

**REA Finance B.V.**  
Amsterdam, the Netherlands  
**ANNUAL REPORT 2020**

Van Heuven Goedhartlaan 935A  
1181 LD Amstelveen  
Registered with the Dutch trade register under file number 34259527



**KPMG Audit**  
Document to which our report  
0001978852/21W00177220AVN dated  
**9 June 2021**

also refers.  
KPMG Accountants N.V.

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## 1. MANAGEMENT BOARD REPORT



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**REA Finance B.V.**

**1.1 Management board report**

Management presents herewith to the shareholder their annual report and audited accounts of REA Finance B.V. (the "Company") for the year ended 31 December 2020.

**General**

The Company is a private company with limited liability incorporated under the laws of the Netherlands and acts solely as a finance company on behalf of its parent company. The immediate parent and ultimate holding company is R.E.A. Holdings plc ("REAH"), located in London, the United Kingdom.

The annual accounts have been prepared in pounds sterling ("£") instead of euros since the majority of the transactions within the Company occur in pounds sterling, which is the Company's functional currency.

Management of the Company resides with the management board, Apex Financial Services B.V., a corporate director. The Company has no employees. The Company relies on the policies and procedures of REAH as respects governance and risk. The audit committee of REAH supervises the Company pursuant to the terms of reference of the audit committee and reports to the management and board of REAH as respects risks and internal controls. Responsibility for environmental, social and corporate governance matters for the group and its subsidiaries, including the Company, resides with the management and board of REAH.

**Overview of activities**

The Company issues sterling notes and uses the proceeds to issue loans to its parent company, REAH, on the same terms as the sterling notes save for a margin on the rate of interest. The Company receives all of its income from REAH through intercompany financing of its foreign subsidiaries. The REAH group is principally engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production and sale of crude palm oil ("CPO") and crude palm kernel oil ("CPKO").

At 1 January 2020 the Company had outstanding 30,852,000 £1 nominal 8.75 per cent guaranteed sterling notes 2020 (the "sterling notes"), repayable 31 August 2020.

At 1 January 2020 the Company also had a loan receivable from REAH of £31,327,000 bearing interest at 8.9283 per cent and repayable on 20 August 2020 (the "loan").

On 31 March 2020, holders of the sterling notes agreed proposals to extend the repayment date of such notes from 31 August 2020 to 31 August 2025. As consideration for this, the sterling notes are now repayable at £104 per £100 nominal (the "premium") on 31 August 2025 and REAH has issued to noteholders 4,010,760 warrants with each such warrant entitling the holder to subscribe, for a period of five years, one new ordinary share in the capital of REAH at a subscription price of £1.26 per share. The premium is payable on redemption of the sterling notes on 31 August 2025 (or earlier in the event of default) or on surrender of the sterling notes in satisfaction, in whole or in part, of the subscription price payable on exercise of the warrants on the final subscription date.

In consequence, the Company has agreed with REAH that an amount equivalent to the premium, if any, payable on redemption of the sterling notes on 31 August 2025 shall be aggregated with the loan which is now repayable on 20 August 2025.

The margin on the loan was independently reviewed for transfer pricing purposes and, accordingly, the rate of interest on the loan was changed from 8.9283 per cent to 9.007 per cent with effect from 1 April 2020.

During the period under review the Company received interest on the loan from the Company to REAH and paid interest to the holders of the sterling notes.



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**1.1 Management board report (continued)**

At 31 December 2020, the Company had outstanding: £30,852,000 nominal of sterling notes (amortised cost £31,679,213) bearing interest at 8.75 per cent and repayable on 31 August 2025; and the loan of £31,327,000 to REAH (amortised cost £32,144,755) bearing interest at 9.007 per cent repayable to the Company on 20 August 2025.

**Financial information and performance**

The net asset value of the Company as at 31 December 2020 was £1,047,084 (31 December 2019: £1,012,473). The result for 2020 is a profit of £34,611 (2019: profit of £48,368).

**Risks and uncertainties**

The principal risks and uncertainties facing the Company relate to the due performance by REAH of its obligations under the loan agreement with the Company. Any shortfall in performance would impact negatively on the Company's ability to meet its obligations to the holders of the sterling notes. The exposure of the Company towards the noteholders in the event of any shortfall in the collection of the loan to REAH is limited by:

- the guarantee given by REAH and R.E.A. Services Limited ("REAS"), a subsidiary company of REAH incorporated in the United Kingdom, in favour of the noteholders; and
- the Limited Recourse Agreement (the "LRA") dated 29 November 2010 and made between the Company, REAH and REAS.

Payment of the principal, premium and interest by the Company in respect of the sterling notes is irrevocably and unconditionally guaranteed by REAH (the "guarantor") and REAS (the "co-guarantor"). The full terms of the guarantee are set out in the trust deed constituting the sterling notes.

The obligations of the guarantor in respect of the guarantee are unsecured and will rank equally and without preference with all other unsecured and unsubordinated obligations of the guarantor, that is in priority to ordinary and preference share obligations.

The obligations of the co-guarantor in respect of the guarantee are secured by way of first ranking charges in favour of the trustee (on behalf of the noteholders) over: (i) two designated bank accounts of the co-guarantor; and (ii) the rights of the co-guarantor in respect of all monies owed to it from time to time by any Indonesian debtor subsidiary (IDS).

An IDS means any qualifying subsidiary which is indebted to the co-guarantor, for so long as such qualifying subsidiary is so indebted. A qualifying subsidiary means any subsidiary of the guarantor incorporated in Indonesia and engaged in the cultivation of oil palms and/or the processing of oil palm fruit. Pursuant to the trust deed, covenants are in place to ensure an adequacy of cover for repayment of any IDS loan.

Currently, there is one IDS loan outstanding to PT Cipta Davia Mandiri ("CDM") in the amount of \$62.8 million (£46.0 million). To satisfy payment under the guarantee, REAH and REAS would look to repayment of the loan by CDM which as at 31 December 2020 had headroom under the covenants of some £3.0 million.

The LRA reflects the intention of the parties thereto that the Company, in relation to its financing activities, should (i) meet the minimum risk requirements of article 8c, paragraph 2, of the Dutch Corporate Income Tax Act and (ii) not be exposed to risk in excess of the Minimum Risk Amount ("MRA"). For these purposes the MRA is 1 per cent of the aggregate amounts outstanding under the loan agreement between the Company and REAH. As respects (i) above, the Company's capital and reserves as at 31 December 2020 and 2019 complied with the minimum risk requirements of article 8c, paragraph 2, of the Dutch Corporate Income Tax Act. In addition, pursuant to the LRA, REAH and REAS limited their rights of recourse to the Company in respect of any calls upon their guarantee of the sterling notes.

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**1.1 Management board report (continued)***Credit risk*

All borrowings are lent to REAH, the parent company. Management makes an annual assessment regarding the valuation and recoverability of the loan receivable and interest receivable from REAH. Ten year projections are prepared at REAH group level. These demonstrate that the group has sufficient liquidity for its operations and borrowings can be repaid as they fall due. The group cash projections form the basis for the REAH and Company 12 month cashflow forecasts which demonstrate that REAH can finance its interest payments to the Company so that the Company can pay the sterling note interest and other expenses.

*Going concern and Covid-19 risk*

The Company receives all of its income from its parent company, REAH, and accordingly is wholly dependent on the viability and going concern status of the parent company.

The assessment of going concern of the Company, therefore, reflects the assessment of viability and going concern of REAH by the directors of REAH.

At the time of signing the 2019 Company accounts, it was concluded that it was appropriate to prepare the financial statements on a going concern basis. With the onset of the Covid-19 pandemic early in 2020, CPO prices suffered a sharp fall which, coupled with the possibility of operational issues caused by the pandemic, could have resulted in liquidity issues and trigger the need for bank loan repayment to be deferred or covenants waived. This meant that there was a material uncertainty about the ability of REAH and, therefore, the Company to continue as a going concern. However, in the reasonable expectation that the group's Indonesian bankers, PT Bank Mandiri Persero ("Mandiri") would be receptive to a renegotiation of bank facilities and/or waivers of covenant breaches, and with the group's operations continuing to perform satisfactorily, the directors maintained the view that they had a reasonable expectation that REAH and the Company would continue in operational existence for the ensuing 12 months and to remain viable to for the period to 31 December 2022.

Notwithstanding the setback of weak CPO prices in the first half of 2020, Covid-19 has had only a limited impact on the REAH group including the parent company. During 2020, significant progress was made in improving the group's overall financial position, with the combination of cost reductions and a recovery in CPO prices in the second half producing an operating profit in 2020 compared with an operating loss in 2019. Whilst two Indonesian group subsidiaries were in breach of certain loan covenants at 31 December 2020, these breaches were waived subsequent to the year-end by Mandiri. With better CPO prices now prevailing allowing significantly higher revenues to be generated, these companies are expected to meet their loan covenants in 2021.

In addition, proposals are currently under discussion between the group and Mandiri to replace the existing loans to Indonesian subsidiaries with new loans that would provide additional funding of longer tenor, materially improving group cash flows for the period to 31 December 2023.

The group's agricultural operations continue to perform satisfactorily, and the group is benefiting from considerably improved prices for CPO and CPKO which seem set to continue for the immediate future, with a currently favourable balance of supply and demand. In addition, the group has received a recent repayment of an advance made to the stone and coal concession companies that are provided with loan funding by the group and can reasonably anticipate further repayments.

Management has made a considered assessment of going concern of the Company, including in-depth reviews of group projections and detailed cashflow forecasts. Consideration of possible on-going impacts of Covid-19 on the Company have also been taken into account. In making this



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### 1.1 Management board report (continued)

assessment, management has considered the period up to 12 months after the end of the reporting period, as well as the period up to 12 months after the date of these accounts.

Management is of the view that uncertainties associated with Covid-19 do not currently trigger uncertainties as respects going concern and that no events or conditions have been identified that might cast significant doubt on the Company's ability to continue as a going concern.

Having regard to the foregoing, management expects that, based on the Company's projections and cash flow forecasts and having regard to the group's cash position and available borrowings, the Company should be able to operate for at least 12 months from the date of approval of the financial statements.

#### *Financial risk management objectives*

In carrying out its financing activities, it is the policy of the Company to minimise exposure to interest and exchange rate fluctuations by ensuring that loans are denominated in the same currency as the financing sources from which such loans are funded and that interest receivable on such loans is based on a formula from which the Company derives a fixed margin over the cost of funding. In addition, the Company relies on the arrangements described under "Risks and uncertainties" above to limit its exposure to loss.

The Company does not enter into or trade other financial instruments for any purpose.

The Company's overheads are denominated mostly in euro and pounds sterling. The fixed margin referred to above, which is derived in pounds sterling, is formulated to cover all the overheads and to leave a residual margin as compensation for assuming the limited risk under the LRA. The Company does not seek to hedge the minimal foreign currency risk implicit in these arrangements.

Deposits of surplus cash resources are only made with banks with high credit ratings.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's financial results. The payment of interest income by REAH to the Company is always agreed and timed to be several days in advance of the date the interest on the sterling notes is due. The Company can also request additional funds from REAH if required.

Liquidity is monitored by the preparation of projections incorporating cash flow forecasts which cover the period in which the liabilities will fall due at group level and at Company level (see also Credit risk). Consideration of possible on-going impacts of Covid-19 on the Company is taken into account by regular communications with REAH.

#### *Cashflow risk*

Cash flow risk relates to the risk that cash flows are unable to cover payments as they fall due. Month by month cash flow projections are prepared by the Company for a minimum period of 12 months and include interest receipts and payments.

#### *Currency risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency.

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### 1.1 Management board report (continued)

As the Company's financial instruments and significant transactions are in pounds sterling, the currency risk is low, exchange differences arise on the EUR and USD balances which are significantly smaller than the pounds sterling balances. The exchange result for 2020 was a £20,560 loss and there was a £5,510 gain in 2019.

#### *Interest rate risk*

The Company's interest rate risk is the risk which relates to the interest percentages used for the sterling notes and loan to the parent company. The interest receivable on the loan is based on a formula from which the Company derives a fixed margin over the cost of funding. This margin was determined by an independent adviser by applying the CAPM method to determine the remuneration for the Company's equity at risk. The TNMM cost plus method determined the profit remuneration on the financial services performed by the Company. The economic analysis showed that a gross financing margin of 25.7 basis points could be considered in line with market conditions for the Company's financing activities.

Since the interest rate on the notes as well as the loan is fixed and the Company earns a margin on the loan, the interest rate risk is considered to be limited.

### Governance and internal control

#### *Audit Committee*

In August 2008 the Dutch Act on the Supervision of Accounting Firms (Wet Toezicht Accountantsorganisaties) ("ASAF") was amended. This resulted in a wider definition of a public interest entity (organisatie van openbaar belang) ("PIE"). All Dutch entities which have issued listed debt are now considered to be PIEs. In addition, on 8 August 2008, an implementing regulation (algemene maatregel van bestuur) ("IR") came into force in the Netherlands, enacting Article 41 of European Directive no. 2006/43/EG (the "ED"), regarding legislative supervision of annual reports and consolidated financial statements. This IR obliges all PIEs to establish an audit committee ("AC").

The AC is formed by non-executive members of REAH's board of directors. Because the Company falls within the definition of a PIE, it is in principle obliged to establish an AC. However, the ED provides certain exemptions for establishing an AC, including if the parent company has an AC that applies Directive 2006/43 / EC and Regulation 537/2014. This AC must also supervise the Company in terms of the elements referred to in article 2 paragraph of the Besluit instelling auditcommissie. The Company applies such exemption and REAH's AC supervises the Company pursuant to its terms of reference in accordance with the ED. Management considers, therefore, that it is not in the best interests of the Company to establish an AC at the level of the Company nor has it taken steps to do so.

#### *Fraud risk*

The AC supervises the internal audit function for the REAH group and its subsidiaries, which forms a key component of the control systems, and keeps the systems of financial, operational and compliance controls generally under review. Any deficiencies identified are drawn to the attention of the REAH board. The AC is satisfied that the group's systems are effective and sufficient for their purpose.

The United Kingdom left the European Union ("EU") on 31 January 2020 with the transition period ending on 31 December 2020, during which period all EU regulations continued to apply as previously. The European Union (Withdrawal) Act 2018 (as amended 2020) ends the supremacy of EU law in the United Kingdom and converts most EU law into UK legislation with effect from 1 January 2021. Therefore, no changes are expected to the AC regulations above.

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### 1.1 Management board report (continued)

The management board and the AC have deemed the Company to be an Organisatie van Openbaar Belang ("OOB") entity up to and including the year ended 31 December 2020.

#### Management remuneration

The total management remuneration for the year 2020 (included within Administrative costs) amounts to £2,643 (EUR 3,025). Apex received no management remuneration during 2019 as another service company was engaged, Alter Domus/Corfas B.V.

#### Employees

During 2020, the Company did not employ personnel; nor did it employ personnel in the previous years.

#### Research and development

The Company does not perform any research and development.

#### Environmental and other non-financial information

Climatic factors and respect for the environment, though having limited impact on the Company, are integral to the operations of the REAH group. Detailed information about the group's commitment to sustainable practices may be found in the "Sustainability" section on the group's website at [www.rea.co.uk](http://www.rea.co.uk).

#### Future outlook

Management is of the opinion that the present level of activities will be maintained during the next financial year. Management expects that the average number of employees will not change during the next financial year.

The impact of Covid-19 has been considered and is not expected to have a significant impact on the activities of the Company.

#### Subsequent events

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

#### Management representation statement

Management declares that, to the best of its knowledge, the annual accounts prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and that the management board report includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks and uncertainties it faces.

Amstelveen, 9 June 2021  
The Management board:

Apex Financial Services B.V.

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## 2. FINANCIAL STATEMENTS



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## REA Finance B.V.

**2.1 Balance sheet as at 31 December 2020**  
 (After result appropriation)

		31 December 2020		31 December 2019	
		£	£	£	£
<b>ASSETS</b>					
<b>Fixed assets</b>					
<i>Financial fixed assets</i>	[1]				
Loan to parent company			32,144,755		—
<b>Current assets</b>					
<i>Receivables</i>					
Loan to parent company	[2]	—		31,327,000	
Receivables from parent company	[3]	588,283		537,801	
Taxes	[4]	6,125		4,968	
			594,408		31,869,769
<i>Cash</i>	[5]		50,956		40,123
<b>Total assets</b>			<b>32,790,119</b>		<b>31,909,892</b>
<b>SHAREHOLDER'S EQUITY AND LIABILITIES</b>					
<b>Shareholder's equity</b>					
	[6]				
Issued share capital		16,183		15,373	
Share premium reserve		475,000		475,000	
Other reserves		555,901		522,100	
			1,047,084		1,012,473
<b>Long-term liabilities</b>					
	[7]				
Sterling notes			31,679,213		—
<b>Current liabilities</b>					
Accounts payable	[8]	5,899		471	
Taxes	[9]	296		264	
Sterling notes	[10]	—		30,852,000	
Accrued liabilities	[11]	57,627		44,684	
			63,822		30,897,419
<b>Total shareholder's equity and liabilities</b>			<b>32,790,119</b>		<b>31,909,892</b>



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## REA Finance B.V.

**2.2 Profit and loss account for the year ended 31 December 2020**

		2020	2019*
		£	£
Financial income	[12]	3,769,647	2,856,989
Financial expenses	[13]	(3,547,323)	(2,699,550)
<b>Gross financial result</b>		<b>222,324</b>	<b>157,439</b>
Administrative expenses	[14]	(181,385)	(97,213)
<b>Result before taxes</b>		<b>40,939</b>	<b>60,226</b>
Taxation	[15]	(6,328)	(11,858)
<b>Result after taxation</b>		<b>34,611</b>	<b>48,368</b>

\* restated, see 2.3 Notes to the financial statements page 16



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REA Finance B.V.

## 2.3 Notes to the financial statements

### General

REA Finance B.V. (the "Company") is a private company with limited liability, incorporated under Dutch law on 7 November 2006, having its corporate seat at Amsterdam, the Netherlands with offices at Van Heuven Goedhartlaan 935A, 1181 LD Amstelveen. The Company has been registered at the Chamber of Commerce under file number 34259527. The principal activity of the Company is to act as a finance company. The Company receives all of its income from its parent company, REAH. The Company has received proceeds from the issue of sterling notes which have been used to grant a loan to its parent company, R.E.A. Holdings plc ("REAH").

100 per cent of the shares of the Company are held by REAH. REAH is a public listed company located in the United Kingdom and the ultimate parent company of a group (the "group") which is principally engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production and sale of crude palm oil ("CPO") and crude palm kernel oil ("CPKO").

The financial information of the Company is included in the consolidated financial statements of REAH.

### Financial reporting period

These financial statements cover the year 2020, which ended at the balance sheet date of 31 December 2020.

### Basis of preparation

The financial statements of the Company have been prepared in accordance with Title 9, Book 2 of the Dutch Civil Code.

### Functional and presentation currency

The annual accounts have been prepared in pounds sterling ("£") since the majority of the transactions within the Company occur in pounds sterling, which is therefore considered to be the Company's functional currency.

### Going concern

The financial statements of the Company have been prepared on the basis of the going concern assumption.

At the time of signing the 2019 Company accounts, it was concluded that it was appropriate to prepare the financial statements on a going concern basis. With the onset of the Covid-19 pandemic early in 2020, CPO prices suffered a sharp fall which, coupled with the possibility of operational issues caused by the pandemic, could have resulted in liquidity issues and trigger the need for bank loan repayment within the group to be deferred or covenants waived. This meant that there was a material uncertainty about the ability of REAH and, therefore, the Company to continue as a going concern. During 2020, significant progress was made in improving the group's overall financial position. Whilst two Indonesian group subsidiaries were in breach of certain loan covenants at 31 December 2020, these breaches were waived subsequent to the year-end by the lender Mandiri. With better CPO prices now prevailing allowing significantly higher revenues to be generated, these companies are expected to meet their loan covenants in 2021. In addition, proposals are currently under discussion between the group and Mandiri to replace the existing loans to Indonesian subsidiaries with new loans that would provide additional funding of longer tenor, materially improving group cash flows for the period to 31 December 2023.

Management has made a considered assessment of going concern of the Company, including in-depth reviews of REAH's projections and detailed cashflow forecasts. Consideration of possible going impacts of Covid-19 on the Company have also been taken into account. In making this

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### **2.3 Notes to the financial statements (continued)**

assessment, management has considered the period up to 12 months after the end of the reporting period, as well as the period up to 12 months after the date of these accounts.

Management is of the view that uncertainties associated with Covid-19 do not currently trigger uncertainties as respects going concern and that no events or conditions have been identified that might cast significant doubt on the Company's ability to continue as a going concern.

Having regard to the foregoing, management expects that, based on the Company's projections and cash flow forecasts and having regard to the REAH's cash position and available borrowings, the Company should be able to operate for at least 12 months from the date of approval of the financial statements.

#### **Staff members**

During 2020 there were an average of nil employees in full time employment or its equivalent (2019: nil).



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## 2.3 Notes to the financial statements (continued)

### ACCOUNTING POLICIES FOR THE MEASUREMENT OF ASSETS AND LIABILITIES AND THE DETERMINATION OF THE RESULT

#### General

Assets and liabilities are measured at historical cost, unless stated otherwise in the policies below. An asset is recognised in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the asset has a cost price or value of which the amount can be measured reliably. Assets that are not recognised in the balance sheet are considered as off-balance sheet assets.

A liability is recognised in the balance sheet when it is expected that the settlement of an existing obligation will result in an outflow of resources embodying economic benefits and the amount necessary to settle this obligation can be measured reliably. Provisions are included in the liabilities of the Company. Liabilities that are not recognised in the balance sheet are considered as off-balance sheet liabilities.

An asset or liability that is recognised in the balance sheet remains recognised on the balance sheet if a transaction (with respect to the asset or liability) does not lead to a major change in the economic reality with respect to the asset or liability. Such transactions will not result in the recognition of results. When assessing whether there is a significant change in the economic circumstances, the economic benefits and risks that are likely to occur in practice are taken into account. The benefits and risks that are not reasonably expected to occur are not taken into account in this assessment.

An asset or liability is no longer recognised in the balance sheet, and thus derecognised, when a transaction results in all or substantially all rights to economic benefits and all or substantially all of the risks related to the asset or liability are transferred to a third party. In such cases, the results of the transaction are directly recognised in the profit and loss account, taking into account any provisions related to the transaction.

If assets are recognised of which the Company does not have the legal ownership, this fact is disclosed.

Income is recognised in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability arises of which the size can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability arises of which the size can be measured with sufficient reliability.

Revenues and expenses are allocated to the respective period to which they relate. Revenues are recognised when the Company has transferred the significant risks and rewards of ownership of the goods to the buyer.

#### Use of judgement, estimates and assumptions

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the accounting principles and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions and modifications, if any, are regularly assessed in respect of fair values and impairment assessments. Revisions to estimates are recognised in the period in which the estimates are revised.

The key source of estimation uncertainty at the balance sheet date which has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is the loan to REAH.



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### 2.3 Notes to the financial statements (continued)

Management makes an annual assessment in terms of the recoverability of the £32,144,755 intercompany loan (2019: £31,327,000) and whether impairment is required.

Ten year projections are prepared at REAH group level. These demonstrate that the group has sufficient liquidity for its operations and borrowings can be repaid as they fall due.

#### Principles for the translation of foreign currencies

At initial recognition, transactions denominated in a foreign currency are translated into the functional currency of the Company at the exchange rate at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the balance sheet date into the functional currency at the exchange rate applying on that date. Exchange differences resulting from the settlement of monetary items or resulting from the translation of monetary items denominated in foreign currency, are recognised in profit and loss in the period in which the exchange difference arose.

Non-monetary assets and liabilities denominated in a foreign currency that are measured based on historical cost, are translated into the functional currency at the exchange rates at the date of the transactions.

Share capital denominated in a foreign currency is translated at the balance sheet date into the functional currency at the exchange rate applying on that date. Exchange rate differences that arise from this translation are directly recognised in equity as part of other reserves.

#### Restatement of prior year

A correction of error was made as during 2020 it was discovered that the Profit and loss account for the year ended 31 December 2019 was not presented in accordance with the applicable accounting rules and regulations (BMJ and RJ 270). Interest income was not presented within Financial income in the top line of the profit and loss account followed by interest expense within Financial expenses to arrive at the Gross financial result. The profit and loss account did not therefore adequately present the ordinary business activities of the Company. The Company acts as a principal providing finance to its parent company REAH for its own risk and rewards and therefore the ordinary activities of the Company should include interest income as the top line item in the profit and loss account on a gross basis.

As a consequence, the 2019 profit and loss account has been restated and now £2,802,479 interest income and £2,699,550 interest expense are presented in Financial income and Financial expenses respectively to give a gross financial result at the top of the profit and loss account. This change in presentation did not affect result before corporate income taxes, net result and equity.

The comparative figures for 2019 have been restated by reclassifying each of the affected line items in the profit and loss account. The following table summarises the impact on the profit and loss account:



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## 2.3 Notes to the financial statements (continued)

## Profit and loss account for the year ended 31 December 2019

	2019 £	Restatement £	2019 £
	As previously reported	(reclassification)	As restated
Other operating income	54,510	(54,510)	-
<b>Gross operating profit</b>	<b>54,510</b>	<b>(54,510)</b>	-
Other operating costs	97,213	(97,213)	-
<b>Total operating costs</b>	<b>97,213</b>	<b>(97,213)</b>	-
<b>Operating result</b>	<b>42,703</b>	<b>(42,703)</b>	-
Interest income	2,802,479	(2,802,479)	-
Interest and other expenses	(2,699,550)	2,699,550	-
<b>Total financial income and expenses</b>	<b>102,929</b>	<b>(102,929)</b>	-
<b>Result before taxation</b>	<b>60,226</b>	<b>(60,226)</b>	-
Taxation	(11,858)	11,858	-
<b>Result after taxation</b>	<b>48,368</b>	<b>(48,368)</b>	-
Financial income	-	2,856,989	2,856,989
Financial expenses	-	(2,699,550)	(2,699,550)
<b>Gross financial result</b>	-	<b>157,439</b>	<b>157,439</b>
Administrative expenses	-	97,213	97,213
<b>Result before taxes</b>	-	<b>60,226</b>	<b>60,226</b>
Taxation	-	(11,858)	(11,858)
<b>Result after taxation</b>	-	<b>48,368</b>	<b>48,368</b>



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## 2.3 Notes to the financial statements (continued)

### Financial Instruments

These financial statements contain the following financial instruments: a loan to REAH, cash, sterling notes and accounts payable.

Financial assets and liabilities are recognised in the balance sheet at the moment that the contractual risks or rewards with respect to that financial instrument originate.

Financial instruments (and individual components of financial instruments) are presented in the financial statements in accordance with the economic substance of the contractual terms. Presentation of the financial instruments is based on the individual components of financial instruments as a financial asset, financial liability or equity instrument.

Financial and non-financial contracts may contain terms and conditions that meet the definition of derivative financial instruments. Such an agreement is separated from the host contract if its economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms and conditions as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value with changes in fair value recognised in the profit and loss account. Financial instruments embedded in contracts that are not separated from the host contract are recognised in accordance with the host contract. Derivatives separated from the host contract are, in accordance with the measurement policy for derivatives for which no cost price hedge accounting is applied, measured at cost or fair value if lower. The Company has no derivative financial instruments embedded in its financial instrument contracts.

#### i. *Initial and subsequent recognition of financial instruments*

Financial instruments are initially measured at fair value, including discount or premium and directly attributable transaction costs. However, if financial instruments are subsequently measured at fair value through profit and loss, then directly attributable transaction costs are directly recognised in the profit and loss account at the initial recognition.

#### ii. *Modification of financial instruments*

Modifications of financial instruments are assessed from a qualitative and quantitative prospective when they are present, if the discounted present value of the cash flows at market rate under the new terms was less than 10% different from the discounted present value of the remaining cash flows of the original financial liability and asset, it is considered that there is no substantial modification, therefore it is not required to derecognise the financial instruments and account for a new financial instrument; as such, the Company calculates the amortised cost of the financial asset and liability as the present value of the future contractual cash flows that are discounted at the financial instrument's effective interest rate.

Substantial modifications to financial instruments are treated as an extinguishment, and so derecognition, of the existing liability and recognition of a new liability based on the new contractual terms. Any difference between the amortised cost of the 'old' loan and the present value of the modified cash flows at the original effective interest rate is recognised as a gain or loss within the profit and loss account.

#### iii. *Derecognition of financial instruments*

Financial instruments are derecognised if a transaction results in a considerable part of the contractual risks or rewards with respect to that financial instrument being transferred to a third party.

### Loans granted and other receivables

Loans granted and other receivables are carried at amortised cost on the basis of the effective interest method, less impairment losses. The effective interest and impairment losses, if any, are



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### 2.3 Notes to the financial statements (continued)

directly recognised in the profit and loss account. Purchases and sales of financial assets that belong to the category loans granted and other receivables are accounted for at the transaction date.

#### *Non-current and current liabilities and other financial commitments*

Non-current and current liabilities and other financial commitments are measured after their initial recognition at amortised cost on the basis of the effective interest rate method. The effective interest is directly recorded in the profit and loss account.

Redemption payments regarding non-current liabilities that are due next year are presented under current liabilities.

#### *Impairment of financial assets*

A financial asset that is *not* measured at (1) fair value with value changes reflected in the profit and loss account, or at (2) amortised cost or lower market value, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, with negative impact on the estimated future cash flows of that asset, which can be estimated reliably.

Objective evidence that financial assets are impaired includes significant financial difficulty of the issuer or obligor, breach of contract such as default or delinquency in interest or principal payments, granting to the borrower a concession that the Company would not otherwise consider, indications that a debtor or issuer will enter bankruptcy or other financial restructuring, the disappearance of an active market for that financial asset because of financial difficulties or observable data indicating that there is a measurable decrease in the estimated future cash flow, including adverse changes in the payment status of borrowers or issuers, indications that a debtor or issuer is approaching bankruptcy, and the disappearance of an active market for a security. Indicators for subjective evidence are also considered together with objective evidence of impairments, such as the disappearance of an active market because an entity's financial instruments are no longer publicly traded, a downgrade of an entity's credit rating or a decline in the fair value of a financial asset below its cost or amortised cost.

The entity considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and financial assets that are held to maturity). All individually significant assets are assessed individually for impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognised in the profit and loss account and reflected in an allowance account against loans and receivables or investment securities held to maturity. Interest on the impaired asset continues to be recognised by using the asset's original effective interest rate.

Impairment losses below (amortised) cost of investments in equity instruments that are measured at fair value through profit or loss, are recognised directly in the profit and loss account.

When, in a subsequent period, the amount of an impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss (up to the amount of the original cost).

#### *Offsetting financial instruments*

A financial asset and a financial liability are offset when the entity has a legally enforceable right to set off the financial asset and financial liability and the Company has the firm intention to settle the balance on a net basis, or to settle the asset and the liability simultaneously.

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### 2.3 Notes to the financial statements (continued)

If there is a transfer of a financial asset that does not qualify for derecognition in the balance sheet, the transferred asset and the associated liability are not offset.

#### **Cash**

Cash and cash equivalents are measured at nominal value. If cash and cash equivalents are not readily available, this fact is taken into account in their measurement.

Cash and cash equivalents denominated in foreign currencies are translated at the balance sheet date in the functional currency at the exchange rate ruling at that date. Reference is made to the accounting policies for foreign currencies.

#### **Shareholder's equity**

Financial instruments that are designated as equity instruments by virtue of the economic reality are presented under shareholders' equity. Payments to holders of these instruments are deducted from the shareholders' equity as part of the profit distribution.

The translation adjustment for the Euro-denominated share capital is reflected in other reserves.

Financial instruments that are designated as a financial liability by virtue of the economic reality are presented under liabilities. Interest, dividends, income and expenditure with respect to these financial instruments are recognised in the profit and loss as financial income or expense.

The purchase of own shares is deducted from the other reserves.

#### *Share premium reserve*

Amounts contributed by the parent company (and sole shareholder) of the Company in excess of the nominal share capital are accounted for as share premium. This also includes additional capital contributions without the issue of shares or issue of rights to acquire shares of the Company. Costs and capital taxes associated with the issue of shares that are not capitalised are deducted from share premium, after taking into account tax effects. If the share premium is insufficient for such deductions, the amounts are deducted from retained earnings.

#### *Other reserves*

Other reserves comprise translation adjustments arising on Euro-denominated share capital and profit appropriations.

#### **Long-term liabilities**

The valuation of long-term liabilities is explained under the heading "Financial Instruments".

#### **Current liabilities**

The valuation of current liabilities is explained under the heading "Financial Instruments".



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## 2.3 Notes to the financial statements (continued)

### Interest income and similar income and interest expenses and similar charges

Interest income is recognised in the profit and loss account on an accrual basis, using the effective interest rate method. Interest expenses and similar charges are recognised in the period to which they belong.

The redemption premium, being the present value of the total possible premium payable on redemption of the sterling notes discounted at the coupon rate, is charged over the remaining term of the sterling notes and is recognised within financial expenses in the profit and loss account using the effective interest rate method. Such amount is aggregated with the nominal value of the sterling notes in the balance sheet.

An amount equivalent to the redemption premium, being the present value of the total possible premium payable on redemption of the sterling notes discounted at the coupon rate on the loan to REAH, is added to the loan and recognised over the remaining term of the loan within financial income in the profit and loss account using the effective interest rate method. Such amount is aggregated with the nominal value of the loan to REAH in the balance sheet.

### Corporate income tax

Corporate income tax comprises the current corporate income tax payable and deductible for the reporting period. Corporate income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity, or to business combinations.

Current tax comprises the expected tax payable or recoverable on the taxable profit or loss for the financial year, calculated using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

If the carrying amount of assets and liabilities for financial reporting purposes differ from their values for tax purposes (tax base), this results in temporary differences.

For taxable temporary differences, a provision for deferred tax liabilities is recognised.

For deductible temporary differences, available tax losses and unused tax credits, a deferred tax asset is recognised, but only to the extent that it is probable that future taxable profits will be available for set-off or compensation. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset in the balance sheet if the company has a legally enforceable right to offset current tax assets against current tax liabilities, insofar as they relate to the same financial year and deferred tax assets relate to income taxes levied by the same tax authority on the same taxable Company, or the same fiscal unity.

The measurement of deferred tax liabilities and deferred tax assets is based on the tax consequences following from the manner in which the Company expects, at the balance sheet date, to realise or settle its assets, provisions, debts and accrued liabilities. Deferred tax assets and liabilities are measured at nominal value.

There are no deferred taxes applicable to the Company.



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## 2.3 Notes to the financial statements (continued)

### Cash flow statement

The annual accounts for 2020 of the Company's ultimate parent company (REAH) include a consolidated cash flow statement for the group as a whole. Accordingly, the Company has elected to use the exemption provided under RJ 360.104 and does not present its own cash flow statement. The annual report of REAH can be obtained from the website [www.rea.co.uk](http://www.rea.co.uk).

### Determination of fair value

The fair value of a financial instrument is the amount for which an asset can be sold or a liability settled, involving parties who are well informed regarding the matter, willing to enter into a transaction and are independent from each other.

The fair value of listed financial instruments is determined on the basis of the last trade prior to the balance sheet date.

The fair value of the loan to REAH is determined by reference to the fair value of the sterling notes.

### Related parties

Transactions with related parties are assumed when a relationship exists between the Company and a natural person or entity that is affiliated with the Company. This includes, amongst others, the relationship between the Company and its subsidiaries, its parent company shareholder, directors and key management personnel.

Transactions are transfers of resources, services or obligations, regardless of whether anything has been charged.

### Subsequent events

Events that provide further information on the actual situation at the balance sheet date and that appear before the financial statements are being prepared, are recognised in the financial statements.

Events that provide no information on the actual situation at the balance sheet date are not recognised in the financial statements. When those events are relevant for the economic decisions of users of the financial statements, the nature and the estimated financial effects of the events are disclosed in the financial statements.



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## REA Finance B.V.

## 2.4 Notes to the balance sheet

## ASSETS

## FIXED ASSETS

## Financial fixed assets [1]

	31-12-2020	31-12-2019
	£	£
<b>Loan to parent company</b>		
Loan to R.E.A. Holdings plc	32,144,755	—
	2020	2019
	£	£
<i>Loan to R.E.A. Holdings plc</i>		
Balance as at 1 January	—	31,327,000
Reclassification from/to current assets	31,327,000	(31,327,000)
Present value of premium at 31 March 2020	765,057	—
Adjustment to present value of premium at 31 December 2020	52,698	—
Balance as at 31 December	32,144,755	—

The loan to REAH bore interest at 8.9283 per cent from 1 January 2020 to 31 March 2020 and at 9.007 per cent from 1 April 2020 to 31 December 2020 (2019: 8.9283 per cent). The rate was changed following a transfer pricing review by the Company's tax adviser. The effective rate for 2020 was 8.99 per cent (2019: 8.9283 per cent).

The loan is repayable on 20 August 2025 (2019: repayable on 20 August 2020). On 31 March 2020, a general meeting of holders of the sterling notes agreed proposals to extend the repayment date of the sterling notes to 31 August 2025. As a consequence, the Company has agreed with REAH to extend the loan to 20 August 2025.

A premium of 4p per £1 nominal of notes is now payable on redemption of the notes on 31 August 2025 (or earlier in the event of default) or on surrender of the sterling notes in satisfaction, in whole or in part, of the subscription price payable on exercise of warrants issued by REAH on the final subscription date. As a consequence, the Company has agreed with REAH that an amount equivalent to the premium, if any, payable on redemption of the sterling notes shall be aggregated with the loan which is now repayable on 20 August 2025.

The sterling notes and loan were not derecognised and recognised as a new liability and asset, because a substantial modification of terms was not deemed to have occurred. The extension of the repayment date and the addition of the premium payable on redemption were the quantitative criteria considered. As the discounted present value of the cash flows at market rate under the new terms was less than 10% different from the discounted present value of the remaining cash flows of the original financial liability and asset, there was no substantial modification so there was no requirement to derecognise the sterling notes or loan and account for new financial instruments. The Company has therefore calculated the amortised cost of the financial asset and liability as the present value of the future contractual cash flows that are discounted at the financial instrument's effective interest rate of 8.75 per cent and 9.007 per cent respectively.

The loan represents the on-lending of proceeds from the issue of the sterling notes. The interest receivable on the loan is based on a formula from which the Company derives a fixed margin over the cost of funding. This margin was determined by an independent adviser by applying the CAPM method to determine the remuneration for the Company's equity at risk. The TNMM cost-plus method determined the profit remuneration on the financial services performed by the Company. The economic analysis showed that a gross financing margin of 25.7 basis points could be considered in line with market conditions for the Company's financing activities.

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## REA Finance B.V.

## 2.4 Notes to the balance sheet (continued)

## CURRENT ASSETS

## Receivables

	31-12-2020 £	31-12-2019 £
<b>Loan to parent company [2]</b>		
Loan to R.E.A. Holdings plc	–	31,327,000
	2020 £	2019 £
<i>Loan to R.E.A. Holdings plc</i>		
Balance as at 1 January	31,327,000	–
Reclassification to/from fixed assets	(31,327,000)	31,327,000
Balance as at 31 December	–	31,327,000
	31-12-2020 £	31-12-2019 £
<b>Receivable from parent company [3]</b>		
Current account receivable from R.E.A. Holdings plc	588,283	537,801

The current account receivable from REAH is due within one year and bears no interest.



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**REA Finance B.V.****2.4 Notes to the balance sheet (continued)**

	31-12-2020	31-12-2019
	£	£
<b>Taxes [4]</b>		
Corporate income tax	6,125	4,968
	2020	2019
	£	£
<i>Corporate income tax</i>		
Corporate income tax 2020	6,125	—
Corporate income tax 2019	—	4,968
	6,125	4,968

The Company makes advance payments on its estimated corporate tax liability each year. An asset is therefore recognised when the tax charge is less than the amount paid.

The tax charge for the year is the profit before tax at the statutory rate of 16.5 percent (2019: statutory rate of 19.0 per cent). The effective tax rate is the same as the statutory rate (2019: effective rate 19.7 per cent).

The company is a resident of the Netherlands for tax purposes.

There are no deferred tax assets or liabilities.

	31-12-2020	31-12-2019
	£	£
<b>Cash [5]</b>		
Current account bank GBP	50,589	39,996
Current account bank EUR	367	127
	50,956	40,123

The balance of the cash is available to the Company without any restrictions.



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## REA Finance B.V.

## 2.4 Notes to the balance sheet (continued)

## SHAREHOLDER'S EQUITY AND LIABILITIES

## SHAREHOLDER'S EQUITY [6]

	31-12-2020	31-12-2019
	£	£
<b>Issued share capital</b>		
Balance as at 1 January	15,373	16,210
Revaluation	810	(837)
Balance as at 31 December	16,183	15,373

The authorised share capital of the Company amounts to €90,000 divided into 90,000 shares of €1 each, of which 18,000 shares have been issued and fully paid-up. The share capital is recorded at the rate of exchange at the balance sheet date. At 31 December 2020 the rate was £1 = €1.11 (2019: £1 = €1.17).

	31-12-2020	31-12-2019
	£	£
<b>Share premium reserve</b>		
Balance as at 31 December	475,000	475,000

The share premium reserve represents additional paid-in capital.

	31-12-2020	31-12-2019
	£	£
<b>Other reserves</b>		
Balance as at 1 January	522,100	472,895
From proposed profit appropriation	34,611	48,368
Revaluation share capital	(810)	837
Balance as at 31 December	555,901	522,100

## Appropriation of result for the financial year 2019

The annual accounts for 2019 were adopted at the general meeting held on 16 June 2020. The general meeting determined the appropriation of the result in accordance with the motion tabled for that purpose.

## Proposed appropriation of result for the financial year 2020

The Management Board proposes to the general meeting concerning the result for the financial year 2020 the next result appropriation:

	31-12-2020	31-12-2019
	£	£
Result after taxation	34,611	48,368
Added to other reserves	34,611	48,368

This proposal has already been incorporated in the financial statements.



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**2.4 Notes to the balance sheet (continued)****LONG-TERM LIABILITIES [7]**

	31-12-2020	31-12-2019
	£	£
<b>Sterling notes</b>		
Sterling notes 2025	31,679,213	—
	2020	2019
	£	£
<i>Sterling notes</i>		
Balance as at 1 January	—	30,852,000
Reclassification from/to current liabilities	30,852,000	(30,852,000)
Amortisation of premium	827,213	—
Balance as at 31 December	31,679,213	—

The sterling notes bear interest at 8.75 per cent (2019: 8.75 per cent) which is the effective rate. The interest rate was determined by the Company and its advisers after comparing similar listed instruments and is considered to be a market rate.

They are repayable on 31 August 2025 (2019: repayable on 31 August 2020). On 31 March 2020, a general meeting of holders of the sterling notes agreed proposals to extend the repayment date of the sterling notes to 31 August 2025.

A premium of 4p per £1 nominal of notes is now payable on redemption of the notes on 31 August 2025 (or earlier in the event of default) or on surrender of the sterling notes in satisfaction, in whole or in part, of the subscription price payable on exercise of warrants issued by REAH on the final subscription date. The premium is applied to the sterling notes over their remaining term and calculated at the rate of 8.75 per cent.

There was no substantial modification of terms and accordingly, there was no requirement to derecognise the sterling notes and account for a new financial instrument (see note [1]).

The fair value of the sterling notes has been estimated by management to be £27.8 million based on the latest price at which the sterling notes were traded prior to the balance date. This price was 90 percent of the current value of the notes of £30.9 million. The value of the sterling notes was therefore determined by prevailing market conditions at the time of such trades.



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## REA Finance B.V.

## 2.4 Notes to the balance sheet (continued)

## CURRENT LIABILITIES

	31-12-2020	31-12-2019
	£	£
<b>Accounts payable [8]</b>		
Accounts payable	5,899	471
	31-12-2020	31-12-2019
	£	£
<b>Taxes [9]</b>		
Value added tax	296	264
	31-12-2020	31-12-2019
	£	£
<b>Sterling notes [10]</b>		
Sterling notes 2020	—	30,852,000
	2020	2019
	£	£
<i>Sterling notes</i>		
Balance as at 1 January	30,852,000	—
Reclassification to/from current liabilities	(30,852,000)	30,852,000
Balance as at 31 December	—	30,852,000
	31-12-2020	31-12-2019
	£	£
<b>Accrued liabilities [11]</b>		
Accrual audit fees	47,321	42,684
Accrual tax advisory fees	10,306	2,000
	57,627	44,684



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**2.4 Notes to the balance sheet (continued)****FINANCIAL RISK MANAGEMENT**

The principal risks and uncertainties facing the Company relate to the due performance by REAH of its obligations under the loan agreement with the Company. Any shortfall in performance would impact negatively on the Company's ability to meet its obligations to the holders of the sterling notes. The exposure of the Company towards the noteholders in the event of any shortfall in the collection of the loan to REAH is limited by:

- the guarantee given by REAH and R.E.A. Services Limited ("REAS"), a subsidiary company of REAH incorporated in the United Kingdom, in favour of the noteholders; and
- the Limited Recourse Agreement (the "LRA") dated 29 November 2010 and made between the Company, REAH and REAS.

Payment of the principal, premium and interest by the Company in respect of the sterling notes is irrevocably and unconditionally guaranteed by REAH (the "guarantor") and REAS (the "co-guarantor"). The full terms of the guarantee are set out in the trust deed constituting the sterling notes.

The obligations of the guarantor in respect of the guarantee are unsecured and will rank equally and without preference with all other unsecured and unsubordinated obligations of the guarantor, that is in priority to ordinary and preference share obligations.

The obligations of the co-guarantor in respect of the guarantee are secured by way of first ranking charges in favour of the trustee (on behalf of the noteholders) over: (i) two designated bank accounts of the co-guarantor; and (ii) the rights of the co-guarantor in respect of all monies owed to it from time to time by any Indonesian debtor subsidiary (IDS).

An IDS means any qualifying subsidiary which is indebted to the co-guarantor, for so long as such qualifying subsidiary is so indebted. A qualifying subsidiary means any subsidiary of the guarantor incorporated in Indonesia and engaged in the cultivation of oil palms and/or the processing of oil palm fruit. Pursuant to the trust deed, covenants are in place to ensure an adequacy of cover for repayment of any IDS loan.

Currently, there is one IDS loan outstanding to PT Cipta Davia Mandiri ("CDM") in the amount of \$62.8 million (£46.0 million). To satisfy payment under the guarantee, REAH and REAS would look to repayment of the loan by CDM which as at 31 December 2020 had headroom under the covenants of some £3.0 million.

The LRA reflects the intention of the parties thereto that the Company, in relation to its financing activities, should (i) meet the minimum risk requirements of article 8c, paragraph 2, of the Dutch Corporate Income Tax Act and (ii) not be exposed to risk in excess of the Minimum Risk Amount ("MRA"). For these purposes the MRA is 1 per cent of the aggregate amounts outstanding under the loan agreement between the Company and REAH. As respects (i) above, the Company's capital and reserves as at 31 December 2020 and 2019 complied with the minimum risk requirements of article 8c, paragraph 2, of the Dutch Corporate Income Tax Act. In addition, pursuant to the LRA, REAH and REAS limited their rights of recourse to the Company in respect of any calls upon their guarantee of the sterling notes.

**Credit risk**

All borrowings are lent to REAH, the parent company. Management makes an annual assessment regarding the valuation and recoverability of the loan receivable and interest receivable from REAH. Ten year projections are prepared at REAH group level. These demonstrate that the group has sufficient liquidity for its operations and borrowings can be repaid as they fall due. The group's cash flow projections form the basis for the REAH and Company 12 month cashflow forecasts which demonstrate that REAH can finance its interest payments to the Company so that the Company can pay the sterling note interest and other expenses.

KPMG Audit  
Document to which our report  
0001979852/21W00177220AVN dated  
9 June 2021

also refers.  
KPMG Accountants N.V.

## 2.4 Notes to the balance sheet (continued)

### *Financial risk management objectives*

In carrying out its financing activities, it is the policy of the Company to minimise exposure to interest and exchange rate fluctuations by ensuring that loans are denominated in the same currency as the financing sources from which such loans are funded and that interest receivable on such loans is based on a formula from which the Company derives a fixed margin over the cost of funding. In addition, the Company relies on the arrangements described under "Risks and uncertainties" above to limit its exposure to loss.

The Company does not enter into or trade other financial instruments for any purpose.

The Company's overheads are denominated mostly in euros and pounds sterling. The fixed margin referred to above, which is derived in pounds sterling, is formulated to cover all the overheads and to leave a residual margin as compensation for assuming the limited risk under the LRA. The Company does not seek to hedge the minimal foreign currency risk implicit in these arrangements.

Deposits of surplus cash resources are only made with banks with high credit ratings.

### *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's financial results. The payment of interest income by REAH to the Company is always agreed and timed to be several days in advance of the date the interest on the sterling notes is due. The Company can also request additional funds from REAH if required.

Liquidity is monitored by the preparation of projections incorporating cash flow forecasts which cover the period in which the liabilities will fall due at group level and at Company level (see also Credit risk). Consideration of possible on-going impacts of Covid-19 on the Company is taken into account by regular communications with REAH.

### *Cashflow risk*

Cash flow risk relates to the risk that cash flows are unable to cover payments as they fall due. Month by month cash flow projections are prepared by the Company for a minimum period of 12 months and include interest receipts and payments.

### *Currency risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency.

As the Company's financial instruments and significant transactions are in pounds sterling, the currency risk is low, exchange differences arise on the euro and USD balances which are significantly smaller than the pounds sterling balances. The exchange result for 2020 was a £20,560 loss and a there was a £5,510 gain in 2019.



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9 June 2021

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KPMG Accountants N.V.

## 2.4 Notes to the balance sheet (continued)

### *Interest rate risk*

The Company's interest rate risk is the risk which relates to the interest percentages used for the sterling notes and loan to the parent company. The interest receivable on the loan is based on a formula from which the Company derives a fixed margin over the cost of funding. This margin was determined by an independent adviser by applying the CAPM method to determine the remuneration for the Company's equity at risk. The TNMM cost plus method determined the profit remuneration on the financial services performed by the Company. The economic analysis showed that a gross financing margin of 25.7 basis points could be considered in line with market conditions on remuneration for the Company's financing activities.

Since the interest rate on the notes as well as the loan is fixed and the Company earns a margin on the loan, the interest rate risk is considered to be limited.

### *Fair value*

The fair value of most of the financial instruments recognised on the balance sheet, including receivables, securities, cash and cash equivalents and current liabilities, is approximately equal to their carrying amount. The fair value of the other financial instruments recognised on the balance sheet can be specified as follows:

The fair value of the sterling notes has been estimated by management to be £27.8 million based on the latest price at which the sterling notes were traded prior to the balance date. This price was 90 percent of the current value of the notes of £30.9 million. The value of the sterling notes was therefore determined by prevailing market conditions at the time of such trades.

The fair value of the loan to REAH is estimated by management to be £27.8 million, this is based on the fair value of the sterling notes.



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**9 June 2021**

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## REA Finance B.V.

## 2.5 Notes to the profit and loss account

	2020	2019
	£	£
<b>Financial income [12]</b>		
Interest income from loan to R.E.A. Holdings plc ("REAH")	2,815,459	2,796,969
Present value of premium on loan	817,755	—
Currency exchange rate differences	—	5,510
Operational income - recharge of expenses to REAH	136,433	54,510
	<u>3,769,647</u>	<u>2,856,989</u>

	2020	2019
	£	£
<b>Financial expenses [13]</b>		
Interest expense sterling notes	2,699,550	(2,699,550)
Present value of premium on notes	827,213	—
Currency exchange rate differences	20,560	—
	<u>3,547,323</u>	<u>(2,699,550)</u>

	2020	2019
	£	£
<b>Administrative expenses [14]</b>		
Auditor's costs	90,569	41,299
Administrative costs	49,178	38,395
Notary costs	5,650	8,033
Tax advisory costs	32,078	5,575
Bank costs	2,717	2,609
VAT costs	1,193	1,302
	<u>181,385</u>	<u>97,213</u>

The total management remuneration for the year 2020 (included within Administrative costs) amounts to £2,643 (EUR 3,025). Apex received no management remuneration during 2019 as another service company was engaged, Alter Domus/Corfas B.V.

	2020	2019
	£	£
<b>Management remuneration</b>		
Apex Financial Services B.V.	2,643	—
Alter Domus/Corfas B.V.	—	1,750
	<u>2,643</u>	<u>1,750</u>



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REA Finance B.V.

**2.5 Notes to the profit and loss account (continued)**

	2020	2019
	£	£
<b>Auditor's costs</b>		
KPMG in respect of 2020 audit	63,839	-
EY in respect of 2019 audit and handover to KPMG	26,730	41,299
	<u>90,569</u>	<u>41,299</u>

Audit fees of £63,839 were charged by KPMG Accountants N.V. ("KPMG") to the Company as referred to in Article 2:382a(1) and (2) of the Dutch Civil Code. The KPMG fees relate to the total fees for the audit of the 2020 financial statements.

The EY costs in 2020 represent £19,875 costs not accrued in 2019 in respect of the 2019 audit and £6,675 handover costs.

	2020	2019
	£	£
<b>Taxation [15]</b>		
Corporate income tax current year	6,755	11,865
Corporate income tax prior year	(427)	(7)
	<u>6,328</u>	<u>11,858</u>

The tax charge for the year is the profit before tax at the statutory rate of 16.5 percent (2019: statutory rate of 19.0 per cent). The effective tax rate is the same as the statutory rate (2019: effective rate 19.7 per cent).

The Company is a resident of the Netherlands for tax purposes.

**Related parties [16]**

Related parties of the Company are REAH its parent company and its management board director. Transactions with REAH are disclosed in notes 2, 3, 12 and 14. Transactions with the management board director are disclosed in note 16.

**Subsequent events [17]**

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

Amstelveen, 9 June 2021  
REA Finance B.V.

Apex Financial Services B.V.

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Document to which our report  
0001978852/21W00177220AVN dated  
**9 June 2021**

also refers.  
KPMG Accountants N.V.

### 3. OTHER INFORMATION



KPMG Audit  
Document to which our report  
0001978852/21W00177220AVN dated  
**9 June 2021**  
also refers to:  
KPMG Accountants N.V.

**REA Finance B.V.**

### **3. Other information**

#### **3.1 Independent auditor's report**

The independent auditor's report is set out on the next page.

#### **3.2 Statutory rules concerning appropriation of result**

In accordance with article 18 of the Company's articles of association and Book 2 of the Dutch Civil Code, the allocation of profits accrued in a financial year shall be determined by the general meeting. If the general meeting does not adopt a resolution regarding the allocation of the profits prior to or at latest immediately after the adoption of the annual accounts, the profits will be reserved.

The general meeting has the authority to make distributions. If the Company is required by law to maintain reserves, this authority only applies to the extent that the equity exceeds these reserves. No resolution of the general meeting to distribute shall have effect without the consent of the management board. The management board may withhold such consent only if it knows or reasonably should expect that after the distribution, the Company will be unable to continue the payment of its debts as they fall due.



**KPMG Audit**  
Document to which our report  
0001978852/21W00177220AVN dated  
**9 June 2021**

also refers.  
**KPMG Accountants N.V.**

# Independent auditor's report

To: the shareholder of REA Finance B.V. and the Audit Committee of R.E.A. Holdings plc

## **Report on the audit of the financial statements 2020 included in the annual report**

### ***Our opinion***

In our opinion the accompanying financial statements give a true and fair view of the financial position of REA Finance B.V. as at 31 December 2020 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

### ***What we have audited***

We have audited the financial statements 2020 of REA Finance B.V. ("the Company") based in Amsterdam.

The financial statements comprise:

- 1 the balance sheet as at 31 December 2020;
- 2 the profit and loss account for the year ended 31 December 2020; and
- 3 the notes comprising a summary of the accounting policies and other explanatory information.

### ***Basis for our opinion***

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of REA Finance B.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Audit approach**

### **Summary**

Materiality
<ul style="list-style-type: none"><li>— Materiality of £240,000</li><li>— 0.75% of total assets</li></ul>
Key audit matters
<ul style="list-style-type: none"><li>— Going concern risk linked to Covid-19 outbreak</li><li>— Recoverability of the loan receivable, interest receivable and intercompany receivable from R.E.A. Holdings plc</li></ul>
Opinion
Unqualified

### **Materiality**

Based on our professional judgement we determined the materiality for the financial statements as a whole to be £240,000. The materiality is determined with reference to total assets (0.75%).

We considered total assets, which mainly include accounts related to financing activities, to be an appropriate benchmark given the activities of REA Finance B.V. as a group financing company. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Audit Committee of R.E.A. Holdings plc that misstatements in excess of £12,000 which are identified during the audit would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

### **Initial audit**

The year 2020 was the first year we have audited the financial statements of REA Finance B.V.

Prior to accepting our appointment as auditors of REA Finance B.V. effective 2020, we ensured that we were fully independent of REA Finance B.V.

After being appointed we developed a comprehensive plan to ensure an effective transition from the predecessor auditor. Our transition activities included, but were not limited to, obtaining an initial understanding of the Company and its business, its strategy and business risks, the IT landscape and the financial reporting and internal controls framework.

This also included obtaining an initial understanding of the business of the parent company, R.E.A. Holdings plc (the "Parent"), being the counterparty of all loan and interest receivables of the Company. R.E.A. Holdings plc is the ultimate parent company of the REA group which is principally engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production and sale of crude palm oil ("CPO") and crude palm kernel oil ("CPKO").

We assessed the opening balances of the Company and selection and consistent application of the accounting policies by discussing the audit with the predecessor auditor and reviewing their prior year audit files.

Specific attention was paid to developments in relation to the Company's use of the going concern assumption in relation to, amongst others, the impact of the Covid-19 pandemic.

Last year management identified a material uncertainty as to the Company's ability to continue as a going concern and this was reflected in an emphasis of matter paragraph in the predecessor's audit opinion dated 12 June 2020. At that time, material uncertainty existed as a result of a significant drop in CPO prices as a consequence of the general economic impact of the pandemic. In addition to the impact on liquidity at the level of the Parent company, the REA group faced potential operational impacts from Covid-19 which might disrupt the estate operations and hinder the group's ability to deliver its products to customers.

The foregoing steps were undertaken to assist us in performing our risk assessment procedures and served as a basis for preparing our 2020 Audit Plan that was discussed and agreed with the management of REA Finance B.V. and the Audit Committee of R.E.A. Holdings plc.

### ***Our key audit matters***

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Audit Committee of R.E.A. Holdings plc. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### ***Going Concern risk linked to the Covid-19 outbreak***

#### **Description**

Last year management identified a material uncertainty as to the Company's ability to continue as a going concern, this was reflected in an emphasis of matter paragraph in the predecessor's audit opinion dated 12 June 2020. At the time a material uncertainty existed following the uncertainty that the Parent would be able to meet its financial obligations under the loan agreement with the Company.

Early in 2020, general economic uncertainty caused by the Covid-19 pandemic led to a significant drop in CPO prices. In addition, there were potential operational impacts arising from the pandemic that might disrupt estate activities and hinder the group's ability to deliver its products to customers. Whilst Covid-19 remains a factor that may impact the Company's ability to meet its financial obligations, to date the impact on both the Company and on the group's operations has been limited.

At the same time, in 2020 the group was already in extensive negotiations with its bankers in Indonesia to reorganise existing bank facilities so as to reschedule forthcoming loan repayment and reduce the rate of interest on the loan. Negotiations have been prolonged by the pandemic and remain subject to final approval by the bank's credit committee.

Separately, in March 2020, the Company concluded a 5 year extension to the maturity date of the sterling notes to 31 August 2025 and, consequently, to the related loan to the Parent to 20 August 2025. Against the background of Covid-19, in order to retain the continuing support of the sterling noteholders, it was considered appropriate to provide a limited enhancement of the terms of the extension to the repayment date of the sterling notes by way of a premium on final redemption.

Management has assessed that there is no material uncertainty as to the Company's ability to continue as a going concern as at 31 December 2020. In addition to the successful extension of the repayment date of the sterling notes and the related loan to the Parent, CPO prices recovered in the second half of 2020 and have since remained firm, the group's plantation operations continued to perform well throughout the year, and breaches of certain bank loan covenants by two group subsidiary companies in Indonesia at year-end were waived subsequent to the year-end.

Given the aforementioned developments and the potential impact this may also have on the financial statements of 2020 for the Company, we considered the assessment of the appropriateness to use the going concern assumption as well as the adequacy of the related disclosures to be a key audit matter for our audit.

#### **Our response**

In order to obtain sufficient and appropriate audit evidence on the going concern assessment of management our audit procedures included amongst others:

- We evaluated the process and models management uses in its assessment.
- We evaluated whether the assumptions are realistic and achievable and consistent with the external and/or internal environment and other matters identified in the audit.
- We evaluated management's assessment of the entity's compliance with debt covenants and the waivers obtained at the level of REA group.
- Assessed the reasonableness of management's budgets/forecasts at the company level and evaluated whether key assumptions are within a reasonable range.
- Challenged management's plans for future actions, and verified the reliability and relevance of data used.
- Remained alert to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, including those beyond management's assessment.
- Furthermore, we held several calls with the group auditor to discuss their audit approach and findings in relation to their assessment of the cash flows and the going concern of the Parent, supporting their audit opinion on the 2020 consolidated financial statements of the Parent.
- Evaluated the appropriateness of disclosures in relation to this matter in the going concern note.

### **Our observation**

Based on our audit procedures performed we concur with management's assessment of the appropriateness of the going concern assumption being used and the related note disclosures in the financial statements.

#### ***Recoverability of loan receivable, (accrued) interest receivable and intercompany receivable from R.E.A. Holdings plc***

##### **Description**

The principal activity of the Company is to act as a finance company for the group. The Company has issued sterling notes, the proceeds of which are on-lent to the group's plantation subsidiaries via a loan to its Parent, R.E.A. Holdings plc. On 31 March 2020, the maturity date of the loan to the Parent was extended from 20 August 2020 to 20 August 2025 following the extension of the maturity date of the sterling notes from 31 August 2020 to 31 August 2025. The outstanding balances due from the Parent (comprising a long-term loan receivable and short-term intercompany receivable) as at 31 December 2020 totaled £32,733,038 and represented 99.82% of total assets (2019: £31,864,801 representing 99.85% of total assets.)

The Company's ability to meet its financial obligations to the noteholders depends on the cash flow generated from interest income from, and repayment of the loan by the Parent. Important factors in the assessment of the recoverability of the loan receivable, interest receivable and other intercompany receivable to the Parent are the liquidity position and future cash flows of the Parent.

As such, the risk of a financial loss to the Company would be significant, if the Parent failed to meet its contractual obligations towards the Company. Given this significant impact on the financial statements of the Company, we consider the recoverability of the loan provided to the Parent, the interest receivable and intercompany receivable to be a key audit matter.

##### **Our response**

In order to obtain sufficient and appropriate audit evidence on the recoverability of the loan, interest receivable and other intercompany receivable to the Parent, our audit procedures included, amongst others, assessing the design and implementation of the controls regarding the recoverability assessment by management in respect of the loan receivable, interest receivable and other intercompany receivable as part of the financial closing process. Furthermore we performed, amongst others, the following substantive audit procedures with respect to management's assessment of the recoverability of the loan receivable and interest income receivable from R.E.A. Holdings plc:

- We inspected the terms and conditions of the loan agreement between the Parent and the Company and reconciled the critical terms and conditions to the financial statements.

- We inquired with management about their recoverability assessment on the related party receivable (including: loan receivable, interest receivable and intercompany receivable) to the Parent, including the key assumptions and developments relevant for the recoverability such as the developments in the financial position and cash flows of the Parent, the evolution of the Crude Palm Oil (CPO) price and the impact of the Covid-19 pandemic.
- We inspected and analysed the Parent's ability to meet its obligations under the loan agreement and the financial position of the Parent.  
Towards this goal, we evaluated the audited financial statements, including the consolidated cash flow statement of the Parent for the year 2020.
- Furthermore, we held several conference calls with the group auditor to discuss their audit approach and findings in relation to their assessment of the cash flows and the going concern of the Parent, supporting their audit opinion on the 2020 consolidated financial statements of the Parent.
- We evaluated the appropriateness of the accounting principles applied for and the Company's disclosures as presented in the accounting policies (section financial instruments), note 1 and the financial risk management section of the financial statements.

#### **Our observation**

The result of our procedures on the recoverability of the loan receivable, interest receivable and intercompany receivable from R.E.A. Holdings plc were satisfactory.

We concur with the aforementioned disclosures of the financial statements.

#### **Report on the other information included in the annual report**

In addition to the financial statements and our auditor's report thereon, the annual report contains other information.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements; and
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of Dutch Civil Code.

## **Report on other legal and regulatory requirements**

### ***Engagement***

We were appointed by the shareholder as auditor of REA Finance B.V. on 22 October 2020 for the audit for the year 2020.

### **Description of responsibilities regarding the financial statements**

#### ***Responsibilities of the Management Board of REA Finance B.V. and the Audit Committee of R.E.A. Holdings plc***

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as the Management Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Management Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Management Board should prepare the financial statements using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Management Board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Audit Committee of R.E.A. Holdings plc is responsible for overseeing the Company's financial reporting process.

#### ***Our responsibilities for the audit of the financial statements***

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is located at the website of the "Koninklijke Nederlandse Beroepsorganisatie van Accountants" (NBA, Royal Netherlands Institute of Chartered Accountants) at: [http://www.nba.nl/ENG/beursgenoteerd\\_01](http://www.nba.nl/ENG/beursgenoteerd_01).

This description forms part of our independent auditor's report.

Amstelveen, 9 June 2021

KPMG Accountants N.V.

A handwritten signature in black ink, appearing to read 'E.D.H. Vinke-Smits', is written over a faint, rectangular grey stamp.

E.D.H. Vinke-Smits RA

