R.E.A. HOLDINGS PLC - ANNUAL REPORT
2009

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00671099 (England and Wales)

Contents

Officers and professional advisers 2
Maps showing plantation areas 3
Summary of results 4
Key statistics 5
Chairman's statement 7
Review of the group 15
Directors 51
Directors' report 53
Corporate governance 60
Directors' remuneration report 66
Directors' responsibilities 71
Directors' confirmation 72
Auditors' report (group) 73
Consolidated income statement 75
Consolidated balance sheet 76
Consolidated statement of comprehensive income 77
Consolidated statement of changes in equity 77
Consolidated cash flow statement 78
Accounting policies (group) 79
Notes to the consolidated financial statements 85
Auditors' report (company) 109
Company balance sheet 111
Movement in total shareholders' funds 112
Statement of total recognised gains and losses 112
Accounting policies (company) 113
Notes to the company financial statements 114
Notice of annual general meeting 121

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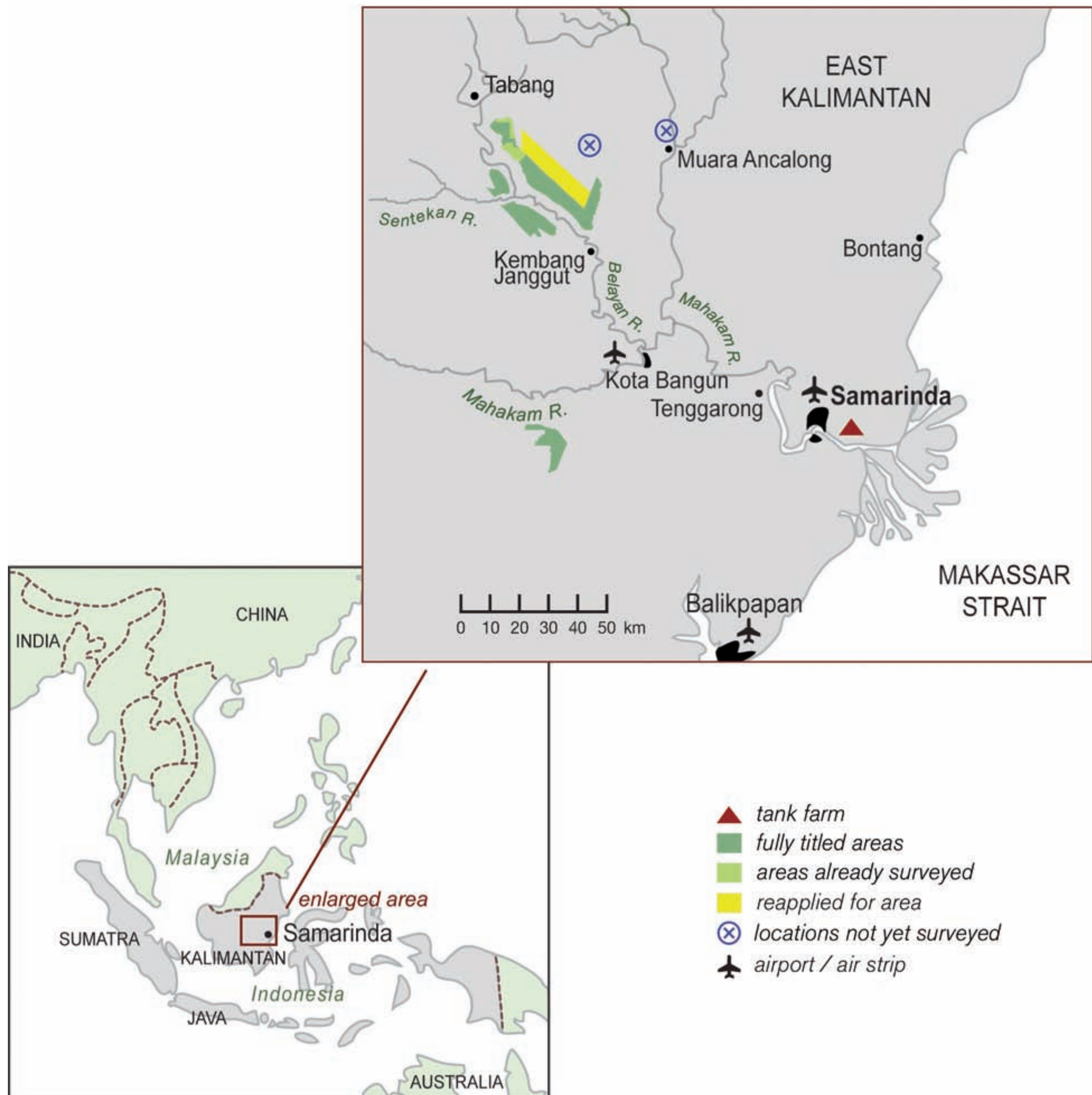
Maps showing plantation areas



Summary of results

for the year ended 31 December 2009

	2009 $'000	2008 $'000	Change %
Revenue	78,885	79,630	- 1
Earnings before interest, tax, depreciation, amortisation and biological gain [1]	41,290	45,700	- 10
Profit before tax	41,717	36,309	+ 15
Profit for the year	29,856	25,773	+ 16
Profit attributable to ordinary shareholders	27,119	23,833	+ 14
Cash generated by operations [2]	38,829	50,896	- 24
Earnings per ordinary share (diluted) in US cents	81.4	71.5	+ 14
Dividend per ordinary share in pence [3]	4.0	3.0	+ 33

Average exchange rates	2009	2008	2007	2006	2005
Indonesian rupiah to US dollar	10,356	9,757	9,166	9,129	9,756
US dollar to pound sterling	1.56	1.84	2.01	1.86	1.82

1. See note 5 to consolidated financial statements
2. See note 35 to consolidated financial statements
3. Paid in respect of the year

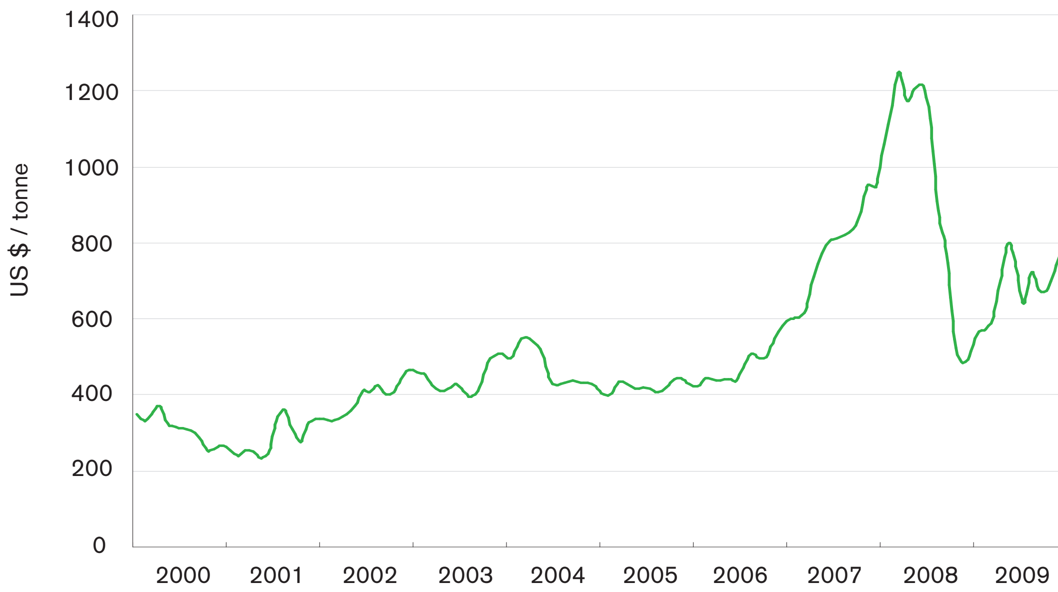
Key statistics

for the year ended 31 December 2009

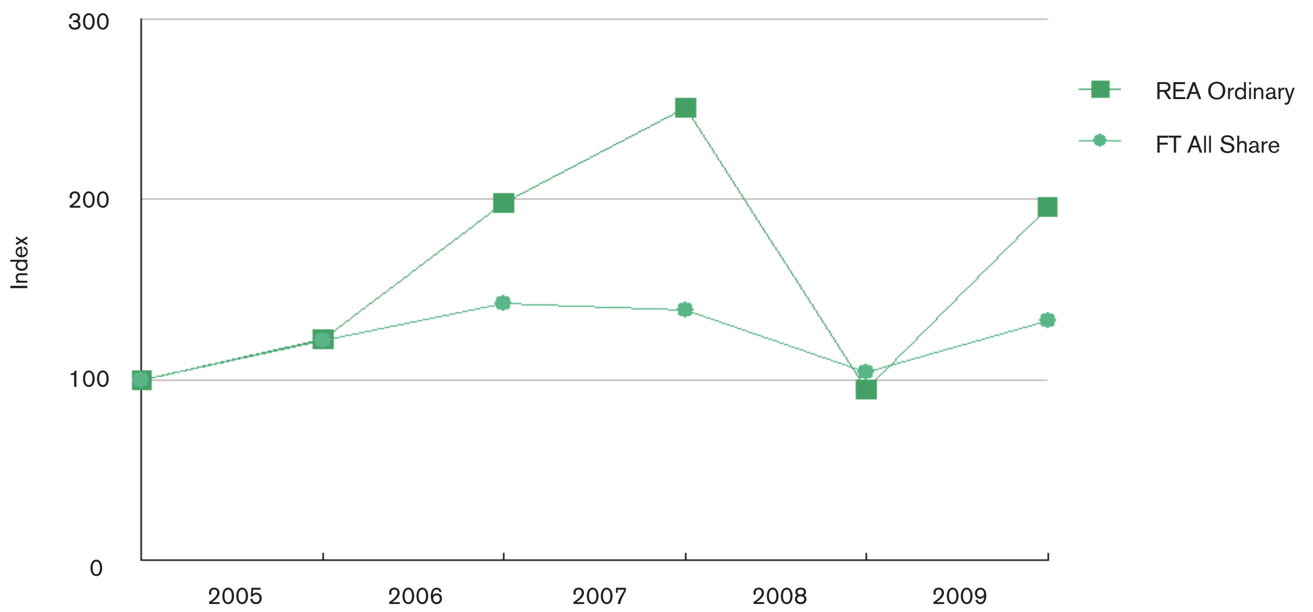
	2009	2008	2007	2006	2005
Allocated area - Hectares					
Mature oil palm	18,736	16,487	13,080	13,080	13,085
Immature oil palm (prior years)	8,171	9,032	11,814	5,250	3,000
Oil palm development (current year) [1]	4,083	2,781	1,514	6,564	2,250
	30,990	28,300	26,408	24,894	18,335
Planned oil palm development (succeeding year) [2]	4,000	–	11,500	6,500	6,000
Reserve area [3]	59,828	86,541	84,018	34,022	41,801
Reapplied for area [4]	20,000	–	–	–	–
Total	114,818	114,841	121,926	65,416	66,136
Production - Tonnes					
Oil palm fresh fruit bunch crop - group	490,178	450,906	393,217	332,704	312,676
Oil palm fresh fruit bunch crop - external	13,248	6,460	2,767	1,372	679
	503,426	457,366	395,984	334,076	313,355
Crude palm oil	118,357	105,597	93,229	77,597	73,262
Palm kernel	23,740	20,846	15,660	12,698	12,647
Total palm products	142,097	126,443	108,889	90,295	85,909
Oil extraction rate	23.5%	23.1%	23.5%	23.2%	23.4%
Kernel extraction rate	4.7%	4.6%	4.0%	3.8%	4.0%
Yields - Tonnes per mature hectare					
Fresh fruit bunches	26.2	27.3	29.6	25.5	23.8
Crude palm oil	6.2	6.3	7.1	5.9	5.6
Palm kernel	1.2	1.2	1.2	1.0	1.0
Total palm products	7.4	7.5	8.3	6.9	6.6

1. Includes 1,393 hectares in 2009 and 889 hectares in 2008 also included as oil palm development in the preceding year.
2. Includes 5,000 hectares in 2007 outstanding from that year's planting programme.
3. Includes conservation areas, roads and other infrastructure and areas available for planting and under negotiation.
4. Prior to 2009 included under reserve area.

Crude palm oil monthly average price



Share performance graph



Chairman's statement

Presentation of annual report

The "Review of the group" section of this annual report provides detailed information intended to assist shareholders in understanding the group's business and strategic objectives. This "Chairman's statement" essentially represents a synopsis of the more significant matters noted in that review.

Results

The group continues to report in accordance with International Financial Reporting Standards ("IFRS") and to present its consolidated financial statements in US dollars.

With increased sales volumes and despite lower selling prices, revenue for 2009 at $78.9 million was only marginally below that of 2008 ($79.6 million). The increased volumes coupled with inflation did, however, mean, that cost of sales for 2009 at $34.0 million was higher than the comparable figure for 2008 of $27.7 million. Other significant movements in the components of operating profit between 2008 and 2009 comprised a positive swing in the aggregate IFRS fair value adjustments of $18.2 million (reflecting gains of $11.3 million in 2009 against losses of $6.9 million in 2008) and an increase in administrative expenses ($7.2 million in 2009 against $3.5 million in 2008).

The 2009 gains on IFRS fair value adjustments comprised a gain of $1.5 million on the revaluation of agricultural produce inventory and a gain of $9.8 million on the revaluation of biological assets (2008: losses of, respectively, $4.2 million and $2.7 million). The gain on revaluation of agricultural produce inventory reflected a higher CPO price at 31 December 2009 than at 31 December 2008 partly offset by a reduction in inventory volumes, while the gain on revaluation of biological assets resulted mainly from the reinstatement of the group's extension planting programme and the resultant increase in planted hectarage during 2009.

An apparently marked increase in administrative expenses from $3.5 million in 2008 to $7.2 million in 2009 was almost entirely accounted for by a reduction from 2008 to 2009 in net exchange gains of $2.1 million, a swing of $1.0 million on movements on accruals in respect of the company's prospective liability for employer national insurance contributions on exercise of a director's option (which reflected movements in the market price of the company's ordinary shares) and a swing of $0.8 million on movements in the accrued liability for pension funding which was adjusted during 2009 to reflect the latest triennial actuarial valuation of the group's pension scheme.

At the after tax level, profit for the year for 2009 was $29.9 million against $25.8 million in 2008 while profit attributable to ordinary shareholders was $27.1 million against $23.8 million. Fully diluted earnings per share amounted to US 81.4 cents (2008 - US 71.5 cents).

Agricultural operations

Operational matters

The crop out-turn for 2009 amounted to 490,178 tonnes of oil palm fresh fruit bunches ("FFB"). This was slightly ahead of the budgeted crop of 486,000 tonnes and an increase of 8.6 per cent on the FFB crop for 2008 of 450,906 tonnes. External purchases of FFB from smallholders in 2009 totalled 13,248 tonnes (2008: 6,460 tonnes).

Rainfall across the group's estates averaged 3,123 mm for 2009, compared with 3,504 mm for the previous year. During 2009, there was an extended drier period between August and October, probably reflecting the reported El Nino effect. Although this was of some

concern to the group, an analysis of the rainfall received during this drier period suggests that the rainfall was just sufficient to avoid deficits in the moisture required by the group's palms for optimal development. If correct, this would mean that the reduced levels of rainfall between August and October should not have a negative impact on cropping in 2010.

Processing of the group's own FFB production and the externally purchased FFB, together totalling 503,426 tonnes (2008: 457,366 tonnes), produced 118,357 tonnes of CPO (2008: 105,957 tonnes) and 23,740 tonnes of palm kernels (2008: 20,846 tonnes) reflecting extraction rates of 23.51 per cent for CPO (2008: 23.17 per cent) and 4.72 per cent for kernels (2008: 4.56 per cent). Production of crude palm kernel oil amounted to 9,636 tonnes (2008: 8,190 tonnes) representing an extraction rate of 40.04 per cent (2008: 40.11 per cent).

Some problems were experienced during 2009 with the group's older oil mill. Deterioration in one of the two boilers reduced available power and this, combined with inefficiencies in other ageing mill machinery, made it difficult to operate the mill at the intended capacity of 80 tonnes per hour over any extended period. Steps have been taken to address this problem. The deteriorating boiler will be replaced as soon as possible and the mill processing lines will be upgraded to provide greater resilience. The planned expansion of the group' second newer mill from a capacity 60 tonnes per hour to a capacity of 80 tonnes per hour is currently in hand.

The upgrading of the older mill and the expansion of the newer mill should provide the group with sufficient capacity to meet the expected FFB processing requirements of 2010 and 2011. By 2012 the group will require a third mill. Work is already in hand on the planning of this third mill and it is expected that construction of the mill will start during 2010.

Steps were taken during 2009 to extend the group's use of natural fertilisers by the use of composted empty fruit bunches and oil mill effluent, both being residues of the CPO production process. The group has always recycled empty fruit bunches and oil mill effluent but, prior to the introduction of composting, these residues were distributed in the oil palm areas without processing (apart from treatment of effluent in effluent ponds to reduce its biological and chemical oxygen demand). Under the new composting process, the residues (in the case of effluent, again after treatment in effluent ponds) are delivered to a composting contractor at sites adjacent to the group's oil mills. The contractor takes title to the residues, manages the composting process (which takes 45 days and involves seeding the residues with an accelerant of micro-organisms (which the contractor supplies), mixing the residues and macerating the mix to encourage biodegradation) and then sells back the resultant compost to the group at an agreed price with a guaranteed nutrient content. The composted residues provide greater substitution for inorganic fertilisers than did the previous recycling of uncomposted residues and the financial effect is a reduction in cost.

Land allocations and development

The group made good progress with its land titling during 2009 and increased its overall area of fully titled agricultural land to 52,029 hectares. Land allocations still subject to titling comprise some 43,000 hectares. In addition, the group continues to seek title to a 20,000 hectare land area as respects which the original allocation has expired.

The process of titling land allocations may be expected to result in exclusion of areas the subject of conflicting land claims and having special environmental value. For some allocations the areas to be excluded may be quite substantial. Moreover, not all of the areas in respect of which full titles are issued can be planted with oil palms.

Some fully titled land may be unsuitable for planting or subject to zoning or similar restrictions (such as areas potentially available for mining), a proportion has to be set aside for conservation and a further proportion is required for roads, buildings and other infrastructural facilities. This means that the prospective maximum area that the group could plant with oil palms on the land areas currently held or earmarked by it must be expected to be considerably less than the gross hectarage that those areas comprise.

Following the onset of the international financial crisis and the sharp falls in commodity prices that accompanied it, the directors decided in October 2008 to suspend all new plantation development until the world financial outlook became clearer. With the recovery in CPO prices seen in the early months of 2009 and a seeming improvement in the world economic outlook, it was decided in April 2009 to resume development. As a result of this decision, an area of 2,690 hectares was cleared and planted out or prepared for planting out during 2009.

Reserve land held by the group only becomes available for development when the titling process has proceeded to a point at which the group has been granted necessary development and land clearing licences and compensation agreements have been reached with local villagers who have claims in respect of their previous use of the land. In the past, delays in making available land areas for development have been a serious impediment to achievement of target extension planting programmes. The group therefore sought during the period that the development programme was temporarily suspended to take maximum advantage of the opportunity that this afforded to improve the pipeline of land areas immediately available for planting.

In consequence, the group is now well placed to proceed with its plans for planting in total a further 8,000 hectares of oil palms over the two year period to the end of 2011. Nevertheless, it does remain the case that achievement of this planting target is critically dependent upon land becoming available for development as needed. New regulations recently announced by the Ministry of Forestry mean that planting of the planned further 8,000 hectares will require permits additional to those that have already been obtained. The directors have no reason to believe that such permits will not be forthcoming within the time frame in which they will be needed.

Social responsibility

2009 saw the establishment by the group of its first smallholder oil palm cooperative. Out of an initial gross area of 1,500 hectares provided by a cooperative of three local villages, 1,300 hectares were cleared and a total of 770 hectares had been planted by year end. The balance of the 1,300 hectares cleared area will be planted during 2010. Financing for the scheme has been agreed with a local development bank in the form of a fifteen year loan secured on the land and assets of the scheme and guaranteed by the group. It is expected that the loan will finance most of the initial development costs of the scheme but will be supplemented to the extent necessary by funds to be advanced by the group. The group plans to initiate further cooperative schemes during 2010 on land areas totalling 4,500 hectares provided by cooperatives formed by a number of other villages. It is intended that these schemes will be organised on a basis similar to that adopted for the initial scheme.

Camera trapping and walking surveys within the group's conservation reserves and adjacent estate areas have detected a number of orang-utans (estimated at between 11 and 15). At least two baby orang-utans are known to have been born on the conservation reserves during 2009. The group's conservation department is monitoring the health of this promising orang-utan population and will consider enrichment planting in the conservation reserves if it appears that the naturally available food resources need to be enhanced.

The group has now obtained ISO 14001 certification in respect of both of its oil mills, its kernel crushing plant and two of its estate units. It is hoped that certification of the balance of the established estate units will be completed during 2010. The group has applied for Roundtable on Sustainable Palm Oil ("RSPO") accreditation audits (conducted by RSPO approved independent certifiers) to be initiated during 2010 with a view to obtaining final certification during 2011.

Coal operations

Following its acquisition of interests in the Liburdinding and Muser coal mining concessions located near Tanah Grogot in the southern part of East Kalimantan in the second half of 2008, the group further extended its coal operations in December 2009 with the acquisition of an interest in a third coal mining concession located near Kota Bangun in the central part of East Kalimantan which was purchased for a cash consideration of $4,500,000.

Pending clarification of a new Indonesian mining law that should permit foreign direct ownership of Indonesian companies holding mining concessions (which has not in recent years been allowed), the group has entered into arrangements with a local investor and members of his family (together the group's "local partners") whereby the Liburdinding and Muser concessions are currently held by two companies which are wholly owned by the group's local partners and which in turn own the company holding the Kota Bangun concession. A fourth company, incorporated under the Indonesian foreign investment law and owned 95 per cent by KCC Resources Limited ("KCC") (a wholly owned subsidiary of the company incorporated in England and Wales that acts as a co-ordinating company for the group's coal operations) and 5 per cent by the local partners, has been established by KCC to spearhead the group's coal operations. The three coal mining concession holding companies are being financed by loan funding from the group. KCC will have the right to acquire the concession holding companies at original cost as soon as Indonesian law allows this on a basis that will give the group (through KCC) 95 per cent ownership with the balance of 5 per cent remaining owned by the local partners.

During 2009, the group's development focus was on bringing the Liburdinding concession into production. A mining plan had been completed, and the necessary infrastructural facilities (principally a port facility and a 38 kilometre road to the port) were substantially complete, by June 2009. However, the group withdrew from its original plan to establish, as rapidly as possible, a production level of 30,000 tonnes per month when it became clear that the sulphur content of the Liburdinding coal was such that, in what had then become a buyer's market for export coal, it would be necessary either to blend the coal mined with purchased coal having a lower sulphur content or to accept a significant price penalty.

The group concluded that it was important to be able to market Liburdinding coal within Indonesia and steps were taken to establish a coal depot at Semarang in Central Java to facilitate deliveries to industrial users of coal in that area (a large coal consuming district) and to permit blending with other coal to meet specific buyer requirements. The Semarang depot is now in operation and sales of Liburdinding coal are being made through it. Additionally, with the recovery in coal prices of recent months, export demand has improved and some export shipments of Liburdinding coal are in prospect. The group is budgeting for total output from Liburdinding of 150,000 tonnes in 2010.

The group also intends that the newly acquired Kota Bangun concession should be brought into production during 2010 with a view to achieving, by December 2010, an output of 16,000 tonnes per month. The Kota Bangun concession is well located, being approximately 5 kilometres from the Mahakam river, and the high calorific

value coal that the concession contains is very suitable for export.

The group aims to augment the basic mining revenues from the Liburdinding and Kota Bangun concessions in two respects during 2010. First, it intends to make available the port facility established for the Liburdinding concession for use by third parties for an appropriate charge. Secondly, the group intends to take advantage of the acceptance of one of the concession holding companies as one of a limited number of approved suppliers to the Indonesian state electricity company ("PLN") to establish a limited coal trading activity in which the group will source coal from third parties, either by outright purchase or by mining third party concessions against payment of an agreed royalty, and will then sell the coal so sourced to PLN and others. As both of these proposed additions to the coal operations will be new, there can be no certainty as to how fast and in what volumes they can be added. However, the directors consider it reasonable to aim over time to achieve levels of 20,000 tonnes per month of third party throughput through the Liburdinding port and of 50,000 tonnes per month of traded coal sales (sourced by a combination of outright purchases and mining of third party concessions under royalty arrangements).

The group is budgeting the overheads of its coal operations for 2010 (excluding head office costs in the UK, interest, depreciation and amortisation) at $100,000 per month. Once commercial levels of production are being achieved, production costs per tonne are projected in the ranges $64 to $78 per tonne for Kota Bangun coal and $23 to $29 per tonne for Liburdinding coal. Net contribution from third party coal throughput in the Liburdinding port is projected at $2.50 per tonne and the contribution margins achievable on traded coal sales at between $5 and $10 per tonne (depending on the mix of coal sourced by outright purchase and coal sourced by mining third party concessions). The overall results of the coal operations will be critically dependent upon sales volumes and prevailing coal prices.

Finance

No new debt securities were issued by the group during 2009 but, in November 2009, the company issued 1,490,000 new 9 per cent cumulative preference shares for cash by way of a placing at a price of 103.18p per share (3.18p being an amount equal to the accrued dividend attaching to each such share at the date of allotment). The net proceeds of the placing were utilised to increase the cash available to the group as a cushion against possible additional cash requirements for the group's development programmes.

Group indebtedness and related engagements at 31 December 2009 amounted to $82.5 million, made up of US dollar denominated bank indebtedness under an Indonesian consortium loan facility of $10.2 million, £37 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes") (carrying value: $57.0 million), $7.7 million in respect of the hedge of the principal amount of the sterling notes as described below and $30 million nominal of 7.5 per cent dollar notes 2012/14 ("dollar notes") (carrying value: $29.7 million). Against these obligations, at 31 December 2009 the group held cash and cash equivalents of $22.1 million. The group has entered into a long term sterling US dollar debt swap to hedge against US dollars the sterling liability for principal and interest payable in respect of the entire issue of the sterling notes (but in the case of interest only as respects interest payments falling due up to 31 December 2015).

In February 2010, the company issued an additional $15 million nominal of dollar notes at $90 per $100 nominal of notes in conjunction with an issue by KCC of 150,000 redeemable participating preference shares of $10 each at par. The monies raised, totalling $15 million before

issue expenses, have been deployed in the group's coal operations save to the extent of $4.5 million which has been applied in repaying short term advances of an equivalent amount that had previously been made to the coal operations from elsewhere in the group.

The KCC participating preference shares will provide a limited interest in the group's coal operations such that if those operations 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), the combined return to persons who subscribed the additional dollar notes and KCC participating preference shares and who retain their notes and shares until redeemed will be 15 per cent per annum.

The planned planting of a further 8,000 hectares of oil palm during 2010 and 2011 and the concomitant requirement for continuing investment in estate buildings, oil palm processing facilities and other estate plant and equipment will involve the group in continuing major capital expenditure over the next two years. Given the group's existing cash resources and provided that the CPO price remains at reasonable levels, the directors expect that such capital expenditure can be funded from internally generated cash flow. Because of the volatility of commodity markets, the directors cannot rely on this expectation and, whilst the expansion programme can, in extremity, be rapidly scaled back to align with available cash resources, once areas have been planted with oil palms, some or all of the benefits of investment thereby made will be lost if the areas are not maintained and the milling capacity needed to process the resultant FFB is not installed. Accordingly, the directors believe that it is essential that the group holds some cash cushion to meet possible calls for additional cash to fund the oil palm expansion programme. To this end, the group is currently seeking to arrange further fixed term bank facilities in Indonesia.

During 2010, capital will also be required to fund the coal operations in developing the Kota Bangun concession and meeting the working capital requirements that will arise if the coal operations develop as envisaged. It is expected that the funds provided to the coal operations from the recent issue of additional dollar notes and KCC participating preference shares will be sufficient for these purposes. In addition, the coal operations should shortly have available to them an undrawn working capital line of $3 million that is subject to annual renewal.

The directors have no immediate plans for the group to issue further listed debt securities but they are aware that the Indonesian tax authorities have recently announced revisions to the rates of withholding tax to be applied to payments of interest from Indonesia to the Netherlands as well as changes to the basis upon which such authorities will accept that a foreign company is eligible for the concessionary tax treatment provided for in any double tax agreement between the applicable company's country of domicile and Indonesia. This development appears likely to result in the rate of withholding tax applicable to payments of interest (the aggregate gross amount of which in 2009 was $8.9 million) on loans to Indonesian subsidiaries of the company from REA Finance increasing from 10 per cent to 20 per cent. The directors are investigating the possibility of reorganising the sterling notes to mitigate this adverse fiscal development.

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2009 were duly paid. Dividends totalling 4p per ordinary share have been paid in respect of 2009 (2008 – 3p per ordinary share). These comprised a first interim dividend of 2p per ordinary share paid on 4 September 2009 and a second interim dividend in lieu of final of 2p per ordinary share paid on 29 January 2010.

The directors continue to believe that capitalisation issues of new preference shares to ordinary shareholders, such as were made on several previous occasions, provide a useful mechanism for augmenting returns to ordinary shareholders in periods in which good profits are achieved but demands on cash resources limit the scope for payment of cash dividends. Because of the then state of markets for fixed return securities of smaller listed companies, the directors did not propose any such capitalisation issue during 2009 but they hope that the current indications of economic recovery may make possible a further capitalisation issue of new preference shares during 2010.

Staff

The directors extend their thanks to all of the group's staff for their continued loyalty and hard work.

Succession

The group has decided to work towards opening a small regional office in Singapore. The immediate function of the new office will be to provide greater capacity to handle the increasing workload falling on existing senior management but the group plans that new staff put in place for this purpose should ultimately provide options for succession to existing top management. The group plans during 2010 to recruit an experienced and committed manager to head the new office. It is envisaged that the individual recruited would spend an initial induction period in the group's London office and would then operate from Singapore where it is intended that the new office should be fully functional by the end of 2011.

The directors recognise the need for succession planning in relation not only to executive management but also to non executive directors. The board intends to continue as currently constituted pending full implementation of their plans for the establishment of the new Singapore office but has agreed that thereafter the composition of the board should be reconstituted.

Prospects

The group is budgeting for an FFB crop of 561,000 tonnes for 2010. The FFB crop to end March 2010 was some 16,000 tonnes short of budget. The shortfall is attributed by the directors to a combination of the particular weather pattern experienced during the first quarter of 2010 and to some oil palms entering a cyclical depression or rest phase during this quarter. Variations from year to year in the monthly phasing of each year's crops are normal and the directors do not believe that any conclusions should be drawn as to the likelihood of the group achieving its budgeted crop for 2010.

The modest recovery in CPO prices seen in the last two months of 2008 continued into 2009 with the price rising from an opening level of $525 per tonne, spot CIF Rotterdam, to a high of $830 per tonne in May 2009. The price then fell back to consolidate at a little over $600 per tonne in July 2009 but gradually recovered to close 2009 at just above $800 per tonne, a level at which it has broadly remained during the early months of 2010.

Although stocks in CPO producing countries reached quite high levels in January 2010, subsequent offtake has been good and stock levels have moderated. Moreover, the recovery in crude petroleum oil prices has meant that the floor for vegetable and animal oil and fat prices that crude petroleum oil prices provide has been rising. Whilst professional forecasters have generally been in agreement that CPO prices would probably stay at around current levels at least until mid 2010, there had been concerns that, after that, the harvests from the latest soybean plantings in Brazil and Argentina (which are reported to have been at record levels) might lead to some fallback in prices. This may still prove to be the case

but heavy rains in some key soybean growing areas and fungus problems with the Brazilian crop, coupled with some indications that the negative impact on current CPO production of the recent El Nino weather phenomenon is proving greater than forecast, may mean that the supply demand balance in the second half of 2010 will be tighter than had been predicted and that CPO prices may remain at good levels.

With the prospects of healthy margins, increasing crops and further extension of the areas under oil palm, the agricultural operations can look forward to continued growth. The development of the coal operations is still at an early stage but the directors are optimistic that those operations have the potential to make a worthwhile contribution to the future profits of the group. Overall, the directors regard the outlook for the group with confidence.

RICHARD M ROBINOW
Chairman
27 April 2010

Review of the group

Introduction

This review has been prepared to provide holders of the company's shares with information that complements the accompanying financial statements. It is intended that such information should help shareholders in understanding the group's business and strategic objectives and thereby assist them in assessing how the directors have performed their duty of promoting the success of the company. This review should not be relied upon by any persons other than shareholders or for any purposes other than those stated.

This review contains forward-looking statements which have been included by the directors in good faith based on the information available to them up to the time of their approval of this review. Such statements should be treated with caution given the uncertainties inherent in any prognosis regarding the future and the economic and business risks to which the group's operations are exposed.

In preparing this review, the directors have complied with section 417 of the Companies Act 2006. They have also sought to follow best practice as recommended by the reporting statement on operating and financial reviews published by the Accounting Standards Board but this review may not comply with that reporting standard in all respects.

This review has been prepared for the group as a whole and therefore gives emphasis to those matters that are significant to the company and its subsidiaries when taken together. The review is divided into five sections: overview; agricultural operations, coal operations; finances; and risks and uncertainties.

Overview

Nature of business and resources

The group is principally engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production of crude palm oil ("CPO") and by-products from fruit harvested from its oil palms. A detailed description of the group's oil palm activities is provided under "Agricultural operations" below.

During 2008, the directors decided to augment the traditional plantation operations of the group by developing a modest coal mining business in Indonesia. Following this decision, the group has acquired rights in respect of three coal concessions in East Kalimantan and is now endeavouring to establish an open cast coal mining operation and coal trading activity based on these concessions. Details of this diversification are provided under "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. The group today sees itself as marrying developed world capital and Indonesian opportunity by offering investors in, and lenders to, the company the transparency of a UK listed company and then using capital raised by the company (or with the company's support) to develop natural resource based operations in Indonesia from which the group believes that it can achieve good returns. In this endeavour, the group's inheritance from its past and the group's recent track record represent significant intangible resources because they underpin the group's credibility. This assists materially in sourcing capital, in negotiating with the Indonesian authorities in relation to project development and in recruiting management of a high calibre.

Other resources that are important to the group are its developed base of operations, bringing with it an established management team familiar with Indonesian regulatory processes and social customs, a trained workforce and the group's land and concession rights.

Objectives

The group's objectives are to provide attractive overall returns to investors in the group from the operation and expansion of the group's existing businesses, to honour the group's social obligations to facilitate economic progress in the localities of the group's activities and to develop the group's operations in accordance with best corporate social responsibility and sustainability standards. Achievement of these objectives is dependent upon, among other things, the group's ability to generate the operating profits that are needed to finance their realisation.

CPO and coal are primary commodities and as such must be sold at prices that are determined by world supply and demand. Such prices may, and do, fluctuate in ways that are difficult to predict and which the group cannot control. The group's operational strategy is therefore to concentrate on minimising unit production costs with the expectation that the lower cost producer of any primary commodity is better placed to weather any downturn in price than less efficient competitor producers of the same commodity.

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 the group's land bank as rapidly as logistical, financial and regulatory constraints permit with a view to utilising the group's existing agricultural management capacity to manage a larger business. Secondly, the group strives to manage its established agricultural operations as productively as possible.

Ancillary to the first component of this approach, the group seeks to add to its land bank when circumstances are conducive to its doing so. The directors intend that, as the coal operations come into production, the group will similarly seek production cost efficiencies in those operations by increasing volumes and focusing on productivity.

As a financial strategy, the group aims to enhance returns to equity investors in the company by procuring that a prudent proportion of the group's funding requirements is met with prior charge 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.

Diversification

The group recognises that its agricultural operations, which represent the major part of the group's assets and, in 2009, 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 risks. The directors hope that the coal operations now being established will, if successful and further expanded, provide the group with some offset against such risks. The directors have no plans for further diversification and believe that, for the foreseeable future, the group's interests will be best served by growing the existing agricultural and coal operations.

Strategic direction and succession

In recent years, the size and range of the group's activities has expanded. The area under oil palm has been extended, infrastructure and oil mill capacity have been increased and a new venture in coal has been initiated. At the same time, the group has increased its assistance to the local communities in the group's areas of operation and has established a new department dedicated to conservation activities.

These changes have been accompanied by a major reorganisation of the group's Indonesian agricultural management. A new departmental structure has been implemented, additional staff have been recruited and reporting lines have been clarified. Work is continuing on upgrading the group's personnel administration to cope with a workforce now approaching 7,000 and on integrating the group's data recording systems to enhance management's ability to identify and analyse areas of underperformance.

The directors hope that the group will continue to grow and appreciate that growth will make new demands on management. The directors believe that the Indonesian management structures now in place provide a good base for further expansion. In the agricultural operations, the group's established programme of regularly recruiting and training a number of university graduates and then offering management positions to those who successfully complete the training course has provided the group with an expanding cadre of younger staff. The group can therefore hope to fill new staff positions resulting from agricultural expansion by internal promotion. If the coal activities prove successful and grow, the group will aim to put in place appropriate arrangements for management succession in those activities also.

In responding to the management challenges created by the group's growth, the directors have given priority to enhancing operational management capacity. With the staffing capacity and the local independent non executive support that are available to the group in Indonesia, they believe that the group has achieved reasonable operational resilience in the event of local staff retirements or resignations. However, the directors recognise that there is now a requirement also to enhance senior management capacity outside Indonesia and are turning their attention to meeting this requirement.

The directors have previously expressed concern as to whether the current situation in which Indonesian businesses are owned through a UK listed company, with the UK overheads that this entails, is an appropriate long term structure for the group. Recent years have seen an increase in the number of plantation companies listed on the London Stock Exchange and with this has come increased investment research coverage of the plantation sector. This is improving the company's access to investors and the directors are pleased with the company's existing base of shareholders. The directors also believe that the company's continued UK listing has facilitated the several bond issues that the group has made in recent years (which have been an important source of medium term funding for the group) and that such issues would have been harder had the group been listed in, for example, Singapore or Jakarta. In these circumstances, the directors have concluded that, for the time being at least, the group should retain its current structure.

Nevertheless, the directors believe that better value will be obtained from additions to senior management if new staff recruited can not only provide support for the functions currently undertaken in London but are also close enough to the group's operations to provide assistance on a day to day basis to the group's management in Indonesia. Accordingly, the group has decided to work towards opening a small regional office in Singapore. The immediate function of the new office will be to provide greater capacity to handle the increasing workload falling on existing senior management but the group plans that new staff put in place for this purpose should ultimately provide options for succession to existing top management (although the existing group managing director and the chairman have indicated their willingness to continue working as a team for several more years).

Review of the group continued

The group aims during 2010 to recruit an experienced and commercial manager to head the proposed new regional office. It is envisaged that the individual recruited would spend an initial induction period in the group's London office and would then operate from Singapore where it is intended that the new office should be fully functional by the end of 2011.

The new Singapore office will have the advantage that it will preserve flexibility as respects the possibility that the group may one day, after all, decide to reconstitute itself as a wholly South East Asian based group. It will also provide capacity to handle the possible eventuality that, if the coal operations prove successful, those operations may be detached from the group and developed as a separate listed group (a not unlikely development given an Indonesian legal requirement that the group in due course divest a minority interest in the coal operations, a requirement that may best be met by combining the operations under an Indonesian holding company and making a public offering of shares in that company).

The directors recognise the need for succession planning in relation not only to executive management but also to non executive directors. The board intends to continue as currently constituted pending full implementation of their plans for the establishment of the new Singapore office but has agreed that thereafter the composition of the board should be reconstituted.

The Indonesian context

During 2009, the Indonesian economy grew by 4.5 per cent per annum helped by improved prices for the country's main export commodities and comfortably ahead of the 3.4 per cent per annum predicted by the World Bank after the onset of the 2008 world economic crisis. Inward foreign direct investment improved slightly as compared with 2008, while Indonesia's access to the international bond markets continued unimpaired.

The main Indonesian political event of 2009 was the Presidential election which saw the incumbent president, Susilo Bambang Yudhoyono, re-elected by a comfortable margin following a wholly peaceful electoral campaign. However, the broadly concurrent parliamentary elections left the president's party in a minority. This resulted in the formation of a coalition government in which the president was able to reappoint his core economists to key positions in the Trade and Finance Ministries but had to accept that several important other ministerial appointments be filled by candidates of the coalition partners. This is expected to place some constraints on the president's legislative agenda.

The decline in the Indonesian rupiah seen in the last quarter of 2008 continued into the first quarter of 2009 with the rate against the US dollar falling from Rp 10,950 = $1 at 31 December 2008 to Rp 11,575 = $1 at the end of March 2009. The rate then improved progressively to close 2009 at Rp 9,400 = $1. No doubt assisted by the strengthening currency, the reported Indonesian inflation rate for 2009 was 3 per cent as compared with 11 per cent for 2008.

The province of East Kalimantan remained stable during 2009 and its economy continued to grow. Growth is placing pressure on the province's supplies of electricity and infrastructural facilities but the provincial government is making efforts to address this. Land availability is becoming more constrained and it appears that the central and regional authorities, prompted by environmental concerns, are making a concerted effort to establish more transparent processes for the granting of land and mining concessions and ensuring subsequent compliance by concessionaires with applicable government regulations. Whilst this is likely to complicate further the licensing and titling processes, it may be hoped that it will reduce the improper activities of some plantation and mining operators that are detrimental to the standing of the plantation and mining industries as a whole.

Evaluation of performance

In seeking to meet its objectives, the group sets operating standards and targets for most aspects of its activities and regularly monitors performance against those standards and targets. In 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. Rather a collection of measures have to be evaluated and a qualitative conclusion reached.

The directors do, however, rely on regular reporting of certain operational progress items that are comparable from one year to the next and may be regarded as key indicators of operating performance. These indicators for any given period comprise:

- the new extension planting area developed; this is measured as the area in hectares of land cleared and planted out or cleared and prepared for planting out during the applicable period;
- the crop of fresh fruit bunches ("FFB") harvested; this is measured as the weight in tonnes of FFB delivered to the group's oil mills during the applicable period; and
- the CPO, palm kernel and crude palm kernel oil ("CPKO") extraction rates achieved; the first two of these are measured as the percentage by weight of CPO or palm kernels extracted from FFB processed and the third is measured as the percentage by weight of CPKO extracted from palm kernels crushed.

Of these indicators, the first provides a measure of the group's performance against its expansion objective. The second and third indicators are measures of field and mill efficiency and, as such, provide a basis for assessing the extent to which the group is achieving its objective of maximising output from its operations.

Quantifications of the above indicators for 2009 and comparable quantifications for 2008 (in both cases as sourced from the group's internal management reports) are provided under "Land development" and "Crops and extraction rates" in "Operations" below together with targets for 2010.

Key indicators used by the directors in evaluating the group's financial performance for any given period comprise:

- return on adjusted equity which is measured as profit before tax for the period less amounts attributable to preferred capital expressed as a percentage of average total equity (less preferred capital) for the period; and
- net debt to total equity which is measured as borrowings and other indebtedness (other than intra group indebtedness) less cash and cash equivalents expressed as a percentage of total equity.

Because of the group's material dependence on CPO prices, which have a direct impact on revenues and on periodic revaluations of biological assets, in targeting return on total equity the directors set a norm that they hope will represent an average of the annual returns achieved over a period of seven years.

Percentages for the above two indicators for 2009 and comparable figures for 2008 (derived from figures extracted from the audited consolidated financial statements of the company) are provided under "Group results" and "Financing policies" in "Finances" below, together with target percentages.

The directors have hitherto relied mainly on qualitative rather than quantitative assessments in relation to environmental and social matters. With the increasing scale of the group's operations, the directors consider that it is appropriate to begin providing some quantitative

indicators to assist evaluation of the group's performance in these areas. Accordingly the qualitative commentary under "Employees", "Community development", "Smallholders", "Conservation" and "Sustainable practices" in "Agricultural operations" below has this year been augmented with quantitative data on examination results in the group's primary schools, incidence of vector borne diseases, serious accidents sustained, waste water management and use of diesel oil and fertilisers.

Industry discussions, under the auspices of the Roundtable on Sustainable Palm Oil, are being conducted with a view to establishing agreed principles for the calculation of oil palm plantation carbon footprints but there remain areas of disagreement still to be resolved, most notably as respects how the carbon cost of displacement of vegetation that existed prior to planting of oil palms should be taken into account. Pending availability of such principles, the group is taking steps to build its own model for calculating its carbon footprint and will aim to publish carbon footprint data in due course.

The directors recognise the significance of environmental, social and governance matters to the business of the group. Identification, assessment, management and mitigation of the risks associated with such matters forms part of the group's system of internal control for which the board of the company has ultimate responsibility. The board discharges that responsibility as described in the "Corporate governance" section of this annual report. Material risks and related policies regarding environmental, social and governance matters are described under "Risks and uncertainties" below and under "Employees", "Community development", "Smallholders", "Conservation" and "Sustainable practices" in "Agricultural operations" below. The latter sections also detail descriptively, and through certain of the quantitative performance indicators added this year, the group's successes and failures in environmental, social and governance areas and the measures taken in response to failures. Independent verification of the group's performance in these areas is dealt with as described under "Accreditation and verification" in "Agricultural operations" below.

Agricultural operations

Structure

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

The oldest planted areas, which represent the core of the group's operations, are owned through PT REA Kaltim Plantations ("REA Kaltim") in which a group company holds a 100 per cent economic interest. With the REA Kaltim land areas approaching full utilisation, over the four year period from 2005 to 2008 the company established or acquired several additional Indonesian subsidiaries, each potentially bringing with it a substantial allocation of land in the vicinity of the REA Kaltim estates. These additional subsidiaries comprise PT Cipta Davia Mandiri ("CDM"), PT Kartanegara Kumala Sakti ("KKS"), PT Kutai Mitra Sejahtera ("KMS"), PT Putra Bongan Jaya ("PBJ") and PT Sasana Yudha Bhakti ("SYB"). Each of these subsidiaries is, or will on completion of necessary legal formalities be, owned as to 95 per cent by group companies and 5 per cent by Indonesian local investors.

Land areas

Although the 1991 understanding established a basis for the provision of land for development by or in cooperation with the group, all applications to develop previously undeveloped land areas have to be agreed by the

Indonesian Ministry of Forestry and to go through a permit and titling process. This process begins with the grant of a land allocation. This is followed by environmental and other assessments to delineate those areas within the allocation that are suitable for development, settlement of compensation claims from local communities, other necessary legal procedures that vary from case to case and the issue (often in stages) of development permits and land clearing licences. The process is 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*" certificate).

In the group's experience, the process, which was never straightforward, has become more complicated in recent years. This has followed the devolution of significant authority in relation to land matters from the Indonesian central government to Indonesian provincial and district authorities which has resulted in an increase in the number of official bodies involved in the titling process. A further echelon of complication has recently been added by new Ministry of Forestry procedures to provide extra checks on plantation development licences. These are designed to stop plantation development improperly encroaching on land that has been zoned for retention as forest.

The group made good progress with its land titling during 2009 and increased its overall area of fully titled agricultural land to 52,029 hectares, comprising 30,106 hectares held by REA Kaltim, 10,321 hectares held by SYB and 11,602 hectares held by PBJ.

Land allocations still subject to titling comprise some 6,000 hectares held by SYB, 20,000 hectares held by CDM and 17,000 hectares held by KMS. In addition, KKS continues to seek title to a 20,000 hectare land area as respects which progress remains, as previously reported, subject to the issue of a decree by the Ministry of Forestry to allow implementation of a new development plan for the province of East Kalimantan.

The process of titling land allocations may be expected to result in exclusion of areas the subject of conflicting land claims and having special environmental value. In the case of the CDM land allocation particularly, the areas to be excluded may be quite substantial. Accordingly, the group is likely to be granted full hgu land titles in respect of only a part of the land allocations referred to in the preceding paragraph. 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 or subject to zoning or similar restrictions (such as areas potentially available for mining), a proportion has to be set aside for conservation and a further proportion is required for roads, buildings and other infrastructural facilities. This means that the prospective maximum area that the group could plant with oil palms on the fully titled and allocated agricultural land areas currently held must be expected to be considerably less than the gross hectarage that those areas comprise.

The operations of REA Kaltim are located some 140 kilometres north west of Samarinda, the capital of East Kalimantan, and lie either side of the Belayan river, a tributary of the Mahakam, one of the major river systems of South East Asia. The SYB area and the area sought by KKS 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 lies 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.

At present, access to the REA Kaltim, SYB, KKS, CDM and KMS areas can be obtained only by river and by air although the completion in 2005 of a road bridge over the Mahakam at Kota Bangun may eventually permit road access as well. The PBJ area is already accessible by

road. The CDM and KMS areas can be accessed from the REA Kaltim area by way of abandoned logging roads.

The group continues to look at acquiring further areas suitable for planting with oil palms within the general vicinity of its existing land allocations but land is much less available for oil palm development than was formerly the case.

Land development

Areas planted and in course of development as at 31 December 2009 amounted in total to 30,990 hectares. Of this total, mature plantings comprised 18,736 hectares. A further 3,333 hectares planted in 2006 came to maturity at the start of 2010.

Following the onset of the international financial crisis and the sharp falls in commodity prices that accompanied it, the directors decided in October 2008 to suspend all new plantation development until the world economic outlook became clearer. With the recovery in CPO prices seen in the early months of 2009 and a seeming improvement in the world economic outlook, it was decided in April 2009 to resume development. As a result of this decision, an area of 2,690 hectares was cleared and planted out or prepared for planting out during 2009.

Reserve land held by the group only becomes available for development when the titling process has proceeded to a point at which the group has been granted necessary development and land clearing licences and compensation agreements have been reached with local villagers who have claims in respect of their previous use of the land. In the past, delays in making available land areas for development have been a serious impediment to achievement of target extension planting programmes. The group therefore sought during the period that the development programme was temporarily suspended to take maximum advantage of the opportunity that this afforded to improve the pipeline of land areas immediately available for planting.

In consequence, the group is now well placed to proceed with its plans for planting in total a further 8,000 hectares of oil palms over the two year period to the end of 2011. Nevertheless, it does remain the case that achievement of this planting target is critically dependent upon land becoming available for development as needed. New regulations recently announced by the MInistry of Forestry mean that planting of the planned further 8,000 hectares will require permits additional to those that have already been obtained. The directors have no reason to believe that such permits will not be forthcoming within the time frame in which they will be needed.

At current cost levels and CPO prices, extension planting in areas adjacent to the existing developed areas still offers the prospect of attractive 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 beyond 2011 will be dependent upon the rate at which the group can make additional land areas available for planting.

Processing and transport facilities

The group operates two oil mills in which the FFB crops harvested from the mature oil palm areas are processed into CPO and palm kernels. The first mill, which dates from 1998, has been developed to give an intended capacity of 80 tonnes per hour. The second mill, which

was brought into production in 2006, has an existing capacity 60 tonnes per hour but is currently being expanded to a capacity of 80 tonnes per hour.

Some problems were experienced during 2009 with the older mill. Deterioration in one of the two boilers reduced available power and this, combined with inefficiencies in other ageing mill machinery, made it difficult to operate the mill at the intended capacity of 80 tonnes per hour over any extended period. Steps have been taken to address this problem. The deteriorating boiler will be replaced as soon as possible and the mill processing lines will be upgraded to provide greater resilience.

The upgrading of the older mill and the expansion of the newer mill to 80 tonnes per hour should provide the group with sufficient capacity to meet the expected FFB processing requirements of 2010 and 2011. By 2012 the group will require a third mill. Work is already in hand on the planning of this third mill and it is expected that construction of the mill will start during 2010.

The group's newer oil mill incorporates, within the overall facility, a palm kernel crushing plant in which palm kernels can be further processed to extract the CPKO that the palm kernels contain. The kernel crushing plant is economic to run because the oil mill in which the plant is located is able to generate sufficient power, from the combustion of waste products from the mill's processing of FFB, to operate the kernel crushing plant and to meet the other power requirements of the mill. Moreover, processing kernels into CPKO avoids the material logistical difficulties and cost associated with the transport and sale of kernels. The kernel crushing plant has a capacity of 150 tonnes of kernels per day which is sufficient to process all kernel output from the group's two existing oil mills. Further kernel crushing capacity will be needed when the planned third group oil mill comes into production and this new mill will therefore incorporate its own kernel crushing plant.

Palm kernel cake, a by-product of the CPKO extraction process is applied as an organic fertiliser. Sales of palm kernel cake as an animal feed are not remunerative given the remote location of the group's kernel crushing plant.

The group operates 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 comprises one barge of 3,000 tonnes, which the group time charters, and a number of smaller barges, ranging between 750 and 2,000 tonnes, which are owned by the group. The smaller barges are used for transporting palm products from the upriver operations to the transhipment terminal for collection from that terminal by buyers. The 3,000 tonne barge is used for sea voyages to Malaysia and other parts of Indonesia.

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. Currently, a significant proportion of the group's CPO is sold for delivery to ports in Sabah in East Malaysia. As a result, the 3,000 tonne barge is employed almost exclusively in sailing between Samarinda and Sabah. Because of the relatively short distance involved, this is proving very efficient in minimising transformation costs.

A trial made in 2005 established that it is both feasible and economic to use the barge fleet to transfer CPO from the Samarinda transhipment terminal to ships anchored offshore outside the port of Samarinda. This potentially provides access to vessels of much greater tonnage than the vessels that can be loaded within the port of Samarinda (which are effectively limited to 6,000 tonnes). Moreover, the recent construction of bulking facilities in

the major sea port of Balikpapan means that larger vessels may now also be accessed by barging from the upstream oil storage tanks to Balikpapan and transhipping there rather than in Samarinda. Access to larger vessels would permit the group to ship palm products to Europe when differentials between European and South East Asian prices for CPO and CPKO make it worthwhile to do so. This is not currently the case but the situation may change when the group becomes able to deliver palm products that have been certified as sustainably produced.

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 palm products at times have to be transferred by road from the mills to a point some 70 kilometres downstream where year round loading of barges of up to 2,000 tonnes is possible. Some years ago, the group acquired a riverside site in this downstream location but the original road access to this site was washed away in 2005. A new government road completed during 2009 has, at long last, restored access and the group will now consider developing its own permanent loading facilities on the site for use during dry periods. The group is also exploring alternative means of transferring palm products during drier periods to ensure that, as volumes increase, the group can continue during such periods promptly to evacuate all palm product output.

Crops and extraction rates

FFB crops for the years from 2005 to 2009 are shown in the “Key statistics” section of this annual report. The crop out-turn for 2009 amounted to 490,178 tonnes, slightly ahead of the budgeted crop of 486,000 tonnes and an increase of 8.6 per cent on the FFB crop for 2008 of 450,906 tonnes. External purchases of FFB from smallholders in 2009 totalled 13,248 tonnes (2008: 6,460 tonnes).

Rainfall across the group's estates averaged 3,123 mm for 2009, compared with 3,504 mm for the previous year. Rainfall of in excess of 3,000 mm per annum is more than sufficient for oil palm cultivation provided that the rainfall is distributed reasonably evenly over the year as oil palm estate soil has limited capacity to retain water. During 2009, there was an extended drier period between August and October, probably reflecting the reported El Nino effect. Although this was of some concern to the group, an analysis of the rainfall received during this drier period suggests that the rainfall was just sufficient to avoid deficits in the moisture required by the group's palms for optimal development. If correct, this would mean that the reduced levels of rainfall between August and October should not have a negative impact on cropping in 2010. On that basis, the group is budgeting an FFB crop of 561,000 tonnes for 2010.

The FFB crop to end March 2010 was some 16,000 tonnes short of budget. The shortfall is attributed by the directors to a combination of the particular weather pattern experienced during the first quarter of 2010 and to some oil palms entering a cyclical depression or rest phase during this quarter. Variations from year to year in the monthly phasing of each year's crops are normal and the directors do not believe that any conclusions should be drawn as to the likelihood of the group achieving its budgeted crop for 2010.

Processing of the group's own FFB production and the externally purchased FFB, together totalling 503,426 tonnes (2008: 457,366 tonnes), produced 118,357 tonnes of CPO (2008: 105,957 tonnes) and 23,740 tonnes of palm kernels (2008: 20,847 tonnes), reflecting extraction rates of 23.51 per cent for CPO (2008: 23.17 per cent) and 4.72 per cent for kernels (2008: 4.56 per cent). Production of CPKO amounted to 9,636 tonnes (2008: 8,190 tonnes) representing an extraction rate of 40.04 per cent (2008: 40.11 per cent).

The group's target extraction rates for 2009 were 24.0 per cent for CPO, 4.0 per cent for palm kernels and 42 per cent for CPKO. These target rates are being retained for 2010 with the exception of the target palm kernel extraction rate, which has been increased to 4.75 per cent.

Markets and revenues

According to Oil World, worldwide consumption of the 17 major vegetable and animal oils and fats increased by 3.1 per cent to 162.9 million tonnes in the year to 30 September 2009. The increased consumption was reflected in increased world production during the same period of 162.8 million tonnes with CPO accounting for 44.4 million tonnes of this (27.3 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 economic growth. Demand is thus being driven by the increasing world population and economic growth in the key markets of India and China. Vegetable and animal oils and fats can also be used to provide bio-fuels and, in particular, bio-diesel. According to Oil World, bio-fuel use during the year to 30 September 2009 accounted for 10.1 per cent of all vegetable and animal oil and fat consumption.

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 oils and fats 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 4 and 7 tonnes) is much greater than that of the principal annual oilseeds (less than 1 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 those 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 hydrogenation. Poly-unsaturated oils, such as soybean oil, rape oil and sunflower oil, require hydrogenation before they can be used for shortening or other solid fat applications but CPO does not.

Bio-fuel has become an important factor in the vegetable and animal oil and fat markets, not so much because of the oil and fats that it currently consumes, although this is not insignificant, but because the size of the energy market means that bio-fuel can provide a ready outlet for large volumes of oils and fats over a short period when surpluses in supply depress prices to levels at which bio-fuel can be produced at a cost that is competitive with prevailing petroleum oil prices. This should provide a floor for vegetable and animal oil and fat prices.

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. It is however possible that normal market mechanisms may, for a time at least, 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. Subsequent concerns as to the side effect of such actions in reducing food availability and in encouraging despoliation of forest lands may limit further measures to encourage the production of bio-fuel but it appears likely that measures already in place will remain in force for some time to come.

A graph of CIF Rotterdam spot CPO prices for the last ten years, as derived from prices published by Oil World, is shown in the "Key statistics" section of this annual report. The monthly average price over the ten years has moved between a high of $1,249 per tonne and a low of $234 per tonne. The monthly average price over the ten years as a whole has been $505 per tonne.

The modest recovery in CPO prices seen in the last two months of 2008 continued into 2009 with the price rising from an opening level of $525 per tonne, spot CIF Rotterdam, to a high of $830 per tonne in May 2009. The price then fell back to consolidate at a little over $600 per tonne in July 2009 but gradually recovered to close 2009 at just above $800 per tonne, a level at which it has broadly remained during the early months of 2010.

Although stocks in CPO producing countries reached quite high levels in January 2010, subsequent offtake has been good and stock levels have moderated. Moreover, the recovery in crude petroleum oil prices has meant that the floor for vegetable and animal oil and fat prices that crude petroleum oil prices provide has been rising. Whilst professional forecasters have generally been in agreement that CPO prices would probably stay at around current levels at least until mid 2010, there had been concerns that, after that, the harvests from the latest soybean plantings in Brazil and Argentina (which are reported to have been at record levels) might lead to some fallback in prices. This may still prove to be the case but heavy rains in some key soybean growing areas and fungus problems with the Brazilian crop, coupled with some indications that the negative impact on current CPO production of the recent El Nino weather phenomenon is proving greater than forecast, may mean that the supply demand balance in the second half of 2010 will be tighter than had been predicted and that CPO prices may remain at good levels.

In 2009, approximately 48 per cent of the group's CPO production was sold in the local Indonesian market and the balance of 52 per cent was exported. FOB prices realised for CPO in the local market during 2009 were for the most part broadly in line with those available in the export market but, with production volumes increasing, the group wishes to ensure that it can access both domestic and international CPO markets. Sales continued to be made to a small number of buyers with export sales concentrated within the South East Asian region with the vast majority of exports going to refineries in East Malaysia owned by one customer (a major company of international standing). During 2009, CPKO was again sold entirely in the local Indonesian market.

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 policies for terms of dealing with customers. The group will give consideration to separate marketing of segregated sustainable oil once it has obtained accreditation from the Roundtable on Sustainable Palm Oil as referred to under "Accreditation and verification" below.

The Indonesian regulations imposing sliding scales of duty on exports of CPO and CPKO remain in place. The rate of duty payable on CPO currently rises from nil per cent on sales at prices of up to the equivalent of $700 per tonne, CIF Rotterdam, to 25 per cent on sales at prices above the equivalent of $1,250 per tonne.

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 consider making 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 will also pay export duty 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 2009 and the group currently has no sales outstanding on this basis.

The average US dollar prices per tonne realised by the group in respect of 2009 sales of CPO and CPKO, adjusted to FOB, Samarinda, were, respectively, $591 (2008: $664) and $579 (2008: $820).

Costs

The group's revenue costs principally comprise: direct costs of harvesting, processing and despatch; direct costs of upkeep of mature areas; estate and central overheads in Indonesia; the overheads of the UK head office; and financing costs. The group's strategy in seeking to minimise unit costs of production is to maximise yields per hectare, to seek efficiencies in the 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 improve its agricultural practices. In particular, careful attention is given to ensuring that new oil palm areas are planted with high quality seed from proven seed gardens and that all oil palm areas receive the upkeep and fertiliser that they need. The group has been an early user of *macuna bracteata* as a cover crop in oil palm areas with encouraging results in keeping down noxious weeds and generating vegetative matter that provides a natural mulch and promotes oil palm growth. Steps were taken during 2009 to extend the group's use of natural fertilisers by the use of composted empty fruit bunches and oil mill effluent, both being residues of the CPO production process.

The group has always recycled empty fruit bunches and oil mill effluent but prior to the introduction of composting, these residues were distributed in the oil palm areas without processing (apart from treatment of effluent in effluent ponds to reduce its biological and chemical oxygen demand). Under the new composting process, the residues (in the case of effluent, again after treatment in effluent ponds) are delivered to a composting contractor at sites adjacent to the group's oil mills. The contractor takes title to the residues, manages the composting process (which takes 45 days and involves seeding the residues with an accelerant of micro-organisms (which the contractor supplies), mixing the residues and macerating the mix to encourage biodegradation) and then sells back the resultant compost to the group at an agreed price with a guaranteed nutrient content. The composted residues provide greater substitution for inorganic fertilisers than did the previous recycling of uncomposted residues and the overall effect is a reduction in cost.

Other efforts to achieve cost efficiencies during 2009 were concentrated on FFB collection and transport arrangements and on road maintenance. In the former case, steps were taken to increase mechanical handling

of FFB and to improve the efficiency of transfer of FFB from field to factory. In the latter case, it was decided to reduce the use of contractors and to assume much greater direct responsibility for road maintenance. In both cases, a significant investment was made in additional vehicles and equipment. Some teething troubles were experienced but by year end good progress had been made in resolving these and the directors remain optimistic that the changes made will prove themselves during 2010.

The group is continuing to invest in the development of a new management information system and accounting data base. This remains on schedule to become operational in phases during 2010 and fully operational for 2011. The new database should facilitate analysis by reference to much smaller units than has hitherto been possible and should thus permit management to identify and remedy underperformance on a more focused basis.

Although costs continued to rise during 2009 on a year to year basis, the year did see a welcome respite from the accelerating rates of cost inflation that have been a regular feature of oil palm cultivation in recent years. Fertiliser prices fell from the high peaks that they had seen in 2008 and diesel oil prices reduced along with petroleum oil prices. Local cost inflation was kept in check by a strengthening of the Indonesian rupiah against the US dollar. Unfortunately, the inflation prospects for 2010 are less promising with fertiliser and diesel oil prices again going up. The group has, however, already fixed prices for the majority of its 2010 fertiliser requirements at good levels and the resumed expansion programme and increasing crops from the areas already under cultivation should moderate the inflationary impact on unit costs.

Employees

The workforce in the group's agricultural operations continued to expand in line with the growth in the operations so that, by the end of 2009, the workforce numbered over 6,900 (2008 – 6,000).

Following an external review, steps were taken during 2009 to enhance the human resources department to provide the additional administrative capacity that the increasing number of employees requires and to improve communication across the workforce. New management was appointed and separate teams, each under the supervision of a dedicated senior staff member, were deployed to pursue a number of strategic initiatives to improve employee facilities and amenities; to encourage a team mentality; to enhance operational management practices; to inculcate principles of ethical conduct; and to make the human resource department itself more effective.

The revamped human resource department is introducing new defined indicators for evaluating performance and is establishing objective criteria for determining the relative importance of different management and supervisory positions within the agricultural operations. A new remuneration structure is being put in place to ensure that remuneration is competitive and fair and appropriately reflects the new grading of positions and industry benchmarks. The performance management system and new remuneration structure are being phased in gradually and are expected to be implemented fully during 2011.

Almost all members of the workforce and their dependants are housed in group housing in a network of villages across the group estates. All villages are equipped with potable water and electricity and provided with a range of amenity buildings including mosques, churches, shops, schools and crèches. A trust funded by the group operates a network of primary schools across

the group's estates and the group provides financial assistance to state secondary schools serving the children of the group's employees. In 2009, 88 pupils from the group's primary schools sat examinations for entry to state secondary schools and a 100 per cent pass rate was achieved.

The group runs its own health service with a medical clinic in each estate village and a central hospital. The clinics and hospital are open not only to the group's employees and their dependents but also to members of the local communities. The group actively supports measures to control endemic diseases and to further the education of its workforce in hygiene and similar health matters. No incidents of vector borne diseases (such as dengue fever and malaria) were reported on the group's agricultural estates during 2009.

The group has health and safety policies that are clearly communicated to all employees and are managed through regular meetings on each operating unit attended by management and employee representatives. The minutes from all such meetings are reviewed by senior management ultimately accountable to the group managing director and appropriate action is taken to remedy any deficiencies identified. There were no serious accidents to members of the group's agricultural workforce during 2009.

Having available staff in the numbers and with the skills and commitment that are required is vital to the group in its efforts to establish best practice in all aspects of its agricultural activities. In most years, graduates from Indonesian universities are recruited to join a twelve month cadet training programme organised by the group's training school and providing a grounding in oil palm estate management. Those successfully completing the programme are offered management positions.

Wherever possible, the group fills available staff positions by internal promotion. The continuing expansion of the agricultural operations gives the group the ability to offer graduates the prospect of an attractive career path. Until recently, the graduate intake was limited to graduates holding agricultural qualifications but this was broadened in 2009 to include engineering graduates. It is planned that future graduate recruitment should be further broadened to include a wider spectrum of graduates with the aim of providing the group with a pool of staff qualified to manage all aspects of the group's agricultural activities.

Continued training is provided for staff at all levels. Regular programmes are constructed by, and operated out of, the group's own training school. These are supplemented by external management development courses and attendance at industry conferences. A wide variety of topics is covered including health and safety and sustainability. New programmes introduced during 2009 included communication skills and English language courses.

The group promotes a policy for the creation of equal and ethnically diverse employment opportunities and encourages the establishment of forums in which employees or their representatives can have free and open dialogue with the group's management.

Community development

The group believes that maintenance of good relations with, and encouraging the development of, local communities in its areas of operation is an essential component of its agricultural operations. To this end, the group provides assistance to adjacent villages by helping with road building and other infrastructural requirements and encourages joint social and cultural activities between its employees and local villagers. Infrastructural projects planned for 2010 include provision of electricity generating sets to five local villages, replacement of a

village bridge and drilling of tube wells in two villages to provide drinking water.

The group has established a separate department to liaise with the local communities and to formulate and manage the group's community development initiatives. Staffed with a manager and four assistants, the department is the primary interface between the group and the local communities. In addition, a liaison committee established in 2009 and made up of representatives of the group and the local communities now meets regularly and provides a forum in which concerns of any of the parties represented can be aired formally.

The community development department plays an important role in the titling of new agricultural land areas allocated to the group. It oversees the production by external consultants of the community needs assessment that the group now commissions in all new areas prior to any development of such areas. It explains to the local communities the implications of oil palm development and it seeks to identify and meet local concerns so that the free, prior and informed consent of local people is obtained for new developments.

The department is also responsible for assisting the local communities in establishing self help programmes that will assist with their economic development. Such programmes fall into two categories: first, smallholder oil palm plantings (which are made viable by the nearby availability of group oil mills able to process the FFB crops that the plantings will produce); and, secondly, community projects that can take advantage of the readily accessible local market for produce that the proximate group workforce provides.

More detailed information regarding smallholder oil palm plantings is given under "Smallholder programmes" below. As respects the other community development projects, the group provides support by way of agreements to purchase produce and financial and technical assistance. Such projects have included chicken and duck rearing, fish farming, fruit, vegetable and rice cultivation and bee keeping. To date, projects of this type have been organised by small groups of individual villagers. Going forward, the group hopes to encourage projects organised by village cooperatives so as to permit projects on a slightly larger scale and to widen the opportunity for members of each village to participate in such projects if they so wish.

Smallholder programmes

The group continues to support the local communities in areas adjacent to the group's agricultural operations in establishing their own smallholdings of oil palm.

Until 2009, this support was provided to individual smallholders pursuant to a scheme known as "*Program Pengembang Masyarakyat Desa*" or "*PPMD*". Under this scheme, each individual smallholder cultivates oil palm on his own two hectare plot. The group provides technical advice and supplies each smallholder with fertilisers and chemicals on deferred terms on the basis that when the smallholder's oil palm plantings reach maturity, all FFB produced will be sold to the group for processing and the group will, on an agreed basis, recover from the amounts payable for the FFB, the deferred amounts owed to the group. At 31 December 2009, some 1,560 hectares of smallholder plantings had been established following this model across 14 local villages.

Although interest from the local village communities in the cultivation of oil palm has been increasing year by year, over recent years it has become progressively clearer that the logistical constraints of dealing with a large number of individuals, each of whom operates on a relatively small area, will inevitably limit the rate at which the group can expand the smallholdings that it supports under the

PPMD scheme. Accordingly, in order to accelerate the rate of smallholder development by local village communities, the group decided that, while it would continue to support established smallholdings under the PPMD scheme, it would concentrate its future efforts on supporting local village cooperatives in developing oil palm on larger areas pursuant to what are known as "plasma schemes" (such terminology reflecting an analogy with elementary particle physics in which a company's estates represent a "nucleus" and the associated smallholders a "plasma" of linked particles).

Under the plasma scheme model, the land areas for development are provided by 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 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.

2009 saw the establishment by the group of its first plasma scheme. Out of an initial gross area of 1,500 hectares provided by a cooperative of three local villages, 1,300 hectares were cleared and a total of 770 hectares had been planted by year end. The balance of the 1,300 hectares cleared area will be planted during 2010. Cooperative members form the core labour force for the scheme but are supplemented when necessary by labour from the group's estates for which the group renders an appropriate charge. Financing for the scheme has been agreed with a local development bank in the form of a fifteen year loan secured on the land and assets of the scheme and guaranteed by a member of the group. It is expected that the loan will finance most of the initial development costs of the scheme but will be supplemented to the extent necessary by funds advanced by the group. The group aims to initiate further plasma schemes during 2010 on land areas totalling 3,000 hectares provided by cooperatives formed by a number of villages. It is intended that these schemes will be organised on a basis similar to that adopted for the initial scheme.

Whilst the group views its support for smallholder oil palm plantings in the local communities adjacent to its operations as part of its social obligations to those communities, the discharge of those obligations will be mutually beneficial to the communities and the group. The communities will benefit from the economic development generated as a result of the plantings while the group will benefit from the additional throughput in its oil mills that will result from the processing of FFB from the plantings.

Conservation

From the outset, the group has planned the development of its agricultural operations on the basis of environmental impact assessments and advice provided by independent experts. It continues to do so. Within the areas already developed, approximately 6,000 hectares have been retained as conservation reserves with the aim of conserving flora and fauna and enhancing the biodiversity of the landscape. Areas identified as requiring conservation and set aside as part of the planning process for each new development area will be added to the conservation reserves as the group expands.

As with community development, the group has established a separate department ("REA Kon") to implement the group's conservation objectives. Led by an experienced local manager with a staff of eight and advised by an international conservation expert, the department has established a long term development plan for the period 2010 to 2015 with the following objectives:

- within the locality of the group's agricultural operations, compiling a detailed record of the physical attributes of the landscape, of its bio-diversity resources and of the status and value of those resources in a local, national and international context;
- minimising or eliminating adverse human impacts from the group's plantation operations on soil, water and biological communities;
- achieving biodiversity conservation through education and cooperation with local communities to promote both protection and sustainable use; and
- seeking conservation outcomes that provide long term benefits to species, local communities and the group.

REA Kon augments its effectiveness through partnerships with local bodies and international non governmental organisations. Since commencing operations in 2008, the department has organised clear physical demarcation of all existing conservation reserves and has established a permanent database on flora and fauna that are found within the reserves and neighbouring watercourses. Up to the end of 2009, a total of 38 species of mammals, 143 species of birds and 71 species of cold-blooded vertebrates (such as frogs, snakes and lizards) had been logged on land. In addition, collaboration in studies of aquatic fauna conducted with the Indonesian Institute for Sciences and Dr Maurice Kottelat, a leading ichthyologist, had recorded in total over 100 species of fish and described several previously unknown species (including *Leiocassis sp*, *Pangio sp* and *Rasbora sp*).

Camera trapping and walking surveys within the conservation reserves and adjacent estate areas have detected a number of orang-utans (estimated at between 11 and 15). At least two baby orang-utans are known to have been born on the conservation reserves during 2009. REA Kon is monitoring the health of this promising orang-utan population and will consider enrichment planting in the conservation reserves if it appears that the naturally available food resources need to be enhanced.

Quarterly monitoring of water quality in all rivers in the conservation reserves on the north of the Belayan was initiated during 2009 and this will be extended to the tributaries in the conservation reserves on the south bank during 2010. Mapping of pest outbreaks in selected group estates has also started and REA Kon intends during 2010 and 2011 to study the contribution that forest predators can make to pest control within oil palm plantings.

A number of conservation education camps for children in the group's primary schools were organised by REA Kon during 2009. It is planned to continue this programme in 2010 and to invite children in local village schools to join the camps. Conservation for added value schemes have been started whereby local villages are provided with seedlings of rattan and fruit trees to be planted in, and at the periphery of, the group's conservation reserves. These schemes are intended to enhance sustainable use and deter destruction of the areas by local slash and burn farming.

The directors believe that there is scope to extend the REA Kon activities beyond the immediate areas of the group's agricultural operations into the wider Belayan river basin and that to do so would increase the conservation gains that can be delivered. To this end the group has established a charitable foundation, the Yayasan Ulin ("YU") or Ironwood Foundation, which the group supports but which is also in a position to accept donations from, and work with, third parties. YU will focus on promoting conservation of areas external to the group's plantations. YU is assisted by a board of respected international and local scientific advisers and is managed on the ground by senior REA Kon staff. In

addition to the group, donors to date have included a number of zoological and conservation organisations as well as private individuals.

Sustainable practices

The group recognises its social obligations as respects pollution and energy efficiency. The group operates a zero burning policy in relation to land development and, in dry periods, maintains active fire patrols in an effort to limit the risks of accidental fires. Corridors are used to separate all plantings from water courses and the latter are regularly monitored to ensure that they are not contaminated by leaching of fertilisers and chemicals. The group actively promotes integrated pest management throughout its operations. Wherever possible, natural predators are preferred to pesticides for pest control. Selective varieties of flowering plants have been planted throughout the group's estates to promote the population of wasps, the natural predators of bagworm and caterpillars.

All processing waste is recycled. As noted under "Costs" in "Operations" above, this has always been the case but changes were made during 2009 to increase the efficiency of the recycling process and thereby reduce the group's dependence on inorganic fertilisers. Oil mill effluent continues to be treated in effluent ponds but, whereas previously the treated effluent and empty fruit bunches were simply distributed in the oil palm areas, these residues are now combined into a compost which is also applied in the oil palm areas but results in a greater reduction in the requirement for inorganic fertiliser than the previous recycling of untreated residues permitted. The residue from palm kernel milling, which is less suitable for composting, continues to be recycled directly back to the oil palm areas.

The group estimates that, prior to the introduction of composting, recycling of processing waste resulted in a reduction in the annual use of inorganic fertiliser per mature hectare from 1.1 tonnes to 0.9 tonnes. It is estimated that the conversion to composting will result in a further reduction of 0.2 tonnes per hectare. There is evidence to suggest that when natural fertiliser is substituted for inorganic fertiliser of an equivalent nutrient content there is an effectiveness gain because the natural fertiliser enhances soil structure and thereby improves plant uptake of nutrients.

Handling arrangements are designed to ensure that no CPO, CPKO or effluent passes into water courses. Regrettably during 2009, one accidental spillage occurred during the transfer of CPO from a riverside loading point to a barge. Back pressure caused by a kink in a flexible pipe leading from a pump at the loading point to the barge led the flexible pipe to detach from the pump and for a few minutes, until pumping was stopped, CPO was discharged into the Belayan river. Compensation was paid to the affected villagers and urgent steps were taken to prevent a recurrence, including improved bunding at pumping points and better supervision of CPO loading.

Fibre extracted during the milling of oil palm fruit is used to fuel oil mill boilers from which steam is generated. The steam is then used to drive steam turbines for generating electricity. This electricity is sufficient to power not only the group's oil mills but also to provide power to several estate villages. However, the power is not sufficient for all villages and power can anyway only be provided by this means when the mills are running. The agricultural operations are therefore heavily dependent on diesel generated power and this, coupled with diesel use in vehicles, results in a currently estimated consumption of 90 litres of diesel oil per tonne of CPO produced.

The group is considering a project to achieve greater efficiency in its use of diesel oil by capturing methane released during the digestion of mill effluent and then

utilising such methane to drive gas powered generators. This would not only materially reduce the group's use of diesel for power generation but would also substantially eliminate current methane emissions from effluent ponds. Preliminary estimates suggest that such a project would provide additional power capacity of between 2 to 3 megawatts per oil mill but would involve investment of up to $4 million per mill (more than originally thought) in establishing the methane capture facilities, gas powered generating capacity and additional electrical reticulation that would be required. The group has now, with the assistance of the Danish Ministry of Climate and Energy, pre-registered the contemplated project under the United Nations Framework Convention on Climate Change and hopes to be accepted for full registration during 2010. This would permit the group, upon completion of the project, to obtain carbon credits under the Clean Development Mechanism which would make it easier to justify the capital commitment that is involved.

Accreditation and verification

The group has obtained ISO 14001 certification in respect of both of its mills, the kernel crushing plant and two of the REA Kaltim estate units. It is hoped that certification of the balance of REA Kaltim's estate units and of the SYB estate units will be completed during 2010.

The group is a member of the Roundtable on Sustainable Palm Oil ("RSPO") which has produced a set of eight principles and 39 criteria for the sustainable production of palm oil. Whilst the directors believe that the group's operational practices already meet the requirements of RSPO, accreditation will require that such operational practices are embedded in formal systems and are subject to controls that are auditable. Over the past two years, in tandem with the ISO 14001 certification process, the group has, with assistance from external consultants, taken steps to ensure that it has in place the required systems and controls. This process is now substantially complete and the group has therefore applied for RSPO accreditation audits (conducted by RSPO approved independent certifiers) to be initiated during 2010 with a view to obtaining final certification during 2011. Compliance with RSPO procedures and standards is exacting but the group remains committed to long term sustainable development and eventual production of certified sustainable palm oil.

Once obtained both ISO 14001 and RSPO accreditations are subject to periodic independent recertification.

Both ISO 14001 rules and RSPO principles and criteria include requirements relating to environmental and social conduct. As a substantial Indonesian plantation operator, REA Kaltim is also subject to periodic appraisal of its governance in relation to environmental and social matters pursuant to a programme managed by the Indonesian Ministry of Environment and known as "PROPER". PROPER evaluations are conducted by both the East Kalimantan provincial authorities and by the central government authorities and the results of the evaluations are marked by the presentation of coloured flags ranging from black for the poorest assessment to gold for the best. In 2009, REA Kaltim was again awarded a green flag following the provincial PROPER assessment but, regrettably, was downgraded from the preceding year's green flag to a blue flag by the central government assessment. The downgrade reflected the inspection team's finding of sub-optimal exhaust emissions from the deteriorating boiler in the group's older oil mill (as referred to under "Processing and transport facilities" in "Operations" above). These will be eliminated by replacement of this boiler which is in hand. In the meanwhile, efforts are being made to improve boiler combustion by better monitoring of moisture in, and mix of, the processing residues that fuel the boiler.

In line with its policy of continuous improvement, the group employs an international firm of consultants to

conduct periodic reviews of management performance in relation to production and environmental practices and social responsibility. Conclusions and recommendations are carefully reviewed by senior operating management and the group's managing director. Material concerns are discussed by the board of the company and appropriate responsive action is taken.

Coal operations

Concessions and structure

Following its acquisition of interests in the Liburdinding and Muser coal mining concessions located near Tanah Grogot in the southern part of East Kalimantan in the second half of 2008, the group further extended its coal operations in December 2009 with the acquisition of an interest in a third coal mining concession located near Kota Bangun in the central part of East Kalimantan which was purchased for a cash consideration of $4,500,000. The Liburdinding and Muser concessions cover areas of, respectively, 1,000 hectares and 2,100 hectares and the Kota Bangun concession an area of 4,400 hectares.

Until recently, Indonesian law restricted foreign direct ownership of Indonesian companies holding coal mining concessions but a new Indonesian mining law enacted in December 2008 permits such ownership (subject to a provision that foreign controlled mining companies must be owned locally to the extent of not less than 20 per cent within a prescribed period after such companies commence commercial mining operations).

Pending clarification of how the new mining law will be applied in practice (which will reflect regulations implementing the law that have only recently been published), the group has entered into arrangements with a local investor and members of his family (together the group's "local partners") whereby the Liburdinding and Muser concessions are currently held by two companies which are wholly owned by the group's local partners and which in turn own the company holding the Kota Bangun concession. A fourth company, PT KCC Mining Services Indonesia, incorporated under the Indonesian foreign investment law and owned 95 per cent by KCC Resources Limited ("KCC") (a wholly owned subsidiary of the company incorporated in England and Wales that acts as a co-ordinating company for the group's coal operations) and 5 per cent by the local partners, has been established by KCC to spearhead the group's coal operations.

The three coal mining concession holding companies are being financed by loan funding from the group. KCC will have the right to acquire the concession holding companies at original cost as soon as Indonesian law allows this on a basis that will give the group (through KCC) 95 per cent ownership with the balance of 5 per cent remaining owned by the local partners. In the interim, the group will receive appropriate remuneration for the funding and services that it provides to the concession holding companies 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 rights held by the concession holding companies in respect of the Liburdinding and Kota Bangun concessions are in the form of exploitation licences. These licences are valid for terms expiring, respectively, in 2013 and 2016, but are renewable on expiry. Currently, Muser is held on an exploration licence but this will be converted into an exploitation licence which will be for an initial term of five years and will also be renewable on expiry. Royalties based on coal sales are payable in respect of Liburdinding and Muser at the rates of 13 and 5 per cent, respectively, and will be payable in respect of Kota Bangun at the rate of 13 per cent. All three concession holding companies will be required to reconstitute the areas mined when coal extraction has been completed.

Geological surveys conducted to date suggest that the concessions contain commercial deposits of coal accessible by open cast mining and having typical gross calorific values of between 5,800 and 6,200 kilocalories per kilogramme ("kcal/kg") air dried basis ("ADB") in the case of Liburdinding, between 7,000 and 7,200 kcal/kg ADB in the case of Muser and between 8,500 and 9,500 kcal/kg ADB in the case of Kota Bangun. Inferred coal reserves are estimated at 14.7 million tonnes for Liburdinding, 17.6 million tonnes for Muser and not less than 2 million tonnes for Kota Bangun. Geological surveys to delineate more precisely the available reserves are continuing.

The group is investigating the possibility of one of the coal mining concession holding companies obtaining a licence to quarry stone from an area near to the group's agricultural estates with a view to selling crushed stone to the group's agricultural operations and to third parties operating in the vicinity of those operations.

Mine development

During 2009, the group's development focus was on bringing the Liburdinding concession into production. A mining plan had been completed, and the necessary infrastructural facilities (principally a port facility and a 38 kilometre road to the port) were substantially complete, by June 2009. However, the group withdrew from its original plan to establish, as rapidly as possible, a production level of 30,000 tonnes per month when it became clear that the sulphur content of the Liburdinding coal was such that, in what had become a buyer's market for export coal, it would be necessary either to blend the coal mined with purchased coal having a lower sulphur content or to accept a significant price penalty.

The group concluded that it was important to be able to market Liburdinding coal within Indonesia and steps were taken to establish a coal depot at Semarang in Central Java to facilitate deliveries to industrial users of coal in that area (a large coal consuming district) and to permit blending with other coal to meet specific buyer requirements. The Semarang depot is now in operation and sales of Liburdinding coal are being made through it. Additionally, with the recovery in coal prices of recent months, export demand has improved and some export shipments of Liburdinding coal are in prospect. For 2010, the group is budgeting for output from Liburdinding of 150,000 tonnes with a maximum stripping ratio (being the amount of earth and rock (or "overburden") required to be removed to gain access to the coal, expressed as the number of cubic metres of overburden in situ to be removed to extract one tonne of coal) of 7 to 1.

The group also intends that the newly acquired Kota Bangun concession should be brought into production during 2010 with a view to achieving, by December 2010, an output of 16,000 tonnes per month. Mining plans for the concession were completed in the early part of 2010 a mining contractor has been appointed and initial removal of overburden should start in the near future. The Kota Bangun concession is projected to involve a stripping ratio of in excess of 20 to 1 and will require blasting of the overburden. However, the Kota Bangun concession is well located, being approximately 5 kilometres from the Mahakam river and the high calorific value coal that the concession contains is very suitable for export.

Continuing geological assessments of the Muser concession indicate that the Muser coal deposits are complex and that the overburden includes rock that cannot easily be removed without blasting which may pose problems given that there are villages located in quite close proximity to the concession. Moreover, the Muser coal has a higher sulphur content than the Liburdinding coal. The group therefore intends to continue geological exploration at Muser during 2010 but to defer bringing the concession into production until

commercial levels of output are being obtained from Liburdinding and Kota Bangun.

Markets, revenues and costs

Within the Asia Pacific region, China and India are large coal producers but their internal production is inadequate to meet their energy requirements. The shortfall is made up by imports primarily from Indonesia and Australia. A number of other Asian Pacific countries also have demand for imported coal. Because coal is bulky, economic availability is constrained by logistics. The directors consider that this offers excellent opportunities for Indonesian coal producers because Indonesia is geographically well located for the main Asia Pacific markets and much of its coal (particularly in East Kalimantan) is located adjacent to rivers which provide an economic method of evacuation Furthermore, in addition to the potential of an expanding export market driven by increasing demand for coal generated power, Indonesia can expect significant growth in internal demand as the Indonesian state electricity company ("PLN") implements plans to expand generating capacity from an existing 25,000 megawatts to 44,000 megawatts with the addition of 10,000 megawatts during 2010 and the balance of 9,000 megawatts by 2014.

The directors believe that the published Newcastle globalCOAL weekly index, when adjusted for differences in calorific values (the index being based on coal of net calorific value of 6,000 kcal/kg), has over time provided a reasonable indicator of prevailing East Kalimantan coal prices. This index opened 2009 at $79 per tonne, rose to a high of $88 during January, then, in the wake of the world economic downturn, fell to a low during April of under $60 before recovering gradually to close the year at $85. The index recovered further during January 2010 to a high of just over $100 and currently stands at $98.

The group aims to augment the basic mining revenues from the Liburdinding and Kota Bangun concessions in two respects during 2010. First, it intends to make available the port facility established for the Liburdinding concession for use by third parties for an appropriate charge. Secondly, the group intends to take advantage of the acceptance of one of the concession holding companies as one of a limited number of approved suppliers to PLN to establish a limited coal trading activity in which the group will source coal from third parties, either by outright purchase or by mining third party concessions against payment of an agreed royalty, and will then sell the coal so sourced to PLN and others. As both of these proposed additions to the coal operations will be new, there can be no certainty as to how fast and in what volumes they can be added. However, the directors consider it reasonable to aim over time to achieve levels of 20,000 tonnes per month of third party throughput through the Liburdinding port and of 50,000 tonnes per month of traded coal sales (sourced by a combination of outright purchases and mining of third party concessions under royalty arrangements).

The group is budgeting the overheads of its coal operations for 2010 (excluding head office costs in the UK, interest, depreciation and amortisation) at $100,000 per month. Once commercial levels of production are being achieved, production costs per tonne are projected in the ranges $64 to $78 per tonne for Kota Bangun coal and $23 to $29 per tonne for Liburdinding coal. Net contribution from third party coal throughput in the Liburdinding port is projected at $2.50 per tonne and the contribution margins achievable on traded coal sales at between $5 and $10 per tonne (depending on the mix of coal sourced by outright purchase and coal sourced by mining third party concessions). The overall results of the coal operations will be critically dependent upon sales volumes and prevailing coal prices.

Sustainable practices

In developing its mining activities, the group remains committed to observing international standards of best environmental practice. Steps are being taken to establish health and safety procedures to protect and safeguard the welfare of all persons involved with the mining operations, to ensure the proper management of waste water and to provide for the reinstatement, in so far as reasonably practicable, of land areas affected by mining to their original condition upon completion of mining operations.

Finances

Accounting policies

The group continues to report in accordance with International Financial Reporting Standards ("IFRS") and to present its financial statements in US dollars. The company continues to prepare its individual financial statements in sterling and in accordance with UK Generally Accepted Accounting Practice; accordingly the company's individual financial statements are presented separately from the consolidated financial statements.

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

As in previous years, the fair value of the biological assets at 31 December 2009 has been derived by the directors on a discounted cash flow basis by reference to the FFB expected to be harvested from the group's oil palms over the full remaining productive lives of the palms and to an estimated profit margin per tonne of FFB so harvested. This estimated unit profit margin is based on current costs and an estimated produce value for transfer to mill derived from a 20 year average of historic CPO prices but is buffered to restrict any implied change in margin in contradiction of the trend in current margins. The 20 year average CPO price, FOB port of Samarinda and net of Indonesian export duty, to 31 December 2009 amounted to $446 per tonne which is higher than the 20 year average to 31 December 2008 of $431 per tonne. However, because of inflation, the unit profit margin per tonne of FFB harvested implied by the average price of $446 and the current unit cost of production would be lower than the unit profit margin assumed at 31 December 2008 although the unit profit margin that is currently being achieved is, in reality, greater than that margin. Accordingly, the same unit profit margin as that assumed as at 31 December 2008 (namely $50 per tonne of FFB) has been applied in valuing the biological assets as at 31 December 2009.

The discount rates used for the purposes of the biological asset revaluation at 31 December 2009 were 16 per cent in the case of REA Kaltim and 19 per cent in the case of all other group companies (31 December 2008: respectively, 16 per cent and 19 per cent). The directors believe that the risks of successfully harvesting FFB projected to be produced from newly developed areas are significantly greater than those of harvesting the projected FFB crops from established estates. They consider it appropriate to reflect this risk differential by applying a discount rate of 19 per cent to newly established areas, reducing this to 17.5 per cent as an area becomes well established and then further to 16 per cent when plantings in an established area become predominantly mature. The discount rates used at 31 December 2009 and 31 December 2008 were derived accordingly.

The directors recognise that the IFRS accounting policy in relation to biological assets does have theoretical merits in charging each year to income a proper measure of capital consumed (so that, for example, a fair distinction is drawn each year between the cost of the shortening life expectancy of younger plantings still capable of many years of cropping and that of older plantings nearing the end of their productive lives). It does, nevertheless, concern the directors that no estimate of fair value can ever be completely accurate (particularly in a business in which selling prices and costs are subject to very material fluctuations). Moreover, in the case of the group's biological assets, small differences in valuation assumptions can have a quite disproportionate effect on results. The biological assets are recorded in the group balance sheet at 31 December 2009 at $204 million. An increase or reduction of $5 per tonne in the estimated profit margin used for the purpose of the valuation of $50 per tonne of FFB would increase or reduce the valuation by approximately $22 million.

Sales of coal made during 2009 were minimal and the gross assets of the group's coal operations at 31 December 2009 represented only some 3 per cent of the group's gross assets. Accordingly, no separate segmental report in respect of the coal operations has been provided in the notes to the consolidated financial statements.

Group results

Group operating profit for 2009 amounted to $47.7 million and profit before tax to $41.7 million against the comparable figures of the preceding year of $40.6 million and $36.3 million.

With increased sales volumes and despite lower selling prices, revenue for 2009 at $78.9 million was only marginally below that of 2008 ($79.6 million). The increased volumes coupled with inflation did, however, mean, that cost of sales for 2009 at $34.0 million was higher than the comparable figure for 2008 of $27.7 million. Other significant movements in the components of operating profit between 2008 and 2009 comprised a positive swing in the aggregate IFRS fair value adjustments of $18.2 million (reflecting gains of $11.3 million in 2009 against losses of $6.9 million in 2008) and an increase in administrative expenses ($7.2 million in 2009 against $3.5 million in 2008).

The 2009 gains on IFRS fair value adjustments comprised a gain of $1.5 million on the revaluation of agricultural produce inventory and a gain of $9.8 million on the revaluation of biological assets (2008: losses of, respectively, $4.2 million and $2.7 million). The gain on revaluation of agricultural produce inventory reflected a higher CPO price at 31 December 2009 than at 31 December 2008 partly offset by a reduction in inventory volumes, while the gain on revaluation of biological assets resulted mainly from the reinstatement of the group's extension planting programme and the resultant increase in planted hectarage during 2009.

An apparently marked increase in administrative expenses from $3.5 million in 2008 to $7.2 million in 2009 was almost entirely accounted for by a reduction from 2008 to 2009 in net exchange gains of $2.1 million, a swing of $1.0 million on movements on accruals in respect of the company's prospective liability for employer national insurance contributions on exercise of a director's option (which reflected movements in the market price of the company's ordinary shares) and a swing of $0.8 million on movements in the accrued liability for pension funding which was adjusted during 2009 to reflect the latest triennial actuarial valuation of the group's pension scheme.

Group profit before tax for 2009 amounted to $41.7 million against $36.3 million in 2008. The increase was substantially in line with the increase in operating profit but did reflect higher finance costs ($6.8 million against

$5.4 million). These were largely the result of a lower capitalisation rate than in 2008.

Before deduction of the interest component added to biological assets, interest payable in 2009 amounted to $10.4 million (2008 - $10.0 million). Interest cover for 2009 (measured as the ratio of earnings before interest, tax, depreciation and amortisation, and biological gain to interest payable) was 4.0 (2008 - 4.7).

The group has previously provided in full against a disputed Indonesian assessment of tax on the 2006 profits of REA Kaltim. An appeal is continuing against this assessment but no credit has been taken in 2009 for the recovery of tax that would result from the appeal proving successful.

At the after tax level, profit for the year for 2009 was $29.9 million against $25.8 million in 2008 while profit attributable to ordinary shareholders was $27.1 million against $23.8 million. Fully diluted earnings per share amounted to US 81.4 cents (2008 - US 71.5 cents).

The group's target long term average annual return on adjusted equity is 20 per cent. The return achieved for 2009 was 26 per cent (2008: 26 per cent).

Dividends

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2009 were duly paid. Dividends totalling 4p per ordinary share have been paid in respect of 2009 (2008 – 3p per ordinary share). These comprised a first interim dividend of 2p per ordinary share paid on 4 September 2009 and a second interim dividend in lieu of final of 2p per ordinary share paid on 29 January 2010.

As noted under “Land development” above, the group retains ambitious plans for continued extension planting of oil palms. These plans will require substantial investment by the group and the need to fund this investment will inevitably constrain the rates at which the directors feel that they can prudently declare, or recommend the payment of, future ordinary dividends. The directors appreciate that many shareholders invest not only for capital growth but also for income and that the payment of dividends is important. They do believe that, with the crop increases in prospect over the next few years, it should be possible, notwithstanding the constraints of the development programme, to maintain a progressive dividend policy albeit that the rate of progression may have to be modest. The directors retain their previously stated intention that any new level of dividends set in respect of any given year should be sustainable in future years.

The directors continue to believe that capitalisation issues of new preference shares to ordinary shareholders, such as were made on several previous occasions, provide a useful mechanism for augmenting returns to ordinary shareholders in periods in which good profits are achieved but demands on cash resources limit the scope for payment of cash dividends. Because of the then state of markets for fixed return securities of smaller listed companies, the directors did not propose any such capitalisation issue during 2009 but they hope that the current indications of economic recovery may make possible a further capitalisation issue of new preference shares during 2010.

Capital structure

The group is financed by a combination of debt and equity (which under IFRS includes minority interests and the company's preference capital). Total equity less minority interests at 31 December 2009 amounted to $193.4 million as compared with $162.0 million at 31 December

2008. Minority interests amounted at those dates to, respectively, $1,314,000 and $580,000.

No new debt securities were issued by the group during 2009 but, in November 2009, the company issued 1,490,000 new 9 per cent cumulative preference shares for cash by way of a placing at a price of 103.18p per share (3.18p being an amount equal to the accrued dividend attaching to each such share at the date of allotment). The net proceeds of the placing were utilised to increase the cash available to the group as a cushion against possible additional cash requirements for the group's development programmes.

Group indebtedness and related engagements at 31 December 2009 amounted to $82.5 million, made up of US dollar denominated bank indebtedness under an Indonesian consortium loan facility of $10.2 million, £37 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes") (carrying value: $57.0 million), $7.7 million in respect of the hedge of the principal amount of the sterling notes as described below and $30 million nominal of 7.5 per cent dollar notes 2012/14 ("dollar notes") (carrying value: $29.7 million). Against these obligations, at 31 December 2009 the group held cash and cash equivalents of $22.1 million.

The sterling notes are issued by REA Finance B.V. ("REA Finance"), a wholly owned subsidiary of the company. They are secured principally on unsecured loans made by REA Finance to REA Kaltim and SYB, are guaranteed by the company and are repayable by three equal annual instalments commencing 31 December 2015. The dollar notes are unsecured obligations of the company and are repayable by three equal annual instalments commencing 31 December 2012.

Borrowings under the Indonesian consortium loan facility are secured on the assets of REA Kaltim and are guaranteed by the company. The outstanding balance under the facility at 31 December 2009 was repayable as follows: 2010: $1.5 million; 2011: $2.1 million; 2012: $2.7 million; 2013: $3.6 million and 2014: $0.3 million.

The group has entered into long term sterling US dollar debt swaps to hedge against US dollars the sterling liability for principal and interest payable in respect of the entire issue of the sterling notes (but in the case of interest only as respects interest payments falling due up to 31 December 2015).

In February 2010, the company issued an additional $15 million nominal of dollar notes at $90 per $100 nominal of notes in conjunction with the issue by KCC of 150,000 redeemable participating preference shares of $10 each at par. The monies raised, totalling $15 million before issue expenses, have been deployed in the group's coal operations save to the extent of $4.5 million which has been applied in repaying short term advances of an equivalent amount that had previously been made to the coal operations from elsewhere in the group.

The KCC participating preference shares will provide a limited interest in the group's coal operations such that if those operations 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), the combined return to persons who subscribed the additional dollar notes and KCC participating preference shares and who retain their notes and shares until redeemed will be 15 per cent per annum. If the required level of earnings is not achieved, then, except in certain limited circumstances (such as divestment of all or a significant part of the coal operations or a change in control of the company), no dividends or other distributions will be paid or made on the KCC participating preference shares and after 31 December 2014 those shares will be converted into valueless deferred shares.

Group cash flow

Group cash inflows and outflows are analysed in the consolidated cash flow statement. Cash and cash equivalents reduced over 2009 from $30.3 million to $22.1 million. The reduction of $9.4 million (adding back $1.2 million benefit from the effect of exchange rate changes) represented $5.1 million utilised in funding that element of investing activities not met by net cash from operating activities and in meeting a net outflow on financing activities of $4.3 million.

Net cash from operating activities for 2009 amounted to $29.6 million against $32.3 million in 2008, a reduction of $2.7 million. There were some significant movements in the component elements of this reduction. Operating profit increased by $6.1 million but, after reversal of non cash items, operating cash flows before working capital showed a reduction of $10.1 million Working capital in 2009 absorbed cash of $1.3 million against a release of $0.7 million in 2008 while finance charges were higher in 2009 than in 2008 by $1.3 million. Counterbalancing these negative movements was a large positive movement of $10.8 million on taxes paid ($2.3 million against $13.1 million). This reflected timing differences in settling tax liabilities and a non recurring payment in 2008 of additional tax demanded by the Indonesian tax authorities in respect of REA Kaltim's profits for 2006 (which had to be settled before the group could appeal against the demand).

Investing activities for 2009 involved a net outflow of $34.8 million (2008: $48.3 million). This represented new investment totalling $35.8 million (2008: $49.5 million), offset by inflows from interest and other items of $1.0 million (2008: $1.3 million). The new investment comprised expenditure on further development of the group's plantations of $27.0 million (2008: $39.8 million), on land rights and titling of $1.3 million (2008, including the purchase of PBJ: $4.4 million) and on the acquisition and development of coal concession rights of $7.5 million (2008: $5.4 million).

The net cash outflow on financing activities of $4.3 million (2008, inflow: $19.9 million) was made up of a net inflow from the issue of new preference shares of $2.5 million (2008, issue of sterling notes: $26.9 million), net repayments of bank debt and finance lease obligations of $2.8 million (2008: $3.1 million) and an outflow in respect of dividend payments of $4.0 million (2008: $3.9 million).

Liquidity and financing adequacy

As noted under "Group cash flows" above, at 31 December 2009, the group held cash and cash equivalents of $22.1 million These balances have been subsequently increased by the net proceeds (being $15 million less estimated expenses of $430,000) of the recent issue of additional dollar notes and KCC participating preference shares referred to under "Capital structure" above. In addition, the group had at 31 December 2009 and retains an undrawn working capital line of $4.75 million that is subject to annual renewal.

The planned planting of a further 8,000 hectares of oil palm during 2010 and 2011 and the concomitant requirement for continuing investment in estate buildings, oil palm processing facilities and other estate plant and equipment will involve the group in continuing major capital expenditure over the next two years. Given the group's existing cash resources and provided that the CPO price remains at reasonable levels, the directors expect that such capital expenditure can be funded from internally generated cash flow. Because of the volatility of commodity markets, the directors cannot rely on this expectation and, whilst the expansion programme can, in extremity, be rapidly scaled back to align with available cash resources, once areas have been planted with oil palms, some or all of the benefits of investment thereby made will be lost if the areas are not maintained and the

milling capacity needed to process the resultant FFB is not installed. Accordingly, the directors believe that it is essential that the group holds some cash cushion to meet possible calls for additional cash to fund the oil palm expansion programme. To this end, the group is currently seeking to arrange further fixed term bank facilities in Indonesia.

During 2010, capital will be required by the coal operations to fund the development of the Kota Bangun concession and to meet the working capital requirements that will arise if the coal operations develop as envisaged. It is expected that the funds provided to the coal operations from the recent issue of additional dollar notes and KCC participating preference shares will be sufficient for these purposes. In addition, the coal operations should shortly have available to them an undrawn working capital line of $3 million that is subject to annual renewal.

The group's financing is materially dependent upon the contracts governing the sterling and dollar notes. There are no restrictions under those contracts, or otherwise, on the use of group cash resources or existing borrowings and facilities that the directors would expect materially to impact the planned development of the group. Under the terms of the Indonesian consortium loan facility, REA Kaltim is restricted to an extent in the payment of interest on borrowings from, and on the payment of dividends to, other group companies but the directors do not believe that the applicable covenants will affect the ability of the company to meet its cash obligations.

The group's oil palms fruit continuously throughout the year and there is therefore no material seasonality in the funding requirements of the agricultural operations in their ordinary course of business. It is not expected that the development of the coal operations will introduce 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, it is essential that a proportion of the group's funding needs are met with prior charge capital (comprising borrowings and preference share capital).

The directors consider that the company’s preference shares (which entitle the holders to a cumulative annual dividend of 9 per cent of the nominal value of the shares, being £1 per share) represent a valuable component of the group's prior charge capital in that these provide relatively low risk permanent capital. The directors also believe that the company can comfortably support preference capital at the level at which the issued preference capital currently stands and that, if circumstances permit, the company should be prepared to raise additional capital by issuing further preference shares (to an extent that the company can still well support) and apply the proceeds in reducing group borrowings.

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

The directors believe that new projects within the coal operations can be brought into commercial production more rapidly than new oil palm plantings and that the coal

operations can therefore justify borrowing on a shorter term basis than the agricultural operations. However, given recent events in the banking sector, the directors believe that no operations of the group should allow themselves to become reliant on bank finance. Accordingly, the directors intend that the coal operations should also be financed principally by issues of listed debt securities.

The directors believe that the group's existing capital structure is consistent with the group's financing 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 that will result from the passage of time will mean that action will be required to ensure that the group's capital structure continues to meet the objectives.

The directors have no immediate plans for the group to issue further listed debt securities but they are aware that the Indonesian tax authorities have recently announced revisions to the rates of withholding tax to be applied to payments of interest from Indonesia to the Netherlands as well as changes to the basis upon which such authorities will accept that a foreign company is eligible for the concessionary tax treatment provided for in any double tax agreement between the applicable company's country of domicile and Indonesia. This development appears likely to result in the rate of withholding tax applicable to payments of interest (the aggregate gross amount of which in 2009 was $8.9 million) on loans to Indonesian subsidiaries of the company from REA Finance increasing from 10 per cent to 20 per cent. The directors are investigating the possibility of reorganising the sterling notes to mitigate this adverse fiscal development.

The directors retain their previously stated view that, although the group should retain flexibility as to the extent to which it funds itself with borrowed monies, as a general borrowing policy the group should not borrow to an extent that would increase its net debt plus related swap liabilities to above 100 per cent of its total equity. In practice, net debt plus related swap liabilities have been running at levels considerably below 100 per cent. The level at 31 December 2009 was 42 per cent against a target of 60 per cent and a level of 48 per cent at 31 December 2008. The target for 31 December 2010 is 60 per cent.

Other treasury policies

The sterling notes and the dollar notes carry interest at fixed rates of, respectively, 9.5 and 7.5 per cent per annum. Interest at 31 December 2009 was payable on drawings under the Indonesian consortium loan facility at a floating rate equal to Singapore Inter Bank Offered Rate ("SIBOR") plus a margin which, for so long as inter-bank markets remain disrupted, includes a liquidity premium reflecting the differences between SIBOR and the lending banks' costs of funds. The margin currently amounts to 6.25 per cent per annum.

As a policy, the group does not hedge its exposure to floating rates but, where possible, borrows at fixed rates. A one per cent increase in the floating rate of interest payable on the drawings under the Indonesian consortium loan facility at 31 December 2009 would have resulted in an annual cost to the group of approximately $102,000.

The group regards the US dollar as the functional currency of most of its operations and seeks to ensure that, as respects that proportion of its investment in the operations that is met by borrowings, it has no material currency exposure against the US dollar. Accordingly, where borrowings are incurred in a currency other than the US dollar, the group endeavours to cover the resultant currency exposure by way of a debt swap or other appropriate currency hedge. The group does not cover the currency exposure in respect of the component of the

investment in its operations that is financed with sterling denominated equity. The group's policy is to maintain a cash balance in sterling sufficient to meet its projected sterling expenditure for a period of up to twelve months and a cash balance in Indonesian rupiahs sufficient for its immediate Indonesian rupiah requirements but, otherwise, to keep all cash balances in US dollars.

Risks and uncertainties

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

Agricultural operations

Climatic factors

Although the group's agricultural operations are located in an area of high rainfall with sunlight hours well suited to the cultivation of oil palm, climatic conditions vary from year to year and setbacks are possible.

Unusually high levels of rainfall can disrupt estate operations and result in harvesting delays with loss of oil palm fruit or deterioration in fruit quality. Unusually low levels of rainfall that lead to a water availability below the minimum required for the normal development of the oil palm may lead to a reduction in subsequent crop levels. Such reduction is likely to be broadly proportional to the size of the cumulative water deficit. Over a long period, crop levels should be reasonably predictable but there can be material variations from the norm in individual years.

Low levels of rainfall can also disrupt and, in an extreme situation (not to date experienced by the group), could bring to a standstill the river transport upon which the group is critically dependent for estate supplies and the evacuation of CPO and CPKO.

Cultivation risks

As in any agricultural business, there are risks that crops from the group's estate operations may be affected by pests and diseases. Agricultural best practice can to some extent mitigate these risks but they cannot be entirely eliminated.

Other operational factors

The group's agricultural productivity is dependent upon necessary inputs, including, in particular, fertiliser and fuel. Whilst the directors have no reason to anticipate shortages in the availability of such inputs, should such shortages occur over any extended period, the group's operations could be materially disrupted. Equally, increases in input costs are likely to reduce profit margins.

After harvesting, FFB crops become rotten if not processed within a short period. Any hiatus in FFB collection or processing may therefore lead to a loss of crop. The group endeavours to maintain resilience in its palm oil mills with two mills operating separately and some ability within each factory to switch from steam based to diesel based electricity generation. Such resilience is however limited and would be inadequate to compensate for any material loss of processing capacity for anything other than a short time period.

The group has bulk storage facilities within its main area of agricultural operations and at its transhipment terminal downstream of the port of Samarinda. Such facilities and the further storage facilities afforded by the group's fleet of barges have hitherto always proved adequate to meet

the group's requirements for CPO and CPKO storage. Nevertheless, disruptions to river transport between the main areas of operations and the port of Samarinda, or delays in collection of CPO and CPKO from the transhipment terminal, could result in a group requirement for CPO and CPKO storage exceeding the available capacity. This would be likely to force a temporary cessation in FFB processing with a resultant loss of crop.

The group maintains insurance for the agricultural operations to cover those risks against which the directors consider that it is economic to insure. Certain risks (including the risk of fire in planted areas on the group's estates), for which insurance cover is either not available or would, in the opinion of the directors, be disproportionately expensive, are not insured. Occurrence of an adverse uninsured event could result in the group sustaining material losses.

Produce prices

The profitability and cash flow of the agricultural operations depend both upon world prices of CPO and CPKO and upon the group's ability to sell its produce at price levels comparable with such world prices.

CPO and CPKO are primary commodities and as such are affected by levels of world economic activity and factors affecting the world economy, including levels of inflation and interest rates. This may lead to significant price swings although, as noted under "Revenues and markets" in "Agricultural operations" above, the directors believe that such swings should be moderated by the fact that the annual oilseed crops account for the major proportion of world vegetable oil production and producers of such crops can reduce or increase their production within a relatively short time frame.

In the past, in times of very high CPO prices, the Indonesian authorities have for short periods imposed either restrictions on the export of CPO and CPKO or very high duties on export sales of such oil. The directors believe that when such measures materially reduce the profitability of oil palm cultivation, they are damaging not only to large plantation groups but also to the large number of smallholder farmers growing oil palm in Indonesia and to the Indonesian economy as a whole (because CPO is an important component of Indonesia's US dollar earning exports). The directors are thus hopeful that future measures affecting sales of CPO and CPKO will not seriously diminish profit margins.

The directors were encouraged that the significant rise in CPO and CPKO prices during 2007 and the early months of 2008 did not lead to a re-imposition of export restrictions. Instead, the Indonesian government continued to allow the free export of CPO and CPKO but introduced a sliding scale of duties on CPO and CPKO exports. Furthermore, the starting point for this sliding scale was set at a level such that when CPO and CPKO prices fell back in the last quarter of 2008, the rate of export duty payable was reduced to nil. Against this, the directors note that there have been recent reports in the Indonesian press that the Indonesian government may again take steps to encourage domestic downstream processing of CPO and CPKO and may impose domestic sale obligations on oil palm growers from 2015.

World markets for CPO and CPKO may be distorted by the imposition of import controls or taxes in consuming countries. The directors believe that the imposition of such controls or taxes on CPO or CPKO will normally result in greater consumption of alternative vegetable oils within the area in which the controls or taxes have been imposed and the substitution outside that area of CPO and CPKO for other vegetable oils. Should such arbitrage fail to occur or prove insufficient to compensate for the market distortion created by the applicable import controls or taxes, selling prices for the group's CPO and CPKO could be depressed.

Expansion

The group is planning further extension planting of oil palm. The directors hope that unplanted land held by or allocated to the group will become available for planting ahead of the land becoming needed for development and that the development programme can be funded from available group cash resources and future operational cash flows, appropriately supplemented with further prior charge funding. Should, however, land or cash availability fall short of expectations and the group be unable to secure alternative land or funding, the extension planting programme, upon which the group's continued growth will in part depend, may be delayed or curtailed.

Any shortfall in achieving planned extensions of the group's planted areas would be likely to impact negatively the annual revaluation of the group's biological assets, the movements upon which are taken to the group's income statement. Whilst this would not affect the group's underlying cash flow, it could adversely affect market perceptions as to the value of the company's securities.

Environmental, social and governance practices

The group recognises that the agricultural operations are both a large employer and have significant economic importance for local communities in the areas of the group's operations. This imposes environmental, social and governance obligations which bring with them risks that any failure by the group to meet the standards expected of it may result in reputational and financial damage. The group seeks to mitigate such risks by establishing standard procedures to ensure that it meets its obligations, to monitor performance against those standards and to investigate thoroughly and take action to prevent recurrence in respect of any failures identified. In addition, the group commissions independent consultants to undertake periodic reviews of its management performance in relation to various matters and this review pays particular attention to the manner in which the group has discharged its corporate social responsibilities.

The group's existing agricultural operations and the planned expansion of those operations are based on land areas that have been previously logged and zoned by the Indonesian authorities as appropriate for agricultural development on the basis that, regrettable as it may be from an environmental viewpoint, the logging has been so extensive that primary forest is unlikely to regenerate. Such land areas fall within a region that elsewhere includes substantial areas of unspoilt primary rain forest inhabited by diverse flora and fauna. As such, the group, in common with other oil palm growers in Kalimantan, must expect scrutiny from conservation groups and could suffer adverse consequences if its environmental policies were to be singled out for criticism by such groups.

An environmental impact assessment and master plan was constructed using independent environmental experts when the group first commenced agricultural operations in East Kalimantan and this plan is updated regularly with further advice from independent experts to reflect modern practice and to take account of changes in circumstances (including planned additions to the areas to be developed by the group). Substantial conservation reserves have been established in areas already developed by the group and further reserves will be added as new areas are developed. The group actively manages these reserves and endeavours to use them to conserve landscape level biodiversity as detailed under "Conservation" in "Agricultural operations" above.

The group is committed to sustainable oil palm development and adopts the measures described under "Sustainable practices" in "Agricultural operations" above to mitigate the risk of its operations causing damage to the environment or to its neighbours. The group supports and aims to comply with the principles and criteria established by RSPO and is seeking RSPO accreditation.

Local relations

The agricultural operations of the group could be seriously disrupted if there were to be a material breakdown in relations between the group and the host population in the area of its agricultural operations. The group endeavours to mitigate this risk by liaising regularly with representatives of surrounding villages and by seeking to improve local living standards through mutually beneficial economic and social interaction between the local villages and the agricultural operations. In particular, the group, when possible, gives priority to applications for employment from members of the local population and supports specific initiatives (as described under "Community development" and "Smallholders" in "Agricultural operations" above) to encourage local farmers and tradesmen to act as suppliers to the group, its employees and their dependents and to promote smallholder development of oil palm plantings.

Coal operations

Development of the group's coal operations is still at an early stage. The gross assets of the operations at 31 December 2009 represented only some 3 per cent of the group's gross assets and the operations did not contribute to group revenues during 2009. The directors therefore believe that the most material risk attaching to the coal operations is the risk that the directors, with no prior experience of mining, may have misjudged the potential of the operations and that the operations do not become commercially viable. In that event some or all of the group capital invested in the operations may be lost (although the directors believe that the group could recover monies from a resale of the concession rights so far acquired so that a total loss of invested capital is unlikely).

If the coal operations do become commercially viable, the material risks specific to coal that the directors currently foresee are as described below.

Operational risks

Delivery volumes will be dependent upon efficiency of production and of transport of extracted coal from mines to points of sale. Both production and transport can be disrupted by heavy rains, such as are common in East Kalimantan, and heavy seas can cause delays to the barging of coal to its point of sale. Failure to load export shipments to an agreed schedule may result in demurrage claims which may be material.

Although mining plans are based on geological assessments, such assessments are extrapolations based on statistical sampling and may prove inaccurate to an extent. Unforeseen extraction complications can occur and may cause cost overruns and delays.

Although the group maintains insurance for the coal operations to cover those risks against which the directors consider that it is economic to insure, not all risks are insured. Under some circumstances spontaneous combustion may occur in stored coal and this could cause material loss to the group if it were held to have been negligent in its measures to prevent such spontaneous combustion.

Price risk

The profitability and cash flow of the coal operations will depend both upon world prices of coal and upon the group's ability to sell its coal at price levels comparable with such world prices. Coal is a primary commodity and as such is affected by levels of world economic activity and factors affecting the world economy, including levels of inflation and interest rates. This may lead to significant price swings.

Coal is sold on the basis of its calorific value and other aspects of its chemical composition. Supply and demand for specific grades of coal and consequent pricing may

not necessarily reflect overall coal market trends and the group may be adversely affected if it is unable to supply coal within the specifications that are at any particular time in demand.

The Indonesian government has stated that it intends to impose obligations on coal concession holders to sell domestically a proportion of the coal that they mine. If domestic sales of coal have to be made at prices that are below world market prices (and it is not yet known whether this will be the case) the group's prospective revenues from coal sales will be reduced.

Environmental practices

Open cast coal mining, such as will be conducted on the coal concessions in which the group has invested, involves the removal of substantial volumes of overburden to obtain access to the coal deposits. The prospective areas to be mined by the group do not, however, cover a large area and the group is committed to international standards of best environmental practice and, in particular, to proper management of waste water and reinstatement of mined areas on completion of mining operations. Nevertheless, the group could be adversely affected by environmental criticisms of the coal mining industry as a whole.

General

Currency

CPO, CPKO and coal are essentially US dollar based commodities. Accordingly, the group's revenues and the underlying value of the group's operations are effectively US dollar denominated. All of the group's borrowings other than the sterling notes are also US dollar denominated and the group has entered into sterling US dollar debt swaps to hedge the sterling notes. A substantial component of the group's costs are US dollar denominated or linked. Accordingly, the principal currency risk faced by the group is that those components of group costs that arise in Indonesian rupiahs and sterling may, if such currencies strengthen against the US dollar, negatively impact margins in US dollar terms. The directors consider that this risk is inherent in the group's business and capital structure and the group does not therefore normally hedge against such risk.

Counterparty risk

Export sales of CPO and CPKO are made either against letters of credit or on the basis of cash against documents. Export sales of coal are likely to be made on a similar basis. Credit risks for the group on such sales are therefore limited. However, domestic sales of CPO, CPKO and coal generally require (or will require) the group to provide some credit to buyers. The group seeks to limit the counterparty risk that this entails by effective credit controls. Such controls include regular reviews of buyer creditworthiness and limits on the term and amount of credit that may be extended to any one buyer and in total.

Regulatory exposure

Changes in existing, and adoption of new, laws and regulations affecting the group (including, in particular, laws and regulations relating to land tenure and mining concessions, work permits for expatriate staff and taxation) could have a negative impact on the group's activities.

Many of the licences, permits and approvals held by the group are subject to periodic renewal. Renewals are often subject to delays and there is always a risk that a renewal may be refused or made subject to new conditions. Moreover, agricultural land and mining rights held by the group are subject to the satisfaction by the group of various continuing conditions, including, as

respects agricultural land, conditions requiring the group to promote smallholder developments of oil palm.

Although the group endeavours to ensure that its activities are conducted only on the land areas, and within the terms of the licences, that it holds, licensing rules change frequently and boundaries of large land areas are not always clearly demarcated. There is therefore always a risk that the group may inadvertently, and to a limited extent, conduct operations for which it does not hold all necessary licences or operate on land for the use of which it does not have all necessary permits.

Country exposure

All of the group's operations are located in Indonesia and the group is therefore significantly dependent on economic and political conditions in Indonesia. In the late 1990's, in common with other parts of South East Asia, Indonesia experienced severe economic turbulence. In recent years, there have been occasional instances of civil unrest, often attributed to ethnic tensions, in certain parts of Indonesia. However, as noted under "The Indonesian context" in "Overview" above, during 2009 Indonesia remained stable and the Indonesian economy continued to grow.

Whilst freedom to operate in a stable and secure environment is critical to the group and the existence of security risks should never be underestimated, the group has always sought to mitigate those risks and has never, since the inception of its current operations in East Kalimantan, been adversely affected by security problems.

Although there can never be certainty as to such matters, under current political conditions, the directors have no reason to believe that any government authority would revoke the registered land titles or mining rights in which the group has invested or that any such authority would impose exchange controls or otherwise seek to restrict the group's freedom to manage its operations.

Miscellaneous relationships

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

Relationships with shareholders in Indonesian group companies are also important to the group and especially so as respects the mining concessions in which the group holds interests which 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.

By order of the board
R.E.A. SERVICES LIMITED
Secretary
27 April 2010

Directors

Richard Robinow
Chairman (64)

Mr Robinow was appointed a director in 1978 and has been chairman since 1984. After early investment banking experience, he has been involved for over 35 years in the plantation industry. He is non-executive but devotes a significant proportion of his working time to the affairs of the group, dealing principally with matters of strategy and finance. 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 (61)

After early experience in investment banking and general management, Mr Oakley joined the group in 1983 as divisional managing director of the group's then horticultural operations. He was appointed to the main board in 1985 and subsequently oversaw group businesses involved in tea, bananas, pineapples and merchanting, transferring in the early 1990s to take charge of the day to day management of the group's then embryonic East Kalimantan agricultural operations. He was appointed managing director in January 2002. As the sole executive director, he has overall responsibility for operational control of the group.

David Blackett
Senior independent non-executive director (59)

Mr Blackett was appointed a non-executive director in July 2008 and was subsequently appointed chairman of the audit and remuneration committees and, more recently, as a member of the nomination committee. After qualifying as a chartered accountant in Scotland, he worked for over 25 years in South East Asia, where he concluded his career as chairman of AT&T Capital Inc. Prior to joining that company, he was a director of an international investment bank with responsibility for the bank's South East Asian operations. He is a non-executive director of South China Holdings Limited, a company listed on the Hong Kong Stock Exchange.

John Green-Armytage
Independent non-executive director (64)

Mr Green-Armytage was a non-executive director from 1984 to 1994. He rejoined the board as a non-executive director in 1997 and subsequently for several years served as chairman of the audit and remuneration committees. After a career in investment banking, he moved to become managing director of a UK listed company with South East Asian involvement. He has subsequently held directorships of a number of companies in both executive and non-executive capacities. These currently include the chairmanship of AMEC PLC.

John Keatley
Independent non-executive director (76)

Mr Keatley was a non-executive director from 1975 to 1983 and chairman from 1978 to 1983. He rejoined the board as a non-executive director in 1985 and is a member of the nomination committee. After a background in the fertiliser industry, he is now involved in a family business investing in property in the UK and elsewhere.

David Killick, FCIS
Independent non-executive director (72)

Mr Killick was appointed a non-executive director in 2006. He is a member of the audit and remuneration committees. He has also recently been appointed as chairman of the nomination committee. 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 and the council of management of Slough Council for Voluntary Service.

Directors continued

Charles Letts
Independent non-executive director (91)

Mr Letts was appointed a non-executive director in 1989. After serving in the British Armed Forces in World War II and thereafter in the British Foreign Office, he was a main board director of Jardine Matheson & Co. Limited for 15 years and then set up his own business. Thereafter, for over 40 years, he has held directorships and advisory posts in companies covering a wide range of activities in various countries, with particular emphasis on the plantation industry. His present directorships include The China Club Limited and China Investment Fund.

Chan Lok Lim
Independent non-executive director (68)

Mr Lim was appointed a non-executive director in 2002. He has been involved for over 30 years in companies in South East Asia engaged in power generation and distribution, water and waste treatment, industrial and agro-industrial engineering (including palm oil mill design and construction) and in the plantation industry. He is chairman of SPC Power Corporation, a public company listed on the Philippines Stock Exchange, and a director of Agusan Plantations Inc, Philippines, Agumil Philippines Inc and Pan Abrasives (Private) Limited, Singapore.

Directors' report

The directors present their annual report on the affairs of the group, together with the financial statements and auditors' reports, for the year ended 31 December 2009.

Principal activities and business review

The group is principally engaged in the cultivation of oil palms in the Indonesian province of East Kalimantan and in the production of crude palm oil ("CPO") and by-products from fruit harvested from its oil palms. In addition, since 2008 the group has acquired interests in three coal concessions in East Kalimantan and is endeavouring to establish an open cast coal mining operation and coal trading activity based on these concessions.

A review of the activities and planned future development of the group together with the principal risks and uncertainties facing the group is provided in the accompanying "Chairman's statement" and "Review of the group" sections of this annual report which are incorporated by reference in this "Directors' report". In particular, the "Review of the group" includes information as to group policy and objectives regarding the use of financial instruments. Information as to such policy and objectives and the risk exposures arising is also included in note 21 to the consolidated financial statements.

The group does not undertake significant research and development activities.

Details of significant events since 31 December 2009 are contained in note 40 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 2009 were duly paid. A first interim dividend in respect of 2009 of 2p per share was paid on the ordinary shares on 25 September 2009 and a second interim dividend in lieu of final of a further 2p per share was paid on those shares on 29 January 2010. The directors do not recommend the payment of any further ordinary dividends in respect of 2009.

Going concern basis

The group's business activities, together with the factors likely to affect its future development, performance and position are described in the "Review of the group" section of this annual report which also provides (under the heading "Finance") a description of the group's cash flow, liquidity and financing adequacy, and treasury policies. In addition, note 21 to the consolidated financial statements includes information as to the group's policy, objectives, and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Although the group has indebtedness, that indebtedness is medium term and the group is not materially reliant on short term borrowing facilities. Moreover, the group has considerable cash resources. 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.

Directors' report continued

Previously published unaudited financial information

A registration document published by the company on 28 January 2010 contained unaudited financial information. That information was that: the group's then indebtedness comprised £37 million nominal of sterling notes, hedged against dollars at an average rate of $1.854 = £1, $30 million nominal of dollar notes and bank borrowings and leasing commitments in Indonesia which totalled $10.3 million at 31 December 2009; that, against this indebtedness, the group had cash balances at 31 December 2009 totalling $20.8 million; and that, at 31 December 2009, the group had invested some $14 million in its coal operations. Such information does not differ materially from the corresponding figures shown in or derived from the accompanying audited financial statements. The only difference relates to cash balances at 31 December 2009 ($20.1 million actual against $20.8 million).

Charitable and political donations

During the year the group made no charitable donations to persons ordinarily resident in the United Kingdom and no political donations. The group provided support for conservation activities in East Kalimantan.

Supplier payment policy

It is the company's policy to establish appropriate payment terms and conditions for dealings with suppliers and to comply with such terms and conditions. The holding company itself does not have trade creditors.

Directors

The directors are listed in the "Directors" section of this annual report which is incorporated by reference in this Directors' report. All the directors served throughout 2009. Mr Killick retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election, such retirement being in compliance with the company's articles of association providing for rotation of directors. Messrs Robinow, Green-Armytage, Keatley and Letts retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election, such retirements being in compliance with the provisions of the Combined Code on Corporate Governance requiring the annual re-election of non-executive directors who have served as such for more than nine years.

For the reasons given under "Board of directors" in the "Corporate governance" section of this annual report (which section is incorporated by reference in this Directors' report), the directors believe that the board of the company is effective as currently constituted and that its current composition should be maintained at least until the group's plans for establishment of a new regional office in Singapore have matured. The board therefore recommends (each affected director abstaining from such conclusion as it applies to himself) the re-election of all of the directors offering themselves for re-election. The senior independent non-executive director and the chairman have confirmed as regards, respectively, the chairman and the other non-executive directors offering themselves for re-election that, following formal performance evaluations, each such individual's performance continues to be effective and to demonstrate commitment to the role assumed, including commitment of time for board and committee meetings and, where applicable, other assigned duties.

Directors' interests

At 31 December 2009, the interests of directors (including interests of connected persons as defined in section 96B (2) of the Financial Services and Markets Act 2000 of which the company is, or ought upon reasonable enquiry to become, aware) in the 9 per cent cumulative preference shares of £1 each and the ordinary shares of 25p each of the company were as follows:

	Preference shares	Ordinary shares
R M Robinow	78,643	10,030,000
D J Blackett	250,000	-
J M Green-Armytage	8,447	80,704
J R M Keatley	51,669	680,878
D H R Killick	-	20,000
L E C Letts	15,000	108,008
C L Lim	-	-
J C Oakley	513	1,804

The 78,643 preference shares in which Mr Robinow was interested at 31 December 2009 were held by persons connected with Mr Robinow who sold the shares in question on 2 February 2010. As a result, Mr Robinow had no interest in preference shares at the date of this report.

Details of an option held by Mr Oakley at 31 December 2009 to subscribe for ordinary shares of 25p each of the company are provided in the "Directors' remuneration report" section of this report. The option was exercised by Mr Oakley on 1 February 2010 when he subscribed 840,689 ordinary shares pursuant to the option and sold 400,000 of such shares. As a result, Mr Oakley is interested in 442,493 ordinary shares as at the date of this report.

Directors' indemnities

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) were in force for the benefit of directors of the company and of other members of the group throughout 2009 and remain in force at the date of this report.

Substantial shareholders

As at the date of this report, the company had received notifications required by The Disclosure Rules and Transparency Rules of the Financial Services Authority from the following persons of voting rights held by them as shareholders through the holdings of ordinary shares indicated:

	Number	%
Emba Holdings Limited	9,957,500	29.80
Alcatel Bell Pensioenfonds VZW	4,007,049	11.99
Prudential plc and certain subsidiaries	4,760,229	14.24
Artemis UK Smaller Companies	1,919,400	5.74

In addition, the company had been notified that the above interest of Prudential plc group of companies includes 4,030,792 ordinary shares (12.06 per cent) in which M&G Investment Funds 3, an Open Ended Investment Company, is also interested.

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

Control and structure of capital

Details of the company's share capital and changes in share capital during 2009 are detailed in note (vii) to the company's financial statements. At 31 December 2009, the preference share capital and the ordinary share capital represented, respectively, 66.8 and 33.2 per cent of the total issued share capital.

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

are summarised in note (vii) 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 a holder 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 under certain circumstances 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 appointment and replacement of directors is governed by the company's articles of association and prevailing legislation, augmented by the principles laid down in the Combined Code on Corporate Governance which the company seeks to apply in a manner proportionate to its size as further detailed in the "Corporate governance" section of this annual report.

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 of the company ("dollar notes") and the 9.5 per cent guaranteed sterling notes 2015/17 of REA Finance B.V. ("sterling notes") (which are guaranteed by the company) are transferable either through the CREST system where held in uncertificated form or by instrument of transfer in any

usual or common form duly executed in amounts and multiples, in the former case, of $1 and, in the latter case, of £1,000. There is no maximum limit on the size of any holding in either case.

Significant holdings of preference shares, dollar notes and sterling notes shown by the register of members and registers of dollar and sterling noteholders at 31 December 2009 were as follows:

	Preference shares '000	Dollar notes $'000	Sterling notes £'000
Bank of New York (Nominees) Limited	–	–	17,800
HSBC Global Custody Nominee (UK) Limited 641898 Account	–	–	4,000
HSBC Global Custody Nominee (UK) Limited 993791 Account	2,598	–	–
Rulegale Nominees Limited JAMSCLT Account	2,623	–	–
Vidacos Nominees Limited CLRLUX Account	–	3,315	–
Morris Edward Zukerman	–	9,500	–
Morris Edward Zukerman ZFT Account	–	9,500	–

A change of control of the company would entitle holders of the sterling notes and certain holders of the dollar notes to require repayment of the notes held by them as detailed in notes 23 and 24 to the consolidated financial statements. A change in control of the company on or prior to 31 December 2014 would also entitle the holders of the redeemable participating preference shares of the company's subsidiary KCC Resources Limited ("KCC") to redemption of their shares on the next following 31 December (or, if KCC is prohibited by law from effecting such redemption, to require the company to purchase or procure the purchase of such shares).

As referred to under "Directors' interests" above, an option held by Mr J C Oakley to subscribe for ordinary shares of 25p each of the company was exercised on 1 February 2010. At the date of this report, there are no outstanding share options held by directors or employees.

Awards to senior group executives under the company's long term incentive plans will vest and may be encashed within one month of a change of control as detailed under "Long term incentive plans" in the "Directors' remuneration report" section of this annual report. The directors are not aware of any agreements between the company and its directors or between any member of the group and a group employee that provides for compensation for loss of office or employment that occurs because of a takeover bid.

Treasury shares and power to repurchase shares

No shares of the company are at present held in treasury.

The company's articles of association permit the purchase by the company of its own shares subject to prevailing legislation which requires that any such purchase, if a market purchase, has been previously authorised by the company in general meeting and, if not, is made pursuant to a contract of which the terms have been authorised by a special resolution of the company in general meeting. There is no authority extant for the purchase by the company of its own shares.

Increase in share capital

At the forthcoming annual general meeting, a resolution will be proposed (resolution 10 set out in the notice of annual general meeting at the end of this document) to increase the authorised share capital of the company (being the maximum amount of shares in the capital of the company that the company may allot) from £27,750,000 to £37,750,000 by the creation of 10,000,000 9 per cent cumulative preference shares of £1 each ranking *pari passu* in all respects with the existing preference shares and representing 57.1 per cent of the existing authorised preference share capital.

As indicated in the "Review of the group" section of this annual report, the directors believe that, if circumstances permit, the company should consider issuing additional preference shares and applying the proceeds in reducing group borrowings. Moreover, the directors believe that capitalisation issues of new preference shares to ordinary shareholders, such as were made on several previous occasions, provide a useful mechanism for augmenting returns to ordinary shareholders in periods in which good profits are achieved but demands on cash resources limit the scope for payment of cash dividends. The proposed creation of additional preference shares is designed to give the company sufficient authorised but unissued preference capital to permit the directors to issue preference shares for these purposes without further approval (other than shareholder authority to allot such shares, which authority will be sought at the forthcoming annual general meeting as noted under "Authorities to issue share capital" below).

Authorities to issue share capital

At the annual general meeting held on 4 June 2009, shareholders authorised the directors under the provisions of section 80 of the Companies Act 1985 to allot relevant securities within specified limits. Section 80 of the Companies Act 1985 has now been replaced by sections 549 and 551 of the Companies Act 2006. Replacements of the current section 80 authorities are being sought at the forthcoming annual general meeting (resolutions 11 and 12 set out in the notice of annual general meeting at the end of this document). The replacement authorities will 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 £2,784,545 (representing 33.3 per cent. of the issued ordinary share capital of the company 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 £11,107,046 (being all of the unissued preference share capital of the company at the date of this report and the additional preference share capital proposed to be created at the forthcoming annual general meeting and representing 67.8 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 2011 or on 30 June 2011 (whichever is the earlier). Save in relation to the preference shares as indicated under "Increase in share capital" above, the directors have no present intention of exercising these authorities.

Power to issue share capital

Powers are also being sought at the forthcoming annual general meeting under the provisions of sections 571 and 573 of the Companies Act 2006 (replacing the previous sections of the Companies Act 1985 that provided for statutory pre-emption rights) to enable the board to make a rights issue or open offer of ordinary shares to existing ordinary shareholders without being obliged to comply with certain technical requirements of the Companies Act 2006 which can create problems with regard to fractions and overseas shareholders.

In addition, the resolution to provide these powers (resolution 13 set out in the notice of annual general meeting at the end of this document) will, if passed, empower the directors to make issues of ordinary shares for cash other than by way of a rights issue or open offer up to a maximum nominal amount of £417,681 (representing 5 per cent of the issued ordinary share capital of the company at the date of this report). The company has not issued any ordinary shares for cash, relying on the annual general disapplication of statutory

pre-emption rights pursuant to section 571 of the Companies Act 2006 (or the predecessor sections of the Companies Act 1985), since 9 May 2007.

The foregoing powers (if granted) will expire on the date of the annual general meeting to be held in 2011 or on 30 June 2011 (whichever is the earlier).

General meeting notice period

At the forthcoming annual general meeting, a resolution (resolution 14 set out in the notice of annual general meeting at the end of this document) 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 2011 or on 30 June 2011 (whichever is the earlier). This resolution is proposed following legislation which, notwithstanding the provisions of the company's articles of association and in the absence of specific shareholder approval of shorter notice, has increased the required notice period for general meetings of the company to 21 clear days. While the directors believe that it is sensible to have the flexibility that the proposed resolution will offer, to enable general meetings to be convened on shorter notice than 21 days, this flexibility will not be used as a matter of routine for such meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

Recommendation

The board considers that increasing the authorised share capital of the company by the creation of the additional preference shares proposed as detailed under “Increase in share capital”, granting the directors the authorities and powers as detailed under “Authorities to issue share capital” and “Powers to issue share capital” and the proposal to permit general meetings (other than annual general meetings) to be held on just 14 clear days' notice as detailed under “General meeting notice periods” above are all in the best interests of the company and shareholders as a whole and recommends that shareholders vote in favour of the resolutions 10 to 14 as set out in the notice of the forthcoming annual general meeting.

Auditors

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

This confirmation is given and should be interpreted in accordance with the provisions of section 489 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and resolutions to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the forthcoming annual general meeting.

By order of the board
R.E.A. SERVICES LIMITED
Secretary
27 April 2010

Corporate governance

General

The directors appreciate the importance of ensuring that the group's affairs are managed effectively and with integrity and acknowledge that the principles laid down in the Combined Code on Corporate Governance issued in 2008 by the Financial Reporting Council ("the Code") provide a widely endorsed model for achieving this. The directors are also aware of the current review of the Code which will be revised during 2010. The Code and information regarding its review are available from the Financial Reporting Council's website at "www.frc.org.uk". The directors seek to apply the Code principles in a manner proportionate to the group's size but, as the Code permits, reserving the right, when it is appropriate to the individual circumstances of the company, not to comply with certain Code principles and to explain why.

Throughout the year ended 31 December 2009, the company was in compliance with the provisions set out in section 1 of the Code. In making this statement, the directors have reflected their view detailed below as to the independence of long serving non-executive directors.

Board of directors

The board currently comprises one executive director and seven non-executive directors (including the chairman). Biographical information concerning each of the directors is set out in the "Directors" section of this annual report. The variety of backgrounds brought to the board by its members provides perspective and facilitates balanced and effective decision making. In particular, the board believes that the skills and experience of its different members complement each other and are of specific relevance to the group's operations, the geographical location of its business and compliance by the company with its obligations as a UK listed company.

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 matters of strategy and finance; the managing director has responsibility for operational matters. Neither has unfettered powers of decision. All of the non-executive directors, with the exception of the chairman, are considered by the board to have been independent throughout the year.

The directors acknowledge that some institutional investors take the view that non-executive directors who have served on the board of the company for more than nine years can never be regarded as independent and that, on this basis, three of the non-executive directors whom the board regards as independent would not be treated as such. The Code states that service by a director for more than nine years is to be taken into account by the board in assessing his independence but it is not, under the Code, determinative of independence. All of the long serving non-executive directors considered by the board to be independent are re-elected annually after endorsement of their independence by their co-directors as required by the Code and none of these directors is financially or otherwise materially dependent upon the company. The board continues to be satisfied that the independence of these long serving independent non-executive directors is not affected by their length of service. Nevertheless, the board's plans for refreshment of its composition, as referred to under "Perfomance evaluation" below, will, in due course, mean that all independent non-executive directors will retire after nine years.

In any event, three independent non-executive directors have served on the board of the company for less than nine years and, accordingly, the company would satisfy the Code requirement that at least two members of the board be independent non-executive directors even if all longer serving non-executive directors were treated as not independent. The Code also requires that some or all members of the audit, remuneration and nomination committees, and the person appointed as senior independent non-executive director, be independent non-

executive directors. Following recent changes to the composition of the nomination committee and the appointment of Mr D J Blackett as senior non-executive director in place of Mr J R M Keatley, the board considers that the company would now be compliant with these Code requirements even if the more restrictive view of independence of longer serving directors was accepted.

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.

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 Messrs Robinow and Green-Armytage, each of the two directors absenting himself from the discussion in respect of himself. Such notifications relate to each of the directors' interests as shareholders in and/or directors of companies the interests of which might conflict with those of the group but are not at present considered to conflict. No other conflicts or potential conflicts have been notified by directors.

Board responsibilities

The board is responsible for the proper management of the company. Full quarterly operational and financial reports are issued to all directors following the end of each quarter for their review and comment. These reports are augmented by annual budgets and positional papers on matters of a non routine nature and by prompt provision of such other information as the board periodically decides that it should have to facilitate the discharge of its responsibilities.

The board has a schedule of matters reserved for its decision. 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 objectives and for reviewing performance, financial controls and risk.

The company carries appropriate insurance against legal action against its directors. The current policy was in place throughout 2009 in compliance with the Code requirement to carry such insurance.

Board committees

The board has appointed audit, nomination and remuneration committees to undertake certain of the board's functions, with written terms of reference which are available for inspection on the company's website. Information concerning the remuneration of directors is provided in the "Directors' remuneration report" section of this annual report (which is incorporated by reference in this "Corporate governance" report) together with details of the basis upon which such remuneration is determined.

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

Performance evaluation

A formal internal evaluation of the performance of the board, the committees and individual directors is undertaken annually. Balance of powers, contribution to strategy, monitoring 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 contribution of the board in enforcing disciplined risk management and setting appropriate social responsibility objectives to the adequacy and timeliness of information made available to the board.

Whilst the most recent performance evaluation concluded that the board was performing effectively as currently constituted, the board recognised the need for succession planning in relation not only to executive management but also to non executive directors. The board considered that it should continue as currently constituted pending full implementation of the plans for the addition of senior executive management and the establishment of a new regional office in Singapore (as detailed under "Strategic direction and succession" in the "Review of the group" section of this annual report). Thereafter, the board agreed that its composition should be reconstituted, and in the future refreshed, on the basis of a policy that length of service by independent non executive directors be limited to nine years.

Professional development and advice

In view of their previous relevant experience and, in most 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 and regulatory 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.

Steps are taken to ensure that newly appointed directors become fully informed as to the group's activities.

Board proceedings

Four meetings of the board are scheduled each year. Other board meetings are held as required to consider corporate and operational matters with all directors consulted in advance regarding significant matters for consideration. Minutes of board meetings are circulated to all directors. The executive director, unless travelling, is normally present at full board meetings but, 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 at the regular and "ad hoc" board meetings held during 2009 was as follows:

	Regular meeting	Ad hoc meeting
R M Robinow	4	2
J C Oakley	4	2
D J Blackett	4	2
J M Green-Armytage	4	2
J R M Keatley	4	-
D H R Killick	4	1
L E C Letts	2	1
C L Lim	2	1

In addition, during 2009, there were three meetings of the audit committee and two meetings of the remuneration committee. There were no meetings of the nomination committee during 2009. 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. This complicates the organisation of board meetings. 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, the company is reluctant to change meeting dates when some directors are unable to attend. Instead, when a director is unable to be at a meeting, he makes his views known to other directors ahead of time and his views are reported to, and taken into account, at the meeting.

Nomination committee

The nomination committee comprises Mr D H R Killick (chairman), Mr D J Blackett and Mr J R M Keatley. Messrs Blackett and Killick were appointed to the committee upon Messrs Letts and Robinow stepping down in January 2010 and Mr Killick was subsequently appointed as chairman in succession to Mr Keatley. The committee is responsible for submitting recommendations for the appointment of directors for approval by the full board.

Audit committee

The audit committee currently comprises Mr D J Blackett (chairman) and Mr D H R Killick both of whom are considered by the directors to have the relevant financial experience.

The audit committee is responsible for:

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

The audit committee also monitors the engagement of the auditors to perform non-audit work. During 2009, the only non-audit work undertaken by the auditors 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 auditors). The audit committee considered that the nature and scope of, and remuneration payable in respect of, these engagements was such that the independence and objectivity of the auditors was not impaired.

The members of the audit committee discharge their responsibilities by informal discussions between themselves, by meetings with the external auditors, the internal auditors in Indonesia and management and by consideration of reports by management, the Indonesian internal audit function and the external auditors and by holding at least three formal meetings in each year.

The audit committee has recommended to the board of the company that it should seek the approval of the company's shareholders for the reappointment of the company's current auditors. That recommendation reflected an assessment of the qualifications, expertise, resources and independence of the auditors based upon

reports produced by the auditors, the committee's own dealings with the auditors 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 auditors. Given the current level of audit fees and the costs that a change would be likely to entail, the committee did not recommend that the company's audit be put out to tender.

Relations with shareholders

The "Chairman's statement" and "Review of the group" sections of the annual report, when read in conjunction with the financial statements, "Directors' report" and "Directors' remuneration report", are designed to present a comprehensive and understandable assessment of the group's position and prospects. The respective responsibilities of the directors and auditors in connection with the financial statements are detailed in the "Directors' responsibilities" section of this report and in the auditors' 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. 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. 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.

The company maintains a corporate website at "www.rea.co.uk". This provides information regarding the company, including annual and half yearly reports and photographs illustrating various aspects of the group's operations, and provides a facility for downloading recent press releases issued by the company and other relevant documentation concerning the company.

Internal control

The board is responsible for the group's system of internal control and for reviewing its effectiveness. Such a 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 has been in place from the start of the year to the date of approval of this report and which is in accordance with the revised guidance on internal control published in October 2005. 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.

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

The board performed a detailed review of the system of internal control in November 2009 (including the group's internal audit arrangements) and, during the course of this review, the board did not identify, nor was it advised of, any failings or weaknesses which it determined to be significant. A confirmation, therefore, in respect of the necessary actions to be taken was not considered appropriate. This review has been reconfirmed for the purpose of this annual report.

Internal audit and reporting

The group's Indonesian operations have a fully staffed in-house internal audit function supplemented where necessary by the use of external consultants. The function issues a full report on each internal audit topic and a summary of the report is issued to the audit committee. In addition, follow-up audits are undertaken to ensure that the necessary remedial action has been taken. In the opinion of the board, there is no need for an internal audit function outside Indonesia due to the limited nature of the non-Indonesian operations.

The group has established a management hierarchy which is designed to delegate the day to day responsibility for specific departmental functions within each working location, including financial, operational and compliance controls and risk management, to a number of senior managers, reporting through the local senior executive to the managing director.

Management reports to the board on a regular basis by way of the circulation of progress reports, management reports, budgets and management accounts. Management 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. At least four supervisory visits each year are undertaken to the overseas operations by the managing director and other directors make periodic visits to those operations. Reports of such visits are circulated to the board and reviewed by the board at the regular board meetings.

Control and capital structure

Information regarding substantial shareholders, significant interests in the securities of the company and other matters pertaining to the control and rights attaching to the company's capital is provided under "Substantial shareholders" and "Control and structure of capital" in the "Directors' report" section of this annual report.

Approved by the board on 27 April 2010
RICHARD M ROBINOW
Chairman

Directors' remuneration report

Introduction

This report has been prepared in accordance with Schedule 8 to the Accounting Regulations made pursuant to the Companies Act 2006 (the "Act"). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the principles relating to directors' remuneration set out in the Combined Code (the "Code"). As required by the Act, a resolution to approve the report will be proposed at the annual general meeting at which the accompanying financial statements are laid before the company's members.

The Act requires the auditors to report to the company's members on certain parts of this report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Accounting Regulations. The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

The remuneration committee

The company has established a remuneration committee. With effect from 23 April 2009 the members of the remuneration committee were Mr D J Blackett (chairman) and Mr D H R Killick. Prior to 23 April 2009 and, in particular, when directors' remuneration for 2009 was considered, the members of the committee were Mr J M Green-Armytage (chairman), Mr D H R Killick and Mr R M Robinow. While Mr Robinow was a member of the committee, any matter concerning Mr Robinow was discussed without Mr Robinow being present.

The committee does not use independent consultants but takes into account the views of the chairman and managing director.

Remuneration policy

The committee sets the remuneration and benefits of the chairman and the managing director. The latter is currently the only executive director but the committee would set the remuneration and benefits of any other executive directors who might in future be appointed.

In setting remuneration and benefits, the committee considers the achievement of each individual in attaining the objectives set for that individual (including objectives relating to corporate performance on environmental, social and governance matters), the responsibilities assumed by the individual and, where the role is part time, the time commitment involved. The committee draws on data of the remuneration of others performing similar functions in similarly sized organisations and takes account of the remuneration of senior employees of the group who are not directors but with due allowance for differences in remuneration applicable to different geographical locations. The committee aims to set performance related remuneration on a basis that encourages responsible behaviour in relation to environmental, social and governance matters.

The key objective of the remuneration policy (which applies for 2010 and subsequent years) is to attract, motivate, retain and fairly reward individuals of a high calibre, while ensuring that the remuneration of each individual is consistent with the best interests of the company and its shareholders. In framing its policy on performance related remuneration (which is payable only to executive directors) the committee follows the provisions of schedule A to the Code.

The committee considers all proposals for executive directors to hold outside directorships. Such directorships are normally permitted only if considered to be of value to the group and on terms that any remuneration payable will be accounted for to the group.

Remuneration of execuitve directors

The policy on remuneration of executive directors is that basic remuneration of each executive director should comprise an annual salary, part of which may be pensionable, and certain benefits-in-kind, principally a company car. In addition an executive director should be paid non-pensionable performance related bonuses. These are to be awarded annually in arrears on a discretionary basis taking into account the performance of the group during the relevant year and the contribution to performance that a director is assessed by the committee to have made. Bonuses should not normally exceed 50 per cent of salary and are paid in cash. There is no separate pension scheme for executive directors and the only current executive director (the managing director) was an ordinary member of the R.E.A. Pension Scheme until 31 July 2009 after which he became a pensioner member.

Remuneration of non-executive directors

The remuneration of non-executive directors other than the chairman is determined by the board within the limits set by the articles of association, no director taking part in the determination of his own remuneration. The level of remuneration is determined having regard to that paid by comparable organisations and to the time commitments expected. No non-executive director has any entitlement to remuneration on a basis related to performance.

Service contracts

The company's current policy on 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.

The group entered into a service contract with Mr J C Oakley on 16 December 1988 initially for a period of two years, thereafter determinable by either party by giving notice to the other party of not less than six months. At 31 December 2009 the unexpired term remained as six months. There are no provisions for compensation for early termination save that Mr Oakley would be entitled to a payment in lieu of notice if due notice had not been given.

Performance graph

A performance graph is shown in the "Key statistics" section of this annual report. This compares the performance of the company's ordinary shares (measured by total shareholder return) with that of the FTSE all share index for the period from January 2005 to December 2009. The FTSE all share index has been selected as there is no index available that is specific to the activities of the company.

Long term incentive plans

A first long term incentive plan (the "first plan") was established in 2007 and a second similar plan (the "second plan") was put in place in 2009. The first and second plans (together the "plans") are designed to provide incentives, linked to the market price performance of ordinary shares in the company, to a small number of key senior executives in Indonesia with a view to their participating over the long term in value created for the group. No director may participate. The first plan period commenced on 1 January 2007 and ends on 31 December 2010 and the second plan period commenced on 1 January 2009 and ends on 31 December 2012 (the "performance periods").

Under the plans, participants are awarded potential entitlements over notional ordinary shares of the company. These potential entitlements then vest to an extent that is dependent upon the achievement of targets. A vested entitlement may be exercised in whole or part at

any time from 1 January 2011 until 31 December 2016 under the first plan and from 1 January 2013 to 31 December 2018 under the second plan. On exercising a vested entitlement, a participant will receive a cash amount for each ordinary share over which the entitlement is exercised, equal to the excess (if any) of the market price of an ordinary share on the date of exercise over 433.5p in the case of the first plan and 231.5p in case of the second plan, being the market prices of an ordinary share on the dates with effect from which the plans were agreed.

The extent to which a participant's potential entitlement to notional ordinary shares under a plan will vest will be determined by key performance targets. In the case of the first plan, there are three key performance targets which relate to total shareholder return, cost per tonne of crude palm oil produced and annual planting rate achieved. In the case of the second plan, there are two key performance targets which relate to total shareholder return and cost per tonne of crude palm oil produced. Each performance target is measured on a cumulative basis over the applicable performance period. Each performance target governs the vesting, in the case of the first plan, of one third, and, in the case of the second plan, of one half, of each potential entitlement and for each performance target there are threshold, target and maximum levels of performance which determine the exact number of notional ordinary shares that vest in relation to that target. The remuneration committee has discretion to adjust targets if it considers that actual performance warrants this.

The vesting of potential entitlements and the exercise of vested entitlements is dependent on continued employment with the group. If a participant under a plan ceases employment with the group before the end of the performance period applicable to that plan, his potential entitlement will lapse unless he leaves by reason of death, injury, disability, redundancy or retirement or the remuneration committee exercises a discretion to decide that his potential entitlement should not lapse. Where the potential entitlement does not lapse, it will vest on a basis that reflects achievement of performance targets up to the end of the financial year last ended before the date (the "cessation date") that the affected participant ceases employment with the group (as determined by the remuneration committee) and time apportioned for the elapsed portion of the applicable performance period up to the cessation date expressed as a fraction of the full applicable performance period. The resultant vested entitlement will be exercisable for a period of twelve months from the cessation date. If a participant leaves after the end of the applicable performance period, the participant may exercise a vested entitlement within six months of leaving.

In the event of a change in control of the company as a result of a takeover offer or similar corporate event, potential entitlements will vest on a basis that reflects achievement of performance targets up to the date (the "applicable date") of change of control or other relevant event (as determined by the remuneration committee) and time apportioned for the elapsed portion of the applicable performance period up to the applicable date expressed as a fraction of the full applicable performance period. The resultant vested entitlements will be exercisable for a period of one month following the applicable date.

At 31 December 2009, the total numbers of notional ordinary shares over which awards of potential entitlements had been made amounted to 195,000 under the first plan ad 65,000 under the second plan. On the basis of the market price of the ordinary shares on 31 December 2009 of 414p per share, the total gain to participants in respect of the potential entitlements awarded would, if such entitlements had vested in full, have been £119,000.

Audited information

Directors' remuneration

The following table shows details of the remuneration of individual directors holding office during the year ended 31 December 2009 (with comparative totals for 2008):

	Salary and fees £'000	Other* £'000	2009 Total £'000	2008 Total £'000
R M Robinow (chairman)	168	4	172	176
J C Oakley	234	54	288	239
D J Blackett**	17	-	17	9
J M Green-Armytage	17	-	17	17
J R M Keatley	17	-	17	17
D H R Killick	17	-	17	17
L E C Letts	17	-	17	17
C L Lim	17	-	17	17
	504	58	562	509

* comprises benefits and, in the case of Mr Oakley a bonus of £2,000 and payments in lieu of pension contributions of £22,000.
** appointed 1 July 2008.

In the above table, amounts payable in respect of Mr Green-Armytage, Mr Letts and Mr Lim were to companies in which such directors were interested.

In addition to the benefits shown under "Other" above, in 2006 Mr Oakley received a benefit in kind relating to the tax liability arising on a gain on exercise of share options estimated at £178,000. It was agreed with Mr Oakley that he would effectively refund this amount by commensurate reduction in future non pensionable remuneration to which he would otherwise become entitled after 1 January 2008. In 2009, the non-pensionable salary ordinarily payable was reduced by £21,500 (2008: £42,500) and the bonus that would normally have been paid by £49,320 (2008: £50,000).

Director's pension arrangements - Mr J C Oakley

Mr Oakley (who was aged 61 at 31 December 2009) was an ordinary member of the R.E.A. Pension Scheme until 31 July 2009. This is a defined benefit scheme of which details are shown in note 37 to the consolidated financial statements. Mr Oakley elected to become a pensioner member of the scheme on 31 July 2009. In recognition of Mr Oakley's withdrawal from ordinary membership of the scheme ahead of attaining the age of 65, the company is paying Mr Oakley an amount in lieu of the pension contributions that the company would otherwise have paid to the pension scheme. The amount in lieu payable in 2009 was £22,000 (2008: £nil).

Director's pension entitlement - Mr J C Oakley

Details of the pension entitlement are set out below.

	£
Accrued annual pension at beginning of year	88,425
Increase in annual pension in period to 31 July 2009	4,100
Annual pension at end of year *	92,525
Pension transfer value at beginning of year	1,933,814
Contributions made by the director during the period to 31 July 2009	6,198
Reduction in pension transfer value during the period	(104,757)
Notional transfer value at end of year *	1,835,255

* before any commutation

The reduction in transfer value is due to different rates for transfer of pension and commutation of pension to provide a pension commencement lump sum.

No part of the increase in pension, or of the movment in transfer value, during 2009 related to inflation.

Share options - Mr J C Oakley

Pursuant to an option agreement of 22 May 2002, Mr Oakley was granted an option to subscribe new ordinary shares of 25p each at a price of 45p per share payable in cash. There were no performance conditions attached to the grant of this option as the directors did not consider, in the particular circumstances in which the option was granted, that it would be appropriate to impose any conditions and the option was based on the full market value of the ordinary shares at the date of the grant. The grant of the option to Mr Oakley on this basis was approved by special resolution of the company prior to execution of the option agreement.

The number of shares the subject of the option and the option subscription price have been amended from time to time to take account of share issues since the option was granted. As a result, at the beginning and end of 2009 the number of ordinary shares the subject of the option was 840,689 and the exercise price was 43.753p per share. The market price of the ordinary shares at 31 December 2009 was 414p and the market price range during 2009 was 195p to 480p.

Since the end of 2009, Mr Oakley has exercised his option (which was due to expire on 21 May 2012) in respect of 840,689 shares after which there were no options outstanding. The market price on the date that the options were exercised was 405p and the gain on the exercise of options was £3,036,963.

No other options have been granted by the company.

Approved by the board on 27 April 2010
RICHARD M ROBINOW
Chairman

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. The directors are required to prepare financial statements for the group in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, the Companies Act 2006 and Article 4 of European Commission Regulation 1606/2002.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation should be achieved by compliance with all applicable IFRS. However, directors are also required to:

- properly select and apply suitable accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures 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.

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (including United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

Directors’ confirmation

The directors are responsible for the preparation of this annual report.

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

- the accompanying financial statements prepared in accordance with the applicable accounting 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; and
- the “Directors' report” section of this annual report including the “Chairman’s statement” and “Review of the group” sections of this annual report which the Directors' report incorporates by reference provides a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

The current directors of the company and their respective functions are set out in the “Directors” section of this annual report.

By order of the board
R.E.A. SERVICES LIMITED
Secretary
27 April 2010

Auditors' report (group)

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

We have audited the group financial statements of R.E.A. Holdings plc for the year ended 31 December 2009 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, the accounting policies and the related notes 1 to 42. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the statement of Directors' responsibilities, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the group financial statements.

Auditors' report (group) continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the Directors' confirmation in relation to going concern; and
- the part of the Corporate governance statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the parent company financial statements of R.E.A. Holdings plc for the year ended 31 December 2009 and on the information in the Directors' remuneration report that is described as having been audited.

Clive Bouch (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, England
27 April 2010

Consolidated income statement

for the year ended 31 December 2009

	Note	2009 $'000	2008 $'000
Revenue	2	78,885	79,630
Net gain / (loss) arising from changes in fair value of agricultural produce inventory	4	1,556	(4,214)
Cost of sales		(33,951)	(27,682)
Gross profit		46,490	47,734
Net gain / (loss) arising from changes in fair value of biological assets	13	9,765	(2,660)
Other operating income	2	–	4
Distribution costs		(1,303)	(1,049)
Administrative expenses	5	(7,234)	(3,466)
Operating profit		47,718	40,563
Investment revenues	2, 7	827	1,185
Finance costs	8	(6,828)	(5,439)
Profit before tax	5	41,717	36,309
Tax	9	(11,861)	(10,536)
Profit for the year		29,856	25,773
Attributable to:			
Ordinary shareholders		27,119	23,833
Preference shareholders	10	2,219	2,360
Minority interests	34	518	(420)
		29,856	25,773
Earnings per 25p ordinary share	11		
Basic		83.3 cents	73.2 cents
Diluted		81.4 cents	71.5 cents

Consolidated balance sheet

as at 31 December 2009

	Note	2009 $'000	2008 $'000
Non-current assets			
Goodwill	12	12,578	12,578
Biological assets	13	204,087	179,745
Property, plant and equipment	14	72,258	63,069
Prepaid operating lease rentals	15	14,117	13,088
Indonesian coal interests	16	12,859	5,386
Deferred tax assets	26	5,037	2,444
Non-current receivables		1,276	1,917
Total non-current assets		322,212	278,227
Current assets			
Inventories	18	13,376	12,795
Trade and other receivables	19	14,340	8,872
Cash and cash equivalents	20	22,050	30,316
Total current assets		49,766	51,983
Total assets		371,978	330,210
Current liabilities			
Trade and other payables	29	(13,169)	(12,113)
Current tax liabilities		(9,016)	(904)
Obligations under finance leases	27	(64)	(53)
Bank loans	22	(1,500)	(10,750)
Other loans and payables	28	(412)	(380)
Total current liabilities		(24,161)	(24,200)
Non-current liabilities			
Bank loans	22	(8,719)	(2,167)
Sterling notes	23	(56,965)	(50,234)
US dollar notes	24	(29,677)	(29,632)
Hedging instruments	25	(13,609)	(26,517)
Deferred tax liabilities	26	(39,478)	(31,478)
Obligations under finance leases	27	–	(61)
Other loans and payables	28	(4,701)	(3,310)
Total non-current liabilities		(153,149)	(143,399)
Total liabilities		(177,310)	(167,599)
Net assets		194,668	162,611
Equity			
Share capital	30	43,188	40,714
Share premium account	31	27,297	27,322
Translation reserve	32	(13,630)	(16,388)
Retained earnings	33	136,499	110,383
		193,354	162,031
Minority interests	34	1,314	580
Total equity		194,668	162,611

Approved by the board on 27 April 2010 and signed on behalf of the board.

RICHARD M ROBINOW

Chairman

Consolidated statement of comprehensive income

for the year ended 31 December 2009

	Notes	2009 $'000	2008 $'000
Profit for the year		29,856	25,773
Other comprehensive income			
Exchange differences on translation of foreign operations		(6,615)	14,428
Changes in fair value of cash flow hedges		12,981	(26,676)
Tax relating to components of other comprehensive income	9	(3,567)	5,633
Share based payment - deferred tax credit / (charge)	9	743	(1,444)
		3,542	(8,059)
Total comprehensive income for the year		33,398	17,714
Attributable to:			
Ordinary shareholders		30,620	15,823
Preference shareholders		2,219	2,360
Minority interests		559	(469)
		33,398	17,714

Consolidated statement of changes in equity

for the year ended 31 December 2009

	Share capital (note 30) $'000	Share premium (note 31) $'000	Translation reserve (note 32) $'000	Retained earnings (note 33) $'000	Sub total $'000	Minority interests (note 34) $'000	Total equity $'000
At 1 January 2008	38,299	29,787	(9,822)	89,492	147,756	877	148,633
Total comprehensive income	–	–	(6,566)	24,749	18,183	(469)	17,714
Scrip issue of preference shares	2,415	(2,465)	–	–	(50)	–	(50)
Dividends to preference shareholders	–	–	–	(2,360)	(2,360)	–	(2,360)
Dividends to ordinary shareholders	–	–	–	(1,498)	(1,498)	–	(1,498)
Minority in subsidiary acquired	–	–	–	–	–	172	172
At 31 December 2008	40,714	27,322	(16,388)	110,383	162,031	580	162,611
Total comprehensive income	–	–	2,758	30,081	32,839	559	33,398
Issue of new preference shares	2,474	(25)	–	–	2,449	–	2,449
Dividends to preference shareholders	–	–	–	(2,219)	(2,219)	–	(2,219)
Dividends to ordinary shareholders	–	–	–	(1,746)	(1,746)	–	(1,746)
Changes in minority	–	–	–	–	–	175	175
At 31 December 2009	43,188	27,297	(13,630)	136,499	193,354	1,314	194,668

Consolidated cash flow statement

for the year ended 31 December 2009

	Note	2009 $'000	2008 $'000
Net cash from operating activities	35	29,644	32,300
Investing activities			
Interest received		827	1,185
Proceeds on disposal of property, plant and equipment		–	103
Purchases of property, plant and equipment		(10,382)	(24,665)
Expenditure on biological assets		(16,626)	(15,126)
Expenditure on prepaid operating lease rentals		(1,303)	(1,205)
Acquisition of subsidiary company		–	(3,158)
Changes in minority interests in subsidiaries		175	–
Investment in Indonesian coal interests		(7,473)	(5,386)
Net cash used in investing activities		(34,782)	(48,252)
Financing activities			
Preference dividends paid		(2,219)	(2,360)
Ordinary dividends paid		(1,746)	(1,498)
Repayment of borrowings		(13,817)	(3,000)
Repayment of obligations under finance leases		(54)	(90)
Proceeds of issue of preference share capital less expenses		2,449	(50)
Issue of sterling notes, net of expenses		–	26,880
New bank borrowings drawn		11,119	–
Net cash (used in) / from financing activities		(4,268)	19,882
Cash and cash equivalents			
Net (decrease) / increase in cash and cash equivalents	36	(9,406)	3,930
Cash and cash equivalents at beginning of year		30,316	34,216
Effect of exchange rate changes		1,140	(7,830)
Cash and cash equivalents at end of year		22,050	30,316

Accounting policies (group)

General information

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

Basis of accounting

The consolidated financial statements set out on pages 75 to 108 are 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 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.

Functional and presentational currency

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

Adoption of new and revised standards

Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and brought into effect for the latest reporting period have not led to any changes in the group's accounting policies.

At the date of authorisation of the consolidated financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 3 (revised): "Business combinations"
- IAS 27 (revised): "Consolidated and separate financial statements"
- IAS 39 (revised): "Financial instruments: recognition and measurement: eligible hedged items"
- IAS 32 (revised): "Financial instruments: presentation: classification of rights issues"
- IFRS 9: "Financial instruments"
- IFRIC 9 and IAS39: "Embedded derivatives"
- IFRIC 17: "Distributions of non-cash assets to owners"
- IFRS 5 (revised): "Non-current assets held for sale and discontinued operations"
- IFRS 2 (revised): "Share-based payments"
- IAS 38 (revised): "Intangible assets"
- IFRIC 16: "Hedges of a net investment in a foreign operation"
- IFRIC 19: "Extinguishing financial liabilities with equity instruments"
- IFRS 31 (revised): "Additional exemptions for first-time adopters"
- IAS 24 (revised): "Related party disclosures"
- IFRS 1 (revised): "Limited exemption from comparative IFRS 7 disclosures for first-time adopters"
- IFRIC 18: "Transfers of assets from customers"
- IFRIC 14: "Prepayments of minimum funding requirements"

The directors anticipate that when the relevant standards and interpretations come into effect for periods commencing on or after 1 January 2010 their adoption will have no material impact on the consolidated financial statements, save for additional disclosures which may be required.

Basis of consolidation

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

The acquisition method of accounting is adopted with assets and liabilities valued at fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Any subsequent losses attributable to the minority shareholders in excess of the minority interest are allocated against the interest of the parent. 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 with the buyer.

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 they relate to investment in overseas operations or hedge the group's investment in such operations, are recognised directly in equity.

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

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

Borrowing costs

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

Operating profit

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

Retirement benefit costs

For defined benefit retirement schemes, the estimated regular cost of providing for the benefits 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.

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

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 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 these 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 an estimated produce value for transfer to the manufacturing process and allowing for upkeep, harvesting costs and an appropriate allocation of overheads. The estimated produce value is derived from a long term average of historic crude palm oil prices buffered so that the implied movement in unit profit margin in any year does not exceed 5 per cent, and further, so as to restrict any implied change in unit profit margin in contradiction of the trend in current margins. Assets which are not yet mature at the accounting date, and hence are not producing FFB, are valued on a similar basis but with the discounted value of the estimated cost to complete planting and to maintain the assets to maturity being deducted from the discounted FFB value.

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

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

Property, plant and equipment

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

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

Prepaid operating lease rentals

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

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that any asset has suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where

the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

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

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

Inventories

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

Recognition and derecognition of financial instruments

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

Non-derivative financial assets

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and, being subject to an insignificant risk of changes in value, are stated at their nominal amounts.

Non-derivative financial liabilities

The group's non-derivative financial liabilities comprise note issues, bank borrowings, finance leases and trade payables. The group does not hold any financial liabilities classified as held for trading or designated as held at FVTPL.

Note issues, bank borrowings and finance leases

Note issues, bank borrowings and finance leases are classified in accordance with the substance of the relative contractual arrangements. Finance costs are charged to income on an accruals basis, using the effective interest method, and comprise, with respect to notes, the coupon payable together with the amortisation of note issuance costs (which include any premiums 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. Note issues are recorded in the accounts at their 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.

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 21. 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 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 hedges

Changes in the fair value of derivatives which are designated and qualify as cash flow hedges are deferred in equity to the extent attributable to the components of the derivatives that are effective hedges and as such offset the exchange fluctuations relating to the principal amount of the liability or asset being hedged. Other gains or losses arising are recognised immediately in profit or loss, and are included as 'other gains and losses' in the consolidated income statement. Hedge accounting is discontinued when the group revokes the hedging relationship or the hedging instrument expires, is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at discontinuance remains in equity.

Fair value hedges

The group does not hold any derivatives designated and qualifying as 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. The preference shares of the company are regarded as equity instruments.

Share-based payments

The group has applied the requirements of IFRS 2 "Share-based payments" which contain transitional provisions which provide certain exemptions for grants of equity instruments prior to 7 November 2002.

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 an ongoing 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.

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).

Derivatives

As described in note 21, 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.

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

Income taxes

The group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the group's liability to both current and deferred tax having regard to the uncertainties relating to the availability of tax losses and to the future periods in which timing differences are likely to reverse as well as uncertainty regarding recoverability of tax paid against disputed items in an assessment of tax on an Indonesian group company.

2. Revenue

	2009 $'000	2008 $'000
Sales of goods	78,836	79,107
Revenue from services	49	523
	78,885	79,630
Other operating income	–	4
Investment income	827	1,185
Total revenue	79,712	80,819

In 2009 three customers accounted for respectively 43 per cent, 20 per cent and 13 per cent of the group's sales of goods (2008: four customers, 38 per cent, 12 per cent, 11 per cent and 11 per cent).

The crop of oil palm fresh fruit bunches for 2009 amounted to 490,178 tonnes (2008: 450,906 tonnes). The fair value of the crop of fresh fruit bunches was $44,698,000 (2008: $51,840,000), based on the price formula determined by the Indonesian government for purchases of fresh fruit bunches from smallholders.

3. Segment information

In the table below, the group's sales of goods are analysed by geographical destination and the carrying amount of segment net assets and additions to property, plant and equipment by geographical area of location. The group operates in two segments, the cultivation of oil palms and the develpoment of coal operations. At this stage, the latter does not meet the quantitative thresholds set out in IFRS "Operating Segments" and, accordingly, no further analyses are provided by business segment. In 2008, the group had only one business segment.

	2009 $'m	2008 $'m
Sales by geographical destination:		
Indonesia	40.7	45.8
Rest of Asia	38.2	33.3
	78.9	79.1
Carrying amount of segment net assets by geographical area of asset location:		
UK and Continental Europe	17.3	25.3
Indonesia	177.4	137.3
	194.7	162.6

3. Segment information - continued

	2009 $'m	2008 $'m
Additions to property, plant and equipment by geographical area of asset location:		
UK and Continental Europe	–	–
Indonesia	13.7	24.7
	13.7	24.7

4. Agricultural produce inventory movement

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

5. Profit before tax

	2009 $'000	2008 $'000
Salient items charged / (credited) in arrriving at profit before tax		
Administrative expenses (see below)	7,234	3,466
Movement in inventories (at historic cost)	1,311	(509)
Operating lease rentals	308	288
Depreciation of property, plant and equipment	3,147	2,420
Amortisation of prepaid operating lease rentals	190	57
Net foreign exchange gains	(859)	(2,935)
Charge / (credit) for additional UK pension liability (see note 37)	528	(270)
National insurance contributions on share options	355	(660)
Indonesian operations	3,729	3,808
Head office	3,481	3,523
	7,234	3,466

Fee payable to the company's auditors

The amount payable to Deloitte LLP for the audit of the company's financial statements was $118,000 (2008: $100,000). Amounts payable to Deloitte LLP for the audit of accounts of associates of the company pursuant to legislation were $16,000 (2008: $25,000).

Amounts payable to Deloitte LLP for other services were $3,000 (2008: for other services - $2,000).

Amounts payable to an associate of Deloitte LLP for the audit of a subsidiary's financial statements were $10,000 (2008: $9,000).

Earnings before interest, tax, depreciation and amortisation and net biological (gain) / loss

	2009 $'000	2008 $'000
Operating profit	47,718	40,563
Depreciation and amortisation	3,337	2,477
Net biological (gain) / loss	(9,765)	2,660
	41,290	45,700

Notes to the consolidated financial statements continued

6. Staff costs, including directors

	2009 Number	2008 Number
Average number of employees (including executive directors):		
Agricultural - permanent	3,943	3,418
Agricultural - temporary	2,210	2,578
Head office	7	7
	6,160	6,003

	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	15,838	15,095
Social security costs	576	1,394
Pension costs	1,272	922
	17,686	17,411

7. Investment revenues

	2009 $'000	2008 $'000
Interest on bank deposits	430	1,185
Other interest income	397	–
	827	1,185

8. Finance costs

	2009 $'000	2008 $'000
Interest on bank loans and overdrafts	587	886
Interest on US dollar notes	2,338	2,564
Interest on sterling notes	5,989	5,349
Interest on obligations under finance leases	6	16
Other finance charges	1,467	1,149
	10,387	9,964
Amount included as additions to biological assets	(3,559)	(4,525)
	6,828	5,439

Amount included as additions to biological assets arose on borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 30.4 per cent (2008: 35.5 per cent); there is no directly related tax relief.

9. Tax

	2009 $'000	2008 $'000
Current tax:		
UK corporation tax	–	28
Foreign tax (includes prior years $69,000) (2008: $3,065,000)	6,858	13,478
Total current tax	6,858	13,506
Deferred tax:		
Current year (includes prior years $nil) (2008: $1,588,000)	5,003	2,825
Attributable to a decrease in the rate of tax	–	(5,795)
Total deferred tax	5,003	(2,970)
Total tax	11,861	10,536

Taxation is provided at the rates prevailing for the relevant jurisdiction. For Indonesia, the current taxation provision is based on a tax rate of 28 per cent (2008: 30 per cent) and the deferred tax provision reflects the reduction in the corporate taxation rate from 30 per cent to 25 per cent, effective from 2010. The effect of this reduction in the 2008 accounts is disclosed below and in note 26. For the United Kingdom, the taxation provision reflects the reduction in the corporation tax rate from 30 per cent to 28 per cent for 2008/09, the effect of which for 2008 is also disclosed below and in note 26. Prior year adjustments in 2008 of $3,065,000 in respect of foreign tax and $1,588,000 in respect of deferred tax arose as a result of an Indonesian assessment of tax on a group company's 2006 profits at a higher level than was originally expected. Full provision has been made for this assessment although significant elements are disputed.

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

	2009 $'000	2008 $'000
Profit before tax	41,717	36,309
Notional tax at the UK standard rate of 28 per cent (2008: 28.5 per cent)	11,681	10,348
Tax effect of the following items:		
Expenses not deductible in determining taxable profit	142	673
Deferred tax asset not recognised	–	(61)
Non taxable income	(88)	(349)
Overseas tax rates in excess of UK standard rate	–	531
Overseas tax rates below UK standard rate	(672)	–
Overseas withholding taxes, net of relief	729	625
Tax effect of unrelieved tax losses not recognised for deferred tax	–	22
Tax effect of change in rate on UK net deferred tax liability	–	(23)
Tax effect of change in rate on Indonesian deferred tax liabilities	–	(5,773)
Additional tax provisions	69	4,543
Tax expense at effective tax rate for the year	11,861	10,536

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

9. Tax - continued	2009 $'000	2008 $'000
Current tax:		
Relating to cash flow hedges	4,179	(7,235)
Deferred tax:		
Relating to cash flow hedges	(612)	(595)
On share based payment	(743)	1,444
On prior year loan relationship losses reversed	–	2,197
	(1,355)	3,046
Total tax recognised directly in other comprehensive income	2,824	(4,189)

10. Dividends	2009 $'000	2008 $'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share	2,219	2,360
Ordinary dividends	1,746	1,498
	3,965	3,858

An interim dividend of 2p per ordinary share in lieu of final in respect of the year ended 31 December 2009 was paid on 29 January 2010. In accordance with IAS10 "Events after the reporting period", this dividend, amounting in aggregate to $1,054,000, has not been included in the 2009 financial statements.

11. Earnings per share	2009 $'000	2008 $'000
Earnings for the purpose of basic and diluted earnings per share *	27,119	23,833

* being net profit attributable to ordinary shareholders

	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	32,574	32,574
Effect of dilutive potential ordinary shares	736	761
Weighted average number of ordinary shares for the purpose of diluted earnings per share	33,310	33,335

12. Goodwill	2009 $'000	2008 $'000
Beginning of year	12,578	12,578
End of year	12,578	12,578

The goodwill arose from the acquisition by the company in 2006 of a minority 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 of $12.6 million at the balance sheet date is considered by the directors to be supported fully by an assessment of the value in use for the oil palm business in Indonesia, which is regarded by the directors to be the cash generating unit to which the goodwill applies.

13. Biological assets

	2009 $'000	2008 $'000
Beginning of year	179,745	166,347
Reclassification from infrastructure (see note 14)	773	–
Additions to planted area and costs to maturity including finance costs (see note 8)	13,866	15,763
Transfers from property, plant and equipment (see note 14)	140	339
Transfers to non-current receivables	(202)	(44)
Net biological gain / (loss)	9,765	(2,660)
End of year	204,087	179,745
Net biological gain / (loss) comprises:		
Gain / (loss) arising from movement in fair value attributable to physical changes	9,765	(2,660)
Gain arising from movement in fair value attributable to price changes	–	–
	9,765	(2,660)

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 valuation assumed a discount rate of 16 per cent in the case of PT REA Kaltim Plantations ("REA Kaltim") and 19 per cent in the case of all other group companies (2008: 16 per cent in the case of REA Kaltim and 19 per cent in the case of all other group companies) and a twenty year average crude palm oil ("CPO") price of $446 per tonne, net of Indonesian export duties, FOB Samarinda (2008: twenty year average of $431 per tonne). The effect of the accounting policy on biological assets was that there was no change in the unit profit margin assumed.

The valuation of the group's biological assets would have been reduced by $11,260,000 (2008: $9,505,000) if the crops projected for the purposes of the valuation had been reduced by 5 per cent; by $10,660,000 (2008: $8,887,000) if the discount rates assumed had been increased by 1 per cent and by $22,490,000 (2008: $18,987,000) if the assumed unit profit margin per tonne of oil palm fresh fruit bunches had been reduced by $5.

As a general rule, all palm products produced by the group are sold at prices prevailing immediately prior to delivery but on occasions, when market conditions appear favourable, the group makes forward sales at fixed prices. When making such sales, the group would not normally commit more than 60 per cent of its projected production for a forthcoming period of twelve months. At 31 December 2007, the group had outstanding forward fixed price sales of CPO at the rate of 2,000 tonnes per month for the two year period to 31 December 2009 at prices equivalent to $620 per tonne, CIF Rotterdam, for the period January to June 2008 (inclusive), $870 per tonne for the period July to December 2008 (inclusive) and $860 per tonne for the period January to December 2009 (inclusive). During 2008, the group delivered 12,000 tonnes of CPO against forward sale contracts at the equivalent of a CIF Rotterdam price of $620 per tonne; the remaining forward sales were cancelled during 2008 by mutual agreement with the counterparty.

At 31 December 2009, the group had outstanding forward sales of 6,000 tonnes of CPO per month for the five month period to May 2010, on terms that the sales price of each delivery be determined immediately ahead of delivery by reference to prevailing open market prices (31 December 2008: 3,000 tonnes per month for the five month period to 31 May 2009).

At the balance sheet date, biological assets of $165,364,000 (2008: $161,452,000) had been charged as security for bank loans (see note 22) but there were otherwise no restrictions on titles to the biological assets (2008: none). Expenditure approved by the directors for the development of immature areas in 2010 amounts to $37,000,000 (prior year - $13,000,000).

14. Property, plant and equipment

	Buildings and structures	Plant, equipment and vehicles	Construction in progress	Total
	$'000	$'000	$'000	$'000
Cost:				
At 1 January 2008	18,002	29,590	3,216	50,808
Additions	10,227	3,135	11,303	24,665
Exchange differences	–	(183)	–	(183)
Disposals	–	(268)	–	(268)
Transfers (see note 13)	7,064	30	(7,433)	(339)
At 31 December 2008	35,293	32,304	7,086	74,683
Reclassification as biological assets (see note 13)	(773)	–	–	(773)
Additions	3,482	2,587	7,621	13,690
Exchange differences	–	57	–	57
Disposals	–	–	–	–
Transfers (see note 13)	7,705	2,462	(10,307)	(140)
At 31 December 2009	45,707	37,410	4,400	87,517
Accumulated depreciation:				
At 1 January 2008	1,167	7,869	–	9,036
Charge for year	637	2,206	–	2,843
Exchange differences	–	(102)	–	(102)
Eliminated on disposals	–	(163)	–	(163)
At 31 December 2008	1,804	9,810	–	11,614
Charge for year	1,058	2,554	–	3,612
Exchange differences	–	33	–	33
Eliminated on disposals	–	–	–	–
At 31 December 2009	2,862	12,397	–	15,259
Carrying amount:				
End of year	42,845	25,013	4,400	72,258
Beginning of year	33,489	22,494	7,086	63,069

The depreciation charge for the year includes $465,000 (2008: $423,000) 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 $139,000 (2008: $174,000).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $360,000 (2008: $2,394,000).

15. Prepaid operating lease rentals

	2009 $'000	2008 $'000
Cost:		
Beginning of year	13,723	9,188
Additions	1,304	4,535
End of year	15,027	13,723
Accumulated depreciation:		
Beginning of year	635	365
Charge for year	275	270
End of year	910	635
Carrying amount:		
End of year	14,117	13,088
Beginning of year	13,088	8,823

The depreciation charge for the year includes $85,000 (2008: $212,000) which has been capitalised as part of the additions to biological assets.

Additions in the year include $nil (2008: $3,330,000) in respect of a subsidiary acquired during the year.

Land title certificates have been obtained in respect of areas covering 52,029 hectares (2008: 46,841 hectares).

16. Indonesian coal interests

The balance of $12,859,000 (2008: $5,386,000) comprises interest bearing loans made to two Indonesian companies that, directly and through a further Indonesian company, own rights in respect of certain coal concessions in East Kalimantan Indonesia, together with related balances; such loans are repayable not later than 2020. Arrangements have been agreed whereby the group will have the right to acquire the concession holding companies at original cost as soon as Indonesian law allows this on a basis that will give the group 95 per cent ownership of those companies. In the interim, the group will receive appropriate remuneration for the funding and services that it provides to the concession holding companies and no dividends or other distributions or payments may be paid or made by the concession holding companies to the existing owners of the companies without the prior agreement of the group. The directors do not consider that any provision for impairment of the Indonesian coal interests is required.

17. Subsidiaries

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

Certain borrowings incurred by PT REA Kaltim Plantations ("REA Kaltim") limit the payment of dividends by REA Kaltim to a proportion of REA Kaltim's annual profit after tax.

18. Inventories

	2009 $'000	2008 $'000
Agricultural produce	5,477	4,879
Engineering and other operating inventory	7,899	7,916
	13,376	12,795

19. Trade and other receivables

	2009 $'000	2008 $'000
Due from sale of goods	2,618	712
Prepayments and advance payments	2,375	1,200
Advance payment of taxation	8,121	6,199
Deposits and other receivables	1,226	761
	14,340	8,872

Sales of goods are normally made on a cash against documents basis with an average credit period (which takes account of customer deposits as disclosed in note 29) of 6 days (2008: nil days). The directors consider that the carrying amount of trade and other receivables approximates their fair value.

20. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the group and short-term bank deposits with a maturity of one month or less.

21. Financial instruments

Capital risk management

The group manages as capital its debt, which includes the borrowings disclosed in notes 22 to 24, 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 30 to 33. 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 charge capital and to constitute that capital as a mix of preference share capital and borrowings from banks, development institutions and the public debt market, in proportions which suit, and as respects borrowings having a maturity profile which suits, the assets that such capital is financing. In so doing, the directors regard preference share capital as permanent capital and then seek to structure the group's borrowings so that shorter term bank debt is used only to finance working capital requirements while debt funding for the group's development programme is sourced from issues of medium term listed debt securities and borrowings from development institutions.

Net debt to equity ratio

Whilst the directors believe that it is important that the group retains flexibility as to the percentage of the group's overall funding that is represented by net debt, as a general indication, they believe that, at the present stage of the group's development, net debt should not exceed 100 per cent of total equity. The target for 31 December 2010 is 60 per cent (2009: 60 per cent). Net debt, equity and the net debt to equity ratio at the balance sheet date were as follows:

	2009 $'000	2008 $'000
Debt and related engagements *	104,580	108,264
Cash and cash equivalents	(22,050)	(30,316)
Net debt and related engagements	82,530	77,948

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

	2009	2008
Equity (including minority interests)	194,668	162,611
Net debt to equity ratio	42.4%	47.9%

21. Financial instruments - continued

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 2009 comprised loans and receivables (including Indonesian coal interests) and cash and cash equivalents amounting to $38,785,000 (2008: $37,834,000).

Non-derivative financial liabilities as at 31 December 2009 comprised liabilities at amortised cost amounting to $106,714,000 (2008: $102,920,000).

Derivative financial instruments at 31 December 2009 comprised instruments in designated hedge accounting relationships at fair value amounting to a liability of $13,609,000 (2008: a liability of $26,517,000).

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

Financial risk management objectives

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

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

Market risk

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

The group's policy as regards interest rates is to borrow whenever possible at fixed interest rates, but where borrowings are raised at floating rates the directors would not normally seek to hedge such exposure. The sterling notes and the US dollar notes carry interest at fixed rates of, respectively, 9.5 and 7.5 per cent per annum. In addition, the company's preference shares carry an entitlement to a fixed annual dividend of 9 pence per share.

Interest is payable on drawings under the Indonesian consortium loan facilities at a floating rate equal to 2.75 per cent per annum over Singapore Inter Bank Offered Rate ("SIBOR") (2008: 2.75 per cent). In addition, the interest rate formula includes an allowance for the bankers' cost of funds (2008: $nil).

21. Financial instruments - continued

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 2009 (other than the cross currency interest rate swap) which carry interest at floating rates would have resulted over a period of one year in a pre-tax profit (and equity) increase of approximately $118,000 (2008: pre-tax profit (and equity) increase of $174,000).

The group regards the US dollar as the functional currency of most of its operations and seeks to ensure that, as respects that proportion of its investment in the operations that is met by borrowings, it has no currency exposure against the US dollar. Accordingly, where borrowings are incurred in a currency other than the US dollar, the group endeavours to cover the resultant currency exposure by way of a debt swap or other appropriate currency hedge. The group does not cover the currency exposure in respect of the component of the investment that is financed with pounds sterling denominated equity. The group's policy is to maintain limited balances in pounds sterling sufficient to meet its projected sterling expenditure for a period of up to twelve months and a balance in Indonesian rupiahs sufficient for its immediate Indonesian rupiah requirements 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.

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 $180,000 on the net sterling denominated non-derivative monetary items (excluding the sterling notes which are hedged) (2008: gain of $100,000). A 5 per cent strengthening of the Indonesian rupiah against the US dollar would have resulted in a gain dealt with in the consolidated income statement and equity of $188,000 on the net Indonesian rupiah denominated, non-derivative monetary items (2008: loss of $125,000).

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 2009, 78 per cent of bank deposits were held with banks with a Moody's prime rating of P1, 18 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 2009 and 31 December 2008 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 22.

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.

21. Financial instruments - continued

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.

2009	Weighted average interest rate	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
Bank loans	6.5%	2,126	2,610	7,125	11,861
US dollar notes	8.0%	2,250	2,250	34,500	39,000
Sterling notes	10.4%	5,663	5,647	87,915	99,225
Trade and other payables, and customer deposits		7,964	–	–	7,964
Obligations under finance leases	10.0%	68	–	–	68
		18,071	10,507	129,540	158,118

2008	Weighted average interest rate	Under 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total $'000
Bank loans	5.8%	11,119	2,180	–	13,299
US dollar notes	8.0%	2,250	2,250	36,750	41,250
Sterling notes	10.4%	5,035	4,944	77,983	87,962
Trade and other payables, and customer deposits		8,332	–	–	8,332
Obligations under finance leases	10.0%	62	65	–	127
		26,798	9,439	114,733	150,970

At 31 December 2009, the group's non-derivative financial assets (other than receivables) comprised cash and deposits of $22,050,000 (2008: $30,316,000) carrying a weighted average interest rate of 1.9 per cent (2008: 3.1 per cent) all having a maturity of under one year, and Indonesian coal interests of $12,859,000 (2008: $5,386,000) 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 25. 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 2009	7,197	7,178	97,429	111,804
At 31 December 2008	7,197	7,197	104,607	119,001

21. Financial instruments - continued

Fair value of financial instruments

The table below provides an analysis of the book values and fair values of financial instruments, excluding receivables and trade payables and Indonesian coal interests, as at the balance sheet date. 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 that are classified as level 2. No reclassifications between levels in the fair value hierarchy were made during 2009 (2008: none).

	2009 Book value $'000	2009 Fair value $'000	2008 Book value $'000	2008 Fair value $'000
Cash and deposits +	22,050	22,050	30,316	30,316
Debt - within one year +	(1,500)	(1,500)	(10,750)	(10,750)
Debt - after more than one year +	(8,719)	(8,719)	(2,167)	(2,167)
Finance leases o	(64)	(64)	(114)	(114)
US dollar notes o	(29,677)	(27,000)	(29,632)	(21,382)
Sterling notes o	(56,965)	(57,066)	(50,234)	(44,906)
Cross currency interest rate swaps - hedge against principal liabilities	(7,655)	(7,655)	(15,367)	(15,367)
Net debt and related engagements	(82,530)	(79.954)	(77,948)	(64,370)
Cross currency interest rate swaps - hedge against interest liabilities	(5,954)	(5,954)	(11,150)	(11,150)
	(88,484)	(85,908)	(89,098)	(75,520)

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

The fair values of cash and deposits, bank debt and Indonesian coal interests 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 date, save that, at 31 December 2008, the fair value of the sterling notes was estimated by the directors, based on a yield comparision with UK government debt issues.

The fair value of the cross currency interest rate swaps ("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 2009 at fair value resulted in a loss of $13,609,000 (2008: loss of $26,517,000) which has been taken directly to equity, net of related tax relief. 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 $2,847,000 (2008: $2,783,000).

22. Bank loans

	2009 $'000	2008 $'000
Bank loans	10,219	12,917
The bank loans are repayable as follows:		
On demand or within one year	1,500	10,750
Between one and two years	2,100	2,167
Between three and five years	6,619	–
	10,219	12,917

22. Bank loans - continued	2009 $'000	2008 $'000
Amount due for settlement within 12 months (shown under current liabilities)	1,500	10,750
Amount due for settlement after 12 months	8,719	2,167
	10,219	12,917

All bank loans are denominated in US dollars and are at floating rates, thus exposing the group to interest rate risk. The weighted average interest rate in 2009 was 5.5 per cent (2008: 5.8 per cent). Bank loans of $10,219,000 (2008: $12,917,000) are secured on substantially the whole of the assets and undertaking of PT REA Kaltim Plantations ("REA Kaltim"), amounting to $277 million (2008: $265 million), and are the subject of an unsecured guarantee by the company. The banks are entitled to have recourse to their security on usual banking terms.

At the balance sheet date, the group had undrawn US dollar denominated bank facilities of $4.75 million (2008: $4.0 million).

23. Sterling notes

The sterling notes comprise £37 million nominal of 9.5 per cent guaranteed sterling notes 2015/17 issued by the company's subsidiary, REA Finance B.V.. Unless previously redeemed or purchased and cancelled by the issuer, the sterling notes are repayable in three equal instalments commencing on 31 December 2015.

The repayment obligation in respect of the sterling notes of £37 million ($59.8 million) is hedged by forward foreign exchange contracts for the purchase of £37 million and for the sale of $68.6 million and is carried in the balance sheet net of the unamortised balance of the note issuance costs.

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.

24. US dollar notes

The US dollar notes comprise US$30 million nominal of 7.5 per cent dollar notes 2012/14 of the company, and are stated net of the unamortised balance of the note issuance costs. Unless previously redeemed or purchased and cancelled by the company, the US dollar notes are redeemable in three equal annual instalments commencing on 31 December 2012.

Pursuant to a supplemental rights agreement dated 23 January 2006, between the company and the holders of $19 million nominal of US dollar notes, the latter have the right, exercisable under certain limited circumstances, to require the company to purchase the US dollar notes held by them at a price equal to the aggregate of the nominal amount of the notes being purchased and any interest accrued thereon up to the date of completion of the purchase. Such circumstances include a material disposal of assets by the group 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.

Details of a futher issue of the US dollar notes after the balance sheet date are given in note 40.

25. Hedging instruments

At both 31 December 2009 and 31 December 2008, the group had outstanding three contracts for the forward purchase of £37 million and sale of $68.6 million maturing in 2015 pursuant to the cross currency interest rate swaps ("CCIRS") entered into by the group to hedge the foreign currency exposure of the group arising from the interest and principal repayment obligations of its 9.5 per cent guaranteed sterling notes 2015/17 ("sterling notes"). Either party to the CCIRS has the option to terminate the CCIRS on the fifth anniversary of the initial trade date 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. During the year, the hedges were effective in hedging the related sterling interest payment obligations on the sterling notes up to and including 31 December 2015 and in providing the £37 million required to meet the principal repayment obligations. The fair value of the CCIRS has been described in note 21.

26. 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	Share based payments $'000	Tax losses $'000	Total $'000
At 1 January 2008	(17,601)	(17,369)	(1,274)	2,304	2,591	(31,349)
(Charge)/credit to income for the year	(3,847)	798	291	–	93	(2,665)
Charge to equity for the year	–	–	(1,529)	(1,444)	(2)	(2,975)
Exchange differences	3,209	–	(348)	(322)	(219)	2,320
Effect of change in tax rates - income statement	3,318	2,913	(371)	–	(225)	5,635
Transfers	–	–	1,243	–	(1,243)	–
At 31 December 2008	(14,921)	(13,658)	(1,988)	538	995	(29,034)
(Charge) / credit to income for the year	(3,052)	(2,979)	1,614	–	(586)	(5,003)
Credit to equity for the year	–	–	–	743	–	743
Exchange differences	(2,407)	–	846	92	322	(1,147)
At 31 December 2009	(20,380)	(16,637)	472	1,373	731	(34,441)
Deferred tax assets	318	–	2,615	1,373	731	5,037
Deferred tax liabilities	(20,698)	(16,637)	(2,143)	–	–	(39,478)
At 31 December 2009	(20,380)	(16,637)	472	1,373	731	(34,441)
Deferred tax assets	7	–	904	538	995	2,444
Deferred tax liabilities	(14,928)	(13,658)	(2,892)	–	–	(31,478)
At 31 December 2008	(14,921)	(13,658)	(1,988)	538	995	(29,034)

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

At the balance sheet date, the group had unused tax losses, including a share based payments provision, of $7.8 million (2008: $5.9 million) available to be applied against future profits. A deferred tax asset of $2,104,000 (2008: $1,533,000) has been recognised in respect of these losses made up of $1,373,000 in respect of the share based payment provision (2008: $538,000) and $731,000 in respect of other tax losses (2008: $995,000).

26. Deferred tax - continued

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 $6,150,000 (2008: $3,750,000). No liability has been recognised in respect of these differences because the group is in a position to control the reversal of the temporary differences and it is probable that such differences will not significantly reverse in the foreseeable future.

The deferred tax asset in respect of tax losses assumes that losses for tax purposes incurred by the plantation companies in Indonesia may be carried forward for five years.

The forthcoming reduction in Indonesian corporation tax from 28 per cent to 25 per cent has reduced the net amount of Indonesian deferred tax liabilities by $nil (2008: $5,635,000).

27. Obligations under finance leases

	2009 $'000	2008 $'000
Minimum lease payments:		
Amounts payable under finance leases		
Within one year	68	62
In the second to fifth years inclusive	–	65
	68	127
Less: Future finance charges	4	13
Present value of lease obligations	64	114
Representing:		
Amounts payable under finance leases		
Within one year	64	53
In the second to fifth years inclusive	–	61
Present value of lease obligations	64	114
Amount due for settlement within 12 months (shown under current liabilities)	64	53
Amount due for settlement after 12 months	–	61
	64	114

The group leases certain items of plant and equipment under finance leases. The average lease term is one year (2008: one to two years). Interest rates are fixed at the contract rate. The average borrowing rate for the year was 10.0 per cent (2008: 10.0 per cent). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. Most lease obligations are denominated in Indonesian rupiahs. Obligations under finance leases are secured by the lessor's charge over the leased assets.

28. Other loans and payables

	2009 $'000	2008 $'000
Retirement benefit obligations (see note 37)	4,573	3,078
Other	540	612
	5,113	3,690
The amounts are repayable as follows:		
On demand or within one year (shown under current liabilities)	412	380
In the second year	394	373
In the third to fifth years inclusive	1,308	1,159
After five years	2,999	1,778
Amount due for settlement after 12 months	4,701	3,310
	5,113	3,690
Amounts of liabilities by currency:		
Sterling	2,909	2,117
US dollar	436	509
Indonesian rupiah	1,768	1,064
	5,113	3,690

Further details of the retirement benefit obligations which relate to the R.E.A. Pension Scheme (the "Scheme") are set out in note 37. The directors estimate that the fair value of retirement benefit obligations (being the retirement benefit funding obligations agreed with the trustees of the Scheme following the 2008 actuarial valuation referred to in note 37) and of other loans and payables approximates their carrying value.

29. Trade and other payables

	2009 $'000	2008 $'000
Trade purchases and ongoing costs	5,517	6,071
Customer deposits	1,288	2,021
Other tax and social security	2,098	282
Accruals	3,107	3,499
Other payables	1,159	240
	13,169	12,113

The average credit period taken on trade payables is 37 days (2008: 37 days).

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

30. Share capital

	2009 £'000	2008 £'000
Authorised (in pounds sterling):		
17,500,000 - 9 per cent cumulative preference shares of £1 each (2008: 17,500,000)	17,500	17,500
41,000,000 - ordinary shares of 25p each (2008: 41,000,000)	10,250	10,250
	27,750	27,750

30. Share capital - continued

	2009	2008
Issued and fully paid (in US dollars):	$'000	$'000
16,392,954 - 9 per cent cumulative preference shares of £1 each (2008: 14,902,954)	28,958	26,484
32,573,856 - ordinary shares of 25p each (2008: 32,573,856)	14,230	14,230
	43,188	40,714

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 6 November 2009, 1,490,000 9 per cent cumulative preference shares were issued, credited as fully paid, by way of a placing at par plus an amount equal to the accrued but unpaid dividend entitlement of 3.18 pence relating to the period before issue.

Details of a director's share options are disclosed in the audited part of the directors' remuneration report, as required by FRS 20 "Share based payments".

31. Capital reserves

	Share premium account $'000
At 1 January 2008	29,787
Capitalisation issue of new preference shares	(2,415)
Expenses of issue	(50)
At 31 December 2008	27,322
Expenses of issue of new preference shares	(25)
At 31 December 2009	27,297

32. Translation reserve

	Hedging reserve $'000	Other reserve $'000	Total $'000
At 1 January 2008	(506)	(9,316)	(9,822)
Reclassification of balances brought forward	414	(414)	–
Exchange translation differences arising during the year	18,443	(6,252)	12,191
Fair value loss on cash flow hedge	(18,757)	–	(18,757)
At 31 December 2008	(406)	(15,982)	(16,388)
Exchange translation differences arising during the year	(6,475)	(96)	(6,571)
Fair value profit on cash flow hedge	9,329	–	9,329
At 31 December 2009	2,448	(16,078)	(13,630)

33. Retained earnings

	2009 $'000	2008 $'000
Beginning of year	110,383	89,492
Profit for the year	27,119	23,833
Ordinary dividend paid	(1,746)	(1,498)
Share based payment - deferred tax credit / (charge)	743	(1,444)
End of year	136,499	110,383

34. Minority interest

	2009 $'000	2008 $'000
Beginning of year	580	877
Share of profit / (loss) after taxation	518	(420)
Share of items taken directly to equity	84	(89)
Exchange translation differences	(43)	40
Subscription to share capital of new subsidiary	175	172
End of year	1,314	580

35. Reconciliation of operating profit to operating cash flows

	2009 $'000	2008 $'000
Operating profit	47,718	40,563
Depreciation of property, plant and equipment	3,148	2,420
(Increase) / decrease in fair value of agricultural produce inventory	(1,556)	4,214
Amortisation of prepaid operating lease rentals	190	57
Amortisation of sterling and US dollar note issue expenses	344	287
Biological (gain) / loss	(9,765)	2,660
Loss on disposal of property, plant and equipment	–	2
Operating cash flows before movements in working capital	40,079	50,203
Decrease / (increase) in inventories (excluding fair value movements)	2,158	(5,091)
Increase in receivables	(2,670)	(581)
(Decrease) / increase in payables	(690)	5,329
Exchange translation differences	(48)	1,036
Cash generated by operations	38,829	50,896
Taxes paid	(2,284)	(13,122)
Interest paid	(6,901)	(5,474)
Net cash from operating activities	29,644	32,300

No additions to property, plant and equipment during the year were financed by new finance leases (2008: $nil).

36. Movement in net borrowings	2009 $'000	2008 $'000
Change in net borrowings resulting from cash flows:		
(Decrease) / increase in cash and cash equivalents	(9,406)	3,930
Net decrease in borrowings	2,698	3,000
	(6,708)	6,930
Amortisation of US dollar notes issue expenses	(88)	(94)
Issue of sterling notes less amortised expenses	(256)	(27,073)
Lease repayments	54	90
	(6,998)	(20,147)
Currency translation differences	(5,296)	9,607
Net borrowings at beginning of year	(62,581)	(52,041)
Net borrowings at end of year	(74,875)	(62,581)

37. 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 employer is unable to identify its share of the underlying assets and liabilities (because there is no segregation of the assets) and does not prepare valuations on an IAS19 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 2008. This method was adopted in the previous valuation as at 31 December 2005, as it was considered the appropriate method of calculating future service benefits as the Scheme is closed to new members. At 31 December 2008 the Scheme had an overall shortfall in assets (deficit), when measured against the Scheme's technical provisions, of £3,579,000. The technical provisions were calculated using assumptions of an investment return of 5.85 per cent pre-retirement and 4.92 per cent post-retirement, an annual increase in pensionable salaries of 3.75 per cent and an annual increase in present and future pensions of 3.0 per cent. The rate of increase in the retail price index was assumed to be 3.0 per cent. It was further assumed that both non-retired and retired members' mortality would reflect PNA00 lc YOB tables, with males at min 0.75 per cent 110 percent and females at min 0.5 per cent 110 per cent and that members would take the maximum cash sums permitted from 1 January 2009. Had the Scheme been valued at 31 December 2008 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 sets out the basis for recovery of the deficit shown by the 31 December 2008 valuation through the payment of quarterly additional contributions over the period from 1 January 2010 to 30 September 2018 after taking account of the additional contributions paid in 2009 under the 31 December 2005 valuation.

37. Pensions - continued

The normal contributions paid by the group in 2009 were £47,000 - $72,000 (2008: £67,000 - $ 123,000) and represented 24.9 per cent (2008: 24.9 per cent) of pensionable salaries. The additional contribution applicable to the group for 2009 was £218,000 - $333,000 (2008: £212,000 - $390,000). Under the valuation as at 31 December 2008 the normal contributions will be payable at the rate of 23.4 per cent and the additional contribution for 2010 will rise to £219,000 - $354,000 and thereafter by 2.7 per cent per annum. A liability of £1,737,000 - $2,805,000 (2008: £1,399,000 - $2,014,000) for these additional contributions adjusted for the time value of money has been recognized under retirement benefit obligations (see note 28) with an equal charge to income.

In the year to 31 December 2009 the market value of the investments held by the Scheme have increased by over £2 million, which, if the same assumptions had been applied to any valuation at that date, would have resulted in a significant decline in the deficit.

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

38. 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".

	2009 $'000	2008 $'000
Short term benefits	877	941
Post employment benefits	48	94
Other long term benefits	–	–
Termination benefits	–	–
Share based payments	–	–
	925	1,035

39. Rates of exchange

	2009 Closing	2009 Average	2008 Closing	2008 Average
Indonesia rupiah to US dollar	9,400	10,356	10,950	9,757
US dollar to pound sterling	1.615	1.56	1.44	1.84

40. Events after the reporting period

Dividends

An interim dividend of 2p per ordinary share in lieu of final in respect of the year ended 31 December 2009 was paid on 29 January 2010. In accordance with IAS10 "Events after the reporting period" this dividend, amounting in aggregate to $1,054,000, has not been reflected in these financial statements.

Financing of coal operations

On 11 February 2010 the company issued $15 million nominal of further 7.5 per cent dollar notes 2012/14 ("additional dollar notes") and KCC Resources Limited ("KCC"), its wholly owned subsidiary, issued 150,000 redeemable participating preference shares of $10 each ("KCC participating preference shares"). The additional dollar notes rank pari passu with and form a single issue with the $30,000,000 nominal of 7.5 per cent dollar notes 2012/14 that were already in issue.

The KCC participating preference shares will provide a limited interest in certain defined coal operations of the group (the "relevant coal operations") such that, if the earnings before interest, tax, depreciation and amortisation of the relevant coal operations over the four and a half year period from 1 January 2010 to 30 June 2014 amount, in aggregate, to $36 million or more, the KCC participating preference shares will be redeemable on 31 December 2014 at $44.70 per share. 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 relevant coal operations or a change of control of the company), no dividends or other distributions will be paid or made on the KCC participating preference shares and after 31 December 2014 those shares will be converted into valueless deferred shares.

The $15 million gross proceeds of the issues are being applied by the group in funding its coal operations, with the coal operations bearing the costs of the issue and utilising $4.5 million of the proceeds in repaying $4.5 million that had been previously advanced to the coal operations by other group companies.

Exercise of director's share option

On 1 February 2010 a director exercised an option to subscribe 840,689 ordinary shares in the company at a price of 43.753 pence, following which the number of ordinary shares in issue amounts to 33,414,545.

41. Contingent liabilities

Guarantee given by a subsidiary company

In furtherance of Indonesian government policy which requires the owners of oil palm plantations to develop smallholder plantations, during 2009 PT REA Kaltim Plantations ("REA Kaltim"), a wholly owned subsidiary of the company, entered into an agreement with Kopersai Perkebuman Kahad Bersatu (the "cooperative") to develop and manage 1,500 hectares of land owned by the cooperative as an oil palm plantation. To assist with the funding of such development, the cooperative concluded on 14 October 2009 a long term loan agreement with Bank Pembanguan Daerah Kalimantan Timur ("Bank BPD"), a regional development bank, under which the cooperative may borrow up to Indonesian rupiah 86.6 billion ($9.2 million) with amounts borrowed repayable over 15 years and secured on the land to be developed ("the bank facility"). REA Kaltim has guaranteed the obligations of the cooperative as to payments of principal and interest under the bank facility and, in addition, has committed to lend to the cooperative any further funds required to complete the agreed development. REA Kaltim is entitled to a charge over the development when the bank facility has been repaid in full.

41. Contingent liabilities - continued

On maturity of the development, the cooperative is required to sell all crops from the development to REA Kaltim and to permit repayment of indebtedness to Bank BPD and REA Kaltim out of the sales proceeds.

As at 31 December 2009 the outstanding balance owing by the cooperative to Bank BPD amounted to Indonesian rupiah 29 billion ($3,085,000) (2008: nil) and the outstanding balance owing by REA Kaltim to the cooperative amounted to Indonesian rupiah 7.8 billion ($829,000) (2008: nil). The latter represented the unexpended balance of drawings to date under the facility to be applied for the purposes of the development.

42. Operating lease commitments

The group leases office premises under operating leases in London, Jakarta and Samarinda. These leases, which are renewable, run for periods between 10 months and 26 months, and do not include contingent rentals, or options to purchase the properties.

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

	2009	2008
	$'000	$'000
Within one year	72	72
In the second to fifth year inclusive	189	233
After five years	–	–
	261	305

Auditors' report (company)

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

We have audited the parent company financial statements of R.E.A. Holdings plc for the year ended 31 December 2009 which comprise the balance sheet, the movement in total shareholders' funds, the statement of total recognised gains and losses, the accounting policies and the related notes (i) to (xiv). The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the statement of Directors' responsibilities, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Auditors' report (company) continued

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the group financial statements of R.E.A. Holdings plc for the year ended 31 December 2009.

Clive Bouch (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, England
27 April 2010

Company balance sheet

as at 31 December 2009

	Note	2009 £'000	2008 £'000
Fixed and non-current assets			
Investments	(i)	62,165	58,932
Tangible fixed assets	(ii)	84	99
Deferred tax asset	(vi)	989	371
		63,238	59,402
Current assets			
Debtors	(iii)	437	1,118
Cash		2,486	5,633
Total current assets		2,923	6,751
Creditors: amounts falling due within one year	(iv)	(4,737)	(1,213)
Net current (liabilities) / assets		(1,814)	5,538
Total assets less current liabilities		61,424	64,940
Creditors: amounts falling due after more than one year			
US dollar notes	(v)	(18,375)	(20,576)
Provision for liabilities and charges	(vi)	(77)	(75)
Net assets		42,972	44,289
Capital and reserves			
Share capital	(vii)	24,536	23,046
Share premium account	(viii)	14,659	14,675
Exchange reserve	(viii)	181	181
Profit and loss account	(viii)	3,596	6,387
Total shareholders' funds		42,972	44,289

Approved by the board on 27 April 2010 and signed on behalf of the board.

RICHARD M ROBINOW

Chairman

Movement in total shareholders' funds

for the year ended 31 December 2009

	2009 £'000	2008 £'000
Total recognised (losses) / gains for the year	(290)	575
Dividends to preference shareholders	(1,361)	(1,283)
Dividends to ordinary shareholders	(1,140)	(814)
Issue of new preference shares by way of placing	1,490	–
Issue costs of ordinary shares, preference shares and debt securities	(16)	(27)
	(1,317)	(1,549)
Shareholders' funds at beginning of year	44,289	45,838
Shareholders' funds at end of year	42,972	44,289

Statement of total recognised gains and losses

for the year ended 31 December 2009

	2009 £'000	2008 £'000
(Loss)/profit for the year	(767)	1,392
Share based payment - deferred tax credit / (charge)	477	(785)
Currency translation loss taken direct to reserves	–	(32)
	(290)	575

Accounting policies (company)

Accounting convention

Separate financial statements of R.E.A. Holdings plc (the "company") are required by the Companies Act 2006; as permitted by that act they have been prepared in accordance with generally accepted accounting practice in the United Kingdom ("UK GAAP"). The principal accounting policies have been applied consistently and are unchanged from the previous year.

The accompanying financial statements have been prepared under the historical cost convention.

By virtue of section 408 of the Companies Act 2006, the company is exempted from presenting a profit and loss account. Equally, no cash flow statement has been prepared, as permitted by FRS 1 (revised 1996) "Cash flow statements".

Investments

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

Foreign exchange

Transactions in foreign currencies are recorded at the rates of exchange at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Differences arising on the translation of foreign currency borrowings have been offset against those arising on an equivalent amount of investment in the equity of, or loans to, foreign subsidiaries and taken to reserves, net of any related taxation. All other exchange differences are included in the profit and loss account.

Taxation

Current tax including UK corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is calculated on the liability method. Deferred tax is provided on a non discounted basis on timing and other differences which are expected to reverse, at the rate of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of timing differences can be deducted.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life as follows: land and buildings (short leasehold) - 10 years, and fixtures and fittings - 5 years.

Leases

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

Notes to the company financial statements

(i) Investments

	2009 £'000	2008 £'000
Shares in subsidiaries	26,446	27,876
Loans to subsidiaries	35,719	31,056
	62,165	58,932

	£'000
Beginning of year	58,932
Additions to shares in and loans to subsidiaries	5,490
Exchange translation difference arising on foreign currency hedge	(2,257)
End of year	62,165

The principal subsidiaries at the year end, together with their countries of incorporation, are listed below. Details of dormant subsidiaries and UK subsidiary sub-holding companies are not shown.

Subsidiary	Activity	Class of shares	Percentage owned
Makassar Investments Limited (Jersey)	Sub holding company	Ordinary	100
PT Cipta Davia Mandiri (Indonesia)	Plantation agriculture	Ordinary	95
PT Kartanegara Kumala Sakti (Indonesia)	Plantation agriculture	Ordinary	95
PT KCC Mining Services (Indonesia)	Coal mining	Ordinary	95
PT Kutai Mitra Sejahtera (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
REA Finance B.V. (Netherlands)	Group finance	Ordinary	100
R.E.A. Services Limited (England and Wales)	Group services	Ordinary	100

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

(ii) Tangible fixed assets

	Land and buildings (short leasehold) £'000	Fixtures and fittings £'000	Total £'000
Cost:			
Beginning of year	89	45	134
Additions	3	–	3
End of year	92	45	137
Accumulated depreciation:			
Beginning of year	17	18	35
Charge for year	9	9	18
End of year	26	27	53
Carrying amount:			
End of year	66	18	84
Beginning of year	72	27	99

(iii) Debtors

	2009 £'000	2008 £'000
Trade debtors	1	11
Amount owing by group undertakings	398	1,011
Other debtors	31	35
Prepayments and accrued income	7	61
	437	1,118

(iv) Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Amount owing to group undertakings	4,199	810
Other creditors	49	62
Accruals	489	341
	4,737	1,213

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

	2009 £'000	2008 £'000
US dollar notes:		
Amounts due between two and five years	18,375	13,717
Amounts due after five years	–	6,859
	18,375	20,576

The US dollar notes comprise US$30 million (2008: US$30 million) nominal of 7.5 per cent dollar notes 2012/14 issued by the company ("US dollar notes") and are stated net of the unamortised balance of the issuance costs. Unless previously redeemed or purchased and cancelled by the company, the notes are redeemable in three equal annual instalments commencing on 31 December 2012.

As disclosed in note (ix), the company's US dollar notes are designated as a hedge against the exchange translation exposure in respect of an equivalent amount of the company's investment in subsidiaries whose functional currency is the US dollar.

Pursuant to a supplemental rights agreement dated 23 January 2006 between the company and holders of $19 million nominal of US dollar notes, those holders have the right, exercisable under certain limited circumstances, to require the company to purchase the US dollar notes held by them at a price equal to the aggregate of the nominal amount of the notes being purchased and any interest accrued thereon up to the date of completion of the purchase. Such circumstances include a material disposal of assets by the group 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.

Details of a further issue of US dollar notes after the balance sheet date are given in note (xiv).

Notes to the company financial statements continued

(vi) Deferred tax asset and provision for liabilities and charges	2009 £'000	2008 £'000
Deferred tax:		
Beginning of year	(296)	(1,720)
Net amount (credited) / debited to profit and loss account	(139)	652
Net amount (credited) / debited to reserves	(477)	772
End of year	(912)	(296)
Included in provisions for liabilities and charges	77	75
Included in non-current assets	(989)	(371)
Net deferred tax asset at end of year	(912)	(296)
The provision for deferred tax is made up as follows:		
Timing differences	77	75
Tax losses available	(989)	(371)
Undiscounted deferred tax	(912)	(296)

At the balance sheet date, the company had unused tax losses available to be applied against future profits amounting to £3.5 million (2008: £1.3 million). A deferred tax asset of £989,000 (2008: £371,000) has been recognised in respect of these losses.

(vii) Share capital	2009 £'000	2008 £'000
Authorised:		
17,500,000 - 9 per cent cumulative preference shares of £1 each (2008: 17,500,000)	17,500	17,500
41,000,000 - ordinary shares of 25p each (2008: 41,000,000)	10,250	10,250
	27,750	27,750
Called-up and fully paid:		
16,392,954 - 9 per cent cumulative preference shares of £1 each (2007: 14,902,954)	16,393	14,903
32,573,856 - ordinary shares of 25p each (2008: 32,573,856)	8,143	8,143
	24,536	23,046

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 6 November 2009, 1,490,000 9 per cent cumulative preference shares were issued, credited as fully paid, by way of a placing at par plus an amount equal to the accrued but unpaid dividend entitlement of 3.18 pence relating to the period before issue.

Details of a director's share options are disclosed in the audited part of the directors' remuneration report, as required by FRS 20 "Share based payments".

(viii) Movement in reserves

	Share premium account £'000	Exchange reserve £'000	Profit and loss account £'000
Beginning of year	14,675	181	6,387
Dividends to preference shareholders	–	–	(1,361)
Dividends to ordinary shareholders	–	–	(1,140)
Expenses of issue	(16)	–	–
Retained loss for the year	–	–	(290)
End of year	14,659	181	3,596

As permitted by section 408 of the Companies Act 2006, a separate profit and loss account dealing with the results of the company has not been presented. The loss before dividends recognised in the company's profit and loss account is £767,000 (2008: profit £1,392,000).

(ix) Financial instruments and risks

Financial instruments

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

	2009 Book value £'000	2009 Fair value £'000	2008 Book value £'000	2008 Fair value £'000
Cash and deposits	2,486	2,486	5,633	5,633
US dollar notes	(18,375)	(16,718)	(20,576)	(15,104)
Net debt	(15,889)	(14,232)	(14,943)	(9,471)

The fair value of the US dollar notes reflects the mid market price at the reporting date (2008: the last price at which transactions in those notes were effected prior to 31 December 2008).

Risks

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

The company finances its operations through a mixture of share capital, retained profits, borrowings in US dollars at fixed rates and credit from suppliers. At 31 December 2009, the company had outstanding US$30 million of 7.5 per cent dollar notes 2012/14. In accordance with a decision of the board of the company at the time of issue of the first tranche of these notes, such notes are treated as a currency hedge against the company's long term loans to subsidiaries (which are denominated in US dollars) and the additional investment in Makassar Investments Limited that was acquired during 2006 for a consideration of US$19 million. The company's policy towards currency risk is not to cover the long-term exposure in respect of its investment in subsidiaries (whose operations are mainly conducted in US dollars) to the extent that this exposure relates to the component of investment that is financed with sterling denominated equity.

(ix) Financial instruments and risks - continued

A limited degree of interest rate risk is accepted. A substantial proportion of the company's financial instruments at 31 December 2009 carried interest at fixed rates and, on the basis of the company's analysis, it is estimated that a rise of one percentage point in all interest rates would give rise to an increase of approximately £25,000 (2008: £52,000) in the company's interest revenues in its profit and loss account.

(x) Pensions

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

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

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 any deficit. The company made no payments to the Scheme in 2009 (2008: £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.

A non-FRS 17 valuation of the Scheme was last prepared, using the attained age method, as at 31 December 2008. This is considered to be the most appropriate method of calculating contributions to cover future service benefits at 31 December 2008 as the Scheme is closed to new entrants. Had the Scheme been valued at 31 December 2008 using the projected unit method and the same assumptions, the overall deficit would have been similar. The principal actuarial assumptions adopted in this valuation were an annual investment return of 5.85 per cent pre-retirement and 4.92 per cent post-retirement, an annual increase in pensionable salaries of 3.75 per cent and an annual increase in present and future pensions of 3.0 per cent. The rate of increase in the retail price index was assumed to be 3.0 per cent. It was further assumed that both non-retired and retired members' mortality would reflect PNA00 lc YOB tables, with males at min 0.75 per cent 110 percent and females at min 0.5 per cent 110 per cent. The valuation at 31 December 2008 showed an overall shortfall in assets (deficit), when measured against the Scheme's technical provisions, of £3,579,000. This is applicable to all participants and is being funded by additional deficit funding contributions by participating employers over the period to 30 September 2018, as agreed with the Scheme trustee.

(xi) Related party transactions

	2009 £'000	2008 £'000
Aggregate directors' remuneration:		
Salaries and fees	562	467
Benefits	30	42
Annual bonus	–	–
Gains on exercise of share options	–	–
	592	509

During 2009 and 2008, there were service arrangements with companies connected with certain directors as detailed under "Directors' remuneration" in the "Directors' remuneration report", the costs of which are included in the table above.

(xii) Rates of exchange

See note 39 to the consolidated financial statements.

(xiii) Contingent liabilities and commitments

Sterling notes

The company has guaranteed the obligations for both principal and interest relating to the outstanding £37 million (2008: £37 million) 9.5 per cent guaranteed sterling notes 2015/17 issued by REA Finance B.V.. The directors consider that 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 borrowings by certain subsidiaries from and other contracts with banks (including cross currency interest rate swaps) amounting in aggregate to £49 million. The directors consider that 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 (x) above.

Operating leases

The company has annual commitments under a non-cancellable operating lease which can be terminated during 2012 of £101,000 (2008 £101,000). The lease does not contain any contingent rentals or an option to purchase the property; the lease is renewable.

(xiv) Post balance sheet events

Dividends

An interim dividend of 2p per ordinary share in lieu of final in respect of the year ended 31 December 2009 was paid on 29 January 2010. In accordance with IAS10 "Events after the reporting period" this dividend, amounting in aggregate to £651,000, has not been reflected in these financial statements.

Financing of coal operations

On 11 February 2010 the company issued $15 million nominal of further 7.5 per cent dollar notes 2012/14 ("additional dollar notes") and KCC Resources Limited ("KCC"), its wholly owned subsidiary, issued 150,000 redeemable participating preference shares of $10 each ("KCC participating preference shares"). The additional dollar notes rank pari passu with and form a single issue with the $30,000,000 nominal of 7.5 per cent dollar notes 2012/14 that were already in issue.

(xiv) Post balance sheet events - continued

The KCC participating preference shares will provide a limited interest in certain defined coal operations of the group (the "relevant coal operations") such that, if the earnings before interest, tax, depreciation and amortisation of the relevant coal operations over the four and a half year period from 1 January 2010 to 30 June 2014 amount, in aggregate, to $36 million or more, the KCC participating preference shares will be redeemable on 31 December 2014 at $44.70 per share. 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 relevant coal operations or a change of control of the company), no dividends or other distributions will be paid or made on the KCC participating preference shares and after 31 December 2014 those shares will be converted into valueless deferred shares.

The $15 million gross proceeds of the issues are being applied by the group in funding its coal operations, with the coal operations bearing the costs of the issue and utilising $4.5 million of the proceeds in repaying $4.5 million that had been previously advanced to the coal operations by other group companies.

Exercise of director's share option

On 1 February 2010 a director exercised an option to subscribe 840,689 ordinary shares in the company at a price of 43.753 pence, following which the number of ordinary shares in issue at the date of this report amounts to 33,414,545.

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 an 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 fiftieth annual general meeting of the company will be held at the London office of Ashurst LLP at Broadwalk House, 5 Appold Street, London EC2A 2HA on 8 June 2010 at 10.00 am to consider and, if thought fit, to pass the following resolutions. Resolutions 13 and 14 will be proposed as special resolutions; all other resolutions will be proposed as ordinary resolutions.

1 To receive the company's annual accounts for the financial year ended 31 December 2009, together with the directors' report, the directors' remuneration report and the auditors' report.

2 To approve the directors' remuneration report for the financial year ended 31 December 2009.

3 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 Combined Code on Corporate Governance and submits himself for re-election.

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

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

6 To re-elect as a director Mr D H R Killick, who, having been a director at each of the two preceding annual general meetings and who was not re-appointed by the company in general meeting at or since either of such meetings, retires in accordance with article 105 of the company's articles of association and submits himself for re-election.

7 To re-elect as a director Mr L E C Letts, who, having been a non-executive director for more than nine years, retires as required by the Combined Code on Corporate Governance and submits himself for re-election.

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

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

10 That the authorised share capital of the company (being the maximum amount of shares in the capital of the company that the company may allot) be and is hereby increased from £27,750,000 to £37,750,000 by the creation of 10,000,000 9 per cent cumulative preference shares of £1 each ranking *pari passu* in all respects with the existing 9 per cent cumulative preference shares of £1 each in the capital of the company.

11 That the directors be and are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the company to allot, and to grant rights to subscribe for or to convert any security into, shares in the capital of the company (other than 9 per cent cumulative preference shares) up to an aggregate nominal amount (calculated, in the case of the grant of rights to subscribe for, or to convert any security into, shares in the capital of the company, in accordance with sub-section (6) of section 551 of the Act) of £2,784,545; such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2011), save that the company may before such expiry make any offer or agreement which would or might require shares to be allotted, or rights to be granted, after such expiry and the directors may allot shares, or grant rights to subscribe for or to convert any security into shares, in pursuance of any such offer or agreement as if the authorisations conferred hereby had not expired.

12 That the directors be and are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the company to allot, and to grant rights to subscribe for or to convert any security into, 9 per cent cumulative preference shares in the capital of the company ("preference shares") up to an aggregate nominal amount of £11,107,046, such authorisation to expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2011), save that the company may before such expiry make any offer or agreement which would or might require preference shares to be allotted or rights to be granted, after such expiry and the directors may allot preference shares, or grant rights to subscribe for or to convert any security into preference shares, in pursuance of any such offer or agreement as if the authorisations conferred hereby had not expired.

13 That, subject to the passing of resolution 11 set out in the notice of the 2010 annual general meeting of the company (the "2010 Notice"), the directors be and are hereby given power:

(a) for the purposes of section 570 of the Companies Act 2006 (the "Act"), to allot equity securities (as defined in sub-section (1) of section 560 of the Act) of the company for cash pursuant to the authorisation conferred by resolution 11 set out in the 2010 Notice; and

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

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

(i) to the allotment of equity securities 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 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; or

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

and shall expire at the conclusion of the next annual general meeting of the company (or, if earlier, on 30 June 2011), save that the company may before such expiry make any offer or agreement that would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry and the directors may allot equity securities or sell treasury shares, in pursuance of any such offer or agreement as if the power conferred hereby had not expired.

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

By order of the board
R.E.A. SERVICES LIMITED
Secretary
27 April 2010

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

Registered in England and Wales no: 00671099

Notes

The sections of the accompanying Directors' report entitled "Increase in share capital", "Authorities to issue share capital", "Powers to issue share capital and sell treasury shares", "General meeting notice period" and "Recommendation" contain information regarding, and recommendations by the board of the company as to voting on, resolutions 10 to 14 set out in the above notice.

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2010 and section 360B of the Companies Act 2006, 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 6 June 2010 or, in the event of any adjournment, at 6.00 pm on the date which is two days before the day of the adjourned meeting. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Only holders of ordinary shares are entitled to attend and vote at the annual general meeting. A holder of ordinary shares may appoint another person as that holder's proxy to exercise all or any of the holder's rights to attend, speak and vote at the annual general meeting. A holder of ordinary shares may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to (a) different share(s) held by the holder. A proxy need not be a member of the company. A form of proxy for the meeting is enclosed. To be valid, forms of proxy and other written instruments appointing a proxy must be received by post or by hand (during normal business hours only) by the company's registrars, Capita Registrars, by no later than 10.00 am on 6 June 2010.

Alternatively, appointment of a proxy may be submitted electronically by using either Capita Registrars' share portal service at www.capitashareportal.com (and so that the appointment is received by the service by no later than 10.00 am on 6 June 2010) or the CREST electronic proxy appointment service as described below. Shareholders who have not already registered for Capita Registrars' share portal service may do so by registering as a new user at www.capitashareportal.com and giving the investor code shown on the enclosed proxy form (as also shown on their share certificate).

Completion of a form of proxy, or other written instrument appointing a proxy, or any appointment of a proxy submitted electronically, will not preclude a holder of ordinary shares from attending and voting in person at the annual general meeting if such holder wishes to do so.

CREST members may register the appointment of a proxy or proxies for the annual general meeting and any adjournment(s) thereof through the CREST electronic proxy appointment service by using the procedures described in the CREST Manual (available via www.euroclear.com/CREST). 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 6 June 2010. 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 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 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 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 auditors' 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 auditors 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 notice, the issued share capital of the company comprises 33,414,545 ordinary shares and 16,392,954 9 per cent cumulative preference shares. Only holders of ordinary shares (and their proxies) are entitled to attend and vote at the annual general meeting. Accordingly, the voting rights attaching to shares of the company exercisable in respect of each of the resolutions to be proposed at the annual general meeting total 33,414,545 as at the date of this notice.

Shareholders may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in this notice (or any other related document including the form of proxy) to communicate with the company for any purposes other than those expressly stated.