

# **REA Finance B.V.**

Amsterdam, the Netherlands

## **ANNUAL REPORT 2019**

Van Heuven Goedhartlaan 935A

1181 LD Amstelveen

Registered with the Dutch trade register under file number 34259527

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## **1. DIRECTOR'S REPORT**

## **1.1 Director's report**

### **Report of the management**

Management herewith presents to the shareholder the audited accounts of REA Finance B.V. (hereinafter "the Company") for the year 2019.

#### **General**

The Company is a private company with limited liability incorporated under the laws of the Netherlands and acts as a finance company. The ultimate holding company is R.E.A. Holdings plc (hereinafter "REAH"), London, United Kingdom. The REAH group is principally engaged in the cultivation of oil palms in the province of East Kalimantan in Indonesia and in the production of crude palm oil ("CPO") and by-products from fruit harvested from its oil palms.

The annual accounts have been prepared in British Pounds ("GBP"). The reason for using GBP instead of euros, is that the majority of the transactions within the Company occur in GBP. However, the 2019 REAH Annual Report sections contain United States dollars ("USD") numbers as that is the reporting currency of the group.

#### **Overview of the activities**

At 1 January 2019 the Company had outstanding £30,852,000 8.75 per cent guaranteed sterling notes 2020 (the "2020 sterling notes").

At 1 January 2019 the Company also had a loan receivable from REAH (the "Loan") of £31,327,000 bearing interest at 8.9283 per cent and repayable on 20 August 2020.

During the period under review the Company received interest on the Loan from the Company to REAH and paid interest to the noteholders of the 2020 sterling notes.

At 31 December 2019 the Company had outstanding £30,852,000 2020 sterling notes and the Loan of £31,327,000 to REAH bearing interest at 8.9283 per cent. The 2020 sterling notes and the Loan are 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 consideration for this, the sterling notes will now be repayable at £1.04 per £1.00 nominal on 31 August 2025 and REAH has issued to noteholders 4,010,760 warrants 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.

As a consequence the Company has agreed with REAH that the Loan will be repayable on the same date. The terms and conditions have not changed in comparison with the previous version.

#### **Results**

The net asset value of the Company as at 31 December 2019 amounts to £1,012,473 (31 December 2018: £964,105). The result for 2019 is a profit of £48,368 (2018: profit of £43,955).

## **1.1 Director's report**

### **Going concern**

#### **Finance section of the Strategic report**

In the Finance and Governance sections of the Strategic Report included in the 2019 Annual Report of REAH the directors have made the following statements regarding future viability:

##### **"Liquidity and financing adequacy**

The group reported an operational loss for 2019 of \$9.1 million compared with \$10.7 million in 2018. In operational terms, performance was satisfactory with crops slightly below budget but nevertheless at acceptable levels. However, for most of the year the group had to contend with a low CPO price. Steps were taken to reduce costs and, whilst these had a limited impact in 2019, the group is aiming for a reduction in 2020 of some \$10 million against the level of costs that would have been incurred without the cost saving measures.

The last quarter of 2019 saw the beginning of a long awaited recovery in CPO prices and moving into January 2020 the price continued to firm. With vegetable oil consumption exceeding supply and stocks of CPO falling, the group was optimistic that CPO prices would continue at higher levels and that this would enable it to rebuild much needed liquidity. Unfortunately, this was not to be because with the arrival of Covid-19, prices of CPO started to fall away to the extent that the price CIF Rotterdam now stands at \$525 per tonne at 5 May 2020 against \$860 per tonne at the beginning of January 2020.

Crop production in 2020 is slightly ahead of budget. The group's extension planting programme has been deferred and the group is planning to minimise capital expenditure in 2020. At current CPO prices the group would hope to be able to operate at slightly above a cash break even position over the year as a whole, excluding debt repayments and preference dividends. With crops weighted to the July to December period, unit cash costs are normally lower in the second half of each year than in the first half, but average selling prices for the first half of 2020 will benefit from the higher CPO prices prevailing at the start of the year, see page 7 of the Group financial statements. As noted under "Capital structure" above, the group has recently agreed to postpone the repayment date of the sterling notes to 2025 and has also agreed to defer all loan repayments due to the non-controlling shareholder until 2025. The dollar notes are not due to be repaid until 2022. However, the group does have repayments falling due on its indebtedness to Mandiri.

## **1.1 Director's report**

The group has had extensive negotiations with Mandiri over the past twelve months with a view to obtaining additional loans sufficient to finance the repayments falling due on its existing Indonesian rupiah borrowings. However, following measures to control the spread of Covid-19 (including the closure of bank offices), the group has been informed that all state banks have ceased new lending. The group is therefore now seeking the agreement of Mandiri to reschedule repayments due on the group's existing loans from Mandiri. The latter has confirmed its willingness to discuss such rescheduling.

In order to ensure availability of sufficient mill capacity to meet projected increases in FFB mill throughput, the group is proceeding with completion of the extension of its newest oil mill and the works to enhance the efficiency of the two older mills. Following the sale of PBJ, no further mills will be required for the foreseeable future. This should mean that as cash flows recover, increased cash generation can be used to reduce debt levels. Commencement of quarrying of the andesite stone concession and possible resumption of mining at the Kota Bangun coal concession may provide additional sources of cash through the repayment of loans due to the group.

For some time, the group has been hoping to reorganise its local bank borrowings by converting Indonesian rupiah borrowings to dollar borrowings which attract a lower rate of interest than rupiah borrowings. In the event, this has not to-date proved possible which, as it transpires, is fortuitous because in the period since 1 January, the rupiah fell from \$1 = Rp13,901 to \$1 = Rp16,500, though has since recovered to \$1 = Rp15,000. Based on the group's opening balances due to Mandiri equivalent to \$126.9 million, at an exchange rate of \$1 = Rp15,000, the group's indebtedness to Mandiri will have been reduced by approximately \$9 million. Moreover, the dollar equivalent of the rupiah interest cost will have been reduced proportionately.

As noted under "Capital structure" above, as at 31 December 2019, the group held cash of \$9.5 million but against that had material indebtedness, in the form of bank loans and listed notes. Unless postponed as proposed above, some \$19.2 million of bank term indebtedness falls due for repayment during 2020 and a further \$40.4 million over the period 2021 and 2022. In June 2022, \$27.0 million of dollar notes will become repayable and in August 2025, £30.9 million (\$40.5 million at current exchange rates) of sterling notes will become repayable at a premium of 4 per cent of par.

Provided that CPO prices recover back to the levels prevailing at the start of 2020, the directors believe that the group's cash generation capabilities can be aligned with its cash requirements. However, the group faces serious risks not only in relation to the timing of a recovery in CPO prices, but also in relation to the possible operational impacts of Covid-19 which may restrict estate operations and the group's ability to deliver CPO and CPKO to its buyers although this is not currently an issue.

The group's oil palms fruit continuously throughout the year and there is therefore no material seasonality in the funding requirements of the agricultural operations in their ordinary course of business. It is not expected that development of the stone and coal interests will cause any material swings in the group's utilisation of cash for the funding of its routine activities.

### **Going concern (excerpt)**

However, following the recent Covid-19 pandemic, the CPO price has fallen from \$860 per tonne CIF Rotterdam at 1 January 2020 to \$540 on 30 April 2020. Further there is the possibility of operational disruption should the existing lockdown in Indonesia be extended in a way that would reduce or halt group production or restrict the group's ability to deliver its production to customers (although it should be noted that the current lockdown in Indonesia explicitly excludes agricultural business). In these circumstances, the group could experience liquidity issues and might require waivers from Mandiri to avoid breaching bank covenants. However, in this downside scenario, the directors expect that Mandiri would be receptive to requests to adjust the terms of its loans to the group to an extent that reflects the fact that the issues to be addressed will have arisen as a result of Covid-19 and will be short term in nature, especially given that Covid-19 should not impact on the group's longer-term prospects once the CPO price returns to pre Covid-19 levels.

## **1.1 Director's report**

For these reasons, the directors have concluded that it is appropriate to prepare the financial statements on a going concern basis. However, as the CPO price and prospective liquidity issues under the downside scenario are not wholly within management's control, these factors represent a material uncertainty which may cast significant doubt upon the group's and the company's continued ability to operate as a going concern, such that they may be unable to realise their assets and discharge their liabilities in the normal course of business."

Accordingly, the directors have a reasonable expectation that the group and the Company have adequate resources to continue in operational existence for the period to 31 December 2022 and to remain viable during that period.

### **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 2020 sterling notes. The exposure of the Company towards the sterling 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 dated 29 November 2010 and made between the Company, REAH and REAS (the "LRA").

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. In relation to point (i) above, the Company's capital and reserves as at 31 December 2018 and as at 31 December 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 against the Company in respect of any calls upon their guarantee of the 2020 sterling notes.

In the Risks and uncertainties section of the Strategic Report included in the 2019 Annual Report of REAH the directors have made the following statement:

"In addition to the risks that have long been normal aspects of its business, the group currently faces potential impacts from the Covid-19 pandemic. This pandemic is unprecedented in the history of the group and there are therefore no precedents against which the risks that it entails can be assessed. At this juncture, there has been no material adverse impact on the group's day to day operations although there has been a negative impact on markets for CPO and CPKO, the extent of which is covered elsewhere in this "Strategic report". Potential further consequences of Covid-19 could include adverse effects on employee health, loss of production and inability to make deliveries of palm products. Each of these could then negatively affect the group's finances. The group's ability to withstand such negative financial impact will be dependent upon the continuing support of its stakeholders which cannot be predicted.

## **1.1 Director's report**

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

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

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

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

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



## **1.1 Director's report**

### **Financial instruments**

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 GBP. The fixed margin referred to above, which is derived in GBP, 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.

The principal credit risk is described below. Deposits of surplus cash resources are only made with banks with high credit ratings.

#### *Credit risk*

All borrowings are lent to REAH the parent company, see Risks and uncertainties page 7 as respects the guarantee from the parent.

The loan to REAH is £31.3 million (2018; £31.3 million). The remuneration of the Company on the loan is consistent with the arm's length principle. The level of remuneration reflects the functions performed and risk assumed by the Company in relation to the interest payments. The interest receivable on the loan is based on a formula from which the Company derives a fixed margin over the cost of funding. The credit risk is monitored on a regular basis by the Company. The risk is monitored by assessing on a regular basis whether the future cash flows from the plantation subsidiaries of the group are sufficient to repay the loan to REAH or not, which is explained in detail in Estimate, note no. 2.3 of the financial statement.

#### *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.

#### *Cashflow risk*

Cash flow risk relates to the risks regarding cash flows during the period. By managing the liquidity risk the cash flow risk is covered as well.

#### *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. Since the main transactions of the Company occur in GBP, the currency risk is considered to be low.

#### *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. 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.

## **1.1 Director's report**

### *Fair value of the notes*

The fair value of the sterling notes has been estimated by management to be £27.8 million (2018: £31.3 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.

### *Fair value of the loan to parent company*

The fair value of the loan to the parent company is based on the same valuation as the sterling notes, the fair value is £28.2 million (2018: £31.8 million).

### **Employees**

During 2019, the Company did not employ personnel nor in the previous years.

### **Research and development**

The Company does not perform any research and development.

### **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 August 8, 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 members of the Company's supervisory board ("SB") or by non-executive management board members. Because the Company falls within the definition of a PIE it is in principle obliged to establish an AC. Although the ED provides certain exemptions for establishing an AC. One of those exceptions can be applied if REA Holdings plc has an audit committee that applies Directive 2006/43 / EC and Regulation 537/2014. Also, the audit committee must further supervise REA Finance B.V. on the elements referred to in article 2 paragraph of the Besluit instelling auditcommissie. Since REA Holdings plc has an audit committee in place, the Company does not have to have an audit committee in place.

In view of the above reasons, management currently does not consider it to be in the Company's best interest, nor has it taken steps, to implement an AC.

## **1.1 Director's report**

### **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.

### **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 Report of the management 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, 12 June 2020

The executive board:

Apex Financial Services B.V.

A handwritten signature in blue ink, consisting of a large, stylized 'A' followed by a smaller, more complex mark.

## **2. FINANCIAL STATEMENTS**

## 2.1 Balance sheet as of 31 December 2019

(After result appropriation)

ASSETS	31 December 2019		31 December 2018	
	GBP	GBP	GBP	GBP
<b>Fixed assets</b>				
<i>Financial fixed assets</i>	[1]			
Loan to parent company		-	31,327,000	31,327,000
		-		
<b>Current assets</b>				
<i>Receivables</i>				
Loan to parent company	[2]	31,327,000	-	
Receivable from parent company	[3]	537,801	418,167	
Taxes	[4]	4,968	11,856	
		31,869,769		430,023
<i>Cash</i>	[5]	40,123		87,935
<b>Total assets</b>		<u>31,909,892</u>	<u>31,844,958</u>	

## 2.1 Balance sheet as of 31 December 2019

(After result appropriation)

SHAREHOLDER'S EQUITY AND LIABILITIES		31 December 2019		31 December 2018	
		GBP	GBP	GBP	GBP
<b>Shareholder's equity</b>	[6]				
Issued share capital		15,373		16,210	
Share premium reserve		475,000		475,000	
Translation reserve		(3,149)		(3,986)	
Other reserves		<u>525,249</u>		<u>476,881</u>	
			1,012,473		964,105
<b>Long-term liabilities</b>	[7]				
Other debts		<u>-</u>		<u>30,852,000</u>	
			-		30,852,000
<b>Current liabilities</b>					
Accounts payable	[8]	471		471	
Taxes	[9]	264		300	
Other debts	[10]	30,852,000		-	
Accrued liabilities	[11]	<u>44,684</u>		<u>28,082</u>	
			30,897,419		28,853
<b>Total shareholder's equity and liabilities</b>			<u><u>31,909,892</u></u>		<u><u>31,844,958</u></u>

## 2.2 Profit and loss account 2019

		2019		2018	
		GBP	GBP	GBP	GBP
Other operating income	[12]		54,510		23,765
<b>Gross operating result</b>			54,510		23,765
Other operating costs	[13]	97,213		67,617	
<b>Total operating costs</b>			97,213		67,617
<b>Operating result</b>			(42,703)		(43,852)
Interest income	[14]	2,802,479		2,865,160	
Interest expenses	[15]	(2,699,550)		(2,766,364)	
<b>Total financial income and expenses</b>			102,929		98,796
<b>Result before taxation</b>			60,226		54,944
Taxation	[16]		(11,858)		(10,989)
<b>Result after taxation</b>			48,368		43,955

## **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.

### **Basis of preparation**

The accounts have been prepared on a going concern basis. However, following the recent Covid-19 pandemic, the CPO price has fallen from \$860 per tonne CIF Rotterdam at 1 January 2020 to \$540 on 30 April 2020. Further there is the possibility of operational disruption should the existing lockdown in Indonesia be extended in a way that would reduce or halt group production or restrict the group's ability to deliver its production to customers (although it should be noted that the current lockdown in Indonesia explicitly excludes agricultural business). In these circumstances, the group could experience liquidity issues and might require waivers from Mandiri to avoid breaching bank covenants. However, in this downside scenario, the directors expect that Mandiri would be receptive to requests to adjust the terms of its loans to the group to an extent that reflects the fact that the issues to be addressed will have arisen as a result of Covid-19 and will be short term in nature, especially given that Covid-19 should not impact on the group's longer-term prospects once the CPO price returns to pre Covid-19 levels.

For these reasons, the directors have concluded that it is appropriate to prepare the financial statements on a going concern basis. However, as the CPO price and prospective liquidity issues under the downside scenario are not wholly within management's control, these factors represent a material uncertainty which may cast significant doubt upon the group's and the company's continued ability to operate as a going concern, such that they may be unable to realise their assets and discharge their liabilities in the normal course of business.

### **Activities**

The principal activity of the Company is to act as a finance company.

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").

### **Staff members**

During the year 2019 an average of nil employees has been in service on base of a fulltime employment. The year 2018 counted nil employees.

### **Group structure**

The Company is wholly owned by its parent company, REAH, United Kingdom.



## 2.3 Notes to the financial statements

### Estimates

In the application of the Company's accounting policies management are required to make judgements, estimates and assumptions; these are based on historical experience and other factors that are considered to be relevant, and are reviewed on a regular basis. Actual values of assets and amounts of liabilities may differ from estimates. 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.

Management make considered assessments in terms of the recoverability of the £31.3 million intercompany loan (2018: £31.3 million) and whether impairment is required. The key tool used in this assessment is the annual impairment review of plantation assets disclosed in the 2019 Annual Report of REAH, as the loan will ultimately be repaid from funds lent to the plantation subsidiaries.

Plantation assets (including property plant and equipment, land, intangible assets and goodwill) are carried at \$444.0 million in the consolidated balance sheet. At 31 December 2019 each plantation company in the REAH group has been identified as a cash generating unit and tested for impairment by calculating the value in use over a 25 year plantation cycle and deriving a net present value. The key assumptions in the model used are the CPO selling prices assumed and the discount rate applied. The base model assumed average selling prices based on World Bank forecasts for the next 10 years extrapolated for 25 years and adjusted to FOB Samarinda (commencing with a price of \$560 per tonne in 2020). Viewing the group's plantation assets as a whole if there was an expectation that the price would be \$550 per tonne over the next 25 years then an impairment of \$6 million would be required being the difference between the carrying value of the assets and the value in use. The average price in 2019 was \$460 per tonne while the average price of the past ten years was \$628. The average price from 1 January 2020 to 30 April 2020 was \$692. The discount rate applied was 10.7 per cent (on a pre-tax basis). Using the base model projection to CPO selling prices, if a 2 per cent higher discount rate was assumed, there would be no impairment when viewing the group's plantation assets as a whole but there would be impairments against certain of the individual plantations in aggregate of \$5 million.

Whilst any restriction on harvesting, processing and evacuation of palm products as a result of Covid-19 would have a negative impact on the group's cash flow, in the opinion of the directors it would be unlikely to require impairment of the plantations because plantation assets are generally valued by reference to their long term potential not short term factors and any such restriction would be unlikely to damage the productive capacity of the estates.

Based on assessment carried out by management, the underlying cash flows from the plantation business will be sufficient to repay the aforesaid intercompany loan, hence no impairment on the intercompany loan is necessary.

### Related parties

All legal entities that can be controlled, jointly controlled or significantly influenced are considered to be a related party. Also entities which can control the Company are considered to be a related party. In addition, statutory directors, other key management of REA Finance B.V. or the ultimate parent company of the Company and close relatives are regarded as related parties.

## 2.3 Notes to the financial statements

### Foreign currency

#### *Functional currency*

The annual accounts have been prepared in British pounds ("GBP"). The reason for using GBP instead of euros, is that the majority of the transactions within the Company occur in GBP. Receivables, debts and obligations in foreign currencies are converted at the rate as of the balance sheet date. Foreign currency transactions during the reporting period are processed in the annual accounts at the settlement rate. Any rate differences are incorporated in the profit and loss account, except the exchange result on the shares of the Company. These are being accounted for through the translation reserve.

### Cash flow statement

The annual accounts for 2019 of the Company's ultimate holding 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)

## ACCOUNTING POLICIES APPLIED TO THE VALUATION OF ASSETS AND LIABILITIES

### General

The Company applies Dutch Accounting standards, and complies with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil code. The financial statements are prepared under the historical cost convention and presented in British pounds (GBP).

Valuation of assets and liabilities and determination of the result take place under the historical cost convention. Unless mentioned otherwise at the relevant principle for the specific balance sheet item, assets and liabilities are presented at face value.

### Loan to parent company and receivables

Receivables recognised under financial fixed assets and current assets are initially measured at the fair value less transaction cost (if material). These receivables are subsequently measured at amortised cost. For determining the value, any impairments are taken into account.

The receivables from and loans to participants and companies, as well as other receivables, are measured at amortised cost, after deduction of provisions deemed necessary.

### Impairment of loans and receivables

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more event that occurred after the initial recognition of assets ('a loss event') and the loss event has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

The Company first assesses whether objective evidence of impairment exists. The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the assets is reduced and the amount of the loss is recognised in the profit and loss account.

If in the subsequent period the amount of the impairment loss decreases, and the decreases can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the statement of profit and loss account.

### Cash

Cash is measured at nominal value and, insofar as not stated otherwise, is at the free disposal of the company. Cash relates to immediately due and payable withdrawal claims against credit institutions and cash resources.

## 2.3 Notes to the financial statements

### Shareholder's equity

#### *Share premium reserve*

The share premium concerns the part of issued and paid-up capital that exceeds the nominal value of issued shares.

#### *Translation reserve*

The revaluation of the issued share capital will be added/deducted to the translation reserve.

### Long-term liabilities

Long-term liabilities concern loans with a term of longer than one year. The part of the loans that are repayable in the coming financial year, are included under current liabilities.

On initial recognition long-term debts are recorded at fair value. After initial recognition, non-current liabilities are measured at amortised cost.

### Current liabilities

Current liabilities concern debts with a term of less than one year. Upon initial recognition the current liabilities are recorded at the fair value and subsequently measured at the amortised cost.

## PRINCIPLES FOR THE DETERMINATION OF THE RESULT

### General

The result is the difference between the realisable value of the services provided and the costs and other charges during the year. The results on transactions are recognised in the year in which they are realised.

### Other operating income

The other operating income relates to the reimbursement of expenses which have been recharged to its parent company.

### Operating costs

Costs are attributed to the financial year to which they relate. Profits are accounted for in the year in which services have been performed. Losses are assumed in the year in which these are foreseeable.

### Financial income and expense

#### *Interest income and interest expenses*

Interest income and expenses are recognised on a pro rata basis, taking account of the effective interest rate of the assets and liabilities to which they relate.

#### *Exchange differences*

Currency translation differences arising upon the settlement or conversion of monetary items are recognised in the income statement in the period that they are realised.

### Taxation

Tax on the result is calculated based on the result before tax in the profit and loss account, taking account of the losses available for set-off from previous financial years (to the extent that they have not already been included in the deferred tax assets) and exempt profit components and after the addition of non-deductible costs.

## 2.4 Notes to the balance sheet

### ASSETS

#### FIXED ASSETS

##### Financial fixed assets [1]

	31-12-2019 GBP	31-12-2018 GBP
<b>Loan to parent company</b>		
Loan to R.E.A. Holdings plc	-	31,327,000
	2019 GBP	2018 GBP
<i>Loan to R.E.A. Holdings plc</i>		
Balance as of 1 January	31,327,000	32,327,000
Repayments	-	(1,000,000)
Reclassification to current assets	(31,327,000)	-
Balance as of 31 December	-	31,327,000

The loan to REAH bears interest at 8.9283 per cent and is repayable on 20 August 2020. The loan represents the on-lending of proceeds from the issue of the 2020 sterling notes on such terms that permit the Company to earn such interest margin as is specified by the Advance Pricing Agreement. This agreement was valid until 2018 and the same model has been used consistently in 2019.

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 31 August 2025. The terms and conditions have not changed in comparison with the previous version.

#### CURRENT ASSETS

##### Receivables

	31-12-2019 GBP	31-12-2018 GBP
<b>Loan to parent company [2]</b>		
Loan to R.E.A. Holdings plc	31,327,000	-
	2019 GBP	2018 GBP
<i>Loan to R.E.A. Holdings plc</i>		
Balance as of 1 January	-	-
Reclassification from fixed assets	31,327,000	-
Balance as of 31 December	31,327,000	-

## 2.4 Notes to the balance sheet

	31-12-2019 GBP	31-12-2018 GBP
<b>Receivable from parent company [3]</b>		
Current account receivable from R.E.A. Holdings plc	537,801	418,167

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

	31-12-2019 GBP	31-12-2018 GBP
<b>Taxes [4]</b>		
Corporate income tax	4,968	11,856

	31-12-2019 GBP	31-12-2018 GBP
<i>Corporate income tax</i>		
Corporate income tax 2019	4,968	-
Corporate income tax 2018	-	11,856
	4,968	11,856

	31-12-2019 GBP	31-12-2018 GBP
<b>Cash [5]</b>		
Current account bank GBP	39,996	82,334
Current account bank EUR	127	5,601
	40,123	87,935

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

## 2.4 Notes to the balance sheet

### SHAREHOLDER'S EQUITY AND LIABILITIES

#### SHAREHOLDER'S EQUITY [6]

	2019 GBP	2018 GBP
<b>Issued share capital</b>		
Balance as of 1 January	16,210	15,025
Revaluation	(837)	1,185
Balance as of 31 December	<u>15,373</u>	<u>16,210</u>

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 2019 the rate was £1 = €1.17 (2018: £1 = €1.11).

	2019 GBP	2018 GBP
<b>Share premium reserve</b>		
Balance as of 31 December	<u>475,000</u>	<u>475,000</u>

	2019 GBP	2018 GBP
<b>Translation reserve</b>		
Balance as of 1 January	(3,986)	(2,801)
Revaluation	837	(1,185)
Balance as of 31 December	<u>(3,149)</u>	<u>(3,986)</u>

	2019 GBP	2018 GBP
<b>Other reserves</b>		
Balance as of 1 January	476,881	432,926
From proposal profit appropriation	48,368	43,955
Balance as of 31 December	<u>525,249</u>	<u>476,881</u>

#### Appropriation of result for the financial year 2018

The annual accounts for 2018 were adopted at the general meeting held on 29 April 2019. 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 2019

The board of directors proposes to the general meeting concerning the result for the financial year 2019 the next result appropriation:

	2019 GBP	2018 GBP
Result after taxation	48,368	43,955
Additive to the other reserves	<u>48,368</u>	<u>43,955</u>

This proposal has been already incorporated in the financial statements.

## 2.4 Notes to the balance sheet

### LONG-TERM LIABILITIES [7]

	31-12-2019 GBP	31-12-2018 GBP
<b>Other debts</b>		
Sterling notes	-	30,852,000
	2019 GBP	2018 GBP
Balance as of 1 January	30,852,000	31,852,000
Repayments	-	(1,000,000)
Reclassification to current liabilities	(30,852,000)	-
Balance as of 31 December	-	30,852,000

The 8.75 per cent guaranteed sterling notes 2020 (the “2020 sterling notes”) are repayable on 31 August 2020. The guarantees have been given by REAH and R.E.A. Services Limited in favour of the noteholders.

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 consideration for this, the sterling notes will now be repayable at £1.04 per £1.00 nominal on 31 August 2025 and REAH has issued to noteholders 4,010,760 warrants 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.

### CURRENT LIABILITIES

	31-12-2019 GBP	31-12-2018 GBP
<b>Accounts payable [8]</b>		
Accounts payable	471	471
	31-12-2019 GBP	31-12-2018 GBP
<b>Taxes [9]</b>		
Value added tax	264	300
	31-12-2019 GBP	31-12-2018 GBP
<b>Other debts [10]</b>		
Sterling notes	30,852,000	-
	2019 GBP	2018 GBP
<i>Sterling notes</i>		
Balance as of 1 January	-	-
Reclassification from long-term liabilities	30,852,000	-
Balance as of 31 December	30,852,000	-

## 2.4 Notes to the balance sheet

	31-12-2019 GBP	31-12-2018 GBP
<b>Accrued liabilities [11]</b>		
Accrual audit fees	42,684	25,743
Accrual tax advisory fees	2,000	2,339
	<u>44,684</u>	<u>28,082</u>

### FINANCIAL RISK MANAGEMENT

#### Financial instruments

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 GBP. The fixed margin referred to above, which is derived in GBP, 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.

The principal credit risk is described below. Deposits of surplus cash resources are only made with banks with high credit ratings.

#### *Credit risk*

All borrowings are lent to REAH the parent company. 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 2020 sterling notes. The exposure of the Company towards the sterling 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 dated 29 November 2010 and made between the Company, REAH and REAS (the "LRA").

The loan to REAH is £31.3 million (2018; £31.3 million). The remuneration of the Company on the loan to REAH is consistent with the arm's length principle. The level of remuneration reflects the functions performed and risk assumed by the Company in relation to the interest payments. The interest receivable on the loan is based on a formula from which the Company derives a fixed margin over the cost of funding. The credit risk is monitored on a regular basis by the Company. The risk is monitored by assessing on a regular basis whether the future cash flows from the plantation subsidiaries of the group are sufficient to repay the loan to REAH or not, which is explained in detail in Estimate, note no. 2.3 of the financial statement.

#### *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.



## **2.4 Notes to the balance sheet**

### *Cash flow risk*

Cash flow risk relates to the risks regarding cash flows during the period. By managing the liquidity risk the cash flow risk is covered as well.

### *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. Since the main transactions of the Company occur in GBP, the currency risk is considered to be low.

### *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. 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 of the notes*

The fair value of the sterling notes has been estimated by management at £27.8 million (2018: £31.3 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.

### *Fair value of the loan to parent company*

The fair value of the loan to the parent company is based on the same valuation as the sterling notes, the fair value is £28.2 million (2018: £31.8 million).

## 2.5 Notes to the profit and loss account

	2019 GBP	2018 GBP
<b>Other operating income [12]</b>		
Other income	54,510	23,765
<b>Operating costs [13]</b>		
General costs	97,213	67,617
<b>General costs</b>		
Auditor's costs	41,299	26,897
Administrative costs	38,395	23,429
Notary costs	8,033	7,770
Tax advisory costs	5,575	5,498
Bank costs	2,609	2,614
VAT costs	1,302	1,409
	97,213	67,617
<b>Financial income and expenses</b>		
<b>Interest income [14]</b>		
Interest income from loan to R.E.A. Holdings plc	2,796,969	2,865,144
Exchange differences	5,510	16
	2,802,479	2,865,160
<b>Interest expenses [15]</b>		
Interest expenses sterling notes	2,699,550	2,766,364
<b>Taxation [16]</b>		
Corporate income tax	11,858	10,989

## **2.5 Notes to the profit and loss account**

### **Subsequent events [17]**

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 consideration for this, the sterling notes will now be repayable at £1.04 per £1.00 nominal on 31 August 2025 and REAH has issued to noteholders 4,010,760 warrants each entitling the warrant holder to subscribe, for a period of five years, one new ordinary share in the capital of the company at a subscription price of £1.26 per share.

As a consequence of the sterling note repayment date extension the Company has agreed with REAH that the loan will be repayable on the same date. The loan agreement has been extended under the same terms.

Since the year end, the impact of the Covid-19 has had a significant impact on the group in terms of the reduction in the CPO price from \$860, CIF Rotterdam, at 1 January 2020 to \$540 on 30 April 2020. The directors consider the Covid-19 pandemic to be a non-adjusting post balance sheet event. However, should the pandemic result in a depressed CPO price for a prolonged period, this could impact the directors' assessment of the valuation of group assets. Further there is the possibility of operational disruption should the existing lockdown in Indonesia be extended in a way that would reduce or halt group production or restrict the group's ability to deliver its production to customers (although it should be noted that the current lockdown in Indonesia explicitly excludes agricultural business). In these circumstances, the group could experience liquidity issues and might require waivers from Mandiri to avoid breaching bank covenants. However, in this downside scenario, the directors expect that Mandiri would be receptive to requests to adjust the terms of its loans to the group to an extent that reflects the fact that the issues to be addressed will have arisen as a result of Covid-19 and will be short term in nature, especially given that Covid-19 should not impact on the group's longer-term prospects once the CPO price returns to pre Covid-19 levels.

Amstelveen, 12 June 2020  
REA Finance B.V.

Apex Financial Services B.V.



### **3. OTHER INFORMATION**

### **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.

## Independent auditor's report

To: the shareholder of REA Finance B.V.

### Report on the audit of the financial statements 2019 included in the annual report

#### Our opinion

We have audited the financial statements 2019 of REA Finance B.V., based in Amsterdam.

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 2019, and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- ▶ The balance sheet as at 31 December 2019
- ▶ The profit and loss account for 2019
- ▶ 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. (the Company) in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), 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.

#### Material uncertainty relating to Corona and Going Concern

The developments surrounding the Corona ("Covid-19") virus have a profound impact on people's health and on our society as a whole, as well as on the operational and financial performance of organizations and the assessment of the ability to continue as a going concern. The financial statements and our auditor's report thereon reflect the conditions at the time of preparations.

The situation changes on a daily basis giving rise to inherent uncertainty. REA Finance B.V. is confronted with this uncertainty as well, which is disclosed in the Section Director's report; Going Concern, basis of preparation and note 17 Subsequent events of the financial statement indicating that due to the recent Covid-19 pandemic the palm oil price has fallen considerably and that the possibility exists that the pandemic could cause operational issues, which could result in liquidity issues at its parent company R.E.A. Holdings plc and its plantation subsidiaries (together: the Group), triggering the need to request the Group's bank to extend the dates on which loan repayments are required or waive covenants. We draw attention to these disclosures. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

## Materiality

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, non-compliance with laws and regulations or error in order to design audit procedures responsive to those risks, and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Materiality	£159,000
Benchmark applied	0.5% for total assets as at 31 December 2019
Explanation	We have applied total assets as measurement basis for our materiality as the Company's main activity is lending. The Company facilitates R.E.A. Holdings plc and its plantation subsidiaries in their financing activities. The holders of the Sterling notes issued by the Company are most interested in the recoverability of the loan granted to the parent company, R.E.A. Holdings plc, of which the total nominal amount almost represents the total assets of the 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 management that misstatements in excess of £8,000, 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.

## Our key audit matters

In addition to the matter described in the 'Material uncertainty relating to Corona and Going Concern' section of our report we selected the following key audit matters. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the board of directors. 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.

#### Estimation uncertainty regarding valuation of loan to parent company

Risk	<p>The principal activity of the Company is to act as a finance company for the Group. The Company issued Sterling notes which proceeds were used in the Group for financing the plantation subsidiaries through a loan to its parent company R.E.A. Holdings plc. As of 31 December 2019, the loan to parent company amounted to £31.3 million.</p> <p>The valuation of the loan to parent company relies on certain assumptions and estimates in relation to the likelihood of the plantation assets in the Group to generate and upstream suitable future cash flows for servicing the loan. The key input to the valuation calculation is the Crude Palm Oil (CPO) price and discount rate which require the judgement of management. The use of an inappropriate CPO price and discount rate could have a material impact on the valuation of the plantation subsidiaries and consequently impact on the valuation of the loan to parent company.</p> <p>We consider the recoverability of the loan to parent company a key audit matter because this determines the ability of REA Finance B.V. to fulfil its obligations and to continue as a going concern.</p> <p>We refer to Sections Impairment of loans and receivables and Estimates of Note 2.3, where management has disclosed its critical accounting judgements and key sources of estimation uncertainty in respect of the valuation of the loan to parent company.</p>
Our audit approach	<p>Management concluded that there is no impairment on the loan to parent company as at 31 December 2019 as the long-term cash flows from the Group are being sufficient to recover the loan to parent company. In order to obtain sufficient audit evidence on the recoverability of the loan, our audit procedures included, amongst others, assessing the existence of relevant internal controls related to the valuation of assets as part of the financial statement closing process. Furthermore, we performed substantive audit procedures on the appropriateness of management's impairment assessment on the valuation of the loan to parent company. These include amongst others audit procedures focussing on, both, the Company and the parent company:</p> <ul style="list-style-type: none"> <li>▶ Assessed the loan agreement and reconciled the critical terms and conditions to the financial statements.</li> <li>▶ Assessed managements' impairment assessment on the loan to parent company, including key estimation uncertainties relevant for the recoverability.</li> <li>▶ Reviewed the Group's cash flow forecast models, in close cooperation with the group auditor, including instructions sent detailing specific procedures and a process of file review and periodically calls for assessing the adequacy of the audit procedures performed.</li> <li>▶ Reviewed the disclosure on events after the reporting period, including CPO-price developments following the Covid-19 pandemic and negotiations with the Indonesian banker Mandiri.</li> <li>▶ Assessed whether the disclosure included in the financial statement is consistent with the audited financial statements of R.E.A. Holdings plc.</li> </ul>



Key  
observations

Based on the procedures performed we consider the valuation of loan to parent company and the related disclosures thereon to be reasonable. However, the valuation is critically dependent on the assumptions relating to the CPO price and discount rate and therefore this sensitivity is disclosed in the accounts. We noted that on 31 March 2020 the loan was extended from 20 August 2020 to 31 August 2025 as the repayment terms are linked to the Sterling notes, which also got extended to that date.

#### Transition as auditor including the audit of opening balances

Risk

In conducting an initial audit engagement, the auditor is required to obtain sufficient and appropriate audit evidence on the opening balances to ensure that the opening balances do not contain misstatements that materially affect the current period's financial statements and appropriateness of accounting policies applied in the previous year and appropriate disclosure of change in accounting policy, if any in the current year financial statement.

We therefor consider the audit of opening balances a key audit matter.

Our audit  
approach

In order to obtain sufficient and appropriate audit evidence, we performed the following procedures:

- ▶ Close cooperation with the previous auditor, including a process of file review and formal handover procedures as prescribed by our professional standards.
- ▶ Performed audit procedures to test the opening balances; especially reconciliation of intercompany receivables and liabilities regarding Sterling Notes to the supporting documentation.
- ▶ Evaluation of key accounting policies, their consistent application and audit matters from prior years.
- ▶ Evaluation of internal control process of the Company relating to the financial statement closing process.

Key  
observations

Based on procedures performed, we have obtained sufficient appropriate audit evidence regarding the opening balances and found them to be reasonable.

## Report on 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 that consists of:

- ▶ The board of director's report
- ▶ Other information as required by Part 9 of Book 2 of the Dutch Civil Code

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

- ▶ Is consistent with the financial statements and does not contain material misstatements
- ▶ 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 substantially 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 board of director's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

### Engagement

We were engaged by the parent company of the company as auditor of REA Finance B.V. on 7 April 2020 for the audit for the year 2019 and have operated as statutory auditor since that date.

### No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

### Other non-prohibited services provided

Our services are only related to the audit of the financial statements.

## Description of responsibilities for the financial statements

### Responsibilities of the management for the financial statements

Management 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, management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations or has no realistic alternative but to do so. Management 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.

### **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.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- ▶ Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



#### Communication

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

In this respect we also submit an additional report to the audit committee of R.E.A. Holdings plc in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 12 June 2020

Ernst & Young Accountants LLP



Digitaal ondertekend door  
nlvosse6  
DN: cn=nlvosse6,  
email=roger.vossen@nl.ey.com  
Datum: 2020.06.12 16:57:19  
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R.A.J.H. Vossen