R.E.A. Holdings plc: Annual report in respect of 2016

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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 2016 (including notice of the annual general meeting to be held on 13 June 2017) (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

Financial

- Adoption of amended IAS 41, effective 1 January 2016, on biological assets has impacted 2016 profits due to a new additional depreciation charge and the elimination of fair value gains; 2015 comparatives restated to reflect the change with reduction in results before tax of $23.8 million

- Revenues of $79.3 million (2015: $90.5 million), reflecting lower production following two year severe dry period

- Firmer CPO prices, continued focus on costs and exchange gains limiting the impact of lower production: loss before tax of $9.3 million (2015: $12.2 million)

- Net new investment of $31.6 million (2015: $34.8 million)

- Permanent capital base to support extension planting programme strengthened by $27.0 million, net of expenses, from combination of acquisition by DSN group of 15 per cent in the REA Kaltim group and cash placing of 3.7 million new ordinary shares

- Debt maturity profile improved by exchange of $13.8 million of 2017 dollar notes for new 2022 dollar notes, repackaging of Indonesian bank loans and new funding of $14.4 million to refinance maturing debt from combination of sale of 2020 sterling notes held in treasury and loans from the DSN group

Agricultural operations

- Crop of FFB 468,371 tonnes (2015: 600,741 tonnes); CPO production of 127,697 tonnes (2015: 161,844 tonnes)

- Extraction rates averaged 22.8 per cent (2015: 22.2 per cent) despite impact on FFB quality of disruptions to harvesting and transportation caused by heavy rainfall in final quarter

- Significant progress with new development: over 5,700 hectares of new land planted and a further 1,500 prepared for planting

- Reliability of mill operations benefiting from recent extensive refurbishment programme and enhanced security systems

- New enhanced fertiliser regime targeted at mature areas initiated

Stone and coal operations

- Long term arrangements agreed for purchasing crushed stone for own use in hardening roads and other infrastructure and for sale to third parties

- Agreements reached for resumption of coal operations at the coal concession near Kota Bangun

Sustainability

- Renewable energy from methane capture plants supplying 26 local villages and making an increasing contribution as household take up continues to grow

- RSPO recertification audits competed satisfactorily; ISCC renewals in process

- Completion of new estate school and new housing at KMS

- Completion of five village water treatment community development projects

- REA Kaltim awarded Class 1 status by the regional governor following assessment of local plantation companies, based on operational, social and environmental criteria

CHAIRMAN'S STATEMENT

The accompanying financial statements for 2016 incorporate a significant change in accounting policies in accordance with the amendment of IAS 41 Agriculture effective 1 January 2016. The amendment means that bearer plants are no longer carried as biological assets at fair value but are instead accounted for as property, plant and equipment, and are depreciated. The 2015 financial statements have been restated to reflect the change.

The effect has been to reduce the previously reported profit before tax for 2015 by $23.8 million and, whilst the comparable reduction for 2016 has not been computed, it is most probably even higher given the likely benefit to the fair value of what were formerly biological assets from the sizeable extension planting achieved in 2016. As a result, with margins already reduced by lower production, and despite improved crude palm oil ('CPO') prices, the group incurred a loss before taxation for the year, albeit reduced from the restated loss of the preceding year.

Total revenue for the year amounted to $79.3 million, compared with $90.5 million in 2015; at the operating level, the group incurred a loss of $5.0 million for the year, compared with a restated loss of $6.6 million in 2015. Firmer CPO prices in 2016 as well as continued focus on cost controls restricted the loss before tax in 2016 to $9.3 million compared with a restated loss of $12.2 million in 2015.

As previously reported, the group's lower production mirrored the production experience reported by many other oil palm plantations in East Kalimantan and several other areas of South East Asia and is attributed to the severe dry periods experienced in both 2014 and 2015. The group's cropping rates started to recover from September onwards, but heavy rainfall in November and December disrupted collection, which meant that production in the final months of the year fell short of crop availability as not all crop could be recovered. Oil quality was also affected. Whilst the change in precipitation is positive for future productivity, such a dramatic increase after a prolonged period of drought, with average rainfall in 2016 more than 60 per cent higher than in 2015, had a short term negative impact on conditions for both harvesting and transportation. With the easing of the rains, essential repairs to, and hardening of, estate roads have become feasible and these should progressively benefit production as the current year progresses.

Fresh fruit bunches ('FFB') harvested in 2016 amounted to some 468,000 tonnes compared with 601,000 tonnes in 2015. Smallholder and other third party FFB purchased by the group also fell short of 2015 levels at 98,000 tonnes compared with 139,000 tonnes in the previous year. CPO production amounted to 128,000 tonnes compared with 162,000 tonnes in 2015, while CPO extraction rates averaged 22.8 per cent compared with 22.2 per cent in 2015. Extraction rates in 2016 would have been higher were it not for the impact on FFB quality of the disruptions to harvesting and transportation in the last part of the year.

The CPO price, CIF Rotterdam, edged steadily upwards through 2016 from an opening price of $570 per tonne to close at $801 per tonne but has since fallen back and currently stands at $710 per tonne. Whilst there is an expectation of better CPO production in 2017, soybean oil production may be constrained by a relatively weak market for soya meal so that, with vegetable oil and CPO stocks much depleted following the poor harvests of 2016, there is a reasonable prospect that prices will stabilise at above the $700 per tonne level during the second half of 2017.

Through PLN, the Indonesian state electricity company, the group now supplies power to 26 villages and sub-villages surrounding the estates. Revenue from electricity generated from the group's two methane capture plants amounted to some $563,000 in 2016, compared with $233,000 in the first eight months of operation in 2015.

Excellent progress was made with the group's extension planting programme in 2016, following completion of the bunding and construction of the water gates to control the flood prone lower lying areas of PT Putra Bongan Jaya ('PBJ'). A total of 5,758 hectares were planted during the year and a further 4,000 hectares of plantings are planned for 2017. The latter programme will require extension of existing bunding into the northern section of PBJ and new bunding along the southern boundary of PT Cipta Davia Mandiri ('CDM'). Work on this additional bunding is already well in hand.

As reported previously, in December 2016, PT Dharma Satya Nusantara Tbk ('DSN') completed its acquisition of a 15 per cent interest in the group's principal operating subsidiary in Indonesia, PT REA Kaltim Plantations ('REA Kaltim'). In addition, the DSN group has provided loans to the REA Kaltim group. DSN's investment and provision of loans will help to finance the group's extension planting programme and accords with the long-held intention of increasing Indonesian participation in the group.

The group successfully addressed several key elements of funding that were highlighted in the 2015 annual report. Specifically, the group issued new US dollar denominated notes maturing in 2022 by way of an exchange offer to existing 2017 dollar noteholders to extend the maturity of $13.8 million and latterly issued 3.7 million ordinary shares by way of a placing to raise some £10.5 million. In addition, £1.5 million of 2020 sterling notes held in treasury were sold by a group subsidiary and Indonesian bank loans were repackaged so as to extend the maturities and significantly reduce nearer term repayments under the existing facilities.

Under fresh agreements recently reached with third parties, operations at the group's coal concession near Kota Bangun are expected to resume shortly following dewatering of the concession area. Under these agreements, the group should receive a steady cash flow based upon the prevailing coal prices but with an agreed floor. Previously reported negotiations with another third party in relation to the Liburdinding concession proved abortive but the group is continuing to hold discussions regarding this concession with several potentially interested parties.

The group is also continuing to review options for developing suitable road access to the group's andesite stone concession. This will be a necessary preliminary to commencing extraction operations. Previous discussions with potential strategic investors have not been renewed pending the outcome of such review. Arrangements have been agreed, however, in respect of a limestone deposit adjacent to PBJ. These arrangements will provide the group with the crushed stone required for infrastructure in the agricultural operations and other construction programmes, as well as for sale to third parties.

Revenue from these recent developments in the stone and coal operations will provide a useful addition to the group's cash flow. However, depending upon the level of CPO prices and operational performance during the remainder of 2017, some further funding may be required to enable the group to continue its expansion programme at the speed that it would like. Accordingly, the group is actively engaged in discussions to obtain new longer term debt financing to replace, or replace in part, the remaining component of the group's maturing sterling and dollar notes that has not yet been refinanced. The directors are optimistic of a successful outcome to these discussions.

In view of the financial performance in 2016, the directors have not declared, or recommended the payment of any ordinary dividend in respect of the year. Provided that crops continue to recover as expected and prices for the group's produce are maintained around current levels, the directors will consider recommending the payment of a final ordinary dividend in respect of 2017.

Following the resignation of Mark Parry, I would like to welcome Carol Gysin as the company's new managing director. Carol has worked for the group for over eight years and is very familiar with its operations. Further, I also welcome Michael St Clair-George who joined the board in October 2016 as the senior independent non-executive director and chairman of both the audit and remuneration committees. Michael has over 40 years' experience in the plantation and agribusiness industries in Malaysia and Indonesia.

Looking ahead, the recent return to more normal levels of rainfall, allowing harvesting rounds gradually to improve and renovation and repairs to the estate roads to become fully effective, should see both harvesting and production levels increase. With extraction rates expected to improve further, an increasing hectarage of mature plantings and CPO prices that could well remain around current levels, a significant improvement in revenues should be possible. This and the continuing development of the group's land bank, coupled with further progress in the stone and coal operations, should lead to enhanced shareholder value.

DIVIDENDS

The fixed semi-annual dividends on the 9 per cent cumulative preference shares that fell due on 30 June and 31 December 2016 were duly paid. In view of the difficult conditions that faced the group during 2016, 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 2016.

The group's programme of planting its land bank remains ongoing. This will continue to require major capital expenditure and constrain the rates at which the directors feel that they can prudently declare, or recommend the payment of, ordinary dividends over the next few years. Nevertheless, the directors will consider recommending the payment of a final ordinary dividend in respect of 2017, although this will necessarily depend upon crops and CPO prices over the balance of 2017.

ANNUAL GENERAL MEETING

The fifty-seventh 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 2017 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 possibility that the group's expansion programme might have to be curtailed.

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 now offers a viable alternative route for transport and any associated additional cost is 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 is investing to improve its self-reliance in relation to fuel and fertiliser
A hiatus in collection or processing of FFB crops	FFB crops becoming rotten or over-ripe leading either to a loss of CPO production (and hence revenue) or to the	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

	production of CPO that has an above average free fatty acid content and is saleable only at a discount to normal market prices	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 products and imposition of high export duties (as has occurred in the past for short periods)	Reduced revenue from the sale of CPO and CPKO production and a consequent reduction in cash flow and profit	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 of this sliding scale to incorporate a $50 per tonne export levy to fund biodiesel subsidies is supporting 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	Depression of selling prices for CPO and CPKO if arbitrage between markets for competing vegetable oils proves insufficient to	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

	compensate for the market distortion created	
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 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
Stone and coal operations		
Operational factors		
Failure by external contractors to achieve agreed production volumes	Loss of prospective revenue	The group endeavours to use experienced contractors, to supervise them closely and to take care to ensure that they have equipment of capacity appropriate for the planned production volumes once operations have commenced
External factors, in particular weather, delaying or preventing delivery of extracted stone and coal	Delays to receipt or loss of revenue	Deliveries are not normally time critical and adverse external factors would not normally have a continuing impact for more than a limited period
Geological assessments, which are extrapolations based on statistical sampling, proving inaccurate	Unforeseen extraction complications causing cost overruns and production delays	The group seeks to ensure the accuracy of geological assessments of any extraction programme and taking 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 cooperation arrangement negotiated for the mining of the group's main coal concession provides a floor price for the coal mined

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 fundamental profitability 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		
Failure to renegotiate the existing arrangements relating to the stone interests	Limitation of the group's return from these interests to the loans advanced	Current regulations in Indonesia limit foreign investment in mining concessions
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	Save as noted above regarding interests in stone, the directors are not aware of any specific 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
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 also considered the implications of the notice given to terminate UK membership of the European Union in the context of the group and its operations. Any ensuing weakness of sterling will positively impact the group as its operations are essentially dollar denominated and costs incurred and liabilities recognised in sterling will be reduced in dollar terms. Any reduction in UK interest rates may negatively impact the level of the technical provisions of the REA Pension Scheme by, given the Scheme's estimated funding position and having regard to the performance of the assets, 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' in the annual report which also provides (under the heading 'Finance') a description of the group's cash flow, liquidity and financing adequacy and treasury policies. In addition, note 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 $3.1 million of bank term indebtedness falls due for repayment during 2017, and a further $25.5 million of revolving working capital lines fall due for renewal during the same period. In addition, $20.2 million of dollar notes fall due for repayment in June 2017 and £8.3 million of sterling notes in December 2017. In 2018 and 2019 bank term loans of $6.0 million and $12.9 million respectively fall due for repayment and $31.3 million of a committed revolving bank line falls due for renewal. A further £31.9 million ($38.9 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.

In April 2017, PT Dharma Satya Nusantara Tbk, the non-controlling shareholder in PT REA Kaltim Plantations ('REA Kaltim'), provided further loans of $16.6 million to REA Kaltim's plantation subsidiaries. The group continues in discussions to refinance, with longer term debt, indebtedness falling due in 2017 and 2018. Furthermore, the directors have no reason to believe that the revolving working capital facilities falling due in 2017 and 2019 will not be rolled over when these facilities fall due for renewal.

Limited further capital expenditure will be required on the group's mills until construction is commenced on the fourth mill. This is scheduled for 2018 but could be postponed if cash constraints so require.

In 2020 consideration will be given to proposals to the holders of the sterling notes to refinance these with securities of longer duration. The group holds in treasury $9.9 million of dollar notes 2022 which it acquired in the placing in December 2016; the group plans to sell these over time as market conditions permit. Should funding be required pending completion of any of the debt financing initiatives, the group will seek to place for cash a limited number of ordinary and/or preference shares, authority for which will be sought as and when appropriate.

The directors fully expect that the foregoing measures will refinance, or permit the group to repay, the group indebtedness falling due for repayment during the period of assessment. As the benefits of recent improvements in operational efficiencies start to flow through, with CPO prices likely to remain at current better levels, the group's plantation operations can be expected to generate increasing cash flows going forward. Operations are expected to restart shortly at one of the group's coal concessions and to commence at a new stone deposit. Together these are expected to result in increasing cash flow.

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

The business risks are set out in the Strategic report with an indication of those risks regarded by the directors to be potentially significant together with mitigating and other relevant considerations for the management of risks. The financing policies are described in the Strategic report and the 2016 developments relating to capital structure are contained in the 'Finance' section of the strategic report under 'Capital structure'. The directors have set out their assessment of liquidity and financing adequacy in the strategic report including the actions either in progress or contemplated in order to ensure adequate liquidity for the next twelve months.

Accordingly, 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 2016

	2016	2015*
	$'000	$'000
Revenue	79,265	90,515
Net gain/(loss) arising from changes in fair value of agricultural produce inventory	632	(1,147)
Cost of sales		
Depreciation and amortisation	(20,959)	(21,676)
Other costs	(50,868)	(61,448)
	______	______
Gross profit	8,070	6,244
Other operating income	1	2
Distribution costs	(1,110)	(1,097)
Administrative expenses	(11,987)	(11,702)
	______	______
Operating loss	(5,026)	(6,553)
Investment revenues	1,742	259
Finance costs	(6,005)	(5,951)
	______	______
Loss before tax	(9,289)	(12,245)
Tax	(2,019)	(686)
	______	______
Loss for the year	(11,308)	(12,931)
	______	______
Attributable to:		
Ordinary shareholders	(17,800)	(20,912)
Preference shareholders	7,402	8,461
Non-controlling interests	(910)	(480)
	______	______
	(11,308)	(12,931)
	______	______
Basic and diluted loss per 25p ordinary share	(48.2 cents)	(59.0 cents)
All operations for both years are continuing		

* restated - see Accounting policies (group) in the annual report.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2016

	2016	2015*	2014*
	$'000	$'000	$'000
Non-current assets			
Goodwill	12,578	12,578	12,578
Intangible assets	4,176	-	-
Property, plant and equipment	471,922	468,850	459,096
Prepaid operating lease rentals	34,230	34,295	33,879
Stone and coal interests	37,208	35,338	31,334
Deferred tax assets	12,781	15,669	8,909
Non-current receivables	3,136	1,395	2,749
	_______	_______	_______
Total non-current assets	576,031	568,125	548,545
	_______	_______	_______
Current assets			
Inventories	15,767	11,190	16,180
Biological assets	2,037	2,105	2,251
Investments	9,880	2,158	-
Trade and other receivables	42,554	29,103	25,487
Cash and cash equivalents	24,593	15,758	16,224
	_______	_______	_______
Total current assets	94,831	60,314	60,142
	_______	_______	_______
Total assets	670,862	628,439	608,687
	_______	_______	_______
Current liabilities			
Trade and other payables	(43,426)	(27,025)	(17,818)
Current tax liabilities	(317)	(3,406)	(2,581)
Bank loans	(28,628)	(50,906)	(40,326)
Sterling notes	(10,103)	-	(14,693)
US dollar notes	(20,048)	-	-
Hedging instruments	-	-	(9,590)
Other loans and payables	(519)	(93)	(1,238)
	_______	_______	_______
Total current liabilities	(103,041)	(81,430)	(86,246)
	_______	_______	_______
Non-current liabilities			
Bank loans	(97,771)	(72,034)	(60,638)
Sterling notes	(37,037)	(55,853)	(37,713)

US dollar notes		(23,646)	(33,637)	(33,472)
Deferred tax liabilities		(80,830)	(86,105)	(77,191)
Other loans and payables		(18,987)	(5,558)	(6,802)
		_______	_______	_______
Total non-current liabilities		(258,271)	(253,187)	(215,816)
		_______	_______	_______
Total liabilities		(361,312)	(334,617)	(302,062)
		_______	_______	_______
Net assets		309,550	293,822	306,625
		_______	_______	_______
Equity				
Share capital		121,426	120,288	112,974
Share premium account		42,585	30,683	23,366
Translation reserve		(39,127)	(46,282)	(44,324)
Retained earnings		161,839	187,481	212,928
		_______	_______	_______
		286,723	292,170	304,944
Non-controlling interests		22,827	1,652	1,681
		_______	_______	_______
Total equity		309,550	293,822	306,625
		_______	_______	_______

* restated - see Accounting policies (group) in the annual report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

		2016		2015*
		$'000		$'000
Loss for the year		(11,308)		(12,931)
		_______		_______
Other comprehensive income				
Items that may be reclassified to profit or loss:				
Actuarial losses		(569)		(489)
Deferred tax on actuarial losses		143		122
		_______		_______
		(426)		(367)
Items that will not be reclassified to profit or loss: instrument				

Exchange differences on translation of foreign operations	5,222	3,575
Exchange differences on deferred tax	2,617	(5,082)
	_______	_______
	7,413	(1,874)
	_______	_______
Total comprehensive income for the year	(3,895)	(14,805)
	_______	_______
Attributable to:		
Ordinary shareholders	(10,387)	(22,786)
Preference shareholders	7,402	8,461
Non-controlling interests	(910)	(480)
	_______	_______
	(3,895)	(14,805)
	_______	_______

* restated - see Accounting policies (group) in the annual report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	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 2015*	112,974	23,366	(44,324)	212,928	304,944	1,681	306,625
Total comprehensive income	-	-	(1,958)	(12,818)	(14,776)	(29)	(14,805)
Issue of new preference shares (cash)	6,639	1,199	-	-	7,838	-	7,838
Issue of new ordinary shares (cash)	675	6,118	-	-	6,793	-	6,793
Dividends to preference shareholders	-	-	-	(8,461)	(8,461)	-	(8,461)
Dividends to ordinary shareholders	-	-	-	(4,168)	(4,168)	-	(4,168)
	_____	_____	_____	_____	_____	_____	_____
At 31 December 2015	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
	_____	_____	_____	_____	_____	_____	_____

* restated - see Accounting policies (group) in the annual report.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

		2016		2015
		$'000		$'000
Net cash from operating activities		2,598		20,063
		_______		_______
Investing activities				
Interest received		1,742		259
Proceeds from disposal of property, plant and equipment		61		2,512
Purchases of property, plant and equipment		(31,137)		(32,348)
Expenditure on prepaid operating lease rentals		(367)		(1,250)
Investment in stone and coal interests		(1,860)		(4,004)
		_______		_______
Net cash used in investing activities		(31,561)		(34,831)
		_______		_______
Financing activities				
Preference dividends paid		(7,402)		(8,461)
Ordinary dividends paid		-		(4,168)
Repayment of borrowings		(11,004)		(9,620)
Proceeds of issue of ordinary shares, less costs of issue		13,040		6,793
Proceeds of issue of US dollar notes, less costs of issue		(44)		
Redemption of US dollar notes		(45)		-
Proceeds of issue/sale of sterling notes, less costs of issue		1,922		4,086
Proceeds of issue of sterling notes, by exchange		-		39,921
Proceeds of issue of preference shares, less costs of issue		-		7,838

Redemption of sterling notes, by exchange	-	(39,921)
Payment on termination of hedging contract	-	(10,184)
Purchase of sterling notes	-	(2,158)
Proceeds of sale of shareholding in subsidiary	13,985	-
New borrowings from related party	12,446	-
New bank borrowings drawn	14,939	30,326
Net cash from financing activities	37,837	14,452
Cash and cash equivalents		
Net increase/(decrease) in cash and cash equivalents	8,874	(316)
Cash and cash equivalents at beginning of year	15,758	16,224
Effect of exchange rate changes	(39)	(150)
Cash and cash equivalents at end of year	24,593	15,758

* Net of capitalised depreciation and amortisation

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 2016 (the '2016 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 2016 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 2016 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 2016 financial statements and the accompanying financial information were approved by the board of directors on 27 April 2017.

2. Revenue

	2016	2015
	$'000	$'000
Sales of goods	77,642	87,824

Revenue from services	1,623	2,691
	________	________
	79,265	90,515
Other operating income	1	2
Investment revenue	1,742	259
	________	________
Total revenue	81,008	90,776
	________	________

* restated - see Accounting policies (group) in the annual report.

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 2016 and 2015, the latter did not meet the quantitative thresholds set out in IFRS 8 'Operating segments' and, accordingly, no analyses are provided by business segment.

	2016	2015*
	$'m	$'m
Sales by geographical location:		
Indonesia	79.3	90.5
Rest of World	-	-
	________	________
	79.3	90.5
	________	________

Carrying amount of net assets by geographical area of asset location:		
UK, Continental Europe and Singapore	56.0	58.0
Indonesia	253.6	237.9
	________	________
	309.6	295.9
	________	________

* restated - see Accounting policies (group) in the annual report.

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

	2016	2015
	$'000	$'000
Net foreign exchange losses	1,290	818
Net credit for additional pension contributions	-	(2,267)
Loss on disposal of property, plant and equipment	12	49
Indonesian operations	9,621	11,556
Head office	5,377	6,160
	_______	_______
	16,300	16,316
Amount included as additions to property, plant and equipment	(4,313)	(4,614)
	_______	_______
	11,987	11,702
	_______	_______

6. Finance costs

	2016	2015
	$'000	$'000
Interest on bank loans and overdrafts	12,617	8,130
Interest on US dollar notes	2,899	2,716
Interest on sterling notes	5,184	5,042
Interest on other loans	273	-
Change in value of sterling notes arising from exchange fluctuations	(10,470)	(2,694)
Movements relating to derivative financial instruments	-	1,685
Change in value of loans arising from exchange fluctuations	1,378	(4,946)
Other finance charges	251	887
	_______	_______
	12,132	10,820
Amount included as additions to property, plant and equipment	(6,127)	(4,869)
	_______	_______
	6,005	5,951
	_______	_______

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 22.0 per cent (2015: 27.3 per cent); there is no directly related tax relief.

7. Tax

	2016	2015*
	$'000	$'000
Current tax:		
UK corporation tax	1	-
Overseas withholding tax	1,604	1,467
Foreign tax	38	50
Foreign tax - prior year	3	1,778
	_______	_______
Total current tax	1,646	3,295
	_______	_______

Deferred tax:		
Current year	373	(2,987)
Prior year	-	378
	_______	_______
Total deferred tax	373	(2,609)
	_______	_______

Total tax	2,019	686
	_______	_______

* restated - see Accounting policies (group) in the annual report.

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 (2015: 25 per cent) and for the United Kingdom, the taxation provision reflects a corporation tax rate of 20 per cent (2015: 20.25 per cent) and a deferred tax rate of 19 per cent (2015: 20 per cent).

8. Loss per share

	2016	2015*
	$'000	$'000
Basic and diluted loss for the purpose of calculating loss per share**	(17,800)	(20,912)
	_______	_______

	'000	'000
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	36,950	35,455
	_______	_______

* restated - see Accounting policies (group) in the annual report.
** being net loss attributable to ordinary shareholders

9. Dividends

	2016	2015
	$'000	$'000
Amounts recognised as distributions to equity holders:		
Preference dividends of 9p per share (2015: 9p per share)	7,402	8,461
Ordinary dividends (2015: 7.75p per share)	-	4,168
	________	________
	7,402	12,629
	________	________

10. Property, plant and equipment

	Plantings	Buildings	Plant	Construction	Total
		and	equipment	in progress	
		structures	and vehicles		
			vehicles		
	$'000	$'000	$'000	$'000	$'000
Cost:					
At 1 January 2015 (restated)	178,420	213,898	104,431	12,510	509,259
Opening balance adjustment	(363)	363	-	-	-
Additions	9,411	15,629	1,897	5,412	32,349
Exchange differences	-	-	(36)	-	(36)
Disposals	-	(1)	(2,530)	-	(2,531)
Transfers from plantings	(8,202)	8,202	-	-	-
Transfers to/(from) construction in progress	-	1,708	6,281	(7,989)	-
Transfers to current receivables	(345)	-	-	(2)	(347)
	___ ___	___ ___	___ ___	___ ___	_ ____
At 31 December 2015 (restated)	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
	___	___	___	___	___
Accumulated depreciation:					
At 1 January 2015 (restated)	-	16,291	33,872	-	50,163
Opening balance adjustment	-	1,682	-	-	1,682
Charge for year	8,689	4,061	6,898	-	19,648
Exchange differences	-	-	(29)	-	(29)
Disposals	-	(1)	(1,619)	-	(1,620)
	___	___	___	___	___
At 31 December 2015 (restated)	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
	___	___	___	___	___
Carrying amount:					
At 31 December 2016	168,085	231,775	66,467	5,595	471,922
	___	___	___	___	___
At 31 December 2015	170,232	217,766	70,921	9,931	468,850
	___	___	___	___	___
At 1 January 2015	178,420	197,607	70,559	12,510	459,096
	___	___	___	___	___

The depreciation charge for the year includes $313,000 (2015: $233,000) which has been capitalised as part of additions to plantings.

In accordance with the amendments to IAS 41: Agriculture and IAS 16: Property, plant and equipment, the assets previously disclosed as 'Biological assets' have been transferred as follows. Growing produce, which is still classified as a biological asset, is now disclosed in current assets. As regards the balance, the group has adopted, as permitted by the amended provisions of IAS 41, the fair value as at 31 December 2014 as deemed cost. The assets concerned comprise oil palm trees, nurseries and the field infrastructural improvements relating to the planting of trees. This balance of deemed cost has been allocated by separating the infrastructural improvements at estimated depreciated current cost and treating the remaining balance as attributable to the oil palm trees (plantings).

At the balance sheet date, the book value of finance leases included in property, plant and equipment was $nil (2015: $nil).

At the balance sheet date, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $1.4 million (2015: $1.2 million).

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

11. Issuance of equity securities

Changes in share capital:
* On 20 December 2016 3,670,000 ordinary shares were issued, credited as fully paid, by way of placing at £2.95 per share (total consideration £10.8 million - $13.4 million) to Mirabaud Pereire Nominees Limited and Emba Holdings Limited (a related party). The middle market price at close of business on 14 December 2016 (being the date at which the terms of issue were fixed) was £2.94

12. Movement in net borrowings

	2016	2015
	$'000	$'000
Change in net borrowings resulting from cash flows:		
Decrease in cash and cash equivalents	8,874	(316)
Net increase in borrowings	(3,935)	(20,706)
Increase in related party borrowings	(12,469)	-
	(7,530)	(21,022)
Issue of sterling notes	-	(4,086)
Issue of US dollar notes	(345)	-
Amortisation of sterling note expenses	(318)	(109)
Amortisation of US dollar notes expenses	(266)	(165)
	(8,459)	(25,382)
Currency translation differences	2,036	(2,686)
Net borrowings at beginning of year	(198,686)	(170,618)
Net borrowings at end of year	(205,109)	(198,686)

13. Related parties

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'.

	2016	2015
	$'000	$'000
Short term benefits	1,405	2,111
Post employment benefits	-	-
Other long term benefits	-	-
Termination benefits	-	-
Share based payments	-	-
	________	________
	1,405	2,111
	________	________

As described in note 11 above, ordinary shares were placed with Emba Holdings Limited on 20 December 2016.

14. Events after the reporting period

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

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