R.E.A. HOLDINGS PLC



Annual Report and Accounts

2013

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

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

Steam sterilisation

Pressing

River transport by barge

Key statistics

	2013	2012
Results ($'000)		
Revenue	110,547	124,600
Earnings before interest, tax, depreciation, amortisation and biological gain	30,269	38,083
Profit before tax	25,216	30,558
Profit for the year	12,672	17,703
Profit attributable to ordinary shareholders	5,457	11,342
Cash generated by operations	19,358	55,110
Returns per ordinary share		
Earnings (US cents)	15.8	33.9
Dividend (pence)	7.25	7.0
Allocated area (hectares)		
Mature oil palm	27,102	26,688
Immature oil palm	6,960	4,819
	34,062	31,507
Titled balance	36,522	39,077
	70,584	70,584
Allocations	30,043	31,601
Total	100,627	102,185
Production (tonnes)		
Group FFB	578,785	597,722
Third party FFB	99,348	64,014
Total	678,133	661,736
CPO	147,649	151,516
CPKO	11,393	11,549
Total	159,042	163,065
CPO extraction rate	21.8%	22.9%
Yields (tonnes per mature hectare)		
FFB	21.4	22.4
CPO	4.7	5.2
CPKO	1.0	1.0
Total	5.7	6.2
Average exchange rates		
Indonesian rupiah to US dollar	10,494	9,392
US dollar to pound sterling	1.57	1.59

Currency

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

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Highlights

Financial

- Profit before tax of $25.2 million (2012: $30.6 million); with a recovery in the second half to $27.8 million, following the loss of $2.6 million sustained in the first half
- Second half results benefiting from higher CPO and CPKO prices and a devaluing Indonesian rupiah against the dollar
- Proposed final dividend of 3¾p per ordinary share (2012: 3½p) making total dividends of 7¼p per ordinary share (2012: 7p); plus capitalisation issue equivalent to slightly over 6p per ordinary share (2012: 6p)
- New investment of $33.5 million (2012: $72.6 million)
- 1.6 million ordinary shares issued by way of a placing to raise $10.5 million net of expenses; $9.7 million of dollar notes 2012/14 purchased for cancellation
- New term loans signed in November 2013 and April 2014 with, respectively, PT Bank DBS Indonesia and PT Bank UOB Indonesia to provide local finance equivalent to $90 million for the continuing development of operations
- Growing throughput from smallholders augmenting the revenue stream

Agricultural operations

- Crop of fresh fruit bunches of 578,785 tonnes (2012: 597,722 tonnes)
- A further 2,555 hectares of oil palms planted during the year and land bank extended by purchase of an additional 1,964 hectare land allocation
- Implementing agreement signed in respect of the agreed swap of land currently held by PT Sasana Yudha Bhakti (but the subject of overlapping coal rights) for land held by PT Praesetia Utama ("PU")
- Implementation of a range of operating efficiencies on the estates and in the processing mills starting to have a discernible impact on unit production costs
- Installation of three additional one megawatt biogas generators in preparation for supplying biogas generated electricity to the Indonesian state electricity company for sale to local villages

Stone quarry and coal operations

- Progress towards quarrying the stone concession to produce stone for group infrastructure and for sale to third parties
- Cooperation arrangements in place for mining the group's coal concessions by third parties

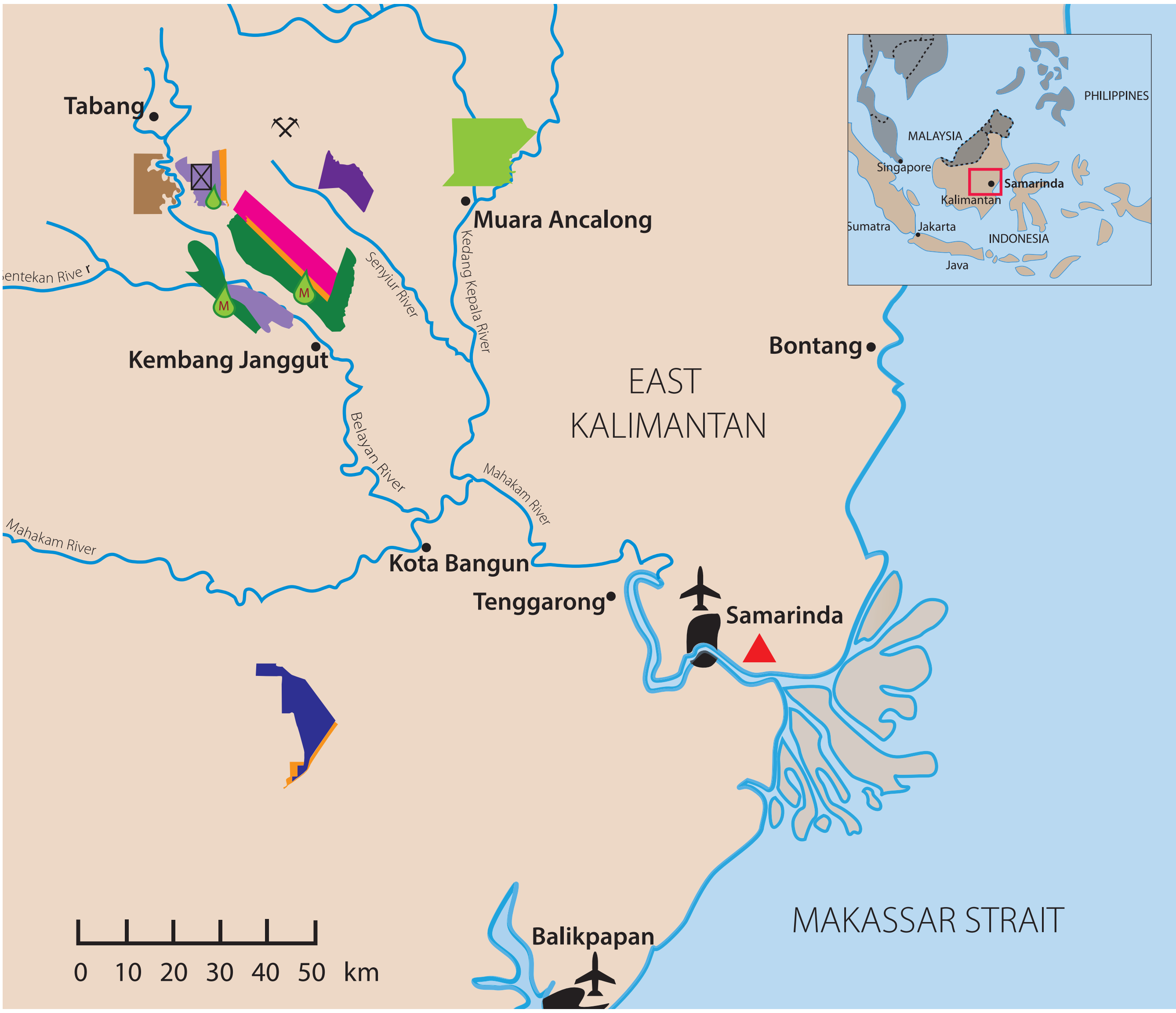
Sustainability

- Allocations of land areas for smallholders gaining momentum with associated smallholdings totalling some 8,500 hectares by December 2013 and further significant expansion expected during 2014 and 2015
- Sales of International Sustainability and Carbon Certification ("ISCC") certified CPO more than doubled to 82,700 tonnes (2012: 34,013 tonnes) in 2013
- Publication of first sustainability report and carbon footprint analysis

Prospects

- Much improved relations with local communities should permit full restoration of previous operating standards and improving crops
- Development started on PT Putra Bongan Jaya; it is hoped to extend planting on PT Cipta Davia Mandiri and to start development on PU during 2014

Maps



The smaller map shows the location of the group's operations within the context of South East Asia. The larger map provides a plan of the operational areas and of the river system by which access is obtained to the main areas.

Key

M	Methane capture plant	
	Oil mill	
	Stone quarry	
	Tank storage	
	CDM	PT Cipta Davia Mandiri
	KKS	PT Kartanegara Kumalasakti
	KMS	PT Kutai Mitra Sejahtera
	PBJ	PT Putra Bongan Jaya
	PBJ2	PT Persada Bangun Jaya
	REAK	PT REA Kaltim Plantations
	SYB	PT Sasana Yudha Bhakti
	SYB swap: land surrender	
	SYB swap: new PU land	

Chairman's statement

This year's annual report reflects a number of UK legislative and regulatory changes. Of these, the most material are the replacement of the former Review of the group with a new Strategic report and a much enlarged Directors' remuneration report. Since the Review of the group was first introduced some years ago, the company has sought to comply with best practice for operational and financial reviews as originally recommended by the Accounting Standards Board. This best practice appears to be the basis for the new rules for the contents of strategic reports. Accordingly, the new Strategic report does not differ markedly from past Reviews of the group. However, the company has taken the occasion of these legislative and regulatory changes to review the presentation of its annual report and has made a number of modifications both to style and content. Some content has been reordered and greater use has been made of tables and illustrations.

As part of these changes, it has been decided to discontinue the previous practice of using the Chairman's statement to provide an executive summary of the more detailed information provided elsewhere in the annual report. Instead, a new Highlights section has been included at the front of the report and henceforth the Chairman's statement will be much shorter and will concentrate on only a few key items.

Profit before tax in 2013 amounted to $25.2 million (2012: $30.6 million). This reflected the combination of a loss of $2.6 million in the first half of 2013 and a recovery in the second half to $27.8 million, reflecting the increased crop harvested in the second half, higher prices for crude palm oil ("CPO") and crude palm kernel oil and a benefit from foreign exchange gains resulting from the material devaluation of the Indonesian rupiah against the dollar that occurred during 2013.

Although the results for 2013 as a whole were disappointing, the directors do not believe that they are symptomatic of any underlying decline in the profit potential of the group, a view that is supported by the performance in the second half of the year. Accordingly, the directors consider it appropriate to recommend a modest increase in the final dividend in respect of 2013 to 3¾p per ordinary share, to give a total dividend for the year of 7¼p per ordinary share (2012: 7p), with ordinary shareholders again receiving a capitalisation issue of preference shares (made in October 2013) equivalent to slightly in excess of 6p per ordinary share.

Underlying the group results were the crop of fresh fruit bunches ("FFB") of 578,785 tonnes (2012: 597,722 tonnes) and an extraction rate for CPO of 21.8 per cent (2012: 22.9 per cent). These figures reflected the impact of the previously reported disruptions caused by disputes with local communities during 2012 and the early months of 2013 which caused delays to harvesting and loss of crop with a knock-on effect on oil extraction rates and oil quality.

The results, of course, also reflected a lower level of CPO prices during 2013. On a CIF Rotterdam basis, these averaged $856 per tonne as compared with the average for 2012 of $998.

A detailed statement of the group's planted oil palm hectarage as at 31 December 2013 is set out under "Land areas" in "Agricultural operations" section of the Strategic report below. This now excludes areas under development, but not yet planted out, which were included in previous summaries of planted hectarage but have increasingly been found to cause confusion. The statement also excludes areas of PT Sasana Yudha Bhakti that are the subject of a swap agreement for shares in PT Praesetia Utama ("PU") (and thus indirectly for over 9,000 hectares of titled land owned by PU). The aggregate area planted during 2013 amounted to 2,555 hectares. Development was initiated during the year on the land areas held by PT Putra Bongan Jaya with a view to achieving significant planting on these areas in 2014. It is also hoped during 2014 to extend the plantings on PT Cipta Davia Mandiri and to establish a first planting on PU.

The group is pushing ahead with the allocation of land for smallholder cooperatives and aims to increase materially the planted smallholder cooperative areas during 2014 and 2015. This, and measures put in place to improve liaison with local communities, are no doubt assisting in maintaining the much improved relations with the local communities that the group is now enjoying.

Progress is also being made with a number of ancillary projects: the sale of electricity generated by the group's methane capture plants to the Indonesian state electricity company; the opening of a quarry on the group's stone concession with a view to producing stone for the group's agricultural operations and for sale to third parties; and the cooperation arrangements for the mining of the group's coal concessions by third parties. Revenue from at least some of these initiatives should be received in 2014 with increasing revenues in future years.

Following changes to the composition of the board made at the end of 2012, the new directors have rapidly familiarised themselves with the business of the group and the challenges that it faces. A recent evaluation by the board of its own performance concluded that the board worked well as now constituted.

The company regrets to report the death during 2013 of Charles Letts, one of the directors who retired at the end of 2012. Mr Letts had been associated with the company and predecessor companies for some forty years and had been a stalwart supporter of the group. His wise advice and readiness to stand by the group in difficult times, as well as good, will be much missed.

Although the position on the group's estates has now been stable for a year, work continues in catching up the backlog of maintenance that built up on the estates during the period of the disruptions and in restoring operating standards to the high levels to which the group aspires. The results of these efforts should be seen in improving crops and extraction rates in the coming months. The FFB crop for the three months to 31 March 2014 was 150,635 tonnes (2013: 137,573).

Improving operating results, coupled with new revenues from ancillary projects, should enable the group to move forward with its plans to list PT REA Kaltim Plantations on the Indonesia Stock Exchange and to continue the growth of the agricultural operations to the planned level of at least 60,000 hectares.

RICHARD M ROBINOW
Chairman

Processing/Storage

Composting

Strategic report

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

Fruitlets

Introduction and strategic environment

Introduction

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

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

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

The report is divided into the following sections:

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

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

Business model and resources

The group is principally engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production of crude palm oil ("CPO") and crude palm kernel oil ("CPKO"). The group also holds rights in respect of a stone deposit and three coal mining concessions, all of which are located in East Kalimantan. Detailed descriptions of the group's oil palm activities and its stone and coal operations are provided under "Agricultural operations" and "Stone and coal operations" below.

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

The group's inheritance from its past and its track record represent significant intangible resources because they underpin the group's credibility. This assists materially in sourcing capital, in negotiating with the Indonesian authorities in relation to project development and in recruiting management of a high calibre. Other resources important to the group are its established base of operations, an experienced management team familiar with Indonesian regulatory processes and social customs, a trained workforce and the group's land and concession rights.

Objectives 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 economic progress in the localities of the group's activities, while maintaining high standards of sustainability. Achievement of these objectives is dependent upon, among other things, the group's ability to generate the operating profits that are needed to finance such achievement.

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

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

The stone and coal mining interests represent recent group diversifications. The directors believe that quarrying of the stone interest will complement the agricultural operations and can be developed to provide a useful additional revenue source for the group. The directors therefore intend that, as the stone quarrying operations develop, the group will treat those operations similarly to the agricultural operations and seek production cost efficiencies by increasing volumes and focusing on productivity. Following a decision in 2012 to limit further capital committed to the coal mining interests, the group's strategy for those interests is to maximise recovery of capital already committed without further expansion in coal mining.

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

The group recognises that its agricultural operations, of which the total assets at 31 December 2013 represented some 87 per cent of the group's total assets and which, in 2013, contributed all of the group's profits, lie within a single locality and rely on a single crop. This permits significant economies of scale but brings with it some risks. Whilst further diversification would afford the group some offset against these risks, the directors believe that, for the foreseeable future, the interests of the group and its shareholders will be best served by growing the existing operations. They therefore have no plans for further diversification.

Future direction

Early in 2012, the directors concluded that, given the significant enlargement of the group's operations over the past decade, the continuing growth of the Indonesian economy and the progressive maturing of South East Asian capital markets, there would be significant advantages to the company and its shareholders in increasing local Indonesian participation in the ownership of the group's agricultural operations. Accordingly, during 2013, all of the company's Indonesian plantation subsidiaries were restructured so as to amalgamate them into a single sub-group headed by the company's principal operating subsidiary, PT REA Kaltim Plantations ("REA Kaltim") with the aim that there will be in due course be a public offering of a minority shareholding in REA Kaltim combined with a listing of REA Kaltim's shares on the Indonesia Stock Exchange in Jakarta.

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

Changes announced by the Indonesian Ministry of Agriculture in November 2013, regarding the regulations governing the foreign ownership of Indonesian plantation businesses, and specifically the introduction of a 100,000 hectare limit on licensed development of oil palms for entities that are not under majority local ownership, will not impact the group in the foreseeable future as it has significant headroom for development within the new limit. Nevertheless, the directors continue to believe that it is desirable to expand local ownership over the long term.

As discussed under "Community relations" in "Sustainability" below, difficulties during 2012 and the early months of 2013 with certain local communities negatively impacted the group's operations and results for 2013. Accordingly (and as previously announced), the directors have concluded that the proposed listing of REA Kaltim in Indonesia should be deferred until sufficient time has elapsed for the REA Kaltim sub-group to have reported figures that reflect normal cropping levels. It is therefore not now expected that a listing of REA Kaltim will take place before 2015.

Introduction and strategic environment

continued

The vegetable oil market context

According to *Oil World*, worldwide consumption of the 17 major vegetable and animal oils and fats increased by 3.75 per cent to 187.7 million tonnes in the year to 30 September 2013. The increased consumption was reflected in increased world production during the same period of 187.4 million tonnes with CPO accounting for 55.9 million tonnes of this (28.2 per cent of the total).

Vegetable and animal oils and fats have conventionally been used principally for the production of cooking oil, margarine and soap. Consumption of these basic commodities correlates with population growth and, in less developed areas, with per capita incomes and thus economic growth. Demand is therefore driven by the increasing world population and economic growth in the key markets of China and India. Vegetable and animal oils and fats can also be used to provide bio-fuels and, in particular, bio-diesel. According to *Oil World*, bio-fuel production accounts for some 13 per cent of all vegetable and animal oil and fat produced.

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

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

In recent years, bio-fuel has become an important factor in the vegetable oil and animal fat markets, not so much because of the oils and fats that it currently consumes, although this is not insignificant, but because the size of the energy market means that bio-fuel can provide a ready outlet for large volumes of oils and fats over a short period when surpluses in supply depress prices to levels at which bio-fuel can be produced at a cost that is competitive with prevailing petroleum oil prices. There is a growing body of evidence that, in recent years, vegetable oil and petroleum oil prices have moved in tandem and that petroleum oil prices create a floor for vegetable and animal oil and fat prices at the level at which such oils and fats can be converted to bio-fuel at an overall cost (net of any available subsidies) that is competitive with the prevailing price of petroleum oil.

The directors believe that demand for, supply of and consequent pricing of, vegetable and animal oils and fats will ultimately be driven by fundamental market factors. However, they also recognise that normal market mechanisms can be affected by government intervention. It has long been the case that some areas (such as the EU) have provided subsidies to encourage the growing of oilseeds and that such subsidies have distorted the natural economics of producing oilseed crops. More recently there have been actions by governments attempting to reduce dependence on fossil fuels. These have included steps to enforce mandatory blending of bio-fuel as a fixed minimum percentage of all fuels and subsidies to support the cultivation of crops capable of being used to produce bio-fuel. Concerns as to the side effects of such actions in reducing food availability and in encouraging deforestation may limit further measures to encourage the production of bio-fuel but the directors consider it likely that measures already in place will remain in force for some time to come.

A graph of CIF Rotterdam spot CPO prices for the last ten years, as derived from prices published by Oil World, is shown on the adjacent page. The monthly average price over the ten years has moved between a high of $1,292 per tonne and a low of $402 per tonne. The monthly average price over the ten years as a whole has been $764 per tonne.

Crude palm oil monthly average price

After opening 2013 at $810 per tonne, CIF Rotterdam, CPO prices were relatively steady for most of 2013, trading in a range of between $800 and $900 per tonne CIF Rotterdam and finishing the year on a firm note, reflecting reduced stocks in Malaysia and Indonesia. The average price for the year as a whole was $856 as compared with the average for 2012 of $998. After some initial price weakness, CPO prices appreciated during late February and early March 2014 to just under $1,000 per tonne but have since fallen back to a current level of $915 per tonne. Bullish factors are the increased government mandated bio-diesel components of transport fuel in Indonesia, Malaysia and Argentina and some indications of an El Nino weather phenomenon. Offsetting these are expectations of very large 2014 soybean crops.

For most of 2013, CPKO prices were much in line with those of CPO but the impact of a cyclone on the coconut growing areas of the Philippines in November 2013 caused prices for coconut oil and CPKO (which is similar in composition to coconut oil) to rise. As a result, the CPKO price now stands at a premium of over $300 per tonne to the CPO price.

The Indonesian context

Domestic consumption accounts for approximately two-thirds of gross domestic product in Indonesia, a nation of close to 250 million people ranking fourth in population terms behind China, India and the US. Indonesian gross domestic product grew 5.8 per cent in 2013 against a target of 6.3 per cent. This was lower than the 6.2 per cent growth of 2012 and below 6.0 per cent for the first time since 2010. The telecommunications sector posted the highest growth, at 10.9 per cent, and the mining and excavation sector the lowest, at 1.3 per cent. *The World Bank Quarterly Report* sees the overall slower rate of growth in gross domestic product continuing in 2014. The poverty rate increased from 11.4 per cent to 11.5 per cent in 2013.

Faced with international uncertainties and the prospective reduction in quantitative easing in the US, the Indonesian rupiah depreciated against the dollar during 2013 from Rp 9,670 = $1 to Rp 12,189 = $1 accompanied by upward pressure on rupiah interest rates. Coupled with higher fuel prices due to reductions in government subsidies, this caused an increase in the year on year inflation rate to 8.4 per cent. The government will be under pressure to reduce fuel subsidies still further going forward.

Introduction and strategic environment

continued

Gubernatorial elections were held in 2013. In East Kalimantan, as widely predicted, Awang Faroek was re-elected as Governor. The East Kalimantan directed increase in the minimum wage for 2014 has been set at 11 per cent, comparing favourably with the pre-election increase of 49 per cent seen in 2013.

National elections are taking place in 2014. Parliamentary elections have just been held and these will be followed by two rounds for the presidential election in June and September. Joko Widodo ("Jokowi"), the Mayor of Jakarta, has declared his candidacy, supported by ex-President Megawati Sukarnoputri, and is reported to be commanding considerable support. Joko represents a younger, post-Suharto generation, and is perceived as likely to provide a different style of leadership from that of past Presidents and expected of the other 2014 Presidential candidates, who are seen as more traditional and more likely to maintain the status quo. Local (Kabupaten) elections will take place in 2015.

Indonesian output of CPO fell by some 1.9 per cent to 26 million tonnes in 2013. Output is expected to recover in 2014 with recent figures estimating growth in the first quarter of 2014 of 11.0 per cent. Despite this, CPO exports are likely to remain static in 2014 as domestic consumption is boosted by increased demand for biofuel. As much as 3.4 million tonnes of CPO is expected to be used annually for locally consumed biodiesel following the increase in the government stipulated diesel content of transport fuel from 7.5 per cent to 10.0 per cent announced in September 2013. In addition, from January 2014, power plants will be obliged to use a blend of fuel in which CPO represents at least 20 per cent.

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 are summarised in the table below.

Quantifications of the indicators for 2013 with, where available, comparative figures for 2012 are provided in the succeeding sections of this Strategic report, with each category of indicators being covered in the corresponding section of the report.

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

Agricultural operations

Structure

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

The oldest planted areas, which represent the core of the group's agricultural operations, are owned through REA Kaltim in which a group company holds a 100 per cent economic interest. With the REA Kaltim land areas approaching full utilisation, over the four year period from 2005 to 2008 the company established or acquired several additional Indonesian subsidiaries, each potentially bringing with it a substantial allocation of land in the vicinity of the REA Kaltim estates.

Following a group restructuring referred to under "Future direction" in "Introduction and strategic environment" above, each of these five subsidiaries is currently owned as to 95 per cent by REA Kaltim and 5 per cent by Indonesian local investors. A further subsidiary PT Persada Bangun Jaya acquired in 2012 and with additional land allocations will, upon completion of necessary legal formalities, be owned as to at least 95 per cent by the group and as to the balance by a local investor. A diagram showing the structure of the REA Kaltim sub-group is set out below.

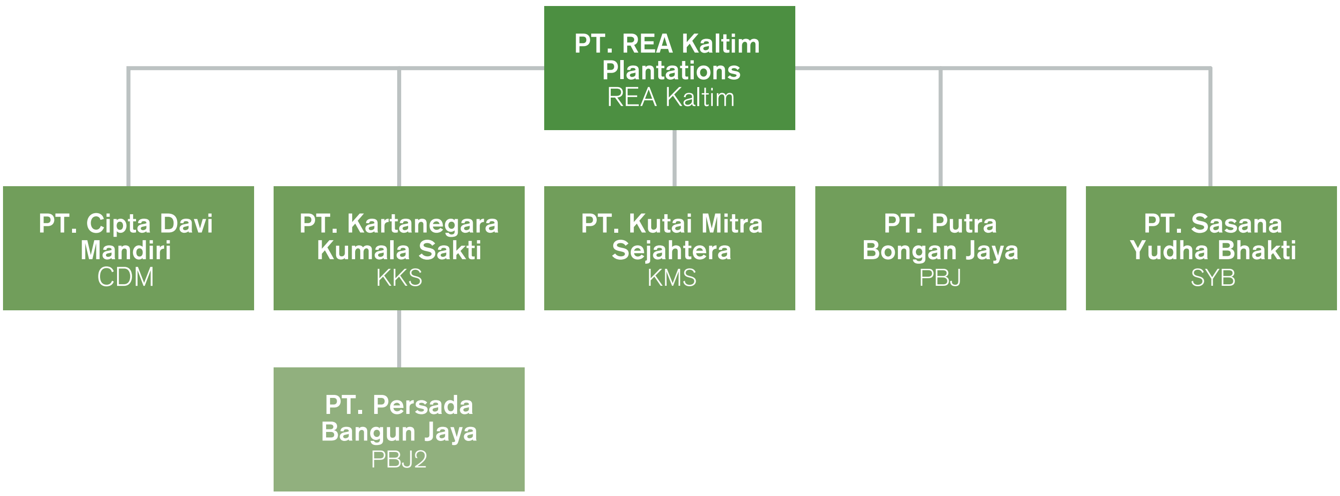
Land areas

The operations of REA Kaltim are located some 140 kilometres north west of Samarinda, the capital of East Kalimantan, and lie either side of the Belayan river, a tributary of the Mahakam, one of the major river systems of South East Asia. The KKS and SYB areas are contiguous with the REA Kaltim areas so that the three areas together form a single site. All of these areas fall within the Kutai Kartanegara district of East Kalimantan. The PBJ area sits some 70 kilometres to the south of the REA Kaltim areas in the West Kutai district of East Kalimantan while the CDM and KMS areas are located in close proximity of each other in the East Kutai district of East Kalimantan less than 30 kilometres to the east of the REA Kaltim areas. There are three strips of land pertaining to PBJ2, two of these lie adjacent to the land areas held by REA Kaltim and KKS, while the third borders the PBJ land area.

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

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

REA Kaltim sub-group



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

During 2013, the overall area of the group's fully titled agricultural land remained at 70,584 hectares. In addition, at 31 December 2013, the group held land allocations subject to completion of titling totalling 30,043 hectares. This figure reflected the renewal by CDM of an allocation of 6,280 hectares out of a total of 6,741 hectares in respect of which a previous allocation had lapsed and the acquisition by KMS of an allocation of 1,964 hectares.

Certain of the land areas held by SYB overlap with mineral rights held by an Indonesian third party company, PT Ade Putra Tanrajeng ("APT"). Pursuant to a land swap agreement reached in 2011 between SYB and APT, it was agreed that SYB would swap 3,557 hectares of fully titled land and 2,212 hectares of untitled land allocations (both being areas the subject of the overlapping rights), in exchange for the transfer to SYB of ownership of PT Praesetia Utama ("PU"), an associate of APT, and thus, indirectly, for the fully titled land areas of 9,097 hectares held by PU. The PU land is located on the southern side of the Belayan River opposite the SYB northern areas that are to be retained and is linked by a government road to the southern REA Kaltim areas.

Under an implementing agreement reached early in 2014, it has now been agreed that the SYB land swap agreement will be implemented in phases whereby blocks of PU land will be progressively developed with oil palm for SYB while APT is progressively permitted to commence coal mining activities on blocks of land held by SYB. Once a critical mass of oil palm has been established on PU, the original land swap agreement will be completed. This arrangement is designed to allow confirmation of the continuing validity of the land titles held by PU ahead of full completion of the agreement.

The breakdown of the land areas held by the group as they currently are and as they are expected to be following completion of the SYB land swap agreement is set out below:

Group land	Pre swap Hectares	Post swap Hectares
Fully titled land		
CDM	9,784	9,784
KMS	7,321	7,321
PBJ	11,602	11,602
PU	–	9,097
REA Kaltim	30,106	30,106
SYB	11,771	8,217
	70,584	**76,127**
Land subject to completion of titling		
CDM	6,280	6,280
KKS	12,050	12,050
KMS	1,964	1,964
PBJ2	7,537	7,537
SYB	2,212	–
	30,043	**27,831**

The KKS allocation is conditional not only upon satisfaction of the normal titling requirements but also upon completion of a necessary rezoning of the area concerned. A substantial proportion of the 7,537 hectare PBJ2 land allocation will be transferred to smallholder cooperatives.

Titling of the not yet fully titled land allocations may be expected to result in full titles being granted to only part of the allocated areas as land the subject of conflicting claims or deemed unsuitable for oil palm cultivation may be excluded. Moreover, not all of the areas in respect of which full HGU titles are issued can be planted with oil palms. Some fully titled land may be unsuitable for planting, a proportion will be set aside for conservation and a further proportion will be required for roads, buildings and other infrastructural facilities. The directors believe that between 50,000 and 55,000 hectares of the 76,127 hectares of fully titled land expected to be held following completion of the SYB land swap agreement will ultimately be plantable with oil palms. The remaining land allocations may in due course provide a further 10,000 plantable hectares.

In addition to actively pursuing the titling of its untitled land allocations, the group continues to look at acquiring further areas suitable for planting with oil palms within the general vicinity of its existing land allocations.

Agricultural operations

continued

With land prices rising and increasing interest in plantation development, land is much less available than was the case in 1991 when the group was first established in East Kalimantan. Moreover, the Indonesian government is now applying a "use it or lose it" policy to land. Pursuant to this policy, land allocations and titles may be rescinded if the land concerned is not utilised within a reasonable period for the purposes for which it was allocated. The group must therefore be careful in expanding its land bank to ensure that it can demonstrate clear plans for the development of all of its undeveloped land holdings in addition to monitoring its compliance with the new regulations in respect of the limit on foreign ownership of plantation land as referred to under "Future direction" in "Introduction and strategic environment" above.

Land development

Areas planted as at 31 December 2013 amounted in total to 34,062 hectares. Of this total, mature plantings comprised 27,102 hectares having a weighted average age of 11 years. A further 1,405 hectares planted in 2010 was scheduled to come to maturity at the start of 2013.

The breakdown by planting year of the total of 34,062 planted hectares (which excludes planted areas to be relinquished by SYB upon completion of the SYB land swap agreement described under "Land areas" above) is shown below:

Planted areas	Hectares
Mature areas	
1994	416
1995	1,956
1996	2,272
1997	2,479
1998	4,829
1999	351
2000	874
2004	3,190
2005	2,279
2006	3,362
2007	3,455
2008	991
2009	648
	27,102
Immature areas	
2010	1,405
2011	1,073
2012	1,927
2013	2,555
	34,062

Planted areas that completed a planned planting programme for a particular year but were planted in the early months of the succeeding year have been allocated to the planting year for which they were planned.

Planting out of the original area of KMS was substantially completed during 2013 taking the planted area of KMS at year end to some 4,500 hectares. The additional land allocation of 1,964 hectares acquired by KMS during 2013 (as referred to under "Land areas" above) will permit further extension of the KMS plantings but the group will be required to transfer at least 800 hectares of the overall KMS plantings to village cooperatives.

Against the background of the issues experienced with villages surrounding the REA Kaltim and SYB areas during 2012 and the early months of 2013 (as discussed under "Community relations" in "Sustainability" below), it was decided not to commence development of new areas held by PBJ and CDM until the group had ensured that, to the maximum extent reasonably practicable, compensation due to affected villagers had been settled and registered with the appropriate Indonesian authorities. Good progress with this was made in the second half of 2013 and the group was able to initiate development of PBJ in the final months of the year with the establishment of a nursery and a start to land clearing on a first portion of the plantable area of PBJ (estimated to be around 8,000 hectares). Development will continue during 2014. Planting of further land areas at CDM should also progress during the year and it is hoped to start development of an initial area at PU.

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

As detailed under "Smallholders" in "Sustainability" below, expansion of smallholder cooperatives is gaining momentum and further significant smallholder areas should be developed during 2014 and 2105.

Processing and transport facilities

The group currently operates three oil mills in which the FFB crops harvested from the mature oil palm areas are processed into CPO and palm kernels. The oldest mill dates from 1998 and the second mill from 2006. Following a recent major overhaul of the first mill and expansion of the second mill, each oil mill now has effective processing capacity of 80 tonnes per hour. The newest mill, operating since 2012, has a current capacity of 40 tonnes per hour. Together, the three mills should mean that the group has, for the immediate future, sufficient processing capacity to handle all crop from its own estates and from the growing number of maturing smallholder plantings in the vicinity. The newest mill has been designed to permit the installation of a second processing line which would double the mill's capacity to 80 tonnes per hour and thereby provide the ability to cope with further processing demands.

Once the recent plantings at KMS and the planned plantings at CDM reach a certain level of maturity, a further oil mill is likely to be needed to process the additional FFB production from these new areas. The PBJ areas are too far away from the group's other planted areas for PBJ fruit to be processed in any of the group's three existing mills or prospective fourth mill. It is planned that early fruit from PBJ will be sold to neighbouring mills (of which there are several) but, as FFB production from PBJ grows, it is expected that PBJ will need its own oil mill. The directors do not currently foresee either of the two further oil mills that may eventually be needed being required before 2018.

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

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

The directors believe that flexibility of delivery options is helpful to the group in its efforts to optimise the net prices, FOB port of Samarinda, that it is able to realise for its produce. Moreover, the group's ability itself to deliver CPO and CPKO allows the group to make sales without the collection delays sometimes experienced with FOB buyers. In previous years, a large proportion of the group's CPO production was sold for delivery to ports in East Malaysia but, as the local market for CPO production has become more dynamic, the majority of CPO sales are now made for local delivery to Indonesian refineries that can be easily accessed from the group's estates and to which the voyage time is in most cases shorter than to East Malaysia. These refineries comprise a refinery operated jointly by two major international oil traders in Balikpapan, another two refineries in South Kalimantan and a fourth in Sulawesi.

During periods of lower rainfall (which normally occur for short periods during the drier months of May to August of each year), river levels on the upper part of the Belayan become volatile and CPO and CPKO at times have to be transferred by road or small barge from the mills to a point some 70 kilometres downstream where year round loading of barges of up to 2,000 tonnes is possible. The group owns a riverside site in this downstream location and has recently developed its own permanent loading facilities on the site. These new facilities will in future be used in substitution for the nearby makeshift temporary loading facilities on which the group has hitherto relied. To provide further resilience, the group intends to establish an alternative downstream loading point so that, as volumes increase, the group can continue to evacuate all palm product output promptly during drier periods.

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's mouth into the Makassar Straits. The alternative route for evacuating CPO and CPKO, which will also be used for the newer estates in KMS and CDM, will be via the Senyiur River which joins the Mahakam between Kota Bangun and Tenggarong.

Agricultural operations

continued

Crops and extraction rates

The following table shows the FFB crops, the CPO, palm kernel and CPKO production, resultant extraction rates and annual rainfall for 2013, together with comparative figures for 2012:

FFB crops (tonnes)	2013	2012
Group	578,785	597,722
External purchases	99,348	64,014
Total	678,133	661,736
Production (tonnes)		
CPO	147,649	151,516
Palm kernels	30,741	30,734
CPKO	11,393	11,549
Extraction rates (percentage)		
CPO	21.8	22.9
Palm kernels	4.5	4.7
CPKO	36.8	37.7
Rainfall (mm)		
Average across the estates	3,385	3,241

As previously reported, crops during the early months of 2013 were adversely affected by the village issues referred to under "Community relations" in "Sustainability" below. These caused delays to harvesting and loss of crop. Regular harvesting operations were resumed in mid-April but it took time to reduce the harvesting intervals to normal levels. As a result, the delays in harvesting had a knock-on effect on oil extraction rates and oil quality. In addition, during the period of the village issues, the group's ability to undertake normal maintenance of estate roads and drainage was restricted and this had some negative effect on crops in the second half of 2013. It is also thought that climatic and other external factors may have caused some reduction in available crop during 2013 as there have been industry wide reports of shortfalls on crop expectations for the year.

Further increases in throughput of third party FFB from smallholders in the vicinity of the group's estates are continuing to augment what had already become a valuable additional revenue stream. However, the extraction rates achievable from third party FFB must be expected to be lower than those from the group's own FFB production and this will have been a contributory factor to the lower extraction rates achieved in 2012 and 2013.

The FFB crop to the end of March 2014 amounted to 150,635 tonnes, against 137,573 tonnes for the same period in 2013. With the much improved relations with the local communities, the backlog in maintenance is being steadily reduced and previous operational standards should be fully recovered.

Revenues

In 2013, substantially all of group CPO was sold in the local Indonesian market (2012: 65 per cent sold locally and 35 per cent exported). The discontinuance of export sales reflected the improving demand from easily accessible local refiners and the delivery efficiencies achievable from selling to this customer base (as discussed under "Processing and transport" above). For similar reasons, all 2013 CPKO sales were made in the local market (2012: 69 per cent sold locally and 31 per cent exported). Revenues continued to benefit from premia achievable on sales of ISSC certified CPO and of Greenpalm certificates in respect of RSPO certified CPO and CPKO as further detailed under "Sustainability and certification" in "Sustainability" below.

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.

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

As a general rule, all CPO and CPKO produced by the group is sold on the basis of prices prevailing immediately ahead of delivery but, on occasions when market conditions appear favourable, the group may make forward sales at fixed prices. The fact that export duty is levied on prices prevailing at date of delivery, not on prices realised, does act as a disincentive to making forward fixed price sales since a rise in CPO prices prior to delivery of such sales will mean that the group will not only forego the benefit of a higher price but may also pay export tax on, and at a rate calculated by reference to, a higher price than it has obtained. When making forward fixed price sales, the group would not normally commit a volume equivalent to more than 60 per cent of its projected CPO or CPKO production for a forthcoming period of twelve months. No deliveries were made against forward fixed price sales of CPO or CPKO during 2013 and the group currently has no sales outstanding on this basis.

The average prices per tonne realised by the group in respect of 2013 sales of CPO and CPKO, adjusted to FOB, Samarinda, and net of export duty were, respectively, $648 (2012: $800) and $755 (2012: $862).

Operating efficiency

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

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

Methane from the group's two methane capture plants (described under "Carbon efficiency" in "Sustainability" below), which were commissioned in 2012, currently drives four generators (each of one megawatt capacity) generating power for the group's own use. These generators continued, during 2013, to make a substantial impact on the group's consumption of diesel oil for power generation with material consequential savings in energy costs. In addition, the group realised some $470,000 during 2013 from the sale (at a price agreed at the outset of the methane plant project) of 37,000 carbon credits accrued since commissioning the methane capture plants.

Following an agreement reached with the Indonesian state electricity company ("PLN"), during 2013 the group obtained licences to generate and sell electricity and installed an additional three megawatts of generating capacity. The additional generating capacity is to be dedicated to PLN and PLN will use it to supply power to the villages surrounding the group's estates by way of a local grid to be constructed by PLN. Payment for the power so utilised will be made by PLN at a fixed rate determined by Indonesian state regulations equating to about $1 million per megawatt year. PLN will also consider linking the national grid to the new local grid and may, in that event, be able to increase its power capacity requirement to six megawatts. It had been hoped that the reticulation needed to connect the group's generating stations to the adjacent villages that PLN intends to supply would have been installed during 2013 but budgetary constraints caused PLN to re-tender for the reticulation works. This re-tendering process is now complete and work on the first phase of the reticulation is due to start before long.

Current methane production is more than double that needed to drive the installed generators (including the three generators to be dedicated to PLN). Moreover, methane production could be further increased by erecting a third methane capture plant in the group's most recently constructed mill. Accordingly, the group continues to seek opportunities for cost reduction from the use of surplus methane. In particular, the group retains under review the possibility of using methane as an alternative fuel source for vehicles and other diesel or petrol powered equipment.

Other cost saving initiatives that have been implemented by the group in recent years include measures to reduce the use of pesticides, partial substitution of inorganic fertiliser with natural fertiliser, increased mechanical handling of FFB collection and transport, and the establishment of an "in house" road maintenance capability. Development of the stone quarry concession, described under "Stone and coal operations" below, should permit further economies in respect of building and maintenance of the group's infrastructure. Introduction during 2013 of a three shift working pattern in the mills should reduce overtime costs.

During 2013, the East Kalimantan provincial authorities directed that minimum wage levels be increased by some 49 per cent. A reasonable proportion of the group's employees are paid at a level above the minimum wage but the need to maintain differentials makes it inevitable that any increase in minimum wage levels will result in a significant increase in the group's employment costs. In 2013, these represented about one third of the cost of sales attributable to the group's agricultural operations. Fortunately, for 2013, the impact of increased wages was moderated in dollar terms by the depreciation in the Indonesian rupiah against the dollar that occurred over the year. However, going forward, it must be expected that wage costs will rise, albeit that the local government directed percentage increases in minimum wage for 2014 were much below those of 2013. Accordingly, the group will continue to seek labour efficiencies wherever possible.


Methane capture plant

Stone and coal operations

Concessions

The group holds rights in respect of a stone deposit and three coal mining concessions, all of which are located in East Kalimantan in Indonesia. The coal mining concessions comprise a high calorific value deposit near Kota Bangun and the lower grade, and broadly adjacent, Liburdinding and Muser concessions in the southern part of East Kalimantan.

Structure

Stone quarrying is classified as a mining activity for Indonesian licensing purposes and is subject to the same regulatory regime as coal mining. Initial investigation of the group's stone concession was therefore managed in conjunction with the group's coal interests. However, it has become clear that the logistics of operating the quarry (which is located in close proximity to the SYB estates) can be sensibly coordinated with the logistics of the agricultural operations and that the agricultural operations will be an important customer of the stone concession. Accordingly, it was agreed during 2013 to reorganise ownership of the concession so as to bring it under the direct control of REA Kaltim subject to regulatory consent and satisfaction of other conditions. However, the transfer was not complete at the year end and interests in stone were not consolidated.

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

Operating activities

Following feasibility studies, the group is currently at an advanced stage in finalising the permits that it will require to commence quarrying at the stone concession and to establish a simple stone crushing operation at the quarry site. Once the necessary permits are in place, the existing access road to the concession will be upgraded to support the heavy duty trucks that will be used to transfer crushed stone from the concession site to a stockpile on the REA Kaltim estates from which onward deliveries will be made to the agricultural operations and third party buyers. Stone quarrying can then start. The agricultural operations can utilise significant quantities of crushed stone for their building and infrastructure construction programmes and indications are encouraging that there will also be good third party demand for crushed stone for road building and use as a concrete aggregate. Accordingly, the group is confident of the economic viability of developing the stone concession.

Following a decision by the directors in 2012, further capital commitments to the coal operations are being limited and the group is concentrating on maximising returns from the concessions in which the group had already invested. Towards the end of 2013, project agreements were signed with two separate third parties relating to the development and operation of the Kota Bangun and Liburdinding concessions. The counterparty in respect of the Liburdinding concession subsequently withdrew (due to the ill health of the principal shareholder) but has since been replaced with another third party. The arrangements agreed will provide an income stream to the group calculated by reference to coal prices prevailing from time to time (subject to an agreed floor) and will minimise further coal related costs to the group. The group expects to recover at least the carrying value of the concessions concerned with some upside in the event that coal prices rise.

Sustainability

Sustainability and certification

The group strives to follow international and industry standards of best practice in every aspect of its business. Operating in a socially and environmentally responsible manner is integral to realising this goal.

In 2013, the group published its first sustainability report. This related to the calendar year 2012 and was produced in accordance with the requirements of the Global Reporting Initiative ("GRI"). The report outlines the measures being taken to manage the aspects of sustainability that are considered to be of greatest relevance to the group's business and of most interest to its stakeholders. It also includes a number of key performance indicators which provide a baseline against which the group's economic, environmental and social performance can be monitored. This report is available for download at the company's website: www.rea.co.uk.

Compliance with international and national sustainability standards provides the foundation for environmentally and socially responsible CPO and CPKO production, as well as independent third party verification that best practices are being implemented. The group's progress and targets for achieving certification of compliance with the international and national standards to which it has committed for its various operations are detailed in the sustainability report.

The first sustainability standard with which the REA Kaltim operations and SYB's southern estate were certified to be in compliance was ISO14001. This is a generic standard developed by the International Standards Organisation ("ISO") which is designed to assist organisations in any sector to establish an effective system to manage the environmental impact of their operations.

Since 2007, the group has been a member of the Roundtable on Sustainable Palm Oil ("RSPO"), a multi-stakeholder organisation, which aims to promote the production and use of sustainable CPO and CPKO. RSPO certification is granted once a palm oil mill and its plantation supply base have been deemed by an independent auditor to be in compliance with the RSPO standards. The group is committed to obtaining RSPO certification for all of its mills, as well as the group estates and associated smallholders that supply them. During 2013, the group retained its previous RSPO certification for the two REA Kaltim mills, all of the REA Kaltim estates and SYB's southern estate, as well as some of the associated smallholders. RSPO certification for the newer third mill, and its supply base, is planned for 2015.

An assessment of RSPO member CPO producers conducted and published by the Worldwide Fund for Nature ("WWF") awarded a score of six out of seven in 2013 for the group's commitments and progress towards achieving RSPO certification. The group is an active member of RSPO and represents Indonesian oil palm growers in both the Biodiversity & High Conservation Value Working Group and, since February 2014, in the Greenhouse Gas Emissions Reduction Working Group. The group considers that in meeting the requirements for RSPO certification, it addresses the human rights issues relevant to its business.

Since obtaining International Sustainability and Carbon Certification ("ISCC") for the REA Kaltim mills and estates in 2012, the group is able to sell the CPO produced from these operations for the production of biodiesel meeting the requirements of the European Union Renewable Energy Directive ("EU RED"). Most requirements of the ISCC standard are broadly similar to those of the RSPO but one key difference is that, to obtain ISCC certification, it must be shown that the net greenhouse gas emissions associated with the production and use as a biofuel of the CPO, the subject of the certification application, will be at least 35 per cent lower than if the equivalent amount of energy was generated by burning fossil fuels.

In 2013, 9.7 per cent of the CPO and 71.2 per cent of the CPKO produced by the group was RSPO certified. Of the total CPO produced by the group, 62.8 per cent was certified to be produced in accordance with both the ISCC and RSPO standard. The group elected to sell the majority of this latter portion of its CPO as ISCC certified thereby excluding it from the volume available to sell as RSPO certified CPO. CPKO is not used to produce biofuel so is not subject to certification by the ISCC. Of the ISCC certified CPO produced, 82,700 metric tonnes were sold in 2013, with the remainder carried forward for sale in 2014 in accordance with the requirements of the ISCC's mass balance system.

Pending the identification of a buyer for RSPO certified CPO and CPKO through the mass balance system, the group used the RSPO book and claim system to sell "Greenpalm certificates" for the RSPO certified CPO and CPKO produced in 2013. This system enables end users of palm products to support RSPO certified producers by purchasing Greenpalm certificates, even if they do not physically purchase oil from these producers. One Greenpalm certificate is equivalent to one tonne of RSPO certified CPO or CPKO respectively. In 2013, the group sold 17,500 CPO Greenpalm certificates and 8,000 CPKO Greenpalm certificates.

Sustainability

continued

In 2010, the Indonesian government introduced the Indonesian Sustainable Palm Oil ("ISPO") scheme making it a mandatory requirement for all oil palm growers operating in Indonesia to be audited by an independent third party to assess their compliance with this standard by the end of 2014. The standard includes legal, economic, environmental and social requirements, which are largely based on existing national regulations. The group has initiated the process of being assessed against the ISPO standard and expects to undertake the final audit during the second half of 2014.

The group remains committed to establishing environmental and social standards in its stone quarry and coal mining activities that are consistent with the standards applied in the group's agricultural operations.

Employees

At the end of 2013, the group's workforce numbered over 9,000.

Following the reorganisation of the human resources department in 2011 and the subsequent appointment of new local management, the group is continuing to develop a more consistent and formal approach to the management of human resources. The group has established a comprehensive employee database, incorporating, in addition to personal data and salaries, information on the allocation of benefits and facilities, such as housing, training and development, productivity, performance and absenteeism. A dedicated manager is now responsible for human resource matters within each subsidiary company helping to enhance operational practices and to improve productivity. There are formal processes for recruitment, particularly for key managerial positions. Exit interviews are conducted with departing staff to ensure that management can address any significant issues.

Attracting and retaining skilled, motivated and loyal employees is key to maintaining high standards as the group expands. To this end, 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. In 2013, a review of salary structures was conducted to ensure consistency against industry benchmarks throughout the group hierarchy. Phasing in of a performance management system linked to key performance indicators and a competitive remuneration structure continued during 2013 and the system should be applicable to all staff levels by the end of 2014.

There are a number of strategies in place to nurture talent within the workforce. Participation in annual in-house training programmes, external training courses and conferences is organised around the results of systematic training needs assessments of permanent staff. A wide variety of topics is covered including work ethics and company values, health and safety, sustainability and communication skills. During 2013, weekly English language lessons were introduced for all managers and, starting in 2014, financial training is to be provided for all non-financial managers.

Existing non-staff employees who demonstrate management potential, as well as graduates from Indonesian universities, are selected each year to participate in the group's long established cadet programme, which is run from the group's central training school. This programme consists of twelve months of theoretical and practical in-house training covering all aspects of plantation management. During 2013, 32 participants from the 2012 intake were appointed as assistants in the group's agricultural estates, mills and administration departments. Of these, 19 were existing group employees and 13 were graduates from Indonesian universities. Wherever possible, the group fills available staff positions through internal promotion.

The group is one of the longest established oil palm growers in Kalimantan and is fortunate to retain a significant number of long-serving employees. Appreciation of employee loyalty is expressed at the annual celebration of REA Kaltim's birthday by presenting awards to all employees who have worked for the group for 10 years. By 2013, over 950 employees had passed this milestone.

REA Kaltim 18th birthday celebration

Creating a good standard of living and a strong sense of community on the plantations, which are more remote than those of many of the group's competitors, is critical to maintaining a stable workforce. Permanent employees, other than those living locally, are provided with housing for themselves and their families. Houses are supplied with potable water and electricity and there is also access to amenities such as clinics, churches and mosques provided by the group. An employee survey was conducted in 2013 to obtain feedback on satisfaction with the current facilities and to identify areas where improvements would be most valued. Based on this feedback, the group will look at opportunities to enhance certain facilities within the housing complexes, such as the provision of a local shop and sports' court, as well as making general improvements to housing as part of a continuing programme.

A trust funded by the group operates a network of schools across the group's estates for over 2,000 children. During 2013, the group introduced secondary education using existing classrooms within the estate primary schools as a first step towards upgrading the facilities provided for its employees and their families. The group also provides support to state secondary schools serving the children of the group's employees. In 2013, 156 pupils from the group's primary schools sat examinations for entry to state secondary schools and a 100 per cent pass rate was achieved (2012: 158 pupils and 100 per cent). In 2014, a scholarship scheme will be introduced to fund selected children of employees and local community members to attend agricultural university.

To maximise the economic benefit that local communities derive from the group's operations, priority is given to suitable candidates from nearby villages when recruiting people for new operations and existing vacancies. In 2013, over 1,400 of the group's employees, accounting for 16 per cent of the workforce, came from the local communities.

Management believes that diversity in the workforce fosters productivity and promotes a policy for the creation of equal opportunities. In 2013, 40 ethnicities and five religions were represented in the group's workforce. The group encourages the establishment of forums in which employees and their representatives can have free and open dialogue with management. One example is the gender committee, which has been established to ensure that gender policy is properly implemented.

The gender mix across the group's operations is set out below:

	2013		2012	
	Number of male staff	Number of female staff	Number of male staff	Number of female staff
Directors	5	1	8	–
Management	51	14	47	11
Rest of workforce	6,130	2,833	5,503	1,907
Total	6,186	2,848	5,558	1,918

Although the number of female employees is growing, the group recognises that it has yet to maximise the potential of the existing female population on the group's estates. To address this, in 2013 the group introduced a training programme targeted at women who are living on the estates but not currently in employment so as to enable women to be recruited for roles that have traditionally been performed by men but could be filled equally well by women. As a result of this initiative, three women have been recruited as drivers and eight women have joined the FFB grading team.

Health and safety

Providing employees with safe working conditions is of critical importance to the group. The group has, as targets, zero fatalities and a continuous reduction in lost time accident rates. Regular safety briefings and training conducted by the in-house safety team are designed to embed safe working practices within the culture of the organisation. This is reinforced by a formal procedure for hazard identification, risk assessment and risk control, which is conducted on a regular basis for all working environments. There is a safety committee comprising both management and employees within each operating unit which meets every two months. Senior management is ultimately accountable to the group managing director for all health and safety matters and appropriate action is taken to remedy any deficiencies identified.

The directors deeply regret that there was one fatality within its workforce in 2013. This was the result of an incident whereby an employee fell from a truck whilst travelling back from a weekend church gathering and drowned in a fast flowing river that had been swollen by heavy rains. The group takes any loss of life extremely seriously and, whatever the circumstances, conducts a detailed investigation into the causal factors to identify preventative measures for the future. Following two fatalities during 2011, an independent review of the group's existing occupational health and safety ("OHS") management system was commissioned. This has identified several areas where improvements are needed to align existing procedures with international standards of best practice. These improvements will be guided by the requirements of the internationally recognised OHSAS 18001 standard. It is the intention that REA Kaltim will achieve OHSAS 18001 certification by the end of 2015.

The majority of accidents that occurred within the group's operations in 2013 were injuries from palm oil thorns, falling objects and cuts. Whilst the lost time accident rate and severity rate are important indicators of the effectiveness of the group's OHS management system, the group is aware that this data is currently not entirely reliable, due to certain inconsistencies in the recording of accidents between the group's estate clinics. The group is in the process of working to standardise its procedures for monitoring accidents throughout its operations in an effort to improve the reliability of these important performance indicators.

The group operates a network of 16 clinics across its estates, which are manned by paramedics. The group also employs two resident doctors, midwives and, since 2013, a dentist. In serious cases, the group arranges for employees to be evacuated by land or air to a larger hospital in Samarinda or Jakarta where it has established relationships. The clinics treat patients from the local villages as well as the group's employees and their families. During 2013, 462 members of the local community were treated at the group's clinics.

Preventative measures are in place to reduce incidences of disease on the group's estates including providing employees with immunisations against tuberculosis, polio, diphtheria, tetanus and hepatitis B, as well as fogging mosquitoes in an effort to reduce the risk of contracting dengue fever and malaria.

Management

Mark Parry, the group's regional director based in Indonesia and Singapore, has overall local responsibility for the Indonesian operations. Mr Parry is the president director and, since the end of 2013, has also assumed the position of chief operating officer of REA Kaltim.

In addition to Mr Parry, REA Kaltim has four executive directors, of whom two are British expatriates and two are Indonesian nationals. Of the four, one is female and three are male. The REA Kaltim directors have overall local responsibility for the group's affairs and individually are primarily responsible for, respectively, mature estate operations, commercial administration (including legal affairs, sales and marketing), corporate affairs (including government and village relations, human resources, security, safety and conservation), and financial reporting.

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 local support and advice that the group obtains from local advisers and from the local non-controlling investors in, and local non-executive directors of, the company's Indonesian subsidiaries.

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

Community relations

The group has always seen the maintenance of harmonious relations with, and the encouragement of development within, the local communities in its areas of operation as an essential component of its agricultural business. All new plantation development by the group involves payment of compensation to affected local villages as well as consultation to identify overlapping land use rights and ensure that these are transferred to the group in a way that meets legal requirements and international standards of best practice, as embodied in the requirements of, among others, RSPO. Thereafter the group provides assistance with community development projects and supports the local communities in establishing smallholder plantings of oil palms. As noted under "Employees" above, a significant number of the group's employees come from the local communities and there is regular interaction at a social level between the group's staff and employees and members of the local communities.

Inevitably in the period of over twenty years since the group's East Kalimantan operations were first established, there have been occasional disagreements between the group and the local communities but, prior to 2012, such disagreements had always been minor, rapidly resolved and without significant impact on the group. During 2012 and the early part of 2013, however, the group faced a series of disputes with local villagers that were more serious than those previously experienced. Villagers took action to enforce their position by stopping harvesting access to certain areas of the group's estates and blockading group oil mills to prevent processing of FFB.

Village dissatisfaction with the group covered a number of issues and different villages had different claims. However, a common theme was a demand that the group procure the land necessary to establish additional cooperative smallholder oil palm plantings for each village.

Although the group was advised that it was under no legal obligation to do this for the affected villages, it recognised (and indeed had done so prior to the commencement of the village disruption) that it would be expedient to meet the villagers' cooperative smallholder expectations. However, identification and acquisition of suitable land for cooperative development took time and the resultant delay certainly exacerbated the village problems experienced by the group.

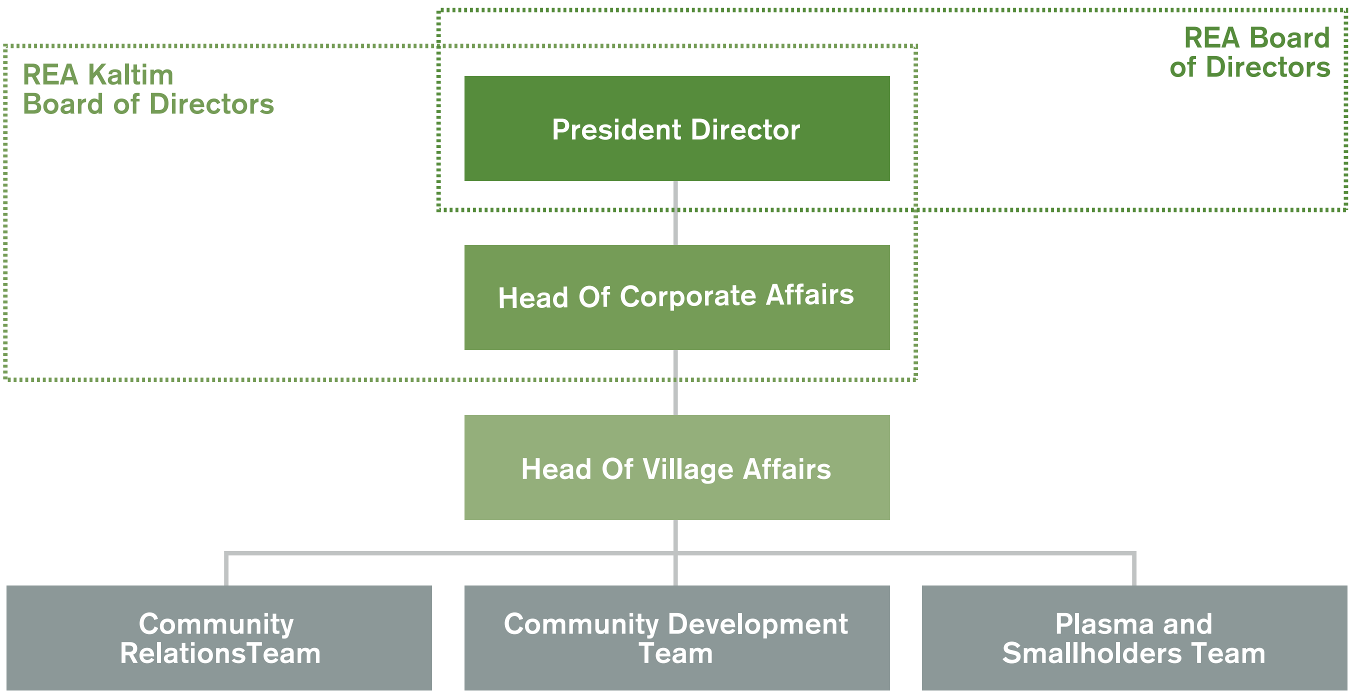
Completion of the acquisition of PBJ2 in 2012 provided the group with the land that it needed to satisfy the villager cooperative demands and, with this in hand, the group was able in early 2013 to reach settlement agreements in respect of most material issues with all of the larger villages that had land rights historically overlapping REA Kaltim and SYB land. Other outstanding disputes were progressively settled during 2013. Agreements concluded with villages are generally being adhered to, notwithstanding some isolated minor disruptions by individual villagers. All three mills had returned to normal operations by the second half of 2013.

The cost of procuring additional cooperative oil palm developments will, in due course, provide a return to the group from further increases in group revenues from processing cooperative FFB. Moreover, the stronger relationships forged with the East Kalimantan authorities who provided the group with excellent support during the period of the disruptions together with the better mutual understanding achieved between the group and its local communities should be beneficial to the group going forward.

It is clear that the group and the villages around its estates are interdependent. The group requires the acceptance of its operations by the villages while the villages are reliant upon the group as an employer, as a market for services and produce, and as a purchaser of smallholder grown FFB. Villages will also derive significant benefit from the group's activities once the agreement reached in 2013 to supply power to the state electricity company ("PLN"), as described under "Agricultural operations" above, has been implemented as this will provide the villages with access to electricity generated by the group's methane capture plants.

Against the background of the issues just described, the group reviewed the organisational structure and responsibilities of the departments dealing with the local communities and increased the allocation of resources to this area of the group's business. This has included the recent appointment of a new head of village affairs, to be based on the plantations, with responsibility for coordinating the daily activities of these departments and ensuring their close interaction with the local communities.

Organisational structure of the group's interface with local communities



Sustainability

continued

Community development

Community development assistance provided by the group comprises infrastructural and other general assistance to the local communities. The goal of the community development programme is to provide lasting benefits to as many as possible of the individuals within the communities that are commercially involved with, or could be impacted by, the group's operations.

Infrastructural assistance includes the provision of access to electric power, assistance with repairs of village roads and bridges, schools and community buildings and the provision of water for daily domestic use. Other forms of general assistance include the provision of technical training and micro-finance for small scale businesses, supporting traditional and religious community celebrations and regular fogging for mosquitoes in areas of the surrounding communities to reduce the incidence of vector borne diseases in those communities.

Smallholder schemes

The availability of the group's oil mills to process FFB harvested from plantings in the vicinity of the group's estates provides an opportunity for the local communities to further their economic progress by developing smallholdings of oil palms in areas surrounding the group's estates. The group established its first smallholder scheme in 2000 and continues to support and invest in the development of smallholder plantings.

Prior to 2009, the group's smallholder support was provided to individuals pursuant to a scheme known as "Program Pemberdayaan Masyarakyat Desa" or "PPMD". Under this scheme, individual smallholders cultivate oil palm on their own plots of, typically, two hectares. The group provides technical advice and supplies the smallholders with seedlings, fertilisers and herbicides on deferred terms on the basis that when a smallholder's oil palm plantings reach maturity, all FFB produced is be sold to the group for processing and the group recovers, on an agreed basis, from the amounts payable for the FFB, the deferred amounts owed to the group.

Some 1,561 hectares of smallholder plantings have been established following the PPMD model. In addition, further independent smallholder plantings have expanded rapidly to some 3,000 hectares and are supplying FFB to the group's mills. These independent smallholder plantings are gradually being adopted into the PPMD cooperatives, so that the group effectively assumes responsibility for the areas concerned and works to ensure good agricultural practices with the provision of suitable training and support. These plantings include 795 hectares of smallholder plantings originally developed under a government scheme with which the group's involvement has been previously reported.

While continuing to support established smallholdings developed under the PPMD scheme, since 2009 the group's efforts to procure further smallholder development have been concentrated on encouraging the formation of local village cooperatives to develop oil palm on larger areas pursuant to what are known as "plasma schemes". Under the plasma scheme model, the land areas for development are provided by or allocated to village cooperatives but the development is managed by the group for a fee, with the advantage that development and production standards similar to those of the group can be established in the plasma areas. The costs of development are borne by the cooperatives but with funding from external sources, supplemented, if necessary, by the group and provided on terms that FFB produced by the cooperatives will be sold to the group and that the group will ensure that, out of the proceeds of such sale, the cooperatives meet their debt service obligations in respect of the external funding.

Following the agreements reached in 2013 in relation to plasma land schemes (as discussed under "Community relations" above), the plasma scheme areas planted at 31 December 2013 amounted to some 3,900 hectares. With the 1,561 hectares and 3,000 hectares of, respectively, PPMD and adopted PPMD plantings, this means that the aggregate area of smallholder plantings linked to the group at 31 December 2013 amounted to 8,461 hectares, representing 25 per cent of the group's own estate plantings at the same date. The group's aim is that the smallholder percentage (associated smallholder plantings as a percentage of own estate plantings) should be not less than 20 per cent (20 per cent being the minimum percentage of associated smallholder planting stipulated by Indonesian regulations for new plantation development). With the further allocations of land that have now been substantially made, the group expects plasma areas to increase to some 6,000 hectares by the end of 2015.

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

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

Whilst the group views its support for smallholder oil palm plantings in the local communities adjacent to its operations as part of its social responsibility to those communities, the expansion of smallholder plantings in the vicinity of the group's mills will be mutually beneficial to the communities and the group. The communities benefit from the significant economic development generated as a result of the smallholder plantings while the group benefits from the additional throughput in its oil mills that will result from the processing of FFB from the plantings. The value of FFB purchased from communities in the vicinity amounted to $10.3 million in 2013 (2012: $7.2 million).

Conservation

REA is conscious that cultivating oil palm in a region that is rich in biodiversity can have significant negative environmental impacts unless precautions are taken. Conversely, if oil palm concessions are planned, developed and managed with due care they can provide a stable entity for, and contribute much needed resources towards, the conservation of biodiversity and ecosystem functions within adjacent areas. In an effort to avoid or mitigate negative environmental impacts, each expansion of planted areas undertaken by the group is planned on the basis of Environmental Impact Assessments ("EIA") and High Conservation Value ("HCV") assessments conducted by both external experts and the group's conservation department (known as "REA Kon"). The results of these assessments have been used to designate a network of conservation reserves throughout the group's concessions which, as at 31 December 2013, totalled some 20,000 hectares.

Established on 1 January 2008, the REA Kon team comprises both experienced conservationists and individuals from the local villages who have a good knowledge of the biological and cultural diversity of the region. REA Kon's aim is to conserve and enhance the natural biodiversity and ecosystem functions of the landscape within which the group operates. Its activities are divided into three programmes of work as summarised in the table below.

REA Kon work programmes

Objective	Activities
Biodiversity programme	
To inform the management actions necessary to maintain and enhance the natural biodiversity of the landscape by compiling comprehensive species inventories and implementing long-term species monitoring programmes	▪ Continuous surveys of mammals, birds, reptiles and amphibians ▪ Facilitating scientific research by scientists and students
Community programme	
To engage with the communities living in and around the group's oil palm concessions to reduce the negative environmental impacts of their activities and promote sustainable use of natural resources	▪ Producing and distributing a series of educational leaflets about various issues, for example hunting and endangered species ▪ Running conservation education camps for children from both the plantation and local village schools
Plantation programme	
To monitor and reduce the environmental impact of the plantation operations and the people living in and around it in order to maintain the integrity of the conservation reserves and the quality of the environment	▪ Monitoring the water quality of rivers ▪ Surveying the conservation areas for signs of encroachment by people or invasive species ▪ Managing a nursery of native fruit trees for enriching the conservation areas and estate villages

Sustainability

continued

The expertise of the REA Kon team is augmented and shared through collaborations with both international and national scientific institutions and non-governmental organisations ("NGOs"). In June 2013, a scientist from the Indonesian Institute of Sciences ("LIPI") visited one of the group's newer developments to conduct a baseline survey of amphibians and reptiles (herpetofauna). In addition to recording five species that had not previously been detected within the group's concessions, this collaboration also provided the REA Kon team with valuable training in herpetofauna survey techniques and species identification. The REA Kon team was also fortunate to receive six days of training in insect taxonomy and survey methodologies from three scientists from the Natural History Museum of London, who visited three of the group's concessions during November 2013. In an effort to maximise the benefit of this training, representatives from the group's research audit team and a student and member of staff from Mulawarman University in Samarinda were also invited to participate.

REA Kon continues to provide small grants and field assistance to enable undergraduate students from local universities to conduct final year research projects within the group's conservation reserves in an effort to encourage a new generation of scientists to study the relationship between oil palm and biodiversity. In 2013, two undergraduate students from a University in Jakarta (Universitas Nasional or "UNAS") conducted research projects on orang-utans and birds in one of the group's new development areas as part of this programme.

Biodiversity surveys of the group's conservation reserves conducted by both REA Kon and external experts have to date revealed the presence of a total of 509 species, including 80 that are listed on the International Union for the Conservation of Nature's ("IUCN") Red List of Threatened Species within the categories of "Near Threatened", "Vulnerable", "Endangered" and "Critically Endangered". This includes 15 species (three mammals, seven birds, three reptiles and two amphibians) that were recorded for the first time within the group's concessions in 2013. Of particular note is the Marbled cat (*Pardofelis marmorata*) which is listed as "Vulnerable" on the IUCN Red List and was recorded during camera trap surveys in SYB's Satria estate and KMS.

In 2013, the presence of orang-utans was recorded within the conservation reserves of REA Kaltim, SYB and KMS as a result of camera trap surveys, direct sightings and nest surveys. In an effort to monitor better the size of the orang-utan population within the REA Kaltim conservation reserves, two permanent transects were established along which REA Kon now conducts orang-utan nest surveys each month. The sighting of an adult female orang-utan with her young, a camera trap photo of a baby sun bear (listed as "Vulnerable" on the IUCN Red List) and the sighting of a juvenile false gharial (listed as "Endangered" on the IUCN Red List) and Siamese crocodile (listed as "Critically Endangered" on the IUCN Red List) in the Senyiur river are encouraging signs of the ability of the group's conservation reserves to support healthy populations of these rare, threatened and endangered species.

Marbled cat

Sunbear cub

REA Kon's objective is to ensure that the species identified within the group's concessions are able to inhabit this landscape in the long term. Maintaining the quality of the habitat and reducing threats such as over-hunting and pollution are crucial if this is to be achieved. The water quality of rivers that flow through the conservation reserves, as well as other key environmental parameters that indicate the health of these habitats, are monitored on a monthly basis. The boundaries of the conservation areas are also monitored on a regular basis to check that they are clearly marked and to provide an early warning system for encroachment into the conservation areas by invasive species such as the ground cover crop *Macuna bracteata* or by human activities.

Preventing local communities from logging and clearing portions of the conservation reserves for cultivation is a constant challenge and REA Kon is aware of locations where encroachment has occurred. It is recognised that a concerted effort is now needed to map accurately these areas and develop a programme of work to restore this habitat where feasible. An underlying driver of encroachment is the perception of many local people that land that has not been cultivated with oil palm is not being 'used' by the group and is therefore available for exploitation. REA Kon continues to work on changing this perception by endeavoring to educate and raise the awareness of local communities and its own employees about the value of maintaining natural habitat within the landscape.

REA Kon invites children from both the estate and other local schools to participate in weekend long conservation education camps, which aim to educate and enthuse the participants about the importance of protecting the conservation reserves and the species that inhabit them. A new initiative for 2013 was the inclusion of a course on conservation in the extra-curricular "Boy Scout" programme at two of the group's schools. It is also crucial that the group's employees are aware of the value of the conservation reserves and this topic is included in the syllabus for the group's cadet training programme.

In 2009, REA established Yayasan Ulin ("YU"), a charitable foundation now registered in both the UK and Indonesia, which aims to contribute to the conservation of habitats in East Kalimantan that are of importance for biodiversity but are currently unprotected. The majority of YU's activities to date have focused on the Mesangat wetlands in Kutai Timur district, East Kalimantan. This valuable wetland ecosystem, which is known to support a number of Critically Endangered and Endangered species, overlaps with and extends into the landscape surrounding the CDM concession.


Conservation education camp

Responsible agricultural practices

The group operates a zero burning policy in relation to land development and, in dry periods, maintains active fire patrols in an effort to limit the risks of accidental fires.

Ensuring that the group's operations do not pollute the local watercourses is a high priority. Failure to do so would reduce the quality of the river water on which the group depends to process the oil palm fruit in the mill and for domestic consumption, damage a sensitive ecosystem and create conflict with local communities, the majority of whom are river dwelling. The greatest risk of pollution is from palm oil mill effluent ("POME") and leachates from fertilisers. Untreated POME has a high Biological Oxygen Demand ("BOD"), which means it can kill the natural flora and fauna of aquatic ecosystems by starving them of oxygen. The group does not discharge any POME into rivers.

Since 2010, a portion of the fresh POME has been combined with empty fruit bunches from the oil palm mills and composted. The process takes several weeks and involves regularly mixing and macerating the waste products to encourage biodegradation. The resultant compost has a valuable nutrient content.

The remainder of the group's POME is either digested in a series of open anaerobic ponds or in the methane capture facilities. Treating the POME in this way reduces the BOD, thus limiting the negative environmental impact this waste would have if it were to enter a natural watercourse by way of leaching or a spillage. Once treated, the POME is either mixed with the fresh POME used for composting or pumped to flat beds located between rows of oil palm, where it acts as an organic fertiliser. The BOD of the treated POME is tested on a monthly basis to ensure that it is below the legal limit for land application in Indonesia.

Terracing in steep areas and maintenance of buffer zones of natural vegetation along watercourses are designed to preserve moisture, and prevent run-off and leachates from organic and inorganic fertilisers from entering rivers. In 2014, the group intends to trial the use of Vetiver grass (*Chrysopogon zizanioides*), which is used in many parts of the world to stabilise soil, reduce run-off and clean polluted water. This grass will be planted along the boundaries between the conservation reserves and the oil palm areas, in steep areas and along the banks of the POME ponds as a further safeguard against soil erosion and water pollution.

Barriers and ditches have been built around the perimeter of the composting sites and the open ponds to prevent run off during heavy rainfall from reaching the rivers.

Levels of fertiliser application are based on the results of analyses of the nutrient content of oil palm frond samples. The group aims to keep inputs of inorganic fertilisers to a minimum as this helps to reduce costs and minimise the risk of water pollution by way of run-off or leaching. *Macuna bracteata*, a cover crop which fixes nitrogen in the soil, is planted extensively throughout the group's plantations in an effort to prevent soil erosion, limit the spread of noxious weeds and minimise inputs of inorganic nitrogen fertiliser. Use of inorganic fertiliser is further reduced by the composting programme. The area in respect of which compost was substituted for inorganic fertiliser across the group's operations in 2013 amounted to 11,082 hectares (2012: 9,654 hectares).

The group has a long established system of Integrated Pest Management ("IPM"), which is designed to optimise natural pest control and limit the need to use chemical pesticides. IPM measures include planting varieties of flowering plants which are known to support the natural predators of the key oil palm pests, such as bagworm and caterpillars. Where chemical pest control is necessary, the group takes precautions to minimise the risks to humans and the environment. From June 2013, the group ceased to use the herbicide Paraquat in any of its operations. Whilst the group's experience suggests that, with the proper precautions, Paraquat can be used safely, it is recognised that stakeholders are increasingly concerned about the potential for improper handling of this herbicide to endanger the health of workers. Mindful of this, the group has replaced Paraquat with a glufosinate ammonium based alternative which is less hazardous.

Carbon efficiency

Over the last three years, the group has made significant advances in its ability to monitor and reduce the intensity of its greenhouse gas ("GHG") emissions and was one of the first palm oil producers to publish a detailed and scientifically rigorous carbon footprint report. The full report, available on the group's website (www.rea.co.uk), contains calculations of GHG emissions in tonnes of carbon dioxide equivalent for each of the three years 2011 to 2013 with a detailed explanation of the methodology used to estimate the group's GHG emissions. Repeating the calculations on an annual basis will allow progress in reducing the group's GHG emissions to be monitored. The calculations and explanatory details are summarised under "Greenhouse gas emissions" in the Directors' report below.

Land use change, which remains the largest source of GHG emissions from the group, increased between 2011 and 2013 because additional immature areas reached maturity and started to supply FFB to one of the mills included within the scope of the group's carbon footprint. However, significant reductions in methane emissions from POME (the second largest source of the group's GHG emissions) were achieved in 2013 through the operation of the methane capture facilities commissioned during 2012.

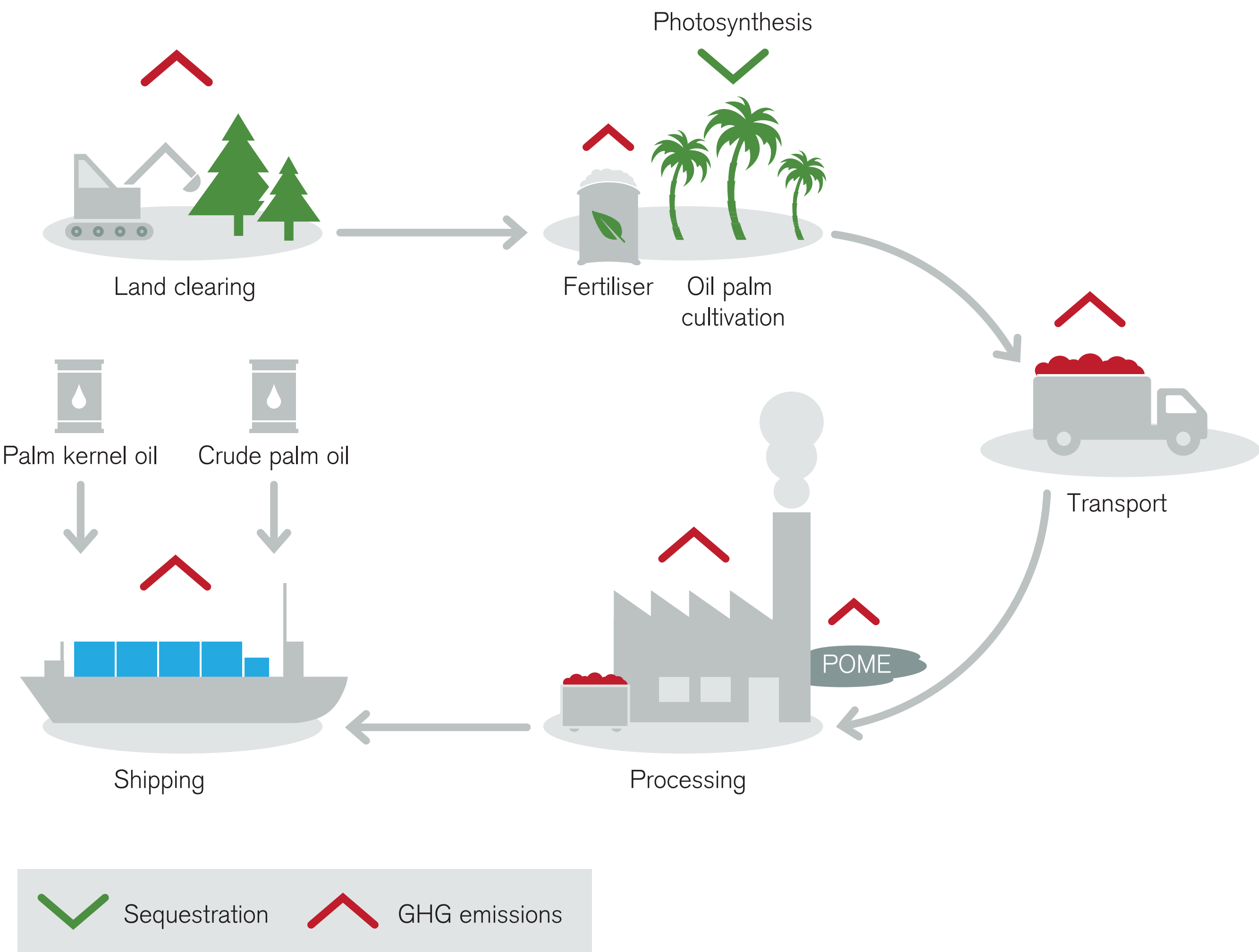
Each methane capture facility is adjacent to an existing oil mill and is based around a lagoon sealed by a cover fabricated from high density polyethylene sheeting. After initial cooling, POME passes to the lagoon, which is equipped with a liquid agitation system designed to accelerate the anaerobic digestion of the effluent. The methane released during the digestion process is captured under the lagoon cover, passed through a biological scrubber and either used to fuel biogas powered generators or flared off if surplus to requirements. Both methane capture facilities have qualified as United Nations Framework on Climate Change (UNFCCC) small scale Clean Development Mechanism (CDM) projects.

Methane is a potent greenhouse gas and the effect of the methane capture facilities was that between 2011 and 2013, GHG emissions associated with the anaerobic digestion of POME decreased by over 90,000 tonnes of carbon dioxide equivalent, despite the fact that the GHG emissions associated with the treatment of POME in open ponds at the group's newest oil mill, which does not yet have a methane capture facility, were included in the scope of the carbon footprint for the first time in 2013.

Not only do the methane capture facilities reduce GHG emissions of methane but, by converting captured methane to electricity, they also reduce the use of diesel powered electricity generators, thus further reducing GHG emissions. However, total GHG emissions associated with the use of fuel for electricity generators increased between 2011 and 2013 due to the inclusion of the group's newest oil mill in SYB within the boundary of the carbon footprint calculation for the first time in 2013. This mill and certain operational and domestic buildings in SYB continue to use diesel powered generators to meet their electricity demands as they are not yet connected to the internal grid that supplies renewable electricity from the methane capture facilities to the group's operations. It is intended that the connection to the internal grid will be made in 2014 and this should improve the position regarding carbon dioxide emissions from electricity generators going forward.

In 2013, the two methane capture facilities produced nearly 15.6 million kilowatt hours of green electricity (2012: 8.6 million). This is equivalent to the average annual electricity consumption of over 3,600 households in the UK. Moreover, the full potential of the methane capture facilities to provide clean energy to the group's operations and the surrounding communities has yet to be realised. It is hoped that the collaboration with the Indonesian national electricity company described under "Operational efficiency" in "Agricultural operations" above will provide local communities in the vicinity of the group's operations with access to electricity generated by the facilities.

Sources of GHG emissions and sequestration



Finance

Accounting policies

The group has, for several years, reported in accordance with International Financial Reporting Standards ("IFRS") and presented its financial statements in dollars. It continues to do so. However, the company has hitherto prepared its individual financial statements in sterling and in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"). Following recent announcements about expected changes to UK GAAP, the company has concluded that it would be sensible to produce its accounts under IFRS and to align its presentational currency and basis of accounting with those of the group. Accordingly, the company's individual financial statements for 2013 are presented in dollars and have been prepared in accordance with IFRS. Comparative figures for 2012 have been restated onto a consistent basis and a reconciliation between the restated figures and those previously published is provided in note (xix) to the company financial statements.

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

As in previous years, the fair value of the biological assets at 31 December 2013 has been derived by the directors on a discounted cash flow basis by reference to the FFB projected to be harvested from the group's oil palms over the full remaining productive lives of the palms and an estimated profit margin per tonne of FFB so harvested. Such estimated unit margin is based on an average of historic FFB profit margins for the 20 years to 2013 buffered to restrict the implied annual movement in such estimated unit margin to 5 per cent and to prevent any change in estimated unit margin that runs contrary to the trend in current margins. For this purpose, the historic profit margin for each applicable year has been derived either from the budgeted unit cost of FFB production and the actual historic average of CPO prices (FOB Port of Samarinda and net of export duties) for such year or, for earlier years for which such detailed information is not available, an appropriate estimate of the historic profit margin for the year.

The discount rates used for the purposes of the biological asset revaluation at 31 December 2013 were 15 per cent for the estates owned by the company's two principal subsidiaries, REA Kaltim and SYB, and 18 per cent for all other group companies (2012: 15 per cent for REA Kaltim and SYB and 18 per cent for all other group companies).

The directors recognise that the IFRS accounting policy in relation to biological assets may have theoretical merits in charging each year to income a proper measure of capital consumed but it has always been a concern to the directors that no estimate of fair value can ever be completely accurate and that, in the case of the group's biological assets, small differences in valuation assumptions can have a quite disproportionate effect on the biological gains or losses reflected in profits. The directors therefore welcome proposals by the International Accounting Standards Board to amend IAS 41 (the standard that imposes the current policy on biological assets) in a way that would, for plantation companies, permit reversion substantially to the accounting policies that were applied to biological assets prior to the introduction of IAS 41 whereby such assets were accounted for as property, plant and equipment. This would mean that, in the group income statement, the annual movement on the fair value of biological assets would be replaced by an annual depreciation charge.

The biological assets in the group balance sheet at 31 December 2013 amounted to $288 million. An increase or reduction of $5 per tonne in the estimated profit margin used for the purpose of the valuation (namely $58.0 per tonne of FFB) would increase or reduce the valuation by approximately $26.5 million.

Group results

Revenue, operating profit and profit before tax reported by the group for 2013, with comparative figures for 2012, were as follows:

	2013 $'m	2012 $'m
Revenue	110.5	124.6
Operating profit	28.1	37.8
Profit before tax	25.2	30.6

The results reflect the impact of the village disruptions of 2012 and early 2013 discussed under "Community relations" in "Sustainability" above. These caused a loss before tax for the first half of 2013 of $2.6 million. Good progress was made in restoring production, and therefore, profitability, to more acceptable levels during the second half of 2013. This, coupled with firmer CPO and CPKO prices in the closing months of 2013 and the foreign exchange gains referred to below, produced a turnaround of over $27 million in profit before tax in the second half resulting in the $25.2 million profit before tax reported for the full year.

Whilst the village disruptions were the most significant factor in the reduced profits reported for 2013, the results were, of course, also affected by the lower CPO prices prevailing during the year. As noted under "The vegetable oil market context" in "Introduction and strategic environment" above, these averaged $856 per tonne, CIF Rotterdam, over 2013 against just under $998 per tonne in 2012. The consequent lower average selling prices realised for the group's production were the principal reason for the fall in revenue from $124.6 million in 2012 to $110.5 million in 2013 although the cessation of coal sales, which accounted for $2.5 million of revenue in 2012, was a minor contributory factor.

Cost of sales at $69.9 million related entirely to the agricultural operations and compares with $59.5 million in 2012 (after excluding from the 2012 total cost of sales of $65.6 million, the $4.1 million attributable to the coal operations). The increase reflected a higher level of purchases of third party FFB and a substantial increase in labour costs during 2013 (following a provincial government mandated increase of 49 per cent in the East Kalimantan minimum wage), with the latter offset to an extent by the fall in the value of the Indonesian rupiah against the dollar that occurred during 2013.

Further development of the group's plantations resulted in a net gain from changes in the fair value of biological assets of $7.1 million (2012: $6.0 million) while the gain arising from changes in the fair value of agricultural produce inventory ($0.5 million against a loss of $5.7 million in 2012) reflected a closing inventory not markedly different from the opening, valued at slightly higher unit prices.

Administrative expenses for 2013 amounted to $18.9 million. Although this figure was almost the same as that reported for 2012, within the total there were a number of material movements. These included higher costs due to the expanded area under cultivation (resulting in an increased amount allocated as an addition to biological assets), inflation in Indonesian personnel costs for the same reasons as those described above in relation to cost of sales, costs related to the running down of the discontinued coal operations, additional staffing costs in the UK (but with commensurate savings in Indonesia) and one off costs associated with the establishment of REA Kaltim as the holding company for all of the group's agricultural operations.

Before deduction of the finance cost component added to biological assets and assets under construction, finance costs for 2013 amounted to $7.2 million (2012: $12.5 million). The 2013 costs benefited from credits of $6.3 million of exchange gains in respect of Indonesian rupiah denominated loan balances following the already mentioned fall in the Indonesian rupiah against the dollar during 2013 as well as $1.9 million of gains on derivative financial instruments hedging sterling liabilities against the dollar net of losses on the hedged liabilities. Interest cover for 2013 (measured as the ratio of earnings before interest, tax, depreciation and amortisation, biological gain) was 3.4 (2012: 3.1).

Tax charged against profit for 2013 amounted to $12.5 million (against $12.9 million in 2012). This represented a group tax rate of 49.7 per cent (2012: 42.1 per cent). As in 2012, the relatively high rate reflected Indonesian withholding tax incurred on intra-group dividends between the Indonesian subsidiaries and the UK parent group and the group's decision not to take credit for deferred tax on losses of the coal operations (being losses that could not be offset against the profits of the agricultural operations). In addition, in 2013, prior year adjustments (in part relating to changes in tax rates) resulted in an overall charge of $2.3 million.

At the after tax level, profit fell to $12.7 million (2012: $17.7 million) while profit attributable to ordinary shareholders was $5.5 million against $11.3 million. Earnings per share amounted to US15.8 cents (2012: US33.9 cents).

A further impact from the fall in the Indonesian rupiah against the dollar during 2013 is reflected in a deferred tax charge of $15.3 million in the consolidated statement of comprehensive income. This charge arises from the reduction on conversion to dollars of the Indonesian rupiah tax written down values of Indonesian non-current assets thereby increasing the unrealised taxable gain reflected in the dollar carrying values of those assets and thus the prospective liability to future tax. The consolidated statement of comprehensive income also includes a charge of $12.3 million for exchange differences on translation of foreign operations. This relates principally to movements in the dollar values of Indonesian rupiah and sterling denominated non-monetary assets.

The group's target long term average annual return on adjusted equity is 20 per cent. The return achieved for 2013 was 7 per cent (2012: 11 per cent).

Appeals by both REA Kaltim and the Indonesian tax authorities remain pending with the Indonesian Supreme Court in respect of decisions by the Indonesian Tax Court in 2012 on disputed elements of a 2006 Indonesian assessment of tax payable by REA Kaltim. REA Kaltim's appeal against an Indonesian assessment of tax on its 2008 profits also continues. The 2008 assessment seeks to deny tax relief claimed in respect of mark to market losses on cross currency interest rate swaps entered into by REA Kaltim to hedge, against dollars, the group's sterling liability in respect of part of the group's outstanding 9.5 per cent sterling notes 2015/17. Hearing of the appeal against the 2008 assessment was completed in October 2012.

The 2006 and 2008 disputed tax assessments were both paid in full ahead of the appeals. The group has provided in full against those components of the 2006 assessment as respects which REA Kaltim is appealing findings against it by the Tax Court and in full against the 2008 assessment. No credit has been taken for interest due REA Kaltim on tax repayments already received in relation to the 2006 assessment as such interest will only become payable after receipt by REA Kaltim of final judgement from the Supreme Court confirming the repayments concerned.

Finance
continued

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2013 were duly paid. An interim dividend in respect of 2013 of 3½p per ordinary share was paid in January 2014 and the directors recommend the payment of a final dividend in respect of 2013 of 3¾p per ordinary share to be paid on 25 July 2014 to ordinary shareholders on the register of members on 4 July 2014. The total dividend payable per ordinary share during 2014 in respect of 2013 will thus amount to 7¼p. This compares with the total paid during 2013 in respect of 2012 of 7p. In addition, the company made a capitalisation issue of 2,105,116 new preference shares to ordinary shareholders on 25 October 2013 on the basis of 3 new preference shares for every 50 ordinary shares held (2012: 2,004,872 new preference shares on the basis of 3 new preference shares for every 50 ordinary shares held).

The development of the group's agricultural operations continues to require major capital expenditure and the need to fund this expenditure constrains the rates at which the directors feel that they can prudently declare, or recommend the payment of, ordinary dividends. They believe that capitalisation issues of new preference shares to ordinary shareholders provide a useful mechanism for augmenting returns to ordinary shareholders when demands on cash resources limit the scope for payment of cash dividends. The directors will consider a further such issue during 2014 if they feel that this is merited.

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

Capital structure

The group is financed by a combination of debt and shareholder funds. Total shareholder funds less non-controlling interests at 31 December 2013 amounted to $297.4 million as compared with $313.0 million at 31 December 2012. Non-controlling interests at 31 December 2013 amounted to $2.0 million (2012: $2.0 million).

In May 2013, 1,670,724 new ordinary shares were issued for cash at a price of 425p per share by way of a placing to raise £6.9 million net of expenses. This issue was followed in October 2013 by the issue of a further 2,105,116 new preference shares by way of capitalisation of share premium account pursuant to the capitalisation issue to ordinary shareholders referred to under "Dividends" above.

Also in May 2013, the company obtained 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. To date 25,000 ordinary shares have been acquired pursuant to the buy back authority. These are currently held in treasury.

In November 2013, the company purchased for immediate cancellation $9,678,175 nominal of 7.5 per cent dollar notes 2012/14, of which $3,175 nominal were held by a subsidiary company.

Following these transactions, group indebtedness and related engagements at 31 December 2013 amounted to $198.9 million against which the group held cash and cash equivalents of $34.5 million. The composition of the resultant net indebtedness of $164.4 million was as follows:

	$'m
7.5 per cent dollar notes 2012/14 ("2014 dollar notes") ($6.3 million nominal)	6.0
7.5 per cent dollar notes 2017 ("2017 dollar notes") ($34.0 million nominal)	33.4
9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes") (£34.5 million nominal)	55.7
Hedge of the principal amount of £29 million nominal of the sterling notes	6.5
Indonesian term bank loans	66.3
Drawings under working capital lines	31.0
	198.9
Cash and cash equivalents	(34.5)
Net indebtedness	164.4

The group has no material contingent indebtedness save that, in connection with the development of oil palm plantings owned by village cooperatives and managed by the group, the group has, as noted under "Smallholder schemes" in "Sustainability" above, guaranteed the bank borrowings of the cooperatives concerned. The outstanding balance of these at 31 December 2013 was equivalent to $9.1 million.

The 2014 and 2017 dollar notes are unsecured obligations of the company. The 2014 dollar notes are repayable on 31 December 2014 and the 2017 dollar notes on 30 June 2017. The sterling notes are issued by REA Finance B.V., a wholly owned subsidiary of the company, are guaranteed by the company and another wholly owned subsidiary of the company, R.E.A. Services Limited ("REAS"), are secured principally on unsecured loans made by REAS to Indonesian plantation operating subsidiaries of the company and, save to the extent previously redeemed or cancelled, are repayable by three equal annual instalments commencing 31 December 2015.

During 2007 and 2008, the group entered into three long-term sterling dollar debt swaps to hedge against dollars the sterling liability for principal and interest payable in respect of the entire original issue of the sterling notes (but, in the case of interest, only as respects interest payments falling due up to 31 December 2015). All three swap agreements contained provisions for early termination (at the option of either party to each swap). Exercise of such provisions by mutual agreement in respect of one of the swaps resulted in the closing out of the hedge of £8 million nominal of sterling notes in September 2013. The remaining two swaps continue to hedge £29 million nominal of sterling notes. As the remaining life of the sterling notes is now much less than when the swaps were originally contracted, the group has no plans to replace the terminated swap but will simply run the resultant sterling dollar exchange rate exposure.

Indonesian term bank loans comprise facilities provided by an Indonesian bank, PT Bank DBS Indonesia ("DBS"), to REA Kaltim and SYB under which drawings at 31 December 2013 amounted to the equivalent of, respectively, $37.6 million and $28.7 million. The REA Kaltim facility is an Indonesian rupiah denominated amortising term loan of up to Rp 700 billion ($57.4 million), secured on certain assets of REA Kaltim and guaranteed by the company. The SYB facility is an Indonesian rupiah denominated amortising term loan of Rp 350 billion ($28.7 million) (fully drawn) secured on the assets of SYB and guaranteed by the company and REA Kaltim. The aggregate outstanding balance of the REA Kaltim loan at 31 December 2013 is repayable as follows: 2014: $1.9 million; 2015: $3.8 million; and 2016 and thereafter: $31.9 million. The aggregate outstanding balance of the SYB loan at 31 December 2013 is repayable as follows: 2014: $5.0 million; 2015: $21.5 million; and 2016 and thereafter: $28.7 million.

Group cash flow

Group cash inflows and outflows are analysed in the consolidated cash flow statement. Cash and cash equivalents increased over 2013 from $26.4 million to $34.5 million. The increase of $9 million (excluding the negative impact of $0.8 million from the effect of exchange rate movements) principally represented the combination of a net inflow from financing activities and a net outflow on investing activities.

As noted under "Group results" above, operating profit for 2013 amounted to $28.1 million as compared with $37.8 million in the preceding year. However, adjustments for the non-cash components of operating profit and for movements in working capital meant that cash generated by operations for 2013 amounted to $19.4 million against the $55.1 million reported for 2012. The reduction principally reflected the lower operating cash flows consequent upon the reduced results and a substantial reduction in payables following settlement of monies due at the end of 2012 in respect of the construction of the group's third oil mill. A reduction in taxes paid from $16.2 million in 2012 to $7.1 million was partially offset by an increase in interest charges following the additional borrowing taken on during 2013. As a result, cash from operating activities for 2013 amounted to $0.8 million against $32.5 million for 2012.

Investing activities for 2013 involved a net outflow of $33.5 million (2012: $72.6 million). This represented new investment totalling $34.0 million (2012: $73.0 million), offset by inflows from interest and minor items of $0.5 million (2012: $0.4 million). The new investment comprised expenditure of $28.8 million (2012: $65.3 million) on further development of the group's agricultural operations, $4.3 million (2012: $2.0 million) on land rights and titling, and $0.9 million (2012: $3.9 million) on the stone and coal operations (concentrated on the development of the stone concession).

The net cash inflow on financing activities of $41.8 million (2012: $36.2 million) was made up of net inflows of $10.5 million from issue of new ordinary shares (2012: $6.5 million from the issue of new preference shares), $1.2 million from the sale and repurchase of dollar notes (2012: $33.4 million from the issue of new dollar notes and sale and repurchase of dollar notes) and net additions to bank debt of $52.6 million (2012: $25.4 million) with outflows of $11.0 million of dividend payments (2012: $10.1 million), $9.7 million in respect of US dollar note redemptions (2012: $19.0 million) and $1.9 million in respect of the closing out of a derivative financial instrument (2012: $nil).

Liquidity and financing adequacy

As noted above, at 31 December 2013, the group held cash and cash equivalents of $34.5 million. Although the village disruptions of 2012 and early 2013 had a negative impact on the group's agricultural operations, relations with villages are now much improved and the group can expect cash flows from the agricultural operations to return to more normal levels. At 31 December 2013, the group had undrawn the equivalent of $18.8 million under the DBS amortising term loan facility. During 2014, the group has arranged a further term loan with PT Bank UOB Indonesia ("UOB") for an amount equivalent to $32.8 million.

Current crop projections suggest that, apart from expanding the capacity of the group's newest oil mill from 40 to 80 tonnes of FFB per hour, no further expenditure on milling capacity will be required until work commences on the construction of a fourth mill now projected to be brought into production in 2018.

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

Some further capital expenditure will be required in 2014 in setting up quarrying operations on the group's stone concession but the directors expect that this will be limited and that the quarry will rapidly become cash generative. Once mining operations on the group's coal concession are fully resumed, the directors also expect that those concessions will start returning cash to the group.

The group's financing is materially dependent upon the contracts governing its indebtedness. Under the terms of those contracts, there are no restrictions on the use of group cash resources or existing borrowings and facilities that the directors would expect materially to impact the planned development of the group. Under the terms of the DBS working capital line and amortising loan facilities, REA Kaltim and SYB are restricted to an extent in the payment of interest on borrowings from, and on the payment of dividends to, other group companies. PBJ is subject to similar restrictions under the recently arranged UOB loan facility. The directors do not believe that the applicable covenants will affect the ability of the company to meet its cash obligations.

The group's oil palms fruit continuously throughout the year and there is therefore no material seasonality in the funding requirements of the agricultural operations in their ordinary course of business. It is not expected that development of the stone and coal operations will cause any material swings in the group's utilisation of cash for the funding of its routine activities.

Financing policies

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

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

The directors believe that the group's existing capital structure is consistent with these policy objectives but recognise that the planned further development of the group, and the inevitable shortening of the maturity profile of the group's current indebtedness caused by the passage of time, mean that further action will be required to ensure that the group's capital structure continues to meet the objectives. Specifically, the directors consider that it will be prudent, when market conditions permit, to retire existing shorter dated debt and to replace it with preference share capital or debt of a longer tenor.

Whilst the group's extension planting programme can always be scaled back, once areas have been planted with oil palms, some or all of the benefits of the investment made in such areas will be lost if the areas are not maintained. Commodity markets are inherently volatile and the directors believe that it is prudent for the group to have available some cash cushion to ensure that when new areas are planted, those areas can be brought to maturity even if CPO and CPKO prices fall. The village disruptions of 2012 and early 2013 did mean that internal cash flows over that period were lower than the directors had originally expected and, with largely maintained development expenditure, this did lead to some depletion of liquidity reserves. The May 2013 placing of ordinary shares (referred to under "Capital structure" above) restored the reserves to a more comfortable level.

Net debt at 31 December 2013 was 55.2 per cent of total shareholder funds against a level of 43.5 per cent at 31 December 2012. The directors intend at least to maintain the overall amount of the group's prior ranking capital (other than short term borrowings under working capital lines) but would expect that, with growth in the net assets attributable to ordinary shareholders, prior ranking capital will, over time, fall as a percentage of ordinary shareholder funds. If debt continues over time to be replaced by preference capital, net debt as a percentage of shareholder funds may be expected to fall to an even greater extent. Moreover, if, as is hoped, the group proceeds with its planned public offering in Indonesia of a minority shareholding in REA Kaltim, the ratios of prior ranking capital to ordinary shareholder funds and of net debt to equity will be further reduced.

The sterling notes and the two series of dollar notes carry interest at fixed rates of, respectively, 9.5 and 7.5 per cent per annum. Interest is payable by REA Kaltim and SYB under the DBS amortising term loans and the working capital line and by PBJ under the new UOB term loan at floating rates equal to Jakarta Inter Bank Offered Rate plus a margin. As a policy, the group does not hedge its exposure to floating rates but, insofar as is commercially sensible, borrows at fixed rates. A one per cent increase in the floating rates of interest payable on the group's floating rate borrowings at 31 December 2013 would have resulted in an annual cost to the group of approximately $973,000 (2012: $522,000).

The group regards the dollar as the functional currency of most of its operations and formerly sought to ensure that, as respects that proportion of its investment in the group's operations that was met by borrowings, it had no material currency exposure against the dollar. Accordingly, where borrowings were incurred in a currency other than the dollar, the group endeavoured to cover the resultant currency exposure by way of a debt swap or other appropriate currency hedge. The receipt by REA Kaltim during 2011 of an Indonesian tax assessment on its 2008 profits seeking to disallow, for tax purposes, losses on currency hedges (as referred to in "Group results" above) called into question this policy and the group has since decided (at least until such time as the disputed tax issue is clarified) not to take out any further hedges against dollars of non-dollar borrowings. The group has never covered, and does not intend in future to cover, the currency exposure in respect of the component of the investment in its operations that is financed with sterling denominated shareholder capital.

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

Risks and uncertainties

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

Those risks and uncertainties that the directors currently consider to be material are described below. There are or may be other risks and uncertainties faced by the group that the directors currently deem immaterial, or of which they are unaware, that may have a material adverse impact on the group.

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.

Risks of possibly special significance are the risks detailed below under "Community relations" and "Regulatory exposures" with the former risk thought to be reducing as detailed under "Community relations" in "Sustainability" above but the latter risk continuing with particular reference to the Indonesian government's recently introduced "use it or lose it" policy in respect of registered titles to undeveloped land. This policy could result in registered titles to the group's undeveloped land areas being revoked although the directors do not believe that this will happen if development of such areas proceeds as planned.

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
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 is developing alternative routes to and from its estates (including licences to access third party owned roads and establishment of a permanent downstream loading facility)
Cultivation risks		
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 is investing to improve its self-reliance in relation to fuel and fertiliser
A hiatus in 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 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
Other operational factors		
Disruptions to river transport between the main area of operations and the Port of Samarinda or delays in collection of CPO and CPKO from the transhipment terminal	The requirement for CPO and CPKO storage exceeding available capacity and forcing a temporary cessation in FFB harvesting or processing with a resultant loss of crop resulting in a loss of potential revenue	The group's bulk storage facilities have substantial 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
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 and profit	Price swings should be moderated by the fact that the annual oilseed crops account for the major proportion of world vegetable oil production and producers of such crops can reduce or increase their production within a relatively short time frame
Restriction on sale of the group's CPO and CPKO at world market prices including restrictions on Indonesian exports of palm products and imposition of high export duties (as has occurred in the past for short periods)	Reduced revenue from the sale of CPO and CPKO production and a consequent reduction in cash flow and profit	Above average CPO and CPKO prices in recent years did not lead to a reimposition of export restrictions. Instead, the Indonesian government has continued to allow the free export of CPO and CPKO but has introduced a sliding scale of duties on exports which allows producers economic margins
Distortion of world markets for CPO and CPKO by the imposition of import controls or taxes in consuming countries.	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 substantial fully titled or allocated land areas suitable for planting. It works continuously to obtain and 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 the planned extension planting programme
A shortfall in achieving the group's planned extension planting programme impacting negatively the annual revaluation of the group's biological assets	A reduction in reported profit and a possible adverse effect on market perceptions as to the value of the company's securities	Movements on the annual revaluation of the group's biological assets do not affect the group's underlying cash flow

Risks and uncertainties
continued

Risk	Potential impact	Mitigating or other relevant considerations
Environmental, social and governance practices		
Failure by the agricultural operations to meet the standards expected of them as a large employer of significant economic importance to local communities	Reputational and financial damage	The group has established standard practices designed to ensure that it meets its obligations, monitors performance against those practices and investigates thoroughly and takes action to prevent recurrence in respect of any failures identified
Criticism of the group's environmental practices by conservation organisations scrutinising land areas that fall within a region that in places includes substantial areas of unspoilt primary rain forest inhabited by diverse flora and fauna	Reputational and financial damage	The group is committed to sustainable development of oil palm and has obtained RSPO certification for most of its current operations. All group oil palm plantings are on land areas that have been previously logged and zoned by the Indonesian authorities as appropriate for agricultural development. The group maintains substantial conservation reserves that safeguard landscape level biodiversity
Community relations		
A material breakdown in relations between the group and the host population in the area of the agricultural operations	Disruption of operations, including blockages restricting access to oil palm plantings and mills, resulting in reduced and poorer quality CPO and CPKO production	The group seeks to foster mutually beneficial economic and social interaction between the local villages and the agricultural operations. In particular, the group gives priority to applications for employment from members of the local population, encourages local farmers and tradesmen to act as suppliers to the group, its employees and their dependents and promotes smallholder development of oil palm plantings
Disputes over compensation payable for land areas allocated to the group that were previously used by local communities for the cultivation of crops or as respects which local communities otherwise have rights	Disruption of operations, including blockages restricting access to the area the subject of the disputed compensation	Negotiations successfully concluded in early 2013 should have resolved these material issues. In respect of issues remaining and new issues subsequently arising, 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 operations		
Operational factors		
Failure by external contractors to achieve agreed production volumes	Loss of prospective revenue	The group endeavours to use experienced contractors, to supervise them closely and to take care to ensure that they have equipment of capacity appropriate for the planned production volumes
External factors, in particular weather, delaying or preventing delivery of extracted stone and coal	Delays to receipt or loss of revenue	Deliveries are not normally time critical and adverse external factors would not normally have a continuing impact for more than a limited period
Geological assessments, which are extrapolations based on statistical sampling, proving inaccurate	Unforeseen extraction complications causing cost overruns and production delays	The group seeks to ensure the accuracy of geological assessments by drilling ahead of any extraction programme and taking expert geological advice on drilling results
Prices		
Volatility of international coal prices and competition reducing stone prices	Reduced revenue and a consequent reduction in cash flow and profit	The co-operation arrangements negotiated for the mining of the group's coal concessions provide a minimum floor price for the coal mined. In relation to stone, there are currently no other stone quarries in the vicinity of the group's concession and the cost of transporting stone should restrict competition
Imposition of additional royalties or duties on the extraction of coal or stone	Reduced revenue and a consequent reduction in cash flow and profit	The Indonesian government has not to date imposed measures that would seriously affect the viability of Indonesian coal mining or stone quarrying 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 operations to meet the expected standards	Reputational and financial damage	The areas of the stone and coal concessions are relatively small and should not be difficult to supervise. The group is committed to international standards of best environmental and social practice and, in particular, to proper management of waste water and reinstatement of quarried and mined areas on completion of extraction operations

Risks and uncertainties
continued

Risk	Potential impact	Mitigating or other relevant considerations
General		
Currency		
Strengthening of sterling or the Indonesian rupiah against the dollar	Adverse exchange movements on those components of group costs and funding that arise in Indonesian rupiah or sterling and are not hedged against the dollar	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 efficient 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 on which any loss may fall to be disallowed for Indonesian tax purposes
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. Export sales are made either against letters of credit or 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 and mining concessions, 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 changes that would adversely affect the group to a material extent; recent changes introduced to limit 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 and mining concession rights (including conditions requiring utilisation of the rights) 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 concession rights	The group endeavours to ensure that it complies with the continuing conditions attaching to its concession rights and that its activities are conducted within the terms of the licences and permits that it holds and that licences and permits are obtained and renewed as necessary
Failure by the group to meet the standards expected in relation to 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

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 profits 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
Miscellaneous relationships		
Disputes with staff and employees	Disruption of operations and consequent loss of revenues	The group appreciates its material dependence upon its staff and employees and endeavours to manage this dependence in accordance with international employment standards as detailed under "Employees" in "Sustainability" above
Breakdown in relationships with the local shareholders in the company's Indonesian subsidiaries	Reliance on the Indonesian courts for enforcement of the agreements governing its arrangements with local partners with the uncertainties that any juridical process involves and with any failure of enforcement likely to have a material negative impact on the value of the stone and coal operations because the concessions are at the moment legally owned by the group's local partners	The group endeavours to maintain cordial relations with its local investors by seeking their support for decisions affecting their interests and responding constructively to any concerns that they may have

Approved by the board on 28 April 2014 and signed on behalf of the board by
RICHARD M ROBINOW
Chairman

Board of directors

Richard Robinow

Chairman (68)

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

John Oakley

Managing director (65)

After early experience in investment banking and general management, Mr Oakley joined the group in 1983 as divisional managing director of the group's then horticultural operations. He was appointed to the main board in 1985 and subsequently oversaw group businesses involved in tea, bananas, pineapples and merchanting. He transferred in the early 1990s to take charge of the day to day management of the group's then embryonic East Kalimantan agricultural operations. He was appointed managing director in January 2002 and, until the appointment of a regional executive director in 2013, was the sole executive director of the group. Mr Oakley, who is based in London, has overall responsibility for the operations of the group.

Mark Parry

Executive director (53)

Mr Parry was appointed an executive director in January 2013. Mr Parry joined the group in 2011 as the group's regional director and was appointed president director of REA Kaltim in July 2012. He worked for 10 years as a surveyor and engineer in the mining, oil and gas industries. Following completion of an MBA at the London Business School, he spent 15 years with an international bank, ultimately as managing director, project finance. He subsequently established and ran a private consultancy business for two years prior to joining the group. Based in Indonesia and Singapore, Mr Parry is also chief operating officer of REA Kaltim with local responsibility for all of the group's operations.

David Blackett

Senior independent non-executive director (63)

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

Mr 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. Prior to joining that company, he was a director of an international investment bank with responsibility for the bank's South East Asian operations. He is a non-executive director of South China Holdings Limited, a company listed on the Hong Kong Stock Exchange.

Irene Chia

Independent non-executive director (73)

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

David Killick, FCIS

Independent non-executive director (76)

Committees: audit, nomination (chairman), remuneration

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

Directors' report

The directors present their annual report on the affairs of the group, together with the financial statements and auditor's report, for the year ended 31 December 2013. The Corporate governance report below forms part of this report.

Details of significant events since 31 December 2013 are contained in note 41 to the consolidated financial statements. 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.

Information about the use of financial instruments by the company and its subsidiaries is given in note 22 to the consolidated financial statements.

Results and dividends

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

The fixed annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2013 were duly paid. A first interim dividend in respect of 2013 of 3½p per share was paid on the ordinary shares on 24 January 2014 and the board recommends that a final dividend in respect of the year of 3¾p per share be paid on 25 July 2014 to ordinary shareholders on the register of members on 4 July 2014. Resolution 4 in the company's notice of the 2014 annual general meeting (the "2014 Notice") set out at the end of this annual report, which will be proposed as an ordinary resolution, deals with the payment of this dividend.

Going concern basis

The group's business activities, together with the factors likely to affect its future development, performance and position are described in the 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 particular, the review highlights the risks associated with the local operating environment. In addition, note 22 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 activities and exposures to credit and liquidity risks.

Although the group has indebtedness, the vast majority of that indebtedness is medium term and the group is reliant on short-term borrowing facilities to only a limited extent. The directors fully expect such short term facilities to be renewed. Moreover, with relations with the group's local communities much improved, the group's operations can be expected to generate significant positive cash flows and, whilst it is planned to utilise those cash flows to fund capital expenditure, a large proportion of such capital expenditure is discretionary and could be cancelled should the need arise. As a consequence, the directors believe that the group is well placed to manage its business risks successfully.

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

Greenhouse gas emissions ("GHG")

GHG emissions data for the period 1 January 2011 to 31 December 2013 is as shown below:

Tonnes of CO_2e	2013	2012	2011[1]
Gross emissions associated with oil palm operations in Indonesia[2]	583,410	660,634	661,767
Net emissions associated with oil palm operations in Indonesia	284,520	387,883	392,686
Net emissions per tonne of CPO produced	1.57	2.30	2.51
Net emissions per planted hectare	9.19	13.02	13.38
Electricity, heat, steam and cooling purchased for own use	11.8	No data	No data

1 The figures for the group's 2011 carbon footprint differ here from those published in the original carbon footprint report (dated February 2013), due to an error in the original calculation of the GHG emissions from land use change. A correction was published in the group's 2012 Sustainability Report in mid-2013.

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

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

The group has used the PalmGHG tool provided by the Round Table on Sustainable Palm Oil ("RSPO") to calculate the carbon footprint of its oil palm operations in Indonesia between 2011 and 2013. This methodology was chosen because it is tailored to the palm oil industry. It was developed by a multi-stakeholder group which included leading scientists in the field of GHG accounting for oil palm. From 31 December 2016, all RSPO member palm oil producers will be required to publish their GHG emissions using the PalmGHG tool, so it is expected that this methodology will become industry best practice.

The PalmGHG tool uses a lifecycle assessment approach, whereby all of the major sources of GHG emissions (carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O)) linked to the cultivation, processing and transport of oil palm products are quantified and balanced against the carbon sequestration and GHG emissions' avoidance as a result of those processes. All direct and the majority of the indirect emissions[3] associated with the group's oil palm operations in Indonesia are reflected. Aspects of the operations that are not included are the production of oil palm seedlings, the application of pesticides, fuel used for land clearing, emissions associated with infrastructure and machinery and the sequestration of carbon in oil palm products and by-products. The GHG emissions linked to these processes are not considered to be material.

The unit of calculation for the PalmGHG tool is the palm oil mill and its supply base. Therefore, the boundary of the group's 2013 carbon footprint calculation was the operations which supply the group's three palm oil mills, including from 2013 the newest oil mill. The boundary for the GHG emissions' reporting thus differs from that used for financial reporting, as the emissions linked to oil palm estates which do not yet supply fresh fruit bunches to one of the group's mills are not directly included. Instead, emissions associated with the land use change component of new oil palm developments (which represent the majority of emissions from new developments) are accumulated over the immaturity period of each development and then amortised over the 25 year oil palm lifecycle.

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

The group's net GHG emissions have been expressed per tonne of crude palm oil produced and per planted hectare (immature and mature) because these provide measures of intensity that should be comparable between oil palm operations of differing sizes.

The group's Scope 2 emissions are limited to the electricity purchased by the group's offices in London, Jakarta and Samarinda. These GHG emissions are not accounted for in the PalmGHG methodology. These emissions were therefore estimated separately by multiplying the amount of electricity consumed in kilowatt hours by the electricity emission coefficients for the UK and Indonesia respectively. Since these emissions are immaterial by comparison with the GHG emissions associated with the group's oil palm operations they have not been included in the net GHG emissions in an effort to ensure that the methodology used to calculate the intensity of the group's GHG emissions is consistent with what is likely to become the standard oil palm industry methodology for reporting GHG emission intensity.

Control and structure of capital

Details of the company's share capital and changes in share capital during 2013 are set out in note (x) to the company's financial statements. At 31 December 2013, the preference share capital and the ordinary share capital represented, respectively, 85.6 and 14.4 per cent of the total issued nominal value of share capital.

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

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

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

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

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

The 7.5 per cent dollar notes 2012/14 (the "2012/14 dollar notes") and the 7.5 per cent dollar notes 2017 (the "2017 dollar notes") of the company (together, the "dollar notes") and the 9.5 per cent guaranteed sterling notes 2015/17 of REA Finance B.V. (the "sterling notes") (which are guaranteed by the company) are transferable either through the CREST system where held in uncertificated form or by instrument of transfer in any usual or common form duly executed in amounts and multiples, in the case of the dollar notes, of $1 and, in the case of the sterling notes, of £1,000. There is no maximum limit on the size of any holding in either case.

Substantial holders

On 31 December 2013, the company had received notifications in accordance with chapter 5 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority of the following voting rights as shareholders of the company:

Substantial holders of ordinary shares	Number of ordinary shares	Percentage of voting rights
Emba Holdings Limited	9,957,500	28.4
Prudential plc and certain subsidiaries*	6,043,129	17.2
Alcatel Bell Pensioenfonds VZW	4,167,049	11.9
Artemis UK Smaller Companies	3,563,620	10.2

* The company has been notified that the interest of Prudential plc group of companies includes 6,021,116 ordinary shares (17.16 per cent) in which M&G Investment Funds 3 is also interested.

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

During the period from 31 December 2013 to the date of this report, the company did not receive any further notifications under chapter 5 of the Disclosure Rules and Transparency Rules.

Significant holdings of preference shares, dollar notes and sterling notes shown by the respective registers of members and noteholders at 31 December 2013 were as follows:

Substantial holders of securities	Preference shares '000	Dollar notes 2014 $'000	Dollar notes 2017 $'000	Sterling notes £'000
The Bank of New York (Nominees) Limited	–	–	–	4,300
The Bank of New York (Nominees) Limited UKREITS account	–	–	–	5,540
Euroclear Nominees Limited EOC01 account	–	–	3,489	–
HSBC Global Custody Nominee (UK) Limited 942436 account	–	1,244	–	–
HSBC Global Custody Nominee (UK) Limited 641898 account	–	–	–	4,667
KBC Securities NV Client account	–	2,522	11,185	–
Rulegale Nominees Limited JAMSCLT account	6,661	–	–	–
Securities Services Nominees Limited 2300001 account	–	–	–	3,495
State Street Nominees Limited OM04 account	–	–	–	5,500

A change of control of the company would entitle holders of the sterling notes and one holder of $25,000 nominal of the dollar notes to require repayment of the notes held by them as detailed in notes 24 and 25 to the consolidated financial statements.

Directors' report
continued

Awards under the company's long term incentive plans will vest and may be encashed within one month of a change of control as detailed under "Long term incentive plans" in the Directors' remuneration report below. 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, all of whom served throughout 2013, are listed under Board of directors above which is incorporated by reference in this Directors' report. Mr Robinow retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election, such retirement being in compliance with the provisions of the UK Corporate Governance Code requiring the annual re-election of non-executive directors who have served as such for more than nine years. Resolution 5, which is set out in the 2014 Notice and will be proposed as an ordinary resolution, deals with the re-election of Mr Robinow.

The senior independent non-executive director confirms that, following a formal performance evaluation, Mr Robinow's performance continues to be effective and to demonstrate his commitment to the role. Mr Robinow, chairman, devotes a significant proportion of his working time to the affairs of the group and accordingly is recommended for re-election by the board of directors.

Directors' indemnities

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) were in force for the benefit of directors of the company and of other members of the group throughout 2013 and remain in force at the date of this report.

Political donations

No political donations were made during the year.

Acquisition of the company's own shares

The company's articles of association permit the purchase by the company of its own shares subject to prevailing legislation which requires that any such purchase, 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.

Pursuant to the buy-back authority granted at an extraordinary general meeting of shareholders on 11 June 2013, the company has purchased 25,000 of its ordinary shares of 25p each, representing 0.07 per cent of the called up ordinary share capital, for a total consideration of £110,000. The purchased shares are currently held as treasury shares 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 will be transferred to any person.

The directors are seeking renewal at the forthcoming annual general meeting (resolution 8 set out in the 2014 Notice) of the buy-back authority 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 within a limited period. The new authority, if provided, will expire on the date of the annual general meeting to be held in 2015 or on 30 June 2015 (whichever is the earlier).

This 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) that stipulated by article 5(1) of the EU Buyback and Stabilisation Regulation 2003 (namely the higher of the price of the last independent trade and the current highest independent bid on the London Stock Exchange).

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

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

The company will continue to comply with its obligations under the Listing Rules of the Financial Conduct Authority 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 2013, shareholders authorised the directors under the provisions of section 551 of the Companies Act 2006 to allot ordinary shares or 9 per cent cumulative preference shares within specified limits. Replacement authorities are being sought at the forthcoming annual general meeting (resolutions 9 and 10 set out in the 2014 Notice) to authorise the directors (a) to allot and to grant rights to subscribe for, or to convert any security into, shares in the capital of the company (other than 9 per cent cumulative preference shares) up to an aggregate nominal amount of £1,478,682.75 (being all of the unissued ordinary share capital of the company and representing 16.9 per cent of the issued ordinary share capital 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 £12,894,884 (being all of the unissued preference share capital of the company and representing 24.8 per cent of the issued preference share capital of the company at the date of this report).

The new authorities, if provided, will expire on the date of the annual general meeting to be held in 2015 or on 30 June 2015 (whichever is the earlier). Save in relation to the preference shares as indicated below, the directors have no present intention of exercising these authorities.

It has been the policy of the directors for some years to propose capitalisation issues of new preference shares as a method of augmenting returns to ordinary shareholders in periods in which profits are achieved by the group but, in the opinion of the directors, demands on cash resources for, in particular, expansion limit the scope for payment of dividends in respect of the ordinary shares. The directors also believe that, when circumstances permit, it is sensible to replace group debt funding with preference capital. The proposed authority for the allotment of unissued preference share capital is designed to permit the directors to issue preference shares for these purposes without further approval.

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

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 11 set out in the 2014 Notice) will, if passed, empower the directors to make issues of ordinary shares for cash other than by way of a rights issue or open offer up to a maximum nominal amount of £438,565 (representing 5 per cent of the issued ordinary share capital of the company at the date of this report). On 10 May 2013, the company issued 1,670,724 ordinary shares for cash by way of a placing but the company has not otherwise within the three years preceding the date of this report issued any ordinary shares for cash in reliance on the annual general disapplication of statutory pre-emption rights pursuant to section 571 of the Companies Act 2006.

The foregoing powers (if granted) will expire on the date of the annual general meeting to be held in 2015 or on 30 June 2015 (whichever is the earlier).

Increase of directors' fees

At the forthcoming annual general meeting, a resolution (resolution 12 set out in the 2014 Notice) will be proposed to authorise the directors to increase the fees for services of each director from £25,000 per annum as currently provided in the company's articles of association up to an amount not exceeding £30,000 per annum, such fees being exclusive of any amounts payable under other provisions of the articles. Subject to the passing of resolution 12, the directors intend that the current level of directors' fees, which were increased from £20,000 to £22,000 per annum in 2011, be increased to £27,000 per annum with effect from 1 January 2014.

Directors' report

continued

General meeting notice period

At the forthcoming annual general meeting, a resolution (resolution 13 set out in the 2014 Notice) will be proposed to authorise the directors to convene a general meeting (other than an annual general meeting) on 14 clear days' notice (subject to due compliance with requirements for electronic voting). The authority will be effective until the date of the annual general meeting to be held in 2015 or on 30 June 2015 (whichever is the earlier). This resolution is proposed following legislation which, notwithstanding the provisions of the company's articles of association and in the absence of specific shareholder approval of shorter notice, has increased the required notice period for general meetings of the company to 21 clear days. While the directors believe that it is sensible to have the flexibility that the proposed resolution will offer, to enable general meetings to be convened on shorter notice than 21 days, this flexibility will not be used as a matter of routine for such meetings, but only where 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.

Recommendation

The board considers that granting 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", the proposal to increase the maximum fee payable to each director and the proposal to permit general meetings (other than annual general meetings) to be held on just 14 clear days' notice as detailed under "General meeting notice 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 the resolutions 8 to 13 as set out in the 2014 Notice.

Directors' remuneration report

Resolution 3 as set out in the 2014 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 1 January 2015.

Auditor

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

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

Deloitte LLP have expressed their willingness to continue in office as auditor and Resolution 6 set out in the 2014 Notice proposes their re-appointment.

By order of the board
R.E.A. SERVICES LIMITED
Secretary
28 April 2014

Corporate governance report

Throughout the year ended 31 December 2013, the company was in compliance with the provisions set out in the 2012 UK Corporate Governance Code issued by the Financial Reporting Council (the "Code"). The Code is available from the Financial Reporting Council's website at "www.frc.org.uk".

Chairman's statement on corporate governance

The directors appreciate the importance of ensuring that the group's affairs are managed effectively and with integrity and acknowledge that the principles laid down in the Code provide a widely endorsed model for achieving this. The directors seek to apply the Code principles 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 2013, the board concluded that, following the retirement at the end of 2012 of four non-executive directors and the concurrent appointment of Irene Chia and Mark Parry as, respectively, a non-executive director and an executive director, the board is performing effectively as constituted and that the complementary skills of individual board members are appropriate for the size and strategic direction of the group and for the challenges that it faces. It was acknowledged that the recently appointed directors brought valuable additional insights into the plantation industry, business in Indonesia and the group's own affairs.

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 management of the company. The board has a schedule of matters reserved for its decision which is kept under review. Such matters include strategy, material investments and financing decisions and the appointment or removal of executive directors and the company secretary. In addition, the board is responsible for ensuring that resources are adequate to meet the group's objectives and for reviewing performance, financial controls, risk and compliance with the group's policy and procedures with respect to sustainability and bribery.

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

All of the non-executive directors, with the exception of the chairman, are considered by the board to be independent directors. The ethos of discussions and involvement by the non-executive directors is consistent with that of the company. There is a regular dialogue, both formal and informal, between all directors and senior management and communication is open and constructive. Non-executive directors are able to express their views or to raise any issues or concerns; while executive management is responsive to feedback from non-executives directors and to requests for clarification and amplification.

The company carries appropriate insurance against legal action against its directors. The current policy was in place throughout 2013 in compliance with the Code requirement to carry such insurance.

Board of directors

The board currently comprises two executive directors and four non-executive directors (including the chairman). The two executive directors are John Oakley and Mark Parry. Mr Oakley is the group's managing director and is based in London. Mr Parry is the group's regional director and is based in Indonesia and Singapore with overall local responsibility for the Indonesian operations. Mr Parry is also the president director and, since January 2014, the chief operating officer of the company's principal operating subsidiary in Indonesia, PT REA Kaltim Plantations. Biographical information concerning each of the directors 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.

It remains the intention that, over time, overall executive responsibility for the management of the group will progressively be transferred from the UK to Indonesia and Singapore and that, following the eventual retirement of the current managing director and chairman, the group's London office will be reduced to a secretariat managing the company's London listing and liaising with its European shareholders. In the interim, the current managing director and chairman will remain UK based and have indicated their willingness to remain in office for a period sufficient to ensure continuity.

Corporate governance report
continued

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

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

Directors' conflicts of interest

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

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

Quarterly operational and financial reports are issued to all directors following the end of each quarter for their review and comment. These reports are augmented by monthly management reports, 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 internal evaluation of the performance of the board, the committees and individual directors is undertaken annually. Balance of powers, contribution to strategy, efficacy and accountability to stakeholders are reviewed by the board as a whole and the performance of the chairman is appraised by the independent non-executive directors led by the senior independent director. The appraisal process includes assessments against a detailed set of criteria covering a variety of matters from the commitment and contribution of the board in developing strategy and enforcing disciplined risk management, pursuing areas of concern, if any, and setting appropriate commercial and social responsibility objectives to the adequacy and timeliness of information made available to the board.

At the performance evaluation conducted in 2013, the board concluded that it performs effectively as now constituted.

Board committees

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

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

Audit committee

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

Nomination committee

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

Remuneration committee

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

Board proceedings

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

The attendance of individual directors, who served during 2013, at the regular and "ad hoc" board meetings held in 2013 was as follows:

	Regular meeting	Ad hoc meeting
R M Robinow	4	1
J C Oakley	4	1
D J Blackett	4	1
I Chia	4	1
D H R Killick	4	1
M A Parry	4	1

In addition, during 2013, there were three meetings of the audit committee and two meetings of the remuneration committee. The nomination committee did not meet during 2013. All committee meetings were attended by all of the committee members appointed at the time of each meeting.

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

Risk management and internal control

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

The board has established a continuous process for identifying, evaluating and managing any significant risks which the group faces (including risks arising from environmental, social and governance matters). The board regularly reviews the process, which was in place throughout 2013 and up to the date of approval of this report and which is in accordance with the current guidance on internal control (the Turnbull Guidance) and is mindful of the proposed update to such guidance.

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

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

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

Corporate governance report

continued

The board reviewed the systems of internal control and risk management in November 2013 (including the group's internal audit arrangements) and April 2014 and concluded that these remain effective and sufficient for their purpose. Following their review, the board did not identify, nor was it advised of, any specific failings or weaknesses which it determined to be significant. Action was taken and standard procedures were reconfirmed early in 2013 to prevent further incidences of unauthorised commitments made to villages which had been identified during 2012. All such commitments are subject to specific authority of the group's regional director and payments are recorded in writing, evidenced by photographs and made in the presence of a representative from internal audit.

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 who report to the regional director and the managing director.

Management reports to the audit committee and the board on a regular basis by way of the circulation of progress reports, management reports, budgets and management accounts. Management is required to seek authority from the board in respect of any transaction outside the normal course of trading which is above an approved limit and in respect of any matter that is likely to have a material impact on the operations that the transaction concerns. Monthly meetings are held between management in London and Indonesia by way of conference call, of which minutes are taken and circulated, to consider operational matters. At least four supervisory visits are made each year to the overseas operations by the managing director and other directors also make periodic visits to these operations. Such visits are reported on and reviewed by the non-executive directors at the regular board meetings. The president director and chief operating officer of the principal operating subsidiary in Indonesia, who is based in Indonesia and Singapore, has a continuing dialogue with the managing director and with other members of the board.

Relations with shareholders

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

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

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

All proxy votes are counted and full details of all proxies lodged for each resolution are reported to the meeting and made available on the company's website as soon as practicable after the meeting.

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

Approved by the board on 28 April 2014 and signed on behalf of the board by

RICHARD M ROBINOW
Chairman

Audit committee report

Summary of the role of the audit committee

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

The audit committee is responsible for:

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

The audit committee also monitors the engagement of the external auditor to perform non-audit work. During 2013, the only non-audit work undertaken by the auditor was, as in the previous year, routine compliance reporting in connection with covenant obligations applicable to certain group loans (as respects which the governing instruments require that such compliance reporting is carried out by the auditor). The audit committee considered that the nature and scope of, and remuneration payable in respect of, these engagements were such that the independence and objectivity of the auditor was not impaired. Fees payable are detailed in note 5 to the consolidated financial statements.

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

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

Composition of the audit committee

The audit committee comprises Mr Blackett (chairman) and Mr Killick both of whom are considered by the directors to have relevant financial and professional experience in order to be able to fulfil their specific duties with respect to the audit committee.

Meetings

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

Significant issues related to the financial statements

The committee reviewed the half year financial statements to 30 June 2013 (on which the auditor did not report) and the full year consolidated financial statements for 2013 (the "2013 financial statements") contained in this annual report. The external audit report on the latter was considered together with a paper to the committee by the auditor reporting on the principal audit findings. The audit partner of Deloitte LLP responsible for the audit of the group attended the audit planning meeting prior to the year end as well as the meeting of the committee at which the full year audited consolidated financial statements were considered and approved. Senior members of staff of Deloitte LLP who were involved in the audit also attended the meetings.

In relation to the group's audited 2013 financial statements, the committee considered the significant accounting and judgement issues set out below.

Significant accounting and judgement issues

Issues	Assessment
Fair valuation of biological assets: the valuation is based on a discounted cash flow model which contains some significant management assumptions in regard to certain inputs.	Each year the group considers the various inputs for the valuation model and adjusts these as necessary to reflect the current status of the group's plantations, crop yields, the margins achieved from sale of product and general financial conditions. These are also compared as appropriate with inputs for such valuations disclosed by other oil palm plantation companies.

Audit committee report
continued

Issues	Assessment
Indonesian tax balances: Indonesian legislation as to the tax treatment of transactions is sometimes unclear and can result in disputes between the group and the Indonesian tax authorities. Certain disputed items are currently the subject of cases in appeal courts.	Each year the group prepares an evaluation of items that may be disputed and adjusts tax balances as required. The outcome of the two tax cases, which have been subject to judicial process for a number of years, remains uncertain; however, the group has made full provision against the possible non-recovery of the balances relating to these two cases.
Village disruptions: during 2012 and early 2013, disputes with certain villages in areas surrounding the group's agricultural operations resulted in action variously to prevent harvesting some oil palm areas and to stop the milling of fruit harvested; this resulted in lost production and poor quality production and a shortfall in anticipated cash generation.	All material disputes were resolved in the early months of 2013; relations between the group and the villages concerned are now much improved and production has recovered; new bank lines have been arranged to ensure the adequacy of the group's cash reserves.
Valuation of Indonesian stone and coal interests: the value of these interests is based on their expected future generation of revenue following a review in 2012, an impairment charge of $3 million was booked in the 2012 consolidated financial statements.	The group has made recent progress with third parties in relation to the coal concessions and has also received the reports of experts on the characteristics of the group's significant stone deposit. A further review performed by the group supports the conclusion that no further impairment charge is required at this time.
Fair valuation of cross currency swaps: the valuation is derived as the difference between the net present values of the bought and sold positions converted to US dollars with assumptions as to appropriate discount rates.	The group has assumed discount rates based on published rates for the periods and currencies involved and has adjusted these for credit risk; the relatively short remaining duration of the swaps means that the scope for error in the valuation method is limited.
Revenue recognition: compliance with the "bill and hold" sale revenue recognition requirements of IAS18 "Revenue Recognition" and those relating to forward sales.	There are long-standing operating procedures for the storage of product where the buyer has requested a delivery delay, and as such complies with IFRS. In addition the shift of delivery method over recent years from FOB Samarinda to CIF has reduced the materiality of this issue. The group has no forward sales at fixed prices.

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

External Audit

The external auditor was appointed as the company's external auditor in 2002. There has been no tender for audit services since that time. Mark McIlquham has been the company's audit engagement partner since November 2010 and is due to step down next year under the standard rotation process.

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

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

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

Risk Management and Internal Control

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

Internal audit

The group's Indonesian operations have a fully staffed in-house internal audit function supplemented where necessary by the use of external consultants. The function issues a full report on each internal audit topic and a summary of the report is issued to the audit committee. In addition, follow-up audits are undertaken to ensure that the necessary remedial action has been taken. In the opinion of the 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 28 April 2014 and signed on behalf of the committee by:
DAVID J BLACKETT
Chairman

Directors' remuneration report

This report has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the "Regulations") as amended in August 2013. This is the first time that the company has prepared the report in accordance with the amended Regulations. 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 policy report will be subject to a binding shareholder vote at the 2014 Annual General Meeting ("AGM") and it is intended that the policy set out in the policy report should take effect for the financial year beginning on 1 January 2015. The annual report on remuneration provides details on remuneration during 2013 and certain other information required by the Regulations. The directors' remuneration report excluding the policy report will be subject to an advisory shareholder vote at the 2014 AGM.

The Companies Act 2006 requires the auditor to report to the shareholders on certain parts of the annual report on remuneration component of the directors' remuneration report 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 are subject to audit 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 Mr D Blackett, the chairman of the remuneration committee

The succeeding sections of this directors' remuneration report cover the activities of the remuneration committee during 2013 and provide information regarding the remuneration of executive and non-executive directors and the future policy on directors' remuneration. In particular, the report is designed to compare the remuneration of directors with the performance of the company.

Whilst the format of the remuneration report is new, the policy and principles applied by the remuneration committee in fixing the remuneration of directors have not changed and continue to take account of, in particular for executive directors, the company's sustainability objectives as well as its commercial achievements.

A key challenge for the committee in considering executive remuneration for 2014 and bonuses in respect of 2013 has been the recent difficult period faced by the group arising from issues with villagers and the impact of these issues on the operations and results in 2013. Considerable progress has been made in addressing the recent difficulties and the committee has reflected this in 2013 bonuses and the remuneration awarded for 2014. Although the degree and pace of recovery in 2014 remains to be seen, the committee believes that remuneration should motivate and reward individual performance in a way that is consistent with the best long term interests of the company and its shareholders. In approving the remuneration package for 2014, the committee considers that it struck an appropriate balance. The remuneration awarded for 2014 is not subject to the policy on future remuneration to be approved at the 2014 AGM as set out below but is consistent with that policy.

Annual report on remuneration

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

Single total figure of remuneration for each director

The remuneration of the executive and non-executive directors for 2012 and 2013 was as follows:

2013	Salary and fees £'000	All taxable benefits £'000	Annual bonus £'000	Long term incentive £'000	Payment in lieu of pension £'000	Total £'000
Chairman and executive directors						
R M Robinow	197.5	5.9	–	–	–	203.4
J C Oakley	324.5	16.3	105.0	–	43.0	488.8
M A Parry (appointed 1 January 2013)	275.5	28.8	115.3	–	–	419.6
Non-executive directors						
D J Blackett	24.5	–	–	–	–	24.5
I Chia (appointed 1 January 2013)	22.0	–	–	–	–	22.0
D H R Killick	24.5	–	–	–	–	24.5
Total	868.5	51.0	220.3	–	43.0	1,182.8

2012	Salary and fees £'000	All taxable benefits* £'000	Annual bonus £'000	Long term incentive £'000	Payment in lieu of pension £'000	Total £'000
Chairman and executive director						
R M Robinow	197.5	4.9	–	–	–	202.4
J C Oakley	315.0	13.0	112.5	–	59.0	499.5
Non-executive directors						
D J Blackett	24.5	–	–	–	–	24.5
J G Green-Armytage (retired 31 December 2012)	22.0	–	–	–	–	22.0
J R M Keatley (retired 31 December 2012)	22.0	–	–	–	–	22.0
D H R Killick	24.5	–	–	–	–	24.5
L E C Letts (retired 31 December 2012)	22.0	–	–	–	–	22.0
C L Lim (retired 31 December 2012)	22.0	–	–	–	–	22.0
Total	649.5	17.9	112.5	–	59.0	838.9

* Types of benefit: company car, medical insurance, overseas rental accommodation

Fees paid to Mr Blackett and Mr Killick in respect of 2012 and 2013 included, in each case, additional remuneration of £2,500 in respect of their membership of the audit committee.

Fees payable in respect of Mr Green-Armytage, Mr Letts and Mr Lim in 2012 were paid to companies in which such directors were interested.

Pension entitlements

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

Mr Oakley (who was aged 65 at 31 December 2013) was until 31 July 2009 an ordinary member of the R.E.A. Pension Scheme. Mr Oakley elected to become a pensioner member of the scheme on 31 July 2009. In recognition of Mr Oakley's withdrawal from ordinary membership of the scheme ahead of attaining the age of 65, the company paid to Mr Oakley amounts in lieu of the pension contributions equivalent to the amounts that the company would otherwise have paid to the pension scheme during the period from 1 August 2009 until the date on which Mr Oakley attained the age of 65. The amount in lieu payable in 2013 was £43,000 (2012: £59,000). There will be no further payments in lieu of pension contributions payable in 2014 and thereafter.

Details of Mr Oakley's annual pension entitlement are set out below.

	£
In payment at beginning of year	70,503
Increase during the year	1,586
In payment at end of year	72,089

Directors' remuneration report

continued

Scheme interests awarded during the financial year

The table below sets out scheme interests awarded during the year to a director.

Director	Type of scheme interest	Basis of award	Face value* £'000	Percentage of award vesting for minimum performance**	Length of vesting period	Summary of performance measures and targets
M A Parry	Long term incentive plan	Right to acquire 103,035 ordinary shares at 401.5p per share exercisable subject to certain performance conditions	413,687	33.33	1 January 2013 to 31 December 2016	Up to 50 per cent of the maximum aggregate amount will be payable dependent on the annual total shareholder return (TSR) per ordinary share; up to 25 per cent dependent upon the percentage amount by which the inflation adjusted cost per tonne of crude palm oil and equivalents produced by the group has reduced (RCPT); and up to 25 per cent dependent upon the average annual extension planting rate achieved by the group (AEPR). For each performance measure, the thresholds for one third, two thirds or full vesting, are, respectively. as follows: TSR – 10, 15 and 20 per cent; RCPT – 5,10 and 15 per cent; and AEPR – 2,500, 3,000 and 3,500 hectares

* The face value comprises the number of shares awarded multiplied by the closing share price (401.5p) on the day immediately preceding the date of grant (11 June 2013) being the price at which the award is exercisable.

** Assuming minimum performance against all performance conditions.

Directors' shareholdings

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

At 31 December 2013, the interests of directors (including interests of connected persons as defined in section 96B (2) of the Financial Services and Markets Act 2000 of which the company is, or ought upon reasonable enquiry to have been, aware) in the 9 per cent cumulative preference shares of £1 each and the ordinary shares of 25p each of the company were as set out in the table below.

Directors	Preference shares	Ordinary shares
R M Robinow	–	10,005,833
D J Blackett	250,000	–
I Chia	–	–
D H R Killick	–	30,000
J C Oakley	–	442,493
M A Parry	41,851	5,088

There have been no changes in the interests of the directors between 31 December 2013 and the date of this report, save that the total number of ordinary shares held by Mr Robinow no longer includes 24,166 ordinary shares that were previously held in trust on behalf of a person connected with Mr Robinow, such person having reached the age of majority in February 2014.

Scheme interests

The following table shows the total number of scheme interests, being entitlements to notional shares with and without performance conditions held by Mr Parry. No director, other than Mr Parry, currently holds any interests in shares other than those disclosed in the table above and no director holds any share options.

Scheme interests in ordinary shares	With performance conditions	Without performance conditions
M A Parry	105,579	Nil

A new long term incentive (the "third plan") was approved by shareholders and put in place for Mr Parry in June 2013. Previously, long term incentive schemes were put in place for certain key senior executives in Indonesia (the "first plan" and the "second plan"). The schemes are linked to the market price performance of ordinary shares in the company, designed with a view to executive participation over the long term in value created for the group. The performance period for the first plan commenced on 1 January 2007 and ended on 31 December 2010; for the second plan, commenced on 1 January 2009 and ended on 31 December 2012; and for the third plan, commenced on 1 January 2013 and will end on 31 December 2016 (the "performance periods"). No director was eligible to participate under either the first or second plan.

Under the plans, participants were awarded potential entitlements over notional ordinary shares of the company. These potential entitlements then vested or vest to an extent that was or 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 414.69p in the case of the first plan, 224.82p in case of the second plan and 395.14p in the case of the third plan, being the market prices of an ordinary share on the dates with effect from which the plans were agreed after adjustment for subsequent variations in the share capital of the company in accordance with the rules of the plans.

Each plan provided or 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. For both the first and second plans, the designated performance periods have now ended. Under each plan there were or are threshold, target and maximum levels of performance determining the extent of vesting in relation to each performance target. The three key performance targets and the respective thresholds for determining the extent of vesting under the third plan are set out in the above table showing the scheme interests awarded during the year. Targets are subject to adjustment at the discretion of the remuneration committee where, in the committee's opinion, warranted by actual performance.

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

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

At 1 January 2013, vested entitlements to a total of 36,002 and 15,107 notional ordinary shares were held by two participants under, respectively, the first and second plans. One such participant retired from the group with effect from 30 April 2013 and thereupon exercised his entire entitlements under the first and second plans. The payments to the participant concerned amounted to £6,927 and £13,663 respectively. The second participant exercised his entitlement under the second plan on 18 July 2013 and received payment of £17,013, following which the second plan terminated.

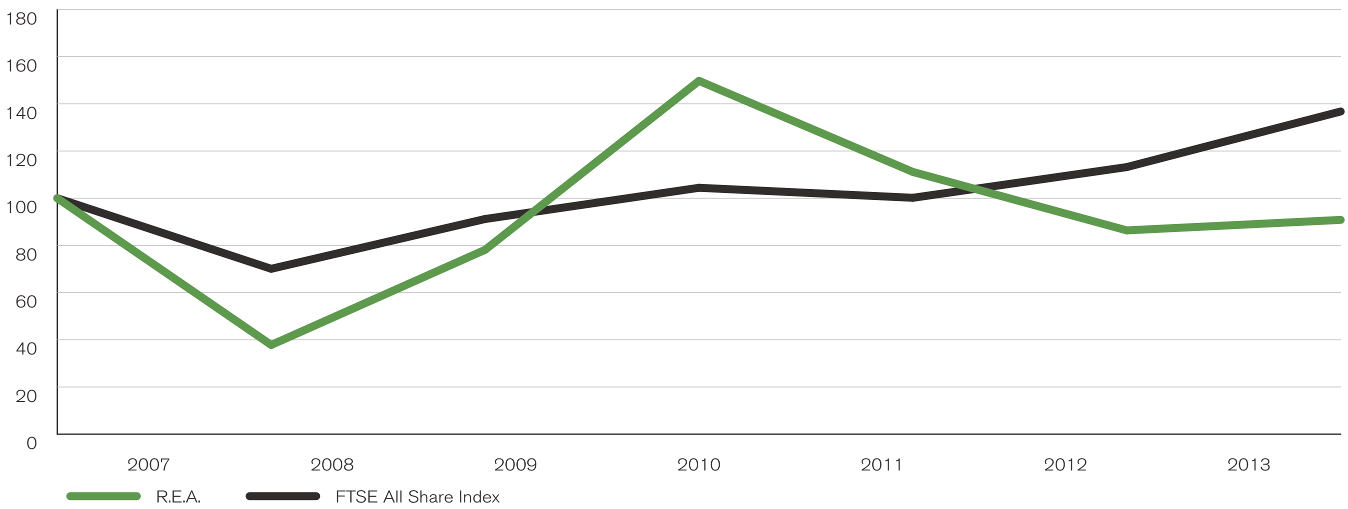
On the basis of the market price of the ordinary shares at 31 December 2013 of 447.50p, the total gain in respect of the remaining vested entitlement to 22,863 notional ordinary shares outstanding under the first plan would have been £7,501 and the total gain under the third plan, assuming that the awarded entitlements eventually vest in full, would have been £55,380.

Directors' remuneration report

continued

Performance graph and managing director remuneration table

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



Record of remuneration of the managing director

The table below sets out the details in respect of the managing director.

Managing director's remuneration	Single figure of total remuneration £'000	Annual bonus pay-out against maximum %	Long term incentive vesting rates against maximum opportunity %
2013	488.8	65	N/A
2012	499.5	71	N/A
2011	428.7	47	N/A
2010	419.4	46	N/A
2009	358.6	40	N/A

The single figure of total remuneration and the bonus calculations in 2009 and 2011 above have been adjusted to reflect refunds of a benefit in kind. As previously reported, the total remuneration paid to Mr Oakley in respect of 2008, 2009 and 2011 was, respectively, £92,500, £70,820 and £15,050 less than the amount to which he would normally have been entitled in each year, reflecting an agreement that a benefit in kind received in 2006 (relating to a tax liability arising on a gain on exercise of share options) should be refunded by commensurate reductions in subsequent remuneration. Taken together, the reductions in 2008, 2009 and 2011 fully offset the applicable benefit in kind.

Percentage change in remuneration of the managing director

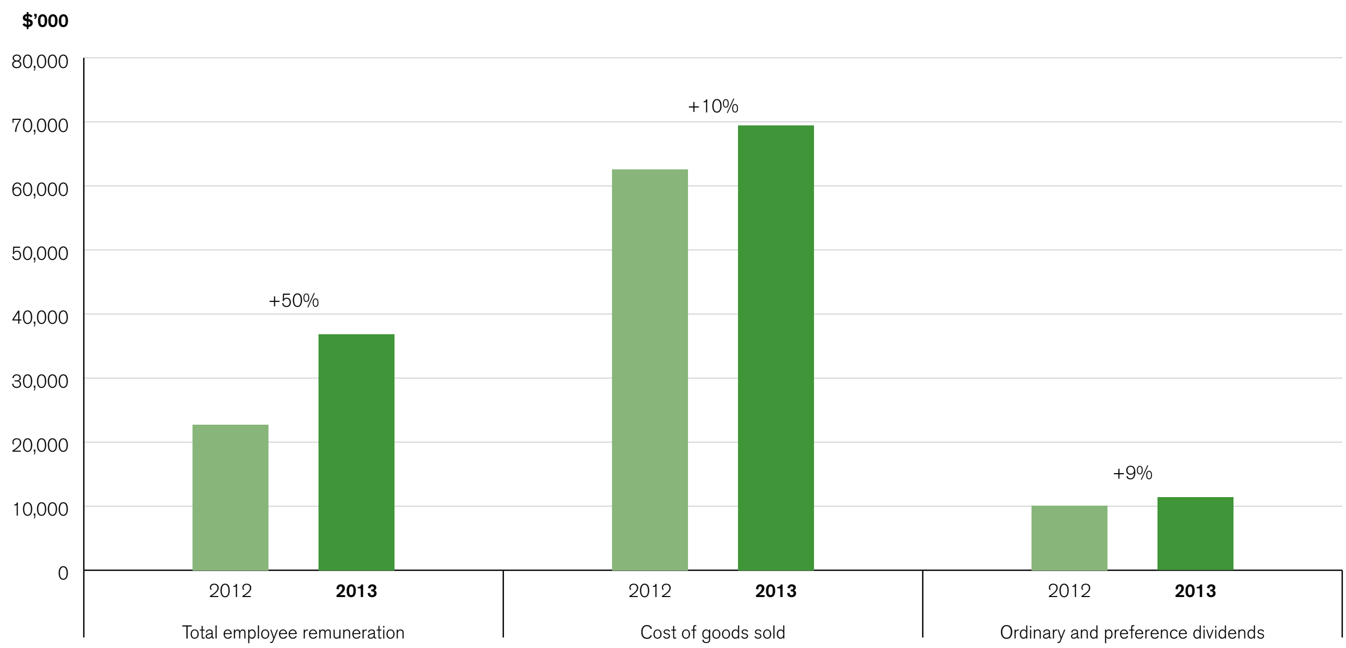
The table below shows the percentage changes in the remuneration of the managing director and in the average remuneration of certain senior management and executives in Indonesia and Singapore between 2012 and 2013. The selected comparator employee group is considered to be the most relevant taking into 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 employees elsewhere and of which the changes from year to year reflect local employment conditions.

Percentage change in managing director's remuneration	2013 £'000	2012 £'000	change
Salary	367.5	374.0	-2%
Benefits	16.3	13.0	25%
Annual bonus	105.0	112.5	-7%
Total	488.8	499.5	-2%

Percentage change in selected employee group remuneration	2013 £'m	2012 £'m	change
Salary	132.2	126.5	4%
Benefits	11.0	10.5	5%
Annual bonus	101.2	76.4	33%
Total	244.4	213.4	15%

Relative importance of spend on pay

The graph below shows the movements between 2012 and 2013 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.



Directors' remuneration report
continued

Functions of the remuneration committee

The remuneration committee currently comprises two independent non-executive directors, Mr D J Blackett (chairman) and Mr D H R Killick. The committee sets the remuneration and benefits of the chairman and the executive directors. The committee is also responsible for long term incentive arrangements, if any, for key senior executives in Indonesia.

The committee does not use independent consultants but takes into consideration external guidance, including the annual publication by Deloitte LLP regarding directors' remuneration in smaller companies. The committee also takes account of the views of the chairman of the company. The chairman plays no part in the discussion of his own remuneration.

Service contract of director standing for re-election

Mr Robinow, who is proposed for re-election at the forthcoming general meeting, has a contract for services to the company which is terminable at will by either party. Mr Robinow's appointment is subject to annual review and the continuation of his appointment depends upon satisfactory performance and re-election at annual general meetings.

Statement of voting at general meeting

At the AGM held on 11 June 2013, votes lodged by proxy in respect of the directors' remuneration were as follows:

Voting on remuneration report	Number of votes	Percentage of votes cast
For	23,331,750	99.75
Against	57,898	0.25
Total (for and against)	23,389,648	100.00
Votes withheld	–	–
Total votes cast (including withheld votes)	23,389,648	100.00

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

Policy Report

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

Commencement and transition

The remuneration policy detailed below will take effect from the financial year beginning on 1 January 2015, subject to approval at the company's forthcoming AGM on 12 June 2014. The proposed policy will not change the policy adopted in setting the current remuneration of the directors although that policy has not been subject to approval pursuant to the Regulations.

Future policy tables

The table below provides a summary of the key components that it will in future be the policy of the company to provide in the remuneration package of each executive director. It is not the policy of the company to provide for possible recovery after payment of any element of directors' remuneration.

	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
Taxable benefits	To attract, motivate, retain and fairly reward individuals of suitable calibre	Company car; and, where relevant, other benefits customarily provided to 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 incentive plans	To provide incentives, linked to the market price performance of 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	Vesting by reference to the achievement over a defined period of certain key performance targets	Cumulative awards, measured at face value on dates of grant, limited to 150 per cent of prevailing annual base salary	Total shareholder return, cost per tonne of crude palm oil produced, and the annual extension planting rate achieved in proportions considered at the remuneration committee's discretion appropriate to the company's objectives at the time of making any award
Pensions	Compliance with prevailing legislation	Compliance with prevailing legislation	Compliance with prevailing legislation	None

Directors' remuneration report

continued

The table below provides a summary of each of the components that it will in future be the policy of the company to provide in the remuneration package of each non-executive director:

	Purpose	Operation
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 will be 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, will be 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 as 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.

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.

Mr Oakley has two service agreements whereby his working time and remuneration are shared between two employing companies to reflect the division of his responsibilities between different parts of the group. Each contract may be terminated by either party by giving notice to the other party of not less than six months. At 31 December 2013, the unexpired term under each contract remained as six months.

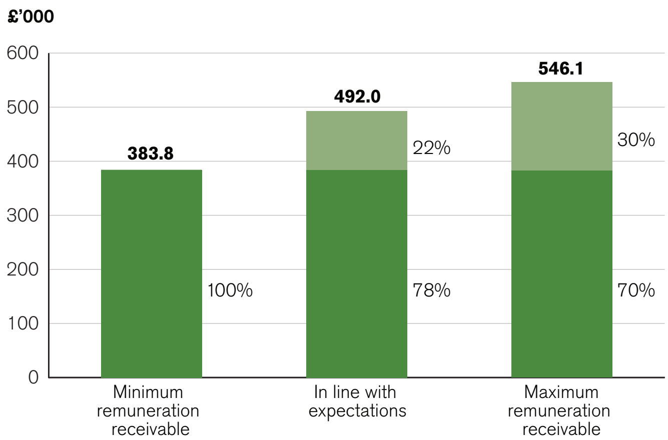
Mr Parry's service contract may be terminated by either party by giving notice to the other party of not less than three months. At 31 December 2013, the unexpired term under Mr Parry's contract was three months.

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.

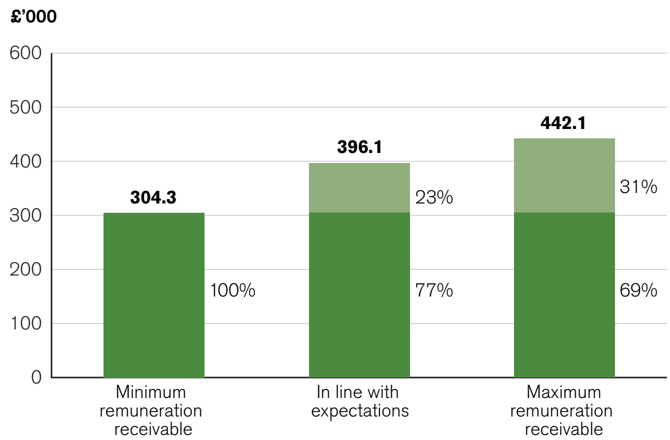
Illustration of application of remuneration policy

The charts below provide estimates of the potential remuneration receivable pursuant to the proposed remuneration policy by each 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 2014 will be nil.

J C Oakley: managing director



M A Parry: regional director



Fixed pay   Annual bonus

The figures reflected in the chart above have been calculated as if the policies set out in the future policy table above were applicable throughout 2014 and on the basis of remuneration agreed for 2013.

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.

Directors' remuneration report
continued

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, their views would be carefully weighed.

Approved by the board of directors on 28 April 2014
RICHARD M ROBINOW
Chairman

Directors' responsibilities

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

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

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

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

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

Responsibility statement

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

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

By order of the board
R.E.A. SERVICES LIMITED
28 April 2014

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

Opinion on financial statements of R.E.A. Holdings plc (the "Company" and together with its subsidiaries the "Group")

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 44 to the Group financial statements and notes (i) to (xix) to the Company financial statements. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Going concern

As required by the Listing Rules we have reviewed the directors' statement on page 69 that the Group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Valuation of biological assets	
Under IFRS, biological assets are required to be fair valued in accordance with IAS 41 at each financial reporting date. This valuation is performed using a discounted cash flow model which involves a number of significant assumptions with changes in fair value being recorded in the income statement.	We assessed the assumptions used in the discounted cash flow model which derives the valuation of biological assets. This included evaluating the sensitivity of the assumptions, checking on a sample basis the arithmetical accuracy of the discounted cash flow model and assessing the accuracy (using the benefit of hindsight) of previous assumptions used. We also benchmarked the assumptions against other plantation companies.

Risk	How the scope of our audit responded to the risk
Taxation matters arising in Indonesia	
Tax legislation in Indonesia can be complex and issues can take a significant number of years to resolve. Furthermore, significant deferred tax balances arise in the consolidated financial statements as a number of items are carried at fair value, which may result in a different valuation to that used for tax purposes.	We utilised tax experts in the UK and Indonesia in order to understand the potential impacts of Indonesian tax regulations on the group's operations. This included reviewing the status of open queries with the Indonesian tax authorities and tax advice obtained by the Group in Indonesia. We also challanged management's assumptions in determining deferred tax balances by independently re-computing temporary differences on those assets and liabilities which were expected to give rise to significant deferred tax.
Impact of villager disputes in Indonesia and impact on going concern	
During 2012 and the first half of 2013, the plantation operations were subject to disruptive action by some of the villagers from the nearby local communities. At times this led to the suspension of harvesting and milling, in turn causing inventory spoilage and production of CPO of a lower quality. Most of these disputes related to the allocation of land to smallholders.	We visited the plantation operations in East Kalimantan and the administrative office in Samarinda and reviewed the status of outstanding claims and whether a provision was required under IAS 37. We held discussions with management to understand the nature of these disputes, why they had arisen, actions taken by management to address them and safeguards introduced to attempt to prevent them re-occurring. We also checked the minutes of management meetings and held discussions with local management to verify that the issues had been remediated in the first half of 2013 and verify whether any significant issues had arisen in the second half of 2013 or 2014.
The assessment of the carrying value of Indonesian stone and coal investments	
The carrying value of these investments relies on certain assumptions and estimates in relation to the likelihood of generating suitable future profits to support the carrying value of the investment held by the Group.	We assessed the assumptions and estimates used to generate discounted cash flow models which support the carrying value of the investments. This included agreeing the volume of deposits and expected extraction rates to surveyors' reports, reviewing forecast prices and contracts and evaluating the sensitivity of the assumptions.
Accounting for cross currency swaps	
The accounting used to hedge foreign currency exposures arising on the principal and interest elements of loans used to finance plantation operations in Indonesia is complex.	We considered the appropriateness of accounting treatment adopted by management in line with accounting standards, including the valuation of the swaps, particularly in the context of adjustments for credit risk which we compared with our independent calculations based on observable market data. We also considered the appropriateness of management's adoption of newly issued standards in the current year, such as IFRS 13. In addition, we have independently revalued a sample of swaps.
Revenue recognition	
Revenue recognition is impacted by the entering into bill and hold sales, while recognition of contractual agreements for sales of crude palm oil at a future date and a fixed price would give rise to a derivative at year end.	Focused tests of revenue transactions around year-end were performed in order to assess whether the revenue recognition policies adopted comply with IFRS and that revenue was recognised in the correct period. We also reviewed contracts in place at the year end to determine whether contractual agreements that would give rise to derivatives were in existence at year end.

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

The Audit Committee's consideration of these risks is set out on pages 55 to 57.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

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

In determining materiality, we have had regard to a range of financial metrics that we consider to be relevant. We concluded that, using an average of the last five years' profit before tax to be most relevant, as this takes into account the variability of results due to items such as adverse weather conditions and villager disputes in Indonesia.

We determined materiality for the Group to be $3million, which is 7% of the average of the last five years' profit before tax, and 1% of equity as at the balance sheet date.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $60,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our group audit scope primarily on the audit work at 13 active legal entities, 12 of these were subject to a full audit, whilst the remaining one was subject to specified audit procedures where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at this active legal entity. These 13 active legal entities represent the principal business activities and account for 97% of the Group's net assets,100% of the Group's revenue and 98% of the Group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the 13 active legal entities was executed at levels of materiality applicable to each individual entity which were lower than group materiality.

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

The group audit team continued to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor and a senior member of the group audit team visit the Group's operations and component auditors in Indonesia annually and visit the plantation estates at least once every three years.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

MARK McILQUHAM ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
28 April 2014

Consolidated income statement

for the year ended 31 December 2013

	Note	2013 $'000	2012 $'000
Revenue	2	110,547	124,600
Net gain / (loss) arising from changes in fair value of agricultural produce inventory	4	548	(5,677)
Cost of sales		(69,901)	(63,566)
Gross profit		41,194	55,357
Net gain arising from changes in fair value of biological assets	13	7,133	5,979
Other operating income	2	–	12
Distribution costs		(1,290)	(1,601)
Administrative expenses	5	(18,959)	(18,899)
Impairment loss	16	–	(3,000)
Operating profit		28,078	37,848
Investment revenues	2, 7	467	411
Finance costs	8	(3,329)	(7,701)
Profit before tax	5	25,216	30,558
Tax	9	(12,544)	(12,855)
Profit for the year		12,672	17,703
Attributable to:			
Ordinary shareholders		5,457	11,342
Preference shareholders	10	7,291	6,713
Non-controlling interests	35	(76)	(352)
		12,672	17,703
Earnings per 25p ordinary share	11	15.8 cents	33.9 cents

All operations for both years are continuing

Consolidated balance sheet

as at 31 December 2013

	Note	2013 $'000	2012 $'000
Non-current assets			
Goodwill	12	12,578	12,578
Biological assets	13	288,180	265,663
Property, plant and equipment	14	146,998	145,610
Prepaid operating lease rentals	15	30,454	26,630
Indonesian stone and coal interests	16	30,427	29,480
Investments	19	–	–
Deferred tax assets	28	9,515	6,063
Non-current receivables		2,250	2,470
Total non-current assets		520,402	488,494
Current assets			
Inventories	18	17,345	20,712
Investments	19	–	1,256
Trade and other receivables	20	28,625	32,155
Cash and cash equivalents	21	34,574	26,393
Total current assets		80,544	80,516
Total assets		600,946	569,010
Current liabilities			
Trade and other payables	30	(16,908)	(30,051)
Current tax liabilities		(2,934)	(4,348)
Bank loans	23	(35,033)	(1,000)
US dollar notes	25	(5,964)	(691)
Other loans and payables	29	(940)	(1,105)
Total current liabilities		(61,779)	(37,195)
Non-current liabilities			
Bank loans	23	(62,281)	(51,194)
Sterling notes	24	(55,708)	(54,279)
US dollar notes	25	(33,468)	(48,007)
Preference shares issued by a subsidiary	26	(38)	(54)
Derivative financial instruments	27	(7,892)	(11,622)
Deferred tax liabilities	28	(73,404)	(44,372)
Other loans and payables	29	(6,935)	(7,257)
Total non-current liabilities		(239,726)	(216,785)
Total liabilities		(301,505)	(253,980)
Net assets		299,441	315,030
Equity			
Share capital	31	101,574	97,565
Share premium account	32	25,161	18,680
Translation reserve	33	(32,549)	(4,854)
Retained earnings	34	203,225	201,630
		297,411	313,021
Non-controlling interests	35	2,030	2,009
Total equity		299,441	315,030

Approved by the board on 28 April 2014 and signed on behalf of the board.

RICHARD M ROBINOW

Chairman

Consolidated statement of comprehensive income

for the year ended 31 December 2013

	Note	2013 $'000	2012 $'000
Profit for the year		12,672	17,703
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Actuarial losses	38	(123)	–
Items that will not be reclassified to profit and loss:			
Exchange differences on translation of foreign operations		(12,341)	(2,133)
Deferred tax movement charge to equity	28	(15,257)	69
		(27,721)	(2,064)
Total comprehensive income for the year		(15,049)	15,639
Attributable to:			
Ordinary shareholders		(22,416)	9,151
Preference shareholders		7,291	6,713
Non-controlling interests		76	(225)
		(15,049)	15,639

Consolidated statement of changes in equity

for the year ended 31 December 2013

	Share capital (note 31) $'000	Share premium (note 32) $'000	Translation reserve (note 33) $'000	Retained earnings (note 34) $'000	Subtotal $'000	Non-controlling interests (note 35) $'000	Total equity $'000
At 1 January 2012	87,939	21,771	(11,762)	202,763	300,711	2,234	302,945
Correction of previous accounting error (note 33)	–	–	9,099	(9,099)	–	–	–
Total comprehensive income	–	–	(2,191)	18,055	15,864	(225)	15,639
Issue of new preference shares (cash)	6,389	146	–	–	6,535	–	6,535
Issue of new preference shares (scrip)	3,237	(3,237)	–	–	–	–	–
Dividends to preference shareholders	–	–	–	(6,713)	(6,713)	–	(6,713)
Dividends to ordinary shareholders	–	–	–	(3,376)	(3,376)	–	(3,376)
At 31 December 2012	97,565	18,680	(4,854)	201,630	313,021	2,009	315,030
Total comprehensive income	–	–	(27,695)	12,625	(15,070)	21	(15,049)
Correction to share premium	–	7	–	–	7	–	7
Issue of new ordinary shares (cash)	641	9,878	–	–	10,519	–	10,519
Issue of new preference shares (scrip)	3,404	(3,404)	–	–	–	–	–
Purchase of treasury shares	(36)	–	–	–	(36)	–	(36)
Dividends to preference shareholders	–	–	–	(7,291)	(7,291)	–	(7,291)
Dividends to ordinary shareholders	–	–	–	(3,739)	(3,739)	–	(3,739)
At 31 December 2013	101,574	25,161	(32,549)	203,225	297,411	2,030	299,441

Consolidated cash flow statement

for the year ended 31 December 2013

	Note	2013 $'000	2012 $'000
Net cash from operating activities	36	764	32,470
Investing activities			
Interest received		467	411
Proceeds from disposal of property, plant and equipment		79	4
Purchases of property, plant and equipment		(12,026)	(50,264)
Expenditure on biological assets *		(16,794)	(15,033)
Expenditure on prepaid operating lease rentals		(4,281)	(2,241)
Acquisition of subsidiary company		–	(1,616)
Investment in Indonesian stone and coal interests		(947)	(3,900)
Net cash used in investing activities		(33,502)	(72,639)
Financing activities			
Preference dividends paid		(7,291)	(6,713)
Ordinary dividends paid		(3,739)	(3,376)
Repayment of borrowings		(5,000)	(10,603)
Proceeds of issue of ordinary shares		10,519	–
Purchase of treasury shares		(36)	–
Proceeds of issue of preference shares		–	6,535
Issue of US dollar notes, net of expenses		–	33,593
Redemption of US dollar notes		(9,678)	(19,000)
Payment to close out hedging contract		(1,862)	–
Net sale and repurchase of US dollar notes		1,238	(259)
New bank borrowings drawn		57,600	36,027
Net cash from financing activities		41,751	36,204
Cash and cash equivalents			
Net increase / (decrease) in cash and cash equivalents	37	9,013	(3,965)
Cash and cash equivalents at beginning of year		26,393	30,601
Effect of exchange rate changes		(832)	(243)
Cash and cash equivalents at end of year	21	34,574	26,393

* Net of capitalised depreciation and amortisation (see notes 14 and 15)

Accounting policies (group)

General information

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

Basis of accounting

The consolidated financial statements set out on pages 74 to 109 are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU as at the date of approval of the financial statements and therefore comply with Article 4 of the EU IAS Regulation. The statements are prepared under the historical cost convention except where otherwise stated in the accounting policies.

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

Presentational currency

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

Adoption of new and revised standards

With effect from 1 January 2013 the group adopted IAS19: "Employee benefits" (revised). The revised standard has not changed the values of retirement benefit obligations, and the requirement to account for actuarial gains and losses through the statement of comprehensive income has had an immaterial impact on the financial statements. In addition, with effect from 1 January 2013, the group has adopted a number of minor changes to IFRS including the amendment to IAS 1 "Presentation of financial statements" which changes the presentation of certain items within other comprehensive income grouping them into items which will recycle to profit and loss and items which will not, and IFRS 13 "Fair value measurement" which provides a single source of fair value measurement and disclosure requirements for use throughout IFRS. Implementation of IFRS 13 does not require a restatement of historical transactions. Otherwise new standards and interpretations issued and brought into effect for the latest reporting period have not led to any changes in the group's accounting policies.

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

- IFRS 9: "Financial instruments: classification and measurement"
- IFRS 10: "Consolidated financial statements"
- IFRS 12: "Disclosure on interests in other entities"
- IAS 27 (amendments): "Investment entities"
- IAS 32 (amendments): "Offsetting Financial Assets and Financial Liabilities"
- IAS 36 (amendments): "Recoverable amount disclosure for non-financial assets"
- IAS 39 (amendments): "Novation of derivatives and continuation of hedge accounting"
- IFRIC Interpretation 21: "Levies"

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

The adoption of IFRS 10 Consolidated financial statements may alter the composition of those subsidiary companies which are included in the consolidated financial statements of the company.

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

Basis of consolidation

The consolidated financial statements consolidate the financial statements of the company and its subsidiary companies (as listed in note (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 tested for impairment at least annually. Any impairment is debited immediately as a loss in the consolidated income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of any goodwill is included in the determination of the profit or loss on disposal.

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in respect of goods and services provided in the normal course of business, net of VAT and other sales related taxes. Sales of goods are recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer and include contracted sales in respect of which the contracted goods are available for collection by the buyer in the accounting period. Income from services is accrued on a time basis by reference to the rate of fee agreed for the provision of services.

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

Leasing

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

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

Foreign currencies

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

Accounting policies (group)
continued

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

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

Borrowing costs

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

Operating profit

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

Pensions and other post-employment benefits

United Kingdom

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

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

Indonesia

In accordance with local labour law, the group's employees in Indonesia are entitled to lump sum payments on retirement. These obligations are unfunded and provision is made annually on the basis of a periodic assessment by independent actuaries. Actuarial gains and losses are 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 biological assets.

Taxation

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

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

Biological assets

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

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

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

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

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

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

Property, plant and equipment

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

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

Prepaid operating lease rentals

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

Impairment of tangible and intangible assets excluding goodwill

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

Accounting policies (group)

continued

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

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

Inventories

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

Recognition and de-recognition of financial instruments

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

Non-derivative financial assets

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

Loans and receivables

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

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

Cash and cash equivalents

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

Held-to-maturity investments

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

Non-derivative financial liabilities

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

Note issues, bank borrowings and finance leases

Redeemable instruments (comprising note issues and redeemable preference shares of a subsidiary of the company), bank borrowings and finance leases are classified in accordance with the substance of the relative contractual arrangements. Finance costs are charged to income on an accruals basis, using the effective interest method, and comprise, with respect to redeemable instruments, the coupon payable together with the amortisation of issuance costs (which include any premiums payable or expected by the directors to be payable on settlement or redemption) and, with respect to bank borrowings and finance leases, the contractual rate of interest together with the amortisation of costs associated with the negotiation of, and compliance with, the contractual terms and conditions. Redeemable instruments are recorded in the accounts at their expected redemption value net of the relative unamortised balances of issuance costs. Bank borrowings and finance leases are recorded at the amounts of the proceeds received less subsequent repayments with the relative unamortised balance of costs treated as non-current receivables.

Trade payables

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

Financial liabilities at FVTPL

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

Derivative financial instruments

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

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

Cash flow and fair value hedges

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

Equity instruments

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

Notes to the consolidated financial statements

1. Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the group's accounting policies

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

Biological assets

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

Capitalisation of interest and other costs

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

Derivatives

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

Key sources of estimation uncertainty

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

Biological assets

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

Taxes

The group is subject to taxes in various jurisdictions. Significant judgement is required in estimating the group's tax liabilities (including liabilities to deferred tax) having regard to the uncertainties relating to certain Indonesian legislative provisions, the availability of tax losses, the future periods in which timing differences are likely to reverse and the final determination of liabilities in respect of disputed tax items in Indonesia.

Provisions

Provisions have been made in past years and adjusted in the year under review against balances relating to the group's interests in stone and coal. Whilst the directors have obtained geological advice in relation to reserves, the inherent uncertainty of any assessment of future returns from mining and recoverability of trading balances has required the exercise of judgement in determining the appropriateness of current carrying values.

2. Revenue

	2013 $'000	2012 $'000
Sales of goods	108,350	122,621
Revenue from services	2,197	1,979
	110,547	124,600
Other operating income	–	12
Investment revenue	467	411
Total revenue	111,014	125,023

In 2013, three customers accounted for respectively 59 per cent, 11 per cent and 8 per cent of the group's sales of agricultural goods (2012: three customers, 42 per cent, 21 per cent and 12 per cent). As stated in note 22 "Credit risk", substantially all sales of goods are made on the basis of cash against documents or letters of credit and accordingly the directors do not consider that these sales result in a concentration of credit risk to the group.

The crop of oil palm fresh fruit bunches for 2013 amounted to 578,785 tonnes (2012: 597,722 tonnes). The fair value of the crop of fresh fruit bunches was $66,796,000 (2012: $78,468,000), based on the price formulae determined by the Indonesian government for purchases of fresh fruit bunches from smallholders (see note 13).

3. Segment information

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

	2013 $'m	2012 $'m
Sales by geographical destination:		
Indonesia	110.5	73.4
Rest of Asia	–	51.2
	110.5	124.6
Carrying amount of net assets by geographical area of asset location:		
UK, Continental Europe and Singapore	50.5	51.5
Indonesia	248.9	263.5
	299.4	315.0

In the year ended 31 December 2012, the group disclosed segment information for three reportable segments in accordance with IFRS 8 "Operating Segments", two operating segments, being the cultivation of oil palms and the stone and coal operations, and a head office segment made up of the activities of the UK, European and Singaporean subsidiaries.

In the year ended 31 December 2013, the relevant measures for the stone and coal operations fell below the quantitative thresholds set out in IFRS 8. Reflecting the directors' decision to discontinue the third party coal trading and to concentrate on developing the stone concession as part of the group's agricultural activities, it is considered that the remaining coal concessions are no longer of continuing significance to the group for segment reporting purposes. Accordingly, no segment information is included in these financial statements.

4. Agricultural produce inventory movement

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

5. Profit before tax

	2013 $'000	2012 $'000
Salient items charged/(credited) in arriving at profit before tax		
Administrative expenses (see below)	18,959	18,899
Movement in inventories (at historic cost)	(593)	220
Operating lease rentals	623	456
Depreciation of property, plant and equipment	9,751	5,812
Amortisation of prepaid operating lease rentals	189	223
Administrative expenses		
Net foreign exchange losses / (gains)	56	(845)
Net charge for additional pension contributions (see note 38)	272	1,439
Loss on disposal of fixed assets	(20)	39
Net loss on financial liabilities at FVTPL	–	190
Indonesian operations	16,575	15,574
Head office	5,522	4,395
	22,405	20,792
Amount included as additions to biological assets	(3,446)	(1,893)
	18,959	18,899

Amounts payable to the company's auditor

The amount payable to Deloitte LLP for the audit of the company's financial statements was $157,000 (2012: $136,000). Amounts payable to Deloitte LLP for the audit of accounts of subsidiaries of the company pursuant to legislation were $15,000 (2012: $18,000).

Amounts payable to Deloitte LLP for other services were $12,000 (2012: $10,000) for the provision of certificates of group compliance with covenants under certain debt instruments (being certificates that those instruments require to be provided by the company's auditor) and for group tax administrative services.

Amounts payable to affiliates of Deloitte LLP for the audit of subsidiaries' financial statements were $30,000 (2012: $26,000).

	2013 $'000	2012 $'000
Earnings before interest, tax, depreciation and amortisation and net biological gain		
Operating profit	28,078	37,848
Depreciation and amortisation	9,324	6,214
Net biological gain	(7,133)	(5,979)
	30,269	38,083

6. Staff costs, including directors

	2013 Number	2012 Number
Average number of employees (including executive directors):		
Agricultural – permanent	5,333	4,720
Agricultural – temporary	2,991	2,524
Head office	9	9
	8,333	7,253

	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	35,849	23,869
Social security costs	1,049	692
Pension costs	550	1,604
	37,448	26,165

7. Investment revenues

	2013 $'000	2012 $'000
Interest on bank deposits	251	164
Other interest income	216	247
	467	411

8. Finance costs

	2013 $'000	2012 $'000
Interest on bank loans and overdrafts	5,497	4,145
Interest on US dollar notes	4,008	3,433
Interest on sterling notes	5,599	5,598
Change in value of sterling notes arising from exchange fluctuations	1,064	1,029
Change in value of derivative financial instruments	(2,974)	(2,108)
Change in value of loans arising from exchange fluctuations	(6,298)	–
Other finance charges	293	372
	7,189	12,469
Amount included as additions to biological assets and construction in progress	(3,860)	(4,768)
	3,329	7,701

Amounts included as additions to biological assets and construction in progress arose on borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 55.1 per cent (2012: 34.9 per cent); there is no directly related tax relief.

9. Tax

	2013 $'000	2012 $'000
Current tax:		
UK corporation tax	399	534
Foreign tax	1,773	9,638
Prior year	–	557
Total current tax	2,172	10,729
Deferred tax:		
Current year	8,040	2,068
Change in UK tax rate	211	–
Prior year	2,121	58
Total deferred tax	10,372	2,126
Total tax	12,544	12,855

Taxation is provided at the rates prevailing for the relevant jurisdiction. For Indonesia, the current and deferred taxation provision is based on a tax rate of 25 per cent (2012: 25 per cent) and for the United Kingdom, the taxation provision reflects a corporation tax rate of 23.25 per cent (2012: 24.5 per cent) and a deferred tax rate of 20 per cent (2012: 23 per cent).

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

	2013 $'000	2012 $'000
Profit before tax	25,216	30,558
Notional tax at the UK standard rate of 23.25 per cent (2012: 24.5 per cent)	5,863	7,487
Tax effect of the following items:		
Expenses not deductible	962	796
Non taxable income	(37)	(85)
Overseas tax rates above UK standard rate	586	267
UK deferred tax lower than standard rate	78	–
Overseas withholding taxes, net of relief	1,560	1,890
Tax credit on loss in overseas subsidiary not recognised	880	1,739
Tax losses in overseas subsidiaries time expired	317	58
Reduction in recoverable amounts relating to disputed Indonesian tax assessments	–	557
Prior year adjustments (including change in rate of tax)	2,332	160
Additional tax provisions	3	(14)
Tax expense at effective tax rate for the year	12,544	12,855

10. Dividends

	2013 $'000	2012 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share	7,291	6,713
Ordinary dividends of 7p per share (2012: 6.5p per share)	3,739	3,376
	11,030	10,089

An interim dividend of 3.5p per ordinary share in respect of the year ended 31 December 2013 was paid on 24 January 2014. In accordance with IAS10 "Events after the reporting period", this dividend, amounting in aggregate to $2,036,000, has not been included in the 2013 financial statements.

11. Earnings per share

	2013 $'000	2012 $'000
Earnings for the purpose of earnings per share *	5,457	11,342
* being net profit attributable to ordinary shareholders		
	'000	'000
Weighted average number of ordinary shares for the purpose of earnings per share	34,494	33,415

12. Goodwill

	2013 $'000	2012 $'000
Beginning of year	12,578	12,578
End of year	12,578	12,578

The goodwill of $12,578,000 arose from the acquisition by the company in 2006 of a non-controlling interest in the issued ordinary share capital of Makassar Investments Limited, the parent company of PT REA Kaltim Plantations, for a consideration of $19 million. The goodwill is reviewed for impairment as explained under "Goodwill" in "Accounting policies (group)". The recoverable amount of the goodwill is based upon value in use of the oil palm business in Indonesia, which is regarded as the cash generating unit to which the goodwill relates. Value in use is assessed by revaluing the biological assets of the oil palm business on the basis of the principles applied in determining their fair value as detailed in note 13 but utilising a standard unit profit margin calculated by reference to a five year average of historic profit margins rather than the longer term average assumed in determining fair value. The directors consider this to be an appropriate method for determining value in use as it otherwise maintains consistency of methodology between estimations of value in use and the IAS 41 valuation. Based upon the recent review, the directors have concluded that no impairment of goodwill is required.

Notes to the consolidated financial statements
continued

13. Biological assets

	2013 $'000	2012 $'000
Beginning of year	265,663	244,433
Additions to planted area and costs to maturity including finance costs (see note 8)	17,330	15,369
Transfers from prepaid operating lease rentals (see note 15)	–	45
Transfers to non-current receivables	(1,942)	(79)
Transfers to current receivables	(4)	(84)
Net biological gain	7,133	5,979
End of year	288,180	265,663

	2013 $'000	2012 $'000
Net biological gain comprises:		
Fair value of crops harvested during the year (see note 2)	(66,796)	(78,468)
Gain arising from movement in fair value attributable to other physical changes	60,646	72,226
Gain arising from movement in fair value attributable to price changes	13,283	12,221
	7,133	5,979

The nature of the group's biological assets and the basis of determination of their fair value is explained under "Biological assets" in "Accounting policies (group)". Critical judgements in relation to these matters are detailed in note 1. The fair value determination assumed a discount rate of 15 per cent in the case of PT REA Kaltim Plantations ("REA Kaltim") and PT Sasana Yudha Bhakti ("SYB") and 18 per cent in the case of all other group companies (2012: 15 per cent in the case of REA Kaltim and SYB and 18 per cent in the case of all other group companies) and a standard unit margin of $58.0 per tonne of oil palm fresh fruit bunches ("FFB") (2012: standard unit margin of $55.2 per tonne of FFB).

The valuation of the group's biological assets would have been reduced by $15,370,000 (2012: $14,250,000) if the crops projected for the purposes of the valuation had been reduced by 5 per cent; by $14,370,000 (2012: $13,570,000) if the discount rates assumed had been increased by 1 per cent and by $26,530,000 (2012: $25,810,000) if the assumed unit profit margin per tonne of oil palm FFB had been reduced by $5.

As a general rule, all palm products produced by the group are sold at prices prevailing immediately prior to delivery but on occasions the group makes forward sales at fixed prices. When making such sales, the group would not normally commit more than 60 per cent of its projected production for a forthcoming period of twelve months. At 31 December 2013, the group had no outstanding forward sale contracts at fixed prices (2012: none).

At the balance sheet date, biological assets of $162 million (2012: $68 million) had been charged as security for bank loans (see note 23) but there were otherwise no restrictions on titles to the biological assets (2012: none). Expenditure approved by the directors for the development of immature areas in 2014 amounts to $15 million (2012: $20 million).

14. Property, plant and equipment

	Buildings and structures $'000	Plant, equipment and vehicles $'000	Construction in progress $'000	Total $'000
Cost:				
At 1 January 2012	59,106	48,153	19,374	126,633
Additions	16,533	18,847	14,638	50,018
Exchange differences	–	31	–	31
Disposals	–	(462)	–	(462)
At 31 December 2012	75,639	66,569	34,012	176,220
Opening balance adjustment	–	(39)	(237)	(276)
Additions	2,421	1,830	7,776	12,027
Exchange differences	–	5	–	5
Disposals	–	(515)	–	(515)
Transfers to / (from) construction in progress	4,194	29,494	(33,688)	–
Transfers to non-current receivables	(286)	–	–	(286)
At 31 December 2013	81,968	97,344	7,863	187,175
Accumulated depreciation:				
At 1 January 2012	6,409	18,039	–	24,448
Charge for year	2,573	3,994	–	6,567
Exchange differences	–	17	–	17
Eliminated on disposals	–	(422)	–	(422)
At 31 December 2012	8,982	21,628	–	30,610
Opening balance adjustment	–	(3)	–	(3)
Charge for year	3,271	6,747	–	10,018
Exchange differences	–	8	–	8
Eliminated on disposals	–	(456)	–	(456)
At 31 December 2013	12,253	27,924	–	40,177
Carrying amount:				
End of year	69,715	69,420	7,863	146,998
Beginning of year	66,657	44,941	34,012	145,610

The depreciation charge for the year includes $267,000 (2012: $171,000) which has been capitalised as part of the additions to biological assets.

At the balance sheet date, the book value of finance leases included in property, plant and equipment was $nil (2012: $nil).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $6,469,000 (2012: $5,212,000).

Notes to the consolidated financial statements

continued

15. Prepaid operating lease rentals

	2013 $'000	2012 $'000
Cost:		
Beginning of year	28,782	25,261
Additions	4,281	3,857
Transfers to biological assets (note 13)	–	(45)
Transfers to non-current assets	–	(291)
End of year	33,063	28,782
Accumulated amortisation:		
Beginning of year	2,152	1,764
Charge for year	457	388
End of year	2,609	2,152
Carrying amount:		
End of year	30,454	26,630
Beginning of year	26,630	23,497

Additions in the year include $nil (2012: $1,641,000) in respect of a subsidiary acquired during the year.

The amortisation charge for the year includes $268,000 (2012: $164,000) which has been capitalised as part of the additions to biological assets.

Balances classified as prepaid operating lease rentals represent amounts invested in land utilised for the purpose of the plantation operations in Indonesia. At 31 December 2013, certificates of hak guna usaha had been obtained in respect of areas covering 70,584 hectares (2012: 70,584 hectares). An hak guna usaha (literally a "right of agricultural use") is effectively a government lease entitling the lessee to utilise the land leased for agricultural and related purposes. Retention of an hak guna usaha is subject to payment of annual land taxes in accordance with prevailing tax regulations. Hak guna usaha are granted for an initial term of 30 years and are renewable on expiry of such term.

16. Indonesian stone and coal interests

	2013 $'000	2012 $'000
Investment in stone company	14,100	13,042
Investment in coal companies	19,327	19,438
Impairment provision against coal companies	(3,000)	(3,000)
End of year	30,427	29,480

The investments comprise interest bearing loans made to two Indonesian companies that, directly and through a further Indonesian company, own rights in respect of certain stone and coal concessions in East Kalimantan Indonesia, together with related balances; such loans are repayable not later than 2020. Pursuant to the arrangements between the group and its local partners, KCC Resources Limited ("KCC") has the right, subject to satisfaction of local regulatory requirements, to acquire the three concession holding companies at original cost on a basis that will give the group (through KCC) 95 per cent ownership with the balance of five per cent remaining owned by the local partners. In the meantime, the concession holding companies are being financed by loan funding from the group and no dividends or other distributions or payments may be paid or made by the concession holding companies to the local partners without the prior agreement of KCC.

The directors have carried out an impairment review of the loans by which the group is funding the concession holding companies. Each concession holding company has been treated as a cash-generating unit and its recoverable amount has been estimated on the basis of value in use, applying a discount rate of 10 per cent. No further impairment charge has been considered necessary in the 2013 consolidated income statement (2012: $3.0 million).

17. Subsidiaries

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

18. Inventories

	2013 $'000	2012 $'000
Agricultural produce	6,189	11,220
Engineering and other operating inventory	11,156	9,492
	17,345	20,712

19. Investments

	2013 $'000	2012 $'000
US dollar notes (current assets)	–	1,256

The investments are categorised as held-to-maturity and are carried at amortised cost. The US dollar notes which comprised $1,256,000 nominal of the 7.5 per cent dollar notes 2017 issued by the company were sold at par plus interest to the date of sale in January 2013.

20. Trade and other receivables

	2013 $'000	2012 $'000
Due from sale of goods	2,438	3,545
Prepayments and advance payments	5,613	10,527
Advance payment of taxation	14,817	14,022
Deposits and other receivables	5,757	4,061
	28,625	32,155

Sales of goods are normally made on a cash against documents basis with an average credit period (which takes account of customer deposits as disclosed in note 30) of 3 days (2012: 4 days). The directors consider that the carrying amount of trade and other receivables approximates their fair value.

21. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the group and short-term bank deposits. Cash balances amounting to $nil (2012: $555,000) are subject to a charge in favour of the trustee for the 9.5 per cent guaranteed sterling notes 2015/17 issued by a subsidiary (see note 24). The Moody's prime rating of short-term bank deposits amounting to $34.5 million is set out in note 22 under the heading "Credit risk".

22. Financial instruments

Capital risk management

The group manages as capital its debt, which includes the borrowings and redeemable preference shares of a subsidiary disclosed in notes 23 to 26, cash and cash equivalents and equity attributable to shareholders of the parent, comprising issued ordinary and preference share capital, reserves and retained earnings as disclosed in notes 31 to 34. The group is not subject to externally imposed capital requirements.

The directors' policy in regard to the capital structure of the group is to seek to enhance returns to holders of the company's ordinary shares by meeting a proportion of the group's funding needs with prior ranking capital and to constitute that capital as a mix of preference share capital and borrowings from financial institutions and the public debt market, in proportions which suit, and as respects borrowings have a maturity profile which suits, the assets that such capital is financing. In so doing, the directors regard the company's preference share capital as permanent capital and then seek to structure the group's borrowings so that shorter term bank debt is used only to finance working capital requirements while debt funding for the group's development programme is sourced from issues of medium term listed debt securities and medium term borrowings from financial institutions.

Net debt to equity ratio

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

	2013 $'000	2012 $'000
Debt and related engagements *	198,946	163,536
Cash and cash equivalents	(34,574)	(26,393)
Net debt and related engagements	164,372	137,143

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

Equity (including non-controlling interests)	299,441	315,030
Net debt to equity ratio	54.9%	43.5%

Significant accounting policies

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

Categories of financial instruments

Non-derivative financial assets as at 31 December 2013 comprised loans, investments and receivables (including Indonesian stone and coal interests) and cash and cash equivalents amounting to $73,432,000 (2012: $65,557,000).

Non-derivative financial liabilities as at 31 December 2013 comprised liabilities at amortised cost amounting to $197,869,000 (2012: $170,850,000).

Derivative financial instruments at 31 December 2013 comprised instruments not in designated hedge accounting relationships at fair value representing a liability of $7,892,000 (2012: $11,622,000).

22. Financial instruments - continued

As explained in note 16, conditional arrangements exist for the group to acquire at historic cost the shares in the Indonesian companies owning rights over certain stone and coal concessions. The directors have attributed a fair value of zero to these rights in view of the prior claims of loans to the concession owning companies and the present stage of the operations.

Financial risk management objectives

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

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

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 sterling notes and the US dollar notes carry interest at fixed rates of, respectively, 9.5 and 7.5 per cent per annum. In addition, the company's preference shares carry an entitlement to a fixed annual dividend of 9 pence per share.

Interest is payable on drawings under Indonesian rupiah term loan facilities at 4.5 per cent (2012: 3.5 per cent) above the Jakarta Inter Bank Offer Rate. In addition, the interest rate formula includes an allowance for the bankers' cost of funds. Interest is payable on drawings under US dollar short-term facilities at floating rates varying between 3.0 per cent and 4.0 per cent above the relevant Inter Bank Offer Rate (2012: between 4.9 per cent and 9.9 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 2013 which carry interest at floating rates would have resulted over a period of one year in a pre-tax profit (and equity) decrease of approximately $627,000 (2012: pre-tax profit (and equity) decrease of $258,000).

The group regards the US dollar as the functional currency of most of its operations and formerly sought to ensure that, as respects that proportion of its investment in the operations that was met by borrowings, it had no material currency exposure against the US dollar. Accordingly, where borrowings were incurred in a currency other than the US dollar, the group endeavoured to cover the resultant currency exposure by way of a debt swap or other appropriate currency hedge. The receipt by a subsidiary of the company during 2011 of an Indonesian tax assessment seeking to disallow for tax purposes losses on currency hedges has called into question this policy and the group has since decided (at least until such time as the disputed tax issue is clarified) not to take out any further hedges against US dollars of non US dollar borrowings. The group does not cover the currency exposure in respect of the component of the investment in its operations that is financed with pounds sterling denominated equity. The group's policy is to maintain limited balances in pounds sterling and Indonesian rupiahs but, otherwise, to keep all cash balances in US dollars. The group does not normally otherwise hedge its revenues and costs arising in currencies other than the US dollar.

Notes to the consolidated financial statements
continued

22. Financial instruments - continued

At the balance sheet date, the group had non US dollar monetary items denominated in pounds sterling and Indonesian rupiah. A 5 per cent strengthening of the pound sterling against the US dollar would have resulted in a gain dealt with in the consolidated income statement and equity of $1,455,000 on the net sterling denominated non-derivative monetary items (excluding the element of the sterling notes that is hedged) (2012: gain of $974,000). A 5 per cent strengthening of the Indonesian rupiah against the US dollar would have resulted in a loss dealt with in the consolidated income statement and equity of $4,564,000 on the net Indonesian rupiah denominated, non-derivative monetary items (2012: loss of $1,439,000).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The directors consider that the group is not exposed to any major concentrations of credit risk. At 31 December 2013, 86 per cent of bank deposits were held with banks with a Moody's prime rating of P1, 13 per cent with a bank with a Moody's prime rating of P3 and the balance with banks with no Moody's prime rating. Substantially all sales of goods are made on the basis of cash against documents or letters of credit. At the balance sheet date, no trade receivables were past their due dates, nor were any impaired; accordingly no bad debt provisions were required. The maximum credit risk exposures in respect of the group's financial assets at 31 December 2013 and 31 December 2012 equal the amounts reported under the corresponding balance sheet headings.

Liquidity risk

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

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

Non-derivative financial instruments

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

2013	Weighted average interest rate %	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
Bank loans	7.3	40,505	13,617	60,510	114,632
US dollar notes	8.5	9,335	2,551	37,837	49,723
Sterling notes	10.4	5,418	21,677	46,446	73,541
KCC preference shares (see note 26)		39	–	–	39
Trade and other payables, and customer deposits		5,376	–	–	5,376
		60,673	37,845	144,793	243,311

22. Financial instruments - continued

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

At 31 December 2013, the group's non-derivative financial assets (other than receivables) comprised cash and deposits of $34,600,000 (2012: $26,400,000) carrying a weighted average interest rate of 1.7 per cent (2012: 1.4 per cent) all having a maturity of under one year, and Indonesian stone and coal interests of $30,427,000 (2012: $29,480,000) details of which are given in note 16.

Derivative financial instruments

The following table details the amounts due in respect of the group's derivative financial instruments. These arise under the cross currency interest rate swaps ("CCIRS") described in note 27. The cash flows are settled gross and, therefore, the table takes no account of sterling receipts under the CCIRS.

	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
At 31 December 2013	5,721	59,857	–	65,578
At 31 December 2012	7,197	7,138	75,798	90,133

Fair value of financial instruments

The table below provides an analysis of the book values and fair values of financial instruments, excluding receivables and trade payables and Indonesian coal interests, as at the balance sheet date. All financial instruments are classified as level 1 in the fair value hierarchy prescribed by IFRS 7 "Financial instruments: disclosures" other than the cross currency interest rate swaps and the preference shares issued by a subsidiary that are classified as levels 2 and 3 respectively. No reclassifications between levels in the fair value hierarchy were made during 2013 (2012: none).

	2013 Book value $'000	2013 Fair value $'000	2012 Book value $'000	2012 Fair value $'000
Cash and deposits*	34,574	34,574	26,393	26,393
Bank debt - within one year*	(35,033)	(35,033)	(1,000)	(1,000)
Bank debt - after more than one year*	(62,281)	(62,281)	(51,194)	(51,194)
Preference shares issued by a subsidiary	(38)	–	(54)	–
US dollar notes**	(39,432)	(40,274)	(48,698)	(48,813)
Sterling notes**	(55,708)	(55,285)	(54,279)	(59,233)
Cross currency interest rate swaps – hedge against principal liabilities	(6,454)	(6,454)	(8,311)	(8,311)
Net debt and related engagements	(164,372)	(164,753)	(137,143)	(142,158)
Cross currency interest rate swaps – hedge against interest liabilities	(1,438)	(1,438)	(2,416)	(2,416)
Cross currency interest rate swaps – not designated as hedge	–	–	(894)	(894)
	(165,810)	(166,191)	(140,453)	(145,468)

* bearing interest at floating rates
** bearing interest at fixed rates

22. Financial instruments - continued

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

The book value of the preference shares issued by a subsidiary is net of the investment held by the company (see note 26). The fair value of the preference shares issued by a subsidiary has been estimated by the directors on the basis of their assessment of the probability of the shares becoming redeemable on 31 December 2014 in accordance with their terms and of the redemption value then applicable discounted for the period from the balance sheet date to 31 December 2014.

The fair value of the CCIRS has been derived by a discounted cash flow analysis using quoted foreign forward exchange rates and yield curves derived from quoted interest rates with maturities corresponding to the applicable cash flows. The valuation of the CCIRS at 31 December 2013 at fair value resulted in a gain of $1,876,000 (2012: loss of $11,622,000) which has been dealt with through the consolidated income statement.

A 50 basis points movement in the spread between the assumed yield curves for pounds sterling and the US dollar would increase or decrease the valuation by approximately $600,000 (2012: $1,192,000).

23. Bank loans

	2013 $'000	2012 $'000
Bank loans	97,314	52,194
The bank loans are repayable as follows:		
On demand or within one year	35,033	1,000
Between one and two years	8,785	17,714
After two years	53,496	33,480
	97,314	52,194
Amount due for settlement within 12 months (shown under current liabilities)	35,033	1,000
Amount due for settlement after 12 months	62,281	51,194
	97,314	52,194

All bank loans are denominated in either US dollars ($68.6 million – 2012: $16.0 million) or Indonesian rupiahs ($28.7 million – 2012: $36.2 million) and are at floating rates, thus exposing the group to interest rate risk. The weighted average interest rate in 2013 was 8.4 per cent (2012: 9.9 per cent). Bank loans of $67,314,000 (2012: $37,194,000) are secured on the land, plantations, property, plant and equipment owned by PT REA Kaltim Plantations ("REA Kaltim") and PT Sasana Yudha Bhakti ("SYB"), having an aggregate book value of $235 million (2012: $121 million), and are the subject of an unsecured guarantee by the company and, in the case of the loan to SYB, REA Kaltim. The banks are entitled to have recourse to their security on usual banking terms.

At the balance sheet date, the group had undrawn US dollar denominated bank facilities of $6.4 million (2012: $9.0 million) and undrawn Indonesian rupiah denominated facilities of $12.4 million (2012: $nil).

24. Sterling notes

The sterling notes comprise £34.5 million (2012: £34.5 million) nominal of 9.5 per cent guaranteed sterling notes 2015/17 issued by the company's subsidiary, REA Finance B.V. The sterling notes are guaranteed by the company and another wholly owned subsidiary of the company, R.E.A. Services Limited ("REAS"), and are secured principally on unsecured loans made by REAS to Indonesian plantation operating subsidiaries of the company. Unless previously redeemed or purchased and cancelled by the issuer, the sterling notes are repayable in three equal instalments commencing on 31 December 2015. The nominal amount of sterling notes purchased and cancelled as at 31 December 2013 amounted to £2.5 million.

The repayment obligation in respect of the sterling notes of £34.5 million ($56.1 million) is carried in the balance sheet net of the unamortised balance of the note issuance costs and is partly hedged by forward foreign exchange contracts for the purchase of £29 million and for the sale of $54.1 million. Further details of these contracts are disclosed on note 27.

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

25. US dollar notes

The US dollar notes comprise $6.3 million (2012: $16 million) nominal of 7.5 per cent dollar notes 2012/14 ("2012/14 dollar notes") and $34.0 million (2012: $34.0 million) nominal of 7.5 per cent dollar notes 2017 ("2017 dollar notes") of the company, and are stated net of the unamortised balance of the note issuance costs.

During the year, the company purchased for cancellation $9.7 million nominal of the 2012/14 dollar notes at par plus accrued interest. At 31 December 2012, R.E.A. Services Limited, a subsidiary of the company, held $1.26 million nominal of the 2017 dollar notes. These were sold early in 2013 at their acquisition cost (see note 19).

The 2012/14 and 2017 dollar notes are unsecured obligations of the company. The 2012/14 dollar notes are repayable on 31 December 2014 and the 2017 dollar notes are repayable on 30 June 2017.

Pursuant to a placing agreement dated 28 January 2010 under which the company placed $15 million nominal of US dollar notes and the company's subsidiary, KCC Resources Limited, issued to placees 150,000 redeemable participating preference shares in the capital of KCC ("KCC preference shares"), the company granted to each placee a non-assignable option, exercisable on the occurrence of any one of certain events and on a basis relating to the number of KCC preference shares retained by the placee at the date of such occurrence, to require the company to purchase or procure the purchase of the US dollar notes acquired by the placee in the placing at a price equal to the aggregate of the nominal value of such notes and any interest accrued thereon up to the date of completion of the purchase. Such events include the disposal of a significant part of the group's coal business or a person or group of persons acting in concert obtaining the right to exercise more than 50 per cent of the votes that may generally be cast at a general meeting of the company. A holder of $25,000 nominal of 2012/14 dollar notes was entitled to benefit from this option at 31 December 2013.

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26. Preference shares issued by a subsidiary

On 11 February 2010 150,000 redeemable participating preference shares of $10 each were issued by KCC Resources Limited ("KCC preference shares"), a subsidiary undertaking of the company, fully paid, by way of a placing at par. The KCC preference shares provide a limited participation in the stone and coal interests of the company such that if those interests achieve an average annual level of earnings before interest, tax, depreciation and amortisation of $8 million over the four and a half year period from 1 January 2010 to 30 June 2014 (equivalent to $36 million for the full period), those persons who subscribed 7.5 per cent dollar notes 2012/14 of the company and KCC preference shares in a combined issue of those securities pursuant to a placing agreement dated 28 January 2010, and who retain their notes and shares until redeemed, will receive an overall compound return of 15 per cent per annum on their total investment. If the required level of earnings is not achieved, then, except in certain limited circumstances (such as divestment of all or a significant part of the stone and coal interests or a change in control of the company), no dividends or other distributions will be paid or made on the KCC preference shares and after 31 December 2014 such shares will be converted into valueless deferred shares.

At 31 December 2013 the company had acquired 149,550 KCC preference shares (2012: 146,050). Following conclusion by the directors that it is unlikely that the required level of earnings will be achieved, the KCC preference shares at 31 December 2012 and 2013 have been carried net of the company's holding.

27. Derivative financial instruments

At 31 December 2012, the group had outstanding three contracts providing in aggregate for the forward purchase of £37 million and sale of $68.6 million maturing in 2015 pursuant to the cross currency interest rate swaps ("CCIRS") entered into by the group to hedge the foreign currency exposure of the group arising from the interest and principal repayment obligations of its 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes").

The terms of the £8 million CCIRS included an option for either party to terminate the contract on 30 September 2013, pursuant to which the contract was closed out on that date at a cash cost to the group of $1.86 million and a charge to profit and loss in 2013 of $9,000.

Either party to the remaining two CCIRS contracts had or has the option to terminate as to £22 million on 14 February 2012 (not exercised), and as to £7 million on any of 24 October 2013 (not exercised), 2014 and 2015 on the basis that, upon such termination, the CCIRS will be closed out at prevailing market value calculated by reference to mid market interest and sterling US dollar exchange rates with no adjustment for specific credit risk.

At 31 December 2013 the remaining two CCIRS contracts provide in the aggregate for the forward purchase of £29 million and sale of $54.1 million, and are carried in the group balance sheet at their fair value, details of which are set out in note 22 under the caption "Fair value of financial instruments".

28. Deferred tax

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

Deferred tax assets/(liabilities)	Property, plant and equipment $'000	Biological assets $'000	Income/ expenses* $'000	Agricultural produce $'000	Tax losses $'000	Total inventory $'000
At 1 January 2012	(20,427)	(19,538)	4,751	(1,986)	1,606	(35,594)
(Charge)/credit to income for the year	(1,706)	(1,818)	(1,712)	1,420	1,371	(2,445)
Charge to equity for the year	–	–	(338)	–	–	(338)
Exchange differences**	83	–	83	–	(98)	68
At 31 December 2012	(22,050)	(21,356)	2,784	(566)	2,879	(38,309)
(Charge)/credit to income for the year	(2,400)	(2,361)	(11,412)	(137)	5,939	(10,371)
Charge to equity for the year	–	–	48	–	–	48
Exchange differences**	(682)	(14,574)	1,196	–	(1,197)	(15,257)
At 31 December 2013	(25,132)	(38,291)	(7,384)	(703)	7,621	(63,889)
Deferred tax assets	–	–	1,894	–	7,621	9,515
Deferred tax liabilities	(25,132)	(38,291)	(9,278)	(703)	–	(73,404)
At 31 December 2013	(25,132)	(38,291)	(7,384)	(703)	7,621	(63,889)
Deferred tax assets	17	–	3,167	–	2,879	6,063
Deferred tax liabilities	(22,067)	(21,356)	(383)	(566)	–	(44,372)
At 31 December 2012	(22,050)	(21,356)	2,784	(566)	2,879	(38,309)

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

** included in the consolidated statement of comprehensive income.

At the balance sheet date, the group had unused tax losses of $31.5 million (2012: $11.8 million) available to be applied against future profits. A deferred tax asset of $7,621,000 (2012: $2,879,000) has been recognised in respect of these losses, which are expected to used in the future based on the group's projections. A tax loss of $3.8 million incurred by the group's coal subsidiary in 2013 (2012: $5.6 million) has not been recognised.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was $7,651,000 (2012: $11,125,000). No liability has been recognised in respect of these differences because the group is in a position to control the reversal of the temporary differences and it is probable that such differences will not significantly reverse in the foreseeable future.

The timing difference of $23.1 million in respect of biological assets arises due to the recognition at their fair value in the group accounts, compared with their historic base cost in the local accounts of overseas subsidiaries. These temporary timing differences would reverse to the extent of any future reduction in their fair value.

Notes to the consolidated financial statements
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29. Other loans and payables

	2013 $'000	2012 $'000
Retirement benefit obligations (see note 38):		
UK	3,123	3,429
Indonesia	4,644	4,659
Other	108	274
	7,875	8,362
The amounts are repayable as follows:		
On demand or within one year (shown under current liabilities)	940	1,105
In the second year	801	1,473
In the third to fifth years inclusive	2,172	2,509
After five years	3,962	3,275
Amount due for settlement after 12 months	6,935	7,257
	7,875	8,362
Amounts of liabilities by currency:		
Sterling	3,165	3,523
US dollar	108	180
Indonesian rupiah	4,602	4,659
	7,875	8,362

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

30. Trade and other payables

	2013 $'000	2012 $'000
Trade purchases and ongoing costs	3,911	11,414
Customer deposits	566	585
Other tax and social security	4,817	4,464
Accruals	6,891	12,088
Other payables	723	1,500
	16,908	30,051

The average credit period taken on trade payables is 26 days (2012: 37 days).

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

31. Share capital

	2013 £'000	2012 £'000
Authorised (in pounds sterling):		
65,000,000 – 9 per cent cumulative preference shares of £1 each (2012: 50,000,000)	65,000	50,000
41,000,000 – ordinary shares of 25p each (2012: 41,000,000)	10,250	10,250
	75,250	60,250

31. Share capital - continued

Issued and fully paid (in US dollars):	2013 $'000	2012 $'000
52,105,116 – 9 per cent cumulative preference shares of £1 each (2012: 50,000,000)	86,410	83,007
35,085,269 – ordinary shares of 25p each (2012: 33,414,545)	15,200	14,558
4,967 – ordinary shares of 25p each held in treasury (2012: nil)	(36)	–
	101,574	97,565

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

Changes in share capital:

- on 10 May 2013, 1,670,724 ordinary shares were issued, fully paid, by way of a placing at £4.25 per share (nominal value £417,681; total consideration £7,100,000 – $10,903,000) to Mirabaud Pereire Nominees Limited; the middle market price at close of business on 3 May 2013 (being the date on which the terms of the issue were fixed) was £4.60
- on 25 October 2013, 2,105,116 9 per cent cumulative preference shares were issued, credited as fully paid, to ordinary shareholders by way of capitalisation of share premium account
- between 3 and 18 December 2013, 4,967 ordinary shares were purchased for treasury at an average price of £4.40 per share (total consideration £22,000 – $36,000).

32. Share premium account

	$'000
At 1 January 2012	21,771
Issue of new preference shares (cash and scrip)	(3,091)
At 31 December 2012	18,680
Correction to share premium	7
Issue of new ordinary shares (cash) and preference shares (scrip)	6,474
At 31 December 2013	25,161

Costs of $384,000 on the issue of ordinary shares (2012: $nil) were charged to the share premium account.

33. Translation reserve

	Hedging reserve $'000	Other reserve $'000	Total $'000
At 1 January 2012	(9,099)	(2,663)	(11,762)
Correction of previous accounting error	9,099	–	9,099
Exchange differences on translation of foreign operations	–	(2,064)	(2,064)
Attributable to non-controlling interests	–	(127)	(127)
At 31 December 2012	–	(4,854)	(4,854)
Exchange differences on translation of foreign operations	–	(12,341)	(12,341)
Tax relating to components of other comprehensive income	–	(15,257)	(15,257)
Attributable to non-controlling interests	–	(97)	(97)
At 31 December 2013	–	(32,549)	(32,549)

In 2012, the group corrected a previous accounting error transferring $9,099,000 from hedging reserve against retained earnings.

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34. Retained earnings

	2013 $'000	2012 $'000
Beginning of year	201,630	202,763
Correction of previous accounting error (note 33)	–	(9,099)
Profit for the year	5,334	11,342
Ordinary dividend paid	(3,739)	(3,376)
End of year	203,225	201,630

35. Non-controlling interests

	2013 $'000	2012 $'000
Beginning of year	2,009	2,234
Share of result for the year	(76)	(352)
Exchange translation differences	97	127
End of year	2,030	2,009

36. Reconciliation of operating profit to operating cash flows

	2013 $'000	2012 $'000
Operating profit	28,078	37,848
Depreciation of property, plant and equipment	9,482	6,162
(Increase)/ decrease in fair value of agricultural produce inventory	(548)	5,678
Amortisation of prepaid operating lease rentals	457	388
Amortisation of sterling and US dollar note issue expenses	778	645
Biological gain	(7,133)	(5,979)
Impairment loss	–	3,000
(Profit) / loss on disposal of property, plant and equipment	(20)	39
Operating cash flows before movements in working capital	31,094	47,781
Increase in inventories (excluding fair value movements)	(365)	(831)
(Increase) / decrease in receivables	(933)	2,070
(Decrease) / increase in payables	(10,162)	6,891
Exchange translation differences	(276)	(801)
Cash generated by operations	19,358	55,110
Taxes paid	(7,065)	(16,200)
Tax refund received	8	1,261
Interest paid	(11,537)	(7,701)
Net cash from operating activities	764	32,470

No additions to property, plant and equipment during the year were financed by new finance leases (2012: $nil).

37. Movement in net borrowings

	2013 $'000	2012 $'000
Change in net borrowings resulting from cash flows:		
Increase / (decrease) in cash and cash equivalents	9,013	(3,965)
Net increase in borrowings	(52,600)	(25,424)
	(43,587)	(29,389)
Issue of US dollar notes, net of amortisation of issue expenses	–	(33,593)
Redemption of US dollar notes, net of amortisation of issue expenses	9,344	18,355
Investments netted off against preference shares liability	–	(1,430)
Net sale and repurchase of US dollar notes	(1,238)	259
	(35,481)	(45,798)
Currency translation differences	(1,786)	2,156
Net borrowings at beginning of year	(128,832)	(85,190)
Net borrowings at end of year	(166,099)	(128,832)

38. Retirement benefit obligations

United Kingdom

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

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

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

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

Notes to the consolidated financial statements
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38. Retirement benefit obligations - continued

The normal contributions paid by the group in 2013 were £27,000 - $43,000 (2012: £17,000 - $27,000) and represented 36.4 per cent (2012: 23.4 per cent) of pensionable salaries; in addition, a discretionary contribution of £70,000 - $110,000 was made in 2013 (2012: £nil - $nil) to fund an inflation adjustment to pensions in payment relating to pre-1997 accrued entitlements (which would not otherwise have been subject to full indexation). The additional contribution applicable to the group's share of the recovery plan for 2013 was £396,000 - $624,000 (2012: £231,000 - $367,000). Under the valuation as at 31 December 2011 the normal contributions will increase to the rate of 36.4 per cent of pensionable salaries and the additional contribution will rise to £407,000 -$674,000 for 2014 and thereafter by 2.75 per cent per annum. A provision of £1,885,000 - $3,123,000 (2012: £2,109,000 - $3,429,000) for these additional contributions adjusted for the time value of money has been recognised under retirement benefit obligations (see note 29). The provision is remeasured at each year end to reflect the passage of time and the additional contributions that have been paid by the group. The resultant net (credit)/charge to administrative expenses relating to additional contributions to the Scheme pursuant to the recovery plan was as follows:

	2013 $'000	2012 $'000
Release of provision relating to additional contributions paid in the year	(352)	(367)
Additional contributions paid in the year	624	367
Additional provision arising from the 2011 actuarial valuation	–	1,439
Net charge / (credit) to administrative expenses (note 5)	272	1,439

The contributions by the group to fund the recovery plan represent approximately 45 per cent of the aggregate amounts to be paid by all participating employers towards such plan. There are no agreed allocations of any deficit on either the wind-up of the Scheme or on any participant's withdrawal from the Scheme.

The sensitivity of the deficit as at 31 December 2011 to variations in certain of the principal assumptions underlying the actuarial valuation as at that date is summarised below:

	Increase/(decrease) in deficit $'000
Increase in the post-retirement discount rate of 0.1%	(400)
Increase in inflation and all associated assumptions including salaries of 0.1%	310
Mortality base table 90% instead of 85%	(510)
Slower improvement in long term rate of mortality (1.25% instead of 1.5%)	(350)

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

The company has a contingent liability of $3.0 million (2012: $3.8 million) for additional contributions payable by other (non-group) employers in the Scheme; such liability will only arise if other (non-group) employers do not pay their contributions. There is no expectation of this at the present time and, therefore, no provision has been made.

Indonesia

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

	2013	2012
Discount rate	9.1%	6.3%
Salary increases per annum	6%	6%
Mortality table (Indonesia) (TM1)	111-2011	11-2009
Retirement age (years)	55	55
Disability rate (% of the mortality table)	10	10

38. Retirement benefit obligations - continued

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

	2013 $'000	2012 $'000
Balance at 1 January	4,659	4,260
Current service cost	838	846
Interest expense	298	327
Actuarial gain recognised in consolidated income statement	–	(2)
Actuarial loss recognised in statement of comprehensive income	123	–
Effect of curtailments	–	(52)
Effect of settlements	–	(20)
Exchange	(1,039)	(285)
Paid during the year	(277)	(415)
Balance at 31 December (see note 29)	4,602	4,659

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

	2013 $'000	2012 $'000
Current service cost	838	846
Interest expense	298	327
Actuarial gain	–	(2)
Effect of curtailments	–	(52)
	1,136	1,119
Amount included as additions to biological assets	(74)	(100)
	1,062	1,019

Unrecognised actuarial losses as at 31 December 2012 amounted to $512,000 and in 2013 form part of the movement in the statement of comprehensive income.

Estimated lump sum payments to Indonesian employees on retirement in 2014 are $103,000 (2013: $885,000).

39. Related party transactions

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

	2013 $'000	2012 $'000
Short term benefits	2,008	1,484
Post employment benefits	–	–
Other long term benefits	–	–
Termination benefits	–	–
Share based payments	–	–
	2,008	1,484

Notes to the consolidated financial statements
continued

40. Rates of exchange

	2013 Closing	2013 Average	2012 Closing	2012 Average
Indonesia rupiah to US dollar	12,189	10,494	9,670	9,392
US dollar to pound sterling	1.6563	1.57	1.6255	1.59

41. Events after the reporting period

An interim dividend of 3.5p per ordinary share in respect of the year ended 31 December 2013 was paid on 24 January 2014. In accordance with IAS 10 "Events after the reporting period" this dividend, amounting in aggregate to $2,036,000, has not been reflected in these financial statements.

On 4 April 2014, a subsidiary entered into a long-term secured credit facility of Indonesian rupiah 400 billion ($32.8 million) with PT Bank UOB Indonesia. Drawings under this facility are expected to take place once certain pre-conditions have been satisfied.

42. Resolution of competing rights over certain plantation areas

The fully titled land areas held by PT Sasana Yudha Bhakti ("SYB"), a plantation subsidiary of the company, include 3,557 hectares that are the subject of third party claims in respect of the rights to coal underneath such land. On 30 December 2011, SYB entered into a conditional settlement arrangement to resolve such claims. Under this agreement, SYB has agreed to swap the 3,557 hectares the subject of the claims for 9,097 hectares of fully titled land held by another company, PT Prasetia Utama ("PU"), the whole of the issued share capital of which is to be transferred to SYB. As a term of the settlement, SYB has also agreed to relinquish the 2,212 hectares in respect of which it holds a land allocation still subject to completion of titling (being land that is also subject to overlapping mineral rights).

The book value of the assets to be relinquished by SYB amounted as at 31 December 2013 to $8.7 million (2012: $8.8 million), comprising prepaid operating lease rentals of $2.7 million (2012: $2.8 million) and biological assets of $6.0 million (2012: $6.0 million). The arrangements are conditional, inter alia, upon the consent of the holders of the 9.5 per cent guaranteed sterling notes 2015/17 (see note 24) which was obtained on 14 March 2012.

During 2013, further progress was made in regard to satisfying other conditions. However, completion had been delayed by a need to obtain comfort as to the continuing validity of the land titles held by PU.

In February 2014 SYB reached an implementing agreement in respect of the agreed swap of land. This implementing agreement provides for a phased arrangement whereby blocks of PU land will be progressively developed with oil palm for SYB whilst the third party holding coal mining rights is progressively permitted to commence coal mining activities on blocks of land held by SYB. Once a critical mass of oil palm has been established on PU, the original swap agreement will be completed. This arrangement is designed to allow confirmation of the continuing validity of the land titles held by PU ahead of full completion of the swap agreement.

43. Contingent liabilities

In furtherance of Indonesian government policy which requires the owners of oil palm plantations to develop smallholder plantations, during 2009 and 2010 PT REA Kaltim Plantations ("REA Kaltim") and PT Sasana Yudha Bhakti ("SYB) , both subsidiaries of the company, entered into agreements with three cooperatives to develop and manage land owned by the cooperatives as oil palm plantations. To assist with the funding of such development, the cooperatives have concluded various long term loan agreements with Bank Pembangunan Daerah Kalimantan Timur ("Bank BPD"), a regional development bank, under which the cooperatives may borrow in aggregate up to Indonesian rupiah 157 billion ($12.9 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 sales proceeds.

As at 31 December 2013 the aggregate outstanding balances owing by the three cooperatives to Bank BPD amounted to Indonesian rupiah 111 billion ($9.1 million) (2012: Indonesian rupiah 101 billion - $10.5 million).

44. Operating lease commitments

The group leases office premises under operating leases in London, Jakarta, Samarinda and Singapore. These leases, which are renewable, run for periods of between 1 month and 50 months, and do not include contingent rentals, or options to purchase the properties.

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

	2013 $'000	2012 $'000
Within one year	380	356
In the second to fifth year inclusive	656	570
After five years	–	–
	1,036	926

Company balance sheet
as at 31 December 2013

	Note	31 December 2013 $'000	31 December 2012 $'000	1 January 2012 $'000
Non-current assets				
Investments	(iv)	261,958	235,836	207,923
Deferred tax assets	(v)	979	703	347
Total non-current assets		262,937	236,539	208,270
Current assets				
Trade and other receivables	(vi)	29,903	5,297	9,257
Cash		1,156	4,414	9,515
Total current assets		31,059	9,711	18,772
Total assets		293,996	246,250	227,042
Current liabilities				
Trade and other payables	(vii)	(5,986)	(12,716)	(17,952)
US dollar notes	(viii)	(5,964)	(658)	(4,527)
Total current liabilities		(11,950)	(13,374)	(22,479)
Non-current liabilities				
US dollar notes	(viii)	(33,472)	(48,126)	(29,617)
Amount owed to group undertaking	(ix)	(62,065)	(60,915)	(58,240)
Total non-current liabilities		(95,537)	(109,041)	(87,857)
Total liabilities		(104,487)	(122,415)	(110,336)
Net assets		186,509	123,835	116,706
Equity				
Share capital	(x)	101,574	97,565	87,939
Share premium account	(xi)	25,161	18,687	21,778
Exchange reserve	(xi)	(4,300)	(4,333)	(4,308)
Profit and loss account	(xi)	64,074	11,916	11,297
Total equity		186,509	123,835	116,706

Approved by the board on 28 April 2014 and signed on behalf of the board.

RICHARD M ROBINOW
Chairman

Company statement of changes in equity

for the year ended 31 December 2013

	Note	Share capital £'000	Share premium £'000	Exchange reserve £'000	Profit and loss £'000	Total £'000
At 1 January 2012 under UK GAAP		52,422	11,148	–	8,413	71,983

		$'000	$'000	$'000	$'000	$'000
Converted to dollars		87,939	21,778	(8,974)	11,297	112,040
Adjust to underlying dollars	(xix)	–	–	4,666	–	4,666
At 1 January 2012 under IFRS		87,939	21,778	(4,308)	11,297	116,706
Total comprehensive income	(xi)	–	–	–	10,708	10,708
Issue of new preference shares (cash)	(x)	6,389	146	–	–	6,535
Issue of new preference shares (scrip)	(xi)	3,237	(3,237)	–	–	–
Dividends to preference shareholders	(iii)	–	–	–	(6,713)	(6,713)
Dividends to ordinary shareholders	(iii)	–	–	–	(3,376)	(3,376)
Exchange adjustment deferred tax	(xi)	–	–	(25)	–	(25)
At 31 December 2012		97,565	18,687	(4,333)	11,916	123,835
Total comprehensive income	(xi)	–	–	–	63,188	63,188
Issue of new ordinary shares (cash)	(x)	641	9,878	–	–	10,519
Issue of new preference shares (scrip)	(xi)	3,404	(3,404)	–	–	–
Purchase of treasury shares	(x)	(36)	–	–	–	(36)
Dividends to preference shareholders	(iii)	–	–	–	(7,291)	(7,291)
Dividends to ordinary shareholders	(iii)	–	–	–	(3,739)	(3,739)
Exchange adjustment deferred tax	(xi)	–	–	33	–	33
At 31 December 2013		101,574	25,161	(4,300)	64,074	186,509

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

Company cash flow statement

for the year ended 31 December 2013

	Note	2013 $'000	2012 $'000
Net cash outflow from operating activities	(xiii)	(23,855)	(4,249)
Investing activities			
Interest received		3,248	549
Dividends and other distributions received from subsidiaries		86,433	12,825
Repayment of loans by subsidiary companies *		33,530	–
New loans made to subsidiary companies		(91,871)	(17,456)
Shares acquired in subsidiary companies		(16)	(16)
Further investment in Indonesian stone and coal interests		(1,615)	(7,589)
Net cash used in investing activities		29,709	(11,687)
Financing activities			
Preference dividends paid		(7,291)	(6,713)
Ordinary dividends paid		(3,739)	(3,376)
Proceeds of issue of ordinary shares		10,519	–
Proceeds of issue of preference shares		–	6,535
Purchase of treasury shares		(36)	–
Issue of US dollar notes, net of expenses		–	33,593
Redemption of US dollar notes		(9,678)	(19,000)
Net sale and repurchase of US dollar notes		1,238	(259)
Net cash from financing activities		(8,987)	10,780
Cash and cash equivalents			
Net decrease in cash and cash equivalents		(3,133)	(5,156)
Cash and cash equivalents at beginning of year		4,415	9,515
Effect of exchange rate changes		(126)	55
Cash and cash equivalents at end of year	(xii)	1,156	4,414

* Excluding amounts dealt with within "Further investment in Indonesian stone and coal interests"

Accounting policies (company)

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

Basis of accounting

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

In accordance with IFRS 1: First-time adoption of International Financial Reporting Standards a reconciliation of the company's equity as at 1 January 2012, the transition date, and as at 31 December 2012, the end of the latest period for which the company's financial statements were prepared in accordance with generally accepted accounting practice in the United Kingdom, is set out in note (xix). In addition, a cash flow statement for the company, as required by IFRS, is provided, together with comparatives for 2012.

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.

Investments

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

Foreign exchange

At the date of transition to IFRS, all balances of assets and liabilities denominated in currencies other than dollars have been translated into dollars at the rate of exchange on the date of transition except shares in subsidiaries and the components of equity which have been translated at historic exchange rates with the exception of retained earnings which have been translated at the average rates relating to the year in which they were retained. All subsequent transactions in foreign currencies are recorded at the rates of exchange at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. All exchange differences are included in the profit and loss account.

Financial risk

The company's financial risk is managed as part of the group's strategy and policies as discussed in note 22 to the consolidated financial statements.

Taxation

Current tax including UK corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is calculated on the liability method. Deferred tax is provided on a non discounted basis on timing and other differences which are expected to reverse, at the rate of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of timing differences can be deducted.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits.

Leases

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

Notes to the company financial statements

(i) Transition to IFRS

The company is required to determine its accounting policies under International Financial Reporting Standards (IFRS) and apply them retrospectively to establish its opening balance sheet under IFRS. The date of transition for the company is 1 January 2012, as required by IFRS.

(ii) Auditor's remuneration

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

(iii) Dividends

	2013 $'000	2012 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share	7,291	6,713
Ordinary dividends of 7p per share (2012: 6.5p per share)	3,739	3,376
	11,030	10,089

An interim dividend of 3.5p per ordinary share in respect of the year ended 31 December 2013 was paid on 24 January 2014. In accordance with IAS10 "Events after the reporting period", this dividend, amounting in aggregate to $2,036,000, has not been included in the 2013 financial statements.

(iv) Investments

	31 December 2013 $'000	31 December 2012 $'000	1 January 2012 $'000
Shares in subsidiaries	93,237	93,221	93,205
Loans	168,721	142,615	114,718
	261,958	235,836	207,923

The movements were as follows:

	Shares $'000	Loans $'000
At 1 January 2012	93,205	114,718
Additions to shares in subsidiaries and loans	16	27,897
At 31 December 2012	93,221	142,615
Additions to shares in subsidiaries and loans	16	26,106
At 31 December 2013	93,237	168,721

Shares in subsidiaries include an investment in KCC Resources Limited's redeemable participating preference shares of $10 each. 3,500 of these shares were purchased from the original placees in January 2013 at a cost of $16,000 representing a price of $4.59 per share (2012: 3,000 of these shares were purchased at a cost of $5.20 per share).

The principal subsidiaries at the year end, together with their countries of incorporation, are listed below. Details of UK dormant subsidiaries are not shown.

Subsidiary	Activity	Class of shares	Percentage owned
Makassar Investments Limited (Jersey)	Sub holding company	Ordinary	100
PT Cipta Davia Mandiri (Indonesia)	Plantation agriculture	Ordinary	95
PT Kartanegara Kumala Sakti (Indonesia)	Plantation agriculture	Ordinary	95
PT KCC Resources Indonesia (Indonesia)	Coal operations	Ordinary	95
PT Kutai Mitra Sejahtera (Indonesia)	Plantation agriculture	Ordinary	95
PT Persada Bangun Jaya (Indonesia)	Plantation agriculture	Ordinary	95
PT Putra Bongan Jaya (Indonesia)	Plantation agriculture	Ordinary	95
PT REA Kaltim Plantations (Indonesia)	Plantation agriculture	Ordinary	100
PT Sasana Yudha Bhakti (Indonesia)	Plantation agriculture	Ordinary	95
KCC Resources Limited	Group finance	Ordinary	100
KCC Resources Limited	Group finance	Preference	99.7
REA Finance B.V. (Netherlands)	Group finance	Ordinary	100
R.E.A. Services Limited (England and Wales)	Group finance and services	Ordinary	100
REA Services Private Limited (Singapore)	Group services	Ordinary	100

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

Covenants contained in credit agreements between certain of the company's plantation subsidiaries and banks restrict the amount of dividend that may be paid to the UK without the consent of the banks to certain proportions of the relevant subsidiaries' pre-tax profits. The directors do not consider that such restrictions will have any significant impact on the liquidity risk of the company.

A dormant UK subsidiary, Jentan Plantations Limited, company registration number 6662767, has taken advantage of the exemption pursuant to Companies Act 2006 s394A from preparing individual accounts.

(v) Deferred tax asset

	$'000
At 1 January 2012	347
Credit to income for the year	373
Effect of change in tax rate	(42)
Effect of exchange	25
At 31 December 2012	703
Credit to income for the year	342
Effect of change in tax rate	(93)
Effect of exchange	27
At 31 December 2013	979
Deferred tax assets	979
Deferred tax liabilities	–
At 31 December 2013	979
Deferred tax assets	703
Deferred tax liabilities	–
At 31 December 2012	703
Deferred tax assets	347
Deferred tax liabilities	–
At 1 January 2012	347

(v) Deferred tax asset (continued)

At the balance sheet date, the company had unused tax losses of $2.9 million (2012: $1.9 million) available to be applied against future profits. A deferred tax asset of $979,000 (2012: $703,000) has been recognised in respect of these losses as the company considers, based on financial projections, that these losses will be utilised.

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which tax liabilities have not been recognised are disclosed in note 28 to the consolidated financial statements.

(vi) Trade and other receivables

	31 December 2013 $'000	31 December 2012 $'000	1 January 2012 $'000
Trade debtors	37	754	–
Amount owing by group undertakings	29,319	3,995	9,201
Other debtors	542	548	6
Prepayments and accrued income	5	–	50
	29,903	5,297	9,257

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

(vii) Trade and other payables

	31 December 2013 $'000	31 December 2012 $'000	1 January 2012 $'000
Amount owing to group undertakings	5,616	12,407	17,765
Other creditors	125	32	33
Accruals	245	277	154
	5,986	12,716	17,952

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

(viii) US dollar notes

The US dollar notes comprise $6.3 million (2012: $16 million) nominal of 7.5 per cent dollar notes 2012/14 ("2012/14 dollar notes") and $34.0 million (2012: $34.0 million) nominal of 7.5 per cent dollar notes 2017 ("2017 dollar notes") of the company, and are stated net of the unamortised balance of the note issuance costs.

During the year, the company purchased for cancellation $9.7 million nominal of the 2012/14 dollar notes at par plus accrued interest. At 31 December 2012, R.E.A. Services Limited, a subsidiary of the company, held $1.26 million nominal of the 2017 dollar notes. These were sold early in 2013 at their acquisition cost (see note 19).

The 2012/14 and 2017 dollar notes are unsecured obligations of the company. The 2012/14 dollar notes are repayable on 31 December 2014 and the 2017 dollar notes are repayable on 30 June 2017.

Pursuant to a placing agreement dated 28 January 2010 under which the company placed $15 million nominal of US dollar notes and the company's subsidiary, KCC Resources Limited, issued to placees 150,000 redeemable participating preference shares in the capital of KCC ("KCC preference shares"), the company granted to each placee a non-assignable option, exercisable on the occurrence of any one of certain events and on a basis relating to the number of KCC preference shares retained by the placee at the date of such occurrence, to require the company to purchase or procure the purchase of the US dollar notes acquired by the placee in the placing at a price equal to the aggregate of the nominal value of such notes and any interest accrued thereon up to the date of completion of the purchase. Such events include the disposal of a significant part of the group's coal business or a person or group of persons acting in concert obtaining the right to exercise more than 50 per cent of the votes that may generally be cast at a general meeting of the company. A holder of $25,000 nominal of 2012/14 dollar notes was entitled to benefit from this option at 31 December 2013.

(ix) Amount owed to group undertaking

Amount owed to group undertaking comprises an unsecured interest-bearing loan from REA Finance BV, repayable in equal annual instalments commencing 31 December 2015.

(x) Share capital

	31 December 2013 £'000	31 December 2012 £'000	1 January 2012 £'000
Authorised (in pounds sterling):			
65,000,000 – 9 per cent cumulative preference shares of £1 each			
(31 December 2012: 50,000,000, 1 January 2012: 44,068,553)	65,000	50,000	44,069
41,000,000 – ordinary shares of 25p each			
(31 December 2012: 41,000,000, 1 January 2012: 33,414,545)	10,250	10,250	8,354
	75,250	60,250	52,422
	$'000	$'000	$'000
Issued and fully paid (in US dollars):			
52,105,116 – 9 per cent cumulative preference shares of £1 each			
(31 December 2012: 50,000,000, 1 January 2012: 44,068,553)	86,410	83,007	73,382
35,085,269 – ordinary shares of 25p each			
(31 December 2012: 33,414,545, 1 January 2012: 33,414,545)	15,200	14,558	14,557
4,967 – ordinary shares of 25p each held in treasury			
(31 December 2012: none, 1 January 2012: none)	(36)	–	–
	101,574	97,565	87,939

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

At an extraordinary general meeting of the company held on 11 June 2013 shareholders approved resolutions for the company to make purchases of its own shares up to a maximum of 5 million ordinary shares of 25 pence each, to be held in treasury, and to resell such shares for cash, provided that the maximum number of ordinary shares that may be held in treasury at any one time is 400,000. The resolutions remain valid until the conclusion of the annual general meeting to be held in 2014, or, if earlier, 30 November 2014. As at 31 December 2013 the company held in treasury 4,967 (31 December 2012: nil, at 1 January 2012: nil) ordinary shares at a cost of $36,000 (31 December 2012: $nil, 1 January 2012: $nil).

Changes in share capital:

- on 10 May 2013, 1,670,724 ordinary shares were issued, fully paid, by way of a placing at £4.25 per share (nominal value £417,681; total consideration £7,100,000 – $10,903,000) to Mirabaud Pereire Nominees Limited; the middle market price at close of business on 3 May 2013 (being the date on which the terms of the issue were fixed) was £4.60

- on 25 October 2013, 2,105,116 9 per cent cumulative preference shares were issued, credited as fully paid, to ordinary shareholders by way of capitalisation of share premium account

- between 3 and 18 December 2013, 4,967 ordinary shares were purchased for treasury at an average price of £4.40 per share (total consideration £22,000 – $36,000).

Notes to the company financial statements (continued)

(xi) Movement in reserves

	Share premium account $'000	Exchange reserve $'000	Profit and loss account $'000
At 1 January 2012	21,778	(4,308)	11,297
Total comprehensive income	–	–	10,708
Dividends to preference shareholders	–	–	(6,713)
Dividends to ordinary shareholders	–	–	(3,376)
Issue of preference shares (scrip)	(3,237)	–	–
Issue of preference shares (cash)	319	–	–
Costs of issues	(173)	–	–
Exchange adjustment deferred tax	–	(25)	–
At 31 December 2012	18,687	(4,333)	11,916
At 1 January 2013	18,687	(4,333)	11,916
Total comprehensive income	–	–	63,188
Dividends to preference shareholders	–	–	(7,291)
Dividends to ordinary shareholders	–	–	(3,739)
Issue of ordinary shares (cash)	10,262	–	–
Issue of preference shares (scrip)	(3,404)	–	–
Costs of issues	(384)	–	–
Exchange adjustment deferred tax	–	33	–
At 31 December 2013	25,161	(4,300)	64,074

As permitted by section 408 of the Companies Act 2006, a separate profit and loss account dealing with the results of the company has not been presented. The profit before dividends recognised in the company's profit and loss account for the year is $63.2 million (2012: profit $10.7 million).

(xii) Financial instruments and risks

Financial instruments

The company's financial instruments comprise borrowings, cash and liquid resources and in addition certain debtors and trade creditors that arise from its operations. The main purpose of these financial instruments is to raise finance for, and facilitate the conduct of, the company's operations. The hierarchy for determining and disclosing the fair value of financial instruments is set out in note 22 to the consolidated financial statements. The table below provides an analysis of the book and fair values of financial instruments excluding debtors and creditors at balance sheet date.

	31 December 2013 Book value $'000	31 December 2013 Fair value $'000	31 December 2012 Book value $'000	31 December 2012 Fair value $'000	1 January 2012 Book value $'000	1 January 2012 Fair value $'000
Cash and cash equivalents	1,156	1,156	4,415	4,415	9,515	9,515
US dollar notes	(39,436)	(40,274)	(48,783)	(48,813)	(34,144)	(35,000)
Net debt	(38,280)	(39,118)	(44,368)	(44,398)	(24,629)	(25,485)

The fair value of the US dollar notes reflects the last price at which transactions in those notes were effected prior to the balance sheet dates.

Risks

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

The company finances its operations through a mixture of share capital, retained profits, borrowings in US dollars at fixed rates and credit from suppliers. At 31 December 2013, the company had outstanding US$6.3 million nominal (2012: $16 million) of 7.5 per cent dollar notes 2012/14 and US$34 million nominal (2012: $34 million) of 7.5 per cent dollar notes 2017.

The policy for liquidity risk management is disclosed in note 22 to the consolidated financial statements together with the contractual maturity of the company's dollar notes.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The directors consider that the company is not exposed to any major concentrations of credit risk. At 31 December 2013, all bank deposits were held with banks with a Moody's prime rating of P1. At the balance sheet date, no trade receivables were past their due dates, nor were any impaired; accordingly no bad debt provisions were required. The maximum credit risk exposures in respect of the company's financial assets at 31 December 2013 and 31 December 2012 equal the amounts reported under the corresponding balance sheet headings.

A limited degree of interest rate risk is accepted. A substantial proportion of the company's financial instruments at 31 December 2013 carried interest at fixed rates rather than floating rates. On the basis of the company's analysis, it is estimated that a rise of one percentage point in interest rates applied to those financial instruments which carry interest at floating rates would have resulted in an increase of $nil (2012: $nil) in the company's interest revenues in its profit and loss account.

Non-derivative financial instruments

The following table details the contractual maturity of the group's non-derivative financial liabilities. The table has 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.

2013	Weighted average interest rate %	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
US dollar notes	8.5	9,335	2,551	37,837	49,723
2012					
US dollar notes	8.5	4,739	18,676	40,388	63,803

(xiii) Reconciliation of operating profit to operating cash flows

	2013 $'000	2012 $'000
Operating loss	(414)	(705)
Amortisation of US dollar note issue expenses	331	473
Operating cash outflows before movements in working capital	(83)	(232)
(Increase) / decrease in receivables	(13,800)	3,978
Increase in payables	69	478
Exchange translation differences	(57)	277
Cash (outflow) / inflow from operations	(13,871)	4,501
Taxes paid	(481)	(192)
Interest paid	(9,503)	(8,558)
Net cash outflow from operating activities	(23,855)	(4,249)

Notes to the company financial statements (continued)

(xiv) 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.

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

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

There are no agreed allocations of any deficit 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 2014.

The subsidiary company that is a participating employer and other participating employers in the scheme have entered into an agreement with the Scheme to make special contributions to the Scheme to cover the deficit shown by the 31 December 2011 valuation. The company made no payments to the Scheme in 2013 (2012: $nil). The company has a contingent liability for special contributions payable by other participating employers in the Scheme; such liability will only arise if such other participating employers do not pay their contributions. There is no expectation of this at the present time and, therefore, no provision has been made by the company.

(xv) Related party transactions

Loans to subsidiaries	31 December 2013 $'000	31 December 2012 $'000	1 January 2012 $'000
Adara Agriculture Limited	–	2,051	1,954
PT Cipta Davia Mandiri	14,820	–	–
Cairnhill Investments Limited	–	11,380	11,380
PT KCC Resources Limited	12,935	41,280	33,691
Kutai Plantations Limited	–	1,987	1,987
Makassar Investments Limited	425	425	425
REA Finance BV	4,074	3,999	3,823
PT REA Kaltim Plantations	79,388	–	–
R.E.A. Services Limited	25,631	73,915	58,240
Rengat Investments Limited	–	4,358	–
Sandan Investments Limited	–	3,218	3,218
	137,273	142,613	114,718

Dividends received from subsidiaries	2013 $'000	2012 $'000
Cairnhill Investments Limited	7,548	–
Kutai Plantations Limited	34,677	–
Makassar Investments Limited	8,080	12,825
REA Finance BV	247	–
R.E.A. Services Limited	6,346	7,221
Rengat Investments Limited	8,375	–
Sandan Investments Limited	6,621	–
	71,894	20,046

Interest received from subsidiaries	2013 $'000	2012 $'000
PT Cipta Davia Mandiri	18	–
REA Finance BV	332	331
PT REA Kaltim Plantations	2,637	–
	2,987	331

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".

	2013 $'000	2012 $'000
Short term benefits	2,008	1,484
Post employment benefits	–	–
Other long term benefits	–	–
Termination benefits	–	–
Share based payments	–	–
	2,008	1,484

Notes to the company financial statements (continued)

(xvi) Rates of exchange

See note 40 to the consolidated financial statements.

(xvii) Contingent liabilities and commitments

Sterling notes

The company has guaranteed the obligations for both principal and interest relating to the outstanding £34.54 million nominal (2012: £34.54 million) 9.5 per cent guaranteed sterling notes 2015/17 issued by REA Finance B.V.. The directors consider the risk of loss to the company from this guarantee to be remote.

Bank borrowings

The company has given, in the ordinary course of business, guarantees in support of the subsidiary company borrowings from, and other contracts with, banks (including cross currency interest rate swaps) amounting in aggregate to $97 million (2012: $52 million). The directors consider the risk of loss to the company from these guarantees to be remote.

Pension liability

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

Operating leases

The company has an annual commitment under an operating lease of $184,000 (2012: $180,000). The commitment expires after two years. The lease does not contain any contingent rentals or an option to purchase the property.

(xviii) Post balance sheet event

An interim dividend of 3.5p per ordinary share in respect of the year ended 31 December 2013 was paid on 24 January 2014. In accordance with IAS 10 “Events after the reporting period” this dividend, amounting in aggregate to $2,036,000, has not been reflected in these financial statements.

(xix) Reconciliations between UK GAAP and IFRS

The following tables provide reconciliations of the IFRS balance sheets as at 1 January 2012 and 31 December 2012 against the former UK GAAP balance sheets as at those dates. Reasons for the adjustments reflected in the reconciliations are provided in "Notes to the reconciliations below".

Reconciliation of equity as at 1 January 2012	UK GAAP £'000	(a) Reverse hedge accounting £'000	Adjusted £'000	(b) Converted to dollars at transition rate $'000	(c) Adjust to underlying dollars $'000	IFRS $'000
Non-current assets						
Investments	130,678	(1,595)	129,083	200,778	7,145	207,923
Deferred tax assets	223	–	223	347		347
Total non-current assets	130,901	(1,595)	129,306	201,125	7,145	208,270
Current assets						
Trade and other receivables	5,957	–	5,957	9,257	–	9,257
Cash	6,122	–	6,122	9,515	–	9,515
Total current assets	12,079	–	12,079	18,772	–	18,772
Total assets	142,980	(1,595)	141,385	219,897	7,145	227,042
Current liabilities						
Trade and other payables	(11,552)	–	(11,552)	(17,952)	–	(17,952)
US dollar notes	(2,913)	21	(2,892)	(4,495)	(32)	(4,527)
Total current liabilities	(14,465)	21	(14,444)	(22,447)	(32)	(22,479)
Non-current liabilities						
US dollar notes	(19,057)	1,574	(17,483)	(27,170)	(2,447)	(29,617)
Amount owing to group undertaking	(37,475)	–	(37,475)	(58,240)	–	(58,240)
Total non-current liabilities	(56,532)	1,574	(54,958)	(85,410)	(2,447)	(87,857)
Total liabilities	(70,997)	1,595	(69,402)	(107,857)	(2,479)	(110,336)
Net assets	71,983	–	71,983	112,040	4,666	116,706
Equity						
Share capital	52,422	–	52,422	87,939	–	87,939
Share premium account	11,148	–	11,148	21,778	–	21,778
Exchange reserve	–	–	–	(8,974)	4,666	(4,308)
Profit and loss account	8,413	–	8,413	11,297	–	11,297
Total equity	71,983	–	71,983	112,040	4,666	116,706

Notes to the company financial statements (continued)

Reconciliation of equity as at 31 December 2012	UK GAAP £'000	(d) Reverse hedge accounting £'000	Adjusted £'000	(e) Converted to dollars $'000	(f) Adjust to underlying dollars $'000	IFRS $'000
Non-current assets						
Investments	145,166	(408)	144,758	233,214	2,622	235,836
Deferred tax assets	432	–	432	703	–	703
Total non-current assets	145,598	(408)	145,190	233,917	2,622	236,539
Current assets						
Debtors	3,258	–	3,258	5,297	–	5,297
Cash	2,716	–	2,716	4,414	–	4,414
Total current assets	5,974	–	5,974	9,711	–	9,711
Total assets	151,572	(408)	151,164	243,628	2,622	246,250
Current liabilities						
Trade and other payables	(7,823)	–	(7,823)	(12,716)	–	(12,716)
US dollar notes	(425)	–	(425)	(658)	–	(658)
Total current liabilities	(8,248)	–	(8,248)	(13,374)	–	(13,374)
Non-current liabilities						
US dollar notes	(29,569)	408	(29,161)	(47,462)	(664)	(48,126)
Borrowings	(37,475)	–	(37,475)	(60,915)	–	(60,915)
Total non-current liabilities	(67,044)	408	(66,636)	(108,377)	(664)	(109,041)
Total liabilities	(75,292)	408	(74,884)	(121,751)	(664)	(122,415)
Net assets	76,280	–	76,280	121,877	1,958	123,835
Equity						
Share capital	58,353	–	58,353	97,565	–	97,565
Share premium account	9,233	–	9,233	18,687	–	18,687
Exchange reserve	–	–	–	(6,291)	1,958	(4,333)
Profit and loss account	8,694	–	8,694	11,916	–	11,916
Total equity	76,280	–	76,280	121,877	1,958	123,835

Notes to the reconciliations

The directors have determined that the functional currency of the company is the US dollar and any translation from currencies other than the dollar is made in accordance with the accounting policy on foreign exchange. In addition, any change in accounting policy necessitated by the change to IFRS has been reflected in the reconciliations.

Balance sheet as at 1 January 2012

a. The application of the previous UK GAAP accounting policy whereby differences arising on the translation of foreign currency borrowings were offset against those arising on an equivalent amount of investment in the equity of, or loans to, foreign subsidiaries and taken to reserves, is reversed.

b. The adjusted sterling balance sheet of the company has been translated at the date of transition to dollars at the rate of £1=$1.5541 (the transition rate of exchange) with the exception of non-monetary assets and the components of equity which are translated as set out in the accounting policy on foreign exchange.

c. All assets and liabilities denominated in dollars are then adjusted to reflect the underlying currency balances.

Balance sheet as at 31 December 2012

d. As (a) above.

e. The adjusted sterling balance sheet of the company has been translated at 31 December 2012 to dollars at the rate of £1=$1.6255 with the exception of non-monetary assets and the components of equity which are translated as set out in the accounting policy on foreign exchange.

f. As (c) 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 ordinary shares in R.E.A. Holdings plc, please forward this document and the accompanying form of proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Notice is hereby given that the fifty-fourth annual general meeting of R.E.A. Holdings plc will be held at the London office of Ashurst LLP at Broadwalk House, 5 Appold Street, London EC2A 2HA on 12 June 2014 at 10.00 am to consider and, if thought fit, to pass the following resolutions. Resolutions 11 and 13 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 2013, together with the accompanying statements and reports including the auditor's report.

2. To approve the directors' remuneration report for the financial year ended 31 December 2013 (other than directors' remuneration policy component of the report which is to be dealt with by resolution 3 set out in the notice of the 2014 annual general meeting.

3. To approve the directors' remuneration policy to take effect from 1 January 2015.

4. To declare a final dividend in respect of the year ended 31 December 2013 of 3¾p per ordinary share to be paid on 25 July 2014 to ordinary shareholders on the register of members at the close of business on 4 July 2014.

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

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

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

8. That, conditional upon the passing of resolution 11 set out in the notice of the 2014 annual general meeting , the company is generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of any of its ordinary shares on such terms and in such manner as the directors may from time to time determine provided that:

   (a) the maximum number of ordinary shares which may be purchased is 5,000,000 ordinary shares;

   (b) the minimum price (exclusive of expenses, if any) that may be paid for each ordinary share is £1.00;

   (c) the maximum price (exclusive of expenses, if any) that may be paid for each ordinary share is an amount equal to the higher of: (i) 105 per cent of the average of the middle market quotations for the ordinary shares in the capital of the company as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which such share is contracted to be purchased and (ii) that stipulated by article 5(1) of the EU Buyback and Stabilisation Regulation 2003 (No. 2273/2003); and

   (d) unless previously renewed, revoked or varied, this authority shall expire at the conclusion of the annual general meeting of the company to be held in 2015 (or, if earlier, on 30 June 2015)

   provided further that:

   (i) notwithstanding the provisions of paragraph (a) above, the maximum number of ordinary shares that may be bought back and held in treasury at any one time is 400,000 ordinary shares; and

   (ii) notwithstanding the provisions of paragraph (d) above, the company may, before this authority expires, make a contract to purchase ordinary shares that would or might be executed wholly or partly after the expiry of this authority, and may make purchases of ordinary shares pursuant to it as if this authority had not expired.

9. That the directors be and are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the company to allot, and to grant rights to subscribe for or to convert any security into, shares in the capital of the company (other than 9 per cent cumulative preference shares) up to an aggregate nominal amount (within the meaning of sub-sections (3) and (6) of section 551 of the Act) of £1,478,682.75; such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2015), 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.

10. 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 £12,894,884; such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2015), 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.

11. That the directors be and are hereby given power:

(a) for the purposes of section 570 of the Companies Act 2006 (the "Act") and subject to the passing of resolution 9 set out in the notice of the 2014 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 10; and

(b) for the purposes of section 573 of the Act, to sell ordinary shares (as defined in sub-section (1) of section 560 of the Act) in the capital of the company held by the company as treasury shares for cash

as if section 561 of the Act did not apply to the allotment or sale, provided that such powers shall be limited:

(i) to the allotment of equity securities for cash in connection with a rights issue or open offer in favour of holders of ordinary shares and to the sale of treasury shares by way of an invitation made by way of rights to holders of ordinary shares, in each case in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them on the record date for participation in the rights issue, open offer or invitation (and holders of any other class of equity securities entitled to participate therein or, if the directors consider it necessary, as permitted by the rights of those securities) but subject in each case to such exclusions or other arrangements as the directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares (other than treasury shares being sold), record dates or legal, regulatory or practical difficulties which may arise under the laws of any territory or the requirements of any regulatory body or stock exchange in any territory whatsoever; and

(ii) otherwise than as specified at paragraph (i) of this resolution, to the allotment of equity securities and the sale of treasury shares up to an aggregate nominal amount (calculated, in the case of the grant of rights to subscribe for, or convert any security into, shares in the capital of the company, in accordance with sub-section (6) of section 551 of the Act) of £438,565

and shall expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2015), 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.

12. To authorise the directors to increase the fees for services of each director from £25,000 per annum as currently provided in the company's articles of association up to an amount not exceeding £30,000 per annum, such fees being exclusive of any amounts payable under other provisions of the articles.

13. 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
28 April 2014

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

Registered in England and Wales no: 00671099

Notice of annual general meeting
continued

Notes

The sections of the accompanying Directors' report entitled "Results and dividends", "Directors", "Acquisition of company's own shares", "Increase in share capital", "Authorities to allot share capital", "Authority to disapply pre-emption rights", "General meeting notice period" and "Recommendation" contain information regarding, and recommendations by the board of the company as to voting on, resolutions 5 and 8 to 13 set out above in this notice of the 2014 annual general meeting of the company (the "2014 Notice").

The company specifies that in order to have the right to attend and vote at the annual general meeting (and also for the purpose of determining how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the company at 6.00 pm on 10 June 2014 or, in the event of any adjournment, at 6.00 pm on the date which is two days before the day of the adjourned meeting. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Only holders of ordinary shares are entitled to attend and vote at the annual general meeting. A holder of ordinary shares may appoint another person as that holder's proxy to exercise all or any of the holder's rights to attend, speak and vote at the annual general meeting. A holder of ordinary shares may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to (a) different share(s) held by the holder. A proxy need not be a member of the company. A form of proxy for the meeting is enclosed. To be valid, forms of proxy and other written instruments appointing a proxy must be received by post or by hand (during normal business hours only) by the company's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU by no later than 10.00 am on 10 June 2014.

Alternatively, appointment of a proxy may be submitted electronically by using either Capita's share portal at www.capitashareportal.com (and so that the appointment is received by the service by no later than 10.00 am on 10 June 2014) or the CREST electronic proxy appointment service as described below. Shareholders who have not already registered for Capita's share portal may do so by registering as a new user at www.capitashareportal.com and giving the investor code shown on the enclosed proxy form (as also shown on their share certificate). Completion of a form of proxy, or other written instrument appointing a proxy, or any appointment of a proxy submitted electronically, will not preclude a holder of ordinary shares from attending and voting in person at the annual general meeting if such holder wishes to do so.

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

In order for a proxy appointment or instruction regarding a proxy appointment made or given using the CREST service to be valid, the appropriate CREST message (a "CREST proxy instruction") must be properly authenticated in accordance with the specifications of Euroclear UK and Ireland Limited ("Euroclear") and must contain the required information as described in the CREST Manual (available via www.euroclear.com/CREST). The CREST proxy instruction, regardless of whether it constitutes a proxy appointment or an instruction to amend a previous proxy appointment, must, in order to be valid be transmitted so as to be received by the company's registrars (ID: RA10) by 10.00 am on 10 June 2014. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST applications host) from which the company's registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear does not make available special procedures in CREST for particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that such member's CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The rights of members in relation to the appointment of proxies described above do not apply to persons nominated under section 146 of the Companies Act 2006 to enjoy information rights ("nominated persons") but a nominated person may have a right, under an agreement with the member by whom such person was nominated, to be appointed (or to have someone else appointed) as a proxy for the annual general meeting. If a nominated person has no such right or does not wish to exercise it, such person may have a right, under such an agreement, to give instructions to the member as to the exercise of voting rights.

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

Any member attending the annual general meeting has the right to ask questions. The company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the company or the good order of the meeting that the question be answered.

Copies of the executive directors' service agreements and letters setting out the terms and conditions of appointment of non-executive directors are available for inspection at the company's registered office during normal business hours from the date of this 2014 Notice until the close of the annual general meeting (Saturdays, Sundays and public holidays excepted) and will be available for inspection at the place of the annual general meeting for at least 15 minutes prior to and during the meeting.

A copy of this 2014 Notice, and other information required by section 311A of the Companies Act 2006, may be found on the company's website www.rea.co.uk.

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

As at the date of this 2014 Notice, the issued share capital of the company comprises 35,085,269 ordinary shares, of which 6,950 are held as treasury shares, and 52,105,116 9 per cent cumulative preference shares. Only holders of ordinary shares (and their proxies) are entitled to attend and vote at the annual general meeting. Accordingly, the voting rights attaching to shares of the company exercisable in respect of each of the resolutions to be proposed at the annual general meeting total 35,085,269 as at the date of this 2014 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 2014 Notice (or any other related document including the form of proxy) to communicate with the company for any purposes other than those expressly stated.

Under section 338 and section 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the company (i) to give, to members of the company entitled to receive notice of the annual general meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the company not later than the date 6 clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

Officers and Advisers

Directors

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J C Oakley
M A Parry
D J Blackett
I Chia
D H R Killick

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