota Bangun, IPA 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, essential refurbishment works to the loading point and conveyor were completed in 2019. The loading point and related infrastructure offer the potential for IPA 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, IPA disposed of an existing coal stockpile of some 16,000 tonnes from previous mining operations at the end of 2018. Following consideration of various options with suitable contractors, in 2019 IPA appointed a contractor to recommence mining of the concession whereby the contractor will provide mining services to IPA and manage the port facility, as well as funding all further expenditure required for infrastructure, land compensation and mobilisation in exchange for a participation in profits from the mine. The contractor has since undertaken further drilling at IPA to confirm existing data and is developing a mine plan with the expectation that mobilisation and mining would commence in mid 2020. However, plans have been put on hold as a result of the Covid-19 pandemic and it is now unlikely that activity will commence until the last quarter of 2020 or even early 2021.

The operating licence required to establish a simple quarrying and crushing operation on the andesite stone concession was obtained by PT Aragon Tambang Pratama ("ATP") in 2014. The group's agricultural operations can utilise significant quantities of crushed stone for their building and infrastructure construction programmes. Following the recent agreement with a neighbouring coal company referred to under "Agricultural operations" above, ATP is now finalising arrangements for the opening and quarrying of the andesite stone concession interest on a basis similar to that agreed for the Kota Bangun coal concession. It is intended that stone offtake for the new road planned to be built by the

Stone and coal interests

continued

neighbouring coal company will underpin these arrangements and quarrying is expected to commence in the second half of 2020.

Looking further ahead, the Indonesian government announced in 2019 plans to establish a new Indonesian Capital City on a site in East Kalimantan lying between Balikpapan and Samarinda. Whilst this will be a long term project, the civil works involved are likely to require large quantities of crushed stone. With this in mind, as well as the arrangements with the neighbouring coal company, development of the andesite stone concession is now viewed as a higher priority than development of the IPA concession. To the extent that any further loan capital is to be committed to the stone and coal interests, the group will give priority to that which will offer quicker repayments with lower risk.

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 can purchase 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 the new owner of PBJ has procured that PBJ offers KCCRI first refusal on all future contracts for the supply of stone to PBJ.

As previously reported, certain arbitration claims have been made against IPA by two claimants (connected with each other) with whom IPA previously had conditional agreements relating to the development and operation of the IPA coal concession. The arbitration is currently scheduled to be heard in Singapore in late June but this may be affected by the Covid-19 pandemic. The arbitrators have joined the company as a party to the arbitration on a prima facie basis and without prejudice to any final determination of jurisdiction. The company, which was never a party to any of the agreements between IPA and the claimants, has declined to accept jurisdiction or participate in the arbitration. Further related claims have subsequently been made or threatened in respect of, inter alia, alleged tortious conduct by the company, its UK subsidiary company, R.E.A. Services Limited ("REAS"), and its managing director. These potential claims are now stayed pending a conclusion of the arbitration hearing. None of the claims is considered to have any merit.

Sustainability

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 on its website more 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 through the year and is available at www.rea.co.uk. The group no longer publishes a standalone hard copy 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 assess palm oil producers, processors and traders on the transparency of their disclosures regarding policies, operations and commitments to environmental, social and governance best practice. The overall SPOTT score comprises three disclosure categories: organisation (the operations, assets and management structure); policies (the commitments and processes that guide the operations); practices (activities that actively progress towards targets and implementation of policies and commitments). Whilst the number of assessment categories, indicators and companies varies from year to year, the toolkit is designed to incentivise implementation of best practice with respect to, inter alia, sustainability and traceability, and the management of forests, biodiversity, peatlands, fire, GHG emissions, water, chemicals, pests, smallholders, community rights and labour rights. The group scored over 75 per cent in October 2019, ranking 8th out of 99 companies assessed. By comparison, in 2018 the group scored 70 per cent ranking 19th out of 70 participating companies, and in 2017 scored 67 per cent ranking 16th out of 50 participating 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 Sustainability section of the group's website at www.rea.co.uk. Together these policies reinforce the group's commitment to well-established best practices, including NDPE (no deforestation, no peat, no exploitation) and sustainable development, 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"). These schemes focus on minimising deforestation, transparent feedstock supply chains, human rights and safety, and measurement of greenhouse gas emissions. The group aims to achieve and maintain certification under these internationally recognised schemes for all of its plantations and mills.

RSPO

REA has been a member of the RSPO since 2007. The RSPO is a multi-stakeholder organisation that has developed a standard to promote the sustainable production of palm oil. The RSPO standard is voluntary and consists of a set of Principles and Criteria designed so that entities can be audited against the RSPO Supply Chain Certification Standard.

The group's two oldest mills Perdana ("POM") and Cakra ("COM") and their supply chains were first certified in 2011. Surveillance audits are conducted annually to ensure continuing compliance and recertification audits take place every five years. Following successful recertification audits in 2016, certification of POM and COM, the COM kernel crushing plant ("KCP") and their supply chains along with the group's downstream bulking station remains valid until 2021. The supply chain for COM now includes the group's most recently matured estate, KMS, which attained RSPO certification at the start of April 2020 after a two year independent audit process. The annual surveillance audits were also successfully completed in 2019.

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 has retained its certification which remains valid until 2022. The annual surveillance audit for SOM's KCP was also successfully completed in 2019.

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 has been under review by the RSPO since 2017. SOM and its supply base underwent a stage 1 preliminary audit in November 2018. The company is currently awaiting the final approval for the compensation liability from the RSPO, so that the company can start developing a concept note and compensation plan prior to the certification audit and securing the re-certification of SOM.

A second HCV compensation proposal regarding approximately 959 hectares of land cleared at CDM was submitted to the RSPO in 2018 in furtherance of the group's commitment to achieve full RSPO certification for all of its operations. The RSPO has responded positively to the objectives, timeline and proposed compensation set out in the plan but, following a review in 2019, has requested that an assessment be conducted to identify possible previous social impacts. 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.

Discussions with the RSPO are also taking place regarding a third HCV compensation liability in respect of some 44.5 hectares at SYB's Tepian estate arising from land clearing in 2007-2008 prior to conducting the HCV assessment in 2008. Pending a conclusion of these discussions under the RSPO's remediation and compensation procedure, the group has decided to excise this area of the Tepian estate from the POM supply base and, accordingly, POM has retained its RSPO certification. The company is working with the RSPO on a proposal and compensation plan, which, once approved, will allow the Tepian estate to be reinstated within the POM certificated supply base.

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 and the bulking station during 2019 and again in 2020.

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 its two mills, POM and COM, first achieved ISPO certification in 2016 and have passed annual surveillance audits by the SGS Indonesian Certification Institute each year subsequently. The current certification is valid until mid 2021. The SYB mill (SOM) and estates obtained ISPO certification in 2018 which is valid until mid 2023. 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. 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. Most CPO is sold with ISCC certification because in the context of the overall market for CPO, the group's monthly production is relatively small and this makes it challenging to find buyers for the group's CPO as RSPO certified. The same is true for CPKO but there is no market for ISCC certified CPKO. Where CPO and CPKO cannot be sold with ISCC or RSPO certification, available CPO and CPKO sustainability credits are sold through the PalmTrace system or off market to specific buyers.

Sales of CPO and CPKO are shown below:

	2019 Sales	
Tonnes	CPO	CPKO
RSPO sales	1,800	999
RSPO credits	6,665	7,900
ISCC sales	118,261	–
Other (not certified)	116,383*	6,603
Total	243,109	15,502

* includes some certified CPO production that was sold as uncertified or 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 ISO 14001 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 also rated annually under The Program for Pollution Control, Evaluation and Rating (PROPER). PROPER is an initiative of the Indonesian Government's Environmental Impact Agency which seeks to mitigate risks of pollution and associated consequences. The group is rated at both provincial and national levels. A blue rating denotes that environmental management standards meet the regulatory requirements; a green rating denotes that that the company's standards go beyond the standard regulatory requirements.

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

* Palm oil mill effluent

2019 is the ninth year for which the company has calculated and reported its carbon footprint using the RSPO's PalmGHG calculation tools. The company applies 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.

In 2019, gross carbon dioxide emissions associated with the company's oil palm operations in Indonesia were slightly lower compared to 2018, reflecting lower emissions from peat oxidation, fertiliser use and POME. By contrast, there were slightly higher emissions from land conversion, whilst emissions from fuel consumption were broadly similar. Net emissions in 2019 were higher than in 2018, first because some of the plantations are now over 25 years old and the PalmGHG calculator automatically assumes replanting after 25 years so that they no longer sequester carbon even though this does not necessarily reflect the facts, and second because of lower sequestration in the conservation areas following the sale of PBJ in 2018.

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 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. Air quality is tested regularly against set parameters, including levels of carbon monoxide and nitrogen dioxide, to ensure that it too remains within regulatory standards.

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 has been working to improve the efficiency of water consumption in its mills and developed a time bound plan in 2019 with the objective of keeping water usage below 1.5 m^3 per tonne FFB. This was achieved at both POM and COM in 2019 and, with continuing careful water management, is a target for all three mills in 2020.

Greenhouse gas emissions from palm oil mill effluent ("POME") have reduced substantially 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.

Through the day-to-day monitoring by the group's conservation department of environmental conditions within the plantation blocks, the group seeks to identify, and potentially improve, pest management through biological control in order to reduce the use of chemically-based pesticides.

Employees

At the end of 2019, the group's workforce numbered 8,078 compared to 9,540 at the end of 2018. The reduction in headcount reflected the programme of cost reduction and efficiency measures implemented during 2019.

Sustainability

continued

To optimise 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 2019, the system of compensation and benefits for harvesters was further refined to incentivise productivity by awarding monthly bonuses to harvesters who achieve certain graduated targets, with additional allowances paid for harvesting tall palms. This enhanced compensation package has led to a further 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" bricks, 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 2019, new houses were built for 100 families on the group's estates. Village emplacements are provided with medical clinics, crèches, mosques, churches, sports facilities and markets.

In 2019, with the support of the group's community development department, a second employee cooperative shop ("REA Mart") was established in a new building. REA Mart now serves both the northern and southern estate areas, supplying everyday groceries and household items for the benefit of employees living in estate housing. This initiative has proved extremely popular, allowing 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. These schools are authorised in accordance with government regulations. The foundation manages 28 schools, including 13 pre-schools, 14 primary schools and one secondary school. At the end of 2019, there were 2,617 students (434 pre-school, 1,964 primary school and 219 secondary school children) 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 administrative departments, such as technical services, sustainability and safety. Over the last 20 years, 403 cadets have participated in this programme of whom some two-thirds are still employed by the group.

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 employees. 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 of 31 December 2019, 40 ethnicities and five religions were represented in the group's workforce.

The group pays careful attention to the gender balance within its workforce. At the end of 2019, women accounted for 23 percent of the group's workforce, including 19 percent of the management team.

	2019		2018	
Employee numbers	Male	Female	Male	Female
Directors	5	2	4	2
Management	57	13	64	13
Rest of workforce	6,201	1,812	6,895	2,562
Total	6,263	1,827	6,963	2,577

There is a gender committee in place to drive and improve gender diversity in the workplace. The committee's members are managers and employees 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. To encourage respect for gender equality, the group holds special events to celebrate occasions such as International Women's Day and the Indonesian women's rights day, known as Kartini Day .

In furtherance of the group's commitment to the code of conduct that was established in 2011 and the group's anti bribery and anti corruption policy, a whistleblowing procedure has been implemented for employees in Indonesia. This procedure is managed and facilitated by a professional independent third party firm.

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 three 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. The group's former regional office in Singapore was closed during 2019.

Health and safety

The company is currently working towards achieving the Indonesian Health and Safety Work Management System ("SMK3") accreditation in 2020, whilst also working towards full implementation of the international standards of Operational Health and Safety Management System ("OHSAS") 18001.

Monthly internal audits, inspections and training are conducted in accordance with OHSAS 18001 standards in order to better understand, highlight and manage potential health and safety hazards that may occur. Routine training covers safe working practices throughout the operations, fire risks and fire management, and first aid.

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 test for driving competency. 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 were three incidents resulting in four fatalities on the group's estates during 2019. One such incident that resulted in two fatalities, though not directly work-related as it occurred outside working hours, took place on the return journey home by private motorcycle and, therefore, constitutes a work-related incident for health and safety reporting purposes. The company treats any fatality within its premises extremely seriously and responds in the same way irrespective of whether or not the incident is considered to be work-related. 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.

Healthcare provision is usually extremely limited in the remote rural areas in Indonesia, such as in the locations of the group's operations. The group has therefore established a network of 18 clinics to provide healthcare to employees, their family members and members of the local communities living in proximity to the group's operations. There is a team of two doctors, 17 paramedics, 12 midwives, one dentist and one pharmacist on site. All employees receive training in basic life support skills and staff at certain levels receive training in first aid. Employees are also provided with information on, and training to prevent, the ten most prevalent infectious diseases, such as diarrhoea, dengue, haemorrhagic fever and typhoid fever, and female employees receive training in the early detection and prevention of cervical cancer.

Monthly immunisation programmes are provided for families, including polio-immunisation in collaboration with external medical professionals as part of an 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 and other chemicals. 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 and smallholders 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 inhouse team from the village affairs department 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.

In 2019, as part of a general restructuring of departments throughout the group in order to achieve efficiencies, the communities and smallholder teams were merged to better align their goals and activities. The merged community and smallholder teams work with the local communities to develop good relations with the group, to support the livelihood of these communities and to address any potential negative impacts of the group's activities. As well as supporting smallholder farmers growing oil palm, the group also supports farmers of other produce and encourages the establishment of other businesses that contribute to the diversification of food production and community incomes in this remote rural area.

Land claims

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 the village affairs department works to resolve any such claims effectively and transparently. Land rights claims against the group have decreased in recent years, from 70 in 2016 to 27 in 2017, three claims in 2018 and nine claims in 2019. The nine claims lodged in 2019 related to some 917 hectares, of which six claims in respect of 909 hectares proved legitimate. Four land claims were fully resolved in 2019, two of which originated from 2018.

Access to water and energy

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.

Water treatment facilities installed by the group provide 17 local villages with access to clean drinking water.

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 over 7,000 households that have so far opted to install the prepay meters supplied by PLN.

Smallholders

The group supports oil palm smallholders in the surrounding communities by way of three smallholder schemes: 'PPMD' ('Program Pemberdayaan Masyarakyat Desa'), 'plasma' and independent smallholders. These schemes, and purchasing by the group of FFB from smallholder cooperatives, create mutually beneficial relationships, contribute to local employment and are supported by training in better, 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 supporting 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 and 2019, the group provided technical field training on oil palm cultivation, cooperative management training and other assistance through visits to smallholders' farms in 14 different PPMD cooperatives. Six of these PPMD cooperatives have an interest-free loan from the company.

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 currently works together with seven plasma cooperatives, which are now receiving a regular monthly income from sales of FFB to the group.

Total smallholders areas amounted to 14,815 hectares at 31 December 2019, equivalent to 40.9 per cent of the planted areas of the group's own estates of 36,154 hectares.

Smallholder plantings (hectares)	2019	2018
Plasma	3,762	3,013
Independent smallholders	9,523	9,118
PPMD	1,531	1,531
Total	14,816	13,662

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 hands-on field training, cooperative management 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 19 per cent of the FFB processed in the group's mills and provided revenue to the cooperatives equivalent in total to some $17.1 million in 2019.

FFB purchased (tonnes)	2019	2018
Plasma	42,155	32,698
Independent smallholders & PPMD	146,326	132,887
Total	188,481	165,585
Revenue ($ million)	17.1	16.6

Other livelihoods

The group also encourages the local communities to diversify their food production, by marketing other agricultural products, such as corn, vegetables and rice, and provides support in the development of fish ponds, irrigation of rice fields, and with the distribution of seeds.

Conservation

Plantation development in the tropics can result in a significant alteration of biodiversity and natural ecosystem functions. Operational requirements for oil palm cultivation, such as land clearing, maintenance, harvesting, processing and delivery, should be guided by conservation principles to avoid or mitigate negative impacts and augmented by positive steps to restore or enhance original landscape level floral and faunal diversity.

Conservation work is a principal element of the group's policy towards the achievement of sustainability. Currently a total of approximately 20,000 hectares have been set aside as conservation reserves within the group's titled land bank, accounting for some 23 per cent of the group's land titles. The group's conservation department ("REA Kon") was established in 2008 and has evolved over the last ten years, aspiring to exceed, rather than merely to meet, all the requirements of the sustainability bodies by which the group is certified.

REA Kon's original mandate was an adjunct to the group's plantation operations. It began by undertaking a detailed empirical description of the landscape within and adjacent to the group's operational areas, based on which a set of objectives were framed: to conserve or enhance the original values of the landscape; to minimise negative impacts of human activities; to provide long term benefits for biological species, local communities and the group. The department's findings were used to develop a set of practical conservation principles to be integrated into the group's operations.

REA Kon has worked hard over the last few years to upgrade the department's knowledge of the biological landscape within the group's boundaries, maintaining a permanent database of species' richness, distribution and abundance. This information provides a basis for prioritising resources, both financial and human, and directing conservation efforts to where they are most needed. Linked to this is the day-to-day monitoring of environmental requirements within the group's plantation blocks.

Following a recent review of its performance, the REA Kon department was reorganised in 2018 to further enhance its role and to better reflect its mandate, including plantation ecology (evaluating the long-term ecological impacts and dynamics within planted blocks); biodiversity management (understanding trends within and conservation management of natural species of the landscape); and communities and forests (collaboration with local communities in the conservation management of the group's designated conservation reserves, including HCV areas).

Quarterly water quality testing and monthly programmes of forest restoration and enrichment are conducted in all conservation reserves and selected areas that are no longer designated for planting. Together with the biodiversity team, the plantation ecology team investigates the relationship between forest species and planted blocks, for example to seek scientific answers to questions such as whether forest birds forage for insects within the plantation. This could be of significance in reducing pests within oil palm plantations, as well as reducing the need for any chemical spraying. Further, seedlings of native shade, timber and fruit trees are produced and distributed to local villages, schools and emplacements within the group's estates. Rambutan and durian trees planted by REA Kon in 2008 now produce abundant edible fruit for the benefit of staff and guests.

REA Kon continues systematic biodiversity point surveys, camera trapping, belt-transects and phenology plot monitoring as part of its assessment of the living landscape. A bank of

55 camera traps is on a 40 unit survey rotation throughout the conservation reserves and plantation blocks. GPS points for the locations of all Rare, Threatened and Endangered Species are permanently recorded and mapped via mapping technology. Based on camera trap photographs and incidental observation, a total of 51 mammal, 166 bird, 22 reptile and 19 amphibian species have been detected, their GPS positions and encounter dates recorded and relevant conservation data entered into the 2019 database. These records are then compared with the previous year's results, and entered into a continuously updated master list. Species known by IUCN to be Critically Endangered (CR) or Endangered (EN) have been detected and mapped. Species included in this effort since January 2019 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).

Through camera trapping arrays and walking surveys along permanent transects, REA Kon identifies the location of each individual orangutan, the highest priority species. In previous years, such monitoring was done through nest counts, which have proved to be inaccurate in estimating total numbers and vulnerable to misinterpretation. Camera trap monitoring provides superior population estimates, in addition to the identification of individuals, along with information on their age, sex, health and reproductive activity. In 2019, these methods produced an initial estimate of 20 individual orangutans within REA's forested conservation areas.

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, and support for valid, evidence-based decisions on current conservation practice and the effective management of biodiversity of high conservation value areas.

To encourage broad-based participation in forest conservation, REA Kon engages with local communities, schools and workers' emplacements within the group's operational area through workshops where REA Kon's programmes are presented and explained. Education camps for school age children have been conducted at the conservation research station since 2008. The REA Kon staff present an overview of REA Kon's duties and activities interspersed with games and interpretive walks through the forest. Fieldwork sessions teach students how to identify local flora and fauna, learn basic forest ecology and participate in forest restoration. REA Kon staff also gather with local communities to conduct meetings where participants exchange views on conservation. More formal discussions of the group's conservation policy are held with relevant departments at the Provincial, Regency and District levels to explain REA Kon's role and to coordinate species conservation efforts. A long-term partnership maintains REA Kon's close cooperation with the Provincial Government's Natural Resources Conservation Agency.

The boundaries of all conservation reserves are clearly marked with conspicuous signboards to identify their status. Working in cooperation with the group's survey department and an international mapping consultant, REA Kon uses satellite imagery to monitor any signs of human disturbance or damage to forested areas within the group's boundaries. If encroachment is detected, REA Kon investigates and takes steps to restore the original forest vegetation. Based on an evaluation of effectiveness the sites are allowed to regenerate naturally or through intervention by rewilding.

Managing encroachment into conservation reserves poses a significant risk to the viability of endangered species and their habitats. The process is challenging as a result of a complicated traditional land rights system. Thus, a standard operating procedure is in place so that REA Kon, in cooperation with the village affairs and security teams, can respond quickly and effectively if logging or land clearing is detected within the conservation reserves. Where any encroachment is discovered, 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 determines whether a case requires compensation or prosecution by local government authorities.

REA Kon's plantation, biodiversity and community-related conservation actions are reviewed annually to assess whether further refinement is required to improve their effectiveness.

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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 2019. The group has adopted IFRS 16 whereby all assets held on arrangements giving the group "right of use" assets (other than assets of low value or held on arrangements lasting less than twelve months) are now accounted for as finance leases. This apart, there have been no significant changes to the group's accounting policies resulting from the amendments to IFRSs that have been adopted, although certain disclosures have been amended to reflect the new requirements.

Group results

Group revenue, operating loss and loss before tax for 2019, with comparative figures for 2018, were as follows:

	2019 $'m	2018 $'m
Revenue	125.0	105.5
Operating loss	(9.1)	(10.7)
Loss before tax	(43.7)	(5.5)

As the small movement in operating loss between 2018 and 2019 indicates, the deterioration in loss before taxation between 2019 and 2018 was not the result of underlying trading but reflected the impact of exchange movements and one off items. If such movements and items are excluded, as shown below, the results for 2019 were much in line with those of 2018.

	2019 $'m	2018 $'m
Loss before tax	(43.7)	(5.5)
Exchange movements	8.6	(14.8)
Profit on disposal of subsidiary	–	(10.4)
Net impairment loss	3.3	–
Adjusted loss	(31.8)	(30.7)

The average price realised for the group's CPO was fundamental to the losses sustained in both 2018 and 2019. This amounted to $453 per tonne FOB Samarinda (net of export levy and duty) in 2019 against $472 per tonne in 2018. In light of these poor prices, steps were taken to reduce costs and these should bear fruit in 2020. However, initial costs associated with such reductions meant that their immediate impact was limited and offset by a higher depreciation charge of $27.3 million against $23.0 million in 2018.

Revenue benefited from the improvement in extraction rates achieved during 2019 but with FFB production similar to that of the preceding year and an average selling price slightly lower than in 2018, the reported increase in revenue was almost entirely referable to the unusually large volume of CPO stocks carried over to 2019 at the end of 2018. This carry over meant that the volume of CPO sold in 2018 was lower than the volume produced while the volume sold in 2019 was correspondingly higher. The position as respects CPKO was similar.

Cost of sales reported for 2019 was made up as follows (with comparative figures for 2018):

	2019 $'m	2018 $'m
Purchase of external FFB	17.8	18.4
Estate operating costs	67.6	68.4
Depreciation and amortisation	27.3	23.0
Stock movements (at historic cost)	9.1	(10.2)
	121.8	99.6

The average price paid for external FFB was lower than in 2018, reflecting the lower prices for CPO and CPKO prevailing during most of 2019. This meant that there was a slight reduction in the cost of external FFB notwithstanding purchase of a higher volume of 198,000 tonnes against 191,000 tonnes in 2018.

Estate operating costs overall in 2019 were similar to those of 2018 notwithstanding increased labour costs. Field and harvesting costs were well controlled but mill processing costs were significantly over budget reflecting running inefficiencies pending completion of necessary maintenance and upgrading work. Several periods of unusually low rainfall in the second half resulted in a drop in river levels adjacent to the estates during the peak production period and meant that extra despatch costs were incurred in trucking unusually high volumes of CPO and CPKO to the downstream loading point.

The increased charge for depreciation and amortisation in part reflects the adoption of IFRS 16 (as referred to under "Accounting principles" above) which has resulted in additional non current assets being subject to depreciation though this has also resulted in a reduction in operating costs. Moreover, as further immature plantings come to maturity, the depreciation in respect of plantings and related infrastructure increases.

Before deduction of amounts capitalised as costs of immature planting, administrative costs amounted to $18.7 million, a reduction of some $2.0 million on the administrative costs of the preceding year. As a result of the reduction in the proportion of total planted areas represented by immature plantings, the capitalisation percentage was reduced and this resulted in administrative costs net of capitalisation of $16.1

million in 2019, similar to the costs of $15.7 million incurred in 2018.

Earnings before interest, taxation, depreciation and amortisation ("EBITDA") amounted to $18.2 million, an improvement on the 2018 comparative of $12.3 million. As anticipated at the time of publication of the 2019 interim report, the EBITDA of the second half at $18.3 million was significantly better than that of the first half of $(0.1) million. This reflected the weighting of the group's crops to the second half and better selling prices in the last quarter of 2019.

Finance costs for 2019 totalled $31.9 million compared with $5.4 million in 2018. Comparison of these amounts is distorted by exchange movements (arising in relation to sterling and rupiah borrowings) which resulted in a loss of $8.6 million in 2019 against a gain of $14.8 million in 2018. Excluding such movements, finance charges for 2019 (before capitalisation to immature areas) at $23.3 million were slightly lower than the $25.0 million incurred in 2018. This reflected a modest reduction in the average level of borrowings in 2019 as compared with 2018.

As noted above, the loss before tax for 2019 was struck after allowing for impairment losses of $3.3 million (2018: $10.4 million after allowing for a gain on disposal of a subsidiary). The net impairment loss relates to a land allocation previously held by KMS which the group has decided, for the reasons detailed under "Land areas" in "Agricultural operations" above, not to extend and to a correction to an understatement of non current receivables.

The taxation credit based on the loss for the year amounted in 2019 to $22.3 million (2018: charge of $12.7 million).

Of this credit, $17.2 million represents deferred tax credits arising from recalculation of fixed asset values in Indonesia compared with values agreed with tax authorities. A further $1.5 million credit reflects provision no longer required.

A net credit of $1.3 million in 2019 derives from increased cumulative tax losses in Indonesia which will be available to cover future profits. The credit includes the write off of $0.4 million (2018: $0.5 million) of deferred tax on unutilised tax losses. Tax losses in Indonesia can only be carried forward for a maximum of five years. The group considers future profitability will be sufficient to fully utilise these tax losses.

Dividends

In view of the difficult trading conditions prevailing during 2019, the directors concluded that the payment of the fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2019 should be deferred. With the major improvement in the CPO price going into January 2020, the directors had hoped to pay preference dividends arising in 2020 and progressively to catch up the preference dividend arrears. Unfortunately, the subsequent disruption wrought by Covid-19 has meant that this plan has had to be put on hold. The directors are well aware that preference shares are bought for income and will aim to recommence the payment of dividends as soon as circumstances permit. However, until there is a recovery in CPO prices and greater certainty as to the future, preference dividends will have to continue to be deferred.

While the dividends on the preference shares are more than six months' in arrears, the company is not permitted to pay dividends on its ordinary shares. In view of the results reported for 2019, the directors would not anyway have considered it appropriate to declare or recommend the payment of any dividend on the ordinary shares in respect of 2019 even if this were permitted. The group's policy as respects dividends is set out under "Dividends" in the Directors' report below.

Capital structure

The group is financed by a combination of debt and shareholder funds. Total shareholder funds less non-controlling interests at 31 December 2019 amounted to $239.7 million as compared with $246.8 million at 31 December 2018. Non-controlling interests at 31 December 2019 amounted to $13.0 million (2018: $14.5 million).

On 30 September 2019, the company issued a further $3 million nominal of 7.5 per cent dollar notes 2022 ("dollar notes") for cash at par. These notes were subscribed as part of an arrangement with a customer of the group whereby the group agreed to supply the customer with CPO on a long term basis. As part of this arrangement, it was agreed that, if the supply agreement is terminated prior to 30 June 2022 (the redemption date of the dollar notes), the company will repurchase the $3 million of notes at par. There are no current plans to terminate the arrangement.

On 2 October 2019, the company issued 3,441,000 ordinary shares for cash at a price of 145p per share.

Group indebtedness at 31 December 2019 amounted to $217.3 million against which the group held cash and cash equivalents of $9.5 million. The composition of the resultant net indebtedness of $207.8 million was as follows:

	$'m
7.5 per cent dollar notes 2022	
($27.0 million nominal)	26.8*
8.75 per cent guaranteed sterling notes 2020	
(£30.9 million nominal)	39.0*
Loans from non-controlling shareholder	24.6
Indonesian term bank loans	121.9
Drawings under working capital lines	5.0
	217.3
Cash and cash equivalents	(9.5)
Net indebtedness	207.8

* Net of issue costs

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 "Communities and smallholders" in "Sustainability" above, guaranteed the bank borrowings of the cooperatives concerned. The outstanding balance of these at 31 December 2019 was equivalent to $6.7 million.

The dollar notes are unsecured obligations of the company and are repayable in a single instalment on 30 June 2022. The 8.75 per cent guaranteed sterling notes 2020 (the "sterling notes") are issued by REA Finance B.V., a wholly owned subsidiary of the company, are guaranteed by the company and REAS and are secured almost wholly on unsecured loans made by REAS to Indonesian plantation operating subsidiaries of the company. At 31 December 2019, the sterling notes were repayable in a single instalment on 31 August 2020.

Indonesian bank borrowings at 31 December 2019 comprised Indonesian rupiah denominated amortising term loans provided by PT Bank Mandiri (Persero) Tbk ("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 2019 was the equivalent of $80.6 million made up of a term loan of $75.6 million and a working capital loan of $5.0 million. The term loan is repayable as follows: 2020: $8.1 million, 2021: $10.1 million and thereafter $57.4 million. The working capital loan is subject to an annual renewal in November of each year and was duly renewed in November 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 2019 was the equivalent of $30.3 million repayable as follows: 2020: $3.2 million, 2021: $3.3 million and thereafter $23.8 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 2019 was the equivalent of $16.0 million repayable as follows: 2020: $2.9 million, 2021: $5.8 million and thereafter $7.3 million.

There are no undrawn facilities as at 31 December 2019.

On 31 March 2020, a general meeting of holders of the sterling notes agreed proposals to extend the repayment date of the sterling notes to 31 August 2025. As consideration for this, the sterling notes will now be repayable at £1.04 per £1.00 nominal on 31 August 2025 and the company has issued to noteholders 4,010,760 warrants each such warrant entitling the holder to subscribe, for a period of five years, one new ordinary share in the capital of the company at a subscription price of £1.26 per share. Subsequently, agreement has been reached with subsidiaries of DSN that loan repayments due on loans made by them to CDM can be postponed until 2025.

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 2019 but 132,500 ordinary shares have been previously acquired and remain held in treasury.

Group cash flow

Group cash inflows and outflows are analysed in the consolidated cash flow statement. Cash and cash equivalents decreased over 2019 from $26.3 million to $9.5 million.

As noted under "Group results" above, the operating loss for 2019 amounted to $9.1 million compared to a loss of $10.7 million in the prior year. After adjusting for depreciation, amortisation and other non-cash items ($21.3 million) and a decrease in working capital ($14.3 million), cash generated by operations was $26.5 million (2018: cash contributed to operations was $8.8 million).

There were $0.5 million of net taxes paid during the year (2018: net taxes paid $0.3 million). Interest paid amounted to $23.8 million (2018: $25.0 million).

Investing activities for 2019 involved a net outflow of $18.8 million (2018: $28.5 million). This represented new investment of $27.0 million (2018: $31.4 million) offset by a small amount of interest received and proceeds of disposal of property, plant and equipment of $7.6 million. Such proceeds arose principally from the transfer of 749 hectares of oil palm plantings at KMS to a smallholder cooperative as referred to under "Land development" in "Agricultural operations" above.

The new investment comprised expenditure of $18.1 million (2018: $23.8 million) on further development of the group's agricultural operations, $4.6 million (2018: $2.0 million) on land rights and titling and $4.3 million (2018: $5.6 million) on the stone and coal interests. A significant component of the expenditure on the stone and coal interests related to the 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 "Stone and coal interests" above.

The net cash inflow from financing activities amounted to $0.5 million (2018: $75.4 million) made up as follows:

	2019 $'m	2018 $'m
Issue of new ordinary shares	6.0	–
Issue of 2022 dollar notes	3.0	–
Redemption of 2020 sterling notes	–	(1.3)
Sale of investments	–	2.7
Borrowings / (repayments) from non-controlling shareholder	1.8	(6.5)
Equity investment from non-controlling shareholder	1.5	–
Net change in other borrowings	(11.8)	14.2
Settlement of PBJ debt	–	50.0
Repayment of balances owed by PBJ	–	24.7
Dividend payments	–	(8.4)
	0.5	75.4

Liquidity and financing adequacy

The group reported an operational loss for 2019 of $9.1 million compared with $10.7 million in 2018. In operational terms, performance was satisfactory with crops slightly below budget but nevertheless at acceptable levels. However, for most of the year the group had to contend with a low CPO price. Steps were taken to reduce costs and, whilst these had a limited impact in 2019, the group is aiming for a reduction in 2020 of some $10 million against the level of costs that would have been incurred without the cost saving measures.

The last quarter of 2019 saw the beginning of a long awaited recovery in CPO prices and moving into January 2020 the price continued to firm. With vegetable oil consumption exceeding supply and stocks of CPO falling, the group was optimistic that CPO prices would continue at higher levels and that this would enable it to rebuild much needed liquidity. Unfortunately, this was not to be because with the arrival of Covid-19, prices of CPO started to fall away to the extent that the price CIF Rotterdam now stands at $525 per tonne against $860 per tonne at the beginning of January 2020.

Crop production in 2020 is slightly ahead of budget. The group's extension planting programme has been deferred and the group is planning to minimise capital expenditure in 2020.

At current CPO prices the group would hope to be able to operate at slightly above a cash break even position over the year as a whole, excluding debt repayments and preference dividends. With crops weighted to the July to December period, unit cash costs are normally lower in the second half of each year than in the first half, but average selling prices for the first half of 2020 will benefit from the higher CPO prices prevailing at the start of the year. As noted under "Capital structure" above, the group has recently agreed to postpone the repayment date of the sterling notes to 2025 and has also agreed to defer all loan repayments due to the non-controlling shareholder until 2025. The dollar notes are not due to be repaid until 2022. However, the group does have repayments falling due on its indebtedness to Mandiri.

The group has had extensive negotiations with Mandiri over the past twelve months with a view to obtaining additional loans sufficient to finance the repayments falling due on its existing Indonesian rupiah borrowings. However, following measures to control the spread of Covid-19 (including the closure of bank offices), the group has been informed that all state banks have ceased new lending. The group is therefore now seeking the agreement of Mandiri to reschedule repayments due on the group's existing loans from Mandiri. The latter has confirmed its willingness to discuss such rescheduling.

In order to ensure availability of sufficient mill capacity to meet projected increases in FFB mill throughput, the group is proceeding with completion of the extension of its newest oil mill and the works to enhance the efficiency of the two older mills. Following the sale of PBJ, no further mills will be required for the foreseeable future. This should mean that as cash flows recover, increased cash generation can be used to reduce debt levels. Commencement of quarrying of the andesite stone concession and possible resumption of mining at the Kota Bangun coal concession may provide additional sources of cash through the repayment of loans due to the group.

For some time, the group has been hoping to reorganise its local bank borrowings by converting Indonesian rupiah borrowings to dollar borrowings which attract a lower rate of interest than rupiah borrowings. In the event, this has not to-date proved possible which, as it transpires, is fortuitous because in the period since 1 January, the rupiah fell from $1 = Rp13,901 to $1 = Rp16,500, though has since recovered to $1 = Rp15,000. Based on the group's opening balances due to Mandiri equivalent to $126.9 million, at an exchange rate of $1 = Rp15,000, the group's indebtedness to Mandiri will have been reduced by approximately $9 million. Moreover, the dollar equivalent of the rupiah interest cost will have been reduced proportionately.

As noted under "Capital structure" above, as at 31 December 2019, the group held cash of $9.5 million but against that had material indebtedness, in the form of bank loans and listed notes. Unless postponed as proposed above, some $19.2 million of bank term indebtedness falls due for repayment during 2020 and a further $40.4 million over the period 2021 and 2022. In June 2022, $27.0 million of dollar notes will become repayable and in August 2025, £30.9 million ($40.5 million at current exchange rates) of sterling notes will become repayable at a premium of 4 per cent of par.

Provided that CPO prices recover back to the levels prevailing at the start of 2020, the directors believe that the group's cash generation capabilities can be aligned with its cash requirements. However, the group faces serious risks not only in relation to the timing of a recovery in CPO prices, but also in relation to the possible operational impacts of Covid-19 which may restrict estate operations and the group's ability to deliver CPO and CPKO to its buyers although this is not currently an issue.

The group's oil palms fruit continuously throughout the year and there is therefore no material seasonality in the funding requirements of the agricultural operations in their ordinary course of business. It is not expected that development of the stone and coal interests 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 82.2 per cent of total shareholder funds at 31 December 2019 compared with a level of 72.5 per cent at 31 December 2018. The total net debt at 31 December 2019 amounted to $207.8 million compared with the position at 31 December 2018 of $189.6 million.

The sterling notes and the dollar notes carry interest at fixed rates of, respectively, 8.75 and 7.5 per cent per annum (but the sterling notes are now entitled to a 4 per cent premium on final redemption). Interest is payable on rupiah bank borrowings by 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. A one per cent increase in the floating rates of interest payable on the group's floating rate borrowings at 31 December 2019 would have resulted in an additional annual cost to the group of approximately $0.1 million (2018: $0.2 million).

The group regards the dollar as the functional currency of most of its operations. The directors believe that the group will be best served going forward by simply maintaining a balance between its borrowings in different currencies and avoiding currency hedging transactions. Accordingly, the group regards some exposure to currency risk on its non-dollar borrowing as an inherent and unavoidable risk of its business. 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 principal 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.

In addition to the risks that have long been normal aspects of its business, the group currently faces potential impacts from the Covid-19 pandemic. This pandemic is unprecedented in the history of the group and there are therefore no precedents against which the risks that it entails can be assessed. At this juncture, there has been no material adverse impact on the group's day to day operations although there has been a negative impact on markets for CPO and CPKO, the extent of which is covered elsewhere in this "Strategic report". Potential further consequences of Covid-19 could include adverse effects on employee health, loss of production and inability to make deliveries of palm products. Each of these could then negatively affect the group's finances. The group's ability to withstand such negative financial impact will be dependent upon the continuing support of its stakeholders which cannot be predicted.

The risks detailed below as relating to "Agricultural operations – Expansion" and "Stone and coal interests" are prospective rather than immediate material risks because the group is currently not expanding its agricultural operations and the stone and coal concessions in which the group holds interests are not currently being mined. However, such risks will apply when, as is contemplated, expansion and mining are resumed or commence. The effect of an adverse incident relating to the stone and coal interests, as referred to below, could impact the ability of the stone and coal 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. 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.

Apart from the Covid-19 Pandemic, which represents the single greatest risk to the group at this time, 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.

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 avoidance of 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

Risks and uncertainties
continued

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

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

Risks and uncertainties

continued

Risk	Potential impact	Mitigating or other relevant considerations
Stone and coal interests		
Operational factors		
Failure by external contractors to achieve agreed production volumes with optimal stripping values or extraction rates	Under recovery of receivables	The stone and coal concession companies endeavour to use experienced contractors, to supervise them closely and to take care to ensure that they have equipment of capacity appropriate for the planned production volumes
External factors, in particular weather, delaying or preventing delivery of extracted stone and coal	Delays to or under recovery of receivables	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 stone and coal concession companies seek to ensure the accuracy of geological assessments of any extraction programme
Prices		
Local competition reducing stone prices and volatility of international coal prices	Reduced revenue and a consequent reduction in recovery of receivables	There are currently no other stone quarries in the vicinity of the stone concessions and the cost of transporting stone should restrict competition. The high quality of the coal in the main coal concession may limit volatility
Imposition of additional royalties or duties on the extraction of stone or coal	Reduced revenue and a consequent reduction in recovery of receivables	The Indonesian government has not to date imposed measures that would seriously affect the viability of Indonesian stone quarrying or coal mining operations
Unforeseen variations in quality of deposits	Inability to supply product within the specifications that are, at any particular time, in demand with consequent loss of revenue	Geological assessments ahead of commencement of extraction operations should have identified any material variations in quality
Environmental, social and governance practices		
Failure by the stone and coal interests to meet the expected standards	Reputational and financial damage	The areas of the stone and coal concessions are relatively small and should not be difficult to supervise. The stone and coal concession companies are 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

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 normally 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 stone and coal 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 its activities and the activities of the stone and coal concession companies 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 recover its investment	Maintenance of good relations with local partners to ensure that returns appropriately reflect agreed arrangements

Risks and uncertainties

continued

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 stone and coal interests because the concessions are 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 7 May 2020 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 in 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 in 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 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 in January 2016 but remains on the board as a non-executive director, undertaking some additional responsibilities and making periodic 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 in 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 a Kenyan plantation company, REA Vipingo Plantations Limited (substantially all of the shares in which are indirectly owned by his family) and was, until his retirement in December 2019, 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.

Rizal Satar

Independent non-executive director

Committees: audit and remuneration

Rizal Satar was appointed to the board in December 2018. Mr Satar lives in Indonesia and 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 in 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 2019. The "Corporate governance report" below forms part of this report.

Since 31 December 2019, the Covid-19 pandemic has struck. To-date the impact of this pandemic on the group's operations has not been material but it poses direct risks to the group's employees, production, deliveries and markets and consequential indirect risks to the group's finances. That apart, there are no significant events since 31 December 2019 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.

In view of the difficult trading conditions prevailing during 2019, the directors concluded that the payment of the fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2019 should be deferred. With the major improvement in the CPO price going into January 2020, the directors had hoped to pay preference dividends arising in 2020 and progressively to catch up the preference dividend arrears. Unfortunately, the subsequent disruption wrought by Covid-19 has meant that this plan has had to be put on hold. The directors are well aware that preference shares are bought for income and will aim to recommence the payment of dividends as soon as circumstances permit. However, until there is a recovery in CPO prices and greater certainty as to the future, preference dividends will have to continue to be deferred.

While the dividends on the preference shares are more than six months' in arrears, the company is not permitted to pay dividends on its ordinary shares. In view of the results reported for 2019, the directors would not anyway have considered it appropriate to declare or recommend the payment of any dividend on the ordinary shares in respect of 2019 even if this were permitted.

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. The further risks associated with the unprecedented disruption wrought by Covid-19 are also addressed in this section of the report.

As respects funding risk, the group has material indebtedness, in the form of bank loans and listed notes. Some $14.1 million of bank term indebtedness falls due for repayment during 2020 and a further $40.4 million over the period 2021 to 2022. Additionally, a working capital loan of $5.0 million is subject to annual renewal in November of each year. The £30.9 million ($40.5 million) of 8.75 per cent guaranteed sterling notes that were due for repayment on 31 August 2020 (the "sterling notes") will now be repayable on 31 August 2025 following a resolution of the noteholders on 31 March 2020 to extend the repayment date, detailed under "Capital structure" in the Strategic report. Subsequently, it has also been agreed to defer all repayments of loans from the non-controlling shareholder until 2025. The $27.0 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.

In operational terms, the group's performance continues to be satisfactory with crops at acceptable levels, extraction rates on an improving trend and the group's extension planting programme deferred so as to minimise capital expenditure in 2020. However, for most of 2019 the group had to contend with a low CPO price. Steps were taken to reduce costs and, whilst these had a limited impact in 2019, the group is aiming for a reduction of some $10 million per annum from 2020 onwards against the level of costs that would have been incurred without the cost saving measures.

With the long awaited recovery in CPO prices in late 2019 and early 2020 and vegetable oil consumption exceeding supply with stocks of CPO falling, the group was optimistic that this would enable it to rebuild much needed liquidity. Unfortunately, with the arrival of Covid-19, prices of CPO started to fall away. At current CPO prices, the group would hope to be able to operate at slightly above a cash break even position over the year as a whole, excluding debt repayments and preference dividends. With crops weighted to the July to December period, unit cash costs are normally lower in the second half of each year than in the first half, but average selling prices for the first half of 2020 will benefit from the higher CPO prices prevailing at the start of the year.

Works to complete the extension of the group's newest oil mill and to enhance the efficiency of the two older mills commenced in 2019 and are to be completed by early 2021. Thereafter, no further mills will be required for the foreseeable future as the group will have sufficient mill capacity to meet projected increases in mill throughput. This should mean that, as cash flows recover, increased cash generation can be used to reduce debt levels.

The recently agreed arrangements for the andesite stone concession and planned resumption of mining at the Kota Bangun coal concession, both as detailed under "Stone and coal interests" in the Strategic report should, in due course, provide additional sources of cash through the repayment of loans due to the group.

As noted above, the group has repayments falling due on its bank indebtedness to Mandiri in 2020. The group has had extensive negotiations with Mandiri over the past twelve months with a view to obtaining additional loans sufficient to finance the repayments falling due on its existing Indonesian rupiah borrowings. Following measures to control the spread of Covid-19 (including the closure of bank offices), the group has been informed that all Indonesian state banks have ceased new lending. The group is therefore now seeking the agreement of Mandiri to reschedule repayments due on the group's existing loans from Mandiri. The latter has confirmed its willingness to discuss such rescheduling.

For some time, the group has been hoping to reorganise its local bank borrowings by converting Indonesian rupiah borrowings to dollar borrowings which attract a lower rate of interest than rupiah borrowings. In the event, this has not to-date proved possible which, as it transpires, is fortuitous because in the period since 1 January, the rupiah fell from $1 = Rp13,901 to $1 = Rp16,500, though has since recovered to $1 = Rp15,000. Based on the group's opening balances due to Mandiri equivalent to $126.9 million, at an exchange rate of $1 = Rp15,000, the group's indebtedness to Mandiri will have been reduced by approximately $9 million. Moreover, the dollar equivalent of the rupiah interest cost will have been reduced proportionately.

Provided that CPO prices recover back to the levels prevailing at the start of 2020, the directors believe that the group's cash generation capabilities can be aligned with its cash requirements. However, the group faces serious risks not only in relation to the timing of a recovery in CPO prices, but also in relation to the possible operational impacts of Covid-19 which may restrict estate operations and the group's ability to deliver CPO and CPKO to its buyers although this is not currently an issue.

Following the refinancing of the sterling notes and subject to the eventual impact on CPO prices and the group's operations of Covid-19, the directors expect an improving outlook for the group's internally generated cash flows will permit the group to repay or refinance the group indebtedness falling due for repayment during the period of assessment.

Based on the foregoing, the directors 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. However, as the CPO price, the willingness of Mandiri to adjust the term of its loans to the group to the extent necessary in varying different circumstances and the prospective liquidity issues that could result in a downside scenario are not wholly within management's control, this expectation is subject to material uncertainties.

Going concern

Factors affecting the development of the group are summarised in the first paragraph of the Viability statement above. The directors have, in particular, considered the principal risks and uncertainties faced by the group which are set out in the "Risks and uncertainties" section of the Strategic report, and have reviewed key sensitivities which could impact on the liquidity of the group.

As at 31 December 2019, the group had cash and cash equivalents of $9.5 million and borrowings of $217.3 million (in both cases as set out in note 24 to the group financial statements). Subsequent to the year end, the group has extended the repayment date of the sterling notes to 31 August 2025 and has also reached agreement to defer all repayments due on loans from the non-controlling shareholder until 2025. In addition, the group has asked Mandiri to consider rescheduling repayments due on the group's existing loans from Mandiri and the latter has confirmed its willingness to discuss such rescheduling.

Absent the extraordinary circumstances brought about by the Covid-19 pandemic, the directors would expect that, based on the group's forecasts and projections (taking into account reasonable possible changes in trading performance and other uncertainties) and having regard to the group's cash position and available borrowings, the group should be able to operate within its available borrowings for at least 12 months from the date of approval of the financial statements.

However, following the recent Covid-19 pandemic, the CPO price has fallen from $860 per tonne CIF Rotterdam at 1 January 2020 to $540 on 30 April 2020. Further there is the possibility of operational disruption should the existing lockdown in Indonesia be extended in a way that would reduce or halt group production or restrict the group's ability to deliver its production to customers (although it should be noted that the current lockdown in Indonesia explicitly excludes agricultural business). In these circumstances, the group could experience liquidity issues and might require waivers from

Mandiri to avoid breaching bank covenants. However, in this downside scenario, the directors expect that Mandiri would be receptive to requests to adjust the terms of its loans to the group to an extent that reflects the fact that the issues to be addressed will have arisen as a result of Covid-19 and will be short term in nature, especially given that Covid-19 should not impact on the group's longer-term prospects once the CPO price returns to pre Covid-19 levels.

For these reasons, the directors have concluded that it is appropriate to prepare the financial statements on a going concern basis. However, as the CPO price and prospective liquidity issues under the downside scenario are not wholly within management's control, these factors represent a material uncertainty which may cast significant doubt upon the group's and the company's continued ability to operate as a going concern, such that they may be unable to realise their assets and discharge their liabilities in the normal course of business.

Greenhouse gas ("GHG") emissions

GHG emissions data for the period 1 January 2019 to 31 December 2019 is as shown below, and compared to amended emissions figures for 2018:

Tonnes of CO_2e	2019	2018
Gross emissions associated with oil palm operations in Indonesia[1]	657,768	663,409
Net emissions associated with oil palm operations in Indonesia	238,159	205,259
Net emissions per tonne of CPO produced	1.1	0.9
Net emissions per planted hectare	6.6	5.6
Electricity, heat, steam and cooling purchased for own use[2]	62.5	59.3

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

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

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.

In 2019, gross carbon dioxide emissions associated with the company's oil palm operations in Indonesia were slightly lower compared to 2018, reflecting lower emissions from peat oxidation, fertiliser use and POME. By contrast, there were slightly higher emissions from land conversion, whilst emissions from fuel consumption were broadly similar. Net emissions in 2019 were higher than in 2018, first because some of the plantations are now over 25 years old and the PalmGHG calculator automatically assumes replanting after 25 years so that they no longer sequester carbon even though this does not necessarily reflect the facts, and second because of lower sequestration in the conservation areas following the sale of PBJ in 2018.

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, together with details of movements in the company's issued share capital during 2019, are set out in note 32 to the company's financial statements. At 31 December 2019, the issued preference share capital and the issued ordinary share capital represented, respectively, 86.6 and 13.4 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 Investors section (under Capital & Constitution) of the group'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.

Directors' report
continued

Substantial holders

On 31 December 2019, 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	13,022,420	29.72
M & G Investment Management Limited	8,757,630	19.99
Nokia Bell Pensioenfonds OFP	4,068,000	9.28
Aberforth LLP	2,946,902	6.73
Artemis Fund Managers Limited	2,445,467	5.58

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

During the period from 31 December 2019 to the date of this report, the company received a notification in accordance with chapter 5 of the Disclosure Rules and Transparency rules, pursuant to which the holding of Artemis Fund Managers Limited has reduced to below 5.0% to 4.6%.

Significant holdings of preference shares, dollar notes and sterling notes shown by the respective registers of members and noteholders at 31 December 2019 are set out below:

Substantial holders of securities	Preference shares £'000	Dollar notes 2022 $'000	Sterling notes 2020 £'000
KLK Overseas Investments Limited	–	3,000	–
Securities Services Nominees Limited 1702334 acct	–	–	6,867
State Street Nominees Limited OU61 acct	11,911	9,080	8,066
The Bank of New York (Nominees) Limited AHIF account	–	–	4,875
Vidaco Nominees Limited CLRLUX acct	–	4,200	–
Vidaco Nominees Limited KBCCLINT acct	–	5,338	–

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 2019 and up to and including the date of this report are listed under "Board of directors" above, which is incorporated by reference in this "Directors' report".

In accordance with the provisions of the UK Corporate Governance Code (the "Code"), all directors, being eligible, are now subject to annual re-election. Resolutions 3 to 9, which are set out in the accompanying notice of the forthcoming annual general meeting (the "2020 Notice") and will be proposed as ordinary resolutions, deal with the re-election of the directors.

The board considers that the contribution of each director is, and continues to be, important and of value to the long term success of the company.

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 term as chairman should for a second year be extended beyond that recommended under the Code, as he provides valuable continuity and support to the company and management during a period of operational and financial recovery. Under normal circumstances, David 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.

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 periodic visits to the group's operations in Indonesia and to the head office in London.

Carol Gysin is the sole executive director of the group. Based in England, Carol has worked for the group for over eleven years, initially as group company secretary but with increasing involvement in the group's operations, including making regular visits to the group's offices and plantation estates in Indonesia.

John Oakley was managing director of the company from 2002 until the end of 2015. John has remained on the board as a non-executive director to support the newer management, given his extensive knowledge of agronomical practices and oil mill engineering, as well as his essential oversight of the group's information technology systems.

Richard Robinow relinquished his position as chairman of the company at the end of 2015. Richard has remained on the board as a non-executive director and, with his significant family shareholding in the company, continues to support the development of the group, particularly with regard to strategic initiatives.

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. Rizal 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. Rizal is also a commissioner (independent non-executive director) and chairman of the Indonesian sub-group's audit committee which oversees on behalf of the group matters that include internal audit, anti-bribery and corruption, whistleblowing policies and procedures, and employee engagement.

Michael St. Clair George is the senior independent non-executive director of the company and chairman of the audit and remuneration committees. Now based in England, Michael has over 40 years' experience in the plantation and agribusiness industries in Malaysia and Indonesia first as finance director of Harrisons & Crosfield and then as president director of Sipef NV.

Michael St. Clair George confirms that, following the 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, recommends the re-election of David Blackett as a non-executive director.

The chairman confirms that, following the annual formal evaluation, the performance of each of the non-executive directors and the managing director continues to be effective and recommends their re-election to the board. The chairman particularly welcomes the valuable commitment and extensive experience of all of the directors.

Engagement with suppliers, customers and other stakeholders

As noted in the section 172(1) statement in the section "Introduction and strategic environment" in the "Strategic report", each director is conscious of his and the group's responsibility to its customers, suppliers and other stakeholders. There is a regular dialogue between managers in the sales and marketing department and group's customers, with whom the group has fostered long term supply arrangements and who take a keen interest in the group's sustainability credentials, to ensure timely delivery of CPO. Given the remote location of the group's operations, timely deliveries and payment is critical for the operations. Managers in the procurement department have an open dialogue with the limited number of available suppliers and contractors to ensure that satisfactory relationships are maintained. In support of these relationships, from time to time the group's president director in Indonesia has meetings with the group's key suppliers and customers at which any concerns can be aired. Occasionally, the managing director will also participate in such meetings.

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 2019 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 0.3 per cent of the called up ordinary share capital, as treasury shares which were acquired for an aggregate consideration of £1.0 million 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. There were no acquisitions or disposals of treasury shares during 2019.

The directors are seeking renewal at the forthcoming annual general meeting (resolution 12 set out in the 2020 Notice) of the buy-back authority granted in 2019 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 2021 or on 30 June 2021 (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 20 June 2019, 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 2020 annual general meeting (resolutions 13 and14 set out in the 2020 Notice) to authorise the directors (a) to allot and to grant rights to subscribe for, or to convert any security into, ordinary shares in the capital of the company (other than 9 per cent cumulative preference shares) up to an aggregate nominal amount of £3,662,554 representing 33.4 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 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 2021 or on 30 June 2021 (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 15 set out in the 2020 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 £1,098,763 (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 2021 or on 30 June 2021 (whichever is the earlier).

Articles of association

The existing articles of association of the company were adopted on 24 September 2008. At the 2020 annual general meeting a resolution (resolution 16 set out in the 2020 Notice) will be proposed to adopt new articles of association ("new articles"). The principal changes included in the new articles are set out in the appendix to the 2020 Notice.

General meeting notice period

At the 2020 annual general meeting a resolution (resolution 17 set out in the 2020 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 2021 or on 30 June 2021 (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 2020 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 proposals to adopt the new articles and to permit general meetings (other than annual general meetings) to be held on just 14 clear days' notice as detailed under "Articles of assocation" and "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 12 to 17 as set out in the 2020 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.

The current audit partner of Deloitte LLP is required, in accordance with the ethical standards of the Auditing Practices Board, to step down as auditor of the company with effect from the conclusion of the 2019 audit. Further, the dissolution of the group's former Indonesian audit firm (part of the Deloitte LLP group) during 2019 meant that a new audit firm, an associate firm of Baker Tilly International, was appointed as auditor of the Indonesian sub-group at the end of 2019. The company, following discussions with several audit firms regarding the provision of audit services for the company and the group in London and on the recommendation of the audit committee, proposes that MHA MacIntyre Hudson, a member firm of Baker Tilly International, be appointed as the company's auditor. Shareholder approval for this appointment is sought by way of resolution 10 set out in the 2020 Notice.

Resolution 11 set out in the 2020 Notice proposes that the audit committee, in accordance with its terms of reference and standard practice, be authorised to determine and approve the remuneration of the auditor.

Deloitte LLP, and predecessor firms, has served as the company's auditors for many years. Whilst the directors acknowledge the need for auditor rotation, they regret the end of a long standing relationship and wish to express their thanks to Deloitte LLP for their excellent service and support over the period of their appointment as the company's auditor.

Directors' report

continued

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 10 to the consolidated financial statements
9.8.4(2)	Any information required in respect of published unaudited financial information	Not applicable
9.8.4(4)	Details of long-term incentive scheme as required under LR 9.4.3R (2) (for a sole director to facilitate recruitment or retention)	Not applicable
9.8.4(5)	Any arrangements under which a director has waived or agreed to waive any emoluments from the company or any subsidiary undertaking	Not applicable
9.8.4(6)	Any arrangement under which a director has agreed to waive future emoluments	Not applicable
9.8.4(7)	Allotments for cash of equity securities made during the period under review otherwise than to the holders of the company's equity shares in proportion to their holdings of such equity shares and which has not been specifically authorised by the company's shareholders	Note 32 to the consolidated financial statements
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 40 (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

7 May 2020

Corporate governance report

This directors' report on corporate governance in respect of the year ended 31 December 2019 is made pursuant to 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.

Throughout the year ended 31 December 2019, the company was in compliance with the provisions set out in the 2018 Code save, as respects Code provision 24 and Code provision 32 regarding, respectively, the audit committee and the remuneration committee. As noted under "Board committees" below, this has been addressed and, with effect from December 2019, the company is compliant with such provisions. The 2018 Code is available from the Financial Reporting Council's website at "www.frc.org.uk".

Chairman's statement on corporate governance

The directors appreciate the importance of ensuring that the group's affairs are managed effectively and with integrity and acknowledge that the principles laid down in the Code provide a widely endorsed model for achieving this. The directors seek to apply the Code principles and the supporting provisions 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 2019 and following a further formal evaluation conducted in the first quarter of 2020, directors concluded that the board performed effectively as constituted during 2019 and continues to do so during 2020. It was further concluded that the diversity of gender and ethnic backgrounds and 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 in meeting its objectives for the long term sustainable success of the company, the community in which it operates and its shareholders. 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, responsible development, environment and biodiversity conservation, human rights, diversity, and health and safety. Each of these matters is considered at the group's quarterly board meetings with such discussions informed by exchanges with, and information provided by, the senior management team as well as by updates from sustainability and conservation consultants.

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 effective 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.

Composition of the board

The board currently comprises the chairman, one executive director and five non-executive directors, three of whom the board considers to be independent.

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.

Corporate governance report
continued

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 investors, as well as liaising closely with the senior management team in Indonesia, which has day to day responsibility for the plantation operations.

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. However, in compliance with the 2018 Code, all directors are now subject to annual re-election by shareholders.

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 has extended the chairman's term beyond that recommended under the 2018 Code following consideration of his continued objectivity and judgement, taking account of the views of fellow directors and 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 as 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, ongoing contribution to strategy, efficacy, diversity 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 including 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 2019 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 Investors section (under Corporate governance) of the group's website at www.rea.co.uk and are updated as necessary. Following the appointment in December 2019 of Rizal Satar to the audit and remuneration committees, all board committees now meet the criteria of the 2018 Code as respects both independence and the composition of such committees.

The board considers that it is 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 ("REA Kaltim") (the Indonesian sub-holding company of all of the group's plantation interests) of which a majority are independent. Rizal Satar is also a commissioner and chairman of the audit committee of REA Kaltim.

There is a committee of the board, currently comprising any two of the managing director, the chairman 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 monitoring the performance of the executive director and senior management against agreed performance objectives and submitting recommendations for the appointment and removal 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, whether from an external applicant or as part of the succession planning process. The committee may use external consultants to advertise directly for or carry out a search exercise for potential applicants when seeking a new chairman or directors.

A prospective director's availability to devote the time and attention necessary to support the company's long-term sustainable success is considered vital. The nomination committee assesses current demands on a potential director's time in addition to the time commitment expected of a director, prior to recommending their appointment to the board. The board considers whether a proposed director is able to discharge his duties within the constraints on the proposed director's availability. The managing director does not currently hold any other significant appointment.

Audit committee

As set out in its terms of reference, the audit committee monitors and reports to the board at each quarterly meeting on the independence and effectiveness of the internal and external audit functions, the integrity of financial and narrative statements and its assessment of risk management and internal control procedures. The audit committee's report on its composition and activities is set out in the "Audit committee report" below. This also provides information concerning 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, inlcuding bonus, 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 2019, at the board meetings held in 2019 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	4	2

In addition, during 2019 there were two meetings of the nomination committee, four 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

Corporate governance report
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cycle and ad hoc meetings normally have to be held at short notice to discuss specific matters that do not fall within the remit of the board committees, 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.

Audit, risk and internal control

The board is responsible for the group's audit, system of internal control and for reviewing its effectiveness and takes account of the views and recommnedations of the audit committee in considering such matters. 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. A robust assessment of the principal and emerging risks, as set out under "Risks and uncertainties" in the "Strategic report" above, was conducted by the board on 30 April 2020. The board also regularly reviews the process and internal control systems, which were in place throughout 2019 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 ongoing monitoring and review. To further support implementation of the group's policies and procedures, a local third party has been engaged to assist with corporate governance and anti-bribery training for employees in Indonesia. The training covers local and international standards for good governance and anti-bribery laws and regulations, with specific reference to the Bribery Act 2010.

In addition, during 2019, a professional third party was engaged to establish externally facilitated procedures in support of the group's whistleblowing policies.

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 is also subject to assessments of its human rights policies and procedures by major customers. These audits, which may be conducted by independent bodies, cover the management and governance of human rights, as well as respect for fundamental rights in the workplace and in the community.

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 ongoing 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, in connection with the audit of group companies, an independent assessment was conducted of the group's information technology controls and financial reporting system to ensure compliance with best practice. In line with the recommendations in the report, action has been taken to enhance two areas of control in the group's IT systems, although the report concluded that no issues had arisen as a result of any deficiencies identified. Accordingly, 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. In normal times, 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".

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 investors 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 and the board committees maintain 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. In addition, while the fixed dividend on the company's preference shares is more than six months in arrears, all preference shareholders are similarly entitled to attend the company's annual and other general meetings and put questions to the board. 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, under normal circumstances when gatherings of people are not restricted by health constraints, 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 group's website as soon as practicable after the meeting.

Arrangements for the company's 2020 annual general meeting are set out in the accompanying notice of the forthcoming annual general meeting (the "2020 Notice"). Please refer to the 2020 Notice for further information regarding attendance at 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, as well as oversight of anti-bribery and whistleblowing procedures in line with the group's policies. Rizal works with the president director, the head of human resources and the head of sustainability to consider employee issues and periodically attends employee workshops on the group's estates. In addition, Rizal provides the conduit between the independent whistleblowing facilitator and the board. 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

Corporate governance report
continued

corporate governance documentation, including the terms of reference for the audit, nomination and remuneration and committees, are published on the Investors section (under Corporate governance) of the website. 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 7 May 2020 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 Investors section (under Corporate governance) on the group'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
- 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 2019, non-audit work undertaken by the auditor was, as in the previous year, routine compliance reporting in connection with covenant obligations applicable to certain group loans (as respects which the governing instruments require that such compliance reporting is carried out by the auditor) and routine taxation compliance services. The audit committee considered that the limited 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. Non-audit services of a non-routine nature, if required, are subject to specific consideration and approval of the audit committee on a case by case basis in accordance with relevant regulations, including, inter alia, the ethical standards of the Auditing Practices Board.

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, understandable 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), David Blackett and Rizal Satar, who was appointed during the year. All 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. The experience of each member of the committee is described under "Board of directors" above.

Meetings

Three audit committee meetings are scheduled each year to match the company's budgeting and reporting cycle. Additional ad hoc meetings are held to discuss specific matters when required, including meetings called at the request of the external auditor.

Significant issues related to the financial statements

The committee reviewed the half year financial statements to 30 June 2019 (on which the auditor did not report) and the full year consolidated financial statements for 2019 (the "2019 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 2019 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 $11.8 million (2018: $10.0 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.
Valuation of stone and coal loans: the value of these loans is based on the ability of the stone and coal 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.	Good progress was made in 2019 by the principal coal concession holding company to reopen the concession at Kota Bangun. Refurbishment of the loading point and conveyor were completed and the requisite licences obtained. A contractor was appointed to provide mining services and to manage the port facility, as well as funding all further expenditure required for infrastructure, land compensation and mobilisation in exchange for a participation in the mine's profits. Following further test drilling and development of a mine plan, it was expected that mobilisation and mining would commence by mid 2020. As a result of the Covid-19 pandemic, however, these plans are currently on hold and it is unlikely that mining operations will commence until the end of 2020 at the earliest. The group is also finalising arrangements with a neighbouring coal company for the opening and quarrying of the andesite stone concession on similar terms to those agreed for the Kota Bangun coal concession. Stone offtake for the new road planned to be built by the neighbouring coal company will underpin these arrangements and work is expected to commence in the second half of 2020. The group's agricultural operations can also utilise significant quantities of crushed stone for their building and infrastructure construction programmes. Further ahead, the Indonesian government announced in 2019 plans to establish a new Indonesian Capital City on a site in East Kalimantan lying between Balikpapan and Samarinda. The civil works involved are likely to require large quantities of crushed stone. With this in mind, as well as the arrangements with the neighbouring coal company, development of the andesite stone concession is now viewed as a higher priority than development of the IPA concession. To the extent that any further loan capital is to be committed to the stone and coal interests, the group will give priority to that which will offer quicker repayments with lower risk. Analyses indicate that the value of the stone and coal interests exceed the aggregate loan values and support the conclusion that no further impairment charge is required.

Significant accounting and judgement issues

Issues	Relevant considerations
Revenue recognition: compliance with the "bill and hold" sale revenue recognition requirements of IFRS 15 "Revenue from contracts with customers" 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.
Land titles: the group has reviewed the estimated economic life of its non-current plantation operating assets to assess whether or not they should be depreciated.	The committee has considered and taken independent advice regarding Indonesian land tenure law and regulations as applied to oil palm plantations. 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. The directors have concluded that acquiring an HGU represents the in-substance purchase of an item of property, plant and equipment. To reach this conclusion the directors have made the judgements that the initial payment to acquire an HGU is consistent with a payment to purchase the land and valid renewal requests are always granted by the Indonesian administration (at least until a significant change in law or government policy occurs). The alternative is to treat as the lease of land rights and so depreciate the cost over the period of the HGU. Either treatment requires review of whether or not these assets are impaired at period ends. From 1 January 2017, the group moved to a position of considering land titles (previously known as 'pre-paid operating lease rentals') as a class of fixed assets with no amortisation, bringing the group's treatment into line with other companies in the palm oil sector. Previously, the group had amortised the pre-paid operating lease rentals at group level although Indonesian standards had not required any amortisation in the local accounts. Land rights in the past have been generally renewed without issue and it is a reasonable assumption that HGUs will continue to be renewed or extended. Further, land suitable for oil palm development and subject to HGUs can be readily bought and sold. Accordingly, and taking account of independent advice, the committee considers that the group should continue to adopt the policy that land titles are treated as fixed assets with no amortisation, in line with local treatment and with other palm oil groups.

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 position, performance, business model and strategy.

External audit

The external auditor was appointed as the company's external auditor in 2002. Colin Rawlings has been the company's audit engagement partner since June 2015 and is required, in accordance with the ethical standards of the Auditing Practices Board, to step down as auditor of the company with effect from the conclusion of the 2019 audit. Further, the dissolution of the group's former Indonesian audit firm (part of the Deloitte LLP group) during 2019 meant that a new audit firm, an associate firm of Baker Tilly International, had to be appointed as auditor of the Indonesian sub-group at the end of 2019. Accordingly, following discussions with several audit firms regarding the provision of audit services in London for the company and the group, the audit committee has recommended to the board the appointment of MHA MacIntyre Hudson, a member firm of Baker Tilly International, as auditor of the company. Such recommendation reflects an assessment of the qualifications, expertise, resources and independence of the auditor based upon consideration of the proposal from the auditor, and the committee's discussion with the auditor and with management. Shareholder approval for the appointment of MHA MacIntyre Hudson will be sought at the forthcoming general meeting.

The audit committee meets the external auditor regularly each year to consider the annual audit plan, specific auditing and accounting matters and the auditor's report to the committee. In its assessment of the external auditor, the audit committee considered the following criteria and concluded that such criteria had been met:

- 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 accounting and reporting functions. In connection with the audit of group companies, an independent assessment was recently conducted of the group's IT controls and financial reporting system to ensure compliance with best practice. In line with the recommendations in the report, action has been taken to enhance two areas of control processes in the group's IT systems, although the report concluded that no issues had arisen as a result of any deficiencies identified. The committee is satisfied that the group's systems are effective and sufficient for their purpose.

Internal audit

The group's Indonesian operations have an in-house internal audit function supplemented where necessary by the use of external consultants. The function issues reports 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 directed 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 7 May 2020 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. 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 2019 and certain other information required by the Regulations. The annual report on remuneration, excluding the policy report, will be put to an advisory shareholder vote at the company's 2020 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 2019 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 appropriate remuneration of executive directors take account of the company's strategy, commercial goals and achievements as well as its sustainability objectives in furtherance of the long term success of the company.

In considering bonuses in respect of 2019, the committee confirmed the importance of striking an appropriate balance between positive and negative factors, reward and incentive in the context of the group's financial and share price performance in 2019. 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, in consolidating the improvement in operational performance delivered in 2018; the achievement of good levels of crop; further changes to local management structures and training programmes; streamlining of administrative and support departments; implementation of cost reduction measures, including closure of the office in Singapore; improvements in operational and information technology systems and processes to gain greater efficiencies; closer focus on and integration of sustainability considerations with the operations; and support for the resumption of coal mining operations by the group's local partners.

The committee reflected these factors in awarding bonuses in respect of 2019 and setting the executive remuneration and specific objectives for 2020.

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, its shareholders and stakeholders. In approving remuneration packages for 2020, the committee took account of remuneration awards for senior managers of the company in Indonesia 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 2018 and 2019 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 2019.

2019	Salary and fees* £'000	All taxable benefits** £'000	Annual bonus*** £'000	Pensions**** £'000	Total £'000
Managing director					
C E Gysin	341.3	31.9	58.9	7.0	439.1
Chairman and non-executive directors					
D J Blackett	100.0	–	–	–	100.0
I Chia	27.0	–	–	–	27.0
J C Oakley	82.0	–	–	–	82.0
R M Robinow	100.0	8.5	–	–	108.5
R Satar	27.0	–	–	–	27.0
M A St. Clair-George	29.5	–	–	–	29.5
Total	706.8	40.4	58.9	7.0	813.1

2018	Salary and fees* £'000	All taxable benefits** £'000	Annual bonus*** £'000	Pensions**** £'000	Total £'000
Managing director					
C E Gysin	325.0	31.1	108.3	8.9	473.3
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	8.9	841.0

* Includes in 2019 £4,926 in respect of payments in lieu of pension
** Types of benefit: rental accommodation
*** In respect of the applicable year (awarded in the subsequent year)
**** Contributions to auto enrolment workplace pension (2018 figure now included)

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 39 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 71 at 31 December 2019) 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	78,163
Increase during the year	1,858
In payment at end of year	80,021

Scheme interests awarded during the financial year

There were no scheme interests awarded during the financial year.

Directors' shareholdings

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

At 31 December 2019, 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	35,000
I Chia	–	1,000
C E Gysin	91,957	2,132
J C Oakley	–	442,493
R M Robinow	–	13,022,420
M A St. Clair-George	2,108	29,371

There have been no changes in the interests of the directors between 31 December 2019 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. In accordance with scheme rules, if the participant leaves, he may exercise a vested entitlement within six months of leaving.

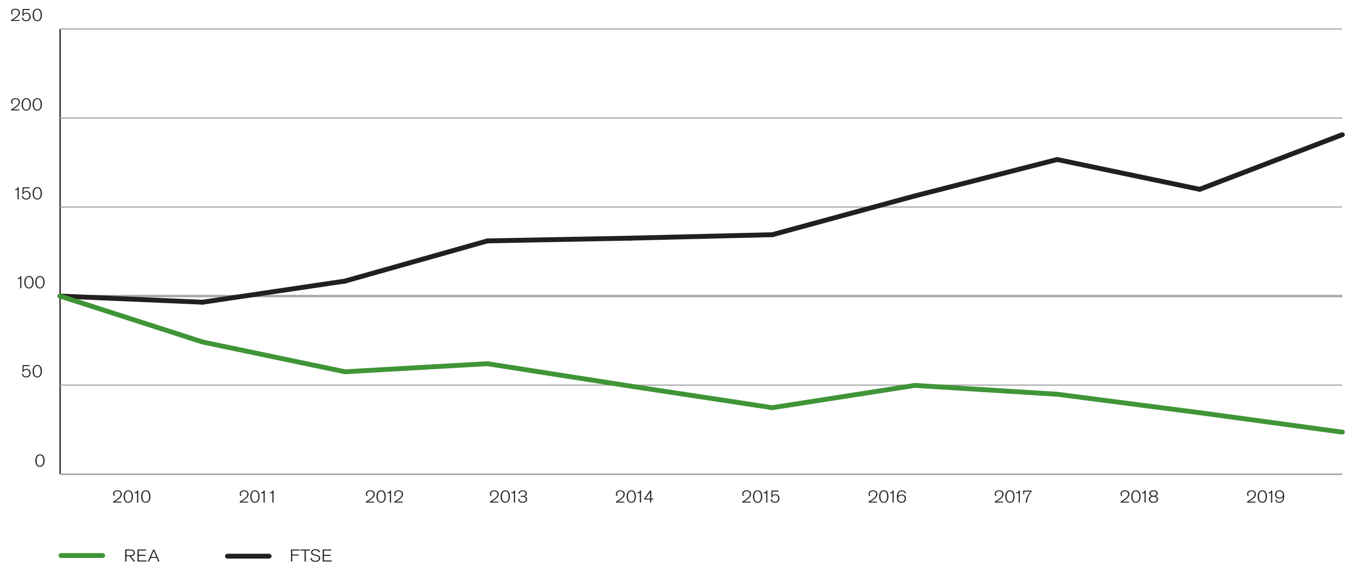
In the event of a change in control of the company as a result of a takeover offer or similar corporate event, vested entitlements would be exercisable for a period of one month following the date of the change of control or other relevant event (as determined by the remuneration committee).

Performance graph and managing director remuneration table

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

Directors' remuneration report

continued



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 2019.

Managing director's remuneration		Single figure of total remuneration £'000	Annual bonus pay-out against maximum %	Long term incentive vesting rates against maximum opportunity %
2019	C E Gysin	439.1	36	N/A
2018	C E Gysin	473.3	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 between 2018 and 2019. 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. In order to achieve a meaningful comparison, the 2018 remuneration of the selected comparator employee group has been restated to reflect only the remuneration in that year of those employees comprising the 2019 selected comparator employee group. The 2018 remuneration of the selected group has also been restated at prevailing average exchange rates for 2019 so as to eliminate distortions based on exchange rate movements of the Indonesian rupiah and US dollar against sterling.

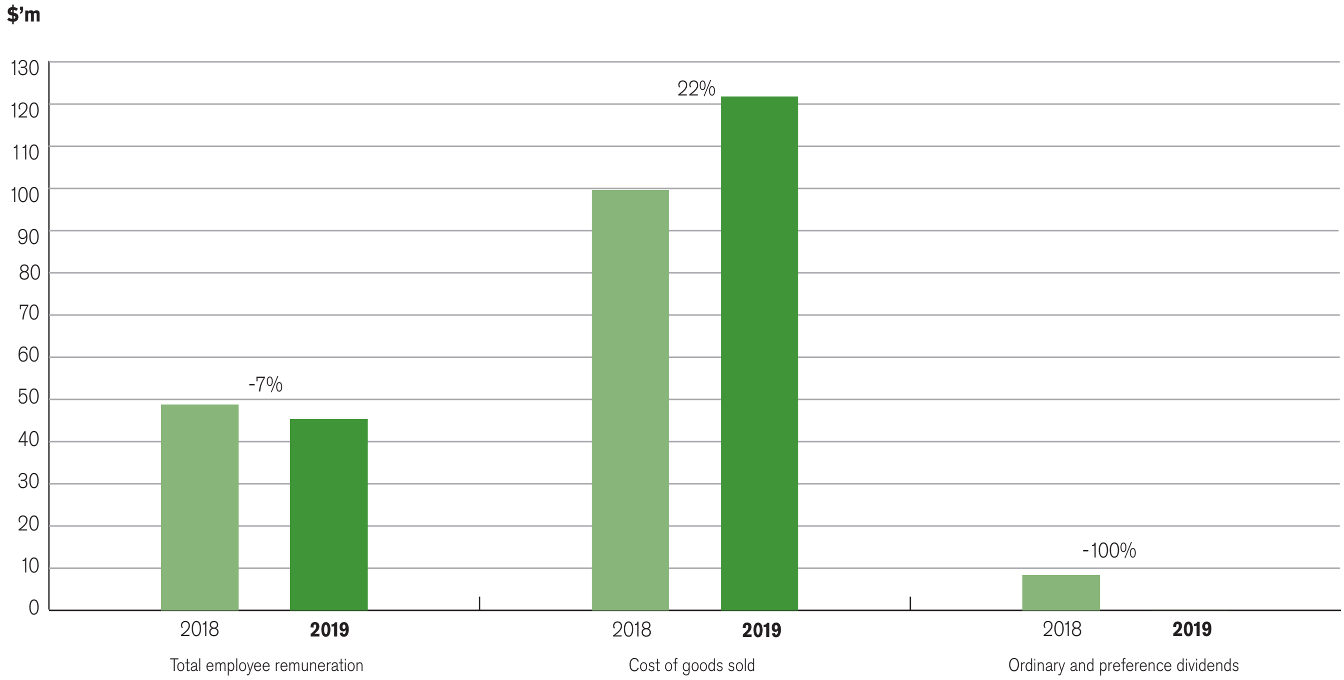
Percentage change in managing director's remuneration	2019 £'000	2018 £'000	change %
Salary	341.3*	325.0	5
Benefits	31.9	31.1	3
Annual bonus	58.9	108.3	(46)
Pension	7.0	8.9	(21)
Total	439.1	473.3	(7)

* Includes in 2019 £4,926 in respect of payments in lieu of pension

Percentage change in selected employee group remuneration	2019 £'000	2018 £'000	change %
Salary	218.4	207.5	5
Benefits	11.3	8.2	37
Annual bonus	28.7	25.0	15
Total	258.4	240.7	7

Relative importance of spend on pay

The graph below shows the movements between 2018 and 2019 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. The change in total employee remuneration reflects the workforce reduction from 9,540 at the end of 2018 to 8,078 at the end of 2019 as part of the programme of cost savings and efficiency measure implemented in 2019.



Functions of the remuneration committee

The remuneration committee currently comprises independent non-executive directors, Michael St. Clair-George (chairman) and Rizla Satar, 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, Carol Gysin, John Oakley, Richard Robinow, Rizal Satar and Michael St. Clair-George are proposed for re-election 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 20 June 2019, votes lodged by proxy in respect of the resolution to approve the 2018 directors' remuneration report were as follows:

	Votes for	Percentage for	Votes against	Percentage against	Total votes cast	Votes withheld
Voting on remuneration report	29,180,659	100.00	0	0	29,180,659	0

The company pays due attention to voting outcomes. Where there are substantial votes against resolutions in relation to directors' remuneration, relevant information pertaining to such votes will be published on the company's website, 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 of the company's policy in respect of the remuneration package for each executive director. In determining and implementing such policy, the company seeks to ensure that arrangements are clear and transparent, straightforward, predictable as regards the range of any discretionary awards, and proportionate in terms of targets and values in the context of the company's business and strategy. 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.

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.

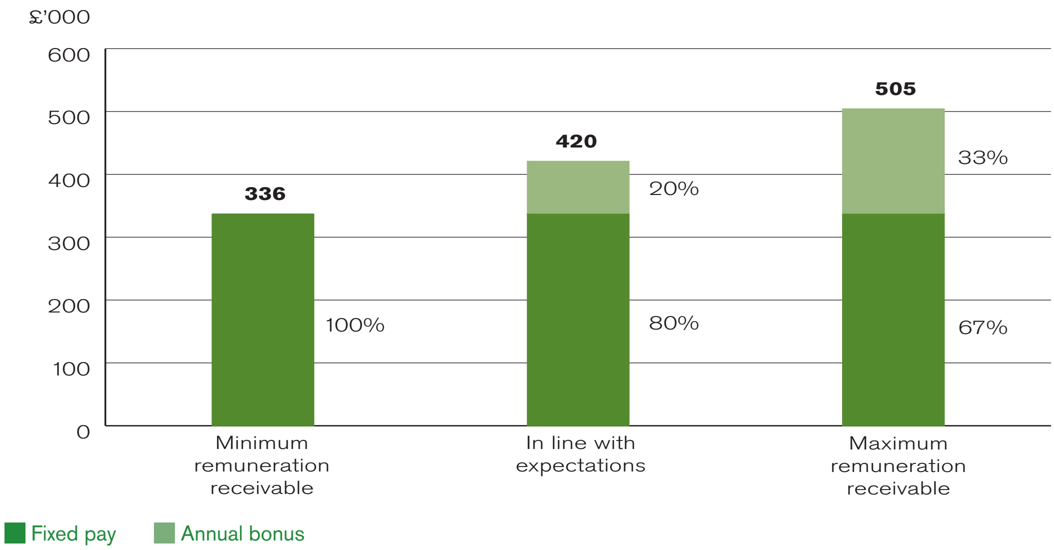
Contracts for the services of non-executive directors may be terminated at the will of either party, with fees payable only to the extent accrued to the date of termination. Continuation of the appointment of each non-executive director depends upon satisfactory performance and re-election at annual 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 9 months. The nomination committee will consider the arrangements in respect of Carol Gysin prior to 31 December 2020, so as to leave sufficient time to make suitable arrangements to ensure continuity for the company and its shareholders.

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 2019 is nil.

Managing director



The figures reflected in the chart above have been calculated against the policies that were applicable throughout 2019 and on the basis of remuneration payable in respect of 2020.

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 7 May 2020 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 position, performance, business model and strategy.

By order of the board
R.E.A. SERVICES LIMITED
7 May 2020

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

Report on the audit of the financial statements

1. 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 2019 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 Statement of Comprehensive Income;
- 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.

2. 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.

3. Material uncertainty relating to going concern

We draw attention to note 1, basis of accounting, in the financial statements and note 42, which indicates that due to the recent Covid-19 pandemic the palm oil price has fallen considerably and, coupled with the possibility the pandemic could cause operational issue that could result in liquidity issues for the group triggering the need to request the group's bank to extend the dates on which loan repayments are required or waive covenants, may therefore cast significant doubt on the entity's ability to continue as a going concern.

Our response to the material uncertainty relating to going concern, included:

- Obtaining an understanding of the relevant controls over the directors' going concern assessment within the financial reporting process;
- Evaluating the directors plans for future actions in relation to the going concern assessment;
- Reviewing the cash flow forecast models prepared by management and challenged the underlying data and assumptions by assessing their consistency with valuation and models and budgets where applicable;
- Considering the group's financing facilities including the nature of these facilities, the scheduled dates for repayment, the covenants contained in the facility agreements; and

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

- Considering the appropriateness of the disclosures in the financial statements.

As stated in note 1, basis of accounting, these events or conditions, along with the other matters as set forth in note 42 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the group's and the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

4. Summary of our audit approach

Key audit matter description

The key audit matters that we identified in the current year were:

- Valuation of Plantation Assets
- Valuation of Loans to Stone and Coal Interests
- Recognition of Deferred Tax Assets
- Going concern (see material uncertainty relating to going concern section)

Within this report, key audit matters are identified as follows:

- Newly identified
- Increased level of risk
- Similar level of risk
- Decreased level of risk

Materiality

The materiality that we used for the group financial statements was $5.8m 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 two new key audit matters: valuation of plantation assets and going concern. In previous years, we have focused on the possibility of including incorrect capitalised costs as part of property, plant and equipment, leading to its classification as a significant risk. This is because these classes are depreciated over different useful economic lives and so the calculation of the split is complex and the methodology judgmental. We are no longer treating the classification of plantation assets as a key audit matter as there have been only immaterial additions in the year and therefore there is no material judgement here.

5. Conclusions relating to going concern, principal risks and viability statements

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 38 to 43 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 45 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 45 to 46 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.

Viability means the ability of the group to continue over the time horizon considered appropriate by the directors which for REA is 3 years.

Aside from the impact of the matters disclosed in the material uncertainty relating to going concern section, we confirm that we have nothing material to add or draw attention to in respect of these matters.

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

6. 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. In addition to the matter described in the material uncertainty relating to going concern in section 3, we have determined the matters described below to be the key audit matters to be communicated in our report.

6.1 Valuation of Plantation Assets

Key audit matter description	Plantation assets had a book value of $333m at 31 December 2019 ($351m as at 31 December 2018). There is a heightened risk of impairment in the current year due to the losses experienced in the previous few years and the continued downturn of the CPO price. The valuation of these assets rely on certain assumptions and estimates in relation to the likelihood of the underlying plantations to generate suitable future cash flows. The key input to the valuation calculation is CPO price which requires the judgement of the directors. The CPO price is known to be volatile and has been low for the past 24 months. The use of an inappropriate CPO price could have a material impact on the valuation of plantation assets. As disclosed in the note 1, critical accounting judgements and key sources of estimation uncertainty, management has performed a sensitivity analysis, which involves judgement over the potential impact of change in CPO pricing. In addition, as disclosed in note 42, subsequent to the year end, due to impact of Covid-19 pandemic, the CPO price fell from $860 to $540 on 30 April 2020. The directors considered this a non-adjusting post balance sheet event and disclosed the potential impact on the valuation of plantation assets. Further details are included within critical accounting estimates and judgements note in note 1, property, plant and equipment, note 16 and events after the reporting period, note 42 to the financial statements.
How the scope of our audit responded to the key audit matter	Our work on the valuation of plantation asset classes has included: ▪ Obtaining an understanding of the review control over the impairment assessment including the CPO price assumption to ensure there is an appropriate management review control; ▪ Comparing to the CPO price currently, at the balance sheet date and through 2019; ▪ Comparing to REA's average selling price over the past 10 years; ▪ Reviewing publicly available news articles and other publications commenting on the expectations for the CPO price and global demand and supply. We have placed more weight on the external prices and hence have challenged management to use world bank prices; ▪ Comparing to the prices forecast by the World Bank; ▪ Assessing the level of impairment at different CPO prices; ▪ Challenging management to understand why in light of the above they believe their price assumption was appropriate. After our challenge management adjusted the price assumption to equate to the price assumptions published by the World Bank; ▪ Assessing the arithmetic workings of the model and the integrity of the formulae used; and ▪ Reviewing the events after the reporting period disclosure and testing the sensitivity analysis on palm oil price changes.

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

Key observations

We have concluded that the CPO price used in calculation of value in use for the plantation companies is appropriate. However, the conclusion that there is no impairment on the plantation assets is critically dependent on the assumptions relating to the CPO price and therefore this sensitivity is disclosed in the accounts. Further given the fall in price post Covid 19 (which we concur is a non adjusting post balance sheet event) the post balance sheet events note discloses the potential impact of this on the valuation of plantation assets and we have concluded these disclosures are complete.

6.2 Valuation of Loans to Stone and Coal Interests

Key audit matter description

The group holds loans made to stone concessions in Indonesia for which control is outside of the group and which are discussed in the audit committee report on page 60. We have focused our work on the stone concession as the stone company has guaranteed the loans of the coal companies and the majority of the value lies in the stone concession. 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.

At 31 December 2019 the carrying value of the loans was $50.3m, an increase from $46.0m at 31 December 2018 (see note 18). We have identified a significant risk surrounding whether the underlying investments will generate suitable future profits in order to repay the loans made by R.E.A. Holdings plc. We have pinpointed the risk to be the start date of mining, estimated to be November 2020 for the ATP concession, as this has the biggest impact on the discounted cash flow (DCF). Other important assumptions we identified are the discount rate, selling price and FX rate (see Accounting policies, note 1 and note 18).

How the scope of our audit responded to the key audit matter

We have challenged management's revised plans and cash flow forecasts in relation to the ATP mining operations to support the value of investments in the coal and quarry interests. Our work on the significant risk included:

- Assessing the appropriateness of the mining start date by review of the agreement in place; and
- Considering third party sources on the demand for stone to assess whether this supports the start date and the lifetime of the mining operations.

Our other work on the DCFs included:

- Obtaining an understanding of the review control over the impairment assessment to ensure there is an appropriate second pair of eyes review of the calculation and underlying assumptions;
- Through working with our valuation specialists, we challenged the appropriateness of the discount rate used in the models, through working with our valuation specialists who challenged the cost of and R.E.A. Holdings plc's cost of capital and that ofwith reference to other comparable companies;
- Challenging the expected price of stone by comparison to recent third party price quotations; and
- Agreeing the stone reserves and costs to third party engineering report; and
- Checking the numerical accuracy of the DCF.

Key observations

We are satisfied that the date of the start of the mining in the forecast prepared by management and the other assumptions made by management are reasonable and thus have concluded that no impairment to the stone and coal loans is required.

6.3 Recognition of Deferred Tax Assets

Key audit matter description

A significant deferred tax asset balance arises in the consolidated financial statements due to a number of the Indonesian plantation companies that have reported losses in the past five years. As disclosed in note 28, the deferred tax asset as at 31 December 2019 is $12.6m, an increase from $10.1m as at 31 December 2018.

The deferred tax assets relating to historical losses can only be used against future profits before the 5 year statutory expiry limit imposed in Indonesia. There is significant judgement as to whether each Indonesian plantation will make enough profit before the time limit expires; also, this determination must be made based on appropriate year end assumptions, using information available to management as at 31 December 2019.

The European Securities and Markets Authority's (ESMA) issued a public statement Considerations on recognition of deferred tax assets arising from the carry-forward of unused tax. In that statement ESMA note that prior year losses are objective evidence deferred tax assets should not be recognised and future profit projections are subjective evidence supporting recognition. ESMA note that positive evidence should exist as to what has changed from the periods in which the tax losses arose.

Based on the directors' judgement, the positive evidence is that production in 2019 of 801k tonnes of fresh fruit bunches (FFB) was significantly higher than in the periods 2016 to 2018 where production averaged 600k tonnes. This was the result of the resolution of the operational issues relating to fertilising. Also, the palm oil price on 1 January 2020 was $860 per tonne CIF Rotterdam (estimated FOB Samarinda equivalent $742 per tonne) compared to an average price in 2016 to 2019 of $675 per tonne CIF Rotterdam (estimated FOB Samarinda equivalent of $585 per tonne).

However, as disclosed in note 42, subsequent to the year end, due to impact of Covid-19 pandemic, the CPO price fell from $860 to $540 on 30 April 2020. Directors considered this a non-adjusting post balance sheet event and disclosed the potential subsequent impact on the recoverability of the deferred tax asset and associated sensitivity analysis in note 1, critical accounting judgements and key sources of estimation uncertainty. Judgement is required by the directors as to how the Covid-19 pandemic and related change in CPO selling price would impact the recoverability of the group's deferred tax asset.

Further details are included within critical accounting estimates and judgements note in note 1, deferred tax, note 28 and events after the reporting period, note 42 to the financial statements.

How the scope of our audit responded to the key audit matter

We have engaged our tax experts in the UK and obtained an understanding of the potential impacts of Indonesian tax regulations on the group's operations.

We have obtained an understanding of the management review control over the taxable profit forecasts which support the utilization of past table losses within the statutory time limit imposed by the Indonesian tax law.

We have challenged management's assumptions in determining deferred tax asset balances by reviewing profit forecasts for each plantation. We have assessed if the profits forecast will ensure the past taxable losses are utilised before the 5 year statutory period expires.

We have assessed the consistency of the cash flow forecasts with those used to assess the impairment of plantation assets and going concern.

We have assessed it is appropriate to consider the cash flow forecasts on the basis of assumptions at the balance sheet date and not following the Covid-19 pandemic.

We have reviewed the events after the reporting period disclosure and tested the sensitivity analysis on palm oil price changes.

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

Key observations

We have concluded that the valuation of the deferred tax asset at 31 December 2019 is reasonable. Further given the fall in price post Covid 19 (which we concur is a non adjusting post balance sheet event) the post balance sheet events note discloses the potential impact of this on the recognition of deferred tax assets and we have concluded these disclosures are complete.

7. Our application of materiality

7.1 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	$5.8m (2018: $6.2m)	$3.48m (2018: $4.4m)
Basis for determining materiality	1.75% of plantation assets. (2018 1.75% of plantation assets) We have defined planation assets as the sum of: ▪ Plantings - $129m ▪ Buildings & Structures - $201m ▪ Biological Assets - $3m	60% of Group materiality (2018: 70% of Group materiality)
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. Parent company materiality was capped at 60% of group materiality.

7.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 60% of group materiality for the 2019 audit (2018: 60%). In determining performance materiality, we considered our understanding of the entity, including the quality of the control environment and whether we were able to rely on controls, and the nature, volume and size of uncorrected misstatements in previous audits.

7.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $290k (2018: $250k) for the group, 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.

8. An overview of the scope of our audit

8.1 Identification and scoping of components

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.

The audit of the 7 plantation companies has been performed by Baker Tilly Indonesia. The UK group team have been involved in the planning, risk assessment, performing and reviewing stages of the component audit. The group audit team had planned to continue 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 September 2019.

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 $2.9m to $5.2m (2018: $2.5m to $5.0m).

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.

8.2 Working with other auditors

We have maintained regular communication since Baker Tilly were appointed as auditors of the Indonesian plantation companies in December 2019. This includes gaining an understanding of their experience and professional qualifications, a planning call to identify risks and changes in the internal and external landscape of the company during the year and regular calls since Baker Tilly's appointment until the signing of the consolidated financial statements to discuss audit progress and any misstatements or control findings identified through their testing. Deloitte planned to visit Baker Tilly in Jakarta in March 2020 but were hindered by the Covid-19 pandemic and restrictions on international travel. We have therefore increased the formal calls to weekly and the partner and manager on the engagement have reviewed Baker Tilly's working papers remotely.

We have performed additional procedures on any significant or judgemental balances such as fixed assets, deferred tax assets and liabilities and land rights. All material balances for entities other than Indonesian plantation companies are audited by the Deloitte London audit team.

9. 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
- **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.

We have nothing to report in respect of this matter

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

10. 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.

11. 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 and non-compliance with laws and regulations 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.

12. 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.

12.1 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:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities; any matters we identified having obtained and reviewed the group's documentation of their 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;
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions, IT, and climate change specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, valuation of loans to stone and coal interests and the recognition of deferred tax assets. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context: Indonesian Laws, UK Companies Act, Listing Rules and both UK and Indonesian tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's operating licence and environmental regulations.

12.2 Audit response to risks identified

As a result of performing the above, we identified Valuation of Loans to Coal and Stone Interests and Recognition of Deferred Tax Assets as key audit matters related to the potential risk of fraud. 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.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- 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;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other 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; and
- in addressing the risk of fraud in revenue recognition, audit procedures included testing 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

13. 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.

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

14. Matters on which we are required to report by exception

14.1 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 this matter

14.2 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 this matter

15. Other matters

15.1 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 18, covering the years ending 31 December 2002 to 31 December 2019.

15.2 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).

16. 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
7 May 2020

Consolidated income statement

for the year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Revenue	2	124,986	105,479
Net gain arising from changes in fair value of agricultural produce inventory	4	5,127	305
Cost of sales:			
Depreciation and amortisation		(27,287)	(23,014)
Other costs		(94,495)	(76,571)
Gross profit		8,331	6,199
Distribution costs		(1,348)	(1,258)
Administrative expenses	5	(16,097)	(15,668)
Operating loss		(9,114)	(10,727)
Investment revenues	2, 7	595	292
Impairment of non-current assets	8	(3,267)	–
Profit on disposal of subsidiary	9	–	10,373
Finance costs	10	(31,890)	(5,412)
Loss before tax	5	(43,676)	(5,474)
Tax	11	22,303	(12,734)
Loss for the year		(21,373)	(18,208)
Attributable to:			
Ordinary shareholders		(17,814)	(22,021)
Preference shareholders	12	–	8,353
Non-controlling interests	36	(3,559)	(4,540)
		(21,373)	(18,208)
Basic and diluted loss per 25p ordinary share (US cents)	13	(43.1)	(54.4)

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

All operations for both years are continuing

Consolidated statement of comprehensive income

for the year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Loss for the year		(21,373)	(18,208)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		59	14,087
Deferred tax on exchange differences	28	1,589	3,110
		1,648	17,197
Items that will not be reclassified to profit and loss:			
Actuarial (losses) / gains		(316)	1,732
Deferred tax on actuarial losses / (gains)	28	79	(425)
		(237)	1,307
Total comprehensive income for the year		(19,962)	296
Attributable to:			
Ordinary shareholders		(16,403)	(3,517)
Preference shareholders		–	8,353
Non-controlling interests		(3,559)	(4,540)
		(19,962)	296

Consolidated balance sheet
as at 31 December 2019

	Note	2019 $'000	2018 $'000
Non-current assets			
Goodwill	14	12,578	12,578
Intangible assets	15	2,135	2,581
Property, plant and equipment	16	394,356	407,164
Land	17	38,598	41,276*
Financial assets: stone and coal interests	18	50,329	46,011
Deferred tax assets	28	12,642	10,088
Non-current receivables	17	3,889	2,158*
Total non-current assets		514,527	521,856
Current assets			
Inventories	20	18,565	22,637
Biological assets	21	2,764	2,589
Trade and other receivables	22	53,760	50,714
Cash and cash equivalents	23	9,528	26,279
Total current assets		84,617	102,219
Total assets		599,144	624,075
Current liabilities			
Trade and other payables	31	(63,452)	(59,779)
Current tax liabilities		–	–
Bank loans	25	(19,168)	(13,966)
Sterling notes	26	(38,996)	–
Other loans and payables	29	(14,457)	(718)
Total current liabilities		(136,073)	(74,463)
Non-current liabilities			
Bank loans	25	(107,757)	(117,008)
Sterling notes	26	–	(38,213)
Dollar notes	27	(26,804)	(23,724)
Deferred tax liabilities	28	(51,941)	(79,247)
Other loans and payables	29	(23,879)	(30,146)
Total non-current liabilities		(210,381)	(288,338)
Total liabilities		(346,454)	(362,801)
Net assets		252,690	261,274
Equity			
Share capital	32	133,586	132,528
Share premium account	33	47,358	42,401
Translation reserve	34	(26,032)	(42,470)
Retained earnings	35	84,779	114,360
		239,691	246,819
Non-controlling interests	36	12,999	14,455
Total equity		252,690	261,274

* Restated, see notes 1 and 17

Approved by the board on 7 May 2020 and signed on behalf of the board.

DAVID J BLACKETT
Chairman

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Share capital (note 32) $'000	Share premium (note 33) $'000	Translation reserve (note 34) $'000	Retained earnings (note 35) $'000	Subtotal $'000	Non-controlling interests (note 36) $'000	Total equity $'000
At 1 January 2018	132,528	42,401	(50,897)	135,074	259,106	17,629	276,735
Loss for the year	–	–	–	(13,668)	(13,668)	(4,540)	(18,208)
Other comprehensive income for the year	–	–	15,831	1,307	17,138	1,366	18,504
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
Loss for the year	–	–	–	(17,814)	(17,814)	(3,559)	(21,373)
Other comprehensive income for the year	–	–	987	(179)	808	603	1,411
Adjustment in respect of deferred tax provision release	–	–	15,451	(11,588)	3,863	–	3,863
Issue of new ordinary shares (cash)	1,058	5,079	–	–	6,137	–	6,137
Costs of issue	–	(122)	–	–	(122)	–	(122)
New equity from non-controlling shareholder	–	–	–	–	–	1,500	1,500
At 31 December 2019	133,586	47,358	(26,032)	84,779	239,691	12,999	252,690

Consolidated cash flow statement

for the year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Net cash from / (used in) operating activities	37	2,185	(25,876)*
Investing activities			
Interest received		595	94
Proceeds on disposal of property, plant and equipment		7,639	–
Purchases of property, plant and equipment		(18,133)	(23,793)
Purchases of intangible assets		(20)	(33)
Expenditure on land		(4,552)	(1,990)*
Loans to stone and coal interests		(4,319)	(5,593)
Proceeds of disposal of subsidiary		–	2,793
Net cash used in investing activities		(18,790)	(28,522)*
Financing activities			
Preference dividends paid		–	(8,353)
Repayment of bank borrowings	24	(14,512)	(105,768)
New bank borrowings drawn	24	4,999	119,847
New borrowings from related party		5,437	13,440
Repayment of borrowings from related party		(5,437)	(13,440)
Repayment of borrowings from non-controlling shareholder	29	–	(6,469)
New borrowings from non-controlling shareholder		1,758	–
New equity from non-controlling shareholder		1,500	–
Proceeds of issue of ordinary shares, less costs of issue		6,015	–
Proceeds of issue of 2022 dollar notes		3,000	–
Redemption of 2020 sterling notes	26	–	(1,307)
Proceeds of sale of investments		–	2,730
Repayment of balances from divested subsidiary		–	50,027
Settlement of bank loan by purchaser of subsidiary		–	24,748
Repayment of lease liabilities	30	(2,303)	–
Net cash from financing activities		457	75,455
Cash and cash equivalents			
Net (decrease) / increase in cash and cash equivalents	38	(16,148)	21,057
Cash and cash equivalents at beginning of year		26,279	5,543
Effect of exchange rate changes	38	(603)	(321)
Cash and cash equivalents at end of year	23	9,528	26,279

* Restated, see note 17

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 83 to 118 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 concluded that it is appropriate to prepare the financial statements on a going concern basis. However, as the CPO price and prospective liquidity issues under the downside scenario are not wholly within management's control, these factors represent a material uncertainty which may cast significant doubt upon the group's and the company's continued ability to operate as a going concern, such that they may be unable to realise their assets and discharge their liabilities in the normal course of business.

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

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 respect of new standards and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period beginning on 1 January 2019 only IFRS 16: Leases has been adopted by the group as the only one that is material.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the group, as a lessee, has recognised right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligations to make lease payments.

As permitted by the transitional provisions of IFRS 16, the group has elected to use the modified retrospective approach, and, accordingly, has not restated prior year comparatives.

The adjustments arising from transition are recognised in the opening balance sheet on 1 January 2019 and are set out below, with details of the changes in accounting policies relating to IFRS 16 as applied in the period.

a) Definition of a lease and practical expedients applied

Previously, the group determined at the beginning of a contract whether an arrangement was or contained a lease under IFRIC 4 "Determining Whether an Arrangement contains a Lease". The group now assesses whether a contract is or contains a lease based on the new definition of a lease, which under IFRS 16 is where a contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The group has also used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

b) Impact of transition

On adoption of IFRS 16, the group recognised additional right-of-use assets and additional lease liabilities in relation to leases that were previously classified as 'operating leases' under IAS 17: Leases. The liabilities were measured at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rate as of 1 January 2019. The incremental borrowing rates (discount rates) applied are 8.75% (UK) and 11.0% (Indonesia).

A reconciliation of the group's lease liabilities as at 1 January 2019 to the operating lease commitment at 31 December 2018, as disclosed in the group's consolidated financial statements is shown below.

	$'000
Operating lease commitments disclosed as at 31 December 2018	1,911
Exempt lease (shorter than 12 months)	(47)
Adjustment for IFRS 16 (see note 30)	417
Lease liability and right of use assets recognised at 1 January 2019	2,281
Less than one year	1,465
Greater than one year	816
	2,281

Accounting policies (group)

continued

An additional impact of the IFRS 16 review of existing arrangements is that costs previously referred to as deferred charges and disclosed within non-current receivables have been restated as land as at 31 December 2018. This voluntary change in accounting policy was in order to disclose all the costs of ultimately acquiring land titles in one place (see note 17).

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

IFRS 17: Insurance contracts	1 January 2022
IFRS 10 and IAS 28 (amendments): Sale or contribution of assets between an investor and its associate or joint venture	date to be set
Amendments to IFRS 3: Definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of material	1 January 2020
Conceptual framework: Amendments to references to the conceptual framework in IFRS standards	1 January 2020

The directors do not expect that the adoption of the standards and amendments 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.

Leases

The group leases boats for the transportation of palm oil and also leases office properties. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Land titles are not treated as leases, but as in-substance fixed assets, with no depreciation.

Prior to 2019 lease payments, including the effects of any lease incentives, were recognised in the income statement on a straight-line basis over the lease term.

From 1 January 2019, for each lease a right-of-use asset and corresponding lease liability are recognised at the date at which the leased asset becomes available for use by the group.

The lease liability is initially measured at the present value of remaining lease payments, which include the following:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the group's incremental borrowing rate is used, being the rate that the group would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment, with similar terms and conditions. Generally, the group uses its incremental borrowing rate as the discount rate.

Subsequently, lease payments are allocated to the lease liability, split between repayments of principal and interest. A finance cost is charged to the profit and loss so as to produce a constant period rate of interest on the remaining balance of the lease liability.

The right-of-use asset is measured at cost, which comprises the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received (eg rent free period)
- any initial direct costs, and
- restoration costs.

The right-of-use asset is subsequently depreciated over the shorter of the lease term and the asset's useful life on a straight-line basis.

The group has one office building lease in Singapore which qualifies for the short term lease exemption as it expired in 2019 and was not renewed. The group has opted to recognise this lease expense on a straight-line basis as permitted by IFRS 16. This expense is included with administrative expenses. A number of the boat leases also qualify for the short term lease exemption but for consistency are all treated the same.

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 are recognised in profit or loss in the period in which they arise except for (a) exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on those foreign currency borrowings and (b) exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net

Accounting policies (group)

continued

investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

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 during the period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in translation reserve in respect of that operation and attributable to the owners of the operation are reclassified to profit or loss.

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.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on specialist independent tax advice supported by previous experience in respect of such matters.

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 to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Property, plant and equipment - plantings

On application of the amendments to IAS41: Agriculture and IAS 16: 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 plantings. Once plantings reach maturity, depreciation is provided on a straight line basis at a rate that will write off the costs of the plantings 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 permits, 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.

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.

Inventories

Inventories of agricultural produce are stated at cost less net realisable value but the cost of the fresh fruit bunch ("FFB") input into such inventories is taken, where such FFB is harvested from the group's estates, to be the fair value of that FFB at point of harvest. 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.

Accounting policies (group)

continued

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.

Financial assets

The group's financial assets comprise receivables and loans (including stone and coal interests) and cash and cash equivalents. The group's receivables and loans are held at amortised cost as the group's sole objective for holding the assets is to collect payments of principle and interest.

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.

Financial liabilities

The group's financial liabilities comprise redeemable instruments, bank borrowings, loans from non-controlling shareholders, trade payables and contract liabilities.

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 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 amortised cost.

Contract liabilities

The group has prepaid sales contracts whereby advance payments are received for future product deliveries. No revenue is recognised until the product delivery and contract transfer. The advance payments are recognised as contract liabilities until the revenue is recognised.

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 because the terms of the preference shares contain no provisions for their redemption and provide that the fixed semi-annual dividend on the preference shares becomes payable only if it is resolved to make a distribution in respect of the preference shares.

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 polices (group)" above, the directors are required to make judgements, estimates and assumptions. Such judgements, estimates and assumptions are based upon historical experience and other factors that are considered to be relevant. Actual values of asset 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.

Land rights

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. The directors have concluded that acquiring an HGU represents the in-substance purchase of an item of property, plant and equipment. To reach this conclusion the directors have made the judgements that the initial payment to acquire an HGU is consistent with a payment to purchase the land and valid renewal requests are always granted by the Indonesian administration (at least until a significant change in law or government policy occurs). The alternative is to treat as the lease of land rights and so depreciate the cost over the period of the HGU.

Control of stone and coal concessions

Interest bearing loans have been made to Indonesian companies which own the rights to stone and coal concessions in East Kalimantan Indonesia. In 2008 the company's subsidiary, KCC Resources, entered into an option to acquire the shares of the concession companies at original cost but subsequent regulations, which limit foreign ownership of stone and coal concession companies, have meant that such rights cannot be exercised. Subsequently, the directors have concluded that their focus is on recovery of the amounts invested and not on obtaining an equity interest and the option arrangements are regarded as void. The directors have concluded that they do not have the power to direct the operations of the stone and coal concessions and do not have the rights to variable returns from their loans to the stone and coal concessions. The alternative judgement would be that REA controls these entities. Such a judgement would result in the derecognition of the loans to stone and coal interests of $50.0 million and the consolidation of the assets and liabilities at the 31 December 2019 and inclusion of the loss for the year in the consolidated statement of comprehensive income.

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.

Stone and coal interests

Loans to stone and coal concessions are carried in the consolidated balance sheet at $50.0 million. At each reporting date the investments are tested for impairment using an expected credit loss model. Due to the creditworthiness of the stone and coal concessions a lifetime expected credit loss model is applied and the directors perform a look through to the value of the underlying stone and coal rights. The valuation is most sensitive to the price at which the stone will be sold and the date on which mining will commence. The valuation model applied uses a stone price of $27.8 per tonne and presumes a mining extraction date of November 2020. For objective evidence of impairment the stone price would have to fall to $23.4 per tonne, or the start date of the project be delayed until the third quarter of 2021.

Notes to the consolidated financial statements

continued

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

Plantation assets

Plantation assets (including property plant and equipment, land, intangible assets and goodwill) are carried at $444.0 million in the consolidated balance sheet. At 31 December 2019 each plantation has been identified as a cash generating unit and tested for impairment by calculating the value in use over a 25 year plantation cycle and deriving a net present value. The key assumptions in the model used are the CPO selling prices assumed and the discount rate applied. The base model assumed average selling prices based on World Bank forecasts for the next 10 years extrapolated for 25 years and adjusted to FOB Samarinda (commencing with a price of $560 per tonne in 2020). Viewing the group's plantation assets as a whole if there was an expectation that the price would be at $550 per tonne over the next 25 years then an impairment of $6.0 million would be required being the difference between the carrying value of the assets and the value in use. The average price in 2019 was $460 per tonne while the average price of the past ten years was $628. The average price from 1 January 2020 to 30 April 2020 was $692. The discount rate applied was 10.7 per cent (on a pre-tax basis). Using the base model projection of CPO selling prices, if a 2 per cent higher discount rate was assumed, there would be no impairment when viewing the group's plantation assets as a whole but there would be impairments against certain of the individual plantations amounting in aggregate to $5 million.

Whilst any restriction on harvesting, processing and evacuation of palm products as a result of Covid-19 would have a negative impact on the group's cash flow, in the opinion of the directors it would be unlikely to require impairment of the plantations because plantation assets are generally valued by reference to their long term potential not short term factors and any such restriction would be unlikely to damage the productive capacity of the estates.

Deferred tax assets

The group has recognised $11.8 million in respect of deferred tax assets in relation to tax losses of $49.5 million (of which $46.5 million are in Indonesia and $3.0 million are in the UK). Indonesian tax losses must be used against profits by the company which generated them within 5 years. The group has prepared detailed forecasts for the five year period 2020 to 2025 to estimate its ability to utilise the tax losses. The key assumption in the forecast is the CPO selling price. The forecast assumes average CPO selling prices based on World Bank forecasts for the next 5 years and adjusted to FOB Samarinda (commencing with a price of $560 per tonne in 2020) and projects that all losses will be utilised. If the forecast CPO prices are reduced to a level $460 throughout the five year period (being the lowest average annual price at which the group has sold its CPO during the last ten years), projected utilisation of tax losses would reduce by $5.4 million.

The directors have noted a public statement by the European Securities and Markets Authority ("ESMA"): "Considerations on recognition of deferred tax assets arising from the carry-forward of unused tax losses". In that statement ESMA note that prior year losses are objective evidence that deferred tax assets should not be recognised and future profit projections are subjective evidence supporting recognition. ESMA note that positive evidence should exist as to what has changed from the periods in which the tax losses arose. In the opinion of the directors, the positive evidence is that, as a result of enhanced fertiliser applications and other operational improvements, FFB production in 2019 of approximately 800,000 tonnes was significantly higher than in the period 2016 to 2018 when annual production averaged 599,000 tonnes and, further, that the CPO price, CIF Rotterdam, on 1 January 2020 was $860 per tonne compared to an average price in 2016 to 2019 of $646 per tonne. On this basis, the directors consider that the conclusions of the preceding paragraph are reasonable.

2. Revenue

	2019 $'000	2018 $'000
Sales of goods	124,000	105,297
Revenue from services	986	182
	124,986	105,479
Investment revenue	595	292
Total revenue	125,581	105,771

In 2019, three customers accounted for respectively 47 per cent, 25 per cent and 16 per cent of the group's sales of agricultural goods (2018: three customers, 44 per cent, 27 per cent and 26 per cent). As stated in "Credit risk" in note 24 "Financial instruments", 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.

2. Revenue - continued

The crop of oil palm fresh fruit bunches for 2019 amounted to 800,666 tonnes (2018: 800,050 tonnes). The fair value of the crop of fresh fruit bunches was $71.6 million (2018: $79.4 million, incorrectly stated as $96.5 million), based on the price formulae determined by the Indonesian government for purchases of fresh fruit bunches from smallholders.

3. Segment information

In the table below, the group's sales of goods are analysed by geographical destination and the carrying amount of net assets is analysed by geographical area of asset location. The group operates in two segments: the cultivation of oil palms and stone and coal interests. In 2019 and 2018, the latter did not meet the quantitative thresholds set out in IFRS 8 "Operating segments" and, accordingly, no analyses are provided by business segment.

	2019 $'m	2018 $'m
Sales by geographical destination:		
Indonesia	125.0	105.5
Rest of World	–	–
	125.0	105.5
Carrying amount of net (liabilities) / assets by geographical area of asset location:		
UK, Continental Europe and Singapore	(68.0)	(46.4)*
Indonesia	320.7	307.7 *
	252.7	261.3

* Incorrectly stated as $26.4m and $234.9m in 2018

4. Agricultural produce inventory movement

The net gain arising from changes in fair value of agricultural produce inventory represents the movement in the carrying value of such inventory after reflecting the movement in the fair value of the fresh fruit bunch input into that inventory (measured at fair value at point of harvest) less the amount of the movement in such inventory at historic cost (which is included in cost of sales).

5. Loss before tax

	2019 $'000	2018 $'000
Salient items charged / (credited) in arriving at loss before tax		
Administrative expenses (see below)	16,097	15,668
Movement in inventories (at historic cost)	9,062	(8,395)
Movement in fair value of growing produce	(138)	662
Amortisation of intangible assets	466	929
Depreciation of property, plant and equipment *	26,821	22,011
Impairment of non-current assets	3,267	–
Profit on disposal of subsidiary	–	(10,373)

* Of which $2.1 million is depreciation of right of use assets (see note 30)

Administrative expenses

	2019 $'000	2018 $'000
(Profit) / loss on disposal of property, plant and equipment	(707)	10
Indonesian operations	13,480	14,728
Head office and other corporate functions	5,928	5,696
	18,701	20,434
Amount included as additions to property, plant and equipment	(2,604)	(4,766)
	16,097	15,668

5. Loss before tax - continued

Amounts payable to the company's auditor

The amount payable to Deloitte LLP for the audit of the company's financial statements was $194,000 (2018: $175,000). Amounts payable to Deloitte LLP for the audit of accounts of subsidiaries of the company pursuant to legislation were $20,000 (2018: $18,000).

Amounts payable to Deloitte LLP for other services in 2019 were $7,000 for the provision of certificates of group compliance with covenants under certain debt instruments (being certificates that those instruments require to be provided by the company's auditor) and for tax filing services. In 2018 other services amounting to $267,000 included reporting accounting services in connection with the disposal of the subsidiary PT Putra Bongan Jaya.

Amounts payable to affiliates of Deloitte LLP for the audit of subsidiaries' financial statements were $nil (2018: $196,000) and for tax compliance services to the company's subsidiary in Singapore were $3,000 (2018: $6,000).

	2019 $'000	2018 $'000
Earnings before interest, tax, depreciation and amortisation		
Operating loss	(9,114)	(10,727)
Depreciation and amortisation	27,287	23,014
	18,173	12,287

6. Staff costs, including directors

	2019 Number	2018 Number
Average number of employees (including executive directors):		
Agricultural – permanent	8,702	7,505
Agricultural – temporary	135	3,251
Head office	11	12
	8,848	10,768
	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	40,484	45,414
Social security costs	1,980	960
Pension costs	2,911	2,445
	45,375	48,819

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

7. Investment revenues

	2019 $'000	2018 $'000
Interest on bank deposits	28	94
Other interest income	567	198
	595	292

8. Impairment of non-current assets

In 2019 the group has recognised a net impairment on non-current assets of $3.3 million, of which $5.0 million is a write off of expenditure on land and set off against this is a correction to non-current assets.

The $5.0 million impairment relates to the write off of the cost of certain land rights in the group's subsidiary KMS. The company had an izin lokasi dated 16 July 2018 which was valid for one year. However when the izin lokasi expired in July 2019 the decision was made not to renew. This land is currently zoned as forest and although it is open for conversion to agricultural use it is also subject to conflicting land rights which would be costly to resolve.

Set off against this is an amount of $1.7 million relating to the correction of an understatement of non-current receivables comprising loans to third parties by the company.

9. 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.

10. Finance costs

	2019 $'000	2018 $'000
Interest on bank loans and overdrafts	14,664	15,485
Interest on dollar notes	1,859	1,877
Interest on sterling notes	3,462	4,085
Interest on other loans	1,539	2,549
Interest on lease liabilities	311	–
Change in value of sterling notes arising from exchange fluctuations	1,357	(2,297)
Change in value of loans arising from exchange fluctuations	7,246	(12,547)
Other finance charges	1,488	1,022
	31,926	10,174
Amount included as additions to property, plant and equipment	(36)	(4,762)
	31,890	5,412

Amounts included as additions to property, plant and equipment arose on borrowings applicable to the Indonesian operations and reflected a capitalisation rate of nil per cent (2018: 15.9 per cent); there is no directly related tax relief.

11. Tax

	2019 $'000	2018 $'000
Current tax:		
UK corporation tax	–	–
Overseas withholding tax	1,289	1,552
Foreign tax	737	9
Total current tax	2,026	1,561
Deferred tax:		
Current year	(24,329)	10,628
Prior year	–	545
Total deferred tax	(24,329)	11,173
Total tax	(22,303)	12,734

11. Tax - continued

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 (2018: 25 per cent) and for the United Kingdom, the taxation provision reflects a corporation tax rate of 19 per cent (2018: 19 per cent) and a deferred tax rate of 17 per cent (2018: 18 per cent).

The rate of corporation tax in the United Kingdom had been expected to reduce from 19 per cent to 17 per cent from 1 April 2020 however in March 2020 it was announced that the rate would continue at 19 per cent.

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

	2019 $'000	2018 $'000
Loss before tax	(43,676)	(5,474)
Notional tax at the UK standard rate of 19 per cent (2018: 19 per cent)	(8,298)	(1,040)
Tax effect of the following items:		
Interest not deductible	7,090	4,353
Other expenses not deductible	954	902
Adjustment in respect of deferred tax	–	9,540
Deferred tax adjustment relating to Indonesian asset valuations	(17,218)	–
Reversal of deferred tax liabilities no longer required	(1,475)	–
Non taxable income	(67)	(3,124)
Overseas tax rates above UK standard rate	(6,577)	678
Overseas withholding taxes, net of relief	1,289	349
Tax credit on loss in overseas subsidiary not recognised	219	201
Tax losses in overseas subsidiaries time expired	352	545
Deferred tax charge for underlying local tax loss	–	360
Change in rate of tax applicable to UK tax losses	753	(3)
Additional tax credits	–	(27)
Other movements	675	–
Tax expense at effective tax rate for the year	(22,303)	12,734

The deferred tax credit of $17.2 million primarily relates to amended applicable fixed asset values in Indonesian companies compared to those agreed with local tax authorities. This is expected to be a one-off adjustment.

There is a deferred tax charge of $352,000 (2018: $545,000) which relates to a portion of the tax losses of the Indonesian plantation subsidiaries 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.

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.

11. Tax - continued

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.

12. Dividends

	2019 $'000	2018 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share (2018: 9p per share)	–	8,353
	–	8,353

In view of the difficult trading conditions prevailing during 2019, the directors concluded that the payment of the fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2019 (totalling $8.5 million) should be deferred. With the major improvement in the CPO price going into January 2020, the directors had hoped to pay preference dividends arising in 2020 and progressively to catch up the preference dividend arrears. Unfortunately, the subsequent disruption wrought by Covid-19 has meant that this plan has had to be put on hold. The directors are well aware that preference shares are bought for income and will aim to recommence the payment of dividends as soon as circumstances permit. However, until there is a recovery in CPO prices and greater certainty as to the future, preference dividends will have to continue to be deferred.

While the dividends on the preference shares are more than six months' in arrears, the company is not permitted to pay dividends on its ordinary shares. In view of the results reported for 2019, the directors would not anyway have considered it appropriate to declare or recommend the payment of any dividend on the ordinary shares in respect of 2019 even if this were permitted.

13. Loss per share

	2019 $'000	2018 $'000
Basic and diluted loss for the purpose of calculating loss per share *	(17,814)	(22,021)
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	41,358	40,510

* Being net loss attributable to ordinary shareholders

14. Goodwill

	2019 $'000	2018 $'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)".

14. Goodwill - continued

The group's testing for impairment of goodwill includes the comparison of the recoverable amount of each cash generating unit to which goodwill has been allocated (the plantations which is treated for this pupose as a single cash generating unit) with their carrying value and this is updated at each reporting date and whenever there are indications of impairment. The recoverable amounts of all plantations are based on their value in use. Value in use is the present value of expected future cash flows from the plantations over a 25 year plantation cycle. The key assumptions and sensitivities are set out in note 1.

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

15. Intangible assets

	2019 $'000	2018 $'000
Beginning of year	5,410	5,377
Additions	–	33
Reclassifications and adjustments	20	–
End of year	5,430	5,410
Amortisation:		
Beginning of year	2,829	1,900
Charge for year	466	929
End of year	3,295	2,829
Carrying amount:		
Beginning of year	2,581	3,477
End of year	2,135	2,581

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

16. 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 2018	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
At 1 January 2019 restated *	182,549	236,930	114,963	7,242	541,684
Additions	2,367	3,068	5,518	7,275	18,228
Reclassifications and adjustments	(7,012)	10,227	3,525	(6,858)	(118)
Disposals - property, plant and equipment	(2,575)	(4,436)	(1,799)	–	(8,810)
At 31 December 2019	175,329	245,789	122,207	7,659	550,984

* Balances at 1 January 2019 have been restated to include right of use assets (see note 30).

16. Property, plant and equipment - continued

	Plantings $'000	Buildings and structures $'000	Plant, equipment and vehicles $'000	Construction in progress $'000	Total $'000
Accumulated depreciation:					
At 1 January 2018	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
Charge for year	9,734	6,904	10,183	–	26,821
Reclassifications and adjustments	–	414	(854)	–	(440)
Disposal - property, plant and equipment	(91)	(124)	(1,776)	–	(1,991)
At 31 December 2019	46,208	45,015	65,405	–	156,628
Carrying amount:					
At 31 December 2019	129,121	200,774	56,802	7,659	394,356
At 31 December 2018	145,984	198,466	55,472	7,242	407,164

The depreciation charge for the year includes $95,000 (2018: $103,000) which has been capitalised as part of additions to plantings and buildings and structures.

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $3.4 million (2018: $1.1 million).

At the balance sheet date, property, plant and equipment of $153.5 million (2018: $153.0 million) had been charged as security for bank loans.

17. Land

	2019 $'000	2018* $'000
Cost:		
Beginning of year	45,657	41,958
Additions	4,552	10,590
Reclassifications and adjustments	(2,155)	3,550
Disposal	(112)	(2,600)
Impairment (see note 8)	(5,022)	–
Disposal of subsidiary	–	(7,841)
End of year	42,920	45,657
Accumulated amortisation:		
Beginning of year	4,381	4,673
Reclassifications and adjustments	(59)	–
Disposal of subsidiary	–	(292)
End of year	4,322	4,381
Carrying amount:		
End of year	38,598	41,276
Beginning of year	41,276	35,178

17. Land - continued

* Balances at 31 December 2018 have been restated following a review of all arrangements having the potential to be classified as operating leases as part of the adoption of IFRS16 and now include costs previously referred to as deferred charges and disclosed within non-current receivables. These costs are described in detail below.

	New policy		Old policy	
Effect of change in accounting policy	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Land	38,598	41,276	29,475	35,890
Non-current receivables	3,889	2,158	13,012	7,544
	42,487	43,434	42,487	43,434

Balances classified as land represent amounts invested in land utilised for the purpose of the plantation operations in Indonesia. There are two types of cost, one relating to the acquisition of HGUs and one relating to izin lokasis.

At 31 December 2019, certificates of HGU had been obtained in respect of areas covering 64,525 hectares (2018: 64,525 hectares). An HGU is effectively a government certification entitling the holder to utilise the land 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 other cost relates to the acquisition of izin lokasi, each of which is an allocation of Indonesian state land granted by the Indonesian local authority responsible for administering the land area to which the allocation relates. Such allocations are preliminary to the process of fully titling an area of land and obtaining an HGU in respect of it. Izin lokasi are normally valid for periods of between one and three years but may be extended if steps have been taken towards obtaining full titles. The costs in question were previously disclosed in non-current receivables but have all been reclassified as they are better viewed as part of the costs of ultimately acquiring HGUs.

As disclosed in note 8 $5.0 million of cost relating to izin lokasi were written off in 2019.

At the balance sheet date, land titles of $15.2 million (2018: $9.9 million) had been charged as security for bank loans (see note 25).

18. Financial assets: stone and coal interests

	2019 $'000	2018 $'000
Stone company	22,843	21,720
Coal companies	30,486	27,291
Provision against loan to coal companies	(3,000)	(3,000)
	50,329	46,011

Interest bearing loans have been made to two Indonesian companies that, directly and through a further Indonesian company, own rights in respect of certain stone and coal concessions in East Kalimantan Indonesia together, with related balances. 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 2019 consolidated income statement (2018: $nil).

18. Financial assets: stone and coal interests - continued

As previously reported, certain arbitration claims have been made against IPA by two claimants (connected with each other) with whom IPA previously had conditional agreements relating to the development and operation of the IPA coal concession. The arbitration is currently scheduled to be heard in Singapore in late June but this may be affected by the Covid-19 pandemic. The arbitrators have joined the company as a party to the arbitration on a prima facie basis and without prejudice to any final determination of jurisdiction. The company, which was never a party to any of the agreements between IPA and the claimants, has declined to accept jurisdiction or participate in the arbitration. Further related claims have subsequently been made or threatened in respect of, inter alia, alleged tortious conduct by the company, its subsidiary, REAS, and its managing director. These potential claims are now stayed pending a conclusion of the arbitration hearing. None of the claims is considered to have any merit.

19. 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.

20. Inventories

	2019 $'000	2018 $'000
Agricultural produce	10,373	14,308
Engineering and other operating inventory	8,192	8,329
	18,565	22,637

Agricultural produce is carried at the lower of cost and net realisable value but for this purpose the cost of fresh fruit bunches (which form part of the input to the cost of agricultural produce) has been measured at fair value at point of harvest.

21. 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 13 "Fair value measurement" as no transactions occur in growing produce prior to harvest.

	2019 $'000	2018 $'000
Beginning of year	2,589	1,927
Fair value gain taken to income	175	662
End of year	2,764	2,589

At the balance sheet date, biological assets of $2.8 million (2018: $2.6 million) had been charged as security for bank loans (see note 25).

22. Trade and other receivables

	2019 $'000	2018 $'000
Due from sale of goods	5,238	5,439
Prepayments and advance payments	4,463	10,510
Advance payment of taxation	13,941	14,013
Deposits and other receivables	30,118	20,752
	53,760	50,714

22. Trade and other receivables - continued

Sales of goods are either immediately paid against presentation of documents or prepaid. Prepayments are recognised in the balance sheet as "contract liabilities' within trade and other payables (see note 31). 53 per cent of sales of goods were prepaid in 2019 (2018: 55 per cent). Sales paid against presentation of documents had an average credit period of 13 days (2018: 7 days). The directors consider that the carrying amount of trade and other receivables approximates their fair value.

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 $9.5 million (2018: $26.3 million) is set out in note 24 under the heading "Credit risk". At 31 December 2019 $5.5 million (2018: $5.1 million) 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 note 29, cash and cash equivalents and equity attributable to shareholders of the company, comprising issued ordinary and preference share capital, reserves and retained earnings as disclosed in notes 32 to 35. 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:

	2019 $'000	2018 $'000
Debt *	217,355	215,830
Cash and cash equivalents	(9,528)	(26,279)
Net debt	207,827	189,551

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

Equity (including non-controlling interests)	252,690	261,274
Net debt to equity ratio	82.2%	72.5%

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.

24. Financial instruments - continued

Categories of financial instruments

Financial assets as at 31 December 2019 comprised receivables and loans (including stone and coal interests) held at amortised cost and cash and cash equivalents amounting to $101.9 million (2018: $99.8 million held at amortised cost).

Financial liabilities as at 31 December 2019 comprised liabilities at amortised cost amounting to $270.4 million (2018: $238.8 million).

As explained in note 18, conditional arrangements exist for the group to acquire at historic cost the shares in the Indonesian companies owning rights over certain stone and coal concessions. The directors have attributed a fair value of zero to these interests in view of the prior claims of loans to the concession owning companies and the present stage of the operations.

Financial risk management objectives

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

The board sets policies on foreign exchange risk, interest rate risk, credit risk, the use of 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 (2018: fixed rates of 11.0 or 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 2019 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 (2018: pre-tax profit (and equity) decrease of $nil).

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 (2018: loss $1.9 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 $6.7 million on the net Indonesian rupiah denominated, non-derivative monetary items (2018: loss of $8.8 million).

24. Financial instruments - continued

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a loss. Management has established a credit policy and the exposure to credit risk is monitored on a continuous basis.

The group has credit risk in respect of loans to stone and coal interests, its customers and also deposits and other receivables (principally advances to plasma cooperatives).

The credit risk in relation to the stone and coal interests is addressed by applying the lifetime expected credit loss model and the directors perform a look through to the value of the underlying stone and coal rights as set out in note 1.

The credit risk in relation to customers is limited as sales are either immediately paid against presentation of documents or prepaid. There are three types of sales of CPO and CPKO.

63 per cent of sales in 2019 were Indonesian FOB sales. Of these sales 95 per cent are paid prior to loading, meaning there is minimal credit risk.

32 per cent of sales in 2019 were Indonesian CIF sales. These are on average one third prepaid but there is virtually no credit risk because the unpaid balance at discharge is covered by a prepayment received against future deliveries.

5 per cent of sales in 2019 were export sales paid via letters of credit so there is virtually no credit risk.

Moreover, sales are to a small number of well-known buyers: about 88 per cent of sales of goods are to 3 customers.

Plasma advances comprise the cost of developing plasma plantations less recoveries (loan repayments) arising from surplus cashflows generated by the plasma plantations. During 2019 the majority of the plasma plantations continued to be relatively young meaning they were marginally profitable, a situation compounded by low prices.

Since the plasma plantations are managed by the company high agronomy standards are maintained thereby ensuring maximum yields and profitability.

With CPO & CPKO prices now forecast to increase sharply in the years ahead plasma plantations are expected to be very profitable and generate sufficient cashflows to fully repay the advances made.

The group reviews the recoverable amount of each debt on an individual basis at the end of the reporting period to ensure that adequate loss allowance is made for irrecoverable amounts. In this regard, the directors of consider that the group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit. At 31 December 2019, 15 per cent of bank deposits were held with banks with a Moody's prime rating of P1 and 85 per cent with a bank with a Moody's prime rating of P2.

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.

Financial instruments

The following tables detail the contractual maturity of the group's financial liabilities at 31 December 2019. 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.

24. Financial instruments - continued

2019	Weighted average interest rate %	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
Bank loans	11.1	28,696	25,378	83,995	138,069
Dollar notes - repayable 2022	7.5	2,028	2,028	28,049	32,105
Sterling notes - repayable 2020	8.8	40,488	–	–	40,488
Non-controlling shareholder loans - dollar	4.8	12,277	677	14,892	27,846
Trade and other payables, and contract liabilities	–	54,827	–	–	54,827
		138,316	28,083	126,936	293,335

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 contract liabilities	–	45,927	–	–	45,927
		80,138	88,929	142,743	311,810

At 31 December 2019, the group's financial assets (other than receivables) comprised cash and deposits of $9.5 million (2018: $26.3 million) carrying a weighted average interest rate of nil per cent (2018: nil per cent) all having a maturity of under one year, and stone and coal interests of $50.3 million (2018: $46.0 million) details of which are given in note 18.

Fair value of financial instruments

The table below provides an analysis of the book values and fair values of financial instruments, excluding receivables and trade payables and Indonesian coal interests, as at the balance sheet date. Cash and deposits, dollar notes and sterling notes are classified as level 1 in the fair value hierarchy prescribed by IFRS 13 "Fair value measurement". (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 2019 (2018: none).

	2019 Book value $'000	2019 Fair value $'000	2018 Book value $'000	2018 Fair value $'000
Cash and deposits*	9,528	9,528.	26,279	26,279
Bank debt - within one year**	(19,168)	(19,168)	(13,966)	(13,966)
Bank debt - after more than one year**	(107,757)	(107,757)	(117,008)	(117,008)
Loans from non-controlling shareholder - within one year*	(11,091)	(11,091)	–	–
Loans from non-controlling shareholder - after more than one year**	(13,539)	(13,539)	(22,919)	(22,919)
Dollar notes - repayable 2022**	(26,804)	(20,817)	(23,724)	(22,833)
Sterling notes - repayable 2025**	(38,996)	(36,416)	(38,213)	(39,735)
Net debt	(207,827)	(199,260)	(189,551)	(190,182)

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

The fair values of cash and deposits, loans from non-controlling shareholder and bank debt approximate their carrying values since these carry interest at current market rates. 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.

Notes to the consolidated financial statements

continued

24. Financial instruments - continued

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 cash flows from financing activities.

	At 1 January 2019 $'000	Financing cash flows $'000	Non-cash other changes $'000	At 31 December 2019 $'000
Bank debt	(130,974)	9,513	(5,464)	(126,925)
Loan from non-controlling shareholder	(22,919)	(1,758)	47	(24,630)
Dollar notes - repayable 2022	(23,724)	(3,000)	(80)	(26,804)
Sterling notes - repayable 2020	(38,213)	–	(783)	(38,996)
Loan from related party	–	(64)	64	–
Total liabilities from financing activities	(215,830)	4,691	(6,216)	(217,355)

The maximum liability in relation to the loan from a related party during the year was $5.4 million.

	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)
Loan from related party	–	228	(228)	–
Total liabilities from financing activities	(220,008)	(6,075)	10,253	(215,830)

The maximum liability in relation to the loan from a related party during the year was $13.4 million.

25. Bank loans

	2019 $'000	2018 $'000
Bank loans	126,925	130,974
The bank loans are repayable as follows:		
On demand or within one year	19,168	13,966
Between one and two years	19,131	13,498
After two years	88,626	103,510
	126,925	130,974
Amount due for settlement within 12 months	19,168	13,966
Amount due for settlement after 12 months	107,757	117,008
	126,925	130,974

25. Bank loans - continued

All bank loans are denominated in Indonesian rupiah (2018: all denominated in Indonesian rupiah) and are at fixed rates (2018: fixed rates). The weighted average interest rate in 2019 was 11.1 per cent (2018: 11.1 per cent). Bank loans of $126.9 million (2018: $131.0 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 $176.9 million (2018: $171.0 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 (2018: $nil).

26. Sterling notes

The sterling notes comprise £30.9 million nominal of 8.75 per cent guaranteed 2020 sterling notes (2018: £30.9 million nominal) issued by the company's subsidiary, REA Finance B.V..

On 1 April 2020 the proposal to extend the repayment date for the sterling notes from 31 August 2020 to 31 August 2025 was implemented. In accordance with the terms of the proposal the company issued a total of 4,010,760 warrants to subscribe, for a period of five years, for ordinary shares in the capital of the company at a price of £1.26 per share to the holders of the sterling notes on the basis of 130 warrants per £1,000 nominal of sterling notes held at the close of business (London time) on 24 March 2020.

The sterling notes are thus now due for repayment on 31 August 2025. A premium of 4p per £1 nominal of sterling notes will now be paid on redemption of the sterling notes on 31 August 2025 (or earlier in the event of default) or on surrender of the sterling notes in satisfaction, in whole or in part, of the subscription price payable on exercise of the warrants on the final subscription date (namely 15 July 2025).

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 2025.

The repayment obligation in respect of the sterling notes of £30.9 million ($40.5 million) is carried in the balance sheet net of the unamortised balance of the note issuance costs.

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

27. Dollar notes

The dollar notes comprise $27.0 million nominal of 7.5 per cent dollar notes 2022 (2018: $24.0 million nominal) and are stated net of the unamortised balance of the note issuance costs.

During 2019 an agreement was reached with a customer of the group pursuant to which the customer entered into an advance supply arrangement for the purchase by the customer of CPO from the group. In connection with such arrangement, it was agreed that the customer should subscribe $3 million of the dollar notes.

On 30 September 2019 the company issued $3 million nominal of new dollar notes by way of a placing and the customer subscribed to the notes for $3 million in cash, plus an amount equal to the interest accrued on the existing issued dollar notes in respect of the period from 1 July 2019 to the date of issue of the new dollar notes.

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 2018	(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)
Credit/(charge) to income for the year	(16,569)	38,832	(475)	1,238	1,303	24,329
Credit to comprehensive income for the year**	–	–	79	–	–	79
Credit to translation reserve	–	–	3,863	–	–	3,863
Exchange differences***	560	884	(289)	28	406	1,589
Transfers	(5,969)	(5,346)	11,315	–	–	–
At 31 December 2019	(46,111)	(5,830)	760	118	11,764	(39,299)
Deferred tax assets	–	–	760	118	11,764	12,642
Deferred tax liabilities	(46,111)	(5,830)	–	–	–	(51,941)
At 31 December 2019	(46,111)	(5,830)	760	118	11,764	(39,299)
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)

* 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 $49.5 million (2018: $41.0 million) available to be applied against future profits. A deferred tax asset of $11.8 million (2018: $10.1 million) has been recognised in respect of these losses, which are expected to be used in the future based on the group's detailed cashflow and profitability projections. Tax losses of $nil (2018: $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 11). A tax loss of $0.4 million incurred by the group's coal subsidiary in 2019 (2018: tax loss $1.6 million) has not been recognised and at the balance sheet date; tax losses aggregating $4.6 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.

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 $4.0 million (2018: $5.7 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 $46.1 million (2018: $24.1 million) in respect of plantings arises from their recognition prior to 2015 at fair value in the group accounts, compared with their historic base cost in the local accounts of overseas subsidiaries.

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

29. Other loans and payables

	2019 $'000	2018 $'000
Indonesian retirement benefit obligations	9,543	7,945
Lease liabilities (see note 30)	4,163	–
Loans from non-controlling shareholder	24,630	22,919
	38,336	30,864
Repayable as follows:		
On demand or within one year (shown under current liabilities)	14,457	718
In the second year	2,821	17,906
In the third to fifth years inclusive	17,742	7,885
After five years	2,316	4,355
Amount due for settlement after 12 months	23,879	30,146
	38,336	30,864
Liabilities by currency:		
Sterling	355	6,352
Dollar	24,630	16,567
Indonesian rupiah	13,351	7,945
	38,336	30,864

Further details of the retirement benefit obligations are set out in note 39. The directors estimate that the fair value of other loans and payables approximates their carrying value.

30. Leases

The group leases boats for the transportation of palm oil and also leases office properties in London and Balikpapan.

On adoption of IFRS 16, the group has recognised as right-of-use assets and additional lease liabilities these leases that were previously classified as 'operating leases' under IAS 17: Leases. The liabilities were measured at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rate as of 1 January 2019. The incremental borrowing rates (discount rates) applied are 8.75% (UK) and 11.0% (Indonesia). A reconciliation of the group's lease liabilities as at 1 January 2019 to the operating lease commitment at 31 December 2018 is shown below.

Impact of transition	Offices $'000	Boats $'000	Total $'000
Operating lease commitments disclosed at 31 December 2018	1,911	–	1,911
Exempt lease (shorter than 12 months)	(47)	–	(47)
Adjustment for IFRS 16 *	(1,222)	1,639	417
Lease liability and right of use assets recognised at 1 January 2019	642	1,639	2,281

* Effect of application of discount rate to office operating lease commitments and recognition of boats not previously disclosed as operating leases.

	Offices $'000	Boats $'000	Total $'000
Lease liabillity:			
Less than one year	183	1,282	1,465
More than one year	459	357	816
	642	1,639	2,281

The office leases have been capitalised as assets in buildings and structures and the boats in plant, equipment and vehicles within property, plant and equipment in fixed assets (see note 16).

30. Leases - continued

Right of use assets in property, plant and equipment

	Buildings and structures	Plant, equipment and vehicles	Total
Cost:	$'000	$'000	$'000
At 1 January 2019	642	1,639	2,281
Additions	–	3,667	3,367
At 31 December 2019	642	5,306	5,948
Depreciation:			
Charge for year	232	1,827	2,059
At 31 December 2019	232	1,827	2,059
Carrying amount:			
At 31 December 2019	410	3,479	3,889

Lease liabilities (see note 29)

Less than one year	248	2,110	2,358
Second year	191	1,076	1,267
Between three and five years	–	538	538
More than five years	–	–	–
	439	3,723	4,163

Other disclosures in these financial statements

Interest on lease liabilities (see note 10)	44	268	311
Principal payments on lease liabilities disclosed in the cash flow statement	264	2,039	2,303

Short term lease

The group has one office building lease in Singapore which qualifies for the short term lease exemption as it expired in 2019 and was not renewed. The group has opted to recognise this lease expense on a straight-line basis as permitted by IFRS 16. This expense of $55,000 (2018: $56,000) is included within administrative expenses. A number of the boat leases also qualify for the short term lease exemption but for consistency are all treated the same.

31. Trade and other payables

	2019 $'000	2018 $'000
Trade purchases and ongoing costs	28,105	21,120*
Contract liabilities	20,972	21,822
Other tax and social security	7,122	6,912
Accruals	5,673	6,940
Other payables	1,580	2,985
	63,452	59,779

*Includes $6.9 million payables to smallholders which would usually be netted off advances to smallholders within deposits and other receivables (note 22).

The average credit period taken on trade payables is 107 days (2018: 94 days).

The contract liabilities relate to prepaid sales contacts whereby advance payments are received for future palm oil deliveries. Revenue recognised during 2019 in respect of 2018 contract liabilities of $21.8 million was $21.5 million and in respect of 2017 contract liabilities was $1.0 million (2018: Revenue recognised in respect of 2017 contract liabilities of $23.8 million was $22.5 million).

31. Trade and other payables - continued

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

32. Share capital

	2019 £'000	2018 £'000
Authorised (in sterling):		
85,000,000 – 9 per cent cumulative preference shares of £1 each (2018: 85,000,000)	85,000	85,000
50,000,000 – ordinary shares of 25p each (2018: 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 (2018: 72,000,000)	116,516	116,516
43,950,529 – ordinary shares of 25p each (2018: 40,509,529)	18,071	17,013
132,500 – ordinary shares of 25p each held in treasury (2018: 132,500)	(1,001)	(1,001)
	133,586	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.

Changes in share capital:

	9 per cent cumulative preference shares of £1 each	Ordinary shares of 25p each
Issued and fully paid:	No.	No.
At 1 January 2018	72,000,000	40,509,529
At 31 December 2018	72,000,000	40,509,529
Issued during the year	–	3,441,000
At 31 December 2019	72,000,000	43,950,529

On 2 October 2019, 3,441,000 new ordinary shares of 25p each were issued, fully paid, by way of a placing (aggregate nominal value £860,250). These shares were placed at a price of £1.45 per share to the following: Mirabaud Pereire Nominees Limited, Emba Holdings Limited (a related party), Carol Gysin (director) and David Blackett (director) for a total consideration of £4,989,000 ($6,027,000). The middle market price at close of business on 27 September 2019 (being the date at which the terms were fixed) was £1.56.

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

33. Share premium account

	$'000
At 1 January 2018 and 31 December 2018	42,401
Issue of ordinary shares (cash)	5,079
Cost of issue	(122)
At 31 December 2019	47,358

Notes to the consolidated financial statements

continued

34. Translation reserve

	2019 $'000	2018 $'000
Beginning of year	(42,470)	(50,897)
Currency translation differences	1,590	17,197
Adjustment to retained earnings in respect of released deferred tax liability	11,588	–
Adjustment in respect of released deferred tax provision	3,863	–
Disposal of subsidiary	–	(7,404)
Attributable to non-controlling interests	(603)	(1,366)
End of year	(26,032)	(42,470)

35. Retained earnings

	2019 $'000	2018 $'000
Beginning of year	114,360	135,074
Loss for the year after preference dividend	(17,814)	(20,714)
Adjustment to translation reserve in respect of released deferred tax liability	(11,588)	–
Other comprehensive income	(179)	–
End of year	84,779	114,360

36. Non-controlling interests

	2019 $'000	2018 $'000
Beginning of year	14,455	17,629
Equity participation	1,500	–
Share of result for the year	(3,559)	(4,540)
Exchange translation differences	603	1,366
End of year	12,999	14,455

The non-controlling interest is a 15 per cent equity interest by two subsidiary companies of PT Dharma Satya Nusantara Tbk in the company's subsidiary PT REA Kaltim Plantations ("REA Kaltim") (see note (iv) to the company accounts).

Key financial information (including intra-group balances but excluding group adjustments) in respect of REA Kaltim and its subsidiaries as extracted from the consolidated financial statements is as follows:

	2019 $	2018 $
Revenue	124,986	105,479
Loss after tax	(6,230)	(27,459)
Non-current assets	316,017	299,593
Current assets	49,363	58,613
Non-current liabilities	(215,190)	(274,363)
Current liabilities	(159,847)	(89,708)

37. Reconciliation of operating loss to operating cash flows

	2019 $'000	2018 $'000
Operating loss	(9,114)	(10,727)
Amortisation of intangible assets	466	929
Depreciation of property, plant and equipment	26,821	22,011
Increase in fair value of agricultural produce inventory	(5,127)	(305)
Increase in value of growing produce	(138)	(662)
Amortisation of sterling and dollar note issue expenses	–	572
(Profit) / loss on disposal of property, plant and equipment	(707)	10
Operating cash flows before movements in working capital	12,201	11,828
Decrease / (increase) in inventories (excluding fair value movements)	9,547	(11,623)
Increase in receivables	(18)	(24,015)**
Increase in payables	6,954	1,053
Exchange translation differences	(2,179)	13,931
Cash generated by / (contributed to) operations	26,505	(8,826)**
Taxes paid	(541)	(1,771)
Tax refunds received	–	1,504
Interest paid*	(23,779)	(25,018)
Realised exchange differences	–	8,235
Net cash from / (to) operating activities	2,185	(25,876)**

* Of which $311,000 is in respect of lease liabilities
** Restated, see note 17

38. Movement in net borrowings

	2019 $'000	2018 $'000
Change in net borrowings resulting from cash flows:		
(Decrease) / increase in cash and cash equivalents, after exchange rate effects	(16,751)	20,736
Net decrease / (increase) in bank borrowings	4,409	(14,079)
Net (increase) / decrease in related party borrowings	(1,711)	6,469
	(14,413)	13,126
Issue of 2022 dollar notes	(3,000)	–
Redemption of 2020 sterling notes	–	1,307
Amortisation of sterling note issue expenses	(420)	(497)
Amortisation of dollar note issue expenses	(80)	(75)
	(17,913)	13,861
Currency translation differences	(363)	11,053
Net borrowings at beginning of year	(189,551)	(214,465)
Net borrowings at end of year	(207,827)	(189,551)

39. 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.

39. Retirement benefit obligations - continued

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 - $4.1 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 deficit would have been similar.

The Scheme has agreed a statement of funding principles with the principal employer and has also agreed a schedule of contributions with participating employers covering normal contributions which are payable at a rate calculated to cover future service benefits under the Scheme.

Total employer contributions (including a discretionary contribution of $66,000) for 2020 are estimated to be $79,000 (2019: $99,000 including a discretionary contribution of $86,000).

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 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, however 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:

	2019	2018
Discount rate (per cent)	8.12	8.50
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

39. Retirement benefit obligations - continued

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

	2019 $'000	2018 $'000
Balance at 1 January	7,945	8,562
Current service cost	1,953	1,226
Interest expense	664	590
Actuarial (loss) / gain recognised in statement of comprehensive income	(428)	1,307
Exchange	(367)	(3,431)
Paid during the year	(224)	(309)
Balance at 31 December (see note 29)	9,543	7,945

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

	2019 $'000	2018 $'000
Current service cost	1,953	1,226
Interest expense	664	590
	2,617	1,816

Estimated lump sum payments to Indonesian employees on retirement in 2020 are $1,000,000 (2019: $500,000).

40. 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	2018 $'000
Short term benefits	1,041	1,564
Termination benefits	–	–
	1,041	1,564

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 $5.4 million, all of which had been repaid by 31 December (2018: $13.4 million). Total interest paid during the year was $83,000 (2018: $243,000). This disclosure is also made in compliance with the requirements of Listing Rule 9.8.4.

41. Rates of exchange

	2019 Closing	2019 Average	2018 Closing	2018 Average
Indonesian rupiah to US dollar	13,901	14,158	14,481	14,215
US dollar to sterling	1.3115	1.2788	1.2689	1.33

42. Events after the reporting period

On 31 March 2020, a general meeting of holders of the sterling notes agreed proposals to extend the repayment date of the sterling notes to 31 August 2025. As consideration for this, the sterling notes will now be repayable at £1.04 per £1.00 nominal on 31 August 2025 and the company has issued to noteholders 4,010,760 warrants each entitling the warrant holder to subscribe, for a period of five years, one new ordinary share in the capital of the company at a subscription price of £1.26 per share.

Since the year end, the impact of the Covid-19 has had a significant impact on the group in terms of the reduction in the CPO price from $860, CIF Rotterdam, at 1 January 2020 to $540 on 30 April 2020. The directors consider the Covid-19 pandemic to be a non-adjusting post balance sheet event. However, should the pandemic result in a depressed CPO price for a prolonged period, this could impact the directors' assessment of the valuation of property, plant and equipment and recognition of deferred tax assets (see "Plantation assets" and "Deferred tax assets" in note 1). Further there is the possibility of operational disruption should the existing lockdown in Indonesia be extended in a way that would reduce or halt group production or restrict the group's ability to deliver its production to customers (although it should be noted that the current lockdown in Indonesia explicitly excludes agricultural business). In these circumstances, the group could experience liquidity issues and might require waivers from Mandiri to avoid breaching bank covenants. However, in this downside scenario, the directors expect that Mandiri would be receptive to requests to adjust the terms of its loans to the group to an extent that reflects the fact that the issues to be addressed will have arisen as a result of Covid-19 and will be short term in nature, especially given that Covid-19 should not impact on the group's longer-term prospects once the CPO price returns to pre Covid-19 levels (see statement on "Going concern" in the "Directors' report").

43. 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 2019 the aggregate outstanding balances owing by the three cooperatives to Bank BPD amounted to Indonesian rupiah 93.3 billion ($6.7 million) (2018: Indonesian rupiah 103.6 billion - $7.2 million).

Company balance sheet

as at 31 December 2019

	Note	2019 $'000	2018 $'000
Non-current assets			
Investments	(iv)	257,083	245,265
Deferred tax assets	(v)	516	547
Total non-current assets		257,599	245,812
Current assets			
Trade and other receivables	(vi)	8,376	4,385
Cash and cash equivalents	(vii)	858	17,756
Total current assets		9,234	22,141
Total assets		266,833	267,953
Current liabilities			
Trade and other payables	(viii)	(6,495)	(14,750)
Amount owed to group undertaking	(x)	(41,085)	–
Total current liabilities		(47,580)	(14,750)
Non-current liabilities			
Dollar notes	(ix)	(26,804)	(23,724)
Amount owed to group undertaking	(x)	–	(39,750)
Total non-current liabilities		(26,804)	(63,474)
Total liabilities		(74,384)	(78,224)
Net assets		192,449	189,729
Equity			
Share capital	(xi)	133,586	132,528
Share premium account	(xii)	47,358	42,401
Exchange reserve	(xii)	(4,300)	(4,300)
Profit and loss account	(xii)	15,805	19,100
Total equity		192,449	189,729

The company reported a loss in the financial year ended 31 December 2019 of $3,295,000 (2018: loss $67,000).

Approved by the board on 7 May 2020 and signed on behalf of the board.

DAVID J BLACKETT
Chairman

Company statement of changes in equity

for the year ended 31 December 2019

	Note	Share capital $'000	Share premium $'000	Exchange reserve $'000	Profit and loss $'000	Total $'000
At 1 January 2018		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
Total comprehensive income	(xii)	–	–	–	(3,295)	(3,295)
Issue of new ordinary shares (cash)	(xi)	1,058	5,079	–	–	6,137
Costs of issue	(xii)	–	(122)	–	–	(122)
At 31 December 2019		133,586	47,358	(4,300)	15,805	192,449

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 2019

	Note	2019 $'000	2018 $'000
Net cash (outflow) / inflow from operating activities	(xiv)	(19,718)	3,407
Investing activities			
Interest received		5,348	6,888
Repayment of loans by subsidiary companies *		43,947	23,731
New loans made to subsidiary companies *		(51,106)	–
Repayment of loan by third party		–	568
New loans made to third parties *		–	(2,312)
Loans to stone and coal interests		(4,319)	(5,593)
Net cash used in investing activities		(6,130)	23,282
Financing activities			
Preference dividends paid	(iii)	–	(8,353)
Proceeds of issue of ordinary shares, less costs of issue	(xi)	6,015	–
Proceeds of issue of 2022 dollar notes, less costs of issue	(ix)	3,000	–
Repayment of loan to subsidiary company		–	(1,307)
New borrowings from related party		5,437	13,440
Repayment of borrowings from related party		(5,437)	(13,440)
Net cash from / (to) financing activities		9,015	(9,660)
Cash and cash equivalents			
Net (decrease) / increase in cash and cash equivalents		(16,834)	17,029
Cash and cash equivalents at beginning of year		17,756	724
Effect of exchange rate changes		(64)	3
Cash and cash equivalents at end of year	(vii)	858	17,756

* 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 119 to 132.

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.

The directors have concluded that it is appropriate to prepare the financial statements on a going concern basis. However, as the CPO price and prospective liquidity issues under the downside scenario are not wholly within management's control, these factors represent a material uncertainty which may cast significant doubt upon the group's and the company's continued ability to operate as a going concern, such that they may be unable to realise their assets and discharge their liabilities in the normal course of business.

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

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

In respect of new standards and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period beginning on 1 January 2019 the group has adopted IFRS 16: Leases but this has had no impact on the financial statements of the company.

The directors do not expect that the adoption of the standards and interpretations which were in issue but not yet effective (and in certain cases had not yet been adopted) listed 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.

(i) Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described on page 122, 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 (2018: $91.8 million) and the group loans at $113.8 million (2018: $104.4 million) as disclosed in note (iv). 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

	2019 $'000	2018 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share (2018: 9p per share)	–	8,353
	–	8,353

In view of the difficult trading conditions prevailing during 2019, the directors concluded that the payment of the fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2019 (totalling $8.5 million) should be deferred. With the major improvement in the CPO price going into January 2020, the directors had hoped to pay preference dividends arising in 2020 and progressively to catch up the preference dividend arrears. Unfortunately, the subsequent disruption wrought by Covid-19 has meant that this plan has had to be put on hold. The directors are well aware that preference shares are bought for income and will aim to recommence the payment of dividends as soon as circumstances permit. However, until there is a recovery in CPO prices and greater certainty as to the future, preference dividends will have to continue to be deferred.

While the dividends on the preference shares are more than six months' in arrears, the company is not permitted to pay dividends on its ordinary shares. In view of the results reported for 2019, the directors would not anyway have considered it appropriate to declare or recommend the payment of any dividend on the ordinary shares in respect of 2019 even if this were permitted.

(iv) Investments

	2019 $'000	2018 $'000
Shares in subsidiaries	91,775	91,775
Loans	165,308	153,490
	257,083	245,265

Notes to the company financial statements

(iv) Investments - continued

The movements were as follows:

	Shares $'000	Loans $'000
At 1 January 2018	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
Repayment of loans	–	(43,947)
Additions to loans	–	55,425
Effect of exchange	–	340
At 31 December 2019	91,775	165,308

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

Subsidiary	Activity	Registered Office	Class of shares	Percentage owned
Makassar Investments Limited (Jersey)	Sub holding company	Fifth floor, 37 Esplanade, St Helier, Jersey JE1 2TR	Ordinary	100.0
PT Cipta Davia Mandiri (Indonesia)	Plantation agriculture	Gedung PAM Tower Lt.9 JL Jend. Sudirman Stal Kuda, Komp. BSB No. 47 RT 19, Kelurahan Damai Bahagia, Kecamatan Balikpapan Selatan 76114 Kalimantan Timur Indonesia	Ordinary	80.8
PT Kartanegara Kumala Sakti (Indonesia)	Plantation agriculture	As for PT Cipta Davia Mandiri	Ordinary	80.8
PT KCC Resources Indonesia (Indonesia)	Stone and coal interests	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

REA Services Private Limited ceased operations on 31 October 2019 and will be struck off by the Accounting and Corporate Regulatory Authority ("ACRA") withiin 60 days of 8 April 2020 if no objections are received.

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 2018	843
Charge to income for the year	(296)
At 31 December 2018	547
Charge to income for the year	(31)
At 31 December 2019	516

There were no deferred tax liabilities at 1 January 2018, 31 December 2018 or 31 December 2019.

At the balance sheet date, the company had unused tax losses of $3.0 million (2018: $3.0 million) available to be applied against future profits. A deferred tax asset of $516,000 (2018: $547,000) has been recognised in respect of these losses as the company considers, based on detailed cashflow and profitability projections, that these losses will be utilised in future periods.

The deferred tax asset reflects a deferred tax of 17 per cent (2018: 18 per cent). The Finance Bill 2016 enacted provisions to reduce the main rate of UK corporation tax to 17 per cent from 1 April 2020. However, in the March 2020 Budget it was announced that the reduction in the UK rate to 17 per cent will now not occur and the corporation tax rate will be held at 19 per cent. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 December 2019 continue to be measured at a rate of 17 per cent. If the amended tax rate had been used, the deferred tax asset would have been $60,712 higher.

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.

(vi) Trade and other receivables

	2019 $'000	2018 $'000
Amount owing by group undertakings	8,340	4,326
Other debtors	31	54
Prepayments and accrued income	5	5
	8,376	4,385

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 $0.9 million (2018: $17.8 million) is set out in note (xiii) under the heading "Risks".

(viii) Trade and other payables

	2019 $'000	2018 $'000
Amount owing to group undertakings	5,649	14,582
Other creditors	52	27
Accruals	794	141
	6,495	14,750

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.

Notes to the company financial statements (continued)

(ix) Dollar notes

The dollar notes comprise $27 million nominal of 7.5 per cent dollar notes 2022 (2018: $24.0 million nominal) and are stated net of the unamortised balance of the note issuance costs.

During 2019 an agreement was reached with a customer of the group pursuant to which the customer entered into an advance supply arrangement for the purchase by the customer of CPO from the group. In connection with such arrangement, it was agreed that the customer should subscribe $3 million of the dollar notes.

On 30 September 2019 the company issued $3 million nominal of new dollar notes by way of a placing and the customer subscribed to the notes for $3 million in cash, plus an amount equal to the interest accrued on the existing issued dollar notes in respect of the period from 1 July 2019 to the date of issue of the new dollar notes.

(x) Amount owed to group undertaking

Amount owed to group undertaking comprises an unsecured interest-bearing loan of £31.3 million - $41.1 million (2018: £31.3 million - $39.8 million) from REA Finance B.V. ("REAF"). As at 31 December 2019 the loan was repayable on 31 August 2020. However as the sterling notes held by REAF were successfully refinanced on 1 April 2020 and are now repayable on 31 August 2025 (see note 26 to the consolidated financial statements) the amount owed by the company to REAF is also repayable on that date.

(xi) Share capital

	2019 £'000	2018 £'000
Authorised (in sterling):		
85,000,000 – 9 per cent cumulative preference shares of £1 each (2018: 85,000,000)	85,000	85,000
50,000,000 – ordinary shares of 25p each (2018: 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 (2018: 72,000,000)	116,516	116,516
43,950,529 – ordinary shares of 25p each (2018: 40,509,529)	18,071	17,013
132,500 – ordinary shares of 25p each held in treasury (2018: 132,500)	(1,001)	(1,001)
	133,586	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.

Changes in share capital:

Issued and fully paid:	9 per cent cumulative preference shares of £1 each No.	Ordinary shares of 25p each No.
At 1 January 2018	72,000,000	40,509,529
At 31 December 2018	72,000,000	40,509,529
Issued during the year	–	3,441,000
At 31 December 2019	72,000,000	43,950,529

(xi) Share capital - continued

On 2 October 2019, 3,441,000 new ordinary shares of 25p each were issued, fully paid, by way of a placing (aggregate nominal value £860,250). These shares were placed at a price of £1.45 per share to the following: Mirabaud Pereire Nominees Limited, Emba Holdings Limited (a related party), Carol Gysin (director) and David Blackett (director) for a total consideration of £4,989,000 ($6,027,000). The middle market price at close of business on 27 September 2019 (being the date at which the terms were fixed) was £1.56.

There have been no changes in preference 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 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
At 1 January 2019	42,401	(4,300)	19,100
Total comprehensive income	–	–	(3,295)
Issue of ordinary shares (cash)	5,079	–	–
Costs of issue	(122)	–	–
At 31 December 2019	47,358	(4,300)	15,805

The exchange reserve arose on the transition from UK GAAP to IFRS and concurrent change of functional currency from sterling to dollars.

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 $3,295,000 (2018: loss $67,000).

(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.

	2019 Book value $'000	2019 Fair value $'000	2018 Book value $'000	2018 Fair value $'000
Cash and cash equivalents	858	858	17,756	17,756
Dollar notes - repayable 2022	(26,804)	(20,817)	(23,724)	(22,833)
Loan from REA Finance B.V. - repayable 2020	(41,085)	(41,085)	(39,750)	(39,750)
Net debt	(67,031)	(61,044)	(45,718)	(44,827)

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.

(xiii) Financial instruments and risks - continued

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 2019, the company had outstanding $27.0 million nominal of 7.5 per cent dollar notes 2022 (2018: $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 is the risk that one party will fail to discharge an obligation and cause the other party to incur a loss. Management has established a credit policy and the exposure to credit risk is monitored on a continuous basis.

The company's credit risk arises in respect of loans to stone and coal companies and a group company and in respect of short-term receivables from group companies.

The credit risk in relation to the stone and coal interests is addressed by applying the lifetime expected credit loss model and the directors perform a look through to the value of the underlying stone and coal rights as set out in note 1 to the group financial statements.

The credit risk in relation to amounts owed by group companies is considered to be low. As set out in note 1 the board continuously monitors the ability of group companies to make repayments via monthly management accounts and regular reviews of forecasts and actual cashflows.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit agencies. At 31 December 2019, all bank deposits were held with banks with a Moody's prime rating of P1.

A limited degree of interest rate risk is accepted. A substantial proportion of the company's financial instruments at 31 December 2019 carried interest at fixed rates rather than floating rates. On the basis of the company's analysis, it is estimated that a rise of one percentage point in interest rates applied to those financial instruments which carry interest at floating rates would have resulted in an increase of $nil (2018: $nil) in the company's interest revenues in its profit and loss account.

Financial instruments

The following table details the contractual maturity of the company's 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.

2019	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	2,028	2,028	28,049	32,105
Loan from REA Finance B.V. - repayable 2020	8.9	41,158	–	–	41,158
Trade and other payables, excluding accruals	–	5,701	–	–	5,701
		48,887	2,028	28,049	78,964

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
Trade and other payables, excluding accruals	–	14,609	–	–	14,609
		20,164	46,821	26,739	93,724

(xiii) Financial instruments and risks - continued

At 31 December 2019, the company's financial assets (other than receivables) comprised cash and deposits of $0.9 million (2018: $17.8 million) carrying a weighted average interest rate of nil per cent (2018: nil per cent) all having a maturity of under one year and loans (including Indonesian stone and coal interests) of $53.4 million (2018: $49.1 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.

2019	At 1 January 2019 $'000	Financing cash flows $'000	Non-cash other changes $'000	At 31 December 2019 $'000
US dollar notes - repayable 2022	23,724	3,000	80	26,804
Loan from REA Finance B.V. - repayable 2020	39,750	–	1,335	41,085
Loan from related party	–	(64)	64	–
Total liabilities from financing activities	63,474	2,936	1,479	67,889

The maximum liability in relation to the loan from a related party during the year was $5.4 million.

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
Loan from related party	–	228	(228)	–
Total liabilities from financing activities	67,082	(1,079)	(2,529)	63,474

The maximum liability in relation to the loan from a related party during the year was $13.4 million.

(xiv) Reconciliation of operating profit to operating cash flows

	2019 $'000	2018 $'000
Operating (loss) / profit	(2,213)	47
Amortisation of US dollar note issue expenses	81	75
Operating cash (outflows) / inflows before movements in working capital	(2,132)	122
(Increase)/ decrease in receivables	(3,567)	1,096
(Decrease) / increase in payables	(9,029)	8,818
Exchange translation differences	1,409	77
Cash (outflow) / inflow from operations	(13,319)	10,113
Taxes paid	(855)	(967)
Interest paid	(5,545)	(5,739)
Net cash (outflow) / inflow from operating activities	(19,718)	3,407

(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.

Notes to the company financial statements (continued)

(xv) Pensions - continued

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 - $4.1 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 (including a discretionary contribution of $66,000) for 2020 are estimated to be $79,000 (2019: $99,000 including a discretionary contribution of $86,000).

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, however 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	2019 $'000	2018 $'000
PT KCC Resources Indonesia	14,325	12,422
Makassar Investments Limited	22,717	14,216
PT REA Kaltim Plantations	76,722	52,727
R.E.A. Services Limited	–	24,997
	113,764	104,362

Loan from subsidiary	$'000	$'000
REA Finance B.V.	(41,085)	(39,750)
	(41,085)	(39,750)

(xvi) Related party transactions - continued

Interest received from subsidiaries	$'000	$'000
PT Cipta Davia Mandiri	–	267
PT REA Kaltim Plantations	4,962	6,312
	4,962	6,579

Interest paid to subsidiary	$'000	$'000
REA Finance B.V.	3,604	3,694
	3,604	3,694

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".

	2019 $'000	2018 $'000
Short term benefits	1,041	1,564
Termination benefits	–	–
	1,041	1,564

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 $5.4 million, all of which had been repaid by 31 December (2018: $13.4 million). Total interest paid during the year was $83,000 (2018: $243,000). This disclosure is also made in compliance with the requirements of Listing Rule 9.8.4.

(xvii) Rates of exchange

See note 41 to the consolidated financial statements.

(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 $127.0 million (2018: $131.0 million). The directors consider the risk of loss to the company from these guarantees to be remote.

Notes to the company financial statements (continued)

(xviii) Contingent liabilities and commitments - continued

Pension liability

The company's contingent liability for pension contributions is disclosed in note (xv) above.

(xix) Events after the reporting period

On 31 March 2020, a general meeting of holders of the sterling notes agreed proposals to extend the repayment date of the sterling notes issued by REAF to 31 August 2025. As consideration for this, the sterling notes will now be repayable at £1.04 per £1.00 nominal on 31 August 2025 and the company has issued to noteholders 4,010,760 warrants each entitling the warrant holder to subscribe, for a period of five years, one new ordinary share in the capital of the company at a subscription price of £1.26 per share. The amount owed by the company to REAF is also now repayable on that date.

Since the year end, the impact of the Covid-19 has had a significant impact on the group in terms of the reduction in the CPO price from $860, CIF Rotterdam, at 1 January 2020 to $540 on 30 April 2020. The directors consider the Covid-19 pandemic to be a non-adjusting post balance sheet event. However, should the pandemic result in a depressed CPO price for a prolonged period, this could impact the directors' assessment of the valuation of the company's investment in subsidiaries. Further there is the possibility of operational disruption should the existing lockdown in Indonesia be extended in a way that would reduce or halt group production or restrict the group's ability to deliver its production to customers (although it should be noted that the current lockdown in Indonesia explicitly excludes agricultural business). In these circumstances, the company could experience liquidity issues and the group might require waivers from Mandiri to avoid breaching bank covenants. However, in this downside scenario, the directors expect that Mandiri would be receptive to requests to adjust the terms of its loans to the group to an extent that reflects the fact that the issues to be addressed will have arisen as a result of Covid-19 and will be short term in nature, especially given that Covid-19 should not impact on the group's longer-term prospects once the CPO price returns to pre Covid-19 levels .

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 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 of the sixtieth annual general meeting of R.E.A. Holdings plc to be held at 32 - 36 Great Portland Street, London W1W 8QX on 11 June 2020 at 10.00 am is set out below.

Attendance

The company has been closely monitoring the evolving situation relating to the outbreak of Coronavirus (Covid-19), including the current restrictions from the UK Government and Public Health England prohibiting public gatherings of more than two people and non-essential travel, save in certain limited circumstances.

Pending further guidance, shareholders are advised that they should not attend the Annual General Meeting in person and any person who attempts to attend the meeting in person will be refused entry.

Shareholders are:

a) strongly encouraged to submit a proxy vote on each of the resolutions in the notice in advance of the meeting:

   (i) via the website of our registrars, Link Asset Services ("Link"), at www.signalshares.com (and so that the appointment is received by the service by no later than 10.00 am on 9 June 2020) or via the CREST electronic proxy appointment service; or

   (ii) by completing, signing and returning a form of proxy to Link as soon as possible and, in any event, so as to arrive by no later than 10.00 am on 9 June 2020

   and given the restrictions on attendance, shareholders are strongly encouraged to appoint the chairman of the meeting as their proxy rather than a named person who will not be permitted to attend the meeting;

b) encouraged to submit ahead of the meeting any questions for the directors, together with the name of the submitting shareholder as it appears on the company's register of members, to the following email address: AGM2020@rea.co.uk so as to be received by no later than 5.00 pm on 9 June 2020. You are directed to the notes pages of the notice for guidance on members' rights to ask questions and when the company will cause them to be answered.

The company:

a) has arranged for shareholders to be able to listen to the proceedings of the meeting via a telephone dial in which can be accessed at any time from 15 minutes prior to the meeting until the conclusion of the meeting using the following dial in details +44 (0)20 3651 8923 and conference code 46081227#. If you are intending to call from overseas, please contact the company secretary at AGM2020@rea.co.uk, who can provide you with an appropriate telephone number. Please note that shareholders will not be able to use this to actively participate in the meeting by voting on the resolutions or asking questions. Accordingly and as noted above, shareholders are urged to vote on the resolutions and to submit any questions they have in advance of the meeting;

b) will continue to closely monitor the situation in the lead up to the meeting and will make any further updates about the meeting on the Investors section (under Regulatory news) of the group's website at www.rea.co.uk. Shareholders are accordingly requested to watch the group's website for any such further updates.

The health and wellbeing of the company's shareholders, directors and employees is of paramount importance and the company shall take such further steps in relation to the meeting as are appropriate with this in mind.

The directors and the chairman of the meeting and any person so authorised by the directors reserve the right, as set out in article 64.5 in the company's current articles of association, to take such action as they think fit for securing the safety of people at the meeting and promoting the orderly conduct of business at the meeting.

Notice

Notice is hereby given that the sixtieth annual general meeting of R.E.A. Holdings plc will be held at 32 - 36 Great Portland Street London W1W 8QX on 11 June 2020 at 10.00 am to consider and, if thought fit, to pass the following resolutions. Resolutions 15, 16 and 17 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 2019, 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 2019.
3. To re-elect as a director David Blackett.
4. To re-elect as a director Irene Chia.
5. To re-elect as a director Carol Gysin.
6. To re-elect as a director John Oakley.
7. To re-elect as a director Richard Robinow.
8. To re-elect as a director Rizal Satar.
9. To re-elect as a director Michael St Clair-George.
10. To appoint MHA MacIntyre Hudson, 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.

11. To authorise the audit committee to determine and approve the remuneration of the auditor.

12. 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 2021 (or, if earlier, on 30 June 2021)

    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.

13. 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 £3,662,544; such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2021), 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.

14. 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 £24,000,000, such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2021), 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.

15. 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 13 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 13; 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 £1,098,763;

and shall expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2021), 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.

16. That the articles of association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the articles of association of the company in substitution for, and to the exclusion of, the existing articles of association.

17. 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
7 May 2020

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

Registered in England and Wales no: 00671099

Notes

The sections of the accompanying Directors' report entitled "Directors", "Acquisition of the company's own shares", "Authorities to allot share capital", "Authority to disapply pre-emption rights", "Articles of association", "General meeting notice period" and "Recommendation" contain information regarding, and recommendations by the board of the company as to voting on, resolutions 3 to 9 and 12 to 17 set out above in this notice of the 2020 annual general meeting of the company (the "2020 Notice").

With respect to the 2020 annual general meeting, all shareholders are advised that they and their respective proxies will not be allowed to attend the meeting in person. An entitlement to attend, as referred to below, will not allow such persons to attend the meeting in person. Please refer to the introduction to this notice for more information.

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 9 June 2020 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 (please refer to the introduction to this notice for information on attendance with respect to the 2020 annual general meeting).

As at the date of the 2020 Notice, a dividend payable on 30 June 2019 to holders of preference shares has been in arrears for a period of more than 6 months; as such the holders of preference shares pursuant to the articles of association of the company are entitled to attend and vote at the 2020 annual general meeting of the company (please refer to introduction to this notice for information on attendance with respect to the 2020 annual general meeting).

Both the holders of ordinary shares and holders of preference shares (the "shares") are therefore entitled to attend and vote at the 2020 annual general meeting (please refer to introduction to this notice for information on attendance with respect to the 2020 annual general meeting). A holder of shares may appoint another person as that holder's proxy to exercise all or any of the holder's rights at the annual general meeting. A holder of 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 0371 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 9 June 2020.

Alternatively, appointment of a proxy may be submitted electronically by using either Link's share portal at www.signalshare.com (and so that the appointment is received by the service by no later than 10.00 am on 9 June 2020) or the CREST electronic proxy appointment service as described below. Given the restrictions on attendance, shareholders are strongly encouraged to appoint the chairman of the meeting as their proxy rather than a named person who will not be permitted to attend the meeting.

Shareholders who have not already registered for Link's share portal may do so by registering as a new user at and giving the investor code as shown on their share certificate).

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 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 The CREST proxy instruction, regardless of whether it constitutes a proxy appointment or an instruction to amend a previous proxy appointment, must, in order to be valid be transmitted so as to be received by the company's registrars (ID: RA10) by 10.00 am on 9 June 2020. 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.

This year, as members and or their proxies will not be attending the annual general meeting in person, the company is giving them the opportunity to email questions in advance of the meeting as described in introduction to this notice. If submitting questions, to be fair to all shareholders who wish to ask a question, you are requested to ask only one question which is relevant to the business of the meeting. When asking a question in advance by email, please confirm your name in the email as it appears in the company's statutory register of members. 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.

A copy of this 2020 Notice, and other information required by section 311A of the Companies Act 2006, may be found on the Investors section (under Shareholder information) of the group's website at www.rea.co.uk.

A copy of the proposed new articles are available on the Investors section (under Capital & Constitution) of the group's website at www.rea.co.uk. Please see the appendix to this 2020 Notice for a summary of the proposed principal changes under resolution 16 to the company's articles of association.

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 2020 Notice, the issued share capital of the company comprises 43,950,529 ordinary shares, of which 132,500 are held as treasury shares, and 72,000,000 9 per cent cumulative preference shares. Holders of ordinary shares and holders of preference shares (and their respective proxies) are entitled to attend and vote at the annual general meeting. Noting that with respect to the 2020 annual general meeting, all shareholders and their respective proxies are advised that they will not be allowed to attend the meeting in person. Please refer to the introduction to this notice for more information.

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 115,818,029 as at the date of this 2020 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

2020 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.

Appendix to the notice of the 2020 annual general meeting

The existing articles of association were adopted on 24 September 2008 and the new articles of association ("new articles") proposed at the 2020 annual general meeting under resolution 16 include the following principal changes:

1. Removing of references to authorised share capital of the company.

2. Allowing general meetings of the company to be held electronically as well as physically in accordance with the Companies (Shareholders' Rights) Regulations 2009 and the Companies Act 2006. The new articles will allow for meetings to be held and conducted in such a way that persons who are not physically present at the same place may attend, speak, and vote at the meeting by electronic means. The directors will use this flexibility where they consider appropriate. Nothing in the new articles will prevent the company from holding physical general meetings (new articles 2.2, 59, 64, 66, 67, 69 and 70).

3. Removing outdated references to ordinary and special business at general meetings.

4. Providing flexibility for the payment of dividends using different distribution channels, including by electronic means, and also permitting the directors to decide which payment method is to be used on any particular occasion and that dividends may be declared or paid in any currency, and that the directors may decide the basis of conversion for any currency (new articles 131 and 135).

5. Other general updates where appropriate, including for the October 2009 implementation of the Companies Act 2006.

This report has been managed by Perivan Financial Limited. (258385)

Using an environmental management system that complies with ISO 14001. With the internationally recognised ISO 14001 certification and are also FSC certified.

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