



R.E.A. HOLDINGS PLC



Annual Report and Accounts

2020

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.



Proboscis Monkey (*Nasalis larvatus*)



Red-naped Trogon (*Harpactes kasumba*)



Harlequin Tree Frog (*Rhacophorus pardalis*)



Bornean Orangutan (*Pongo pygmaeus morio*)

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References in this report to group operating companies in Indonesia are as listed under the map on page 5.

The terms "FFB", "CPO" and "CPKO" mean, respectively, "fresh fruit bunches", "crude palm oil" and "crude palm kernel oil".

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

References to "rupiah" are to the lawful currency of Indonesia.

References to "sterling" or "pounds sterling" are to the lawful currency of the United Kingdom.

Key statistics

	2020	2019	2018	2017	2016
Results (\$'000)					
Revenue	139,088	124,986	105,479	100,241	79,265
Earnings before interest, tax, depreciation and amortisation*	36,775	18,173	12,287	20,051	15,933
Loss before impairments and other charges, exchange gains / (losses) and tax	(11,236)	(31,806)	(30,691)	(18,252)	(18,381)
Loss attributable to ordinary shareholders	(13,183)	(17,814)	(22,021)	(27,408)	(17,800)
Cash generated by / (contributed to) operations**	53,579	26,505	(8,826)	45,816	25,371
Returns per ordinary share					
Loss (US cents)	(30.0)	(43.1)	(54.4)	(67.0)	(48.2)
Dividend (pence)	–	–	–	–	–
Land areas (hectares)***					
Mature oil palm	34,745	33,055	33,292	34,076	31,521
Immature oil palm	1,219	3,099	3,208	10,018	11,325
Planted areas	35,964	36,154	36,500	44,094	42,846
Infrastructure and undeveloped	28,558	28,371	28,025	32,033	27,738
Fully titled	64,522	64,525	64,525	76,127	70,584
Subject to completion of title	10,723	15,873	17,837	34,347	37,631
Total	75,245	80,398	82,362	110,474	108,215
FFB Harvested (tonnes)***					
Group	785,850	800,666	800,050	530,565	468,371
Third party	185,515	198,737	191,228	114,005	98,052
Total	971,365	999,403	991,278	644,570	566,423
Production (tonnes)***					
Total FFB processed	948,261	979,411	969,356	630,600	560,957
CPO	213,536	224,856	217,721	143,916	127,697
Palm kernels	47,186	46,326	45,425	29,122	26,371
CPKO	16,164	15,305	16,095	11,052	9,840
CPO extraction rate****					
	22.5%	23.0%	22.5%	22.8%	22.8%
Yields (tonnes per mature hectare)***					
FFB	22.6	24.2	23.1	15.6	14.9
CPO	5.1	5.6	5.4	3.6	3.4
CPKO	0.4	0.4	0.4	0.3	0.3
Average exchange rates					
Indonesian rupiah to US dollar	14,570	14,158	14,215	13,400	13,369
US dollar to pounds sterling	1.29	1.28	1.33	1.29	1.36

* see note 5

** see note 33

*** 2019 and 2020 hectareage reflect certain adjustments as described in "Agricultural operations" in the "Strategic report"; 2018 hectareage excludes PT Putra Bongan Jaya ("PBJ"), but FFB harvested and production include PBJ to August 2018

**** 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

- Limited Covid-19 effect on operations; revenues increased and FFB crop consistent with previous years
- Steady recovery and firm CPO prices with corresponding improvement in group's financial performance

Financial

- Revenue up 11 per cent to \$139.1 million (2019: \$125.0 million)
- Cost of sales reduced by 10 per cent to \$110.2 million (2019: \$121.8 million) in part reflecting a full year of the cost saving initiatives implemented in previous year
- EBITDA more than doubled to \$36.8 million and cash generated doubled to \$53.6 million
- Pre-tax loss significantly reduced to \$23.2 million (2019: loss of \$43.7 million), after non-recurring impairment and similar charges of \$9.5 million (2019: \$3.3 million)
- Repayment date of £30.9 million nominal of 8.75 per cent sterling notes extended from 2020 to 2025
- \$7.5 million of loan from DSN converted to equity in REA Kaltim and repayment date of balance of loan of \$11.1 million postponed from 2020 to 2025
- Advanced stage discussions to replace outstanding bank loans to REA Kaltim and SYB with new term loans of longer duration, substantially increasing the net bank funding available to the group over the next three years
- Group net indebtedness reduced from \$207.8 million in 2019 to \$189.4 million in 2020

Agricultural operations

- FFB production of 785,850 tonnes (2019: 800,666 tonnes) despite excessively wet weather and Covid-19 related travel restrictions impacting harvester availability in peak cropping months
- Third party FFB of 185,515 tonnes (2019: 198,737 tonnes)
- Pressure on CPO extraction rates from adverse Covid-19 impact on progress of mill works and sub-optimal loose fruit collection in the peak crop period, with average extraction rate of 22.5 per cent (2019: 23.0 per cent)

Stone and coal interests

- Arrangements progressing for quarrying of the andesite stone concession (held by local partner, ATP) to produce crushed stone for a neighbouring coal company road through the group's estates, for local government projects and for other local users of crushed stone
- With better coal prices and Covid-19 concerns subsiding, activity at the Kota Bangun coal concession (held by local partner, IPA) resumed with the contractor aiming to commence operations later in 2021
- Revenue from IPA coal operations also expected in 2021 from shipping coal on behalf of other coal concessions through IPA's port
- Group aiming to recover its loans to the coal concession holding companies and to withdraw from its coal interests as soon as practicable
- Unmeritorious arbitration claims against IPA dismissed and indemnity costs awarded to and recovered by IPA

Outlook

- CPO prices expected to remain firm at or around current levels with growth in global demand for vegetable oils outstripping the growth in supply
- Annual capital expenditure to be maintained at recent more moderate levels; 2021 expenditure to be concentrated on completing expansion of the group's newest oil mill and extension planting of remaining small pockets of land available in existing estates
- Firm CPO prices and steady operational performance underpinning the group's improving financial position and outlook
- Financing options, including equity, equity-linked instruments and trade finance, being explored to strengthen the balance sheet
- Preference dividends arising in 2021 to be paid during the year with the group aiming progressively to catch up preference dividend arrears as soon as circumstances prudently permit

Officers and advisers

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Map



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

Key	
	Coal concession
	Methane capture plant
	Oil mill
	Proposed new Indonesian capital city
	Road
	Stone source
	Tank storage

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

* KKS land area relinquished

2020 was a year of two halves. While operationally, satisfactory crop yields were achieved, the sharp fall in the market prices of CPO and CPKO immediately following the onset of the Covid-19 pandemic had a significant negative impact on results for the first half. As prices steadily recovered through the second half, there was a corresponding improvement in financial performance.

Operationally, the impact of Covid-19 on the group has been limited. The group experienced delays in deliveries of some supplies, as well as travel restrictions that prevented or delayed employees and contractors from returning to the estates. Changes to work practices, on-site testing of employees and other preventative measures, as recommended in the Indonesian government's guidelines, have been introduced and it is pleasing to report that, to date, only some 0.2 per cent of the work force has been infected with Covid-19, the majority with no serious symptoms as categorised by the Indonesian health department.

Climatic factors and respect for the environment are integral to the operations of an agricultural group and the directors are conscious of, and seek to mitigate as far as possible, the impacts of climate change. For some years the group has been monitoring and publishing its carbon footprint calculated by using PalmGHG, a tool developed by the Roundtable on Sustainable Palm Oil. For 2020, emissions are now disclosed under "Sustainability" in the accompanying "Strategic report" in accordance with the recently implemented Streamlined Energy and Carbon Reporting rules ("SECR"); emissions under PalmGHG as well as SECR will continue to be published on the group's website at www.rea.co.uk.

After an encouraging start to the year, the CPO price fell sharply to a low of \$510 per tonne, CIF Rotterdam, in mid May, reflecting the dramatic slowdown in world demand as a result of Covid-19. The recovery in the second half of the year saw prices closing the year at \$940 per tonne as a result of restocking in India and China and reduced production in the major producing countries.

Unfortunately, producers were not able to realise the full benefit of the price increase as the Indonesian government made changes to the export levy scale in order to fund continuing subsidies to Indonesian manufacturers of biodiesel, who were under pressure from relatively low crude oil prices, and to support measures designed to benefit the oil palm industry.

Notwithstanding the impact of export duty and the increased export levy (as set out in the company's press release in December 2020), gross margins in 2020 were a considerable improvement on 2019. The average selling price for the group's CPO in 2020, on an FOB basis at the port of Samarinda, net of export levy and duty, was \$558 (2019: \$453) per tonne. The average selling price for the group's CPKO, on the same basis, was \$601 (2019: \$533) per tonne.

Despite the impact of delayed crop ripening and excessively wet weather in the second half of the year, as well as some shortfall in the availability of harvesters who were unable to

travel to the estates due to Covid-19 related travel restrictions, the group achieved a good production outcome in 2020. FFB at 785,850 tonnes were slightly short of the total for 2019 of 800,666 tonnes, producing a yield per mature hectare of 22.6 tonnes (2019: 24.2 tonnes). Third party harvested FFB was similarly impacted in 2020, with FFB totalling 185,515 tonnes compared with 198,737 tonnes in 2019.

CPO production totalled 213,536 tonnes in 2020 compared with 224,856 tonnes in 2019, reflecting both the lower level of FFB and lower extraction rates. CPO extraction rates, which averaged 22.5 per cent for the year compared with 23.0 per cent in 2019, were squeezed by a combination of delays in completing scheduled works in the mills and some inefficiencies in loose fruit collection during the peak crop period in the latter months of the year. The mill works were delayed by a shortage of spare parts and the unavailability of contractors during the worst periods of the Covid-19 pandemic. Production of both CPKO and palm kernels fared better by contrast at, respectively, 16,164 (2019: 15,305) tonnes and 47,186 tonnes (2019: 46,326).

Revenue for 2020 amounted to \$139.1 million, approximately 11 per cent higher than the \$125.0 million for 2019, reflecting the higher prices for CPO and CPKO during the second half of the year. With a full year's benefit of the cost saving initiatives implemented during 2019, cost of sales was successfully reduced by some 10 per cent to \$110.2 million compared with \$121.8 million in 2019. These improvements led to a doubling of earnings before interest, taxation, depreciation and amortisation ("EBITDA") to \$36.8 million in 2020 (2019: \$18.2 million) and a significant improvement in the operating result, a profit of \$8.8 million in 2020 (2019: loss of \$9.1 million).

Finance costs for the year totalled \$23.1 million compared with \$31.9 million in 2019, although the comparison is distorted by exchange rate movements (arising in relation to sterling and rupiah borrowings) which produced a loss of \$0.3 million in 2020 compared with a loss of \$8.6 million in 2019. Moreover, additional finance costs of \$2.2 million were incurred in 2020 in connection with the extension of the repayment date of the £30.9 million 8.75 per cent sterling notes from 2020 to 2025. Excluding such movements, with the reduction in average borrowings between 2019 and 2020, finance charges were slightly lower in 2020 at \$20.6 million against \$23.3 million in 2019.

Impairment costs, consisting principally of provisions against costs of transferring land to smallholder schemes and expenditure on a land allocation that has been relinquished and therefore written off, amounted to \$9.5 million compared with \$3.3 million in 2019. In consequence, the group made a loss before tax of \$23.2 million compared with \$43.7 million in 2019.

Immediate cash constraints and the prospect of the very significant debt repayments falling due in 2021 and 2022 caused the directors again to defer payment of dividends on the preference shares.

Group equity (including preference share capital) at 31 December 2020 totalled \$225.8 million compared with \$239.7 million at 31 December 2019. The group's local partner in REA Kaltim supported the group in increasing the equity of REA Kaltim during 2020, converting \$7.5 million of loans to REA Kaltim into new equity. Similar changes to the capital structures of CDM, KMS and SYB resulted in new equity being contributed by the minority shareholders of those subsidiaries resulting in an overall increase in the equity of REA Kaltim and its subsidiaries of \$9.9 million. As a result, non-controlling interests at 31 December 2020 amounted to \$20.0 million compared with \$13.0 million at 31 December 2019.

Current liabilities shown by the consolidated balance at 31 December 2020 amounted to \$113.1 million, reflecting the inclusion of amounts totalling \$30.5 million of loans from the group's Indonesian bankers, PT Bank Mandiri (Persero) Tbk ("Mandiri"), to SYB and KMS that would have been classified as non-current liabilities were it not for certain breaches by those companies of loan covenants applicable at the balance sheet date. Mandiri has subsequently waived the breaches in question.

Bank indebtedness was reduced by \$15.8 million in 2020, although the reduction was in part financed by increased pre-sale advances from customers against forward sale commitments of CPO and CPKO. As at 31 December 2020, net indebtedness amounted to \$189.4 million, compared with \$207.8 million at 31 December 2019.

Proposals are currently under discussion with Mandiri whereby the existing Mandiri loans to REA Kaltim and SYB would be repaid and replaced with new loans to those companies. The working capital facility provided to REA Kaltim would also be repaid and replaced with two new annual revolving working capital facilities. The new term loans would provide additional funding to the group and would be repayable over a period of eight years while the new working capital facilities would be renewable annually. The proposals are subject to approval by the credit committee of Mandiri. If approved, net bank funding available to the group over the three years to end 2023 would be substantially increased.

Concurrently with the discussions with Mandiri, the directors have been exploring other financing options, including equity (in the form of ordinary or preference shares), equity linked instruments and trade finance with the aim of strengthening the group's balance sheet and addressing the arrears of preference dividend.

Provided that CPO prices remain at current levels, the directors believe that cash flows are currently adequate to support payment of the current year's preference share dividends but, pending greater certainty on future cash flows, they are not yet in a position to provide guidance regarding payment of the arrears of preference dividend, which now stand at 18p per share. The directors recognise the importance of paying these arrears and will aim progressively to catch up such arrears as soon as circumstances prudently permit.

The group aims to recover its loans from the coal concession holding companies and to withdraw from its coal interests as soon as practicable. Following a recovery in Indonesian coal prices, activity is now resuming at the Kota Bangun coal concession held by the group's local partners in its stone and coal interests with a view to commencing operations later in 2021. Additional revenues are expected to accrue to the concession holding company, PT Indo Pancadasa Agrotama ("IPA"), from fees charged to two neighbouring coal concessions that are planning to ship coal through IPA's port, as well as potentially through the sale of building sand recovered from the overburden that will be removed when mining recommences.

During 2020, the stone concession holding company entered into an agreement with a neighbouring coal company to supply andesite stone for a new road to be built by the coal company through the group's estates. After being put on hold for much of the year due to Covid-19, road building works are now being progressed. For both the coal mining and stone quarrying projects, it is intended that the appointed contractors will fund the required development expenditure in exchange for a participation in the profits from the mine or quarry.

The first few months of 2021 have seen continuing firm CPO prices. At reference prices (being prices broadly equivalent to CIF Rotterdam prices) between \$770 and \$1,000 per tonne, an Indonesian exporter of CPO receives, after deduction of export duty and levy, substantially the same net price per tonne. However, the CPO price, CIF Rotterdam, currently stands at \$1,240 per tonne and exporters benefit from approximately half of the excess of this price over \$1,000. With these good prices, the group's financial position and outlook continues to improve. Production is at good levels, and maintenance and completion of repair works throughout the operations should enhance efficiencies between the estates and mills leading to improving extraction rates. Whilst some capital expenditure will necessarily be incurred on replacement of plant, replanting of the oldest plantings and limited extension planting, completion of the extension of the group's newest mill, which was delayed by the Covid-19 pandemic, will ensure that the group continues to have sufficient processing capacity for the foreseeable future. With better cash flows, the group looks forward to strengthening the group balance sheet and addressing the arrears on the preference dividend.

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.

The report contains forward-looking statements. These 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 is divided into the following sections:

- Chairman's statement
- Introduction and strategic environment
- Agricultural operations
- Stone and coal interests
- Sustainability
- Finance
- Principal risks and uncertainties

This "Introduction and strategic environment" section of the report includes below the statements required pursuant to section 414CB of the Companies Act 2006 (the "Non-financial information statement") and section 172(1) of the Companies Act 2006. The "Finance" section provides explanations regarding amounts disclosed in the financial statements, the group's financial resources and the group's ability to fund its declared strategies.

Non-financial information statement

The group has complied with the requirements of section 414CB of the Companies Act 2006 by including certain non-financial information within this report as detailed 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 discussed in this "Introduction and strategic environment" section.
- (b) "Sustainability" below describes the environmental and social issues facing the group and, in particular, provides information regarding the following matters (including the relevant policies, the due diligence processes implemented in pursuance of those policies and the resultant outcomes):
 - Environment (including streamlined energy and carbon reporting)
 - Responsible agricultural practices
 - Employees
 - Respect for human rights
 - Anti-corruption and anti-bribery
 - Health and safety
 - Communities and smallholders
 - Conservation
- (c) The principal risks identified in relation to the matters listed above and considered by the directors are summarised under "Principal risks and uncertainties" below, including, where relevant a description of the business relationships, products and services that are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed.
- (d) Quantitative indicators that the directors consider relevant to assessment of the group's performance, including non-financial indicators, are described under "Evaluation of performance" in this "Introduction and strategic environment" section below.
- (e) "Agricultural operations", "Stone and coal interests" and "Sustainability" below offer a detailed review of the current status of and trends within the group's activities and the group's plans for their further development and, together with "Finance" below, provide, where appropriate, references to, and additional explanations of, amounts included in the group's accompanying financial statements.

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 CPO and CPKO. Ancillary to these activities, the group generates renewable energy from its methane capture plants to provide power for its own operations and 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 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 that good returns can be achieved.

The knowledge and expertise gained from the group's long involvement in the plantation industry and experience in Indonesia 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 with a firm commitment to sustainable practices and respect for the environment. 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 and respect for the environment.

CPO and CPKO are primary commodities that 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 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 "Principal 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 through the estates, this could be expected to increase the requirement for bunding (subject to environmental considerations) 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 coal related investment, the group's strategy for the coal interests is to maximise the recovery of monies that have been invested and to withdraw from coal activities. As respects the loan to the company holding the stone concession, the directors believe that quarrying of the stone deposits will in due course offer a valuable resource for improving the durability of infrastructure in the group's operations as well as providing useful additional revenue from the sale of stone to third parties that will support the repayment of the loan to the group together with a return on the loan.

The group's financial strategy is discussed under "Financing policy" in "Finance" below.

The group recognises that its agricultural operations, of which the total assets at 31 December 2020 represented approximately 90 per cent of the group's total assets and which, in 2020, contributed substantially all (99 per cent) 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 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.

Initiatives

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 by seeking a strategic investor in the group's principal operating subsidiary, 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.

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, during an extended period of weak CPO prices as witnessed from mid 2017 until late 2020, represented a considerable burden on the group's income. Crop levels have been restored, but the financial

benefit of the improvement in operations was constrained until CPO prices started to firm from mid 2020.

With stronger CPO prices, the group is now starting to see the benefits of the improvement in operational performance, but there remains 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 pressing ahead with expansion of its land bank or developing significant unplanted areas.

Nevertheless, as soon as financing permits, the group aims to complete some limited extension planting of areas that were susceptible to flooding within existing estates but can now be planted or resupplied following the construction of bunds. In addition, the group aims to commence necessary replanting of its oldest mature areas. Decisions regarding such extension planting and replanting are aimed at maintaining the value of the group's existing operations without compromising on financial health or on the group's environmental policies.

As the group's financial health improves, consideration will be given to development of the group's as yet unplanted land areas taking 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. In the meanwhile, the group has concluded that it should not continue to expend monies on retaining land areas that it is unlikely to be able to plant in the foreseeable future. In line with this policy, in 2019, the group wrote off its investment in a 1,964 hectare land allocation formerly held by KMS and, as noted under "Land area" in Agricultural operations" below, in 2020, has written off its investment in a 5,150 hectare land allocation held by KKS, in both cases following decisions not to renew the land allocations in question.

The vegetable oil market context

According to Oil World, in the year to 30 September 2020 worldwide consumption of the 17 major vegetable and animal oils and fats increased by 0.1 per cent to 237.2 million tonnes, while production decreased by 0.9 percent to 235.5 million tonnes. For the same period, consumption and production of the 13 major vegetable oils represented, respectively, 209.9 million tonnes and 208.2 million tonnes, with CPO accounting for, respectively, 76.2 million tonnes and 73.8 million tonnes. Total vegetable oil production is currently forecast by Oil World to rise by 1 per cent in 2021 to 211.5 million tonnes, with total CPO production projected to account for approximately 77.0 million tonnes (36 per cent) of the total.

Vegetable and animal oils and fats have conventionally been used principally for the production of cooking oil, margarine and soap. Consumption of these basic commodities correlates with population growth and, in less developed areas, with per capita incomes and thus economic growth. Demand is therefore driven by the increasing world population and economic growth in the key markets of 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 2020 accounted for some 17 per cent of global consumption of the 17 major vegetable and animal oils and fats. 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 discussed below. 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 below. 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 \$772 per tonne. The low of the daily price over the same ten years was \$439 per tonne in November 2018.

After an initial firm start to 2020, CPO prices fell away with the onset of the Covid-19 pandemic, from \$860 per tonne, CIF Rotterdam, on 1 January to a low for the year of \$510 per tonne in May. Prices then staged a steady recovery from the middle of the year through to the end of 2020 to close at \$940 per tonne. These stronger prices have continued into the first months of 2021 with CPO, CIF Rotterdam, currently at \$1,240 per tonne, supported by a general reduction in supplies of vegetable oils combined with continuing demand growth as economies start to recover from the setbacks of 2020.

CPO production and stock levels, particularly in Malaysia, have been affected by labour shortages during the Covid-19 pandemic. This has been exacerbated in recent months by excessive rainfall delaying in field collection and transportation of crops. In addition, smallholder production of CPO has been impacted by reduced fertiliser applications in response to the weak CPO prices in the first half of 2020. Together these factors have significantly depleted stocks which are unlikely

CPO monthly average price



to recover for the remainder of 2021. Looking further ahead, 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 slower rate than in the last decade.

The higher CPO prices now prevailing are materially beneficial to the group although, as for all Indonesian palm oil companies, the extent of the benefit is reduced by two imposts chargeable on exports of Indonesian CPO: export duty and export levy. Export duty is a tax payable to the Indonesian government. Export levy is payable to a dedicated fund that utilises levy income to subsidise the manufacture of biodiesel from CPO and to support other measures designed to benefit the growing of oil palms in Indonesia. Because biodiesel is a substitute for petroleum based diesel oil, it has to be priced on a basis that reflects prevailing levels of petroleum oil prices. As a result, at current higher CPO prices, the manufacture of biodiesel would be uneconomic without a subsidy.

Both export duty and export levy are calculated on sliding scales by reference to a CPO reference price (currently \$1,094 per tonne) that is set periodically by the Indonesian government on the basis of CIF Rotterdam and other benchmark CPO prices. Following the rise in the CPO price in the second half of 2020, the Indonesian government announced changes to the export levy scale. An effect of the changes is that, at reference prices between \$770 and \$1,000 per tonne, an exporter of Indonesian CPO receives, after deduction of export duty and levy, substantially the same net price per tonne. Although CPO produced by the group is generally sold in the Indonesian local market, which means that group sales are not subject to export duty or export levy, arbitrage between the Indonesian local and international CPO markets normally results in a local price that is broadly in line with prevailing international prices after adjustment of the latter for delivery costs and export duty and levy.

According to Oil World, Indonesian palm oil for biodiesel production will consume approaching eight million tonnes of CPO in 2021 and the Indonesian government has stated that it is committed to increasing the mandatory usage of biodiesel in transport fuel. The application of monies raised by the export levy to subsidise Indonesian producers of biodiesel should permit Indonesian biodiesel to remain competitive with regular diesel oil and thereby underpin biodiesel offtake of CPO. These factors, combined with the effect of the current scales of export duty and levy as described above, mean that prices for local sales of Indonesian CPO can reasonably be expected to remain stable at current levels for the immediate future.

The Indonesian context

After a year of good economic growth and political stability in 2019, the prospects for Indonesia in 2020 looked far less certain with the onset at the start of the year of the global Covid-19 pandemic. It is therefore encouraging to note that, whilst Indonesia, as elsewhere, saw a sharp drop in the rate of economic growth in 2020, there was no economic collapse or political and social unrest as might have occurred. Indeed, albeit that the impact of the pandemic is not yet over, Indonesia has fared better than many other countries and is well placed to resume strong growth as global economies recover.

The Indonesian economy grew by some 2.1 per cent in 2020 (2019: 5.2 per cent) with annual inflation falling to 1.7 per cent (2019: 2.7 per cent). In its efforts to stimulate the economy, Bank Indonesia progressively reduced its base rate from 5.0 per cent at the end of 2019 to 3.75 per cent at the end of 2020 and, subsequently, to the current rate of 3.5 per cent. Whilst the presidential election in the United States in the latter part of 2020 clearly had an impact on exchange rates, the weakness of the rupiah at the start of the year, reflecting initial fears for the economy, was followed by a sustained recovery, reflecting growing confidence in the

economy. The rupiah exchange rate against the dollar moved from Rp 13,901 = \$1 at the end of 2019, to a low of Rp 16,367 = \$1 at the end of March 2020, before gradually recovering to Rp 14,105 = \$1 at the end of 2020.

Indonesia's primarily resource based economy was negatively impacted by the collapse in commodity prices, including CPO and coal, that followed the onset of the Covid-19 pandemic but it was the almost overnight shut down of global air travel that had the greatest impact as the increasingly important international tourism market has become a major employer. Whilst commodity prices have seen sharp recoveries in recent months, it seems likely that a recovery in the international tourism sector will take much longer.

Despite the economic challenges experienced during 2020, Indonesia has continued to enjoy political stability. Following President Joko Widodo's ("Jokowi") appointment of his former presidential challenger, Prabowo Subianto, as Minister of Defense in his first cabinet, President Jokowi appointed Prabowo's running mate, Sandiaga Uno, as the Minister of Tourism in a subsequent cabinet reshuffle in early 2021. In his second term, President Jokowi is perceived to be demonstrating political wisdom and pragmatism to maintain political stability, thereby allowing him to focus on the economy so as to create jobs and spread wealth more evenly across the archipelago.

Whilst Covid-19 infection rates remain serious in Indonesia and hospitals and other health care facilities are under pressure, the Indonesian government has taken an aggressive approach to rolling out vaccines now that these are available. Free vaccination for all citizens over the age of 60 is offered in most parts of the country. Under a separate programme, all members of the police, military and employees of state owned enterprises are being vaccinated. In addition, vaccines are being made available in limited quantities for private sector employers to apply to purchase for vaccinating their employees. The group has made such an application and aims to provide vaccinations for certain employees, including the most vulnerable, who are not currently eligible for the government vaccination programme.

Following the challenges of 2020, prospects for Indonesia in 2021 are brighter. In particular, the oil palm sector is seeing prices at multi year high levels and the industry is receiving recognition and hence support from central government for its role as the largest generator of export revenues and biggest employer in the country. CPO is also central to the government's biodiesel programme, which is aimed at both reducing crude oil imports and helping to meet Indonesia's commitment to reducing carbon emissions.

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 2020 with, where available, comparative figures for 2019 are provided in the succeeding sections of this report, with each category of indicators being covered in the corresponding section of the report.

Key Performance Indicator	Measurement	Purpose
Agricultural operations		
Crop of 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
FFB yield per mature hectare	The FFB crop harvested (as defined above) divided by the hectareage of the mature area	To measure field productivity and harvesting efficiency and assess the extent to which the group is achieving its objective of maximising output from its existing plantings
CPO extraction rate achieved	The percentage by weight of CPO extracted from FFB processed	To measure harvesting and 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 harvesting and 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
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
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 these interests are achieving the objective of maximising output from 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	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 group's greenhouse gas emission efficiency
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

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. The board acknowledges the importance of climate change and seeks to mitigate the negative impacts of the business on the environment through its sustainable practices.

As described under “Agricultural operations” below, the group’s activities necessitate decisions based on long term considerations: from the acquisition of land titles to the development of land, from the cultivation of oil palms to the harvesting of FFB, and from building oil processing mills to producing CPO and CPKO. 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” in “Sustainability” below. 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 key aspects of the group’s operations and presents in person (or by conference call) 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 and govern the conduct of its operations. These policies cover NDPE (no deforestation, no peat, no exploitation), business ethics, responsible development, environment and biodiversity conservation, human rights, health and safety, and protection of crocodiles and are available for 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 under such headings in “Sustainability” below.

Employee welfare is central to decisions regarding the interests of the group’s employees, particularly given the remote 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” in “Sustainability” below.

Matters relating to climate change are described under “Principal risks and uncertainties”, “Streamlined energy and carbon reporting” in “Sustainability”, and under “Climate change” in the “Directors’ report”.

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” in “Sustainability” below.

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 oil palm 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.

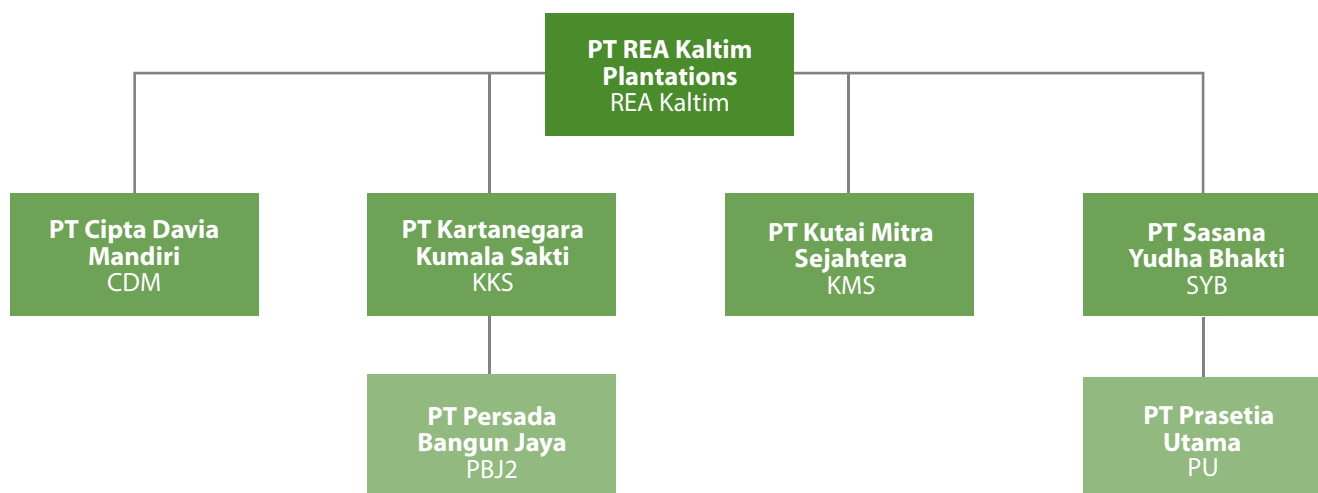
Structure

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 1991 and planted in 1994, 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 five per cent by Indonesian local investors.

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

REA Kaltim sub-group



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 and KMS 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.

For some years, 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 Senyur River links REA Kaltim with the KMS and CDM areas.

As previously reported, agreement was reached early in 2020 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). Once construction has been completed, this 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.

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 in 2020 totalled 64,522 hectares, a reduction of some three hectares compared with the total reported in 2019 following an updated survey of the land areas concerned. 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 2020, the group holds, or has held and can potentially renew, land allocations totalling 10,723 hectares. This total now excludes a land allocation of 5,150 hectares formerly held by KKS that has been relinquished. Renewal and retention of undeveloped land allocations involves cost 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, taking account of evolving environmental considerations and prospective titling problems arising from conflicting land claims. On this basis, the group concluded that it should not seek renewal on its expiry of the former KKS land allocation and should write off the investment in this land area. The financial effect of this decision is explained under “Group results” in “Finance” below.

Details of the land areas held by the group as at 31 December 2020 are set out below:

Land areas	Hectares
Fully titled land	
CDM	9,784
KMS	7,321
PU	9,097
REA Kaltim	30,106
SYB	8,214
	64,522
Land subject to completion of titling	
CDM	5,454
PBJ2	5,269
	10,723

Areas not yet fully titled can be expected to result in some reduction in hectareage 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 now applies 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 its undeveloped land holdings, subject to the group's environmental policies and sustainability obligations. The group does not believe that any land now intended for further expansion is likely to be lost as a consequence of this government policy.

Land development

Areas planted as at 31 December 2020 amounted in total to 35,964 hectares, of which mature plantings comprised 34,745 hectares having a weighted average age of 16 years. A further 1,008 hectares planted in 2017 were scheduled to come to maturity at the start of 2021.

The breakdown by planting year of the total of 35,964 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	2,268
1997	2,479
1998	4,820
1999	351
2000	874
2004	3,190
2005	2,280
2006	3,361
2007	3,455
2008	927
2009	124
2010	1,275
2011	1,002
2012	1,944
2013	1,814
2014	299
2015	61
2016	1,858
	34,745
Immature areas	
2017	1,008
2018	211
2019	–
2020	–
	35,964

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.

During 2020, some 80 hectares of mature plantings were handed over to the neighbouring coal company that is constructing a road through the group's Satria estate pursuant to an agreement reached at the beginning of the year. As noted under "Land areas" above, the new road will provide a valuable land route for evacuating the group's produce when river levels restrict barge access to the estates. In addition, 68 hectares of mature plantings and 32 hectares of immature plantings were transferred to local village cooperatives in 2020.

Each year, based on a review by the group's survey department, the amount of both mature and immature plantings in certain years may be adjusted to reflect the outcome of the survey reports. Such adjustments resulted in a net decrease of 10 planted hectares in 2020.

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 within the framework of the group's sustainability criteria, 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 two years, the group's extension planting programme has been on hold pending a sustained recovery in the CPO price and in the group's financial performance. In the meantime, work has continued on bunding in preparation for resupplying plantings to areas that have been damaged over the years by periodic flooding. Subject to funding constraints, this will extend the group's planted hectareage by some 1,000 hectares over the next two years. The group also plans to commence limited replanting of the oldest mature areas, where crop yields can be expected to start to fall off in the coming years.

The group has continued to maintain nurseries to ensure availability of seedlings for the resupply of the newly banded areas and for replanting, as well as for planned further development in due course.

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. Works to effect this expansion were expected to have been completed during 2020 but were delayed by limited supplies of spare parts and the availability of contractors as a consequence of the Covid-19 pandemic. Modification works to POM and COM to improve utilisation of their processing capacity during peak cropping periods were similarly impacted in 2020. Such modifications and the expansion of SOM, which is now progressing towards completion later in 2021, 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.

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 of larger shipments. The majority of CPO sales are currently made CIF to an Indonesian refinery in Balikpapan, East Kalimantan, which can be easily accessed from the group's bulking station on the Mahakam River. During 2020, a regular monthly shipment of

CPO was made to a destination in East Malaysia. Deliveries to this destination involve a longer voyage time than deliveries to local refineries but prices realised in 2020 for East Malaysian deliveries 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 2020 (with comparative figures for the corresponding period of 2019) were as follows:

	2020	2019
FFB crops (tonnes)		
Group harvested*	785,850	800,666
Third party harvested	185,515	198,737
Total	971,365	999,403
Production (tonnes)		
Total FFB processed	948,261	979,411
CPO	213,536	224,856
Palm kernels	47,186	46,326
CPKO	16,164	15,305
Extraction rates (percentage)		
CPO	22.5	23.0
Palm kernels	5.0	4.7
CPKO**	39.5	40.7
Rainfall (mm)		
Average across the estates	3,061	3,057

* Group harvested FFB for both years includes crops from areas that are currently being reallocated to plasma and which will be excluded for group crop reporting purposes going forward

** Based on kernels processed

The group achieved a satisfactory FFB outturn for the third consecutive year at 785,850 tonnes, a yield exceeding 22.6 tonnes per mature hectare. After a strong start to 2020, cropping slowed in the middle of the year with ripening delayed in common with other plantation companies in the region. Following on from this slowdown, peak production in the latter months of the year clashed with a combination of excessively wet weather, that hindered both harvesting and crop evacuation, and a shortfall in the availability of harvesters who were unable to travel to the estates due to the Covid-19 pandemic.

Work on modification and upgrading of the group's three mills was also hindered by the Covid-19 pandemic which limited supplies of spare parts and the availability of contractors needed to complete the scheduled works. This led to some processing delays during the peak crop months in the last quarter of 2020 which in turn put pressure on extraction rates.

The group continues to drive standards of husbandry and field disciplines, including maintenance of the recommended fertiliser regimes and transport efficiency in order to optimise crop and oil production. Extraction rates have been and remain an area of particular focus. Oil losses in the group's mills have been reduced, but the benefits of this improvement have been negated by disappointing loose fruit collection during the harvesting process. When an oil palm FFB ripens, some of the fruitlets start to detach from the bunch. It is important that these detached fruitlets ("loose fruit") are collected during harvesting, because fruitlets are the oil and kernel bearing components of an FFB. However, it is natural that harvesters, under pressure to complete their tasks, may have a tendency (especially in periods of high cropping) to concentrate on harvesting the bunches from the palm and to overlook loose fruit on the ground around the base of the palm. The group is implementing various measures, including realignment of financial incentives, to combat this tendency and to improve the recovery of loose fruit.

Production in the first quarter of 2021 has continued at good levels with the typical year-end peak crop period extending into the first months of the year. Group FFB amounted to 189,844 tonnes in the first three months to the end of March 2021, compared with 172,712 tonnes for the same period in 2020. Third party FFB amounted to 57,152 tonnes in the three month period against 46,607 tonnes for the comparable period in 2020. Group FFB now excludes crops from areas that are in the process of being reallocated to plasma and are therefore included as third party FFB (2020 first quarter comparative has been adjusted accordingly). The CPO extraction rate averaged 21.8 per cent in the first three months of 2021, compared with 23.4 per cent for the same period in 2020.

Although the group has had some success in recruiting harvesters, potential Covid-19 risks are continuing to inhibit some potential harvester recruits from moving to new employment. As the Covid-19 vaccination programme in Indonesia gathers pace, this is expected to become less of an issue.

Revenues

The majority of the group's CPO and all of its CPKO is sold in the local Indonesian market, reflecting continuing demand from easily accessible local refiners. During 2020, a small proportion of sales was made to a refinery in East Malaysia. The group has established relationships with each of the four main refineries now operating locally. 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 (2019: \$10) per tonne for CPO sold with International Sustainability and Carbon Certification and, respectively, \$4 (2019: \$2) and \$25 (2019: \$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. Whilst the group has never ruled out making forward sales at fixed prices, the fact that export levy and export duty are levied on prices prevailing at date of delivery, not on prices realised, acts as a disincentive to making forward fixed price sales. This means that a rise in CPO prices prior to delivery of fixed price forward sales will mean that the group will not only forego the benefit of a higher price but may also pay export levy and duty on, and at rates 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 2020 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 shipment by reference to prevailing prices, were extended in 2020 with buyers continuing to seek secure oil supplies. The average prices per tonne realised by the group in respect of 2020 sales of CPO and CPKO, adjusted to FOB, Samarinda, and net of export duty were, respectively, \$558 (2019: \$453) and \$601 (2019: \$533). The group's sales are for the most part priced approximately four weeks ahead of delivery. This means that there is a lag of four weeks in the impact on the group of price movements in the CPO and CPKO markets.

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 hectare 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 seven 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. Three megawatts of generating capacity supply power to villages and sub-villages surrounding the group's estates by way of the local grid owned by the Indonesian government's energy company, PLN.

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 \$791,000 in 2020, compared with \$746,000 in 2019. 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, manufacture of bricks for housing using a mixture of cement and boiler ash from the mills, and fabrication of spare parts for mill repairs.

Further efficiencies are now being derived from the progressive roll out of handheld devices across all of the group's operations to input data into the group's information system, thereby improving recording accuracy, speeding up the generation of operational reports and, over time, facilitating savings in administrative costs. Implementation in 2020 of a new human resources IT system and a procurement and inventory management module that are designed to integrate with the existing management information system will provide additional improvement and, ultimately, some cost saving benefits.

Stone and coal interests

Concessions

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

The stone concession comprises substantial deposits of high grade andesite stone located to the north east of the SYB northern plantations. A much smaller limestone deposit adjacent to the formerly held by PBJ is not currently active. Stone interests are complementary to the group's plantation interests. Quarried stone from the andesite deposits offers 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 together with a return on the loan.

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. It is the director's intention to seek to recover its loans from the coal concession holding companies and withdraw from its coal interests as soon as practicable.

Structure

The andesite stone and coal mining concessions are held by Indonesian companies which are wholly owned by the group's local partners. Stone quarrying is classified as a mining activity for Indonesian licensing purposes and is subject to the same regulatory regime as coal mining.

Historically, the group had the right, subject to satisfaction of certain conditions (the "applicable conditions"), to acquire 95 per cent of the concession holding group of 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. The andesite stone concession holding company has guaranteed the obligations to the group of the coal concession holding companies.

Background and operating activities

The group embarked on a new initiative between 2008 and 2010 by investing in stone and coal interests. However, the directors concluded in 2012 that coal mining and trading have specific complexities that are not shared by the group's agricultural operations and decided 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, in light of a substantial fall in international coal prices, coal activities were suspended until 2017 when coal prices began to recover.

In 2017, work began to reopen the more important coal concession at Kota Bangun, held by 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 IPA'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 in 2018. Following consideration of various options with suitable contractors, in 2019 IPA then 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 undertook further drilling to confirm existing data and develop a mine plan in the expectation that mobilisation and mining would commence in 2020. However, plans had to be put on hold as a result of the Covid-19 pandemic.

Activity has now resumed, with the contractor negotiating land compensation with affected local individuals and repairing the haul road to the port to prepare for mining in 2021. Preliminary investigations indicate that a part of the overburden to be removed when mining recommences at IPA will be suitable for crushing and sale as building sand. If confirmed, this may enhance the revenues from mining at IPA. In addition, IPA expects to generate revenues from its concession by fees from two neighbouring coal concessions that are currently planning to ship coal through IPA's port.

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 building and infrastructure construction programmes. Following the agreement in 2020 with a neighbouring coal company referred to under "Agricultural

Stone and coal interests

continued

operations" above, the project to supply andesite for the new road planned to be built by that company through the group's estates is now being progressed. It is expected that quarrying will be undertaken by a contractor on a basis similar to that agreed for the Kota Bangun coal concession. Looking further ahead, local civil works for government projects in East Kalimantan are likely to require large quantities of crushed stone.

As previously reported, a merits hearing in the arbitration in respect of certain claims made against IPA by two claimants (connected with each other), with whom IPA previously had conditional agreements relating to the development and operations of the IPA coal concession, took place by way of a virtual hearing at the end of June 2020. The company was joined as a party to the arbitration on a prima facie basis and without prejudice to any final determination of jurisdiction. Further separate, but related, potential claims threatened by the two claimants in respect of, inter alia, alleged tortious conduct by the group's subsidiary, R.E.A. Services Limited ("REAS"), and its managing director were stayed pending a conclusion of the arbitration hearing. None of the claims was considered to have any merit and this was confirmed in December 2020, when the arbitral tribunal dismissed all claims in the arbitration against IPA and the group and awarded costs on an indemnity basis to IPA. Such costs have since been fully recovered. The tribunal's decision also removed the grounds for the separate stayed claims in respect of tortious conduct.

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 internationally recognised standards. 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 ("ESG") best practice. The overall SPOTT score comprises three ESG disclosure categories: organisation (the operations, assets and management structure); policies (the commitments and processes that guide the operations); and practices (the 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, high conservation values ("HCVs"), high carbon stocks ("HCSs"), peatlands, fire, greenhouse gas ("GHG") emissions, water, chemicals, pest management, smallholders, community (land) rights, labour rights and grievances. The group scored 79.8 per cent in the 2020 assessment, increased from 75.7 per cent in 2019 and compared with an average score of 41.5 per cent for the 100 palm oil companies assessed against 180 ESG indicators.

Policies

The group follows a policy framework that underpins the group's commitment to established, sustainable practices and demonstrates the group's desire to remain at the forefront of sustainable palm oil production. The group's policies, which are regularly reviewed and updated, can be downloaded from the Sustainability section of the group's website at www.rea.co.uk. Together, these policies embody best practices with respect to 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, human rights 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. 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

The group has been a member of RSPO since 2007. 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, POM and COM, and their supply chains were first certified in 2011. The supply chain for COM includes the group's most recently matured estate, KMS, which attained RSPO certification in 2020 after a two year independent audit process. Surveillance audits are conducted annually to ensure continuing compliance and recertification audits take place every five years. The annual surveillance audits were successfully completed in 2020 securing renewal of the PalmTrace licences. The five yearly recertification audits of POM and COM, the COM kernel crushing plant ("KCP") and their supply chains together with the group's downstream bulking station are due to take place in 2021.

As previously reported, in 2017, one of the approved certification bodies awarded the group's third oil mill, 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 supplying that 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 successfully completed and its PalmTrace licence renewed in 2020.

In 2020, after a number of years, RSPO completed its review of compensation liabilities in respect of two small areas of land within SYB that were cleared in 2008 prior to conducting HCV assessments. The group's proposal in respect of some 129 hectares of land at Satria estate and the final HCV compensation liability in respect of 44 hectares at SYB's Tepian estate, that were excised from

the POM supply base in 2019, were both approved. For each liability, the group has developed a concept note for a conservation and rehabilitation programme in accordance with the RSPO's Remediation and Compensation Procedure. The concept notes are now subject to review by the RSPO. Once these are approved, SOM can be audited to secure certification and the Tepian area will be reinstated within the POM certified supply base.

The social impact assessment ("SIA") required to be conducted by third party consultants in respect of 959 hectares cleared at CDM prior to conducting an HCV assessment was delayed in 2020 owing to Covid-19 travel restrictions. This is now scheduled to take place during 2021. A compensation plan has already been agreed in principle with RSPO and 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.

RSPO has also reviewed certain incidences of land clearing prior to HCV assessments in respect of two plasma cooperatives which could result in a small compensation liability. These were reported to the RSPO under a land use change assessment ("LUCA") in 2019, with additional supporting materials provided by the group regarding the environmental and social impact assessments ("ESIAs"), free prior and informed consent ("FPIC"), participatory land use maps, the land acquisition process, any unresolved land disputes, corporate social responsibility ("CSR") activities and consultation with the relevant communities demonstrating that the group has no social liability in respect of the areas in question. The final conservation liability was determined in March 2021 and the group is now developing the concept notes for RSPO approval.

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 for each of the three mills and the bulking station were renewed in 2020 and again in 2021.

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 the end of 2021. SOM and the Satria estates first obtained ISPO certification in 2018, which is valid until mid 2023, and have also passed the annual surveillance audits. 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:

	CPO		CPKO	
	tonnes	%	tonnes	%
RSPO sales	12,049	5.6	7,101	45.8
RSPO credits	–	–	–	–
ISCC sales	109,321	50.8	–	–
Other (not certified)	93,931*	43.6	8,402	54.2
Total	215,301	100.0	15,503	100.0

* Includes some certified CPO production that was sold as uncertified or without any sustainability premium

Environment

ISO 14001 is the international standard for effective environmental management systems 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 the company's standards go beyond the standard regulatory requirements.

	Provincial	National
POM	Green	Blue
COM	Green	Blue
SOM	Green	Blue

Streamlined energy and carbon reporting (“SECR”)

The group has been monitoring and reporting its carbon footprint using the PalmGHG tool for over ten years and currently uses the latest version (version 4) of the PalmGHG tool which became mandatory for RSPO members on 1 January 2020. The PalmGHG tool was developed by a multi-stakeholder group within RSPO which included leading scientists in the field of GHG accounting for oil palm operations. Annual reporting of emissions using the PalmGHG tool has been mandatory for all RSPO members since 2016, with submissions independently verified by RSPO accredited certification bodies.

The PalmGHG tool uses a lifecycle assessment approach, whereby all of the major sources of GHG emissions (carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O)) 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 indirect, emissions associated with the group's oil palm operations in Indonesia are captured within the PalmGHG tool. Changes in the calculation methodologies of the various versions of the PalmGHG tool as it has developed, together with accounting adjustments to reflect the proportion of FFB that is processed in the group's own mills each year, mean that there are variations in the calculation of emissions from year to year.

In addition to reporting RSPO PalmGHG, since 2012 the group has also been reporting GHG emissions to the ISCC which uses a different calculation methodology and for which submissions are independently verified by an ISCC accredited certification body.

Following implementation of the UK Government requirement to publish information on energy consumption and efficiency, for reporting periods starting on or after 1 April 2019, the group now reports in accordance with SECR as set out below. Emissions under PalmGHG as well as SECR will continue to be published on the group's website at www.rea.co.uk.

Whilst the methodology for calculating emissions under SECR is identical to that used for RSPO, the scope of activities covered is different. RSPO requires only the GHG emissions from the group's palm oil mills and their supply bases to be included. Emissions linked to the group's estates that do not yet supply FFB to one of the group's mills are not 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 once the development starts producing crop.

The scope of emissions reported under SECR, however, includes all group activities worldwide and thus includes emissions from new developments as these arise but excludes the amortisation of emissions accumulated during the development of areas now in production. Except where otherwise stated, the PalmGHG methodology, adjusted for this

different basis, has been used for the calculations.

	2020	2019
Emissions (tCO₂eq)		
Oil palm cultivation in Indonesia¹		
Gross	600,484	629,732
Net	81,940	114,693
Collection, milling and distribution operations in Indonesia²		
Gross	106,690	93,752
Net	76,888	75,366
Emissions from electricity purchased for own use³		
	86.7	92.8
Global emissions		
Gross	707,261	723,578
Net	158,914	190,152
UK emissions included within global emissions	30.1	38.8
Energy usage (kWh)		
	'000	'000
Energy use from combustion of fuel	70,551	78,937
Energy use from methane capture generated electricity	17,836	20,543
Energy use from purchased electricity	83	88
Global energy use	88,470	99,569
UK energy use included within global energy use	29	37
Intensity measures⁴		
Net emissions per tonne of CPO produced (tCO ₂ eq/tonne CPO)	0.73	0.83
Net emissions per planted hectare (tCO ₂ eq/ha)	4.47	5.23

- Covers Scope 1 direct GHG emissions from historic land conversion, agricultural practices and peat soil; includes sequestration by crop and conservation forest areas. Some Scope 3 indirect GHG emissions including those associated with the extraction, production and transport of purchased materials such as fertilisers and pesticides, as well as fuel usage by third party contractors involved in operations
- Covers Scope 1 and Scope 3 emissions from the transport and processing of crop and waste products; also includes sequestration from sale of excess electricity generated from waste products and sale of excess palm kernel shell for energy generation. Conversion factor used to calculate energy use from combustion of fuel is 10.58 kWh/litre diesel (source: UK Government GHG Conversion Factors for company reporting 2020)
- Covers Scope 2 emissions associated with electricity usage in group offices in both Indonesia and the UK, representing indirect GHG emissions from the consumption of purchased electricity as defined by the GHG Protocol.
- Calculated using palm oil industry emissions disclosure data for palm oil operations in Indonesia

Gross carbon dioxide emissions associated with the group's oil palm operations were two per cent lower in 2020 compared with 2019. This reduction reflected lower emissions from peat oxidation (over a significantly reduced area of land that was previously considered to have been peatland) and fertiliser use (as explained in “Responsible agricultural practices” below). By contrast, in 2020 there were higher emissions from so-called land conversions under the PalmGHG calculation methodology, arising from the need to transport crop between the group's mills during periods when the usual

mill serving certain estates was temporarily closed for repair works. Emissions from palm oil mill effluent ("POME") were also slightly higher in 2020 due to an increase in the volume of POME produced, an increase in the chemical oxygen demand ("COD") of the POME and a greater proportion of POME produced at SOM, reflecting the increased volume of crop processed at SOM in 2020. SOM does not yet have a methane capture plant and, hence, the level of emissions from this mill is higher than at the group's other two mills.

Net GHG emissions associated with oil palm operations in Indonesia decreased by 16 per cent in 2020. The net GHG emissions are calculated by deducting the carbon dioxide that is estimated to have been fixed (sequestered) by the oil palms and conserved set-aside forest through the process of photosynthesis from the gross GHG emissions. A further deduction is made to account for the GHG emissions that have been avoided as a result of the use of renewable electricity from the group's methane capture facilities in domestic buildings and by local communities that were previously supplied with electricity from diesel powered generators.

The group's net GHG emissions have been expressed per tonne of CPO produced and per planted hectare (immature and mature). Both measures are considered relevant because the maturity of the oil palm within the supply base does not influence the trend in GHG emissions per planted hectare, whereas it does impact the GHG emissions per tonne of CPO.

Responsible agricultural practices

Maintaining clean air and fresh water resources is vitally important for the villages in, and in the proximity of, 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 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 dryer 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 2.5 m³ per tonne FFB. All three of the group's mills were within this target in 2020, with overall water usage decreasing from 1.55 m³ per tonne in 2019 to 1.39 m³ per tonne in 2020. With continuing careful water management, further reductions are targeted for 2021.

Greenhouse gas emissions from 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 application of inorganic fertiliser decreased between 2019 and 2020, from 34,291 tonnes (0.87 tonnes/hectare) to 26,232 tonnes (0.74 tonnes/hectare) owing partly to some late deliveries due to the Covid-19 pandemic and partly to the need to delay applications during periods of heavy rainfall. In addition, fertiliser is no longer being applied to small areas that are scheduled for replanting in the near future. Some fertiliser deliveries due in 2020 were subsequently received and applied.

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 nutrients and the soil with organic matter which helps to retain moisture, promote beneficial soil biodiversity and fertility. Increasing the organic carbon content of soils in this way also improves their resilience to periods of dry weather which may otherwise initiate stress in the palms.

Through routine monitoring by the group's environment department of 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 2020, the group's workforce (which excludes non-executive directors) numbered 7,963 compared with 8,084 at the end of 2019.

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 and

refined regularly. The system of compensation and benefits for harvesters incentivises productivity by awarding monthly bonuses to harvesters who achieve certain graduated targets, with additional allowances paid for harvesting tall palms.

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 "batako" 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 over the years. Each year, there is a programme for building new houses and renovating existing properties and infrastructure for families living on the group's estates. Village emplacements are provided with medical clinics, crèches, mosques, churches, sports facilities and markets.

Employee cooperative shops ("REA Mart"), established with the support of the group's community development department, serve the group's northern and southern estate areas, supplying everyday groceries and household items for the benefit of employees living in estate housing. The shops are able to bulk purchase and thereby source products competitively. REA Mart has continued to provide supplies throughout the period of the pandemic.

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 now manages 27 schools, including 13 pre-schools, 13 primary schools and one secondary school. At the end of 2020, there were 2,774 students (535 pre-school, 1,997 primary school and 242 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 management (previously "cadet") training programme which is run in collaboration with the Technical Institutes in nearby Samarinda. The programme is run from the group's central training school and provides participants with 12 months of theoretical and practical training in all aspects of plantation management. Management trainees 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, 414 trainees have participated in this programme of whom some 30 per cent are still employed by the group.

Help with career advancement is not restricted to the management 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 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 the end of 2020, 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 2020, women accounted for 23 per cent of the group's workforce, including 18 per cent of the management team.

	2020		2019	
	Male	Female	Male	Female
Employee numbers				
Directors	5	2	5	2
Management	58	13	57	13
Rest of workforce	6,087	1,804	6,201	1,812
Total	6,150	1,819	6,263	1,827

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.

The group has committed to a code of conduct that was established in 2011 and embodies the group's anti-bribery and corruption policy as well as whistleblowing procedures. The whistleblowing procedure implemented for employees in Indonesia, where the majority of the workforce is based, is managed and facilitated by a professional independent third party firm.

During 2020, the human resources department has overseen the implementation of measures to mitigate the risks of the Covid-19 pandemic in accordance with Indonesian government guidelines and regulations. Working with the group's medical department, policies, health protocols including antibody and antigen testing, have been introduced for employees, contractors and other visitors to the group's sites. To date, 0.2 per cent of the workforce is reported to have been infected with Covid-19, the majority with no

serious symptoms as categorised by the Indonesian health department.

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 of REA Kaltim and all of whom are based in Indonesia, 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 group's Indonesian subsidiaries.

Health and safety

The group continues to work towards achieving the Indonesian Health and Safety Work Management System ("SMK3") accreditation with the intention of securing this in 2021. Implementation of the international standards of Operational Health and Safety Management System ("OHSAS") 18001 was again delayed in 2020 as external providers of the training required were not available due to Covid-19 travel restrictions.

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.

Covid-19 related restrictions hindered the group's safety training programmes during 2020, particularly those that were to be facilitated externally, with the total number of work training hours reduced from 4,213 hours in 2019 to 2,560 hours in 2020. Nevertheless, the group focused on conducting in-house training within government guidelines, concentrating on topics such as fire awareness and fire-fighting, safe driving practices and the safe storage and use of chemicals.

Regrettably, there were two incidents that led to two fatalities on the group's estates during 2020. Both incidents constitute work-related incidents for health and safety reporting purposes and resulted from failure by the individuals concerned to follow the appropriate group procedures and clear guidelines. The group 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 and operational teams implement any necessary remedial action across the group to minimise the risk of repeat occurrences.

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 19 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, 18 paramedics, 13 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 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.

In response to the emergence of the Covid-19 pandemic in 2020, the group adopted a strict testing and isolation policy at the group's operational sites in addition to the restriction of visitors entering the location. In line with government guidelines, protocols were swiftly established to limit face to face interactions, promote the use of face masks, practice social distancing, increase the frequency of hand washing and increase sanitation of work and communal facilities. Such actions helped to minimise the number of positive Covid-19 cases with the first case reported on the estates only in November 2020. For 2020 as a whole, 41 positive Covid-19 cases were identified out of 405 tests conducted, with all such identified cases making a full recovery and there being no hospitalisations.

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 group's ability to operate sustainably

and efficiently. Regular meetings take place between members of an experienced inhouse team 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 group's operations. Inevitably, Covid-19 impacted the implementation of some initiatives during 2020 but the constraints resulting from the pandemic were well understood by the communities.

As well as supporting smallholder farmers growing oil palm, the group also encourages these communities to become less dependent on oil palm cultivation by developing other businesses to diversify their food production and income with agricultural products, such as corn, vegetables and rice, and supporting them with the development of fish ponds, irrigation of rice fields, and distribution of seeds.

During 2020, the group started working with the local government and communities to develop a network of trained community groups to promote fire prevention and develop fire-fighting capabilities in, initially, eight neighbouring villages. The community groups are intended to encourage efforts to reduce the traditional reliance on fire for clearing village land and work in parallel with other group funded community development initiatives to promote forest and habitat conservation. This project will be extended into additional villages.

Under a recent government initiative, the group runs waste and recycling centres in the housing areas for each of its estates and mills. The centres collect waste from employees and their households and the waste is then collected by two local district bodies as part of the inorganic waste management programme sponsored by the regional Environment and Forestry Service. Households receive financial compensation based on the volume of waste deposited and the group benefits from the reduction in waste collected for landfill.

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 27 claims in 2017 to a handful of claims in each year since. Of the five claims lodged in 2020, together relating to some 246 hectares, two were new claims that proved legitimate and were fully resolved. The remaining three claims are carried over from previous years, are not considered to be legitimate and are in the process of being resolved.

Community resources

Over the last 20 years, the group 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's 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: "Program Pemberdayaan Masyarakat Desa" ("PPMD"), "plasma" and independent smallholders. These schemes, and the purchase 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. The group has provided technical field training on oil palm cultivation, cooperative management training and other assistance through visits to smallholders' farms in 14 different PPMD cooperatives, although training had to be curtailed in 2020 due to Covid-19 travel restrictions and lockdown periods. Six of these PPMD cooperatives have interest-free loans from the group.

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 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 smallholder areas amounted to 15,088 hectares at 31 December 2020, equivalent to 42 per cent of the planted areas of the group's own estates of 35,964 hectares.

Smallholder plantings (hectares)	2020	2019
Plasma	4,034	3,762
Independent smallholders	9,523	9,523
PPMD	1,531	1,531
Total	15,088	14,816

The group has also continued to address the traceability of its FFB supply chain to ensure traceability to source for external FFB that is processed in the group's mills. Mapping of smallholdings supplying FFB to the group's mills has been completed and the group now has a database of all smallholder land within the group's supply base. FFB suppliers are registered through their local cooperatives and each delivery to the group's mills is recorded and its origin verified. This data is also used for analysis in connection with the group's programme of support to local farmers with field and management training in a drive to improve their productivity, fruit quality and sustainable practices.

The group currently purchases FFB from 14 PPMD cooperatives, 7 plasma scheme cooperatives and 10 independent smallholder cooperatives. Together they accounted for some 20 per cent of the FFB processed in the group's mills and provided revenue to the cooperatives equivalent in total to some \$23.1 million in 2020.

FFB purchased (tonnes)*	2020	2019
Plasma	43,318	42,155
Independent smallholders and PPMD	142,156	146,326
Total	185,474	188,481
Revenue (\$ million)	23.1	19.3

* Excluding purchases from third party corporates

The Satelligence system, which generates bi-weekly updates and is used to monitor the status of forest cover and land clearing activities within and around the group's estates, was recently upgraded to an online platform that is

readily accessible by the group's conservation, survey and sustainability departments. This facilitates rapid investigation of illegal activities within the estates and smallholder areas that may be damaging to the environment.

Conservation

Plantation development in the tropics has the potential to significantly alter local biodiversity and natural ecosystem functions. Operational requirements for oil palm cultivation, that include land clearing, maintenance, harvesting, processing and delivery, should be guided by conservation principles to avoid or mitigate negative impacts and augment positive steps to restore or enhance original landscape level biological diversity. The group's plantation, biodiversity and community related conservation actions are reviewed annually to assess whether further refinement is required to improve their effectiveness.

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 since evolved, aspiring to exceed rather than just meet all the requirements of the sustainability bodies by which the group is certified.

REA Kon's initial mandate was to integrate conservation principles into the group's plantation operations based upon a detailed empirical description of the landscape within and adjacent to the group's operational areas. A set of objectives was developed to: conserve or enhance the original values of the landscape; minimise negative impacts of human activities; and provide long term benefits for biological species, local communities and the group. The department's findings were used to upgrade and progressively refine conservation principles into practical guidelines for the group's operations.

REA Kon has worked hard over the years to expand the department's understanding of the composition and dynamics of the biological landscape within the group's boundaries through an annually updated, permanent database of species' richness, distribution and abundance. This information includes annual mapping of the locations of any Endangered species within the group's boundaries and provides a basis for prioritising both financial and human resources 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.

The REA Kon department is organised into three functional areas: plantation ecology (evaluating the long-term ecological relationships between planted blocks and conservation reserves); 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).

The boundaries of all conservation reserves are clearly marked with signboards to identify their status. 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. Following an evaluation of the most suitable method for restoration, the sites are allowed to regenerate either naturally or through intervention by careful rewilding.

Quarterly water quality testing and monthly programmes of forest restoration and enrichment are conducted in all conservation reserves (HCV areas) and other sites that are no longer designated for planting. Together with the biodiversity staff, the plantation ecology team also investigates the relationship between forest species and planted blocks. For example, ecological questions such as whether forest birds forage for insects within the plantation are of particular interest, and could potentially have a role in naturally reducing pests within oil palm plantations, reducing the need for chemical spraying. In addition to replanting degraded areas with local tree species, seedlings of native shade, timber and fruit trees are also produced and distributed to local villages, schools and emplacements within the group's estates. Rambutan, jackfruit and durian trees planted by REA Kon in 2008 now produce abundant edible fruit to benefit wildlife as well as the workforce and guests to the estates.

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 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 45 mammal, 147 bird, 26 reptile and 23 amphibian species have been detected and a total of 49 species of butterflies (*Lepidoptera*) recorded, with the GPS positions and encounter dates and relevant conservation data entered into the 2020 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 observed and recorded since January 2020 are: Bornean Orangutan (*Pongo pygmaeus morio*) (EN), Bornean gibbon (*Hylobates muelleri*) (EN), Proboscis monkey (*Nasalis larvatus*) (EN), Sunda Pangolin (*Manis javanica*) (CR), Flat-headed Cat (*Prionailurus planiceps*) (EN); Storm's stork (*Ciconia stormi*) (EN), Wrinkled Hornbill (*Rhabdornis corrugatus*) (EN), and the Sunda freshwater crocodile (*Crocodylus siamensis*) (CR).

Through camera trapping arrays and walking surveys along permanent transects, REA Kon identifies the location of each individual orangutan, the highest priority species. Wherever orangutan nests are encountered, at least two units of camera trap are set in order to identify individuals by their characteristics, such as size, sex and facial features, an assessment of their body condition and health, and

the detection of infants. Camera trap monitoring provides information on spatial distribution of the species and superior population estimates, in addition to the accurate identification of individuals. In 2020, 29 individual orangutans were identified within five of the group's forested conservation areas (12 females, eight males, four adolescents and four infants; the sex of one other adult could not be determined). No orangutan-human conflicts were reported, and one female carrying a small infant was photographed eating an oil palm fruitlet.

REA Kon's conservation efforts continue to be augmented 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 data that supports valid, evidence-based decisions on conservation practice and the effective management of biodiversity of high conservation value areas. REA Kon compares data sets over time to assess whether the department's objectives are being met for enhancing species richness and diversity, and restoring natural ecological functions.

REA Kon's engagement with local communities, schools and workers' emplacements within the group's operational area was severely curtailed as a consequence of the Covid-19 pandemic. The education camps for school age children at the REA Kon field station were replaced with smaller group discussions and workshops held in open venues to present and explain REA Kon's conservation programmes. The department also created a series of distance learning tools, including posters on the group's activities, its conservation policy for Endangered species and species diversity as well as guides for identifying local birds and amphibians. More formal presentations on REA Kon's role and conservation objectives continued to be made to gatherings of estate employees and to relevant departments of the Provincial, Regency and District authorities. REA Kon maintains its close cooperation with the Provincial Government's Natural Resources Conservation Agency.

Managing encroachment into conservation reserves poses a significant risk to the viability of endangered species and their forest habitats. Owing to a complicated traditional land rights system, procedures in the form of a charter have been developed to manage cooperation between local villages, REA Kon and the group's village affairs and security teams, so that they can respond swiftly to illegal logging or land clearing within conservation reserves. Precautions against transmission of Covid-19 have on occasion hampered efforts to deter encroachment. Nevertheless, REA Kon has continued to inspect locations to determine the extent of an affected area, those responsible for any damage and the relevance of any legal or customary rights. The village affairs department then follows up on each case to determine whether a case warrants compensation or prosecution by local government authorities.

Accounting policies

The group continues to report in accordance with International Financial Reporting Standards (“IFRS”), the company is reporting under Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS101”) for the first time. Both the group and the company continue to present their financial statements in dollars.

There have been no changes to the group's accounting policies as a consequence of new standards and amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for accounting periods beginning on or after 1 January 2020 as they do not impact the disclosures or amounts reported by the group.

Group results

Group revenue, operating profit and loss before tax for 2020 (with comparative figures for 2019), were as follows:

	2020	2019
	\$'m	\$'m
Revenue	139.1	125.0
Operating profit / (loss)	8.8	(9.1)
Loss before tax	(23.2)	(43.7)

Revenues increased by over 11 per cent in 2020 compared with 2019 with higher average selling prices offsetting CPO sale volumes that were some 12 per cent lower. The lower volume reflected the factors discussed under “Crops and extraction rates” in “Agricultural operations” above and the sale during 2019 of an unusually large carry over of stock from the preceding year. Average prices realised by the group for CPO and CPKO adjusted to FOB, Samarinda, and net of export charges were, respectively, \$558 (2019: \$453) per tonne and \$601 (2019: \$533) per tonne.

Operating costs were some 10 per cent lower in 2020 compared with 2019. Contributory factors to this reduction were the delays in application of fertiliser noted under “Responsible agricultural practices” in “Sustainability” above and a full year's benefit from the cost saving initiatives implemented since 2018 including, in particular, the material reduction in headcount from an average of 10,768 in 2018 to an average of 7,861 in 2020.

Cost of sales reported for 2020 was made up as follows (with comparative figures for 2019):

	2020	2019
	\$'m	\$'m
Purchase of external FFB	23.1	17.8
Estate operating costs	59.4	67.6
Depreciation and amortisation	28.0	27.3
Stock movements (at historic cost)	(0.3)	9.1
	110.2	121.8

The purchase cost of external FFB reflected increased volume (205,502 tonnes in 2020 compared with 188,481 tonnes in 2019) as well as the effect of higher CPO prices. The large stock movement in 2019 reflected an unusually large volume of CPO stocks carried over to 2019 at the end of 2018 whereas closing stocks at 31 December 2020 were at normal levels. There was a slight increase in the charge for depreciation and amortisation because as further immature plantings come to maturity, the depreciation in respect of plantings and related infrastructure increases.

Administrative costs reported for 2020 were made up as follows (with comparative figures for 2019):

	2020	2019
	\$'m	\$'m
Loss / (profit) on disposal of property, plant and equipment	0.5	(0.7)
Indonesian operations	12.8	13.5
Head office and other corporate functions	4.8	5.9
	18.1	18.7
Amount capitalised	(1.6)	(2.6)
	16.5	16.1

The total of \$18.1 million, before deduction of amounts capitalised as costs of immature planting, represented a reduction of some \$0.6 million on the administrative costs of the preceding year. However, adjusting for the 2020 loss and 2019 gain on disposal of property, plant and equipment, the reduction between 2019 and 2020 increases to \$1.8 million overall. This reflects the closure of the Singapore office and some savings in Indonesia. As a result of the reduction in the proportion of total planted areas represented by immature plantings, the capitalisation percentage was reduced which left administrative costs net of capitalisation of \$16.5 million in 2020, similar to costs of \$16.1 million in 2019.

Earnings before interest, taxation, depreciation and amortisation (“EBITDA”) amounted to \$36.8 million, an \$18.6 million improvement on the 2019 comparative of \$18.2 million. As anticipated at the time of publication of the 2020 interim report, and as in previous years, the EBITDA of the second half at \$25.6 million was significantly better than that of the first half of \$11.2 million. This reflected the weighting of the group's crops to the second half and better selling prices in the second half of 2020.

Finance costs for 2020 totalled \$23.1 million compared with \$31.9 million in 2019. Comparison of these amounts is distorted by exchange movements (arising in relation to sterling and rupiah borrowings) which resulted in a loss of \$0.3 million in 2020 compared to a loss of \$8.6 million in 2019. In addition, the group incurred additional finance costs of \$2.2 million arising on the extension of the repayment date of the £30.9 million 8.75 per cent sterling notes (the “sterling notes”) from 2020 to 2025. Such cost comprised \$1.1 million in respect of the warrants issued by the company to holders of the sterling notes (offset by a credit of \$1.1 million to equity) and \$1.1 million in respect of the present value of the new

premium (of \$1.7 million) payable on final redemption of the sterling notes. Without such movements, finance charges for 2020 (before capitalisation to immature areas) at \$20.6 million would have been slightly lower than the \$23.3 million incurred in 2019 as a result of the overall reduction in the average level of borrowings between 2019 and 2020.

The group loss before tax was significantly reduced in 2020 compared to 2019, albeit that the results were again affected by significant non-recurring items. The impact of these and of exchange movements was as follows:

	2020	2019
	\$'m	\$'m
Loss before tax	(23.2)	(43.7)
Exchange movements	0.3	8.6
Cost of extension of repayment date of sterling notes	2.2	–
Impairment and other charges	9.5	3.3
Adjusted loss	(11.2)	(31.8)

The 2020 impairment losses and other charges of \$9.5 million comprised a \$6.2 million provision against costs incurred in respect of land to be transferred to plasma, \$0.7 million paid in satisfaction of warranty obligations related to a divested subsidiary and \$2.6 million write off of costs incurred on a land allocation that has been relinquished.

The group continues to work on satisfying its plasma obligations, but this is complicated by difficulties in establishing the differing plasma entitlements of villages neighbouring the group's estates. This has necessitated developing areas for transfer to plasma ahead of agreement with the cooperatives to whom the plasma areas are to be transferred. The group endeavours to recover all development costs when plasma transfers are completed but this may not always prove possible and the provision of \$6.2 million represents an acknowledgement that not all costs of remaining prospective plasma areas may be recovered. The \$0.7 million paid in respect of warranty obligations was expended in working towards satisfaction of a group undertaking to resolve certain disputes affecting land areas held by the divested subsidiary. The \$2.6 million related to the write off of the group's investment in the land allocation formerly held by KKS as explained under "Land areas" in "Agricultural operations" above.

The taxation credit based on the loss for the year amounted in 2020 to \$7.3 million (2019: credit of \$22.3 million). This includes a deferred tax credit of \$9.0 million primarily relating to reductions in corporation tax rates in Indonesia from 25 per cent to 22 per cent and then to 20 per cent from 2022. In 2019, the credit primarily related to a deferred tax credit of \$17.2m arising from an amendment of applicable fixed asset values in the Indonesian companies.

Dividends

In view of the difficult trading conditions prevailing during 2020 and the group's financial performance, the directors concluded that the payment of the fixed semi-annual dividends on the 9 per cent cumulative preference shares (the "preference dividend") that fell due on 30 June and 31 December 2020 should be deferred and that the half yearly preference dividends that were due on 30 June 2019 and 31 December 2019 should also continue to be deferred.

Provided that CPO prices remain at current levels, the preference dividends arising on 30 June 2021 and 31 December 2021 are expected to be paid during the year. Whilst the group recognises the importance of paying the arrears on the preference dividend, which now stand at 18p per share, it is not yet in a position to provide guidance as to when it might be able to commence doing so. The directors are well aware that preference shares are bought for income and aim to progressively catch up the preference dividend arrears as soon as circumstances prudently permit.

While the dividends on the preference shares are more than six months in arrear, the company is not permitted to pay dividends on its ordinary shares. In view of the results reported for 2020, 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 2020 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 2020 amounted to \$225.8 million as compared with \$239.7 million at 31 December 2019. Non-controlling interests at 31 December 2019 amounted to \$20.0 million (2019: \$13.0 million).

On 31 March 2020, a general meeting of holders of the 8.75 per cent guaranteed sterling notes 2025 (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 are now repayable at £104 per £100 nominal on 31 August 2025 and the company has issued to noteholders 4,010,760 warrants with 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.

Later in 2020, repayments due on a loan to CDM made by a subsidiary of DSN were rescheduled so that all repayments have been postponed to 2025. DSN also supported an increase in the capital of REA Kaltim by converting debt to equity thus reducing indebtedness to DSN by \$7.5 million in 2020.

Following these developments, group indebtedness at 31 December 2020 amounted to \$201.2 million against which the group held cash and cash equivalents of \$11.8 million. The composition of the resultant net indebtedness of \$189.4 million was as follows:

	\$'m
7.5 per cent dollar notes 2022 (\$27.0 million nominal)*	26.9
8.75 per cent guaranteed sterling notes 2025 (£30.9 million nominal)**	42.9
Loans from non-controlling shareholder	17.1
Loans from related party	4.0
Indonesian term bank loans*	105.3
Drawings under working capital lines	5.0
	201.2
Cash and cash equivalents	(11.8)
Net indebtedness	189.4

* Net of issue costs

** Net of issue costs plus \$1.1 million present value of premium on redemption

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 2020 was equivalent to \$6.2 million.

The 7.5 per cent dollar notes (the "dollar notes") are unsecured obligations of the company and are repayable in a single instalment on 30 June 2022. The sterling notes are issued by REA Finance B.V., a wholly owned subsidiary of the company, are guaranteed by the company and REAS and are secured almost wholly on an unsecured loan made by REAS to an Indonesian plantation operating subsidiary of the company. The sterling notes are now repayable in a single instalment on 31 August 2025 at a premium of £4 per £100 of notes.

Indonesian bank borrowings at 31 December 2020 comprised rupiah denominated amortising term loans provided by Mandiri to REA Kaltim, SYB and KMS and a rupiah denominated working capital loan provided by Mandiri to REA Kaltim. At 31 December 2020, SYB and KMS were in breach of certain loan covenants but the breaches in question have subsequently been waived by Mandiri.

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 2020 was the equivalent of \$71.5 million made up of a term loan of \$66.5 million and a working capital loan of \$5.0 million. The term loan was repayable as follows: 2021: \$9.9 million, 2022: \$9.9 million and thereafter \$46.7 million. The working capital loan was subject to an annual renewal in November of each year and was duly renewed in November 2020.

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 2020 was the equivalent of \$26.7 million repayable (following the waiver of covenant breaches referred to above) as follows: 2021: \$3.3 million, 2022: \$3.7 million and thereafter \$19.7 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 2020 was the equivalent of \$13.0 million repayable (following the waiver of covenant breaches referred to above) as follows: 2021: \$5.7 million and 2022: \$7.3 million.

There were no undrawn facilities as at 31 December 2020.

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 2020 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 increased during 2020 from \$9.5 million to \$11.8 million.

As noted under "Group results" above, the operating profit for 2020 amounted to \$8.8 million compared to a loss of \$9.1 million in the prior year. After adjusting for depreciation, amortisation and other non-cash items (\$28.9 million) and an increase in working capital (\$15.9 million), cash generated by operations was \$53.6 million (2019: \$26.5 million).

There were \$0.9 million of net taxes paid during the year (2019: net taxes paid \$0.5 million). Interest paid amounted to \$19.2 million (2019: \$23.8 million).

Investing activities for 2020 involved a net outflow of \$20.3 million (2019: \$18.8 million). This represented new investment of \$21.9 million (2019: \$27.0 million) offset by a small amount of interest received and proceeds on disposal of property, plant and equipment of \$1.1 million.

The new investment comprised expenditure of \$10.8 million (2019: \$18.1 million) on further development of the group's agricultural operations, \$3.9 million (2019: \$4.6 million) on land rights and titling and \$7.2 million (2019: \$4.3 million) on the stone and coal interests. \$4.9 million of the expenditure on the stone and coal interests related to the arbitration in respect of certain claims made against IPA. The arbitral tribunal dismissed all claims in the arbitration against IPA and the group and awarded costs on an indemnity basis to IPA. Such costs totalling \$5.8 million were fully recovered in January 2021.

The net cash outflow from financing activities amounted to \$10.6 million (2019: inflow \$0.5 million) made up as follows:

	2020 \$'m	2019 \$'m
Issue of 2022 dollar notes	–	3.0
New borrowings from related party	4.0	–
Repayments to non-controlling shareholder	(7.5)	–
Borrowings from non-controlling shareholder	–	1.8
Equity investment from non-controlling shareholders	9.9	1.5
Net change in other borrowings	(17.0)	(11.8)
	(10.6)	0.5

Liquidity and financing adequacy

The closing months of 2019 saw a sharp recovery in CPO prices and the group was optimistic at the outset of 2020 that the forthcoming year would see a considerable improvement in the group's financial position. Unfortunately, as the Covid-19 pandemic spread, CPO prices fell away and, notwithstanding an increase in operating cashflows (before working capital movements) to \$37.7 million (2019: \$12.2 million) in 2020, the group performance for the year fell short of expectations. Immediate cash constraints and the prospect of the very significant debt repayments falling due in 2021 and 2022 caused the directors again to defer payment of dividends on the preference shares.

Nevertheless, significant progress was made during 2020 in improving the group's financial position. A combination of cost reductions and a recovery in CPO prices in the second half of the year meant that the group reported an operational profit for 2020 of \$8.8 million compared with an operating loss of \$9.1 million in 2019.

The group achieved a satisfactory FFB outturn for the third consecutive year in 2020 of 785,850 tonnes, a yield exceeding 22.5 tonnes per mature hectare. Production in the first quarter of 2021 has continued at good levels with the typical year-end peak crop period extending into the first quarter of the year with group FFB of 189,844 tonnes for the three months to 31 March 2021 (2020: 172,712). Group FFB now excludes crops from areas that are in the process of being reallocated to plasma and are therefore now included as third party FFB (2019 crops have been adjusted accordingly).

The group is now benefiting from considerably improved prices for CPO and CPKO. Following the rise in the CPO price in the second half of 2020, the Indonesian government announced changes to the export levy scale. An effect of the changes is that, at reference prices between \$770 and \$1,000 per tonne, an exporter of Indonesian CPO receives, after deduction of export duty and levy, substantially the same net price per tonne. This means that the group can reasonably expect that the net prices that it receives from sale of its CPO and CPKO production will remain stable at current levels for

the immediate future even if international CPO prices fall to an extent.

Whilst the group will continue to incur capital expenditure on necessary replacement of plant, replanting of the oldest plantings and limited extension planting, completion of the extension of the group's newest mill (which was delayed by the Covid-19 pandemic) will provide the group with sufficient processing capacity for the foreseeable future. Annual capital expenditure on the plantation operations going forward can therefore be expected to be nearer to the level incurred in 2020 than the much higher levels seen in earlier years. This should mean that the group's improving cash flows can be used to reduce indebtedness and the level of pre-sale advances and to address the arrears of preference dividend.

The recovery of indemnity costs on successful conclusion of the arbitration proceedings against IPA resulted in recovery in January 2021 of \$5.8 million of the group's advances to IPA. If, as is expected, IPA commences mining in the near future, further repayments of group advances can be expected. As detailed under "Stone and coal interests" in the "Strategic report" above, the group can also expect the stone concession company to which the group has advanced monies to commence repayment of those advances.

As noted under "Capital structure" above, as at 31 December 2020, the group held cash of \$11.8 million but against that had material indebtedness in the form of bank loans and listed notes. As at 31 December 2020 (after reflecting the waiver of covenant breaches referred to above) bank repayments due in the three year period to end 2023 were \$54.1 million. Moreover, in June 2022, \$27.0 million of dollar notes will become repayable and, in August 2025, £30.9 million (\$42.1 million at current exchange rates) of sterling notes will become repayable at a premium of 4 per cent of par.

Proposals are currently under discussion between the group and Mandiri whereby the existing Mandiri loans to REA Kaltim and SYB would be repaid and replaced with new loans to those companies. The working capital facility provided to REA Kaltim would also be repaid and replaced with two new annual revolving working capital facilities. The new term loans would provide additional funding to the group and would be repayable over a period of eight years. The new working capital facilities would be renewable annually. The proposals are subject to approval by the credit committee of Mandiri. If approved, net bank funding available to the group over the three years to end 2023 would be substantially increased.

Concurrently with the discussions with Mandiri, the directors have been exploring other financing options, including equity (in the form of ordinary or preference shares), equity linked instruments and trade finance to strengthen the group's balance sheet. Pre-sale advances remain an important source of financing and the group expects that such financing can if necessary be continued at current levels.

The directors are confident that the group's improving financial position will support such further financing as the group requires and that, provided that CPO prices remain at current levels and whether or not the current proposals for the replacement of the existing Mandiri loans are agreed, the group's cash generation capabilities can be aligned with its cash requirements. In concluding new financing arrangements, the directors will aim to improve the group's financial resilience to an extent that will enable the arrears of dividend on the preference shares to be addressed.

The breaches of loan covenants referred to under "Capital structure" above principally arose as a result of insufficient revenue generation in SYB and KMS during 2020. With the better CPO prices now prevailing, SYB and KMS can reasonably expect significantly higher revenues in 2021 and should therefore be able to meet the loan covenants applicable to their existing loans from Mandiri and, in the case of SYB, the loan covenants expected to be attached to the proposed replacement Mandiri loan to SYB.

The group's oil palms fruit continuously throughout the year, but crops are generally weighted to the second half of each year. This results in some seasonality in the funding requirements of the agricultural operations with cash generation greater in the second half of the year than the first. 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 77.0 per cent of total shareholder funds at 31 December 2020 compared with a level of 82.2 per cent at 31 December 2019. The total net debt at 31 December 2020 amounted to \$189.4 million compared with the position at 31 December 2019 of \$207.8 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, SYB and KMS at fixed rates of 10.5, 11.25 and 11.5 per cent respectively. A one per cent increase in the floating rates of interest payable on the group's floating rate borrowings at 31 December 2020 would have resulted in an additional annual cost to the group of approximately \$0.1 million (2019: \$0.1 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 rupiah.

Principal 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 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 (such as future natural disasters or acts of God, such as the Covid-19 pandemic) 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 faced potential impacts from the Covid-19 pandemic in 2020 and continues to do so. Assessment of the continuing risk of this pandemic is measured against the impacts experienced to date and the likelihood of further impacts in the future. The pandemic has had limited direct effect on the group's day to day operations, albeit that it has necessitated changes to certain working practices, but there was a negative impact on markets for CPO and CPKO in 2020, the extent of which is covered elsewhere in this "Strategic report". Potential future consequences of Covid-19 could include a further economic downturn depressing prices for CPO and CPKO, 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. However, as economies have firmed, CPO and CPKO prices have strengthened and with the gradual rollout of vaccines, the risks associated with Covid-19 to the group's employees, production, deliveries and markets are diminishing.

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. As noted elsewhere in the "Strategic report", it is ultimately the group's intention to withdraw from its coal interests.

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 following the termination of UK membership of the European Union ("Brexit"). Such outcomes may result in a movement in sterling against the dollar and 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. 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.

Risks assessed by the directors as being of particular significance, including climate change, 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.

Principal risks and uncertainties

continued

Risk	Potential impact	Mitigating or other relevant considerations
Agricultural operations		
Climatic factors		
Material variations from the norm in climatic conditions	A loss of crop or reduction in the quality of harvest resulting in loss of potential revenue	Over a long period, crop levels should be reasonably predictable
Unusually low levels of rainfall that lead to a water availability below the minimum required for the normal development of the oil palm	A reduction in subsequent crop levels resulting in loss of potential revenue; the reduction is likely to be broadly proportional to the cumulative size of the water deficit	Operations are located in an area of high rainfall. Notwithstanding some seasonal variations, annual rainfall is usually adequate for normal development
Overcast conditions	Delayed crop formation resulting in loss of potential revenue	Normal sunshine hours in the location of the operations are well suited to the cultivation of oil palm
Low levels of rainfall disrupting river transport or, in an extreme situation, bringing it to a standstill	Inability to obtain delivery of estate supplies or to evacuate CPO and CPKO (possibly leading to suspension of harvesting)	The group has established a permanent downstream loading facility, where the river is tidal. In addition, road access between the ports of Samarinda and Balikpapan and the estates offers a viable alternative route for transport with any associated additional cost more than outweighed by 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

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 transshipment 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 charges	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 sliding scales of charges on exports, which are varied from time to time in response to prevailing prices, to allow producers economic margins. The export levy charge funds biodiesel subsidies and thus supports 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 group's securities	The group maintains flexibility in its planting programme to be able to respond to changes in circumstances

Principal risks and uncertainties

continued

Risk	Potential impact	Mitigating or other relevant considerations
Climate change		
Changes to levels and regularity of rainfall and sunlight hours	Reduced production	A negative effect on production would similarly affect many other oil palm growers in South East Asia leading to a reduction in CPO and CPKO supply, which would be likely to result in higher prices for CPO and CPKO in turn providing at least some offset against reduced production
Increase in water levels in the rivers running through the estates	Increasing requirement for bunding or loss of plantings in low lying areas susceptible to flooding	Only five to ten per cent of the group's existing plantings are in low lying or flood prone areas. These areas are being bunded, subject to environmental considerations
Environmental, social and governance practices		
Failure by the agricultural operations to meet the standards expected of them as a large employer of significant economic importance to local communities	Reputational and financial damage	The group has established standard practices designed to ensure that it meets its obligations, monitors performance against those practices and investigates thoroughly and takes action to prevent recurrence in respect of any failures identified
Criticism of the group's environmental practices by conservation organisations scrutinising land areas that fall within a region that in places includes substantial areas of unspoilt primary rain forest inhabited by diverse flora and fauna	Reputational and financial damage	The group is committed to sustainable development of oil palm and has obtained RSPO certification for most of its current operations. All group oil palm plantings are on land areas that have been previously logged and zoned by the Indonesian authorities as appropriate for agricultural development. The group maintains substantial conservation reserves that safeguard landscape level biodiversity
Community relations		
A material breakdown in relations between the group and the host population in the area of the agricultural operations	Disruption of operations, including blockages restricting access to oil palm plantings and mills, resulting in reduced and poorer quality CPO and CPKO production	The group seeks to foster mutually beneficial economic and social interaction between the local villages and the agricultural operations. In particular, the group gives priority to applications for employment from members of the local population, encourages local farmers and tradesmen to act as suppliers to the group, its employees and their dependents and promotes smallholder development of oil palm plantings
Disputes over compensation payable for land areas allocated to the group that were previously used by local communities for the cultivation of crops or as respects which local communities otherwise have rights	Disruption of operations, including blockages restricting access to the area the subject of the disputed compensation	The group has established standard procedures to ensure fair and transparent compensation negotiations and encourages the local authorities, with whom the group has developed good relations and who are therefore generally supportive of the group, to assist in mediating settlements
Individuals party to a compensation agreement subsequently denying or disputing aspects of the agreement	Disruption of operations, including blockages restricting access to the areas the subject of the compensation disputed by the affected individuals	Where claims from individuals in relation to compensation agreements are found to have a valid basis the group seeks to agree a new compensation arrangement; where such claims are found to be falsely based the group encourages appropriate action by the local authorities

Risk	Potential impact	Mitigating or other relevant considerations
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 standards expected of them	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 rupiah against the dollar	Adverse exchange movements on those components of group costs and funding that arise in 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

Principal risks and uncertainties

continued

Risk	Potential impact	Mitigating or other relevant considerations
Funding		
Bank debt repayment instalments and other debt maturities coincide with periods of adverse trading and negotiations with bankers and investors are not successful in rescheduling instalments, extending maturities or otherwise concluding satisfactory refinancing arrangements	Inability to meet liabilities as they fall due	The group maintains good relations with its bankers and other holders of debt who have generally been receptive to reasonable requests to moderate debt profiles or waive covenants when circumstances require as was the case when waivers of certain breaches of bank loan covenants by group companies at 31 December 2020 were subsequently waived; 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 human rights, slavery, anti-bribery and corruption	Reputational damage and criminal sanctions	The group has traditionally had, and continues to maintain, strong controls in this area because Indonesia, where all of the group's operations are located, has been classified as relatively high risk by the International Transparency Corruption Perceptions Index
Restrictions on foreign investment in Indonesian mining concessions, limiting the effectiveness of co-investment arrangements with local partners	Constraints on the group's ability to recover its investment	The group endeavours to maintain good relations with local partners to ensure that returns appropriately reflect agreed arrangements

Risk	Potential impact	Mitigating or other relevant considerations
Country exposure		
Deterioration in the political or economic situation in Indonesia	Difficulties in maintaining operational standards particularly if there was a consequential deterioration in the security situation	In the recent past, Indonesia has been stable and the Indonesian economy has continued to grow but, in the late 1990s, Indonesia experienced severe economic turbulence and there have been subsequent occasional instances of civil unrest, often attributed to ethnic tensions, in certain parts of Indonesia. The group has never, since the inception of its East Kalimantan operations in 1989, been adversely affected by regional security problems
Introduction of exchange controls or other restrictions on foreign owned operations in Indonesia	Restriction on the transfer of fees, interest and dividends from Indonesia to the UK with potential consequential negative implications for the servicing of UK obligations and payment of dividends; loss of effective management control	The directors are not aware of any circumstances that would lead them to believe that, under current political conditions, any Indonesian government authority would impose exchange controls or otherwise seek to restrict the group's freedom to manage its operations
Mandatory reduction of foreign ownership of Indonesian plantation operations	Forced divestment of interests in Indonesia at below market values with consequential loss of value	The group accepts there is a significant possibility that foreign owners may be required over time to divest partially ownership of Indonesian oil palm operations but has no reason to believe that such divestment would be at anything other than market value. Moreover, the group has local participation in all its Indonesian subsidiaries
Miscellaneous relationships		
Disputes with staff and employees	Disruption of operations and consequent loss of revenues	The group appreciates its material dependence upon its staff and employees and endeavours to manage this dependence in accordance with international employment standards as detailed under "Employees" in "Sustainability" above
Breakdown in relationships with the local shareholders in the group'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 26 April 2021 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.

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 in London and on NASDAQ), 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 in London and Geneva.

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, including advising 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 which is principally engaged in growing sisal in Kenya and Tanzania.

Rizal Satar

Independent non-executive director

Committees: audit and remuneration

Rizal Satar was appointed to the board in December 2018. He 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) of two Indonesian-based companies: 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, where he is also head of the audit committee; and PT FWD Asset Management, a fund management company owned by FWD Insurance, part of the Asian-based private investment Pacific Century Group, which has interests in technology, media and telecommunications, financial services and property.

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 independent auditor's report, for the year ended 31 December 2020. The "Corporate governance report" below forms part of this report.

The Covid-19 pandemic overshadowed the world during 2020 and continues to do so. Whilst the pandemic has had limited direct effect on the group's day to day operations, albeit that it has necessitated certain changes to working practices to safeguard employees, contractors and other parties associated with the group, there have inevitably been certain impacts. In addition to the wider economic consequences of the pandemic that led to the fall in CPO prices in the first half of 2020, deliveries of supplies were delayed, travel restrictions prevented or delayed employees and contractors from returning to operational sites, and various group initiatives could not be progressed. However, as economies firm, and with a strong recovery in CPO prices and the gradual rollout of vaccines during 2021, risks associated with Covid-19 to the group's employees, production, deliveries and markets and consequential indirect risks to the group's finances should gradually diminish.

That apart, there are no significant events since 31 December 2020 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.

Financial instruments

Information about the use of financial instruments by the company and its subsidiaries is given in note 23 to the consolidated financial statements.

Results and dividends

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

In view of the difficult trading conditions prevailing during 2020 and the group's financial performance, 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 2020 should be deferred and that the half yearly preference dividends that were due on 30 June 2019 and 31 December 2019 should also continue to be deferred.

Provided that CPO prices remain at current levels, the preference dividends arising on 30 June 2021 and 31 December 2021 are expected to be paid during the year. The group recognises the importance of paying the arrears on the preference dividend, which now stand at 18p per share, and aims progressively to catch up the preference dividend arrears as soon as circumstances prudently permit.

While the dividends on the preference shares are more than six months in arrear, the company is not permitted to pay dividends on its ordinary shares. In view of the results reported for 2020, 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 2020 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 23 to the consolidated financial statements includes information as to the group's policy, objectives, and processes for managing capital, its financial risk management objectives, details of financial instruments and hedging policies and exposures to credit and liquidity risks.

The "Principal 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 CPO and CPKO over which it has no control. Possible risks associated with the Covid-19 pandemic and emerging risks are also addressed in this section of the report.

The group has material indebtedness, in the form of bank loans and listed notes. At 31 December 2020 (after reflecting the waiver of covenant breaches referred to in "Capital structure" under the heading "Finance" in the "Strategic report" above), the equivalent of \$54.1 million rupiah denominated term bank loans were due for repayment over the period 2021 to 2023 and, in addition, a rupiah working capital loan, equivalent to \$5.0 million, was subject to annual renewal in November of each year. Of the listed notes, \$27.0 million of 7.5 per cent dollar notes 2022 (the "dollar notes") are due for repayment on 30 June 2022. In view of the material component of the group's indebtedness falling due in the period to 31 December 2023, the directors have chosen this period for their assessment of the long term viability of the group.

The group's present level of indebtedness reflects a number of challenges that have confronted the group in recent years. Over the period 2015 to 2017, group crops fell considerably short of the levels that had been expected. The reasons for this were successfully identified and addressed but, as crops recovered to better levels, the group had to contend with falling CPO prices. The resultant negative cash flow impact over a number of years had to be financed and led to the group assuming greater debt obligations from funding sources that nevertheless continued to be forthcoming.

The closing months of 2019 saw a sharp recovery in CPO prices and the group was optimistic at the outset of 2020 that the forthcoming year would see a considerable improvement in the group's financial position. Unfortunately, as the Covid-19 pandemic spread in 2020, CPO prices fell away and, notwithstanding the increase in operating cashflows (before working capital movements) to \$37.7 million (2019: \$12.2 million), the group's performance for the year fell short of initial expectations. Nevertheless, progress was made during 2020 in improving the group's financial position.

A combination of cost reductions and a recovery in CPO prices in the second half of the year meant that earnings before interest, taxation, depreciation and amortisation for the year amounted to \$36.8 million against \$18.2 million in the preceding year. The maturity date of the £30.9 million nominal of 8.75 per cent sterling notes (the "sterling notes") issued by REA Finance B.V. (and guaranteed by the company) was extended by five years to 31 August 2025 and the group's local partner in its principal Indonesian subsidiary, REA Kaltim, agreed to support an increase in the capital of REA Kaltim by converting debt to equity thus reducing indebtedness to the local partner by \$7.5 million. In addition, gross bank indebtedness was reduced by \$15.8 million, although this reduction was in part financed by increased pre-sale advances from customers against forward commitments of CPO and CPKO (all such commitments being on the basis of pricing fixed shortly ahead of delivery by reference to market prices prevailing at that time). In addressing each of these elements, the group was able to support current borrowing levels but addressing the group's capital structure for the longer term remains its objective.

Bank term loans at 31 December 2020 comprised three separate loans from PT Bank Mandiri (Persero) Tbk ("Mandiri") to group companies. As noted under "Liquidity and financing adequacy" in the "Strategic report", proposals are currently under discussion between the group and Mandiri whereby the existing Mandiri loans to REA Kaltim and SYB would be repaid and replaced with new loans to those companies. The working capital facility provided to REA Kaltim would also be repaid and replaced with two new annual revolving working capital facilities. The new term loans would provide additional funding to the group and would be repayable over a period of eight years. The new working capital facilities would be renewable annually. The proposals are subject to approval by the credit committee of Mandiri. If approved, net bank funding available to the group over the three years to end 2023 would be substantially increased. This would materially improve the projected group cash flows over the period to 31 December 2023.

As noted under "Capital structure" in the "Strategic report" above, at 31 December 2020, two of the group companies in receipt of loans from Mandiri, SYB and KMS, were in breach of certain loan covenants. The breaches in question have been subsequently waived by Mandiri. The breaches principally arose as a result of insufficient revenue generation in SYB and

KMS during 2020. With the better CPO prices now prevailing, SYB and KMS can reasonably expect significantly higher revenues in 2021 and should therefore be able to meet the loan covenants applicable to their existing loans from Mandiri and, in the case of SYB, the loan covenants expected to be attached to the proposed replacement Mandiri loan to SYB.

The group's agricultural operations continue to perform satisfactorily and the group is now benefiting from considerably improved prices for CPO and CPKO. Following the rise in the CPO price in the second half of 2020, the Indonesian government announced changes to the export levy scale. An effect of the changes is that, at reference prices between \$770 and \$1,000 per tonne, an exporter of Indonesian CPO receives, after deduction of export duty and levy, substantially the same net price per tonne. This means that the group can reasonably expect that the net prices that it receives from sale of its CPO and CPKO production to remain stable at current levels for the immediate future even if international CPO prices fall to an extent.

The award of indemnity costs on successful conclusion of the arbitration proceedings, brought against one of the coal concession companies to which the group has advanced monies, resulted in recovery in January 2021 of \$5.8 million of the group's advances. If, as is expected, the coal concession company concerned commences mining in the near future, further repayments of group advances can be expected. As detailed under "Stone and coal interests" in the "Strategic report", the group can also expect the stone concession company to which the group has advanced monies to commence repayment of those advances.

Whilst the group will continue to incur capital expenditure on necessary replacement of plant, replanting of the oldest plantings and limited extension planting, completion of the extension of the group's newest mill (which was delayed by the Covid-19 pandemic) will provide the group with sufficient processing capacity for the foreseeable future. Annual capital expenditure on the plantation operations going forward can therefore be expected to be nearer to the level incurred in 2020 than the much higher levels seen in earlier years. This should mean that the group's improving cash flows can be used to reduce indebtedness, the level of pre-sale advances and address the arrears of preference dividend.

Concurrently with the discussions with Mandiri, the group has been exploring alternative sources of finance, including equity (in the form of ordinary or preference shares), equity linked instruments and trade finance to strengthen the group's balance sheet. The group is confident that funding from pre-sale advances can if necessary be continued at current levels and that the group's improving financial position will support further financing if required.

Based on the foregoing and whether or not the current proposals for the replacement of the existing Mandiri loans are agreed, 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 2023 and to remain viable during that period.

Going concern

Factors likely to affect the group's future development, performance and position are described in the "Strategic report". The directors have carefully considered those factors, together with the principal risks and uncertainties faced by the group as well as emerging risks which are set out in the "Principal 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 2020, the group had cash and cash equivalents of \$11.8 million and borrowings of \$201.2 million (in both cases as set out in note 23 to the group financial statements).

As noted under "Liquidity and financing adequacy" in the "Strategic report", proposals are currently under discussion between the group and Mandiri whereby the existing Mandiri loans to REA Kaltim and SYB would be repaid and replaced with new loans to those companies. The working capital facility provided to REA Kaltim would also be repaid and replaced with two new annual revolving working capital facilities. The new term loans would provide additional funding to the group and would be repayable over a period of eight years. The new working capital facilities would be renewable annually. The proposals are subject to approval by the credit committee of Mandiri. If approved, the proposals would mean that the bank repayments falling due over the 12 month period following the date of approval of the financial statements will be more than covered by the additional funding provided.

As noted under, and for the reason given in, the "Viability statement" above, the group does not expect the breaches of loan covenants by SYB and KMS that occurred in 2020 to recur in 2021.

Concurrently with the discussions with Mandiri, the group has been exploring alternative sources of finance, including equity (in the form of ordinary or preference shares), equity linked instruments and trade finance to strengthen the group's balance sheet. The group is confident that funding from pre-sale advances can if necessary be continued at current levels and that the group's improving financial position will support further financing if required.

As noted in the "Viability statement" above, the group's agricultural operations continue to perform satisfactorily and the group is benefiting from considerably improved prices for CPO and CPKO which seem set to continue for the immediate future, with a currently favourable balance

of supply and demand. In addition, the group has received a recent repayment of an advance made to the stone and coal concession companies that are provided with loan funding by the group and can reasonably anticipate further repayments.

Having regard to the foregoing, 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 directors expect that, whether or not the current proposals for the replacement of the existing Mandiri loans are agreed, 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.

For these reasons, the directors have concluded that it is appropriate to prepare the financial statements on a going concern basis.

Climate change

Climatic factors are integral to the group's agricultural operations. The directors acknowledge both the importance of climate change as a potential emerging risk for the group's operations (as considered under "Principal risks and uncertainties" in the Strategic report) and the potential impacts of the operations on the climate. Responsibility for oversight of the group's approach to climate-related matters resides with the managing director.

The group seeks to mitigate the negative impacts of the business on the environment through its commitment to sustainable practices. The group's policy framework underpins this commitment and the group's desire to remain at the forefront of sustainable palm oil production. The certification schemes by which the group's performance is measured, and which focus specifically on aspects that include environmental impacts, provide independent verification that the group is operating in accordance with national and international standards.

The group has been monitoring and reporting its carbon footprint using the PalmGHG tool developed by the Roundtable for Sustainable Palm Oil for over ten years, with greenhouse gas (GHG) emissions per tonne of CPO and per planted hectare being long established key performance indicators for the group, as reported under "Evaluation of performance" in the Strategic report.

Detailed information regarding sustainability, the environment and streamlined energy and carbon reporting ("SECR") is provided in the "Sustainability" section of the Strategic report and on the group's website at www.rea.co.uk. The group will extend its reporting to embrace Task Force on Climate-related Financial Disclosures ("TCFD") in its 2021 annual report in accordance with the requirements of the Listing Rules.

Control and structure of capital

Details of the company's share capital are set out in note 31 to the company's financial statements. At 31 December 2020, the issued preference share capital and the issued ordinary share capital represented, respectively, 86.8 and 13.2 per cent of the nominal value of the total issued share capital.

In addition, in 2020 the company issued to holders of the sterling notes 4,010,760 warrants with 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. To date, no warrant options have been exercised.

The rights and obligations attaching to the ordinary shares, preference shares and warrants 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 arrear 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 ordinary 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 and the sterling notes are transferable either through the CREST system where held in uncertificated form or by instrument of transfer. Transfers may be in any usual or common form duly executed in amounts and multiples: in the case of the dollar notes of \$120,000 and integral multiples of \$1 in excess thereof; and, in the case of the sterling notes, of £100,000 and integral multiples of £1,000 in excess thereof. There is no maximum limit on the size of any holding in each case.

Substantial holders

As explained under "Results and dividends" above, payment of the fixed semi-annual dividends on the preference shares that fell due on 30 June 2019, 31 December 2019, 30 June 2020 and 31 December 2020 have been deferred. While the dividends on the preference shares are more than six months in arrear, in accordance with the company's articles of association, holders of preference shares will be entitled to voting rights on the same basis as holders of ordinary shares.

On 31 December 2020, based on notifications received by the company in accordance with the Disclosure Guidance and Transparency Rules ("DGTRs") of the Financial Conduct Authority, the following are substantial holders of voting rights attaching to shares of the company.

Substantial holders of shares	Number of ordinary shares	Number of preference shares	Percentage of voting rights
Emba Holdings Limited	13,022,420	–	11.24
M&G Investment Management Limited	8,757,630	–	7.56
Nokia Bell Pensioenfondsof OFP	4,068,000	–	3.51
Aberforth LLP	3,257,093	–	2.81

1. 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.
2. For so long as the dividend on the preference shares is more than six months in arrear, the preference shares have the same voting rights as the ordinary shares. Where notifications of voting rights have declared a percentage of voting rights calculated by reference only to the ordinary shares, such percentage has been adjusted to reflect the voting rights attaching to both the ordinary shares and the preference shares.

During the period from 31 December 2020 to the date of this report, the company did not receive any further notifications in accordance with the DGTRs.

Significant holdings of preference shares, dollar notes and sterling notes shown by the respective registers of members and noteholders at 31 December 2020 are set out below:

Substantial holders of securities	Preference shares \$'000	Dollar notes \$'000	Sterling notes £'000
KLK Overseas Investments Limited	–	3,000	–
Securities Services Nominees Limited 1702334 acct	4,132	–	6,867
State Street Nominees Limited OU61 acct	11,711	8,580	8,066
The Bank of New York (Nominees) Limited AHIF account	4,575	–	4,875
Vidaco Nominees Limited CLRLUX acct	–	3,517	–
Vidaco Nominees Limited KBCCLINT acct	–	6,010	–

A change of control of the company would entitle holders of the sterling notes to require repayment of the notes held by them as detailed in note 25 to the consolidated financial statements.

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

Directors

The directors who served during 2020 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 subject to annual re-election. Resolutions 4 to 10, which are set out in the accompanying notice of the forthcoming annual

general meeting (the “2021 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 third 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, prolonged in part by the impacts of the Covid-19 pandemic. Under normal circumstances, David makes yearly visits to the operations in Indonesia and has considerable knowledge of the business of the company, offering insights based on his previous experience in the region. In fulfilling his role as chairman, David 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 a national of and resides 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 twelve 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 agronomic practices and oil mill engineering.

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 financing and strategic initiatives.

Rizal Satar, an Indonesian national based in Indonesia, has extensive experience in accounting and finance. Rizal previously worked for PricewaterhouseCoopers, Indonesia, for 20 years until 2017, as a director/senior partner in Advisory Services and was managing partner between 2005 and 2011. Rizal is also an independent commissioner (a non-executive director) of two Indonesian-based companies: 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, where he is also head of the audit committee; and PT FWD Asset Management, a fund management company owned by FWD Insurance, part of the Asian-based private investment Pacific Century Group, which has interests in technology, media and telecommunications, financial services and property. Rizal is a valuable member of the board in terms of his 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 their and the group's responsibility to customers, suppliers, the wider community 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 and CPKO in accordance with the terms of the agreed contracts. Given the remote location of the group's operations, timely deliveries and payment is critical for the smooth running of the group's operations. Managers in the procurement department have an open dialogue with the group's limited number of 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. Managers are also in regular communication with local government bodies in Indonesia and with the certification and other bodies that promote environmental, social and governance matters. Issues, if any, are discussed at the regular meetings between senior management and the president director and escalated, as required, to the managing director. Rizal Satar also provides a conduit to the group board for matters arising with stakeholders in Indonesia.

Directors' indemnities

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) are in place for the benefit of directors of the company and of other members of the group for 2020 and remain in place at the date of this report.

The group carries appropriate insurance against actions against the directors, commissioners and senior managers of the group's Indonesian sub-holding company, REA Kaltim, and subsidiaries.

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 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 2020.

The directors are seeking renewal at the forthcoming annual general meeting (resolution 13 set out in the 2021 Notice) of the buy-back authority granted in 2020 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 2022 or on 30 June 2022 (whichever is the earlier).

Although the directors are seeking renewal of the buyback authority to maintain flexibility for the future, they do not currently intend to exercise such authority.

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.

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 11 June 2020, 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 2021 annual general meeting (resolutions 14 and 15 set out in the 2021 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 £24,000,000 representing 33.3 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 2022 or on 30 June 2022 (whichever is the earlier).

As noted under "Viability statement" and "Going concern" above, the group is continuing discussions regarding additional finance and as part of those discussions is exploring a variety of alternative sources of finance which may include the issue of new equity (in the form of ordinary or preference shares) or an equity linked instrument. Save to that extent, the directors have no current intention of exercising the allotment 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 16 set out in the 2021 Notice) will, if passed, empower the directors to allot equity securities or sell treasury shares for cash and otherwise than to existing shareholders pro rata to their holdings up to a maximum aggregate nominal amount of £549,381 (representing 5 per cent of the issued ordinary share capital of the company (excluding treasury shares) at the date of this report).

The figure of 5 per cent reflects the Pre-Emption Group 2015 Statement of Principles for the disapplication of pre-emption rights (the "Statement of Principles"). The board will have due regard to the Statement of Principles in relation to any exercise of this power, in particular the board does not

expect to non-pre-emptively allot ordinary shares for cash representing more than 7.5 per cent of the issued ordinary share capital in any rolling three year period, without prior consultation with shareholders.

A further power is being sought at the forthcoming annual general meeting to enable the board to allot equity securities or sell treasury shares for cash otherwise than to existing shareholders pro rata to their holdings in addition to the 5 per cent referred to above (resolution 17 set out in the 2021 Notice), to reflect the Statement of Principles. The resolution to provide these powers (resolution 17 set out in the 2021 Notice) will, if passed, be limited to the allotment of equity securities and sales of treasury shares for cash up to a maximum aggregate nominal amount of £549,381 (representing 5 per cent of the issued ordinary share capital of the company (excluding treasury shares) at the date of this report). The board will have due regard to the Statement of Principles in relation to any exercise of this power and in particular the board intends to use this power only in connection with a transaction which they have determined to be an acquisition or other capital investment (of a kind contemplated by the Statement of Principles most recently published prior to the date of this notice) which is announced contemporaneously with the announcement of the issue, or which has taken place in the preceding six month period and is disclosed in the announcement of the issue.

The foregoing powers (if granted) will expire on the date of the annual general meeting to be held in 2022 or on 30 June 2022 (whichever is the earlier).

General meeting notice period

At the 2021 annual general meeting a resolution (resolution 18 set out in the 2021 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 2022 or on 30 June 2022 (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 2021 Notice provides for approval of the company's remuneration report regarding the remuneration of directors as detailed in the "Directors' remuneration report" below.

Directors' remuneration policy

Resolution 3 as set out in the 2021 Notice provides for approval of the company's policy regarding the remuneration of directors as detailed in the "Directors' remuneration report" below. If approved the policy will take effect from the date of such approval.

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 permit general meetings (other than annual general meetings) to be held on just 14 clear days' notice as detailed under "General meeting notice period" above are all in the best interests of the company and shareholders as a whole and accordingly the board recommends that shareholders vote in favour of resolutions 13 to 18 as set out in the 2021 Notice.

Independent 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 group's independent 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 group's independent 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.

MHA MacIntyre Hudson have expressed their willingness to continue in office as auditor and Resolution 11 set out in the 2021 Notice proposes their re-appointment.

Resolution 12 set out in the 2021 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 independent auditor.

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	Listing Rule	Disclosure requirement	Disclosure in annual report
9.8.4(1)	The amount of interest capitalised during the year with an indication of the amount and treatment of any related tax relief	Note 9 to the consolidated financial statements	9.8.4(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(2)	Any information required in respect of published unaudited financial information	Not applicable	9.8.4(12)	Arrangements under which a shareholder has waived or agreed to waive any dividends	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(13)	Arrangements under which a shareholder has agreed to waive future dividends	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(14)	Board statement in respect of relationship agreement with the controlling shareholder	Not applicable
9.8.4(6)	Any arrangement under which a director has agreed to waive future emoluments	Not applicable			
9.8.4(7)	Allotments for cash of equity securities made during the period under review otherwise than to the holders of the company's equity shares in proportion to their holdings of such equity shares and which has not been specifically authorised by the company's shareholders	Not applicable			
				By order of the board R.E.A. SERVICES LIMITED Secretary 26 April 2021	
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 36 (related parties) to the consolidated financial statements			

Corporate governance report

This directors' report on corporate governance in respect of the year ended 31 December 2020 is made pursuant to the UK Corporate Governance Code 2018 (the "Code") issued by the Financial Reporting Council ("FRC") in July 2018 and taking effect for accounting periods on or after 1 January 2019. The Code is available from the FRC's website at www.frc.org.uk.

Throughout the year ended 31 December 2020, the company was in compliance with the provisions set out in the Code save, as respects Code provision 17 and Code provision 24 regarding, respectively, the nomination committee and the audit committee, as noted under "Board committees" below.

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 2020 and following a further formal evaluation conducted in the first quarter of 2021, directors concluded that the board performed effectively as constituted during 2020 and continues to do so during 2021. 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 group's culture and long history of operating in south East Asia underpins the policies, standards and procedures that it employs in seeking to meet the group's objectives. The group's local directors, commissioners and minority shareholders are a valuable resource in ensuring that the culture and conduct of the group are maintained and appropriately aligned with that of the region in which it operates.

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 frank 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, challenge one another and senior management and to raise issues or concerns. Executive management is responsive to feedback from non-executive directors and to requests for clarification and amplification.

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. Two (representing 28 per cent) of the seven members of the board, including the managing director, are female.

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

and commitment is of specific relevance to the nature and geographical location of the group's operations.

The group's London office comprises the managing director and a small number of senior executives, all of whom are female, managing the company's London listing and liaising with its European investors, as well as liaising closely with the senior management team in Indonesia. The Indonesian management team has day to day responsibility for the plantation operations and reports to the local president director.

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 Code, all directors are 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. However, 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 ten years. 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. The board considers that the value brought to board proceedings by David's commitment and continuity, in particular during a period of prolonged in part by the impacts of the Covid-19 pandemic, outweighs other factors. David fosters healthy discussions at board meetings to ensure that board decision making is effective and conforms with the group's strategy and objectives. Accordingly, as explained in the Directors' report above, the board has further extended the chairman's term beyond that recommended under the Code, 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 objectives, strategy, efficacy, diversity and accountability to key stakeholders are reviewed by the board as a whole. 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, social and environmental responsibility objectives, the adequacy and timeliness of information made available to the board and the proportion of time allotted for considering financial performance versus strategic matters.

Following the 2021 evaluation, the chairman confirmed the directors' view that the board is effective as currently constituted and that the performance of each of the non-executive directors continues to be effective. The chairman welcomes the valuable commitment and engagement of all the directors, each of whom has extensive experience relevant to the group's business and of broader issues that are of relevance to the group's immediate and longer term goals, and is satisfied that the board performed effectively throughout the period under review and to date.

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. The remuneration committee meets the criteria of the Code as respects both independence and the composition of such committees.

Contrary to provision 17 of the Code, the chairman of the board, who by virtue of his length of service is no longer considered independent, is one of two members and also chairman of the nomination committee. The chairman was independent upon his appointment to the board and to the nomination committee and, as noted above, the board considers that his independence is not compromised by his length of service. Further, given that the board comprises seven members, it is not considered appropriate to change membership of the nomination committee at this time.

Contrary to provision 24 of the Code, the chairman of the board is also a member of the audit committee. However, albeit that the company constitutes a smaller company for the purpose of the Code, the audit committee comprises three, rather than just two members. All members have relevant financial expertise and experience. Given the commitment and specific competencies relevant to the group's business that are required of audit committee members, the board is satisfied that the committee is appropriately constituted. As chairman of the audit committee of the Indonesian sub-group, REA Kaltim, Rizal Satar (who is also a member of the committee) has primary responsibility for overseeing audit matters in the region and for reporting back to the group audit committee in London. Membership of the audit committee is kept under review by the board to ensure that it continues to remain independent and effective.

Overall, 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 REA Kaltim (the Indonesian sub-holding company of all of the group's plantation interests) of which a majority are independent.

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, including that from a South East Asian perspective provided by overseas directors, 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. It is important that all directors make periodic visits to the group's operations which are located in a remote rural location in Indonesia, entailing lengthy and sometimes complex, strenuous travel. The nomination committee assesses current demands on a potential director's time in addition to the time commitment and stamina 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 and preparedness for such a role. 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 independent external auditor.

Remuneration committee

The remuneration committee's report on its composition and its principles, policies and activities is set out in the "Directors' remuneration report" below. This also provides information concerning the remuneration of the directors and

includes details of the basis upon which such remuneration is determined.

Board proceedings

Four meetings of the board are scheduled each year. Other board meetings are held as required to consider corporate and operational matters with all directors consulted in advance regarding significant matters for consideration and provided with relevant supporting information. Minutes of board meetings are circulated to all directors. The managing director is present at full board meetings. Where appropriate, telephone discussions take place between the chairman and the other non-executive directors outside the formal meetings. Committee meetings are held as and when required. All proceedings of committee meetings are reported to the full board.

The attendance of individual directors, who served during 2020, at the board meetings held in 2020 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 2020 there were five meetings of the audit committee and one meeting of each of the remuneration committee and nomination committee. All committee meetings were attended by all of the committee members appointed at the time of each meeting.

Whilst all formal decisions are taken at board meetings, the directors have frequent informal discussions between themselves and with management and most decisions at board meetings reflect a consensus that has been reached ahead of the meetings. Two of the directors reside permanently in the Asia Pacific region and, under normal circumstances, some UK based directors travel extensively. Since the regular board meetings are fixed to fit in with the company's budgeting and reporting cycle and ad hoc meetings normally have to be held at short notice to discuss specific matters 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 person but, when possible, the company organises a conference facility to facilitate remote attendance. In the event that a director is unable to attend a meeting in person or by way of a conference facility, 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. During the period under review, to comply with social distancing and travel restrictions, all meetings were held by conference facility

which proved to be highly effective. The use of conference facilities was not felt by directors to impact adversely the conduct or administration of meetings or the quality and depth of board discussions and contributions by individual directors.

Audit, risk and internal control

The board is responsible for the group's audit and system of internal control and for reviewing their effectiveness, taking account of the views and recommendations 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 "Principal risks and uncertainties" in the "Strategic report" above, was conducted by the board on 22 April 2021. The board also regularly reviews the process and internal control systems, which were in place throughout 2020 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, human rights and anti-bribery and corruption are in place for all of the group's operations in Indonesia as set out in the "Strategic report" (under the "Employees" section in "Sustainability" above) 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 support the group's policies and procedures, a local third party assists with corporate governance matters and regular anti-bribery training for employees in Indonesia. Such training covers local and international standards of good governance and anti-bribery laws and regulations, with specific reference to the Bribery Act 2010. The group's whistleblowing procedure, implemented for employees in Indonesia, where the majority of the workforce is based, is managed and facilitated externally by a professional independent third party firm.

The group has in place measures to ensure that it is compliant with the UK General Data Protection Regulation (“UK GDPR”) which came into effect on 1 January 2021 and replaces General Data Protection Regulation (EU) 2016 (“EU GDPR”), which applied until 31 December 2020 and with which the group was compliant throughout the period under review.

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 and the internal audit department (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 and the board’s risk management monitoring are provided under “Internal audit” and “Risk management and internal control” in the “Audit committee report” below.

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 board on a regular basis by way of the circulation of progress reports, management reports, budgets and management accounts. Management reports, in particular as regards finance matters, are also considered by the audit committee as required. 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.

Diversity and human rights

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. As noted in the group’s “Non-financial information statement” in the “Strategic report” above, applicable policies are designed

to recognise and promote 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, and the establishment of gender committees as set out in the “Strategic report” under the “Employees” section in “Sustainability” above.

In accordance with the Modern Slavery Act 2015, the group 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 policy 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 and certification bodies. These audits, which are usually 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.

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 independent auditor in connection with the financial statements are detailed in “Directors’ responsibilities” below and in the “Independent 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 arrear, 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 2021 annual general meeting are set out in the accompanying notice of the forthcoming annual general meeting (the "2021 Notice"). Please refer to the 2021 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 resides in Indonesia and is also a commissioner (akin to a non-executive director) of the group's principal operating subsidiary in Indonesia and chairman of the local audit committee, is the designated 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. Outcomes and findings from employee engagement and whistleblowing procedures are reported to the local boards of directors and commissioners and ultimately to the group's main board via the REA Kaltim audit committee. 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 CPO. The company's corporate governance documentation, including the terms of reference for the audit, nomination and remuneration 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 26 April 2021 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 discharges its duties for the group as a whole, as well as for the parent company and major subsidiary undertakings, unless required otherwise by regulations. 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 group'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 independent external auditor, and overseeing the relationship with and reviewing the audit findings of the independent 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 independent external auditor to perform non-audit work. During 2020, non-audit work undertaken by the independent 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 independent 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. MHA MacIntyre Hudson ("MHA"), appointed independent auditor to the group at the 2020 annual general meeting ("AGM") on 11 June 2020, will undertake covenant and taxation compliance tasks during 2021, subject to their reappointment at the 2021 AGM. 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 independent 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 independent external auditor. Meetings have continued to take place, albeit remotely, throughout the period of the Covid-19 pandemic.

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. All are considered by the directors to have relevant financial and professional expertise and 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 effectively 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 independent external auditor.

Significant issues related to the financial statements

The committee reviewed the half year financial statements to 30 June 2020 (on which the independent auditor did not report) and the full year consolidated financial statements for 2020 (the "2020 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 independent auditor reporting on the principal audit findings. The audit partner of MHA 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 MHA who were involved in the audit also attended the meetings.

In relation to the group's audited 2020 financial statements, the committee considered the significant accounting and judgement issues set out below.

Significant accounting and judgement issues

Issues

A deferred tax asset of \$5.2 million (2019: \$11.2 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 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.

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.

Waivers in respect of breaches of SYB and KMS bank loan covenants received after the balance sheet date.

Relevant considerations

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 computation of deferred tax liabilities is complicated by the complexity of Indonesian tax legislation and by the extent of differences between group and local carrying amounts that have accumulated over many years, in part due to the past requirements of IAS 41 to restate plantings at fair value for group reporting purposes.

The contractor appointed by IPA to recommence mining the Kota Bangun coal concession undertook test drilling in 2020 to confirm existing data and develop a mine plan in the expectation that mobilisation and mining would commence later in the year. However, plans had to be put on hold as a result of the Covid-19 pandemic. Activity has now resumed, with the contractor negotiating land compensation with affected local individuals and repairing the haul road to the port to prepare for mining in 2021. Preliminary investigations indicate that a part of the overburden to be removed when mining recommences at Kota Bangun will be suitable for crushing and sale as building sand. If confirmed, this may enhance the revenues from mining at IPA. In addition, IPA expects to generate revenues from its concession by fees from two neighbouring coal concessions that are currently planning to ship coal through IPA's port.

Following the agreement in 2020 with a neighbouring coal company, the project to supply andesite for a new road planned to be built by that company through the group's estates is now being progressed. It is expected that quarrying will be undertaken by a contractor on a basis similar to that agreed for the Kota Bangun coal concession. The group's agricultural operations can also utilise significant quantities of crushed stone for building and infrastructure construction programmes. Further ahead, local civil works for government projects in East Kalimantan are likely to require large quantities of crushed stone.

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.

The Indonesian bank has subsequently waived the breaches in question. If the waivers had been received before the balance sheet date, such loans would have been classified as non-current liabilities.

Issues

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.

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.

Relevant considerations

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.

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 oil palm 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 oil palm groups.

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 independent 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 independent external auditor, MHA MacIntyre Hudson ("MHA") (a member firm of Baker Tilly International), was appointed as the group's external auditor in 2020, following approval by the shareholders at the annual general meeting held in 2020. Rakesh Shaunak is the group's audit engagement partner.

The company's former audit engagement partner of Deloitte LLP was required to step down at the conclusion of the 2019 audit after five years as the group's audit partner in accordance with the ethical standards of the Financial Reporting Council. Further, a new audit firm (an associate firm of Baker Tilly International) was appointed to the Indonesian sub-group in 2019, following the dissolution of the former Indonesian audit firm (part of the Deloitte LLP group). It was therefore considered that a change of audit firm for the group in 2020 was appropriate and that the new independent auditor should be the UK associate of Baker Tilly International.

The audit committee meets the independent external auditor regularly each year to consider the annual audit plan, specific auditing and accounting matters and the independent auditor's report to the committee. In its assessment of the independent external auditor, the audit committee considered the following criteria and confirmed that it was satisfied 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, and challenge of, key accounting and audit judgements, technical issues and best practice
- the degree of professionalism and expertise demonstrated by the audit staff
- sufficient continuity planned for 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. On behalf of the board, at each meeting the committee conducts a robust assessment of principal, prospective and emerging risks faced by the group and makes recommendations to the board accordingly. Such risks, and the assessment thereof,

are set out under "Principal risks and uncertainties" in the "Strategic report" above and are reflected in the "Viability statement" and "Going concern" in the "Directors' report" above.

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. 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 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. Internal audit work continued throughout 2020, in accordance with the internal audit programme agreed with the committee. In the opinion of the audit committee and the board, there is no need for an internal audit function outside Indonesia due to the limited nature of the non-Indonesian operations.

Approved by the audit committee on 26 April 2021 and signed on behalf of the committee by:

MICHAEL A ST. CLAIR-GEORGE

Chairman of the audit committee

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 2020 and certain other information required by the Regulations. The annual report on remuneration will be put to an advisory shareholder vote at the company's 2021 annual general meeting. The remuneration policy detailed in the policy report is separately subject to approval at that annual general meeting. The remuneration policy is unchanged from the policy that was previously approved at the company's 2018 annual general meeting, save as respects taxable benefits for executive directors.

The Companies Act 2006 requires the independent auditor 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 2020 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 group's policy on remuneration is designed to be clear, simple and consistent with the group's values. The committee believes that remuneration should continue to motivate and reward individual performance in a way that supports the best long term interests of the company, its shareholders and stakeholders. The committee considers that executive remuneration is consistent with such policy and that the award of any bonus, which is wholly discretionary and currently the only variable element of remuneration for the sole executive director, takes account of the group's targets and objectives.

The policy and principles applied by the remuneration committee in fixing the appropriate remuneration of the sole executive director 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 addition, the committee takes into consideration external guidance and benchmarks, including annual publications by leading audit firms regarding directors' remuneration in smaller (FTSE SmallCap) companies, as well as remuneration awards for senior managers of the company in Indonesia and London.

In considering a bonus in respect of 2020, 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 2020. In particular, the committee took note of success in building on the operational performance delivered in 2019 albeit that the group's financial performance in 2019 had limited the scope for awarding bonuses in respect of that year. Further, the committee noted: the refinement of management and organisation structures and processes to achieve efficiencies and cost savings; adaptations made to address the challenges and changing demands as a consequence of the Covid-19 pandemic; successful delivery of the extension of maturity of the sterling notes; managing a change of auditor for both the UK group and REA Finance B.V. (issuer of the sterling notes); and improvements in the group's sustainability benchmarks. Finally, the committee acknowledged the workload and pressures associated with the arbitration claims against PT Indo Pancadasa Agrotama ("IPA"), as discussed under "Stone and coal interests" in the Strategic report, and related claims against group companies and the executive director, in respect of which a successful outcome had been achieved.

The committee reflected these factors in awarding the bonus in respect of 2020 and setting the executive remuneration and specific objectives for 2021. The committee considers that it has struck an appropriate balance between reward and incentive in approving the remuneration package of the sole executive director for 2021.

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.

Single total figure of remuneration for each director

The remuneration of the executive and non-executive directors for 2019 and 2020 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 2020.

2020	Salary and fees (fixed) £'000	All taxable benefits (fixed)* £'000	Annual bonus (variable)** £'000	Pensions (fixed)*** £'000	Total £'000
Managing director					
C E Gysin	348.1	32.2	100.0	13.9	494.2
Chairman and non-executive directors					
D J Blackett	100.0	–	–	–	100.0
I Chia	27.0	–	–	–	27.0
J C Oakley	127.0	–	–	–	127.0
R M Robinow	100.0	8.5	–	–	108.5
R Satar	29.5	–	–	–	29.5
M A St. Clair-George	29.5	–	–	–	29.5
Total	761.1	40.7	100.0	5.6	915.7

2019	Salary and fees (fixed) £'000	All taxable benefits (fixed)* £'000	Annual bonus (variable)** £'000	Pensions (fixed)*** £'000	Total £'000
Managing director					
C E Gysin	336.4	31.9	58.9	12.6	439.8
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	701.9	40.4	58.9	7.0	813.8

- * Types of benefit: health insurance, rental accommodation
 ** In respect of the applicable year (awarded in the subsequent year)
 *** Contributions to auto enrolment workplace pension

Fees paid to Michael St Clair George in 2019 and 2020, and to Rizal Satar in 2020 included additional remuneration at the rate of £2,500 per annum in respect of their 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 35 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 required under local legislation.

Mr Oakley (who was aged 72 at 31 December 2020) 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	£ 80,021
Increase during the year	1,443
In payment at end of year	81,464

Directors' remuneration report

continued

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 2020, the interests of directors (including interests of persons connected with directors) 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	131,144
I Chia	–	1,000
C E Gysin	91,957	2,132
J C Oakley	–	442,493
R M Robinow	100,000	13,046,587
M A St. Clair-George	2,108	129,371

There have been no changes in the interests of the directors between 31 December 2020 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.

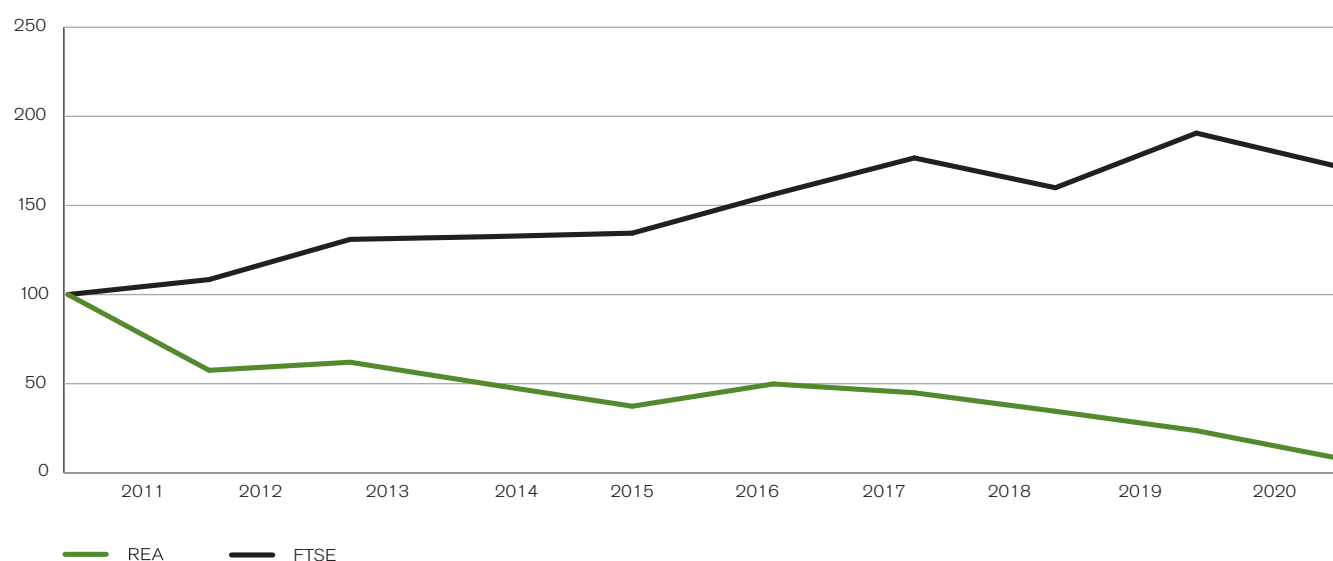
The 2015 scheme provides that the vesting of a participant's potential entitlements to notional ordinary shares be determined by key performance targets with each performance target measured on a cumulative basis over a designated performance period. Targets for any award made under the 2015 scheme are 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 a participant leaves, he may exercise a vested entitlement within six months of leaving.

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

Performance graph and managing director remuneration table

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



Record of remuneration of the managing director

The table below provides details of the remuneration of the managing director over the ten years to 31 December 2020.

		Single figure of total remuneration £'000	Annual bonus pay-out against maximum %	Long term incentive vesting rates against maximum opportunity %
Managing director's remuneration				
2020	C E Gysin	494.2	57	N/A
2019	C E Gysin	439.8	35	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

* Includes £200,000 ex gratia payment for loss of office pursuant to a resolution of shareholders in 2017

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 2019 and 2020. 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 2019 remuneration of the selected comparator employee group has been restated to reflect only the remuneration in that year of those employees comprising the 2020 selected comparator employee group. The 2019 remuneration of the selected group has also been restated at prevailing average exchange rates for 2020 so as to eliminate distortions based on exchange rate movements of the rupiah and dollar against sterling.

Directors' remuneration report

continued

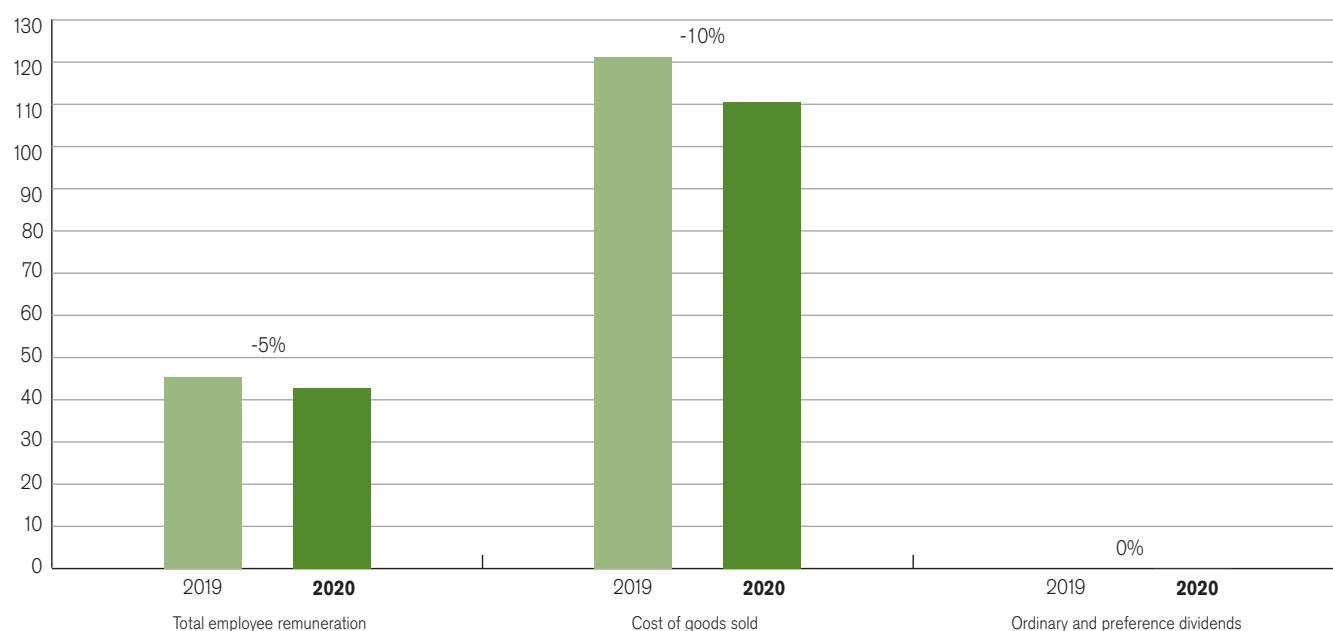
	2020 £'000	2019 £'000	change %
Percentage change in managing director's remuneration			
Salary	348.1	336.4	3.5
Benefits	32.2	31.9	0.8
Annual bonus	100.0	58.9	69.9
Pension	13.9	12.6	10.7
Total	494.2	439.8	12.4

	2020 £'000	2019 £'000	change %
Percentage change in average remuneration of selected employee group			
Salary	230.0	221.6	3.8
Benefits	18.5	16.9	9.2
Annual bonus	52.9	44.1	19.9
Total	301.4	282.6	6.6

Relative importance of spend on pay

The graph below shows the movements between 2019 and 2020 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.

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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 annual publications by leading audit firms regarding directors' remuneration in smaller (FTSE SmallCap) companies. The chairman plays no part in the discussion of his own remuneration, which is a matter for determination between the other member of the committee and fellow directors.

Service contracts of directors standing for re-election

David Blackett, 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 11 June 2020, votes lodged by proxy in respect of the resolution to approve the 2019 directors' remuneration report were as follows:

	Votes for	Percentage for	Votes against	Percentage against	Total votes cast	Votes withheld
Voting on remuneration report*	48,688,552	99.2	408,851	0.8	49,097,403	0

* Includes votes in respect of both ordinary and preference shares

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 group'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.

The remuneration policy detailed below is subject to approval at the company's 2021 annual general meeting on 10 June 2021 in accordance with the Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013 requiring all companies to put their remuneration policy to shareholders for approval at least every three years. The policy proposed for approval is unchanged from the policy approved by shareholders at the company's 2018 annual general meeting, save as respects taxable benefits for executive directors which no longer routinely include a company car. The remuneration of directors approved in respect of 2021 is consistent with this policy.

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 under the 2015 long term incentive plan (of which, currently, there are none).

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

Directors' remuneration report

continued

	Purpose	Operation	Opportunity	Applicable performance measures
Executive directors				
Taxable benefits	To attract, motivate, retain and reward fairly individuals of suitable calibre	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 CPO produced, and the annual extension planting rate achieved in proportions considered at the remuneration committee's discretion appropriate to the company's objectives at the time of making any award
Pensions	Compliance with prevailing legislation	Compliance with prevailing legislation	Compliance with prevailing legislation	None
Non-executive directors				
Fees	To attract and retain individuals with suitable knowledge and experience to serve as directors of a listed UK company engaged in the plantation business in Indonesia	Determined by the board within the limits set by the articles of association and by reference to comparable organisations and to the time commitment expected; reviewed annually		
Fees for additional duties	An additional flat fee in each year in respect of membership of certain committees and additional fees in respect of particular services performed	Determined by the board having regard to the time commitment expected and with no director taking part in the determination of such additional remuneration in respect of himself; reviewed annually		
Taxable benefits	Continuance of previously agreed arrangements	The provision of private medical insurance, subject to regular review to ensure that the cost is competitive		

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

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 2022 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 2022. 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 2021, so as to leave sufficient time to make suitable arrangements to ensure continuity for the company and its shareholders.

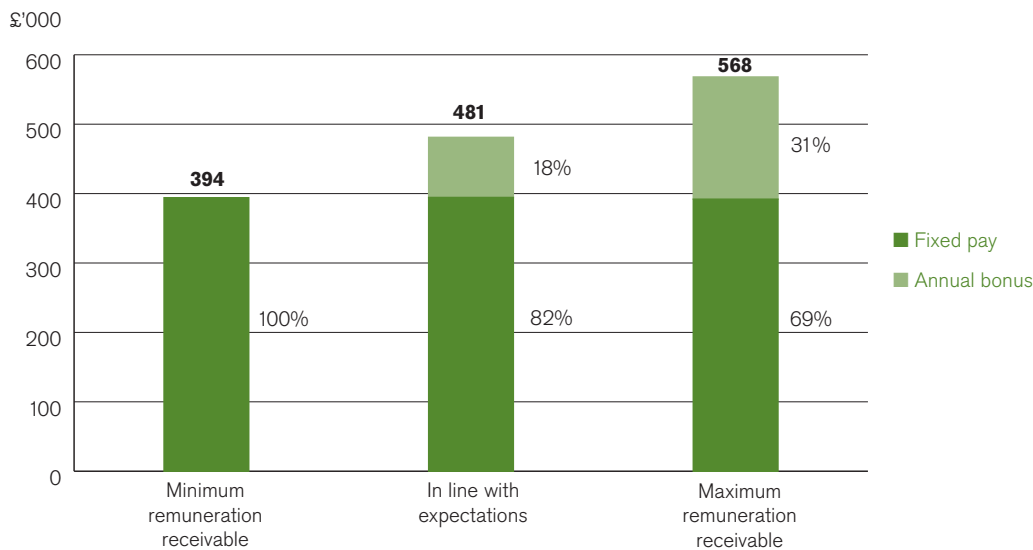
Illustration of application of remuneration policy

The chart below provides 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 2020 is nil.

Directors' remuneration report

continued

Managing director



The figures reflected in the chart above have been calculated against the policies that were applicable throughout 2020 and on the basis of remuneration payable in respect of 2021.

Payment for loss of office

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

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

Consideration of employment conditions elsewhere in the company

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

Shareholder views

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

Approved by the board on 26 April 2021 and signed on behalf of the board by

MICHAEL A ST. CLAIR-GEORGE

Chairman of the remuneration committee

Directors' responsibilities

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

UK company law requires the directors to prepare financial statements for each financial year. The directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and with the Companies Act 2006, as applicable to companies reporting under international accounting standards. 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 group'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, they confirm that:

- 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.

Approved by the board on 26 April 2021 and signed on behalf of the board by

DAVID J BLACKETT
Chairman

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

Report on the audit of the financial statements

For the purpose of this report, the terms “we” and “our” denote MHA MacIntyre Hudson in relation to UK legal, professional and regulatory responsibilities and reporting obligations to the members of R.E.A. Holdings plc. For the purposes of the table on pages 76 to 79 that sets out the key audit matters and how our audit addressed the key audit matters, the terms “we” and “our” refer to MHA MacIntyre Hudson and/or our component teams. The Group financial statements, as defined below, consolidate the accounts of R.E.A. Holdings plc and its subsidiaries (the “Group”). The “Parent Company” is defined as R.E.A. Holdings plc. The relevant legislation governing the Parent Company is the United Kingdom Companies Act 2006 (“Companies Act 2006”).

Opinion

We have audited the financial statements of R.E.A. Holdings plc.

The financial statements that we have audited 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 Cash Flow Statement;
- the Statement of Accounting Policies; and
- the related notes 1 to 39 to the Consolidated financial statements and notes (i) to (xvi) to the Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 “Reduced Disclosure Framework” (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and R.E.A. Holdings plc's affairs as at 31 December 2020 and of the Group's loss and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union (“IFRSs as adopted by the EU”);
- the R.E.A. Holdings plc financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standard Financial Reporting Standard 101 “Reduced Disclosure Framework”, and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 including, as regards the Group financial statements, those applicable to companies reporting under international accounting standards.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

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

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included:

- The consideration of inherent risks to the company's operations and specifically its business model.
- The evaluation of how those risks might impact on the company's available financial resources.
- The evaluation of compliance and future compliance with banking covenants and associated actions that could be taken to address actual or potential covenant breaches.
- Where additional resources may be required the reasonableness and practicality of the assumptions made by the Directors when assessing the probability and likelihood of those resources becoming available.
- Liquidity considerations including examination of cash flow projections.
- Solvency considerations including examination of budgets and forecasts and their basis of preparation.
- Viability assessment including consideration of reserve levels and business plans.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview of our audit approach

Materiality	2020	2019	Basis for 2020
Group	\$4.8m	\$5.8m	1.5% of Plantation assets
Parent	\$2.7m	\$3.48m	1.0% of gross assets
	\$0.24m	\$0.29m	Threshold for reporting to those charged with governance
			Plantation assets which we have defined as the sum of: <ul style="list-style-type: none"> ▪ Plantings (\$119m) ▪ Buildings and structures (\$196m) ▪ Biological assets (\$3m)

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

Key audit matters

Event driven	<ul style="list-style-type: none"> Valuation and presentation of sterling notes
Recurring Group	<ul style="list-style-type: none"> Valuation of plantation assets Valuation of loans to Stone and Coal interests

Our assessment of the Group's key audit matters is consistent with 2019 except for:

- The addition of the key audit matter in relation to the valuation and presentation of sterling notes due to the amendments made to the notes in 2020.
- The removal of the key audit matter in relation to the recognition of deferred tax assets. This is due to the fact that the balance and risk has reduced significantly.

Scope

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 seven active legal entities. The seven active legal entities include three UK holding or services companies and four Indonesian plantation companies.

The audit of the four plantation companies, PT R.E.A. Kaltim Plantations (RKP), PT Cipta Davia Mandiri (CDM), PT Sasana Yudha Bhakti (SYB) and PT Kutai Mitra Sejahtera (KMS), has been performed by Baker Tilly Indonesia. The UK group team have been involved in the planning, risk assessment and reviewing stages of the component audits.

We performed specified procedures over the material account balances to the Group in the Indonesian plantation entities PT Kartanegara Kumala Sakti, PT Persada Bangun Jaya, PT Prasetya Utama, PT KCC Resources Indonesia and Netherlands finance entity REA Finance B.V.

Material subsidiaries were determined based on:

- 1) financial significance of the component to the Group as a whole, and
- 2) assessment of the risk of material misstatements applicable to each component.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm 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.

Our audit scope which includes full scope and specified procedures results in all major operations of the Group being subject to audit work covering 100% of the Group's revenue, 100% of the Group's profit before tax and 99% of the Group's net assets.

First year transition

We developed a detailed audit transition plan, designed to deliver an effective transition from the Group's predecessor auditor, Deloitte LLP ("Deloitte"). Our audit planning and transition commenced on 22 April 2020, following our appointment. Our transition activities were performed for components located in the UK and Indonesia, which included (but were not limited to) meeting relevant partners and senior staff from Deloitte, reviewing the audit committee meeting minutes, and reviewing Deloitte's 2019 audit work papers. Our transition focused on obtaining an understanding of the Group's system of internal control, evaluating the Group's accounting policies and areas of accounting judgement, and meeting with management.

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 matters 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 and, as required for public interest entities, our results from those procedures. 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.

Valuation of plantation assets

Key audit matter description	<p>Plantation assets had a book value of \$430m at 31 December 2020 (\$444m at 31 December 2019). There is a risk in impairment due to the losses experienced in the past few years and due to the volatility of CPO prices.</p> <p>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 is the CPO price which requires the judgement of the directors. The CPO price is known to be volatile, and the prior year saw a drop in the price post year end due to the Covid-19 pandemic. The use of an inappropriate CPO price could have a material impact on the valuation of plantation assets.</p> <p>The discount rate used is also a key input to the valuation and requires the judgement of the directors. The calculation of the discount rate includes certain inputs that are judgemental. The use of an inappropriate discount rate could have a material impact on the valuation of plantation assets.</p> <p>As disclosed in 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 a change in CPO pricing and the discount rate used.</p> <p>Further details are included within critical accounting estimates and judgements note in note 1.</p>
How the scope of our audit responded to the key audit matter	<p>Our work over the valuation of plantation assets included:</p> <ul style="list-style-type: none"> ▪ Obtaining an understanding of the review control over the impairment assessment including the CPO price and discount rate assumptions to ensure there is an appropriate management review control; ▪ Assessing arithmetic workings of the model and the integrity of the formulae used; ▪ Comparing CPO price currently, at the balance sheet date and through 2020; ▪ Comparing to REAs average selling price over the past 10 years; ▪ Comparing the forecast CPO prices used in the model to those forecast by the World Bank; ▪ Assessing the historical accuracy of the World Bank price forecasts; ▪ Reviewing publicly available news articles and other publications commenting on the expectations for the CPO price and global demand and supply; ▪ Assessing the level of impairment at different CPO prices; ▪ Assessing the appropriateness of the methodology used in calculating the discount rate; ▪ Corroborating the inputs to the calculation of the discount rate and assessing the appropriateness of the inputs used; ▪ Challenging management to understand why in the light of the above they believe their price and discount rate assumptions were appropriate; and ▪ Reviewing the events after the reporting period and testing the sensitivity analysis on palm oil price and discount rate changes.
Key observations	<p>We have concluded that the CPO price and the discount rate used in the calculation of the value in use for each plantation company is appropriate. However, the conclusion that there is no impairment is critically dependent on the assumptions relating to the CPO price and discount rate and therefore this sensitivity is disclosed in the notes to the accounts.</p>

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

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. We have focussed 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 2020 the carrying value of the loans was \$57.5m, an increase from \$50.3m at 31 December 2019 (see note 17). We have identified a significant risk surrounding whether the underlying assets of the counterparties 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 around the level of resources available as the majority of the value in the discounted cash flow (DCF) is due to the expected life of resources. Other important assumptions we identified are the start date of mining, discount rate, selling price and FX rate.

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 risks and the DCF model included:

- Agreeing stone reserves and costs to third party mining and engineering reports;
- Assessing the agreements in place that support production starting in 2021;
- Considering evidence gained from third party sources for the demand of stone to assess whether this supports the start date and the lifetime of mining operations;
- 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;
- We challenged the appropriateness of the discount rate used in the models, through assessment versus third party sources of information and comparison to other comparable companies;
- Challenging the expected price of stone by comparison to recent third party quotations; and
- Checking the numerical accuracy of the DCF.

Key observations

Based on the procedures performed, we noted no material issues from our work.

Valuation and presentation of sterling notes

Key audit matter description

The Group holds debt instruments in the form of sterling notes which comprise £30.9 million (2019: £30.9 million) nominal of 8.75% guaranteed sterling notes issued by REA Finance B.V. and are carried at c.\$42.9m (2019: c.\$39.0m). These sterling notes were originally due to expire in August 2020, however following a proposal, it was approved to extend the repayment date for the sterling notes from 31 August 2020 to 31 August 2025. In accordance with the terms of the proposal, the company issued a total of 4,010,760 warrants, exercisable for a period of five years, to subscribe 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 on 24 March 2020.

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. A premium of 4p per £1 nominal of sterling notes will now be paid on redemption of the sterling notes on 31 August 2025.

At 31 December 2020, the value of these notes amounted to \$42.9m, an increase from \$39.0m at 31 December 2019.

The extension of the sterling notes requires a judgement as to whether it presents a substantial modification of the original terms, which would require derecognition of the old liability and recognition of the new liability at its fair value. The fair value of this liability is based on the significant assumption of the underlying discount rate used. If an inappropriate discount rate is used, this may present a material misstatement in the financial statements.

The addition of warrants also represents a separately identifiable element which will require considerations as to whether this would be a debt or equity instrument.

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

We reviewed management's assessment over the assumption that the extension of the sterling notes does not result in a substantial modification of the terms of the liability and have performed the following procedures:

- Obtaining management's calculation of the present value of cash flows before and after the reschedule and reviewing if the net present value of the cash flows are different by more than 10%;
- Checking the mathematical accuracy of management's calculations; and
- Inspecting the market rate of interest used in the calculation of the present value of cash flows after the reschedule.

We have also reviewed management's classification of the warrants as equity instruments and considered whether this is in line with IAS 32. We have obtained the Black-Scholes valuation model computed by management and performed the following procedures:

- Corroborated inputs to the model, such as share price, risk free rate and annualised volatility to third party sources;
- Performed sensitivity analysis on inputs to the model; and
- Considered the fair value of the warrants based on different volatility percentages.

Key observations

Based on the procedures performed, we noted no material issues from our work.

Our application of materiality

Our definition of materiality considers the value of error or omission on the financial statements that, individually or in aggregate, would change or influence the economic decision of a reasonably knowledgeable user of those financial statements. Misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole. Materiality is used in planning the scope of our work, executing that work and evaluating the results.

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

Performance materiality is the application of materiality at the individual account or balance level, set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

The determination of performance materiality reflects our assessment of the risk of undetected errors existing, the nature of the systems and controls, the impact of there being a number of components and locations and the level of misstatements arising in previous audits.

	Group financial statements	Parent Company financial statements
Overall materiality	US\$ 4.8 million (2019: US\$ 5.8 million)	US\$ 2.7 million (2019: US\$ 3.48 million)
How we determined it	1.5% of plantation assets (2019: 1.75% of plantation assets) We have defined plantation assets as the sum of: <ul style="list-style-type: none"> ▪ Plantings – \$119m ▪ Buildings & Structures – \$196m ▪ Biological Assets – \$3m 	1.0% of Parent Company's gross assets (2019: 60% of Group materiality)
Rationale for the benchmark applied	<p>We consider 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 the 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.</p> <p>We consider this approach of using a balance sheet metric to be more appropriate than an assessment using a profit-based metric given the nature of the Group which is exposed to cyclical commodity price fluctuations and to therefore provide a more stable base reflective of the scale of the Group's size and operations.</p> <p>We set our 2020 performance materiality at 60% of overall materiality, amounting to \$2.88m (2019: 60%) to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. In determining performance materiality, we considered a number of factors – the history of misstatements, our risk assessment and the strength and robustness of the control environment.</p>	<p>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 gross assets to be the most important balance to the users of the financial statements.</p> <p>We set our 2020 performance materiality at 60% of overall materiality, amounting to \$1.62m (2019: 60%) to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. In determining performance materiality, we considered a number of factors – the history of misstatements, our risk assessment and the strength and robustness of the control environment.</p>

We agreed with the Audit Committee that we would report to them all audit differences in excess of US\$ 0.24 million (2019: US\$ 0.29 million) 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.

The scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement.

The Group's parent entity, head office and services company are UK based, whilst the plantations are based in Indonesia and the financing company is based in the Netherlands.

Considering operational and financial performance and risk factors, we focussed our assessment on the significant components and performed full scope audits of the three UK entities and the four significant Indonesian plantation components PT R.E.A. Kaltim Plantations (RKP), PT Cipta Davia Mandiri (CDM), PT Sasana Yudha Bhakti (SYB) and PT Kutai Mitra Sejahtera (KMS) along with specified group level audit procedures on the material external balances at the non-significant Indonesian components and the Dutch financing company, REA Finance B.V. (being the company that issued the sterling notes).

Use of Component Auditors

Our audit of the group financial statements also involved the use of component auditors, Baker Tilly Indonesia. The group audit team provided comprehensive instructions to those component auditors. These instructions included details of the identified risks of material misstatement including those risks identified above. Those instruction also included an assessment of component materiality.

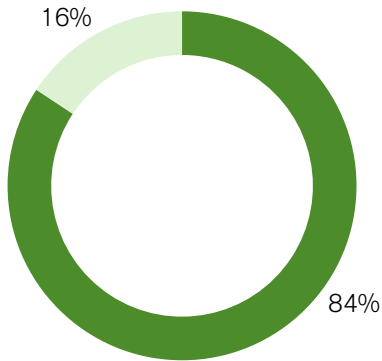
The group audit team discussed and agreed the proposed approach to addressing these risks with the component auditors and the nature and form of their reporting on the results of their work. The group team conducted reviews of the working papers prepared by component auditors using a mixture of physical visits and remote file reviews. They also participated in conference calls at various phases of the audit engagement as part of their management and control of the group audit engagement. As a visit to the Indonesian team was not practicable, due to the travel restrictions related to the global Covid-19 pandemic, the Group audit team intensified the interaction with the local team via video conferences to review and direct the audit approach taken in respect of significant and a number of other relevant risks of material misstatement.

REA Finance B.V. has its local audit undertaken by KPMG LLP.

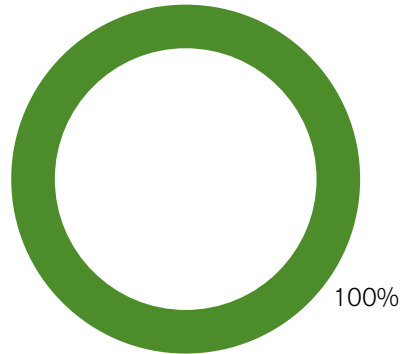
The work over the significant components, combined with the specific targeted procedures on REA Finance B.V., PT Kartanegara Kumalasakti, PT Persada Bangun Jaya, PT Prasetia Utama and PT KCC Resources Indonesia, gave us coverage of 100% of revenue and we performed analytical review procedures over the remaining trading entities to ensure we had the evidence needed to form our opinion on the financial statements as a whole.

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

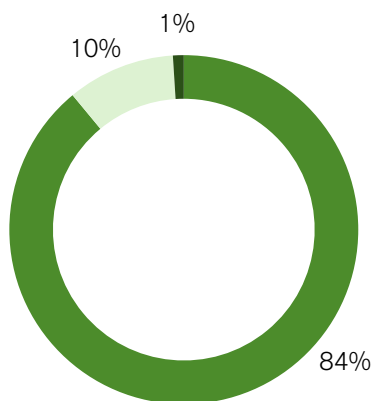
Profit before tax



Revenue



Net assets



- Full scope
- Limited scope
- Analytical Review

Notes:

- Full scope refers to the conduct of an audit of the components underlying financial information in accordance with ISAs UK.
- Limited scope incorporates those circumstances where component auditors have been instructed to perform certain procedures on financial statements areas or specific financial statement line items for individual components.
- Component auditors of lower risk components will usually be instructed to conduct a review of the financial position and performance of the component comparing the actual performance of that component with their valid expectations based on their knowledge of the entity and any known changes in its operational environment and investigating any unusual or unexpected results.
- Some components have been identified as being immaterial to the group individually and in aggregate.

Reporting on other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion of 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. We have nothing to report in this regard.

Strategic report and directors report

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 its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Director's remuneration report

Those aspects of the director's remuneration report which are required to be audited have been prepared in accordance with applicable legal requirements.

Corporate Governance report

The Listing Rules require us to review the Directors' statement in relation to going concern, long-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK corporate governance statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Directors' statement and corporate governance statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified.
- Directors' explanation as to their assessment of the entity's prospects, the period this assessment covers and why the period is appropriate set out.
- Directors' statement that the annual report and financial statements are fair, balanced and understandable.
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks.
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems.
- The section describing the work of the Audit Committee.

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received by branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made, or
- the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below:

- enquiry of management to identify any instances of known or suspected instances of fraud.
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements. We obtained this understanding through assessing the risk register of the Group and understanding the Group's response to assessing the legal and regulatory frameworks that apply to it. In addition, we leveraged our understanding of the legal and regulatory framework applicable to UK listed entities and to those in plantation sector. This included, but was not limited to, discussions with the Group's key legal advisers and review of minutes of the Group's various governance committees.
- the key laws and regulations we considered in this context included UK Companies Act, Listing Rules, and tax legislation. In addition, we considered compliance with the employee legislation and environmental regulations as fundamental to the Group's operations;
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax and IT;
- enquiring of the Audit Committee concerning actual and potential litigation and claims;
- evaluation of the operating effectiveness of management's controls designed to prevent and detect irregularities;

- challenging assumptions and judgements made by management in their significant accounting estimates, in particular, with respect to valuations of plantation assets, valuations of loans to stone and coal interests and valuations and presentation of sterling notes;
- identifying and testing journal entries, in particular, any journal entries posted with understatement of costs, journals that are backdated or posted by senior management;
- the use of data analytics software to interrogate the journals posted in the year and to review areas where the incentive to override controls may be greatest. We also used our data analytics tool to identify potential transactions with related parties.

A further description of our responsibilities for 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.

Other requirements

Following the resignation of Deloitte as auditor, the Company's Audit Committee and Board approved the appointment of MHA MacIntyre Hudson, the UK member of Baker Tilly International, as the Company's auditor for the year ended 31 December 2020. The appointment of MHA MacIntyre Hudson for subsequent financial years will be subject to approval by the shareholders at each Annual General Meeting. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 1 year.

We did not provide any non-audit services which are prohibited by the FRC's Ethical Standard to the company and we remain independent of the company in conducting our audit.

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.

Rakesh Shaunak FCA **Senior Statutory Auditor**

For and on behalf of
MHA MacIntyre Hudson
Chartered Accountants and Statutory Auditors
London, United Kingdom
26 April 2021

Consolidated income statement

for the year ended 31 December 2020

	Note	2020 \$'000	2019 \$'000
Revenue	2	139,088	124,986
Net (loss) / gain arising from changes in fair value of agricultural produce inventory	4	(777)	5,127
Cost of sales:			
Depreciation and amortisation		(27,969)	(27,287)
Other costs		(82,215)	(94,495)
Gross profit		28,127	8,331
Distribution costs		(2,835)	(1,348)
Administrative expenses	5	(16,486)	(16,097)
Operating profit / (loss)		8,806	(9,114)
Investment revenues	2, 7	525	595
Impairments and similar charges	8	(9,483)	(3,267)
Finance costs	9	(23,098)	(31,890)
Loss before tax	5	(23,250)	(43,676)
Tax	10	7,336	22,303
Loss for the year		(15,914)	(21,373)
Attributable to:			
Equity shareholders		(13,183)	(17,814)
Non-controlling interests	32	(2,731)	(3,559)
		(15,914)	(21,373)
Loss per 25p ordinary share (US cents)	12	(30.0)	(43.1)

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 2020

	Note	2020 \$'000	2019 \$'000
Loss for the year		(15,914)	(21,373)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(3,504)	59
Deferred tax on exchange differences	27	1,769	1,589
		(1,735)	1,648
Items that will not be reclassified to profit or loss:			
Actuarial gains / (losses)		1,835	(316)
Deferred tax on actuarial (gains) / losses	27	(367)	79
		1,468	(237)
Total comprehensive income for the year		(16,181)	(19,962)
Attributable to:			
Equity shareholders		(13,450)	(16,403)
Non-controlling interests		(2,731)	(3,559)
		(16,181)	(19,962)

Consolidated balance sheet

as at 31 December 2020

	Note	2020 \$'000	2019 \$'000
Non-current assets			
Goodwill	13	12,578	12,578
Intangible assets	14	1,098	2,135
Property, plant and equipment	15	376,551	394,356
Land	16	39,879	38,598
Financial assets: stone and coal interests	17	57,548	50,329
Deferred tax assets	27	8,931	12,642
Non-current receivables		5,302	3,889
Total non-current assets		501,887	514,527
Current assets			
Inventories	19	16,069	18,565
Biological assets	20	2,953	2,764
Trade and other receivables	21	41,059	53,760
Cash and cash equivalents	22	11,805	9,528
Total current assets		71,886	84,617
Total assets		573,773	599,144
Current liabilities			
Trade and other payables	30	(51,644)	(63,452)
Bank loans	24	(54,148)	(19,168)
Sterling notes	25	–	(38,996)
Other loans and payables	28	(7,321)	(14,457)
Total current liabilities		(113,113)	(136,073)
Non-current liabilities			
Trade and other payables	30	(20,712)	–
Bank loans	24	(56,062)	(107,757)
Sterling notes	25	(42,908)	–
Dollar notes	26	(26,891)	(26,804)
Deferred tax liabilities	27	(39,581)	(51,941)
Other loans and payables	28	(28,690)	(23,879)
Total non-current liabilities		(214,844)	(210,381)
Total liabilities		(327,957)	(346,454)
Net assets		245,816	252,690
Equity			
Share capital	31	133,586	133,586
Share premium account		47,358	47,358
Translation reserve		(25,833)	(26,032)
Retained earnings		70,693	84,779
		225,804	239,691
Non-controlling interests	32	20,012	12,999
Total equity		245,816	252,690

Approved by the board on 26 April 2021 and signed on behalf of the board.

DAVID J BLACKETT

Chairman

Consolidated statement of changes in equity

for the year ended 31 December 2020

	Share capital (note 31) \$'000	Share premium \$'000	Translation reserve \$'000	Retained earnings \$'000	Subtotal \$'000	Non- controlling interests (note 32) \$'000	Total equity \$'000
At 1 January 2019	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 interests	–	–	–	–	–	1,500	1,500
At 31 December 2019	133,586	47,358	(26,032)	84,779	239,691	12,999	252,690
Loss for the year	–	–	–	(13,183)	(13,183)	(2,731)	(15,914)
Reserve adjustment relating to warrant issue	–	–	–	1,133	1,133	–	1,133
Other comprehensive income for the year	–	–	199	(2,036)	(1,837)	(200)	(2,037)
New equity from non-controlling interests	–	–	–	–	–	9,944	9,944
At 31 December 2020	133,586	47,358	(25,833)	70,693	225,804	20,012	245,816

Consolidated cash flow statement

for the year ended 31 December 2020

	Note	2020 \$'000	2019 \$'000
Net cash from operating activities	33	33,479	2,185
Investing activities			
Interest received	7	525	595
Proceeds on disposal of property, plant and equipment		1,066	7,639
Purchases of property, plant and equipment		(10,768)	(18,133)
Purchases of intangible assets		–	(20)
Expenditure on land		(3,897)	(4,552)
Investment in stone and coal interests		(7,218)	(4,319)
Net cash used in investing activities		(20,292)	(18,790)
Financing activities			
Repayment of bank borrowings	23	(18,734)	(14,512)
New bank borrowings drawn	23	5,250	4,999
New borrowings from related party	23	4,031	5,437
Repayment of borrowings from related party		–	(5,437)
Repayment of borrowings from non-controlling shareholder	23	(7,514)	–
New borrowings from non-controlling shareholder		–	1,758
New equity from non-controlling interests	32	9,944	1,500
Proceeds of issue of ordinary shares, less costs of issue		–	6,015
Proceeds of issue of 2022 dollar notes		–	3,000
Costs of extending repayment date of sterling notes		(459)	–
Payment of warranty obligations relating to divested subsidiary		(663)	–
Repayment of lease liabilities	29	(2,434)	(2,303)
Net cash (used in) / from financing activities		(10,579)	457
Cash and cash equivalents			
Net increase / (decrease) in cash and cash equivalents	34	2,608	(16,148)
Cash and cash equivalents at beginning of year		9,528	26,279
Effect of exchange rate changes		(331)	(603)
Cash and cash equivalents at end of year	22	11,805	9,528

Accounting policies (group)

General information

R.E.A. Holdings plc is a company incorporated in England and Wales 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 are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and with the Companies Act 2006, as applicable to companies reporting under international accounting standards. The statements are prepared under the historical cost convention except where otherwise stated in the accounting policies.

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 the functional currency of the company and 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

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 2020 have no impact on the disclosures or on the amounts reported in these consolidated financial statements.

At the date of approval of these financial statements, the standards and interpretations which were in issue but not yet effective that have not been applied in these financial statements are set out below.

Amendments to IAS 1 *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current* were issued in January 2020 and are effective for the financial year beginning on 1 January 2023 subject to EU endorsement. The amendments clarify that the classification of liabilities as current or non-current should be based on the rights, in existence at the end of the reporting period, to defer settlement by at least twelve months and not on expectations about whether an entity will exercise these rights.

Amendments to IAS 16 *Property, Plant and Equipment* were issued in May 2020 and are effective for the financial year beginning on 1 January 2022 subject to EU endorsement. The amendments prohibit the deduction from the cost of an

item of property, plant and equipment of any proceeds from selling items produced while bringing that asset into operation and clarify that these proceeds (and the corresponding costs of production) are recognised in profit or loss.

Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* were issued in May 2020 and are effective for the financial year beginning on 1 January 2022 subject to EU endorsement. The amendments clarify that the cost of fulfilling a contract comprises the costs that relate directly to the contract.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform – Phase 2* were issued in August 2020 and are effective for the financial year beginning on 1 January 2021. The changes relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and corresponding disclosure requirements.

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

Basis of consolidation

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

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

On acquisition, any excess of the fair value of the consideration given over the fair value of identifiable net assets acquired is recognised as goodwill. Any deficiency in consideration given against the fair value of the identifiable net assets acquired is credited to profit or loss in the consolidated income statement in the period of acquisition. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

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

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

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

Other intangible assets

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

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

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

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

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

Revenue recognition

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

Revenue is measured at the fair value of the consideration

received or receivable in respect of goods and services provided in the normal course of business, net of VAT and other sales related taxes.

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

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

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.

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.

Accounting policies (group)

continued

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 had one office building lease in Singapore which qualified for the short term lease exemption as it expired in 2019 and was not renewed. The group opted to recognise this lease expense on a straight-line basis as permitted by IFRS 16. This expense was included with administrative expenses for 2019. 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, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at that date. 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 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 (or attributed to non-controlling interests if 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 using the tax rates and laws 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 or equity, in which case the deferred tax is also dealt with in other comprehensive income, or equity respectively.

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 25 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.

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.

Accounting policies (group)

continued

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 the lower of cost and net realisable value but the cost of the 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.

Biological assets

Biological assets comprise the growing produce (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 derecognition of financial instruments

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

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 shareholder, trade payables and contract liabilities.

Redeemable instruments and bank borrowings

Redeemable instruments being dollar and sterling note issues and bank borrowings 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, 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 and premiums. Bank borrowings 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 policies (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 assets and amounts of liabilities may differ from estimates. The judgements, estimates and assumptions are reviewed on a regular basis. Revisions to estimates are recognised in the period in which the estimates are revised.

Critical judgements in applying the group's accounting policies

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

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 would be 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 Limited ("KCC"), 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 the group controls these entities. Such a judgement would result in the derecognition of the loans to stone and coal interests of \$57.5 million and the consolidation of the assets and liabilities as at 31 December 2020 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 \$57.5 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 (which are not yet in production) 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 \$17.7 per tonne excluding freight (2019: \$27.8 per tonne including freight) and presumes a mining commencement date of September 2021. For objective evidence of impairment the stone price would have to fall to \$14.7 per tonne, or the start date of the project be substantially delayed.

Plantation assets

Plantation assets (including property plant and equipment, land, intangible assets and goodwill) are carried at \$429.9 million in the consolidated balance sheet. At 31 December 2020 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 \$570 per tonne in 2021). Viewing the group's plantation assets as a whole if there was an expectation that the price would be at \$552 per tonne over the next 25 years then an impairment of \$5.9 million would

be required being the difference between the carrying value of the assets and the value in use. The average price in 2020 was \$558 per tonne while the average price of the past ten years was \$772. The average price from 1 January 2021 to 31 March 2021 was \$656. The discount rate applied was 9.5 per cent (on a pre-tax basis). Using the base model projection of CPO selling prices, if the discount rate was increased to 11.7 per cent, 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 \$6.0 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 \$6.2 million in respect of deferred tax assets in relation to tax losses of \$31.4 million (of which \$25.9 million are in Indonesia and \$5.5 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 2021 to 2026 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 \$570 per tonne in 2021) and projects that all losses will be utilised. If the forecast CPO prices are reduced to a level \$504 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 \$23.8 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 processed in 2020 of approximately 948,000 tonnes was significantly higher than in the period 2016 to 2019 when annual production averaged 785,000 tonnes and, further, that the CPO price, CIF Rotterdam, on 1 January 2021 was \$940 per tonne compared to an average price in 2017 to 2020 of \$646 per tonne. On this basis, the directors consider that the conclusions of the preceding paragraph are reasonable.

2. Revenue

	2020 \$'000	2019 \$'000
Sales of goods	137,993	124,000
Revenue from services	1,095	986
	139,088	124,986
Investment revenue	525	595

In 2020, three customers accounted for respectively 59 per cent, 18 per cent and 16 per cent of the group's sales of agricultural goods (2019: three customers, 47 per cent, 25 per cent and 16 per cent). As stated under "Credit risk" in note 23, substantially all sales of goods are made on the basis of cash against documents or letters of credit and accordingly the directors do not consider that these sales result in a concentration of credit risk to the group.

The crop of oil palm FFB for 2020 amounted to 785,850 tonnes (2019: 800,666 tonnes). The fair value of the crop of FFB was \$89.3 million (2019: \$71.6 million), based on the price formulae determined by the Indonesian government for purchases of FFB from smallholders.

Notes to the consolidated financial statements

continued

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 2020 and 2019, the latter did not meet the quantitative thresholds set out in IFRS 8 "Operating segments" and, accordingly, no analyses are provided by business segment.

	2020 \$'m	2019 \$'m
Sales by geographical destination:		
Indonesia	117.3	118.1
Rest of World	21.8	6.9
	139.1	125.0
Carrying amount of net (liabilities) / assets by geographical area of asset location:		
UK and Continental Europe	(73.3)	(68.0)
Indonesia	319.1	320.7
	245.8	252.7

4. Agricultural produce inventory movement

The net (loss) / 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 FFB 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

	2020 \$'000	2019 \$'000
Salient items charged / (credited) in arriving at loss before tax		
Administrative expenses (see below)	16,486	16,097
Movement in inventories (at historic cost)	233	9,062
Movement in fair value of growing produce	(189)	(138)
Amortisation of intangible assets	1,045	466
Depreciation of property, plant and equipment*	26,924	26,821
Impairments and similar charges (note 8)	9,483	3,267

* Of which \$2.5 million is depreciation of right of use assets (see note 29)

Administrative expenses

Loss / (profit) on disposal of property, plant and equipment	537	(707)
Indonesian operations	12,785	13,480
Head office and other corporate functions	4,781	5,928
	18,103	18,701
Amount included as additions to property, plant and equipment	(1,617)	(2,604)
	16,486	16,097

5. Loss before tax – continued

Amounts payable to the company's auditor

This is the first year of MHA MacIntyre Hudson's ("MHA") appointment. The amount payable to MHA for the audit of the financial statements of the company and its subsidiaries was \$198,000.

Amounts payable to MHA for other services in connection with the 2020 audit are \$7,000 in respect of the report to the trustee regarding group compliance with covenants pursuant to the terms of the trust deed in respect of the dollar notes.

Amounts payable to affiliates of MHA for the audit of subsidiaries' financial statements was \$152,000.

	2020 \$'000	2019 \$'000
Earnings before interest, tax, depreciation and amortisation		
Operating profit / (loss)	8,806	(9,114)
Depreciation and amortisation	27,969	27,287
	36,775	18,173

6. Staff costs, including directors

	2020 Number	2019 Number
Average number of employees (including executive directors):		
Agricultural – permanent	7,855	8,702
Agricultural – temporary	–	135
Head office	6	11
	7,861	8,848
	\$'000	\$'000
Their aggregate remuneration comprised:		
Wages and salaries	36,698	40,484
Social security costs	1,973	1,980
Pension costs	2,838	2,911
	41,509	45,375

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

7. Investment revenues

	2020 \$'000	2019 \$'000
Interest on bank deposits	117	28
Other interest income	408	567
	525	595

Notes to the consolidated financial statements

continued

8. Impairments and similar changes

	2020 \$'000	2019 \$'000
Provision against costs incurred in respect of land to be transferred to plasma cooperatives	6,203	–
Land compensation payments in connection with divested subsidiary	663	–
Write off of expenditure on land	2,617	5,022
Correction to non-current receivables	–	(1,755)
	9,483	3,267

The group intends to transfer some further areas of land developed by the group to plasma cooperatives. It is hoped that all costs incurred in respect of such areas can be recovered in full, but this may not be possible. Accordingly, an impairment provision has been made against the costs in question.

The land compensation payments are in respect of certain outstanding warranty obligations relating to the subsidiary divested in 2018, PT Putra Bonggan Jaya.

In both the current and prior year, the write off of expenditure on land represents costs incurred by the group on a land allocation (izin lokasi) that has been relinquished. Having regard to evolving environmental considerations and prospective titling problems arising from conflicting land claims, the group concluded that renewal should not be sought following expiry of the land allocations concerned.

In 2019, 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 was set off against the write off of expenditure on land.

9. Finance costs

	2020 \$'000	2019 \$'000
Interest on bank loans and overdrafts	12,591	14,664
Interest on dollar notes	2,028	1,859
Interest on sterling notes	3,498	3,462
Interest on other loans	1,095	1,539
Interest on lease liabilities	301	311
Change in value of sterling notes arising from exchange fluctuations	1,869	1,357
Change in value of loans arising from exchange fluctuations	(1,538)	7,246
Finance charge related to warrant issue	1,133	–
Other finance charges	2,380	1,488
	23,357	31,926
Amount included as additions to property, plant and equipment	(259)	(36)
	23,098	31,890

Other finance charges in 2020 include \$1.1 million being the present value of the premium payable on redemption discounted at the coupon rate (see note 25).

Amounts included as additions to property, plant and equipment arose on borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 1.2 per cent (2019: nil per cent); there is no directly related tax relief.

10. Tax

	2020 \$'000	2019 \$'000
Current tax:		
UK corporation tax	–	–
Overseas withholding tax	968	1,289
Foreign tax	343	737
Total current tax	1,311	2,026
Deferred tax:		
Current year	(9,830)	(24,329)
Prior year	1,183	–
Total deferred tax	(8,647)	(24,329)
Total tax	(7,336)	(22,303)

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 20 per cent (2019: 25 per cent) and for the United Kingdom, the taxation provision reflects a corporation tax rate of 19 per cent (2019: 19 per cent) and a deferred tax rate of 19 per cent (2019: 17 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. In March 2021 it was announced that UK corporation tax rates would rise to 25 per cent from 2023.

The main rate of corporation tax in Indonesia is reducing from 25 per cent to 22 per cent in 2021 then to 20 per cent for accounting periods after 2022. In computing the deferred tax liabilities, it is assumed that as neither deferred tax assets nor liabilities will crystallise in the immediate future then calculations based on a rate of 20 per cent are appropriate.

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

	2020 \$'000	2019 \$'000
Loss before tax	(23,250)	(43,676)
Notional tax at the UK standard rate of 19 per cent (2019: 19 per cent)	(4,418)	(8,298)
Tax effect of the following items:		
Interest not deductible	4,964	7,090
Other expenses not deductible	299	954
Adjustment in respect of deferred tax due to change in corporation tax rates	(9,015)	–
Deferred tax adjustment relating to Indonesian asset valuations	–	(17,218)
Reversal of deferred tax liabilities no longer required	–	(1,475)
Non taxable income	(11)	(67)
Overseas tax rates above UK standard rate	(577)	(6,577)
Overseas withholding taxes, net of relief	968	1,289
Tax credit on loss in overseas subsidiary not recognised	10	219
Tax losses in overseas subsidiaries time expired	–	352
Change in rate of tax applicable to UK losses	343	753
Other movements	101	675
Tax expense at effective tax rate for the year	(7,336)	(22,303)

The deferred tax credit of \$9.0 million primarily relates to the reduction in corporation tax rates in Indonesia as noted above. In 2019, the deferred tax credit of \$17.2m related primarily 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.

In 2019 a deferred tax charge of \$352,000 related 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.

Notes to the consolidated financial statements

continued

10. Tax – continued

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.

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 \$4.0 million) in aggregate which was received by the subsidiary in 2016. During later discussions with the local tax office, the tax officials rejected the subsidiary's claim for interest on that part of the repayment which represented a refund to the subsidiary of the tax which had been voluntarily paid at the time of the disputed assessment. The subsidiary disagreed with this interpretation and in 2017 lodged an appeal with the Supreme Court. Meanwhile it is the policy of the group to recognise in income only the undisputed interest which is received in cash.

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

11. Dividends

In view of the difficult trading conditions prevailing during 2020 and the group's financial performance, 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 2020 should be deferred and that the half yearly preference dividends that were due on 30 June 2019 and 31 December 2019 should also continue to be deferred.

Provided that CPO prices remain at current levels, the preference dividends arising on 30 June 2021 and 31 December 2021 are expected to be paid during the year. Whilst the group recognises the importance of paying the arrears on the preference dividend, which now stand at 18p per share, it is not yet in a position to provide guidance as to when it might be able to commence doing so. The directors are well aware that preference shares are bought for income and aim progressively to catch up the preference dividend arrears as soon as circumstances prudently permit.

While the dividends on the preference shares are more than six months in arrear, the company is not permitted to pay dividends on its ordinary shares. In view of the results reported for 2020, 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 2020 even if this were permitted.

12. Loss per share

	2020	2019
	\$'000	\$'000
Loss for the purpose of calculating loss per share*	(13,183)	(17,814)
	'000	'000
Weighted average number of ordinary shares for the purpose of loss per share	43,951	41,358

* Being net loss attributable to ordinary shareholders

13. Goodwill

	2020 \$'000	2019 \$'000
Beginning and end of year	12,578	12,578

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

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 purpose 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.

14. Intangible assets

	2019 \$'000	2019 \$'000
Beginning of year	5,430	5,410
Additions	8	-
Reclassifications and adjustments	-	20
End of year	5,438	5,430
Amortisation:		
Beginning of year	3,295	2,829
Charge for year	1,045	466
End of year	4,340	3,295
Carrying amount:		
End of year	1,098	2,135
Beginning 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.

Notes to the consolidated financial statements

continued

15. Property, plant and equipment

	Plantings \$'000	Buildings and structures \$'000	Plant, equipment and vehicles \$'000	Construction in progress \$'000	Total \$'000
Cost:					
At 1 January 2019	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
Additions	1,250	2,051	2,757	4,702	10,760
Reclassifications and adjustments	–	1,450	1,781	(3,248)	(17)
Disposals – property, plant and equipment	(1,164)	(696)	(2,597)	–	(4,457)
At 31 December 2020	175,415	248,594	124,148	9,113	557,270
Accumulated depreciation:					
At 1 January 2019	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)
Disposals – property, plant and equipment	(91)	(124)	(1,776)	–	(1,991)
At 31 December 2019	46,208	45,015	65,405	–	156,628
Charge for year	10,012	7,297	9,615	–	26,924
Reclassifications and adjustments	–	59	(38)	–	21
Disposals – property, plant and equipment	(206)	(51)	(2,597)	–	(2,854)
At 31 December 2020	56,014	52,320	72,385	–	180,719
Carrying amount:					
At 31 December 2020	119,401	196,274	51,763	9,113	376,551
At 31 December 2019	129,121	200,774	56,802	7,659	394,356

The depreciation charge for the year includes \$56,000 (2019: \$95,000) 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 \$2.6 million (2019: \$3.4 million).

At the balance sheet date, property, plant and equipment of \$141.3 million (2019: \$153.5 million) had been charged as security for bank loans.

16. Land

	2020 \$'000	2019 \$'000
Cost:		
Beginning of year	42,920	45,657
Additions	3,897	4,552
Reclassifications and adjustments	1	(2,155)
Disposal	–	(112)
Impairment (see note 8)	(2,617)	(5,022)
End of year	44,201	42,920
Accumulated amortisation:		
Beginning of year	4,322	4,381
Reclassifications and adjustments	–	(59)
End of year	4,322	4,322
Carrying amount:		
End of year	39,879	38,598
Beginning of year	38,598	41,276

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 2020, certificates of HGU had been obtained in respect of areas covering 64,522 hectares (2019: 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 \$2.6 million of costs relating to izin lokasi were written off in 2020 (2019: \$5.0 million).

At the balance sheet date, land titles of \$18.5 million (2019: \$15.2 million) had been charged as security for bank loans (see note 24).

Notes to the consolidated financial statements

continued

17. Financial assets: stone and coal interests

	2020 \$'000	2019 \$'000
Stone interest	24,266	22,843
Coal interests	36,282	30,486
Provision against loan to coal interests	(3,000)	(3,000)
	57,548	50,329

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. Pursuant to the arrangements between the group and its local partners, the company's subsidiary, KCC, has the right, subject to satisfaction of local regulatory requirements, to acquire 95 per cent of the concession holding group of companies at original cost 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.

As previously reported, a merits hearing in the arbitration in respect of certain claims made against PT Indo Puncadasa Agrotama ("IPA") by two claimants (connected with each other), with whom IPA previously had conditional agreements relating to the development and operations of the IPA coal concession, took place by way of a virtual hearing at the end of June 2020. The company was joined as a party to the arbitration on a prima facie basis and without prejudice to any final determination of jurisdiction. Further separate, but related, potential claims threatened by the two claimants in respect of, inter alia, alleged tortious conduct by the group's subsidiary, R.E.A. Services Limited ("REAS"), and its managing director were stayed pending a conclusion of the arbitration hearing. None of the claims was considered to have any merit and this was confirmed in December 2020, when the arbitral tribunal dismissed all claims in the arbitration against IPA and the group and awarded costs on an indemnity basis to IPA. Such costs totalling \$5.8 million were fully recovered in January 2021. The tribunal's decision also removed the grounds for the separate stayed claims in respect of tortious conduct.

18. Subsidiaries

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

19. Inventories

	2020 \$'000	2019 \$'000
Agricultural produce	9,363	10,373
Engineering and other operating inventory	6,706	8,192
	16,069	18,565

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

20. Biological assets

Biological assets comprise the growing produce on the group's oil palms and are carried at fair value. The basis of valuation is set out under "Biological assets" in Accounting policies (group). Biological assets are classified as level 3 in the fair value hierarchy prescribed by IFRS 13 "Fair value measurement" as no transactions occur in growing produce prior to harvest.

	2020 \$'000	2019 \$'000
Beginning of year	2,764	2,589
Fair value gain taken to income	189	175
End of year	2,953	2,764

At the balance sheet date, biological assets of \$3.0 million (2019: \$2.8 million) had been charged as security for bank loans (see note 24).

21. Trade and other receivables

	2020 \$'000	2019 \$'000
Due from sale of goods	3,333	5,238
Prepayments and advance payments	5,283	4,463
Advance payment of taxation	6,953	13,941
Deposits and other receivables	25,490	30,118
	41,059	53,760

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 30). 32 per cent of sales of goods were prepaid in 2020 (2019: 53 per cent). Sales paid against presentation of documents had an average credit period of 11 days (2019: 13 days). The directors consider that the carrying amount of trade and other receivables approximates their fair value.

22. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the group and short-term bank deposits. The Moody's prime rating of short term bank deposits amounting to \$11.8 million (2019: \$9.5 million) is set out in note 23 under the heading "Credit risk". At 31 December 2020 \$4.4 million (2019: \$5.5 million) of total bank deposits were subject to charges.

23. Financial instruments

Capital risk management

The group manages as capital its debt, which includes the borrowings disclosed in notes 24 to 26 and note 28, 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 the "Consolidated statement of changes in equity". 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.

Notes to the consolidated financial statements

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23. Financial instruments – continued**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	2019 \$'000
Debt*	201,156	217,355
Cash and cash equivalents	(11,805)	(9,528)
Net debt	189,351	207,827
Equity (including non-controlling interests)	245,816	252,690
Net debt to equity ratio	77.0%	82.2%

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

Significant accounting policies

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

Categories of financial instruments

Financial assets as at 31 December 2020 comprised receivables and loans (including stone and coal interests) held at amortised cost and cash and cash equivalents amounting to \$108.8 million (2019: \$101.9 million held at amortised cost).

Financial liabilities as at 31 December 2020 comprised liabilities at amortised cost amounting to \$268.9 million (2019: \$270.4 million).

As explained in note 17, conditional arrangements exist for the group to acquire at historic cost the shares in the Indonesian companies owning rights over certain 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 2025 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 rupiah term loan facilities at fixed rates of 10.5, 11.25 and 11.5 per cent (2019: 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 2020 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 (2019: pre-tax profit (and equity) decrease of \$nil).

23. Financial instruments – continued

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 rupiah.

At the balance sheet date, the group had non dollar monetary items denominated in sterling and rupiah. A 5 per cent strengthening of sterling against the dollar would have resulted in a loss dealt with in the consolidated income statement and equity of \$2.2 million on the net sterling denominated non-derivative monetary items (2019: loss \$1.9 million). A 5 per cent strengthening of the rupiah against the dollar would have resulted in a loss dealt with in the consolidated income statement and equity of \$7.6 million on the net rupiah denominated, non-derivative monetary items (2019: loss of \$6.7 million).

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.

25 per cent of sales in 2020 were Indonesian FOB sales.

59 per cent of sales in 2020 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.

16 per cent of sales in 2020 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 93 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 2020 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 and CPKO prices now standing at good levels 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 consider that the group's credit risk is significantly reduced.

Notes to the consolidated financial statements

continued

23. Financial instruments – continued

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit. At 31 December 2020, 18 per cent of bank deposits were held with banks with a Moody's prime rating of P1 and 82 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 24.

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

Financial instruments

The following tables detail the contractual maturity of the group's financial liabilities at 31 December 2020. The tables have been drawn up based on the undiscounted amounts of the group's financial liabilities based on the earliest dates on which the group can be required to discharge those liabilities. The table includes liabilities for both principal and interest.

	Weighted average interest rate %	Under 1 year \$'000	Between 1 and 2 years \$'000	Over 2 years \$'000	Total \$'000
2020					
Bank loans	10.8	61,073	14,551	49,998	125,622
Dollar notes – repayable 2022	7.5	2,028	28,049	–	30,077
Sterling notes – repayable 2025	8.8	3,703	3,708	54,879	62,290
Non-controlling shareholder loans – dollar	3.8	644	2,603	16,273	19,520
Loan from related party – sterling	13.0	3,024	–	–	3,024
Loan from related party – dollar	5.1	1,439	–	–	1,439
Trade and other payables, and contract liabilities	–	42,992	20,711	–	63,703
		114,903	69,622	121,150	305,675

	Weighted average interest rate %	Under 1 year \$'000	Between 1 and 2 years \$'000	Over 2 years \$'000	Total \$'000
2019					
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

At 31 December 2020, the group's financial assets (other than receivables) comprised cash and deposits of \$11.8 million (2019: \$9.5 million) carrying a weighted average interest rate of nil per cent (2019: nil per cent) all having a maturity of under one year, and stone and coal interests of \$57.5 million (2019: \$50.3 million) details of which are given in note 17.

23. Financial instruments – continued

Fair value of financial instruments

The table below provides an analysis of the book values and fair values of financial instruments, excluding receivables and trade payables and Indonesian stone and 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 2020 (2019: none).

	2020	2020	2019	2019
	Book value	Fair value	Book value	Fair value
	\$'000	\$'000	\$'000	\$'000
Cash and deposits*	11,805	11,805	9,528	9,528
Bank debt within one year**	(54,148)	(54,148)	(19,168)	(19,168)
Bank debt after more than one year**	(56,062)	(56,062)	(107,757)	(107,757)
Loans from non-controlling shareholder within one year*	–	–	(11,091)	(11,091)
Loans from non-controlling shareholder after more than one year**	(6,025)	(6,025)	(13,539)	(13,539)
Loans from non-controlling shareholder after more than one year*	(11,091)	(11,091)	(13,539)	(13,539)
Loan from related party within one year – sterling**	(2,661)	(2,661)	–	–
Loan from related party within one year – dollar*	(1,370)	(1,370)	–	–
Dollar notes – repayable 2022**	(26,891)	(25,683)	(26,804)	(20,817)
Sterling notes within one year – repayable 2020**	–	–	(38,996)	(36,416)
Sterling notes after one year – repayable 2025**	(42,908)	(37,896)	–	–
Net debt	(189,351)	(183,131)	(207,827)	(199,260)

* Bearing interest at floating rates

** Bearing interest at fixed rates

The fair values of cash and deposits, loans from non-controlling shareholder, loans from related party 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.

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	Financing	Non-cash	At
	1 January	cash flows	other	31 December
	2020		changes	2020
	\$'000	\$'000	\$'000	\$'000
Bank debt	(126,925)	13,484	3,231	(110,210)
Loan from non-controlling shareholder	(24,630)	7,514	–	(17,116)
Dollar notes – repayable 2022	(26,804)	–	(87)	(26,891)
Sterling notes – repayable 2025	(38,996)	–	(3,912)	(42,908)
Loan from related party – sterling	–	(2,503)	(158)	(2,661)
Loan from related party – dollar	–	(1,370)	–	(1,370)
Total liabilities from financing activities	(217,355)	17,125	(926)	(201,156)

The maximum liability in relation to loans from related parties during the year was \$6.1 million.

Notes to the consolidated financial statements

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23. Financial instruments – continued

	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 loans from related parties during 2019 was \$5.4 million.

24. Bank loans

	2020 \$'000	2019 \$'000
Bank loans	110,210	126,925
The bank loans are repayable as follows:		
On demand or within one year*	54,148	19,168
Between one and two years	9,823	19,131
After two years	46,239	88,626
	110,210	126,925
Amount due for settlement within 12 months*	54,148	19,168
Amount due for settlement after 12 months	56,062	107,757
	110,210	126,925

* Includes \$30.5 million in respect of reclassified loans (see note 38)

All bank loans are denominated in rupiah and are net of unamortised expenses of \$0.9m (2019: all denominated in rupiah, unamortised expenses of \$1.5 million disclosed within prepayments and advance payments) and are at fixed rates (2019: fixed rates). The weighted average interest rate in 2020 was 10.8 per cent (2019: 11.1 per cent). Bank loans of \$110.2 million (2019: \$126.9 million) are secured on certain land titles, property, plant and equipment, biological assets and cash assets held by REA Kaltim, KMS and SYB having an aggregate book value of \$167.1 million (2019: \$176.9 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 rupiah denominated facilities of \$nil (2019: \$nil).

25. Sterling notes

The sterling notes comprise £30.9 million nominal of 8.75 per cent guaranteed 2025 sterling notes (2019: £30.9 million nominal) issued by the company's subsidiary, REA Finance B.V. ("REAF").

On 1 April 2020 a 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 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 now repayable 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 repayment obligation in respect of the sterling notes of £30.9 million (\$42.1 million) is carried in the balance sheet net of the unamortised balance of the note issuance costs plus the present value of the premium payable on redemption discounted at the coupon rate.

26. Dollar notes

The dollar notes comprise \$27.0 million nominal of 7.5 per cent dollar notes 2022 (2019: \$27.0 million nominal) and are stated net of the unamortised balance of the note issuance costs.

On 30 September 2019, a customer of the group subscribed for \$3 million nominal of dollar notes at par pursuant to an arrangement for the purchase by the customer of CPO from the group. In the event that the group ceases to make regular sales of CPO to the customer in question, the customer has the right to require the company to repurchase the notes concerned at par.

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27. Deferred tax

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

Deferred tax assets / (liabilities)	Plantings \$'000	Other property, plant and equipment \$'000	Income/ expenses* \$'000	Agricultural produce and other inventory \$'000	Tax losses \$'000	Total \$'000
At 1 January 2019	(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)
Prior year adjustment	1,583	(2,808)	41	–	1	(1,183)
Credit / (charge) to income for the year	(1,286)	2,245	2,177	31	(4,153)	(986)
Credit to comprehensive income for the year**	–	–	(367)	–	–	(367)
Effect of tax rate changes to income for the year	7,918	2,553	236	115	(1,407)	9,415
Exchange differences***	(1,799)	3,568	–	–	–	1,769
Transfers	4,940	(4,127)	(150)	(691)	29	1
At 31 December 2020	(34,755)	(4,399)	2,697	(427)	6,234	(30,650)
Deferred tax assets	–	–	2,697	–	6,234	8,931
Deferred tax liabilities	(34,755)	(4,399)	–	(427)	–	(39,581)
At 31 December 2020	(34,755)	(4,399)	2,697	(427)	6,234	(30,650)
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)

* 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 \$31.4 million (2019: \$49.5 million) available to be applied against future profits. A deferred tax asset of \$6.2 million (2019: \$11.8 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 (2019: \$nil) incurred by the Indonesian plantation subsidiaries have not been recognised in deferred tax as these may not be recoverable against future taxable profits within the statutory five-year limit (see also note 11). A tax loss of \$0.7 incurred by the group's coal subsidiary in 2020 (2019: tax loss \$0.4 million) has not been recognised and at the balance sheet date; tax losses aggregating \$5.3 million (2019: \$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 \$3.9 million (2019: \$4.0 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 \$34.8 million (2019: \$46.1 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.

28. Other loans and payables

	2020 \$'000	2019 \$'000
Indonesian retirement benefit obligations	11,392	9,543
Lease liabilities (see note 29)	3,472	4,163
Loans from non-controlling shareholder	17,116	24,630
Loan from related party	4,031	–
	36,011	38,336
Repayable as follows:		
On demand or within one year (shown under current liabilities)	7,321	14,457
In the second year	11,574	2,821
In the third to fifth years inclusive	17,116	17,742
After five years	–	2,316
Amount due for settlement after 12 months	28,690	23,879
	36,011	38,336
Liabilities by currency:		
Sterling	2,814	355
Dollar	18,486	24,630
Rupiah	14,711	13,351
	36,011	38,336

Further details of the retirement benefit obligations are set out in note 35. The directors estimate that the fair value of other loans and payables approximates their carrying value.

Notes to the consolidated financial statements

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29. Leases

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

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 15).

Right of use assets in property, plant and equipment	Buildings and structures	Plant, equipment and vehicles	Total
	\$'000	\$'000	\$'000
Cost:			
At 1 January 2019	642	1,639	2,281
Additions	–	3,667	3,667
At 31 December 2019	642	5,306	5,948
Additions	–	1,833	1,833
Disposals	–	(2,285)	(2,285)
At 31 December 2020	642	4,854	5,496
Accumulated depreciation:			
At 1 January 2019	–	–	–
Charge for year	232	1,827	2,059
At 31 December 2019	232	1,827	2,059
Charge for year	232	2,219	2,451
Disposals	–	(2,285)	(2,285)
At 31 December 2020	464	1,761	2,225
Carrying amount:			
At 31 December 2020	178	3,093	3,271
At 31 December 2019	410	3,479	3,889

Lease liabilities (see note 28)	2020 \$'000	2019 \$'000
Less than one year	2,440	2,358
Second year	1,032	1,267
Between three and five years	–	538
More than five years	–	–
	3,472	4,163

Other disclosures in these financial statements	2020 \$'000	2019 \$'000
Interest on lease liabilities (see note 9)	301	311
Principal payments on lease liabilities disclosed in the cash flow statement	2,434	2,303

Short term leases

A number of the boat leases qualify for the short term lease exemption but for consistency all boat leases are treated in the same way.

30. Trade and other payables

	2020 \$'000	2019 \$'000
Trade purchases and ongoing costs	14,716	28,105
Contract liabilities	45,992	20,972
Other tax and social security	1,932	7,122
Accruals	6,166	5,673
Other payables	3,550	1,580
	72,356	63,452
Repayable as follows:		
On demand or within one year (shown under current liabilities)	51,644	63,452
In the second year (contract liabilities)	20,712	–
Amount due for settlement after 12 months	20,712	–
	72,356	63,452

The average credit period taken on trade payables is 100 days (2019: 107 days).

The contract liabilities relate to prepaid sales contracts whereby advance payments are received for future palm oil deliveries.

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

31. Share capital

	2020 \$'000	2019 \$'000
Issued and fully paid (in dollars):		
72,000,000 – 9 per cent cumulative preference shares of £1 each (2019: 72,000,000)	116,516	116,516
43,950,529 – ordinary shares of 25p each (2019: 43,950,529)	18,071	18,071
132,500 – ordinary shares of 25p each held in treasury (2019: 132,500)	(1,001)	(1,001)
	133,586	133,586

The preference shares entitle the holders thereof to payment, out of the profits of the company available for distribution, but subject to the approval of a board resolution to make a distribution out of available profits, of a fixed cumulative preferential dividend of 9 per cent per annum on the nominal amount paid up on such preference shares. The preference shares shall rank for dividend in priority to the payment of any dividend to the holders of any other class of shares. In the event of the company being wound up, holders of the preference shares shall be entitled to the amount paid up on the nominal value of such shares together with any arrears and accruals of the fixed dividend thereon. The preference shares shall rank on a winding up or other return of capital in priority to any other shares of the company for the time being in issue.

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:		
At 1 January 2019	72,000,000	40,509,529
Issued during the year	–	3,441,000
At 31 December 2019 and 2020	72,000,000	43,950,529

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

Notes to the consolidated financial statements

continued

31. Share capital – continued

On 31 March 2020, holders of the 30,852,000 8.75 per cent sterling notes issued by REAF agreed proposals to extend the repayment date of these notes to 31 August 2025.

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 based on 130 warrants per £1,000 nominal of sterling notes.

The warrants are required to be valued at fair value. The value of the warrants has been computed using the Black-Scholes Calculator.

The key inputs to the calculator are:

Strike price per share	£1.26
Stock price per share	£1.00
Time to maturity (years)	5.42 years (31 March 2020 to 31 August 2025)
Risk free rate	0.18 per cent (5 year UK government gilt rate at 31 March 2020)
Annualised volatility	33.2 per cent (using prior 3 month share price movements)

The calculated fair value of £912,000/\$1,133,000 has been charged in the consolidated income statement as a finance cost together with a corresponding credit to retained earnings brought forward.

32. Non-controlling interests

	2020 \$'000	2019 \$'000
Beginning of year	12,999	14,455
Equity participation	9,944	1,500
Share of result for the year	(2,731)	(3,559)
Exchange translation differences	(200)	603
End of year	20,012	12,999

The non-controlling interests comprise: a 15 per cent equity interest held by two subsidiary companies of PT Dharma Satya Nusantara Tbk in the company's principal operating subsidiary, REA Kaltim, (see note (iv) to the company accounts); 5 per cent equity interests held by local partners in each of REA Kaltim's subsidiaries; and a 5 per cent equity interest held by the local partner in PT KCC Resources Indonesia.

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:

	2020 \$'000	2019 \$'000
Revenue	138,783	124,986
Loss after tax	(18,510)	(6,230)
Non-current assets	268,508	316,017
Current assets	45,573	49,363
Non-current liabilities	(91,775)	(215,190)
Current liabilities	(78,659)	(159,847)

33. Reconciliation of operating profit / (loss) to operating cash flows

	2020 \$'000	2019 \$'000
Operating profit / (loss)	8,806	(9,114)
Amortisation of intangible assets	1,045	466
Depreciation of property, plant and equipment	26,924	26,821
Decrease / (increase) in fair value of agricultural produce inventory	588	(5,127)
Increase in value of growing produce	(229)	(138)
Loss / (profit) on disposal of property, plant and equipment	537	(707)
Operating cash flows before movements in working capital	37,671	12,201
Decrease in inventories (excluding fair value movements)	1,789	9,547
Increase in receivables	(3,438)	(18)
Increase in payables	18,285	6,954
Exchange translation differences	(728)	(2,179)
Cash generated by operations	53,579	26,505
Taxes paid	(882)	(541)
Interest paid*	(19,218)	(23,779)
Net cash from operating activities	33,479	2,185

* Of which \$301,000 is in respect of lease liabilities

34. Movement in net borrowings

	2020 \$'000	2019 \$'000
Change in net borrowings resulting from cash flows:		
Increase / (decrease) in cash and cash equivalents, after exchange rate effects	2,277	(16,751)
Net decrease in bank borrowings	13,484	4,049
Decrease in borrowings from non-controlling shareholder	7,514	–
Net increase in related party borrowings	(4,031)	(1,711)
	19,244	(14,413)
Issue of dollar notes	–	(3,000)
Amortisation of sterling note issue expenses and premium	(1,545)	(420)
Amortisation of dollar note issue expenses	(87)	(80)
Amortisation of bank loan expenses	(175)	–
Transfer from current assets – unamortised bank loan expenses	1,126	–
	18,563	(17,913)
Currency translation differences	(87)	(363)
Net borrowings at beginning of year	(207,827)	(189,551)
Net borrowings at end of year	(189,351)	(207,827)

Notes to the consolidated financial statements

continued

35. 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 group's share of the total employer contribution is 4.04 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 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 \$20,000) for 2020 are estimated to be \$34,000 (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 improvement by 0.25% p.a.	(276)

The next actuarial valuation will be made as at 31 December 2020. This has not yet been completed.

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.

35. Retirement benefit obligations – continued

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:

	2020	2019
Discount rate (per cent)	8.16	8.12
Salary increases per annum (per cent)	6	6
Mortality table (Indonesia) (TM1)	111-2011	111-2011
Retirement age (years)	55	55
Disability rate (per cent of the mortality table)	10	10

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

	2020	2019
	\$'000	\$'000
Balance at 1 January	9,543	7,945
Current service cost	1,372	1,953
Interest expense	744	664
Actuarial (loss) / gain recognised in statement of comprehensive income	620	(428)
Exchange	(10)	(367)
Paid during the year	(877)	(224)
Balance at 31 December (see note 28)	11,392	9,543

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

	2020	2019
	\$'000	\$'000
Current service cost	1,372	1,953
Interest expense	744	664
	2,116	2,617

Estimated lump sum payments to Indonesian employees on retirement in 2021 are \$400,000 (2020: \$1,000,000).

Notes to the consolidated financial statements

continued

36. 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".

	2020 \$'000	2019 \$'000
Short term benefits	1,181	1,041

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. Total loans outstanding at 31 December 2020 were \$4.0 million (2019: nil). The maximum amount loaned was \$6.1 million (2019: \$5.4 million, all of which had been repaid by 31 December 2019). Total interest paid during the year was \$165,000 (2019: \$83,000). This disclosure is also made in compliance with the requirements of Listing Rule 9.8.4(10).

37. Rates of exchange

	2020 Closing	2020 Average	2019 Closing	2019 Average
Indonesian rupiah to US dollar	14,105	14,570	13,901	14,158
US dollar to pounds sterling	1.3648	1.2895	1.3115	1.2788

38. Events after the reporting period

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

Current liabilities shown by the consolidated balance at 31 December 2020 amounted to \$113.1 million, reflecting the inclusion of bank loans totalling \$30.5 million from the group's Indonesian bankers Mandiri to SYB and KMS that would have been classified as non-current liabilities were it not for certain breaches by those companies of loan covenants applicable at the balance sheet date. Mandiri has subsequently waived the breaches in question. Such loans would have been classified as non-current liabilities had the waivers had been received before the balance sheet date, as illustrated in the balance sheet below.

Consolidated balance sheet if no reclassification of KMS and SYB bank loans had occurred
as at 31 December 2020

	Note	2020 \$'000	2019 \$'000
Non-current assets			
Goodwill	13	12,578	12,578
Intangible assets	14	1,098	2,135
Property, plant and equipment	15	376,551	394,356
Land	16	39,879	38,598
Financial assets: stone and coal interests	17	57,548	50,329
Deferred tax assets	27	8,931	12,642
Non-current receivables		5,302	3,889
Total non-current assets		501,887	514,527
Current assets			
Inventories	19	16,069	18,565
Biological assets	20	2,953	2,764
Trade and other receivables	21	41,059	53,760
Cash and cash equivalents	22	11,805	9,528
Total current assets		71,886	84,617
Total assets		573,773	599,144
Current liabilities			
Trade and other payables	30	(51,644)	(63,452)
Bank loans	24	(23,615)	(19,168)
Sterling notes	25	–	(38,996)
Other loans and payables	28	(7,321)	(14,457)
Total current liabilities		(82,580)	(136,073)
Non-current liabilities			
Trade and other payables	30	(20,712)	–
Bank loans	24	(86,595)	(107,757)
Sterling notes	25	(42,908)	–
Dollar notes	26	(26,891)	(26,804)
Deferred tax liabilities	27	(39,581)	(51,941)
Other loans and payables	28	(28,690)	(23,879)
Total non-current liabilities		(245,377)	(210,381)
Total liabilities		(327,957)	(346,454)
Net assets		245,816	252,690
Equity			
Share capital	31	133,586	133,586
Share premium account		47,358	47,358
Translation reserve		(25,833)	(26,032)
Retained earnings		70,693	84,779
		225,804	239,691
Non-controlling interests	32	20,012	12,999
Total equity		245,816	252,690

Notes to the consolidated financial statements

continued

39. Contingent liabilities

In furtherance of Indonesian government policy which requires the owners of oil palm plantations to develop smallholder plantations, during 2009 and 2010 REA Kaltim and 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 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 2020 the aggregate outstanding balances owing by the three cooperatives to Bank BPD amounted to rupiah 87.2 billion (\$6.2 million) (2019: rupiah 93.3 billion – \$6.7 million).

Company balance sheet

as at 31 December 2020

	Note	2020 \$'000	2019 \$'000
Non-current assets			
Investments			
Shares in subsidiaries		91,775	91,775
Loans		173,939	165,308
	(iv)	265,714	257,083
Deferred tax assets	(v)	1,060	516
Total non-current assets		266,774	257,599
Current assets			
Trade and other receivables	(vi)	2,829	8,376
Cash and cash equivalents	(vii)	1,319	858
Total current assets		4,148	9,234
Total assets		270,922	266,833
Current liabilities			
Trade and other payables	(viii)	(13,118)	(6,495)
Amount owed to group undertaking	(x)	–	(41,085)
Total current liabilities		(13,118)	(47,580)
Non-current liabilities			
Dollar notes	(ix)	(26,891)	(26,804)
Amount owed to group undertaking	(x)	(43,868)	–
Total non-current liabilities		(70,759)	(26,804)
Total liabilities		(83,877)	(74,384)
Net assets		187,045	192,449
Equity			
Share capital	(xi)	133,586	133,586
Share premium account		47,358	47,358
Exchange reserve		(4,300)	(4,300)
Profit and loss account		10,401	15,805
Total equity		187,045	192,449

The company reported a loss in the financial year ended 31 December 2020 of \$6,537,000 (2019: loss \$3,295,000).

Approved by the board on 26 April 2021 and signed on behalf of the board.

DAVID J BLACKETT

Chairman

Company statement of changes in equity

for the year ended 31 December 2020

	Note	Share capital \$'000	Share premium \$'000	Exchange reserve \$'000	Profit and loss \$'000	Total \$'000
At 1 January 2019		132,528	42,401	(4,300)	19,100	189,729
Total comprehensive income		–	–	–	(3,295)	(3,295)
Issue of new ordinary shares (cash)	(xi)	1,058	5,079	–	–	6,137
Costs of issue		–	(122)	–	–	(122)
At 31 December 2019		133,586	47,358	(4,300)	15,805	192,449
Total comprehensive income		–	–	–	(6,537)	(6,537)
Issue of warrants	(xi)	–	–	–	1,133	1,133
At 31 December 2020		133,586	47,358	(4,300)	10,401	187,045

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

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

Separate financial statements of the company are required by the Companies Act 2006. These financial statements are prepared in accordance with the historical cost convention, except as described in the accounting policy on financial instruments, Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), and in accordance with applicable United Kingdom laws.

This is the first year that the Company has prepared its accounts in accordance with FRS 101, previously they were prepared in accordance with International Financial Reporting Standards (“IFRS”). There has been no material effect on the financial statements as a result of adopting FRS101.

These financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 (CA 2006) and as set out below where advantage of the FRS 101 disclosure exemptions has been taken. These financial statements thus present information about the company as an individual undertaking not as a group undertaking.

In these financial statements, the company has applied the exemptions under FRS 101 in respect of the following disclosures:

- a cash flow statement and related notes
- transactions with wholly owned subsidiaries
- capital management
- as required by IFRS 13 ‘Fair Value Measurement’ and IFRS 7 ‘Financial Instrument Disclosures’
- the effect of new but not yet effective IFRSs
- disclosures in respect of compensation of key management personnel
- IFRS 2 ‘Share Based Payments’ in respect of Group settled share based payments

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

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 2020 have no impact on the disclosures or on the amounts reported in these financial statements.

Notes to the company financial statements

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

In the application of the company's accounting policies, which are described above, 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 2020 the investments are carried at cost of \$91.8 million (2019: \$91.8 million) and the group loans at \$114.4 million (2019: \$113.8 million) as disclosed in note (iv).

The carrying value of the investment in subsidiary undertakings is reviewed for impairment on an annual basis by means of the plantations and stone and coal impairment testing as described in note 1 to the consolidated accounts.

(ii) Auditor's remuneration

The remuneration of the company's auditor is disclosed in note 5 to the consolidated financial statements as required by section 494(4)(a) of the Companies Act 2006.

(iii) Dividends

In view of the difficult trading conditions prevailing during 2020 and the group's financial performance, 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 2020 should be deferred and that the half yearly preference dividends that were due on 30 June 2019 and 31 December 2019 should also continue to be deferred.

Provided that CPO prices remain at current levels, the preference dividends arising on 30 June 2021 and 31 December 2021 are expected to be paid during the year. Whilst the group recognises the importance of paying the arrears on the preference dividend, which now stand at 18p per share, it is not yet in a position to provide guidance as to when it might be able to commence doing so. The directors are well aware that preference shares are bought for income and aim progressively to catch up the preference dividend arrears as soon as circumstances prudently permit.

While the dividends on the preference shares are more than six months in arrear, the company is not permitted to pay dividends on its ordinary shares. In view of the results reported for 2020, 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 2020 even if this were permitted.

(iv) Investments

	2020 \$'000	2019 \$'000
Shares in subsidiaries	91,775	91,775
Loans	173,939	165,308
	265,714	257,083

Notes to the company financial statements

continued

(iv) Investments – continued

The movements were as follows:

	Shares \$'000	Loans \$'000
At 1 January 2019	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
Repayment of loans	–	(42,580)
Additions to loans	–	51,211
At 31 December 2020	91,775	173,939

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
Jentan Plantations Limited	Dormant company	First Floor, 32-36 Great Portland Street, London W1W 8QX	Ordinary	100.0
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	Amstelenseweg 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

The entire shareholdings in Makassar Investments Limited, KCC Resources Limited, R.E.A. Services Limited and REA Finance B.V. 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.

The dormant UK subsidiary, Jentan Plantations Limited, company registration number 6662767, has taken advantage of the exemption pursuant to Companies Act 2006 s394A from preparing individual accounts. Application was made in December 2020 to strike the company off the Companies House register and this occurred on 16 March 2021.

The company evaluates its investments in subsidiary undertakings annually for any indicators of impairment. The company considers the relationship between its market capitalisation and the carrying value of its investments, among other factors, when reviewing for indicators of impairment. As at 31 December 2020, the market capitalisation of the group was significantly below the carrying value of its investments in subsidiary undertakings.

However, as a result of the plantations and stone and coal impairment testing described in note 1 to the consolidated financial statements the directors have determined that no impairment is required.

(v) Deferred tax asset

	\$'000
At 1 January 2019	547
Charge to income for the year	(31)
At 31 December 2019	516
Credit to income for the year	544
At 31 December 2020	1,060

There were no deferred tax liabilities at 31 December 2019 or 31 December 2020.

At the balance sheet date, the company had unused tax losses of \$5.6 million (2019: \$3.0 million) available to be applied against future profits. A deferred tax asset of \$1.1 million (2019: \$516,000) has been recognised in respect of these losses as the company considers, based on financial projections, that these losses will be utilised.

The deferred tax asset reflects a tax rate of 19 per cent (2019: 17 per cent).

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which tax liabilities have not been recognised are disclosed in note 27 to the consolidated financial statements.

(vi) Trade and other receivables

	2020 \$'000	2019 \$'000
Amount owing by group undertakings	2,776	8,340
Other debtors	53	31
Prepayments and accrued income	–	5
	2,829	8,376

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 the banks holding these deposits amounting to \$1.3 million (2019: \$0.9 million) is set out in note 23 to the consolidated financial statements under "Credit risk".

(viii) Trade and other payables

	2020 \$'000	2019 \$'000
Amount owing to group undertakings	8,365	5,649
Loans from related party	4,031	–
Other creditors	24	52
Accruals	698	794
	13,118	6,495

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 \$27.0 million nominal of 7.5 per cent dollar notes 2022 (2019: \$27.0 million nominal) and are stated net of the unamortised balance of the note issuance costs.

On 30 September 2019, a customer of the group subscribed for \$3 million nominal of dollar notes at par pursuant to an arrangement for the purchase by the customer of CPO from the group. In the event that the group ceases to make regular sales of CPO to the customer in question, the customer has the right to require the company to repurchase the notes concerned at par.

(x) Amount owed to group undertaking

Amount owed to group undertaking comprises an unsecured interest-bearing loan of £31.3m – \$42.8 million (2019: £31.3m – \$41.1 million) from REA Finance B.V (“REAF”) held at amortised cost. As at 31 December 2019 the loan was repayable on 31 August 2020. However as the sterling notes held by REAF were successfully rescheduled on 1 April 2020 and are now repayable on 31 August 2025 (see note 25 to the consolidated financial statements) the amount owed by the company to REAF is also repayable on that date. A premium of 4p per £1 nominal of sterling notes will be payable on redemption in August 2025, the current cost of this will be progressively reflected in the liability in respect of the sterling notes and therefore also in respect of the REAF loan. The amount reflected as at 31 December 2020 is £0.8m – \$1.1m which has been charged as a finance cost in the company’s income statement.

(xi) Share capital

	2020 \$'000	2019 \$'000
Issued and fully paid (in dollars):		
72,000,000 – 9 per cent cumulative preference shares of £1 each (2019: 72,000,000)	116,516	116,516
43,950,529 – ordinary shares of 25p each (2019: 43,950,529)	18,071	18,071
132,500 – ordinary shares of 25p each held in treasury (2019: 132,500)	(1,001)	(1,001)
	133,586	133,586

The preference shares entitle the holders thereof to payment, out of the profits of the company available for distribution, but subject to the approval of a board resolution to make a distribution out of available profits, of a fixed cumulative preferential dividend of 9 per cent per annum on the nominal amount paid up on such preference shares. The preference shares shall rank for dividend in priority to the payment of any dividend to the holders of any other class of shares. In the event of the company being wound up, holders of the preference shares shall be entitled to the amount paid up on the nominal value of such shares together with any arrears and accruals of the fixed dividend thereon. The preference shares shall rank on a winding up or other return of capital in priority to any other shares of the company for the time being in issue.

Subject to the rights of the holders of preference shares, holders of ordinary shares are entitled to share equally with each other in any dividend paid on the ordinary share capital and, on a winding up of the company, in any surplus assets available for distribution among the members.

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

On 31 March 2020, holders of the 30,852,000 8.75% sterling notes issued by REAF agreed proposals to extend the repayment date of these notes to 31 August 2025.

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 based on 130 warrants per £1,000 nominal of sterling notes.

The warrants are required to be valued at fair value. The value of the warrants has been computed using the Black-Scholes Calculator.

(xi) Share capital – continued

The key inputs to the calculator are:

Strike price per share	£1.26
Stock price per share	£1.00
Time to maturity (years)	5.42 years (31 March 2020 to 31 August 2025)
Risk free rate	0.18% (5-year UK government gilt rate at 31 March 2020)
Annualised volatility	33.2% (using prior 3 month share price movements)

The calculated fair value of £912,000/\$1,133,000 has been charged in the company's income statement as a finance cost together with a corresponding credit to retained earnings brought forward.

(xii) Pensions

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

As the Scheme is a multi-employer scheme, in which the employers are unable to identify their respective shares of the underlying assets and liabilities (because there is no segregation of the assets), and does not prepare valuations on an IAS 19 basis, the company accounts for the Scheme as if it were a defined contribution scheme. The company's share of the total employer contribution is 4.04 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 \$20,000) for 2021 are estimated to be \$34,000 (2020:\$79,000 including a discretionary contribution of \$66,000).

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. This has not yet been completed.

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.

Notes to the company financial statements

continued

(xiii) Related party transactions

	2020 \$'000	2019 \$'000
Loans to subsidiaries		
PT KCC Resources Indonesia	14,919	14,325
PT REA Kaltim Plantations	34,142	76,722
	49,061	113,764
Interest received from subsidiary	\$'000	\$'000
PT REA Kaltim Plantations	3,294	4,962
	3,294	4,962

Loan from related party

During the year, REA 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. Total loans outstanding at 31 December 2020 were \$4.0 million (2019: nil). The maximum amount loaned was \$6.0 million (2019: \$5.4 million), and \$4.0 million was outstanding at 31 December 2021 (2019: nil outstanding). Total interest paid during the year was \$87,000 (2019: \$83,000). This disclosure is also made in compliance with the requirements of Listing Rule 9.8.4(10).

(xiv) Rates of exchange

See note 37 to the consolidated financial statements.

(xv) Events after the reporting period

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

(xvi) 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 2025 issued by REAF. 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 \$112.0 million (2019: \$127.0 million). The directors consider the risk of loss to the company from the se guarantees to be remote.

Pension liability

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

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 sixty first annual general meeting of R.E.A. Holdings plc to be held at 32-36 Great Portland Street London W1W 8QX on 10 June 2021 at 10.00 am is set out below.

Attendance

Ordinarily, the company welcomes shareholders to attend the annual general meeting in person and particularly so after the restrictions necessitated by the Covid-19 pandemic that prevented in-person meetings in 2020. At the time of publication of this Notice, however, the UK Government's guidance with respect to Covid-19 does not permit the company to hold large in-person meetings. Accordingly, the annual general meeting is to be held as a closed meeting with the minimum attendance required to form a quorum.

Shareholders and others entitled to attend will not be permitted to attend the annual general meeting in person but can be represented by the chairman of the meeting acting as their proxy.

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 the registrars, Link Group ("Link"), at www.signalshares.com (and so that the appointment is received by the service by no later than 10.00 am on 8 June 2021) 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 8 June 2021

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 (and, if different, the name of the registered shareholder as it appears on the company's register of members) to the following email address: AGM2021@rea.co.uk so as to be received by no later than 5.00 pm on 7 June 2021. Shareholders 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 live proceedings of the meeting via an audio webcast available to shareholders via the internet. Shareholders are advised to check the home page of the group's website at www.rea.co.uk for details of how to access the AGM webcast. Please note that shareholders will not be able to actively participate in the meeting by voting on the resolutions during the webcast. Accordingly, and as noted above, shareholders are encouraged to vote on the resolutions and to submit questions in advance of the meeting, although questions may also be submitted via the webcast during the meeting; and
- 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 home page and 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 67 in the company's 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 sixty first annual general meeting of R.E.A. Holdings plc will be held at 32-36 Great Portland Street London W1W 8QX on 10 June 2021 at 10.00 am to consider and, if thought fit, to pass the following resolutions. Resolutions 16, 17 and 18 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 2020, together with the accompanying statements and reports including the independent auditor's report.
2. To approve the directors' remuneration report for the financial year ended 31 December 2020.
3. To approve the directors' remuneration policy to take effect immediately following the Annual General Meeting.
4. To re-elect as a director David Blackett.
5. To re-elect as a director Irene Chia.
6. To re-elect as a director Carol Gysin.
7. To re-elect as a director John Oakley.
8. To re-elect as a director Richard Robinow.
9. To re-elect as a director Rizal Satar.
10. To re-elect as a director Michael St Clair-George.

11. To re-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.
12. To authorise the audit committee to determine and approve the remuneration of the independent auditor.
13. 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:
- the maximum number of ordinary shares which may be purchased is 5,000,000 ordinary shares;
 - the minimum price (exclusive of expenses, if any) that may be paid for each ordinary share is £1.00;
 - 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 of an ordinary share and the current highest independent bid on the London Stock Exchange; and
 - 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 2022 (or, if earlier, on 30 June 2022)
- provided further that:
- 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
 - 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.
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, 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 £3,662,554; such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2022), 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.
15. 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 2022), 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.
16. That the directors be and are hereby given power:
- for the purposes of section 570 of the Companies Act 2006 (the "Act") and subject to the passing of resolution 14 set out in the notice of the 2021 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 14; and
 - 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:
- 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 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 £549,381; and shall expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2022), save that

Notice of annual general meeting

continued

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.

17. That the directors be and are hereby given power, in addition to the power given by resolution 16:

- (a) for the purposes of section 570 of the Companies Act 2006 (the "Act") and subject to the passing of resolution 14 and 16 set out in the notice of the 2021 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 14; 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:

- (i) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the directors have determined to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice, or for any other purposes as the Company in general meeting may at any time by special resolution determine; and
- (ii) limited to the allotment of equity securities for cash 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 £549,381,

and shall expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2022), 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.

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

By order of the board

R.E.A. SERVICES LIMITED

Secretary

26 April 2021

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", "General meeting notice period" and "Recommendation" contain information regarding, and recommendations by the board of the company as to voting on, resolutions 4 to 10 and 13 to 18 set out above in this notice of the 2021 annual general meeting of the company (the "2021 Notice").

With respect to the 2021 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 8 June 2021 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 2021 annual general meeting).

As at the date of the 2021 Notice, the dividends payable on 30 June 2019, 31 December 2019 and 30 June 2020 to holders of preference shares have been in arrear 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 2021 annual general meeting of the company (please refer to introduction to this notice for information on attendance with respect to the 2021 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 2021 annual general meeting (please refer to introduction to this notice for information on attendance with respect to the 2021 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 Group, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL (telephone number +44 (0) 371 664 0300). 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 Group, PXS, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL by no later than 10.00 am on 8 June 2021.

Alternatively, appointment of a proxy may be submitted electronically by using either Link's share portal at www.signalshares.com (and so that the appointment is received by the service by no later than 10.00 am on 8 June 2021) 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 www.signalshares.com 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 www.euroclear.com/ CREST) subject to the company's articles of association. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction regarding a proxy appointment made or given using the CREST service to be valid, the appropriate CREST message (a "CREST proxy instruction") must be properly authenticated in accordance with the specifications of Euroclear UK and Ireland Limited ("Euroclear") and must contain the required information as described in the CREST Manual (available via www.euroclear.com/CREST). The CREST proxy instruction, regardless of whether it constitutes a proxy appointment or an instruction to amend a previous proxy appointment, must, in order to be valid be transmitted so as to be received by the company's registrars (ID: RA10) by 10.00 am on 8 June 2021. 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.

Notice of annual general meeting

continued

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 the submitting shareholder and, if different, the name of the registered shareholder as it appears in the company's 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 2021 Notice, and other information required by section 311A of the Companies Act 2006, may be found on the group's website at www.rea.co.uk.

Under section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the company to publish on a website (in accordance with section 528 of the Companies Act 2006) a statement setting out any matter that the members propose to raise at the relevant annual general meeting relating to (i) the audit of the company's annual accounts that are to be laid before the annual general meeting (including the independent 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 2021 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 2021 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 2021 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 2021 Notice (or any other related document) to communicate with the company for any purposes other than those expressly stated.

Under section 338 and section 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the company (i) to give, to members of the company

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

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