R.E.A. Holdings plc: Annual reports and accounts 2018

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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 2018 (including notice of the annual general meeting to be held on 20 June 2019) (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

- Second year of operational recovery, with record crop production in 2018 and further increase expected in 2019
- Improved operational performance not reflected in financial results due to material decline in the CPO price during 2018
- Sale of 95 per cent interest in PBJ to KLK group completed

Financial

- Revenue up 5.3 per cent to $105.5 million (2017: $100.2 million), as reduced CPO and CPKO prices largely offset the production gains
- Cost of sales increased to $99.6 million (2017: $86.3 million) reflecting greater purchases of external FFB and increased estate operating costs due to higher volumes, costs of remedial upkeep and an unusually high requirement for downstream loading; nevertheless, estate operating costs increased at a lower rate than FFB volumes
- Pre-tax loss of $5.5 million (2017: loss $21.9 million) after reflecting a gain on the disposal of PBJ of $10.4 million
- Net indebtedness at $189.5 million (2017: $211.7 million), with existing bank facilities repaid and replaced in 2018 with new longer dated facilities to align better with projected future cash flows

- Further discussions with Indonesian bankers to refinance bank loan repayments falling due in 2019 and reduce interest costs through partial conversion of rupiah loans to dollars
- Provision for deferred tax increased by $9.5 million resulting in tax charge of $12.7 million (2017: $3.0 million)

Agricultural operations

- 51 per cent increase in FFB production to 800,050 tonnes (2017: 530,565 tonnes), reflecting the benefit of close focus on field disciplines and supervision
- Increase in third party FFB purchased to 191,228 tonnes (2017: 114,005 tonnes)
- Extraction rates generally stable despite some logistical challenges associated with sudden crop increase, CPO averaging 22.5 per cent (2017: 22.8 per cent)
- Yields grew by 48 per cent to 23.1 tonnes per mature hectare (2017: 15.6 tonnes per mature hectare)
- 2018 extension planting largely concentrated on PBJ to maximise proceeds from PBJ disposal

Coal operations

- Access to and licensing of the loading point on the Mahakam River secured in preparation for mining at the Kota Bangun concession
- Existing coal stockpile of 16,000 tonnes from previous mining operations sold
- Dewatering recently completed giving access to the Kota Bangun northern pit

Outlook

- Record production in 2018 expected to be followed by a further increase in 2019 to some 900,000 tonnes of FFB, with 166,000 tonnes in first quarter (2017: 135,000)
- Indications that the CPO price recovery will continue through 2019 and beyond as global consumption of palm oil increases, production reduces and restocking continues
- Undeveloped land bank of 6,000 hectares immediately available for extension planting but programme on hold pending further recovery in CPO price
- Capacity of the third oil mill to be increased to 80 tonnes per hour to meet rising crop levels, with work expected to be completed in second half of 2019 in time for peak cropping period
- Discussions advanced with potential partners and third party contractors for the resumption of coal mining at Kota Bangun

CHAIRMAN'S STATEMENT

While 2018 saw continued improvement in crop production and yields, the financial results were dominated by the marked fall in crude palm oil ("CPO") prices, particularly during the second half of the year, and the consequent impact on profitability. Foreign exchange gains which positively impacted results in the first half of the year, principally as a result of the decline in the value of the Indonesian rupiah against the US dollar, were partly reversed during the second half of the year. As a consequence, the group's overall financial performance for the year was less than might have been expected.

Total revenue for 2018 amounted to $105.5 million, compared with $100.2 million in 2017, reflecting the impact of weak CPO prices on production that increased by more than 50 per cent on the previous year. While CPO prices have recovered significantly since the year end, they have not yet rallied to the levels seen at the beginning of 2018.

The loss before tax for 2018 was $5.5 million. This included a profit on disposal of PT Putra Bongan Jaya ("PBJ") of $10.4 million. The latter figure differs from the loss of $8.0 million estimated by the group in its announcement of 11 February 2019 because of two technical adjustments involving the release of deferred tax liabilities and prior year translation gains relating to PBJ.

Fresh fruit bunches ("FFB") harvested amounted to some 800,000 tonnes, compared with 530,000 tonnes in 2017, surpassing the group's previous highest production and producing a yield per mature hectare of 23 tonnes compared with 16 tonnes in 2017. These yields take account of the PBJ sale which led to slight decrease in mature hectarage from 34,076 hectares to 33,292 hectares in 2018. FFB purchases from smallholders and other third parties also increased significantly to some 191,000 tonnes compared with 114,000 tonnes in 2017.

CPO production totalled 218,000 tonnes in 2018, compared with the 144,000 tonnes in 2017. Notwithstanding a more rigorous maintenance programme, the rapid escalation of throughput in the second half of the year with consequent pressure on evacuation and increased equipment wear and tear restricted overall CPO extraction rates which decreased to 22.5 per cent compared with 22.8 per cent in 2017. Crude palm kernel oil ("CPKO") extraction rates however, improved to 40.2 per cent compared with 38.0 per cent in 2017. Overall yields for CPO and CPKO were, respectively 5.4 and 0.4 tonnes per mature hectare compared with, respectively 3.6 and 0.3 tonnes per hectare in 2017.

Changes to work programmes and new incentive targets for harvesters contributed to steady improvements in efficiencies in the field through the year and contributed to effective management of the sudden upsurge in crop. With crop levels continuing to increase, the group is pushing ahead with the expansion of the group's newest mill to almost double its capacity to 80 tonnes per hour to ensure adequate processing capacity going forward. These works are expected to be completed in time for the peak cropping period in the second half of the year.

The CPO price, CIF Rotterdam, fell sharply over 2018 from $677 per tonne to a low in mid November of $439 per tonne on the back of considerably higher levels of CPO production in Indonesia and Malaysia and increasing stocks of CPO and other vegetable oils worldwide. Prices started to recover towards the end of the year, closing the year at $506 per tonne, and this trend has continued, albeit with some intermittent volatility, into 2019 as the supply surplus has started to reduce. The CPO price currently stands at $536 per tonne. Indications are that prices will recover further during 2019 and beyond as consumption increases, fuelled by restocking and the expansion of biodiesel usage, and stock levels at origin gradually reduce with the seasonal slowdown in production in the first half of the year.

CPKO prices were similarly affected by a supply surplus, opening at $1260 per tonne, CIF Rotterdam, in 2018, declining to $651 per tonne in November and closing the year at $783 per tonne. The CPKO price, CIF Rotterdam is currently at $594 per tonne.

The group has an undeveloped land bank with some 6,000 hectares immediately available for extension planting. While nursery areas have been established to ensure availability of seedlings for later development, the directors have decided to wait for further recovery in the CPO price before recommencing any expansion.

Preparations to reopen the mine at the group's principal coal concession interest at Kota Bangun are progressing with dewatering of the site recently completed. Having secured access to a loading point on the Mahakam River and a licence to export coal, the group disposed of the existing stockpile of some 16,000 tonnes during 2018. Refurbishment of the port, loading point and conveyor acquired during 2018 should be completed in the next few months. Discussions with potential third party contractors are reaching an advanced stage.

The group continues to be financed by a combination of debt and equity. Total equity (including preference share capital) amounted to $261.3 million as at 31 December 2018 compared to $276.7 million as at 31 December 2017. Net indebtedness at 31 December 2018 amounted to $189.5 million compared with $211.7 million as at 31 December 2017. In August 2018, two new rupiah bank facilities, equivalent in total to some $32.2 million, were arranged and drawn and certain existing facilities, amounting to $10.3 million, were repaid. Subsequently, to align better the repayment profile of the group's bank loans with projected future cash flows, two further new rupiah loans, equivalent to some $82.2 million, were arranged and drawn and existing, shorter dated facilities of some $59.4 million, were repaid.

In view of the financial performance of the group in 2018, the directors have not declared or recommended the payment of any ordinary dividend in respect of the year.

Production in the first months of 2019 was well ahead of the levels achieved in the same period in 2018, with group FFB to the end of March of 166,000 tonnes (2018: 135,000 tonnes). Some slowdown in production can be expected through to the middle of the year in line with the normal monthly phasing of crops but indications are that production for the year overall will be comfortably ahead of 2018 with a budgeted FFB crop of some 900,000 tonnes.

While the directors remain optimistic about the operations and the prospects for the group, there remains much to be done this year to ensure that the group realises its full potential. It will be particularly important to maximise FFB collection and optimise evacuation and processing. To this end, capital expenditure will be focused on works that will ensure resilience and availability of sufficient capacity in the group's mills. With current CPO prices still at depressed levels (albeit that prices are significantly ahead of those of the last quarter of 2018), measures are also in hand to reduce costs particularly in administrative and support departments. It should also be possible to reduce the employment of temporary workers for remedial upkeep as the work being undertaken is progressively completed.

To ensure the availability of sufficient funding to meet the costs of the third mill extension and planned enhancements to the group's other mills, the group is in discussion with its Indonesian bankers regarding a further facility of some $11 million. There are also continuing discussions aimed at reducing interest costs by conversion of a proportion of the group's rupiah loans to dollar loans.

Looking ahead, CPO prices are expected to increase further with continued growth in consumption and a general slowdown in CPO production with fewer new plantings in both Indonesia and Malaysia. Subject to this proving the case, further improvements in operating performance are expected to translate into an improvement in underlying profitability and cash flows through 2019 and thereafter.

Finally, I would like to welcome Rizal Satar who joined the board in December 2018 as an independent non-executive director. Rizal was educated in the United States and Belgium, where he majored in computer science, accounting and finance, and worked for 20 years for PricewaterhouseCoopers, Indonesia, as a senior partner in their advisory services business.

DAVID J BLACKETT
Chairman

DIVIDENDS

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December were duly paid. In view of the results reported for 2018, the directors have concluded that they should not declare or recommend the payment of any dividend on the ordinary shares in respect of 2018.

ANNUAL GENERAL MEETING

The fifty-ninth annual general meeting of R.E.A. Holdings plc will be held at the London office of Ashurst LLP at 1 Duval Square, London Fruit and Wool Exchange, London E1 6PW on 20 June 2019 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.

The risks detailed below as relating to "Agricultural operations - Expansion" and "Coal and stone operations" are prospective rather than immediate material risks because the group is currently not expanding its agricultural operations and not mining its coal and stone concessions. However, such risks will apply when, as is contemplated, expansion and mining are resumed. The effect of an adverse incident relating to the coal and stone operations, as referred to below, could impact the ability of the coal and stone companies to repay their loans.

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

The directors have carefully reviewed the potential impact on its operations of the various possible outcomes to the current discussions on the termination of UK membership of the European Union ("Brexit"). The directors expect that certain outcomes may result in a movement in sterling against the US dollar and Indonesian rupiah with consequential impact on the group dollar translation of its sterling costs and sterling liabilities. The directors do not believe that such impact (which could be positive or negative) would be material in the overall context of the group. Were there to be an outcome that resulted in a reduction in UK interest rates, this may negatively impact the level of the technical provisions of the REA Pension Scheme but given the Scheme's estimated funding position, the directors do not expect that this impact would be material in the overall context of the group. Beyond this, and considering that the group's entire operations are in Indonesia, the directors do not see Brexit as posing a significant risk to the group.

The directors have considered the potential impact on the group of global climate change. Between 5 and 10 per cent of the group's existing plantings are in areas that are low lying and prone to flooding if not protected by bunding. Were climate change to cause an increase in water levels in the rivers running though the estates, this could be expected to increase the requirement for bunding or, if the increase was so extreme that bunding became impossible, could lead to the loss of low lying plantings, the percentage of which could be expected to increase. Changes to levels and regularity of rainfall and sunlight hours could also adversely affect production. However, it seems likely that any climate change impact negatively affecting group production would similarly affect many other oil palm growers in South East Asia leading to a reduction in CPO and CPKO supply. This would be likely to result in higher prices for CPO and CPKO which should provide at least some offset against reduced production.

Risks assessed by the directors as being of particular significance are those detailed below under:

* "Agricultural operations - Produce prices"
* "General - Funding"
* "Agricultural operations - Climatic factors"
* "Agricultural operations - Other operational factors".

The directors' assessment, as respects produce prices and funding, reflects the key importance of those risks in relation to the matters considered in the "Viability statement" in the "Directors' report" below and, as respects climatic and other factors, the negative impact that could result from adverse incidence of such risks.

Risk	**Potential impact**	**Mitigating or other relevant considerations**
Agricultural operations		
Climatic factors		
Material variations from the norm in climatic conditions	A loss of crop or reduction in the quality of harvest resulting in loss of potential revenue	Over a long period, crop levels should be reasonably predictable
Unusually low levels of rainfall that lead to a water availability below the minimum required for the normal development of the oil palm	A reduction in subsequent crop levels resulting in loss of potential revenue; the reduction is likely to be broadly proportional to the cumulative size of the water deficit	Operations are located in an area of high rainfall. Notwithstanding some seasonal variations, annual rainfall is usually adequate for normal development
Overcast conditions	Delayed crop formation resulting in loss of potential revenue	Normal sunshine hours in the location of the operations are well suited to the cultivation of oil palm
Low levels of rainfall disrupting river transport or, in an extreme situation, bringing it to a standstill	Inability to obtain delivery of estate supplies or to evacuate CPO and CPKO (possibly leading to suspension of harvesting)	The group has established a permanent downstream loading facility, where the river is tidal. In addition, road access between the ports of Samarinda and Balikpapan and the estates offers a viable alternative route for transport with any associated additional cost more than outweighed by the potential negative impact of disruption to the business cycle by any delay in evacuating CPO
Cultivation risks		
Failure to achieve optimal upkeep standards	A reduction in harvested crop resulting in loss of potential revenue	The group has adopted standard operating practices designed to achieve required upkeep standards
Pest and disease damage to oil palms and growing crops	A loss of crop or reduction in the quality of harvest resulting in loss of potential revenue	The group adopts best agricultural practice to limit pests and diseases
Other operational factors		
Shortages of necessary inputs to the operations, such as fuel and fertiliser	Disruption of operations or increased input costs leading to reduced profit margins	The group maintains stocks of necessary inputs to provide resilience and has established biogas plants to improve its self-reliance in relation to fuel

A hiatus in harvesting, collection or processing of FFB crops	FFB crops becoming rotten or over-ripe leading either to a loss of CPO production (and hence revenue) or to the production of CPO that has an above average free fatty acid content and is saleable only at a discount to normal market prices	The group endeavours to maintain a sufficient complement of harvesters within its workforce to harvest expected crops and to maintain resilience in its palm oil mills with each of the mills operating separately and some ability within each mill to switch from steam based to biogas or diesel based electricity generation
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 and may be expanded to accommodate anticipated increases in production
Occurrence of an uninsured or inadequately insured adverse event; certain risks (such as crop loss through fire or other perils), for which insurance cover is either not available or is considered disproportionately expensive, are not insured	Material loss of potential revenues or claims against the group	The group maintains insurance at levels that it considers reasonable against those risks that can be economically insured and mitigates uninsured risks to the extent reasonably feasible by management practices
Produce prices		
Volatility of CPO and CPKO prices which as primary commodities may be affected by levels of world economic activity and factors affecting the world economy, including levels of inflation and interest rates	Reduced revenue from the sale of CPO and CPKO production and a consequent reduction in cash flow	Price swings should be moderated by the fact that the annual oilseed crops account for the major proportion of world vegetable oil production and producers of such crops can reduce or increase their production within a relatively short time frame
Restriction on sale of the group's CPO and CPKO at world market prices including restrictions on Indonesian exports of palm products and imposition of high export duties (as has occurred in the past for short periods)	Reduced revenue from the sale of CPO and CPKO production and a consequent reduction in cash flow	The Indonesian government allows the free export of CPO and CPKO but applies a sliding scale of duties on exports, which is varied from time to time in response to prevailing prices, to allow producers economic margins. The extension of this sliding scale to incorporate an export levy to fund biodiesel subsidies is designed to support the local price of CPO and CPKO
Distortion of world markets for CPO and CPKO by the imposition of import controls or taxes in consuming countries, for example, by imposition of reciprocal trade barriers or tariffs between major economies	Depression of selling prices for CPO and CPKO if arbitrage between markets for competing vegetable oils proves insufficient to compensate for the market distortion created	The imposition of controls or taxes on CPO or CPKO in one area can be expected to result in greater consumption of alternative vegetable oils within that area and the substitution outside that area of CPO and CPKO for other vegetable oils
Expansion		
Failure to secure in full, or delays in securing, the land or funding required for the group's planned extension planting programme	Inability to complete, or delays in completing, the planned extension planting programme with a consequential reduction in the group's prospective growth	The group holds significant fully titled or allocated land areas suitable for planting. It works continuously to maintain up to date permits for the planting of these areas and aims to manage its finances to ensure, in so far as practicable, that it will be able to fund any planned extension planting programme

A shortfall in achieving the group's planned extension planting programme impacting negatively the continued growth of the group	A possible adverse effect on market perceptions as to the value of the company's securities	The group maintains flexibility in its planting programme to be able to respond to changes in circumstances
Environmental, social and governance practices		
Failure by the agricultural operations to meet the standards expected of them as a large employer of significant economic importance to local communities	Reputational and financial damage	The group has established standard practices designed to ensure that it meets its obligations, monitors performance against those practices and investigates thoroughly and takes action to prevent recurrence in respect of any failures identified
Criticism of the group's environmental practices by conservation organisations scrutinising land areas that fall within a region that in places includes substantial areas of unspoilt primary rain forest inhabited by diverse flora and fauna	Reputational and financial damage	The group is committed to sustainable development of oil palm and has obtained RSPO certification for most of its current operations. All group oil palm plantings are on land areas that have been previously logged and zoned by the Indonesian authorities as appropriate for agricultural development. The group maintains substantial conservation reserves that safeguard landscape level biodiversity
Community relations		
A material breakdown in relations between the group and the host population in the area of the agricultural operations	Disruption of operations, including blockages restricting access to oil palm plantings and mills, resulting in reduced and poorer quality CPO and CPKO production	The group seeks to foster mutually beneficial economic and social interaction between the local villages and the agricultural operations. In particular, the group gives priority to applications for employment from members of the local population, encourages local farmers and tradesmen to act as suppliers to the group, its employees and their dependents and promotes smallholder development of oil palm plantings
Disputes over compensation payable for land areas allocated to the group that were previously used by local communities for the cultivation of crops or as respects which local communities otherwise have rights	Disruption of operations, including blockages restricting access to the area the subject of the disputed compensation	The group has established standard procedures to ensure fair and transparent compensation negotiations and encourages the local authorities, with whom the group has developed good relations and who are therefore generally supportive of the group, to assist in mediating settlements
Individuals party to a compensation agreement subsequently denying or disputing aspects of the agreement	Disruption of operations, including blockages restricting access to the areas the subject of the compensation disputed by the affected individuals	Where claims from individuals in relation to compensation agreements are found to have a valid basis the group seeks to agree a new compensation arrangement; where such claims are found to be falsely based the group encourages appropriate action by the local authorities
Coal and stone 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 coal and stone	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
Prices		
Volatility of international coal prices and local competition reducing stone prices	Reduced revenue and a consequent reduction in cash flow and profit	The high quality of the coal in the group's main coal concession may limit volatility. There are currently no other stone quarries in the vicinity of the group's deposits and the cost of transporting stone should restrict competition
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 coal and stone operations to meet the expected standards	Reputational and financial damage	The areas of the coal and stone 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	As respects costs and sterling denominated shareholder capital, the group considers that this risk is inherent in the group's business and structure and must simply be accepted. As respects borrowings, where practicable the group seeks to borrow in dollars but, when borrowing in another currency, considers it better to accept the resultant currency risk than to hedge that risk with hedging instruments
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	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 procurement of

concluding satisfactory refinancing arrangements		additional equity capital should this prove necessary
Counterparty risk		
Default by a supplier, customer or financial institution	Loss of any prepayment, unpaid sales proceeds or deposit	The group maintains strict controls over its financial exposures which include regular reviews of the creditworthiness of counterparties and limits on exposures to counterparties. Sales are generally made on the basis of cash against documents
Regulatory exposure		
New, and changes to, laws and regulations that affect the group (including, in particular, laws and regulations relating to land tenure, work permits for expatriate staff and taxation)	Restriction on the group's ability to retain its current structure or to continue operating as currently	The directors are not aware of any specific planned changes that would adversely affect the group to a material extent; current regulations restricting the size of oil palm growers in Indonesia will not impact the group for the foreseeable future
Breach of the various continuing conditions attaching to the group's land rights and the coal and stone quarry concessions (including conditions requiring utilisation of the rights and concessions) or failure to maintain all permits and licences required for the group's operations	Civil sanctions and, in an extreme case, loss of the affected rights or concessions	The group endeavours to ensure compliance with the continuing conditions attaching to its land rights and concessions and that 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, corruption and slavery	Reputational damage and criminal sanctions	The group has traditionally had, and continues to maintain, strong controls in this area because Indonesia, where all of the group's operations are located, has been classified as relatively high risk by the International Transparency Corruption Perceptions Index
Restrictions on foreign investment in Indonesian mining concessions, limiting the effectiveness of co-investment arrangements with local partners	Constraints on the group's ability to earn an equity return on its investment	Maintenance of good relations with local partners to ensure that returns appropriately reflect agreed arrangements
Country exposure		
Deterioration in the political or economic situation in Indonesia	Difficulties in maintaining operational standards particularly if there was a consequential deterioration in the security situation	In the recent past, Indonesia has been stable and the Indonesian economy has continued to grow but, in the late 1990s, Indonesia experienced severe economic turbulence and there have been subsequent occasional instances of civil unrest, often attributed to ethnic tensions, in certain parts of Indonesia. The group has never, since the inception of its East Kalimantan operations in 1989, been adversely affected by regional security problems
Introduction of exchange controls or other restrictions on foreign owned operations in Indonesia	Restriction on the transfer of fees, interest and dividends from Indonesia to the UK with potential consequential negative implications for the servicing of UK obligations and payment of dividends;	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

	loss of effective management control	
Mandatory reduction of foreign ownership of Indonesian plantation operations	Forced divestment of interests in Indonesia at below market values with consequential loss of value	The group accepts there is a significant possibility that foreign owners may be required over time to divest partially ownership of Indonesian oil palm operations but has no reason to believe that such divestment would be at anything other than market value. Moreover, the group has local participation in all its Indonesian subsidiaries
Miscellaneous relationships		
Disputes with staff and employees	Disruption of operations and consequent loss of revenues	The group appreciates its material dependence upon its staff and employees and endeavours to manage this dependence in accordance with international employment standards as detailed under "Employees" in "Sustainability" 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 coal and stone 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

Viability statement

The group's business activities, together with the factors likely to affect its future development, performance and position are described in the "Strategic report" above which also provides (under the heading "Finance") a description of the group's cash flow, liquidity and financing adequacy and treasury policies. In addition, note 24 to the consolidated financial statements includes information as to the group's policy, objectives and processes for managing capital, its financial risk management objectives, details of financial instruments and hedging policies and exposures to credit and liquidity risks.

The "Risks and uncertainties" section of the Strategic report describes the material risks faced by the group and actions taken to mitigate those risks. In particular, there are risks associated with the group's local operating environment and the group is materially dependent upon selling prices for crude palm oil ("CPO") and crude palm kernel oil ("CPKO") over which it has no control.

As respects funding risk, the group has material indebtedness, in the form of bank loans and listed notes. Some $9.1 million of bank indebtedness falls due for repayment during 2019 and a further $52.3 million over the period 2020 to 2022. In addition, £30.9 million ($39.1 million) of 8.75 per cent guaranteed sterling notes 2020 (the "sterling notes") will become repayable in August 2020 and $24.0 million of 7.5 per cent dollar notes 2022 (the "dollar notes") will become repayable in June 2022. In view of the material component of the group's indebtedness falling due in the period to 31 December 2022, as described above, the directors have chosen this period for their assessment of the long-term viability of the group.

With the improvement in operating performance and CPO prices firming since 2018, the group's plantation operations can be expected to generate increasing cash flows going forward. In addition, the arrangements to recommence operations at the group's principal coal concession can be expected to enhance future cash flow. Whilst the group hopes to resume its extension planting programme when funding permits, for the moment this is on hold. Moreover, the successful completion of the divestment of PT Putra Bongan Jaya in 2018 and the extension of the group's third mill to almost double its capacity in 2019 means that the group is unlikely to require an additional mill for several years, if at all. Accordingly, the group can reasonably expect that from 2020 onwards a much greater proportion of operational cash flows will be available to reduce debt than has been the case for many years.

In 2019, the group will still incur significant capital expenditure on the third mill extension, necessary enhancements to the other mills and upkeep of existing immature areas. To ensure the availability of sufficient funding for these purposes, the group is at an advanced stage in discussions to refinance the bank indebtedness falling due in 2019 with longer term bank indebtedness. Following completion of this refinancing, the group will resume discussions with its Indonesian bankers on reduction of interest costs by conversion of a proportion of the group's rupiah loans to dollar loans.

The directors expect that the improving outlook for the group's internally generated cash flows will permit the group to repay the group indebtedness falling due for repayment during the period of assessment other than a proportion of the sterling notes falling due for repayment in 2020 which the directors would expect to be able to refinance with new notes. However, should this not prove the case, or should additional funding otherwise be required, the group will seek to raise additional capital by an issue of shares or of a share linked instrument.

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 2022 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 2018 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.

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 preparing the annual report and the financial statements in accordance with applicable law and regulations.

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

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the "Strategic report" section of this annual report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's 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 2018

		2018	2017
		$'000	$'000
Revenue		105,479	100,241

Net gain / (loss) arising from changes in fair value of agricultural produce inventory		305	(1,069)
Cost of sales:			
Depreciation and amortisation		(23,014)	(22,215)
Other costs		(76,571)	(64,062)
		———	———
Gross profit		6,199	12,895
Distribution costs		(1,258)	(1,378)
Administrative expenses		(15,668)	(13,681)
		———	———
Operating loss		(10,727)	(2,164)
Investment revenues		292	1,072
Profit on disposal of subsidiary		10,373	-
Finance costs		(5,412)	(20,770)
		———	———
Loss before tax		(5,474)	(21,862)
Tax		(12,734)	(3,039)
		———	———
Loss for the year		(18,208)	(24,901)
		———	———
Attributable to:			
Ordinary shareholders		(22,021)	(27,408)
Preference shareholders		8,353	7,777
Non-controlling interests		(4,540)	(5,270)
		———	———
		(18,208)	(24,901)
		———	———
Basic and diluted loss per 25p ordinary share (US cents)		(54.4)	(67.0)
All operations for both years are continuing			

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2018

		2018	2017
		$'000	$'000
Non-current assets			
Goodwill		12,578	12,578
Intangible assets		2,581	3,477
Property, plant and equipment		407,164	482,341
Land titles		35,890	35,178
Coal and stone interests		46,011	37,877
Deferred tax assets		10,088	9,867
Non-current receivables		7,544	4,996
		———	———
Total non-current assets		521,856	586,314
		———	———
Current assets			
Inventories		22,637	11,497

Biological assets		2,589	1,927
Investments		-	2,730
Trade and other receivables		50,714	39,280
Cash and cash equivalents		26,279	5,543
Total current assets		102,219	60,977
Total assets		624,075	647,291
Current liabilities			
Trade and other payables		(59,779)	(62,212)
Current tax liabilities		-	(11)
Bank loans		(13,966)	(28,140)
Other loans and payables		(718)	(10,469)
Total current liabilities		(74,463)	(100,832)
Non-current liabilities			
Bank loans		(117,008)	(96,991)
Sterling notes		(38,213)	(41,364)
Dollar notes		(23,724)	(23,649)
Deferred tax liabilities		(79,247)	(79,600)
Other loans and payables		(30,146)	(28,120)
Total non-current liabilities		(288,338)	(269,724)
Total liabilities		(362,801)	(370,556)
Net assets		261,274	276,735
Equity			
Share capital		132,528	132,528
Share premium account		42,401	42,401
Translation reserve		(42,470)	(50,897)
Retained earnings		114,360	135,074
		246,819	259,106
Non-controlling interests		14,455	17,629
Total equity		261,274	276,735

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

		2018		2017
		$'000		$'000
Loss for the year		(18,208)		(24,901)
Other comprehensive income				

Items that may be reclassified to profit or loss:				
Actuarial gains / (losses)		1,732		(205)
Deferred tax on actuarial (gains) / losses		(425)		41
		———		———
		1,307		(164)
Items that will not be reclassified to profit or loss: instrument				
Exchange differences on translation of foreign operations		14,087		(11,419)
Exchange differences on deferred tax		3,110		(279)
		———		———
		18,504		(11,862)
		———		———
Total comprehensive income for the year		296		(36,763)
		———		———
Attributable to:				
Ordinary shareholders		(3,517)		(39,270)
Preference shareholders		8,353		7,777
Non-controlling interests		(4,540)		(5,270)
		———		———
		296		(36,763)
		———		———

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	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 2017	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
Total comprehensive income	-	-	15,831	(12,361)	3,470	(3,174)	296
Disposal of subsidiary	-	-	(7,404)	-	(7,404)	-	(7,404)
Dividends to preference shareholders	-	-	-	(8,353)	(8,353)	-	(8,353)
	———	———	———	———	———	———	———
At 31 December 2018	132,528	42,401	(42,470)	114,360	246,819	14,455	261,274
	———	———	———	———	———	———	———

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

		2018		2017
		$'000		$'000
Net cash (used in) / from operating activities		(26,861)		19,670
		———		———

Investing activities				
Interest received		94		29
Purchases of property, plant and equipment		(23,793)		(31,960)
Purchases of intangible assets		(33)		(112)
Expenditure on land titles		(1,005)		(949)
Investment in coal and stone interests		(5,593)		(669)
Proceeds of disposal of subsidiary		2,793		-
Net cash used in investing activities		(27,537)		(33,661)
Financing activities				
Preference dividends paid		(8,353)		(7,777)
Repayment of bank borrowings		(105,768)		(6,754)
New bank borrowings drawn		119,847		6,356
New borrowings from related party		13,440		7,400
Repayment of borrowings from related party		(13,440)		(7,400)
Repayment of borrowings from non-controlling shareholder		(6,469)		- 23,986
New borrowings from non-controlling shareholder		-		16,586
Proceeds of issue of preference shares, less costs of issue		-		10,918
Redemption of 2017 dollar notes		-		(20,156)
Redemption of 2017 sterling notes		-		(11,154)
Redemption of 2020 sterling notes		(1,307)		-
Proceeds of sale of investments		2,730		7,078
Repayment of balances from divested subsidiary		50,027		-
Settlement of bank loan by purchaser of subsidiary		24,748		-
Net cash from / (used in) financing activities		75,455		(4,903)
Cash and cash equivalents				
Net increase / (decrease) in cash and cash equivalents		21,057		(18,894)
Cash and cash equivalents at beginning of year		5,543		24,593
Effect of exchange rate changes		(321)		(156)
Cash and cash equivalents at end of year		26,279		5,543

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 2018 (the "2018 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 2018 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 2018 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 2018 financial statements and the accompanying financial information were approved by the board of directors on 26 April 2019.

2. Revenue

		2018		2017
		$'000		$'000
Sales of goods		105,297		99,956
Revenue from services		182		285
		————		————
		105,479		100,241
Investment revenue		292		1,072
		————		————
Total revenue		105,771		101,313
		————		————

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 coal and stone operations. In 2018 and 2017, the latter did not meet the quantitative thresholds set out in IFRS 8 "Operating segments" and, accordingly, no analyses are provided by business segment.

		2018		2017
		$'m		$'m
Sales by geographical location:				
Indonesia		105.5		100.2
Rest of World		-		-
		————		————
		105.5		100.2
		————		————

Carrying amount of net assets by geographical area of asset location:				
UK, Continental Europe and Singapore		26.4		58.0
Indonesia		234.9		218.7
		————		————
		261.3		276.7
		————		————

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. Administrative expenses

		2018		2017
		$'000		$'000
Loss on disposal of property, plant and equipment		10		-
Indonesian operations		14,728		14,685
Head office		5,696		5,665
		————		————

		20,434		20,350
Amount included as additions to property, plant and equipment		(4,766)		(6,669)
		———		———
		15,668		13,681
		———		———

6. Finance costs

		2018		2017
		$'000		$'000
Interest on bank loans and overdrafts		15,485		15,665
Interest on dollar notes		1,877		2,669
Interest on sterling notes		4,085		5,184
Interest on other loans		2,549		1,896
Change in value of sterling notes arising from exchange fluctuations		(2,297)		4,800
Change in value of loans arising from exchange fluctuations		(12,547)		(1,190)
Other finance charges		1,022		817
		———		———
		10,174		29,841
Amount included as additions to property, plant and equipment		(4,762)		(9,071)
		———		———
		5,412		20,770
		———		———

Amounts included as additions to property, plant and equipment arose on borrowings applicable to the Indonesian operations and reflected a capitalisation rate of 15.9 per cent (2017: 23.5 per cent); there is no directly related tax relief.

7. Tax

		2018		2017
		$'000		$'000
Current tax:				
UK corporation tax		-		28
Overseas withholding tax		1,552		1,538
Foreign tax		9		27
		———		———
Total current tax		1,561		1,593
		———		———

Deferred tax:				
Current year		10,628		(794)
Prior year		545		2,240
		———		———
Total deferred tax		11,173		1,446
		———		———

Total tax		12,734		3,039
		———		———

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 (2017: 25 per cent) and for the United Kingdom, the taxation provision reflects a corporation tax rate of 19 per cent (2017: 19.25 per cent) and a deferred tax rate of 19 per cent (2017: 19 per cent).

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

8. Dividends

		2018		2017
		$'000		$'000
Amounts recognised as distributions to equity holders:				
Preference dividends of 9p per share (2016: 9p per share)		8,353		7,777
		8,353		7,777

9. Loss per share

		2018		2017
		$'000		$'000
Basic and diluted loss for the purpose of calculating loss per share*		(22,021)		(27,408)

		'000		'000
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share		40,510		40,510

* Being net loss attributable to ordinary shareholders

10. Property, plant and equipment

	Plantings	Buildings and structures	Plant, equipment and vehicles vehicles	Construction in progress	Total
	$'000	$'000	$'000	$'000	$'000
Cost:					
At 1 January 2017	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
Additions	7,617	12,228	2,545	6,165	28,555
Disposals - property, plant and equipment	-	(6,000)	(258)	-	(6,258)
Disposal of subsidiary	(26,437)	(47,075)	(1,730)	(1,487)	(76,729)
Transfers to/(from) construction in progress	-	2,494	18	(2,512)	-

At 31 December 2018	182,549	236,287	113,324	7,242	539,402
Accumulated depreciation:					
At 1 January 2017	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
Charge for year	9,861	5,651	6,499	-	22,011
Disposals - property, plant and equipment	-	-	(249)	-	(249)
Disposal of subsidiary	(257)	(209)	(551)	-	(1,017)
At 31 December 2018	36,565	37,821	57,852	-	132,238
Carrying amount:					
At 31 December 2018	145,984	198,466	55,472	7,242	407,164
At 31 December 2017	174,408	242,261	60,596	5,076	482,341

The depreciation charge for the year includes $103,000 (2017: $15,000) which has been capitalised as part of additions to plantings and buildings and structures.

At the balance sheet date, the book value of finance leases included in property, plant and equipment was $nil (2017: $nil).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $1.1 million (2017: $8.2 million).

At the balance sheet date, property, plant and equipment of $153.0 million (2017: $328.5 million) had been charged as security for bank loans.

11. Share capital

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

12. Movement in net borrowings

	2018	2017
	$'000	$'000
Change in net borrowings resulting from cash flows:		
Increase / (decrease) in cash and cash equivalents, after exchange rate effects	20,736	(19,050)
Net (increase) / decrease in bank borrowings	(14,079)	398
Net decrease / (increase) in related party borrowings	6,469	(16,586)
	13,126	(35,238)
Redemption of 2017 sterling notes	-	11,154
Redemption of 2017 dollar notes	-	20,156
Redemption of 2020 sterling notes	1,307	-
Amortisation of sterling note issue expenses	(497)	(537)
Amortisation of dollar notes issue expenses	(75)	(111)
	13,861	(4,576)
Currency translation differences	11,053	(4,780)

Net borrowings at beginning of year		(214,465)		(205,109)
		———		———
Net borrowings at end of year		(189,551)		(214,465)
		———		———

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".

		2018		2017
		$'000		$'000
Short term benefits		1,564		1,364
Termination benefits		-		258
		———		———
		1,564		1,622
		———		———

During the year, R.E.A. Trading Limited ("REAT"), a related party, made unsecured loans to the company on commercial terms. REAT is owned by Richard Robinow (a director of the company) and his brother who, with members of their family, also own Emba Holdings Limited, a substantial shareholder in the company. The maximum amount loaned was $13.4 million, all of which had been repaid by 31 December (2017: $7.4 million). Total interest paid during the year was $243,000 (2017: $97,000). This disclosure is also made in compliance with the requirements of Listing Rule 9.8.4.

14. Events after the reporting period

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

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