

Half-year Report

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RNS Number : 0052L
R.E.A.Hldgs PLC
28 September 2016

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

HALF YEARLY REPORT 2016

HIGHLIGHTS

Financial *

- Results incorporate accounting policy change due to amendment of IAS41 lowering reportable profits; previously reported annual profit before taxation for 2015 reduced by \$20.9 million on application of revised standards
- Revenues of \$39.3 million (2015: \$46.2 million) reflecting lower crop volumes and lower prices for CPO
- Cost of sales reduced to \$32.5 million (2015: \$40.2 million)
- Gross profit increased to \$6.1 million (2015: \$4.7 million)
- Pre-tax loss of \$5.2 million (2015: \$5.5 million) after depreciation of \$9.0 million (2015: \$9.4 million)

Agricultural operations *

- Crop of FFB of 225,171 tonnes (2015: 277,216 tonnes), mirroring lower crops throughout East Kalimantan following the severe dry periods
- Third party FFB purchases similarly reduced to 48,249 tonnes (2015: 68,120 tonnes)
- Extraction rates stable at around 24 per cent, benefiting from recent refurbishment of the mills and improved maintenance programmes and fruit quality
- New land development progressing well in both PBJ and CDM with targeted 6,000 hectares of new plantings expected to be achieved by the year end

Sustainability

- RSPO recertification audits completed satisfactorily - ISCC status maintained

- Third biennial sustainability report in preparation for publication in 2017
- Renewable energy sales increasing with household take-up continuing to grow

Coal operations

- Improving coal prices offering the prospect of resumed mining of the coal concessions

Significant financing developments and prospects

- 15 per cent investment by DSN in REA Kaltim increases Indonesian participation in operations, supporting the extension planting programme and affording opportunities for productive cooperation on agronomic practices, sourcing of supplies and marketing
- Financial position strengthened by repackaging of Indonesian bank facilities
- Required further financing discussions well advanced
- Recovery of CPO prices and improving crop levels; subject thereto, resumption of ordinary dividends expected in respect of 2017
- Expansion planting progressing rapidly towards the target of 60,000 hectares

** 2015 results restated for amendment of IAS41, as discussed under the 'Results' section of the Interim management report.*

SUMMARY OF RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

	6 months to 30 June 2016 \$'000	6 months to 30 June 2015* \$'000
Revenue	39,337	46,205
Earnings before interest, tax, depreciation and amortisation	7,477	9,138
Loss before tax	(5,190)	(5,463)
Loss for the period	(4,437)	(4,554)
Loss attributable to ordinary shareholders	(7,911)	(8,503)
Cash generated by operations	1,165	9,448
Loss per share (US cents)	(21.5)	(24.2)

* Restated - see Note 1 "Basis of accounting"

INTERIM MANAGEMENT REPORT

Results

The accompanying financial statements incorporate a significant change in accounting policies with the comparative financial statements for 2015 restated to reflect this change. The cause of the change is an amendment in 2014 of IAS 41 Agriculture which is effective for accounting periods commencing on and after 1 January 2016. The amendment means that biological assets are no longer to be carried at fair value but are instead accounted for as property, plant and equipment

thereby substantially reverting to the position that applied prior to the introduction of IAS 41.

Whilst this change has no effect on the group's cash flows, it is likely to mean that the group will in future report profits that are lower than they would have been applying the previous accounting provisions of IAS 41. The reason for this is that, going forward, the group's income statement will no longer reflect any movement in the fair value of the group's biological assets but will instead include a charge for the depreciation of those assets. This charge will be based on the fair value of the biological assets at 1 January 2015 which the group has, as permitted by the revisions to IAS 41, adopted as the deemed cost of the assets in question.

While the group continues to expand, it could reasonably expect that the periodic movements in the fair value of its biological assets under the previous provisions of IAS 41 would be positive whereas the depreciation charges that replace these movements will be negative. Specifically, in 2015, the net gain from changes in the value of biological assets amounted to \$13.1 million whereas, on restatement, this gain has been replaced by a depreciation charge of \$7.8 million, resulting in a net reduction in 2015 reported profit before tax of \$20.9 million.

Applying the changed accounting policies, group revenue, operating profit and profit before tax for the six months to 30 June 2016, with restated comparative figures for 2015, were as follows:

	6 months to 30 June 2016	6 months to 30 June 2015 (restated)	Year to 31 December 2015 (restated)
	\$'m	\$'m	\$'m
Revenue	39.3	46.2	90.5
Operating loss	(1.5)	(0.2)	(3.7)
Loss before tax	(5.2)	(5.5)	(9.4)

The results reflect a significant reduction in revenue. As discussed under "Agricultural operations" below, the principal reason for this was a reduction in the crop of fresh fruit bunches ("FFB"). Realisation of lower average prices for the group's produce than in the comparative period was also a contributory factor. However these negatives were largely mitigated by an improvement in extraction rates and by cost efficiencies.

Specific components of the results

Cost of sales for the six months to 30 June 2016, with restated comparative figures for 2015, was made up as follows:

	6 months to 30 June 2016	6 months to 30 June 2015 (restated)	Year to 31 December 2015 (restated)
	\$'m	\$'m	\$'m
Depreciation of mature estates	4.1	3.9	7.8
Depreciation and amortisation of other assets	4.9	5.5	11.1
Purchase of external FFB	3.8	7.6	13.3
Estate operating costs	19.7	23.2	48.0
	32.5	40.2	80.2

As noted above, the change in IAS 41 has resulted in the elimination of the previous movement in the fair value of biological assets and its replacement by a depreciation charge which has been captioned as depreciation of mature estates.

The reduction in the cost of purchasing external FFB reflected both the slightly lower prices prevailing during the first half of 2016 and a reduction in tonnage

available from local smallholders who experienced a fall off in crops similar to that encountered by most oil palm growers in the East Kalimantan region.

Whilst reduced volumes were reflected in a lower variable component of estate operating costs, most estate operating costs are fixed and the reduction achieved was principally attributable to improved operating efficiencies.

Administrative expenses amounted to \$7.2 million by comparison with \$4.4 million for the corresponding period in 2015. The latter figure was flattered by a one off write back of a \$2.2 million provision in respect of future UK pension contributions. The balance of the increase between the two periods is principally accounted for by timing differences between the first and second half of each year in relation to certain administrative expenditure and by a lower capitalisation of administrative expenses as additions to biological assets.

The substantial increase in investment revenues to \$1.24 million (2015: \$0.03 million) arises from the inclusion of interest of \$1.12 million received in respect of certain tax amounts previously refunded as a result of Jakarta Tax Court decisions that remain subject to Supreme Court review. Such interest was previously only paid on completion of such review but a new regulation now permits taxpayers to apply for earlier payment. Discussions with the Indonesian tax authorities are continuing with regard to interest on other tax amounts previously refunded for similar reasons.

Finance costs were lower at \$4.9 million (2015: \$5.3 million). The total interest charge was higher as a result of an increase in rupiah denominated bank loans, although this has been more than offset by favourable exchange rate movements and increased capitalisation of interest charges incurred.

The amendment to IAS 41 referred to under "Results" above has introduced a new requirement for plantation companies to account for "growing produce", but only if this can be reliably measured. For growers of oil palm, growing produce means developing but not yet harvestable oil palm fresh fruit bunches ("developing FFB"). Such growing produce, if measured, is to be treated as a separate asset with changes in the value of the asset from year to year being taken to the income statement.

Listed plantation companies who have applied the amendments to IAS 41 with effect from 1 January 2015 have adopted divergent practices as regards the valuation of developing FFB. Some have concluded that developing FFB cannot be reliably measured and have therefore not accounted for it while others have applied varying formulaic methodologies to calculate theoretical values for the developing FFB. A joint submission on behalf of four agricultural groups (including REA) has been made to the International Financial Reporting Standards Interpretation Committee (IFRIC) requesting clarification. In view of the divergent practices and the fact that a reasonable formulaic methodology would not result in material quantitative adjustments to the financial statements, the directors have decided, pending a response from IFRIC, not to recognise any amounts for developing FFB. Meanwhile the group continues to account for FFB at the point of harvest.

Ordinary dividend

In view of the current financial performance and the need to fund the continuing development programme that is important to the group's future, the directors do not expect to recommend the payment of an ordinary dividend in respect of 2016. Provided that crops continue to recover as expected and prices for the group's produce are maintained around current levels, the directors expect that payment of ordinary dividends can be resumed in respect of 2017.

Agricultural operations

The key agricultural statistics were as follows:

	6 months to 30 June 2016	6 months to 30 June 2015*
FFB crops (tonnes)		
Group harvested	225,171	277,216
Third party harvested	48,249	68,120
Total	273,420	345,336
Production (tonnes)		
Total FFB processed	217,317	341,809
CPO	64,618	73,536
Palm kernels	12,967	15,629
CPKO	4,863	5,318
Extraction rates (percentage)		
CPO	23.8	21.5
Palm kernel	4.8	4.6
CPKO	31.9	33.5
Rainfall (mm)		
Average across the estates	1,574	1,505

* The 2015 comparative figures have been restated as the new information system that was implemented in 2015 allows for data collection in real time so that production can be reported on an actual month basis.

As previously reported, the severe dry periods experienced in both 2014 and 2015 have had a significant negative impact on the group's current year crop production alongside that of other oil palm plantations in the same region. The impact has continued into the second half of 2016 but September has seen some recovery in daily cropping rates. Current FFB formation indicates that the recovery should continue and that crops should return to more normal levels in 2017.

Following the group's decision to increase fertiliser dosages, a special interim application of compound fertiliser is being applied between the usual first and second semester applications. This higher annual fertiliser dosage will continue going forward. Increased fertiliser applications have a delayed effect but the group is confident that, over a period, increases in the nutrient levels available will result in improved crop yields.

Recent initiatives to improve working practices in the field, including a change to the system of financial incentives for harvesters, as well as decentralisation of the road and transport department so as to place responsibility for management of the truck fleet, road building and maintenance with the estate managers, should further serve to enhance operating efficiencies.

CPO extraction rates at around 24 per cent for the first six months of 2016 reflect the recent refurbishment of the mills and improved mill maintenance programmes which have had a significant impact on operating efficiency. Refurbishment of the second boiler in one of the group's two longer established mills at Cakra ("COM") is on schedule for completion by the end of 2016. Work continues on improving the quality of third party FFB from smallholders and other estates in the vicinity of the group's estates.

Installation and commissioning of the second boiler in the group's newest mill at Satria ("SOM"), for which the order was placed at the beginning of 2015, is targeted for completion by the end of 2016. Installation of the other additional equipment needed to expand the capacity of SOM, initially to 60 tonnes per hour, is now scheduled for 2017. For the time being, existing capacity across the group's three oil mills remains sufficient to handle the group's production levels, including anticipated peak production when crops recover.

The recovery in the CPO price in the last quarter of 2015 has continued through 2016 with the CIF Rotterdam price for the most part trading steadily upwards from \$560 per tonne on 1 January 2016 to reach \$700 per tonne on 30 June 2016. The price currently stands at around \$777 per tonne. Production deficits in Indonesia and Malaysia appear to be supporting this firmer tone, although higher soybean crops in the US and Brazil as well as lower demand for CPO from China may limit further upward movement.

The average selling price for the group's CPO for the six-month period to 30 June 2016, on an FOB basis at the port of Samarinda and after payment of export imposts, was \$516 per tonne (2015: \$542 per tonne). The average selling price for the group's CPKO on the same basis was \$985 per tonne (2015: \$862 per tonne). In addition, the group was able to realise a premium of \$6 per tonne on 44,000 tonnes of CPO sold as ISCC certified and a premium of \$30 per tonne on 1,500 tonnes of CPKO sold under the mass balance system during the half year to 30 June 2016.

Clearing and planting of the group's undeveloped land areas is progressing at a good pace and the group remains on target to achieve 6,000 hectares of extension planting by the end of 2016. Cumulative development to 30 June 2016 and to 31 August 2016 is detailed below:

	Six months to 30 June 2016 <i>Hectares</i>	Eight months to 31 August 2016 <i>Hectares</i>
Cleared, not yet planted at 1 January 2016	2,691	2,691
Cleared during the period	2,342	3,253
Cleared, not yet planted at end of period	(1,552)	(1,402)
Planted during the period	3,481	4,542

The agreement finalised late in 2015 to swap land held by PT Sasana Yudha Bhakti ("SYB") for land held by PT Prasetya Utama ("PU") remains subject to satisfaction by the parties of certain conditions. The group is working with PU to conclude the arrangements so that development of a nursery and initial land clearing in PU can commence by the end of 2016.

Sales of renewable energy to PLN, the Indonesian national electricity company, for distribution to local villages amounted to some \$278,000 in the six month period to the end of June 2016, with household take-up continuing to grow. PLN is working to connect the remaining 3 out of the total of 24 villages and sub-villages that are planned to form the local grid.

The group is making good progress with its plans for the relocation of its Indonesian head office to Balikpapan, in East Kalimantan, and the existing head office in Jakarta is expected to close at the end of 2016. The finance and administration office in Samarinda will then also relocate to Balikpapan. Combining all administrative activities within a single location, closer to the group's operations, should facilitate improved internal communication and other efficiencies.

Stone and coal operations

2016 has seen some recovery in coal prices with the RB Coal Index moving from just under 50 at the beginning of the year to nearly 60 at the end of June 2016 and since then to its current level of 66. If this recovery is sustained, operations at the group's IPA concession near Kota Bangun can be resumed under the arrangements already in place between the group and a third party. Under these arrangements, the concession will be mined by the third party on a basis which will provide for an income stream to the group based upon prevailing coal prices but with an agreed floor. Meanwhile, the group is engaged in discussions with another

third party in relation to the group's Liburdinding concession. The third party in question is currently undertaking exploratory drilling on the concession and it is expected that once this drilling has been completed an arrangement similar to that at IPA can be agreed.

Although the group has for some time been engaged in discussions with a third party in relation to the development of the group's andesite stone concession, discussions were temporarily suspended while the group was also talking to potential strategic investors in its plantations by the need to avoid an arrangement that could conflict with any requirements that such investors might have had in relation to the stone concession. With the DSN transaction now completed, the discussions are receiving renewed focus.

The group is also exploring a possible offtake agreement under which it would purchase stone from a limestone quarry located near PBJ and would arrange the crushing of the stone acquired on PBJ. A proportion of the crushed stone would then be purchased by PBJ for road hardening and the balance sold to third parties.

Sustainability

Each entity certified by the Roundtable on Sustainable Palm Oil ("RSPO") is obliged to undergo recertification every five years and failure to meet the standards required to secure recertification could cause serious reputational damage. Following audits in May 2016, the group's two longer established oil mills, Perdana oil mill ("POM") and COM, along with their supply chains, have been recertified.

Whilst the group's third and newest mill, SOM, has not yet achieved RSPO certification, it was awarded International Sustainability and Carbon Certification ("ISCC") in 2015 (such certification having previously been obtained by POM and COM). ISCC status allows the group to sell the CPO produced from its ISCC certified mills for the production of biodiesel that meets the requirements of the European Union Renewable Energy Directive (EU RED). Both the SOM and POM mills have retained their ISCC status in 2016 while COM is currently in the final phase of its 2016 ISCC audit.

Indonesian Sustainable Palm Oil ("ISPO") audits have also been conducted during 2016 for all three mills and their supply chains. The evaluation and assessment phase following these audits should be completed during the coming months.

The delay in achieving RSPO certification for SOM, originally targeted for the end of 2015, is due to an outstanding high conservation value ("HCV") compensation obligation. This obligation arose from the clearance of 20 hectares of HCV land during the development of SYB, which took place before the group became a member of the RSPO. A compensation scheme, established by the RSPO in 2014, allows companies to offset such obligations by making a donation to an appropriate organisation engaged in the promotion of biodiversity in that company's region. In July 2016, the group submitted a compensation proposal to the RSPO which, if approved, will result in a donation of some \$50,000 being made to the Orangutan Foundation. The Orangutan Foundation has developed a diverse range of programmes to conserve orangutans and their habitat in both Sumatra and Borneo and this donation would assist the foundation in several of its programmes.

CDM also has a prospective HCV compensation obligation arising from a failure to obtain external audit verification of an HCV assessment made by the group's internal conservation team in the early years of the group's membership of RSPO. The fruit grown at this estate is currently transported to COM. The company also has the option to sell the fruit to third party mills, in which case it does not constitute part of the supply chain for the group's mills. In order to meet the group's target of full RSPO certification across all estates, a proposal has been submitted to the RSPO to discharge the compensation liability by a commitment by the group to provide long term support to the Ironwood Foundation (or "Yayasan Ulin"). The latter was established by the group as a charitable foundation in 2009

to conserve and protect the Mesangat wetlands, an important ecosystem within CDM's allocated land area that is home to several rare, threatened or endangered species. Yayasan Ulin, which has previously hosted a delegation of scientists from the IUCN Crocodile Specialist Group and the Indonesian Institute of Sciences, has hitherto operated with very limited resources. If approved, a guarantee of long term support from the group will place the Yayasan Ulin on a more secure footing and facilitate pursuit of its long term goals, including the promotion of community-based management for the sustainable use of resources and the establishment of a legally recognised land use title for the CDM wetlands.

Central to the group's commitment to responsible development is adherence to the RSPO's New Planting Procedure ("NPP") prior to developing new oil palm areas. The NPP consists of a set of assessments and verification activities to be conducted by growers and certification bodies and submitted for public consultation, including: soil surveys to avoid planting on peat soils; social, environmental and HCV assessments; gaining the free, prior and informed consent of local communities; and, since 2015, carbon stock assessments. Two areas currently held by PT Persada Bangun Jaya ("PBJ2") are undergoing the final stages of verification by their respective certification bodies before submitting their NPP's to the RSPO. A third area, held by PU, is in the process of completing social and HCV assessments that are a necessary prelude to the NPP verification. The group expects the NPP's for all these areas to be confirmed by RSPO early in 2017.

The group's third biennial sustainability report, which is due to be published in mid 2017, will provide stakeholders with further comprehensive information regarding the group's progress towards its sustainability objectives as well as social and environmental issues pertaining to the estates.

DSN transaction

In the group's annual report for 2015 the directors reported that discussions were at an advanced stage with a short list of potential strategic investors. These discussions culminated in signature on 16 May 2016 of an initial conditional agreement between the group and PT Dharma Satya Nusantara Tbk ("DSN") and were followed, on 16 August 2016, by detailed implementing agreements. The latter remain subject to formal regulatory approvals which are expected shortly.

When the detailed implementing agreements are completed, two wholly owned subsidiaries of DSN, will acquire, by a combination of subscription of new shares and acquisition of existing shares, a 15 per cent interest in the group's principal operating subsidiary in Indonesia, PT REA Kaltim Plantations ("REA Kaltim"). The overall consideration payable for the interest acquired will amount to the equivalent of \$15 million in cash with up to a further \$850,000 payable depending upon the recovery by REA Kaltim of certain overpaid tax amounts prior to 1 January 2018.

In addition, on completion of the detailed implementing agreements, DSN and its subsidiaries (the "DSN group") will be providing dollar and sterling loans to REA Kaltim of, respectively, \$10.0 million and £3.9 million on terms mirroring the terms of existing dollar and sterling loans from the company to REA Kaltim. Discussions are continuing between the group and the DSN group regarding further proposed loans by the DSN group to subsidiaries of REA Kaltim.

Immediately following the initial conditional agreement with DSN, the DSN group advanced \$10 million to REA Kaltim as a temporary advance and this temporary advance has been subsequently augmented by further temporary advances of approximately 90 per cent of the amounts payable for the purchase and subscription of the REA Kaltim shares to be acquired by the DSN group. Upon completion of the detailed implementing agreements, such temporary amounts will be offset against the amounts then to be paid by the DSN group in acquisition of shares of, and in making loans to, REA Kaltim.

DSN is an Indonesian natural resources company listed on the Indonesia Stock Exchange in Jakarta and engaged in the businesses of oil palm plantations and wood products, with estates based in East, Central and West Kalimantan. The investment by the DSN group will help finance the group's extension planting programme and accords with the directors' long-held intention of increasing Indonesian participation in the ownership of the group's agricultural operations. The directors believe that the group will benefit from exchanges of information with DSN on agronomic practices and that the association with DSN will provide scope for more efficient sourcing of supplies and marketing of produce.

The group has acknowledged that DSN may increase its participation in REA Kaltim to an eventual level of 49 per cent by gradual stages over a period of five years, but on the basis that each increase will be subject to agreement of the price and other terms at the time of such increase and to the receipt of all necessary consents and approvals, including the approval of REA shareholders to the extent required.

Financing

At 30 June 2016, the group continued to be financed by a combination of debt and equity (comprising ordinary and preference share capital). There was a small decrease in total equity including non-controlling interests to \$292.3 million from \$296.0 million at 31 December 2015 (as restated).

Capital expenditure of \$8.5 million has been temporarily financed out of the pre-completion advance of \$10 million from the DSN group (as detailed under "DSN transaction" above); once the purchase and subscription by the DSN group for shares in REA Kaltim is completed, these equity funds will replace the temporary financing.

Group indebtedness and related engagements at 30 June 2016 totalled \$216.5 million against \$212.4 million at 31 December 2015. Against this indebtedness, the group held cash and cash equivalents of \$4.5 million (31 December 2015: \$15.8 million). The composition of the resultant net indebtedness of \$212.0 million was as follows:

	\$'m
7.5 per cent dollar notes 2017 (\$34.0 million nominal)	33.7
9.5 per cent guaranteed sterling notes 2015/17 ("2017 sterling notes") (£8.3 million nominal)	9.5
8.75 per cent guaranteed sterling notes 2020 ("2020 sterling notes") (£31.9 million nominal)	41.0
Indonesian term bank loans	86.8
Drawings under working capital lines	35.5
Third party short term loan	10.0
	216.5
Cash and cash equivalents	(4.5)
Net indebtedness	212.0

Since 30 June 2016, the financial resources available to the group have been augmented by the further temporary advances from the DSN group and by the successful conclusion of discussions with the group's principal Indonesian bankers regarding the repackaging of facilities provided by those bankers. In addition, in July 2016, the group raised some £1.46 million from the sale of £1.5 million nominal of sterling notes held by a subsidiary of the company at a price of £0.97 per £1.00 nominal of such notes. Further monies will be received on completion of the DSN transaction as detailed above.

The repackaging of the principal Indonesian bank facilities that has been agreed has resulted in borrowings, denominated in a combination of Indonesian rupiahs and dollars and totalling the equivalent of \$88.6 million, being replaced with new increased borrowings, denominated in Indonesian rupiahs and totalling the equivalent of \$95.3 million.

The new borrowings incorporate a reduced annual revolving credit facility (committed until July 2017) of the equivalent of \$26.0 million against the previous annual revolving credit facilities totalling \$35.5 million. The balance of the new borrowings is repayable over a period of five years. Assuming continued rollover of the annual revolving credit facility (which the group has every reason to expect), repayments of the new borrowings due in respect of the period from mid August to 31 December 2016 and of the year to 31 December 2017 will amount to the equivalent of, respectively, \$0.7 million and \$3.2 million, reductions of respectively \$4.7 million and \$19.8 million on the amounts that would have been repayable under the borrowings that have been replaced.

The DSN transaction and the repackaging of the principal Indonesian bank facilities have considerably strengthened the group's financial position. However, given the prospective maturity of the equivalent of some \$45 million of dollar and sterling notes during 2017 and the current momentum in the extension planting programme, further funding will be required. The group is well advanced in discussions of several financing alternatives designed to meet the requirement and expects a successful conclusion to such discussions in due course.

Directors

On 6 June 2016, David Killick retired as a director of the company, having been on the board for nine years. David has had a long association with the company, having, in earlier years prior to his appointment to the board of the company, served as director of Makassar Investments Limited, the immediate holding company of REA Kaltim. David's experience, wise counsel and meticulous attention to detail will be much missed.

A short list of potential candidates to succeed David, who was the company's nominated senior independent director and chairman of each of the board's main committees, is currently being considered and an appointment is expected to be made in the near future.

Outlook

The recovery of CPO prices to more remunerative levels will be beneficial to the group in the second half of 2016 but the benefit of this will be reduced by crops remaining at depressed levels during July and August. With good rainfall to date in 2016 and the new fertiliser regime referred to under "Agricultural operations" above, there is every reason to expect that cropping will be restored to more normal levels in 2017 and that, provided that selling prices hold at around current levels, this will translate into a much improved financial performance.

The changed accounting principles now applied by the group mean that increases in value resulting from new development are no longer automatically reflected in the group's financial statements but that does not change the reality of the value creation that results from expansion of the group's planted hectareage. The rapid development that is currently being achieved will in due course lead to significant increases in the group's crops and, with those increases, should enhance shareholder value.

Approved by the board on 27 September 2016 and signed on its behalf by
DAVID J BLACKETT
Chairman

RISKS AND UNCERTAINTIES

The principal risks and uncertainties, as well as relative mitigating and other relevant considerations, affecting the business activities of the group as at the date of publication of the 2015 annual report (the "annual report") were set out on pages

38 to 43 of that report, under the heading "Risks and uncertainties". A copy of the report may be downloaded from the company's website at www.rea.co.uk. Such risks and uncertainties in summary comprise:

Agricultural operations

Climatic factors	Material variations from the norm
Cultivation risks	Impact of pests and diseases
Other operational factors	Logistical disruptions to the production cycle, including transportation and input shortages or cost increases
Produce prices	Consequences of lower realisations from sales of CPO and CPKO
Expansion	Delays in securing land or funding for the extension planting programme
Sustainability practices	Failure to meet expected standards
Community relations	Disruptions arising from issues with local stakeholders

Stone and coal operations

Operational factors	Failure by external contractors to achieve agreed targets
Prices	Consequences of stone or coal price weakness
Sustainability practices	Failure to meet expected standards

General

Currency risk	Adverse exchange movements between sterling or the Indonesian rupiah and the dollar
Funding	Meeting liabilities as they fall due in periods of weaker produce prices
Counterparty risk	Default by suppliers, customers or financial institutions
Regulatory and country exposure	Failure to meet or comply with expected standards or applicable regulations; adverse political or legislative changes in Indonesia

At the date of the annual report, the directors considered the risks in relation to produce prices, community relations, country exposure and funding to be potentially significant and, in particular, perceived that funding was a significant risk as the combination of weak produce prices and imminence of certain debt repayments had increased its importance.

Improvements in selling prices for the group's produce combined with actions taken to improve the group's funding position (as described under "Financing" in the Interim management report above) should have reduced the significance of the funding risk. Subject to that, the directors consider that the principal risks and uncertainties for the second six months of 2016 continue to be those set out in the annual report as summarised above.

In reaching the above conclusion, the directors have also considered the implications of the recent UK referendum on membership of the European Union in the context of the group and its operations. The subsequent weakness of sterling will positively impact the group as its operations are essentially dollar denominated and costs incurred in sterling will be reduced in dollar terms. The reduction in UK interest rates that has followed the referendum may negatively impact the level of the technical provisions of the REA Pension Scheme but, 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.

GOING CONCERN

In the statements regarding viability and going concern on page 45 of the group's 2015 annual report published in April 2016, the directors set out in detail, considerations with respect to the group's capital structure and their assessment of liquidity and financing adequacy.

As noted under "Financing" in the Interim management report above, the group's financial position has been strengthened since 30 June 2016 by the recently completed transaction with PT Dharma Satya Nusantara Tbk and its subsidiaries and the repackaging of facilities provided by the group's principal Indonesian bankers. Furthermore, the group is actively discussing several alternatives to refinance the \$45 million of sterling and dollar notes falling due in 2017 and to fund continuation of the planned expansion of the group's planted hectareage. The group expects a successful conclusion to such discussions in due course.

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

DIRECTORS' RESPONSIBILITIES

The directors are responsible for the preparation of this half yearly financial report.

The directors confirm that:

- the accompanying condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting"
- the "Interim management report" and "Risks and uncertainties" sections of this half yearly report include a fair review of the information required by rule 4.2.7R of the Disclosure and Transparency Rules of the Financial Conduct Authority, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- note 38 in the notes to the consolidated financial statements includes a fair review of the information required by rule 4.2.8R of the Disclosure and Transparency Rules of the Financial Conduct Authority, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the group during that period, and any changes in the related party transactions described in the last annual report that could do so.

The current directors of the company are as listed on page 44 of the company's 2015 annual report, save for David Killick who, as noted in the "Interim management report" retired as a director on 6 June 2016.

Approved by the board on 27 September 2016

DAVID J BLACKETT

Chairman

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

		6 months to 30 June 2016 \$'000	6 months to 30 June 2015* \$'000	Year to 31 December 2015* \$'000
	Note			
Revenue	2	39,337	46,205	90,515

Net loss arising from changes in fair value of agricultural inventory	4	(660)	(1,351)	(1,147)
Cost of sales:				
Depreciation of mature estates		(4,079)	(3,913)	(7,826)
Depreciation/amortisation of other assets		(4,928)	(5,460)	(11,104)
Other costs		(23,531)	(30,807)	(61,302)
Gross profit		<u>6,139</u>	<u>4,674</u>	<u>9,136</u>
Other operating income	2	-	-	2
Distribution costs		(508)	(494)	(1,097)
Administrative expenses	5	(7,161)	(4,415)	(11,702)
Operating loss		<u>(1,530)</u>	<u>(235)</u>	<u>(3,661)</u>
Investment revenues	2	1,238	28	259
Finance costs	6	(4,898)	(5,256)	(5,951)
Loss before tax		<u>(5,190)</u>	<u>(5,463)</u>	<u>(9,353)</u>
Tax	7	753	909	(1,410)
Loss for the period		<u>(4,437)</u>	<u>(4,554)</u>	<u>(10,763)</u>
Attributable to:				
Ordinary shareholders		(7,911)	(8,503)	(18,825)
Preference shareholders		3,901	4,204	8,461
Non-controlling interests		(427)	(255)	(399)
		<u>(4,437)</u>	<u>(4,554)</u>	<u>(10,763)</u>
(Loss) per 25p ordinary share (US cents)	8	(21.5)	(24.2)	(53.1)

All operations in all periods are continuing

* Restated - see Note 1 "Basis of accounting"

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2016

		30 June	30 June	31
		2016	2015*	December
	Note	\$'000	\$'000	2015*
Non-current assets				
Goodwill		12,578	12,578	12,578
Biological assets	10	323,013	313,319	318,205
Property, plant and equipment	11	153,053	152,059	155,642
Prepaid operating lease rentals		34,460	35,225	34,295
Indonesian stone and coal interests		36,063	31,503	35,338

Deferred tax assets	13,970	12,572	15,787
Non-current receivables	1,870	2,439	1,395
Total non-current assets	575,007	559,695	573,240
Current assets			
Inventories	8,761	14,433	11,190
Investments	1,954	-	2,158
Trade and other receivables	36,531	23,648	29,103
Cash and cash equivalents	4,463	6,038	15,758
Total current assets	51,709	44,119	58,209
Total assets	626,716	603,814	631,449
Current liabilities			
Trade and other payables	(27,517)	(23,112)	(27,025)
Current tax liabilities	(3,175)	(851)	(3,406)
Bank loans	(54,992)	(43,150)	(50,906)
Sterling notes	-	(15,499)	-
US dollar notes	(33,725)	-	-
Hedging instruments	-	(8,785)	-
Ordinary dividend payable	-	(2,044)	-
Other loans and payables	(117)	(703)	(93)
Total current liabilities	(119,526)	(94,144)	(81,430)
Non-current liabilities			
Bank loans	(67,274)	(59,861)	(72,034)
Sterling notes	(50,522)	(37,641)	(55,853)
US dollar notes	-	(33,553)	(33,637)
Deferred tax liabilities	(81,005)	(78,987)	(86,946)
Other loans and payables	(16,060)	(4,857)	(5,558)
Total non-current liabilities	(214,861)	(214,899)	(254,028)
Total liabilities	(334,387)	(309,043)	(335,458)
Net assets	292,329	294,771	295,991
Equity			
Share capital	120,288	112,974	120,288
Share premium account	30,683	23,366	30,683
Translation reserve	(41,365)	(43,840)	(46,282)
Retained earnings	181,188	200,256	189,568
	290,794	292,756	294,257
Non-controlling interests	1,535	2,015	1,734
Total equity	292,329	294,771	295,991

* Restated - see Note 1 "Basis of accounting"

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	6 months to 30 June 2016 \$'000	6 months to 30 June 2015* \$'000	Year to 31 December 2015* \$'000
Loss for the period	(4,437)	(4,554)	(10,763)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Actuarial losses	-	-	(489)
Deferred tax on actuarial losses	-	-	122
	-	-	(367)
Items that will not be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	2,551	2,707	3,575
Exchange differences on deferred tax	2,125	(1,635)	(5,082)
	4,676	1,072	(1,874)
Total comprehensive income for the period	239	(3,482)	(12,637)
Attributable to:			
Ordinary shareholders	(3,813)	(7,431)	(20,699)
Preference shareholders	4,479	4,204	8,461
Non-controlling interests	(427)	(255)	(399)
	239	(3,482)	(12,637)

* Restated - see Note 1 "Basis of accounting"

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	Share capital \$'000	Share premium \$'000	Translation reserve \$'000	Retained earnings \$'000	Sub total \$'000	Non- controlling interests \$'000	Total Equity \$'000
2016							
At 1 January 2016	120,288	30,683	(46,282)	189,568	294,257	1,734	295,991
Total comprehensive income	-	-	4,917	(4,479)	438	(199)	239
Dividends to preference shareholders	-	-	-	(3,901)	(3,901)	-	(3,901)

At 30 June 2016	120,288	30,683	(41,365)	181,188	290,794	1,535	292,329
2015							
At 1 January 2015	112,974	23,366	(44,324)	212,928	304,944	1,681	306,625
Restatement (note 1)	-	-	-	(5,106)	(5,106)	(9)	(5,115)
As restated	112,974	23,366	(44,324)	207,822	299,838	1,672	301,150
Total comprehensive income	-	-	484	806	1,290	343	1,633
Dividends to preference shareholders	-	-	-	(4,204)	(4,204)	-	(4,204)
Dividends to ordinary shareholders	-	-	-	(4,168)	(4,168)	-	(4,168)
At 30 June 2015	112,974	23,366	(43,840)	200,256	292,756	2,015	294,771
Restatement (note 1)	-	-	-	(9,755)	(9,755)	(794)	(10,549)
As restated	112,974	23,366	(43,840)	190,501	283,001	1,221	284,222
Total comprehensive income	-	-	(2,442)	3,324	882	513	1,395
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	-	-	-	(4,257)	(4,257)	-	(4,257)
At 31 December 2015	120,288	30,683	(46,282)	189,568	294,257	1,734	295,991

CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

		6 months to 30 June 2016 \$'000	6 months to 30 June 2015 \$'000	Year to 31 December 2015 \$'000
	Note			
Net cash (used in)/from operating activities	13	(6,658)	2,613	20,063
Investing activities				
Interest received		1,238	28	259
Proceeds on disposal of property, plant and equipment		-	2,273	2,512
Purchases of property, plant and equipment		(2,543)	(3,754)	(15,785)
Expenditure on biological assets (excluding finance costs and capitalised depreciation)		(5,943)	(7,917)	(16,563)
Expenditure on prepaid operating lease rentals		(165)	(1,256)	(1,250)

Investment in Indonesian stone and coal interests		(725)	(169)	(4,004)
Net cash used in investing activities		(8,138)	(10,795)	(34,831)
Financing activities				
Preference dividends paid		(3,901)	(4,204)	(8,461)
Ordinary dividends paid		-	(2,124)	(4,168)
Repayment of bank borrowings		(7,552)	(5,155)	(9,620)
Proceeds of issue of ordinary shares		-	-	6,793
Proceeds of issue of sterling notes, less costs of issue		-	-	4,086
Proceeds of issue of sterling notes, by exchange		-	-	39,921
Proceeds of issue of preference shares		-	-	7,838
Redemption of sterling notes, by exchange		-	-	(39,921)
Payment on termination of hedging contract		-	-	(10,184)
Purchase of sterling notes		-	-	(2,158)
New third party loan		10,000	-	-
New bank borrowings drawn		4,614	9,529	30,326
Net cash from/(used in) financing activities		3,161	(1,954)	14,452
Cash and cash equivalents				
Net decrease in cash and cash equivalents	14	(11,635)	(10,136)	(316)
Cash and cash equivalents at beginning of period		15,758	16,224	16,224
Effect of exchange rate changes		340	(50)	(150)
Cash and cash equivalents at end of period		4,463	6,038	15,758

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Basis of accounting

The condensed consolidated financial statements for the six months ended 30 June 2016 comprise the unaudited financial statements for the six months ended 30 June 2016 and 30 June 2015, neither of which has been reviewed by the company's auditor, together with audited financial statements for the year ended 31 December 2015.

The information shown for the year ended 31 December 2015 does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006, and is an abridged version of the group's published financial statements for that

year which have been filed with the Registrar of Companies. The auditor's report on those statements contained a reference to a matter to which the auditor drew attention by way of emphasis, was unqualified and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

The condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union, and should be read in conjunction with the annual financial statements for the year ended 31 December 2015 which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The accounting policies and methods of computation adopted in the preparation of the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those set out in the group's annual report for 2015, save as detailed below under 'Changes in accounting standards' below.

For the reasons given under 'Going concern' above, the financial statements have been prepared on the going concern basis.

The condensed consolidated financial statements for the six months ended 30 June 2015 were approved by the Board of Directors on 27 September 2016.

Changes in accounting standards

The accounting standard which determined that biological assets had to be stated at fair value, IAS41 Agriculture, was amended in 2014 and, having been endorsed by the EU, is effective for accounting periods commencing on and after 1 January 2016, thereby reverting to the accounting policies applicable before IAS41 whereby such assets were accounted for as property, plant and equipment. In addition IAS16 Property, Plant and Equipment has also been modified with effect from the same date to accommodate the changes to IAS41.

These changes mean that, in the group consolidated income statement, the annual movement on the fair value of biological assets is replaced by an annual charge for depreciation. As permitted by the revised IAS41, the directors have decided to use the fair value of the biological assets as their deemed cost, which also forms the basis of the depreciation charge.

The comparative financial statements for 2015 have been accordingly restated, and in the consolidated income statement the net gain arising in 2015 from the changes in the value of biological assets of \$13.1 million has been replaced by a depreciation charge of \$7.8 million, a net reduction in 2015 reported operating profit of \$20.9 million. The effect of the restatement is set out in detail under 'Effect of restatement' below.

The amendment of IAS 41 however, has also introduced a new requirement for plantation companies to account for "growing produce", but only if this can be reliably measured. In the case of the group, growing produce will mean fresh fruit bunches (FFB) in formation on the group's oil palms. Such growing produce will, if measured, be treated as a separate asset with changes in the value of the asset from year to year being taken to the income statement. Certain listed plantation companies decided to apply the amendments to IAS41 with effect from 1 January 2015, but have adopted divergent practices as regards the valuation of growing produce. Some have concluded that developing FFB cannot be reliably measured and have therefore not accounted for it while others have applied varying formulaic methodologies to calculate theoretical values for the developing FFB. A joint submission on behalf of four agricultural groups (including REA) has been made to the International Financial Reporting Standards Interpretation Committee (IFRIC) requesting clarification. In view of the divergent practices and the fact that a reasonable formulaic methodology would not result in material quantitative adjustments to the financial statements, the directors have decided, pending a

response from IFRIC, not to recognise any amounts for developing FFB. Meanwhile the group continues to account for FFB at the point of harvest.

Effect of restatement

The effect of the restatement on the profit for the period is as follows:

	6 months to 30 June 2015 \$'000	Year to 31 December 2015 \$'000
Profit for the period before restatement	561	4,902
Effect of restatement:		
Cost of sales	(3,913)	(7,826)
Changes in fair value of biological assets	(2,907)	(13,060)
Tax - deferred tax	1,705	5,221
Loss for the period after restatement	<u>(4,554)</u>	<u>(10,763)</u>

2. Revenue

	6 months to 30 June 2016 \$'000	6 months to 30 June 2015 \$'000	Year to 31 December 2015 \$'000
Sales of goods	38,100	44,344	87,824
Revenue from services	1,237	1,861	2,691
	<u>39,337</u>	<u>46,205</u>	<u>90,515</u>
Other operating income	-	-	2
Investment revenue	1,238	28	259
Total revenue	<u>40,575</u>	<u>46,233</u>	<u>90,776</u>

3. Segment information

The group continues to operate in two segments, being the cultivation of oil palms and the stone and coal operations, together with head office made up of the activities of the UK, European and Singaporean subsidiaries. In the period ended 30 June 2016, the relevant measures for the stone and coal operations continued to fall below the quantitative thresholds set out in IFRS 8. Accordingly, no segment information is included in these financial statements.

4. Agricultural produce inventory movement

The net 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

	6 months to 30 June 2016 \$'000	6 months to 30 June 2015 \$'000	Year to 31 December 2015 \$'000
Net foreign exchange (gains)/losses	(33)	217	818

Release of provision for future UK pension contributions	-	(2,179)	(2,267)
Loss on disposal of fixed assets	-	-	49
Indonesian operations	5,309	5,683	11,556
Head office	3,530	2,696	6,160
	<u>8,806</u>	<u>6,417</u>	<u>16,316</u>
Amounts included as additions to biological assets	<u>(1,645)</u>	<u>(2,002)</u>	<u>(4,614)</u>
	<u>7,161</u>	<u>4,415</u>	<u>11,702</u>

6. Finance costs

	6 months to 30 June 2016 \$'000	6 months to 30 June 2015 \$'000	Year to 31 December 2015 \$'000
Interest on bank loans and overdrafts	5,123	3,686	8,130
Interest on US dollar notes	1,362	1,275	2,716
Interest on sterling notes	2,776	2,510	5,042
Change in value of sterling notes arising from exchange fluctuations	(5,641)	466	(4,946)
Movements relating to derivative financial instruments	-	(730)	1,685
Change in value of loans arising from exchange fluctuations	3,573	(1,121)	(2,694)
Other finance charges	570	887	897
	<u>7,763</u>	<u>6,973</u>	<u>10,820</u>
Amount included as additions to biological assets	<u>(2,865)</u>	<u>(1,717)</u>	<u>(4,869)</u>
	<u>4,898</u>	<u>5,256</u>	<u>5,951</u>

7. Tax

	6 months to 30 June 2016 \$'000	6 months to 30 June 2015* \$'000	Year to 31 December 2015* \$'000
Current tax:			
UK corporation tax	106	-	-
Overseas withholding tax	586	-	1,467
Foreign tax	20	589	50
Foreign tax - prior year	-	-	1,778
Total current tax	<u>712</u>	<u>589</u>	<u>3,295</u>
Deferred tax:			
Current year	(1,465)	(1,498)	(2,263)
Prior year	-	-	378
Total deferred tax	<u>(1,465)</u>	<u>(1,498)</u>	<u>(1,885)</u>

Total tax	(753)	909	1,410

* Restated - see Note 1 "Basis of accounting"

The tax charge for the period of \$753,000 (2015 restated: \$909,000) is based on the reported results of the operations in each jurisdiction, using relevant rates of tax, adjusted for items which include non-taxable income/expense and Indonesian withholding taxes not utilisable in the UK. If the income mix in the second half of 2016 differs materially from that of the first half, it will result in a disproportionate movement in the effective rate of taxation for the full year.

As disclosed in note 9 on page 92 of the 2015 Annual Report, in 2015 the Indonesian tax authorities filed an appeal for judicial review with the Supreme Court of Indonesia of the findings of the Jakarta Tax Court in May 2014 in favour of a group subsidiary which had disputed the disallowance of mark-to-market losses in 2008 on its cross currency interest rate swap. The case is still pending in the Supreme Court, and no hearing date has been set.

A regulation issued in late 2015 permits taxpayers to apply for interest immediately following receipt of disputed tax refunds following judgements in their favour in the Jakarta Tax Court; previously interest was only released after the outcome of any Supreme Court review. PT REA Kaltim Plantations has been discussing with its local tax office the exact interpretation of this regulation with a view to agreeing a release of interest, and an amount of some \$1.1 million has been credited to investment revenues in the consolidated income statement for the six months ended 30 June 2016 (2015: nil) following agreement to date with the tax office on the release of that amount. Discussions with the tax office continue with a view to agreeing further releases of interest.

8. Loss per share

	6 months to 30 June 2016 \$'000	6 months to 30 June 2015* \$'000	Year to 31 December 2015* \$'000
Loss for the purpose of calculating loss per share**	(7,911)	(8,503)	(18,825)

** being net loss attributable to ordinary shareholders

	'000	'000	'000
Weighted average number of ordinary shares for the purpose of loss per share	36,840	35,085	35,455

* Restated - see Note 1 "Basis of accounting"

9. Dividends

	6 months to 30 June 2016 \$'000	6 months to 30 June 2015 \$'000	Year to 31 December 2015 \$'000
--	--	--	--

Amounts paid or payable and recognised as distributions to equity holders:

Preference dividends of 9p per share per annum	3,901	4,204	8,461
Ordinary dividends:			

Interim re 2014 (4p per share paid 23 January 2015)	-	2,124	2,124
Final re 2014 (3.75p per share paid 24 July 2015)	-	2,044	2,044
	<u>3,901</u>	<u>8,372</u>	<u>12,629</u>

10. Biological assets

	6 months to 30 June 2016 \$'000	6 months to 30 June 2015* \$'000	Year to 31 December 2015* \$'000
Beginning of period	326,031	310,175	310,175
Opening balance adjustment	-	(215)	(363)
Additions (including finance costs)	8,947	7,569	16,564
Transfers to current receivables	-	(297)	(345)
Transfers to income statement	(60)	-	-
End of period	<u>334,918</u>	<u>317,232</u>	<u>326,031</u>
Depreciation:			
Beginning of period	7,826	-	-
Charge for the period	4,079	3,913	7,826
End of period	<u>11,905</u>	<u>3,913</u>	<u>7,826</u>
Carrying amount:			
Beginning of period	318,205	310,175	310,175
End of period	<u>323,013</u>	<u>313,319</u>	<u>318,205</u>

* Restated - see Note 1 "Basis of accounting"

11. Capital expenditure on property, plant and equipment and capital commitments

In the period, there were additions to property, plant and equipment of \$2.5 million (2015: \$3.8 million).

Capital commitments contracted, but not provided for by the group as at 30 June 2016, amounted to \$0.4 million (31 December 2015: \$1.2 million, 30 June 2015: \$1.8 million).

12. Fair values of financial instruments

The table below provides an analysis of the book values and fair values of financial instruments, excluding receivables and trade payables and Indonesian coal interests, as at the balance sheet date. All financial instruments are classified as level 1 in the fair value hierarchy prescribed by IFRS 7 "Financial instruments: disclosures" other than the cross currency interest rate swaps that were classified as level 2. No reclassifications between levels in the fair value hierarchy were made during the period (2015: none).

30 June 2016

30 June 2015

31 December 2015

	Book value	Fair value	Book value	Fair value	Book value	Fair value
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and deposits*	4,463	4,463	6,038	6,038	15,758	15,758
Debt-within one year*	(64,992)	(64,992)	(43,150)	(43,150)	(50,906)	(50,906)
Debt-after more than one year*	(67,274)	(67,274)	(59,861)	(59,861)	(72,034)	(72,034)
US dollar notes**	(33,725)	(29,930)	(33,553)	(35,031)	(33,637)	(31,290)
2017 Sterling notes**	(9,496)	(10,842)	(15,499)	(16,561)	(10,623)	(12,346)
2020 Sterling notes**	(41,026)	(41,060)	(37,641)	(40,222)	(45,230)	(45,826)
Cross currency interest rate swaps-hedge against principal liabilities	-	-	(8,306)	(8,306)	-	-
Net debt and related engagements	(212,050)	(209,635)	(191,972)	(197,093)	(196,672)	(196,644)
Cross currency interest rate swaps-hedge against interest liabilities	-	-	(479)	(479)	-	-
	(212,050)	(209,635)	(192,451)	(197,572)	(196,672)	(196,644)

* bearing interest at floating rates

** bearing interest at fixed rates

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

A one per cent increase in interest applied to those financial instruments shown in the table above which carry interest at floating rates would have resulted over a period of one year in a pre-tax profit (and equity) decrease of approximately \$1.2 million (2015: pre-tax profit (and equity) decrease of \$970,000).

13. Reconciliation of operating profit to operating cash flows

	6 months to 30 June 2016 \$'000	6 months to 30 June 2015* \$'000	Year to 31 December 2015* \$'000
Operating loss	(1,530)	(235)	(3,661)
Depreciation of mature estates	4,079	3,913	7,826
Depreciation of property, plant and equipment	5,102	5,140	9,076
Decrease in fair value of agricultural produce inventory	660	1,351	1,147
Amortisation of prepaid operating lease rentals	-	320	722
Amortisation of sterling and US dollar note issue expenses	306	107	275
(Profit)/loss on disposal of property, plant and equipment	-	(1,538)	49
Cumulative loss on termination of hedging contract	-	-	9,002
Operating cash flows before movements in working capital	8,617	9,058	24,436
Decrease in inventories (excluding fair value movements)	1,770	396	3,844

(Increase)/decrease in receivables	(4,110)	(528)	3,585
(Decrease)/increase in payables	(2,982)	1,669	6,818
Exchange translation differences	(2,130)	(1,147)	(1,397)
Cash generated by operations	1,165	9,448	37,286
Taxes paid	(52)	(1,997)	(5,427)
Tax refunds received	-	-	4,601
Interest paid	(7,771)	(4,838)	(16,397)
Net cash (to)/from operating activities	(6,658)	2,613	20,063

* Restated - see Note 1 "Basis of accounting"

14. Movement in net borrowings

	6 months to 30 June 2016 \$'000	6 months to 30 June 2015 \$'000	Year to 31 December 2015 \$'000
Change in net borrowings resulting from cash flows:			
Decrease in cash and cash equivalents	(11,635)	(10,136)	(316)
Net increase in borrowings	(7,062)	(4,374)	(20,706)
	(18,697)	(14,510)	(21,022)
Amortisation of US dollar notes issue expenses	(88)	(80)	(165)
Issue of sterling notes, net of amortisation of issue expenses	(218)	-	(4,195)
	(19,003)	(14,590)	(25,382)
Currency translation differences	5,639	1,542	(2,686)
Net borrowings at beginning of period	(198,686)	(170,618)	(170,818)
Net borrowings at end of period	(212,050)	(183,666)	(198,686)

15. 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.

During the first six months of 2016 no new material related party transactions have been started and only those related transactions which were disclosed in the company's 2015 annual report have continued.

16. Events after the reporting period

Strategic investor - DSN

In the group's annual report for 2015 the directors reported that discussions were at an advanced stage with a short list of potential strategic investors. These discussions culminated on 16 May 2016 in an initial conditional agreement between the group and PT Dharma Satya Nusantara Tbk ("DSN"). This was followed, on 16 August 2016, by detailed implementing agreements. The latter remain subject to formal regulatory approvals which are expected shortly.

When the detailed implementing agreements are completed, two wholly owned subsidiaries of DSN, will acquire, by a combination of subscription of new shares

and acquisition of existing shares, a 15 per cent interest in the group's principal operating subsidiary in Indonesia, PT REA Kaltim Plantations ("REA Kaltim"). The overall consideration payable for the interest acquired will amount to the equivalent of \$15 million in cash with up to a further \$850,000 payable depending upon the recovery by REA Kaltim of certain overpaid tax amounts prior to 1 January 2018.

In addition, on completion of the detailed implementing agreements DSN and its subsidiaries (the "DSN group") will be providing dollar and sterling loans to REA Kaltim of, respectively, \$10.0 million and £3.9 million on terms mirroring the terms of existing dollar and sterling loans from the company to REA Kaltim. Discussions are continuing between the group and the DSN group regarding further proposed loans by the DSN group to subsidiaries of REA Kaltim.

Immediately following the initial conditional agreement with DSN, the DSN group advanced \$10 million to REA Kaltim as a temporary advance and this temporary advance has been subsequently augmented by further temporary advances of approximately 90 per cent of the amounts payable for the purchase and subscription of the REA Kaltim shares to be acquired by the DSN group. Upon completion of the detailed implementing agreements, such temporary amounts will be offset against the amounts then to be paid by the DSN group in acquisition of shares of, and in making loans to, REA Kaltim.

The group has acknowledged that DSN may increase its participation in REA Kaltim to an eventual level of 49 per cent by gradual stages over a period of five years, but on the basis that each increase will be subject to agreement of the price and other terms at the time of such increase and to the receipt of all necessary consents and approvals, including the approval of REA shareholders to the extent required.

Bank facilities

On page 35 of the group's annual report for 2015, it was disclosed that the group was at an advanced stage in negotiations with PT Bank DBS Indonesia (DBS) to amend the terms of the amortising term loan facilities provided by DBS. On 16 August 2016 the company announced that these discussions had been successfully concluded. The agreed repackaging of the DBS facilities has resulted in borrowings, denominated in a combination of Indonesian rupiahs and dollars and totalling the equivalent of \$88.6 million, being replaced with new increased borrowings, denominated in Indonesian rupiahs and totalling the equivalent of \$95.3 million.

The new borrowings incorporate a reduced annual revolving credit facility (committed until July 2017) of the equivalent of \$26.0 million against the previous annual revolving credit facilities totalling \$35.5 million. The balance of the new borrowings is repayable over a period of five years. Assuming continued rollover of the annual revolving credit facility (which the group has every reason to expect), repayments of the new borrowings due in respect of the period from mid-August to 31 December 2017 and of the year to 31 December 2018 will amount to the equivalent of, respectively, \$0.7 million and \$3.2 million, reductions of respectively \$4.7 million and \$19.8 million on the amounts that would have been repayable under the borrowings that have been replaced.

17. Rates of exchange

	30 June 2016		30 June 2015		31 December 2015	
	Closing	Average	Closing	Average	Closing	Average
Indonesian rupiah to US dollar	13,180	13,479	13,300	12,923	13,795	13,377
US dollar to pound sterling	1.3428	1.43	1.5728	1.53	1.4832	1.53

18. Shareholder information

The company's half yearly report for the six months ended 30 June 2016 will shortly be available for downloading from the company's web site at www.rea.co.uk

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