R.E.A. Holdings plc: Annual Report in respect of 2017

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R.E.A. HOLDINGS PLC (the "company")

ANNUAL FINANCIAL REPORT

The company's annual report for the year ended 31 December 2017 (including notice of the annual general meeting to be held on 13 June 2018) (the "annual report") will shortly be available for downloading from the company's web site at www.rea.co.uk.

Upon completion of bulk printing, copies of the annual report will be despatched to persons entitled thereto and will be submitted to the National Storage Mechanism to be made available for inspection at www.hemscott.com/nsm.do

The sections below entitled "Chairman's statement", "Dividends", "Risks and uncertainties", "Viability statement", "Going concern" and "Directors' confirmation of responsibility" have been extracted without material adjustment from the annual report. The basis of presentation of the financial information set out below is detailed in note 1 of the notes to the financial statements below.

HIGHLIGHTS

Overview

- Production and revenue saw a progressive improvement in 2017, which is continuing into 2018
- Significant plantation disposal recently announced

Financial

- Revenue up 26 per cent to $100.2 million (2016: $79.3 million) reflecting initial impact of operational improvements to restore yields to historic norms
- Cost of sales increased to $86.3 million (2016: $71.8 million) primarily due to expenditure on rehabilitation of the mature estates and increased cost and volume of third party fruit purchases
- Pre-tax losses of $21.9 million (2016: $9.3 million), mainly due to increase in the value of the group's sterling notes arising from exchange fluctuations, resulting in a charge of $4.8 million in 2017 (2016: credit of $10.5)
- Balance of 2017 dollar notes ($20.2 million) and 2017 sterling notes (£8.0 million) repaid
- Sale of 2022 dollar notes held in treasury and placing of preference shares together raising $18.0 million

Agricultural operations

- Increased production of 530,565 tonnes of FFB, up 13 per cent (2016: 468,371 tonnes), benefiting from improvements in harvesting, infrastructure and field management practices
- Increase in third party FFB purchased to 114,005 tonnes (2016: 98,052 tonnes)

- Consistently improved CPO extraction rates averaging 23 per cent
- 1,248 hectares of extension planting

Sale of subsidiary

- Agreement reached on 25 April 2018 for sale of REA Kaltim's 95 per cent shareholding in PBJ to Kuala Lumpur Kepong Berhad; proceeds estimated at $85 million gross or approximately $57 million net of external debt repayments and selling expenses
- Divestment serves to benefit capital structure by reducing indebtedness and by relieving the group of the further investment that would be required to take the PBJ estates to full maturity; it will also defer for at least three years the need for a further group oil mill
- No material negative impact on group's immediate profit outlook as the majority of the plantings at PBJ are immature

Stone and coal operations

- Plans to reopen coal concession at Kota Bangun progressed with conclusion of arrangements to acquire loading point and conveyor with permitting now in hand to allow mining operations to recommence
- Limestone quarry operations commenced
- Discussions regarding the development of the andesite stone concession continuing

Organisational changes

- Appointment of Carol Gysin as group managing director in February 2017 and several senior management changes implemented
- Completion of relocation of Indonesian administrative offices to a single location in Balikpapan

Outlook

- The recovery seen in 2017 anticipated to strengthen further in 2018 with crop levels and yields returning closer to historic norms
- FFB for the four months to April 2018 expected to be around 200,000 (2017: 159,706)
- Divestment of PBJ to enable group to concentrate operations on the remaining plantation areas in near contiguous locations
- Coal activities expected to provide cash flows going forward

CHAIRMAN'S STATEMENT

2017 saw the beginnings of a much needed recovery in the group's operations. Following changes to staffing and staff responsibilities in both estates and mills and with the estates beginning to benefit from the enhanced fertiliser programmes initiated in 2016, harvesting, field management practices, mill efficiency and road maintenance all progressively improved over the course of the year.

Total revenue for the year increased to $100.2 million from $79.3 million in 2016. Operating losses were reduced to $2.2 million compared with $5.0 million in 2016. Although the loss before tax increased to $21.9 million compared with $9.3 million for 2016, this was principally the result of a negative swing from year to year of $15.3 million in mark to market movements on the group's foreign currency liabilities, with a charge to profits of $4.8 million in 2017 compared with a credit of $10.5 million in 2016. In addition, and as previously reported, a one off charge of $1.1 million was incurred in 2017 as a result of staff changes arising from the reorganisation of the group's Indonesian offices. By contrast, the results for 2016 benefited from a one off receipt of $1.1 million received in respect of tax refunds.

Fresh fruit bunches ("FFB") harvested increased by 13 per cent in 2017 to some 530,000 tonnes, compared with 468,000 tonnes in 2016. This reflected an 8 per cent increase in mature estate hectarage and an improvement in FFB yields to 15.6 tonnes per mature hectare in 2017 from 14.9 tonnes in 2016. There was a similar increase in the volume of purchases of FFB from smallholders and other third parties: 114,000 tonnes in 2017 compared with 98,000 tonnes in the previous year. Crude palm oil ("CPO") production in 2017 totalled 144,000 tonnes, compared with 128,000 tonnes in 2016, with CPO extraction in the latter part of 2017 running at consistently higher average rates than in 2016 and the early months of 2017. The better performance reflected recent mill refurbishment works, a rigorous maintenance programme, as well as an improvement in the quality of FFB being processed. CPO and crude palm kernel oil ("CPKO") yields of, respectively, 3.6 and 0.3 tonnes per mature hectare were achieved during 2017 compared with, respectively, 3.4 tonnes and 0.3 tonnes per hectare in 2016.

The CPO price, CIF Rotterdam, had a strong start to the year rising from $790 per tonne at the beginning of January to a high of $857 per tonne on the back of generally lower production before declining to a low of $640 per tonne reflecting increasing stock levels and expectations of significant production growth in the second half of the year. The price closed at the end of the year at $670 per tonne and has traded in the range $640 to $710 per tonne in 2018 to date. Prices are currently at $640 per tonne. Consumption growth and weaker soybean production in South America appears likely to support prices around these levels.

Progress with development of both PT Putra Bongan Jaya ("PBJ") and PT Cipta Davia Mandiri ("CDM") was slower than expected in 2017. Weather conditions throughout the year hampered extension planting in PBJ and a review of the programme for CDM resulted in a decision to cancel planting of some 1,000 hectares that had been originally planned so as to concentrate on larger, near contiguous blocks as well as to reconsider the status of the conservation reserves. Planting in PBJ and CDM combined amounted to some 1,161 hectares in 2017, with the balance of the targeted 3,000 hectares carried over to 2018.

Plans to reopen the group's coal concession at Kota Bangun were progressed during 2017 leading to the conclusion by the group, in April 2018, of arrangements to acquire an established loading point on the Mahakam River, together with a coal conveyor that crosses the group's concession and runs to the loading point. This acquisition is an essential prerequisite to efficient evacuation of coal from the Kota Bangun concession. With it concluded, the group is applying for the requisite permits to recommence mining operations and to sell the previously mined coal currently held in stockpile. Discussions regarding the development of the group's andesite stone concession continue.

The group further addressed its funding arrangements during 2017, raising monies from the sale of the $7.2 million of 2022 dollar notes held in treasury, the issue of 8.4 million new £1 cumulative preference shares and the completion of the arrangements agreed with the group's new local partner in 2016. In addition, revolving working capital facilities were rolled over for a further 12 months at the end of July 2017. All of the outstanding $20.2 million of 2017 dollar notes and the outstanding £8.0 million of 2017 sterling notes were repaid in June and December 2017 respectively.

Further to the statement in the group's half yearly report published in September 2017 regarding a potential divestment of certain outlying plantation assets, the group reached an agreement on 25 April 2018 for the sale of its PBJ subsidiary. Completion of the sale, which is subject to shareholder approval, is expected to take place later in 2018 and will result in group indebtedness being reduced by the bank borrowings in PBJ and a cash inflow to the group provisionally estimated at $57 million. The PBJ estate is located some distance from the group's principal estates and would, in the near future, have required the construction of a new mill and other infrastructure for harvesting and processing crop. Divestment of PBJ will therefore both reduce the funding required for the group's immediate development programme and permit the group's management to focus on a geographically more compact area of operations.

The proceeds from the divestment of PBJ will principally be applied in reducing group indebtedness. Coupled with the funding actions taken over the last two years, this divestment leaves the group in a stronger financial position. It will permit the group to operate with significantly reduced indebtedness and, at the same time, to proceed quickly to develop suitable areas of its remaining undeveloped land bank. Following the completion in 2017 of the agreements for the transfer to SYB of fully titled land areas held by PU, the remaining developable land bank following the sale of PBJ is currently estimated at about 10,000 hectares. The immediate impact on production of the sale of PBJ will be immaterial as the majority of this estate is not yet mature.

In view of the results for 2017, the directors have concluded that they should not declare or recommend the payment of any ordinary dividend in respect of the year.

The recovery in group operations that began in 2017 has continued into 2018, with production in March demonstrating a noticeable upturn, against a background of generally poorer cropping in East Kalimantan. The positive trend has continued into April, with daily cropping rates suggesting an FFB crop for the month approaching 60,000 tonnes (2016: 32,070 tonnes). Higher production combined with increases in mill efficiency should result in further progress in the group's operational performance during the current year.

The improvements to the group's balance sheet that will follow from the divestment of PBJ and a resumption of coal revenues should help the group accelerate development of its land bank. With CPO prices expected to remain around current levels, the prospects for the group are more encouraging than they have been for some years.

DIVIDENDS

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2017 were duly paid. In line with previous indications and in view of the financial performance during

2017, the directors have concluded that, as previously announced, they should not declare or recommend the payment of any dividend on the ordinary shares in respect of 2017.

As previously indicated, if crops continue to recover as expected, prices for the group's palm products are maintained at around current levels, the sale of PBJ is successfully completed and the coal operations start to generate suitable returns, the directors intend to resume the payment of ordinary dividends. However, the programme of development of the group's land bank remains ongoing and will require further significant capital expenditure. The need to fund such expenditure will necessarily influence the rates at which the directors feel that they can prudently declare, or recommend the payment of, ordinary dividends over the next few years.

ANNUAL GENERAL MEETING

The fifty-eighth annual general meeting of R.E.A. Holdings plc will be held at the London office of Ashurst LLP at Broadwalk House, 5 Appold Street, London EC2A 2HA on 13 June 2018 at 10.00 am.

RISKS AND UNCERTAINTIES

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

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

Material risks, related policies and the group's successes and failures with respect to environmental, social and governance matters and the measures taken in response to any failures are described in more detail under "Sustainability" in the annual report.

Where risks are reasonably capable of mitigation, the group seeks to mitigate them. Beyond that, the directors endeavour to manage the group's finances on a basis that leaves the group with some capacity to withstand adverse impacts from identified areas of risk but such management cannot provide insurance against every possible eventuality.

Risks assessed by the directors as being of particular significance are those detailed below under climatic and other operational factors, produce prices and funding. In the case of climatic and other operational factors and produce prices, the directors' assessment reflects the negative impact on revenues that could be caused by adverse climatic conditions or operational circumstances and, in the case of funding, the considerations referred to in the "Viability statement" in the "Directors' report" in the annual report.

Risk	**Potential impact**	**Mitigating or other relevant considerations**
Agricultural operations		
Climatic factors		
Material variations from the norm in climatic conditions	A loss of crop or reduction in the quality of harvest resulting in loss of potential revenue	Over a long period, crop levels should be reasonably predictable
Unusually low levels of rainfall that lead to a water availability below the minimum required for the normal development of the oil palm	A reduction in subsequent crop levels resulting in loss of potential revenue; the reduction is likely to be broadly proportional to the cumulative size of the water deficit	Operations are located in an area of high rainfall. Notwithstanding some seasonal variations, annual rainfall is usually adequate for normal development
Overcast conditions	Delayed crop formation resulting in loss of potential revenue	Normal sunshine hours in the location of the operations are well suited to the cultivation of oil palm

Low levels of rainfall disrupting river transport or, in an extreme situation, bringing it to a standstill	Inability to obtain delivery of estate supplies or to evacuate CPO and CPKO (possibly leading to suspension of harvesting)	The group has established a permanent downstream loading facility, where the river is tidal. In addition, road access (currently requiring repair) between the ports of Samarinda and Balikpapan and the estates when available offers a viable alternative route for transport with any associated additional cost more than outweighed by the potential negative impact of disruption to the business cycle by any delay in evacuating CPO
Cultivation risks		
Pest and disease damage to oil palms and growing crops	A loss of crop or reduction in the quality of harvest resulting in loss of potential revenue	The group adopts best agricultural practice to limit pests and diseases
Other operational factors		
Shortages of necessary inputs to the operations, such as fuel and fertiliser	Disruption of operations or increased input costs leading to reduced profit margins	The group maintains stocks of necessary inputs to provide resilience and has established biogas plants to improve its self-reliance in relation to fuel
A hiatus in collection or processing of FFB crops	FFB crops becoming rotten or over-ripe leading either to a loss of CPO production (and hence revenue) or to the production of CPO that has an above average free fatty acid content and is saleable only at a discount to normal market prices	The group endeavours to maintain resilience in its palm oil mills with each of the mills operating separately and some ability within each mill to switch from steam based to biogas or diesel based electricity generation
Disruptions to river transport between the main area of operations and the Port of Samarinda or delays in collection of CPO and CPKO from the transhipment terminal	The requirement for CPO and CPKO storage exceeding available capacity and forcing a temporary cessation in FFB harvesting or processing with a resultant loss of crop resulting in a loss of potential revenue	The group's bulk storage facilities have substantial capacity and further storage facilities are afforded by the fleet of barges. Together, these have hitherto always proved adequate to meet the group's requirements for CPO and CPKO storage
Occurrence of an uninsured or inadequately insured adverse event; certain risks (such as crop loss through fire or other perils), for which insurance cover is either not available or is considered disproportionately expensive, are not insured	Material loss of potential revenues or claims against the group	The group maintains insurance at levels that it considers reasonable against those risks that can be economically insured and mitigates uninsured risks to the extent reasonably feasible by management practices
Produce prices		
Volatility of CPO and CPKO prices which as primary commodities may be affected by levels of world economic activity and factors affecting the world economy, including levels of inflation and interest rates	Reduced revenue from the sale of CPO and CPKO production and a consequent reduction in cash flow and profit	Price swings should be moderated by the fact that the annual oilseed crops account for the major proportion of world vegetable oil production and producers of such crops can reduce or increase their production within a relatively short time frame
Restriction on sale of the group's CPO and CPKO at world market prices including restrictions on Indonesian exports of palm	Reduced revenue from the sale of CPO and CPKO production and a consequent	The Indonesian government allows the free export of CPO and CPKO but applies a sliding scale of duties on exports which allows producers economic margins. The extension

products and imposition of high export duties (as has occurred in the past for short periods)	reduction in cash flow and profit	of this sliding scale to incorporate a $50 per tonne export levy to fund biodiesel subsidies is designed to support the local price of CPO and CPKO
Distortion of world markets for CPO and CPKO by the imposition of import controls or taxes in consuming countries, for example, by imposition of reciprocal trade barriers or tariffs between major economies	Depression of selling prices for CPO and CPKO if arbitrage between markets for competing vegetable oils proves insufficient to compensate for the market distortion created	The imposition of controls or taxes on CPO or CPKO in one area can be expected to result in greater consumption of alternative vegetable oils within that area and the substitution outside that area of CPO and CPKO for other vegetable oils
Expansion		
Failure to secure in full, or delays in securing, the land or funding required for the group's planned extension planting programme	Inability to complete, or delays in completing, the planned extension planting programme with a consequential reduction in the group's prospective growth	The group holds substantial fully titled or allocated land areas suitable for planting. It works continuously to obtain and maintain up to date permits for the planting of these areas and aims to manage its finances to ensure, in so far as practicable, that it will be able to fund the planned extension planting programme
A shortfall in achieving the group's planned extension planting programme impacting negatively the continued growth of the group	A possible adverse effect on market perceptions as to the value of the company's securities	The group maintains flexibility in its planting programme to be able to respond to changes in circumstances
Environmental, social and governance practices		
Failure by the agricultural operations to meet the standards expected of them as a large employer of significant economic importance to local communities	Reputational and financial damage	The group has established standard practices designed to ensure that it meets its obligations, monitors performance against those practices and investigates thoroughly and takes action to prevent recurrence in respect of any failures identified
Criticism of the group's environmental practices by conservation organisations scrutinising land areas that fall within a region that in places includes substantial areas of unspoilt primary rain forest inhabited by diverse flora and fauna	Reputational and financial damage	The group is committed to sustainable development of oil palm and has obtained RSPO certification for most of its current operations. All group oil palm plantings are on land areas that have been previously logged and zoned by the Indonesian authorities as appropriate for agricultural development. The group maintains substantial conservation reserves that safeguard landscape level biodiversity
Community relations		
A material breakdown in relations between the group and the host population in the area of the agricultural operations	Disruption of operations, including blockages restricting access to oil palm plantings and mills, resulting in reduced and poorer quality CPO and CPKO production	The group seeks to foster mutually beneficial economic and social interaction between the local villages and the agricultural operations. In particular, the group gives priority to applications for employment from members of the local population, encourages local farmers and tradesmen to act as suppliers to the group, its employees and their dependents and promotes smallholder development of oil palm plantings
Disputes over compensation payable for land areas allocated to the group that were previously	Disruption of operations, including blockages restricting access to the area	The group has established standard procedures to ensure fair and transparent compensation negotiations and encourages the local

used by local communities for the cultivation of crops or as respects which local communities otherwise have rights	the subject of the disputed compensation	authorities, with whom the group has developed good relations and who are therefore generally supportive of the group, to assist in mediating settlements
Individuals party to a compensation agreement subsequently denying or disputing aspects of the agreement	Disruption of operations, including blockages restricting access to the areas the subject of the compensation disputed by the affected individuals	Where claims from individuals in relation to compensation agreements are found to have a valid basis the group seeks to agree a new compensation arrangement; where such claims are found to be falsely based the group encourages appropriate action by the local authorities
Stone and coal operations		
Operational factors		
Failure by external contractors to achieve agreed production volumes with optimal stripping values or extraction rates	Loss of prospective revenue	The group endeavours to use experienced contractors, to supervise them closely and to take care to ensure that they have equipment of capacity appropriate for the planned production volumes
External factors, in particular weather, delaying or preventing delivery of extracted stone and coal	Delays to receipt or loss of revenue	Deliveries are not normally time critical and adverse external factors would not normally have a continuing impact for more than a limited period
Geological assessments, which are extrapolations based on statistical sampling, proving inaccurate	Unforeseen extraction complications causing cost overruns and production delays or failure to achieve projected production	The group seeks to ensure the accuracy of geological assessments of any extraction programme and takes expert geological advice on the results
Prices		
Local competition reducing stone prices and volatility of international coal prices	Reduced revenue and a consequent reduction in cash flow and profit	There are currently no other stone quarries in the vicinity of the group's deposits and the cost of transporting stone should restrict competition. In relation to coal, the high quality of the coal in the group's main coal concession may limit volatility
Imposition of additional royalties or duties on the extraction of stone or coal	Reduced revenue and a consequent reduction in cash flow and profit	The Indonesian government has not to date imposed measures that would seriously affect the viability of Indonesian stone quarrying or coal mining operations
Unforeseen variations in quality of deposits	Inability to supply product within the specifications that are, at any particular time, in demand with consequent loss of revenue	Geological assessments ahead of commencement of extraction operations should have identified any material variations in quality
Environmental, social and governance practices		
Failure by the stone and coal operations to meet the expected standards	Reputational and financial damage	The area of the stone and coal concessions are relatively small and should not be difficult to supervise. The group is committed to international standards of best environmental and social practice and, in particular, to proper management of waste water and reinstatement of quarried and mined areas on completion of extraction operations
General		
Currency		

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

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

The directors have monitored the impact of the decision to terminate membership of the European Union on its operations. So far, the impact has been limited to fluctuations of sterling against the US dollar and the Indonesian rupiah (see "General" "Currency" risk above). The directors do not at present see further significant risk to the group's operations from this decision. Any reduction in UK interest rates may negatively impact the level of the technical provisions of the REA Pension Scheme but, given the Scheme's estimated funding position, the directors do not expect that the impact will be material in the context of the group.

Viability statement

The group's business activities, together with the factors likely to affect its future development, performance and position are described in the "Strategic report" which also provides (under the heading "Finance") a description of the group's cash flow, liquidity and financing adequacy and treasury policies. In addition, note 23 to the consolidated financial statements includes information as to the group's policy, objectives and processes for managing capital, its financial risk management objectives, details of financial instruments and hedging policies and exposures to credit and liquidity risks. The "Risks and uncertainties" section of the Strategic report describes the material risks faced by the group and actions taken to mitigate those risks. In particular, there are risks associated with the group's local operating environment and the group is materially dependent upon selling prices for crude palm oil ("CPO") and crude palm kernel oil over which it has no control.

As respects funding risk, the group has material indebtedness, in the form of bank loans and listed notes. Some $5.1 million (excluding $1.1 million of bank loans to PBJ that will be discharged upon completion of the sale of PBJ as referred to below) of bank term indebtedness falls due for repayment during 2018. A further $22.0 million of revolving working capital lines fall due for renewal during the same period. A further £31.9 million ($42.8 million) sterling notes will become repayable in August 2020. In view of the material proportion of the group's indebtedness falling due in the period to 31 December 2020, as described above, the directors have chosen this period for their assessment of the long-term viability of the group.

As announced on 25 April 2018, the group has entered into a conditional agreement for the sale of PBJ. The sale is expected to realise gross proceeds of approximately $85 million and net proceeds of approximately $57 million after repayment of external borrowings and net of selling expenses. The proceeds of the sale of the PBJ shares and the repayment of monies owed by PBJ to other group companies will be applied in reduction of group indebtedness. Completion is not expected to occur before 31 August 2018 and the sale agreement will lapse if the conditions have not been satisfied by 31 January 2019. The purchaser has deposited with the group the sum of $8 million by way of a pre-completion advance; should completion not occur then such sum will be repayable. PBJ is a recently planted property but is not currently profitable. Accordingly, its sale will not have a material negative impact on the immediate profit outlook for the group.

In the meanwhile, the group is continuing discussions to refinance with longer term debt indebtedness falling due in 2018 and 2019, although the directors have no reason to believe that the revolving working capital facilities falling due in 2018 and 2019 will not be rolled over when they fall due for renewal (all revolving working capital facilities having previously been substantially rolled over on past renewals).

In 2020 consideration will be given to the submission of proposals to the holders of the sterling notes to refinance these with securities of longer tenor.

With the improvement in crops now being seen and CPO prices projected to remain at remunerative levels, the group's plantation operations can be expected to generate increasing cash flows going forward. In addition, the group is currently finalising arrangements to recommence operations at the group's principal coal concession and this can be expected to result in increasing cash flow. The group's ongoing extension planting programme will continue to require material capital expenditure but the group has flexibility as to the rate of development. Moreover, successful completion of the divestment of PBJ referred to above will defer for some years the group's requirement for a fourth palm oil mill.

The directors fully expect that the divestment and financing initiatives currently being pursued, coupled with the improving outlook for the group's internally generated cash flows, will refinance, or permit the group to repay, the group indebtedness falling due for repayment during the period of assessment. However, should funding be required pending completion of these initiatives, the group will seek to issue for cash a limited number of new shares, authority for which will be sought as and when appropriate.

Based on the foregoing and after making enquiries, the directors therefore have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the period to 31 December 2020 and to remain viable during that period.

Going concern

Material risks faced by the group are set out in the "Risks and uncertainties" section of the "Strategic report" with an indication of those risks regarded by the directors as potentially significant together with mitigating and other relevant considerations for the management of risks. Financing policies are described on pages 33 and 34 of the Strategic report and 2017 developments relating to capital structure are detailed in the "Finance" section of the Strategic report under "Capital structure". The directors have set out their assessment of liquidity and financing adequacy on pages 32 and 33 of the Strategic report including the actions either in progress or contemplated in order to ensure adequate liquidity for the next twelve months.

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

DIRECTORS' CONFIRMATION OF RESPONSIBILITY

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

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

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

The current directors of the company and their respective functions are set out in the "Board of directors" section of the annual report.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

		2017	2016
		$'000	$'000
Revenue		100,241	79,265
Net (loss)/gain arising from changes in fair value of agricultural produce inventory		(1,069)	632
Cost of sales:			
Depreciation and amortisation		(22,215)	(20,959)
Other costs		(64,062)	(50,868)
Gross profit		12,895	8,070
Other operating income		-	1
Distribution costs		(1,378)	(1,110)
Administrative expenses		(13,681)	(11,987)
Operating loss		(2,164)	(5,026)
Investment revenues		1,072	1,742
Finance costs		(20,770)	(6,005)
Loss before tax		(21,862)	(9,289)
Tax		(3,039)	(2,019)
Loss for the year		(24,901)	(11,308)

		———	———
Attributable to:			
Ordinary shareholders		(27,408)	(17,800)
Preference shareholders		7,777	7,402
Non-controlling interests		(5,270)	(910)
		———	———
		(24,901)	(11,308)
		———	———
Basic and diluted loss per 25p ordinary share		(67.0 cents)	(48.2 cents)
All operations for both years are continuing			

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2017

		2017	2016
		$'000	$'000
Non-current assets			
Goodwill		12,578	12,578
Intangible assets		3,477	4,176
Property, plant and equipment		482,341	471,922
Land titles		35,178	34,230
Stone and coal interests		37,877	37,208
Deferred tax assets		9,867	12,781
Non-current receivables		4,996	3,136
		———	———
Total non-current assets		586,314	576,031
		———	———
Current assets			
Inventories		11,497	15,767
Biological assets		1,927	2,037
Investments		2,730	9,880
Trade and other receivables		39,280	42,554
Cash and cash equivalents		5,543	24,593
		———	———
Total current assets		60,977	94,831
		———	———
Total assets		647,291	670,862
		———	———
Current liabilities			
Trade and other payables		(62,212)	(43,426)
Current tax liabilities		(11)	(317)
Bank loans		(28,140)	(28,628)
Sterling notes		-	(10,103)
US dollar notes		-	(20,048)
Other loans and payables		(10,469)	(519)
		———	———
Total current liabilities		(100,832)	(103,041)
		———	———
Non-current liabilities			

Bank loans		(96,991)	(97,771)
Sterling notes		(41,364)	(37,037)
US dollar notes		(23,649)	(23,646)
Deferred tax liabilities		(79,600)	(80,830)
Other loans and payables		(28,120)	(18,987)
Total non-current liabilities		(269,724)	(258,271)
Total liabilities		(370,556)	(361,312)
Net assets		276,735	309,550
Equity			
Share capital		132,528	121,426
Share premium account		42,401	42,585
Translation reserve		(50,897)	(39,127)
Retained earnings		135,074	161,839
		259,106	286,723
Non-controlling interests		17,629	22,827
Total equity		276,735	309,550

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

		2017		2016
		$'000		$'000
Loss for the year		(24,901)		(11,308)
Other comprehensive income				
Items that may be reclassified to profit or loss:				
Actuarial losses		(205)		(569)
Deferred tax on actuarial losses		41		143
		(164)		(426)
Items that will not be reclassified to profit or loss: instrument				
Exchange differences on translation of foreign operations		(11,419)		5,222
Exchange differences on deferred tax		(279)		2,617
		(11,862)		7,413
Total comprehensive income for the year		(36,763)		(3,895)
Attributable to:				
Ordinary shareholders		(39,270)		(10,387)
Preference shareholders		7,777		7,402

Non-controlling interests		(5,270)		(910)
		———		———
		(36,763)		(3,895)
		———		———

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Share premium	Translation reserve	Retained earnings	Sub total	Non-controlling interests	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2016	120,288	30,683	(46,282)	187,481	292,170	1,652	293,822
Total comprehensive income	-	-	7,155	(10,824)	(3,669)	(226)	(3,895)
Sale of shareholding in sub-group	-	-	-	(7,416)	(7,416)	21,401	13,985
Issue of new ordinary shares (cash)	1,138	11,902	-	-	13,040	-	13,040
Dividends to preference shareholders	-	-	-	(7,402)	(7,402)	-	(7,402)
	———	———	———	———	———	———	———
At 31 December 2016	121,426	42,585	(39,127)	161,839	286,723	22,827	309,550
Total comprehensive income	-	-	(11,770)	(19,795)	(31,565)	(5,198)	(36,763)
Sale of shareholding in sub-group	-	-	-	807	807	.	807
Issue of new preference shares (cash)	11,102	(184)	-	-	10,918	-	10,918
Dividends to preference shareholders	-	-	-	(7,777)	(7,777)	-	(7,777)
	———	———	———	———	———	———	———
At 31 December 2017	132,528	42,401	(50,897)	135,074	259,106	17,629	276,735
	———	———	———	———	———	———	———

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

		2017		2016
		$'000		$'000
Net cash from operating activities		19,670		2,598
		———		———
Investing activities				
Interest received		29		1,742
Proceeds from disposal of property, plant and equipment		-		61
Purchases of property, plant and equipment		(31,960)		(31,137)
Purchases of intangible assets		(112)		-
Expenditure on land titles		(949)		(367)
Investment in stone and coal interests		(669)		(1,860)
		———		———
Net cash used in investing activities		(33,661)		(31,561)
		———		———
Financing activities				
Preference dividends paid		(7,777)		(7,402)

Repayment of borrowings		(6,754)		(11,004)
Repayment of borrowings from related party		(7,400)		-
Proceeds of issue of ordinary shares, less costs of issue		-		13,040
Proceeds of issue of preference shares, less costs of issue		10,918		-
Proceeds of issue of 2022 dollar notes, less costs of issue		-		(44)
Redemption of 2017 dollar notes		(20,156)		(45)
Redemption of 2017 sterling notes		(11,154)		-
Proceeds of issue/sale of sterling notes, less costs of issue		-		1,922
Proceeds of sale of investments		7,078		-
Proceeds of sale of shareholding in subsidiary		-		13,985
New borrowings from non-controlling shareholder and related party		23,986		12,446
New bank borrowings drawn		6,356		14,939
		———		———
Net cash from financing activities		(4,903)		37,837
		———		———
Cash and cash equivalents				
Net (decrease)/increase in cash and cash equivalents		(18,894)		8,874
Cash and cash equivalents at beginning of year		24,593		15,758
Effect of exchange rate changes		(156)		(39)
		———		———
Cash and cash equivalents at end of year		5,543		24,593
		———		———

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The accompanying financial statements and notes 1 to 14 below (together the "accompanying financial information") have been extracted without material adjustment from the financial statements of the group for the year ended 31 December 2017 (the "2017 financial statements"). The auditor has reported on those accounts; the reports were unqualified and did not contain statements under sections 498(2) or (3) of the Companies Act 2006. Copies of the 2017 financial statements will be filed in the near future with the Registrar of Companies. The accompanying financial information does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 of the company.

Whilst the 2017 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union as at the date of authorisation of those accounts, the accompanying financial information does not itself contain sufficient information to comply with IFRS.

The 2017 financial statements and the accompanying financial information were approved by the board of directors on 27 April 2018.

2. Revenue

		2017		2016
		$'000		$'000
Sales of goods		99,956		77,642
Revenue from services		285		1,623
		———		———
		100,241		79,265
Other operating income		-		1
Investment revenue		1,072		1,742
		———		———

Total revenue		101,313		81,008
		———		———

3. Segment information

In the table below, the group's sales of goods are analysed by geographical destination and the carrying amount of net assets is analysed by geographical area of asset location. The group operates in two segments: the cultivation of oil palms and stone and coal operations. In 2017 and 2016, the latter did not meet the quantitative thresholds set out in IFRS 8 "Operating segments" and, accordingly, no analyses are provided by business segment.

		2017		2016
		$'m		$'m
Sales by geographical location:				
Indonesia		100.2		79.3
Rest of World		-		-
		———		———
		100.2		79.3
		———		———

Carrying amount of net assets by geographical area of asset location:				
UK, Continental Europe and Singapore		58.0		56.0
Indonesia		218.7		253.6
		———		———
		276.7		309.6
		———		———

4. Agricultural produce inventory movement

The net (loss)/gain 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. Administrative expenses

		2017		2016
		$'000		$'000
Net foreign exchange losses		-		1,290
Loss on disposal of property, plant and equipment		-		12
Indonesian operations		14,685		12,756
Head office		5,665		5,377
		———		———
		20,350		19,435
Amount included as additions to property, plant and equipment		(6,669)		(7,448)
		———		———
		13,681		11,987
		———		———

6. Finance costs

		2017		2016
		$'000		$'000
Interest on bank loans and overdrafts		15,665		12,617

Interest on dollar notes		2,669		2,899
Interest on sterling notes		5,184		5,184
Interest on other loans		1,896		273
Change in value of sterling notes arising from exchange fluctuations		4,800		(10,470)
Change in value of loans arising from exchange fluctuations		(1,190)		1,378
Other finance charges		817		251
		———		———
		29,841		12,132
Amount included as additions to property, plant and equipment		(9,071)		(6,127)
		———		———
		20,770		6,005
		———		———

Amounts included as additions to property, plant and equipment and construction in progress arose on borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 23.5 per cent (2016: 22.0 per cent); there is no directly related tax relief.

7. Tax

		2017		2016
		$'000		$'000
Current tax:				
UK corporation tax		28		1
Overseas withholding tax		1,538		1,604
Foreign tax		27		38
Foreign tax - prior year		-		3
		———		———
Total current tax		1,593		1,646
		———		———

Deferred tax:				
Current year		(794)		373
Prior year		2,240		-
		———		———
Total deferred tax		1,446		373
		———		———

Total tax		3,039		2,019
		———		———

Taxation is provided at the rates prevailing for the relevant jurisdiction. For Indonesia, the current and deferred taxation provision is based on a tax rate of 25 per cent (2016: 25 per cent) and for the United Kingdom, the taxation provision reflects a corporation tax rate of 19.25 per cent (2016: 20 per cent) and a deferred tax rate of 19 per cent (2016: 19 per cent).

The rate of corporation tax reduced from 20 per cent to 19 per cent from 1 April 2017 and will reduce from 19 per cent to 17 per cent from 1 April 2020.

8. Dividends

		2017		2016
		$'000		$'000

Amounts recognised as distributions to equity holders:				
Preference dividends of 9p per share (2016: 9p per share)		7,777		7,402
		———		———
		7,777		7,402
		———		———

9. Loss per share

		2017		2016
		$'000		$'000
Basic and diluted loss for the purpose of calculating loss per share*		(27,408)		(17,800)
		———		———

		'000		'000
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share		40,510		36,950
		———		———

* being net loss attributable to ordinary shareholders

10. Property, plant and equipment

	Plantings	Buildings	Plant,	Construction	Total
		and	equipment	in progress	
		structures	and vehicles		
	$'000	$'000	$'000	$'000	$'000
Cost:					
At 1 January 2016	178,921	239,799	110,043	9,931	538,694
Additions	7,104	18,082	2,173	3,778	31,137
Exchange differences	-	-	(63)	-	(63)
Disposals	(24)	(16)	(439)	-	(479)
Transfers to/(from) construction in progress	-	1,008	82	(1,090)	-
Transfers to intangible assets	-	-	(124)	(3,999)	(4,123)
Transfers to deferred charges	-	-	-	(3,025)	(3,025)
Transfers to current receivables	(4)	-	-	-	(4)
Transfers to income statement	(141)	-	-	-	(141)
	———	———	———	———	———
At 31 December 2016	185,856	258,873	111,672	5,595	561,996
Opening balance reclassification	3,966	(3,966)	-	-	-
Additions	11,547	17,605	1,008	1,678	31,838
Transfers to/(from) construction in progress	-	2,128	69	(2,197)	-
	———	———	———	———	———
At 31 December 2017	201,369	274,640	112,749	5,076	593,834
	———	———	———	———	———
Accumulated depreciation:					
At 1 January 2016	8,689	22,033	39,122	-	69,844
Charge for year	9,082	5,076	6,608	-	20,766
Transfers to intangible assets	-	-	(124)	-	(124)
Disposals	-	(11)	(401)	-	(412)
	———	———	———	———	———
At 31 December 2016	17,771	27,098	45,205	-	90,074
Charge for year	9,190	5,281	6,948	-	21,419

	———	———	———	———	———
At 31 December 2017	26,961	32,379	52,153	-	111,493
	———	———	———	———	———
Carrying amount:					
At 31 December 2017	174,408	242,261	60,596	5,076	482,341
	———	———	———	———	———
At 31 December 2016	168,085	231,775	66,467	5,595	471,922
	———	———	———	———	———

The depreciation charge for the year includes $15,000 (2016: $313,000) which has been capitalised as part of additions to plantings.

At the balance sheet date, the book value of finance leases included in property, plant and equipment was $nil (2016: $nil).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $8.2 million (2016: $1.4 million).

At the balance sheet date, property, plant and equipment of $328.5 million (2016: $298.6 million) had been charged as security for bank loans.

11. Share capital

Changes in share capital:

* On 16 October 2017, 8,358,768 preference shares were issued, fully paid, by way of a placing at £1 per share to qualified investors (total consideration £8,359,000 - $11,102,000). The middle market price at close of business on 9 October 2017 (being the date at which the terms of issue were fixed) was £1.045.

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

12. Movement in net borrowings

		2017		2016
		$'000		$'000
Change in net borrowings resulting from cash flows:				
(Decrease) / increase in cash and cash equivalents		(19,050)		8,874
Net decrease / (increase) in bank borrowings		398		(3,935)
Increase in related party borrowings		(16,586)		(12,469)
		———		———
		(35,238)		(7,530)
Redemption of 2017 sterling notes		11,154		-
Redemption of 2017 dollar notes		20,156		-
Issue of 2022 dollar notes		-		(345)
Amortisation of sterling note issue expenses		(537)		(318)
Amortisation of dollar notes issue expenses		(111)		(266)
		———		———
		(4,576)		(8,459)
Currency translation differences		(4,780)		2,036
Net borrowings at beginning of year		(205,109)		(198,686)
		———		———
Net borrowings at end of year		(214,465)		(205,109)
		———		———

13. 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".

		2017		2016
		$'000		$'000
Short term benefits		1,364		1,405
Termination benefits		258		-
		————		————
		1,622		1,405
		————		————

During the year, REA Trading Limited, a related party, made unsecured loans to the company on commercial terms. The maximum amount was $7.4 million, all of which had been repaid by 31 December. This disclosure also complies with the requirements of the Listing Rule 9.8.4.

14. Events after the reporting period

On 25 April 2018 the company announced the sale of PT REA Kaltim Plantation's shareholding in PT Putra Bongan Jaya ("PBJ"), its 95 per cent subsidiary. The sale is conditional, inter alia, upon approval by the company's shareholders and necessary consents of the Indonesian regulatory authorities. The gross sale proceeds are estimated to amount to approximately $85 million, from which are to be deducted borrowings from PBJ's bankers projected at $26.0 million at completion. As a result, the net proceeds to the group are expected to amount, net of expenses, to approximately $57 million. Such net proceeds will be applied substantially in the reduction of group indebtedness.

Completion is not expected to occur before 31 August 2018 and the sale agreement will lapse if the conditions have not been satisfied by 31 January 2019. The purchaser has deposited with the group, by way of an advance of the purchase price, the sum of $8 million. Should the agreement for the sale of PBJ not become unconditional, such amount will be repayable.

The estimated sums disclosed above in relation to the gross and net sale proceeds will be recalculated immediately prior to completion. Based on current projections, the tax impact of the eventual sale is expected to be minimal.

The PBJ plantation is a recently planted property but is not currently profitable. Accordingly, its sale will not have a material negative impact on the immediate profit outlook for the group.

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

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