

**Árma Real Estate SOCIMI, S.A.
and subsidiaries**

Independent auditor's report on the consolidated annual accounts
for the year-ended December 31, 2019



This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent auditor's report on the consolidated annual accounts

To the shareholders of Árima Real Estate SOCIMI, S.A.:

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Árima Real Estate SOCIMI, S.A. (hereinafter "the Company") and subsidiaries (hereinafter the Group), which comprise the balance sheet as at December 31, 2019, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2019, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of investment properties</i></p> <p>Investment properties make up 59% of the Group's assets. As described in note 2.7, the Group applies the fair value model in accordance with IAS 40 and has recognised a variation in the fair value of investment property amounting to €21,589 thousand in the consolidated income statement, as indicated in note 6. Total investment properties recognised in non-current assets on the consolidated balance sheet amount to €221,650 thousand at 31 December 2019.</p> <p>The Group recognises the value of investment property based on independent expert valuations. Valuations are performed in accordance with the Appraisal and Valuation Standards published by the Royal Institute of Chartered Surveyors (RICS) of Great Britain and in accordance with the International Valuation Standards (IVS) published by the International Standards Valuation Committee (ISVC), whose methodology is described in notes 2.4 and 6 to the consolidated financial statements.</p> <p>Valuers consider specific variables such as the lease contracts signed. Similarly, they apply certain assumptions with respect to variables such as discount rates, estimated market rent and comparable transactions in order to arrive at a final valuation.</p> <p>The significance of the estimates and judgements involved in these valuations, coupled with a minor difference in percentage terms in the valuation of a property, could result in a material figure, meaning that the valuation of investment property is considered a key audit matter.</p>	<p>For acquisitions of investment property, we verified the key supporting documentation, such as contracts and sale-purchase deeds or other documents affecting the price.</p> <p>Additionally, we obtained the valuation of property investments carried out by Management's independent experts, on which we performed the following procedures among others:</p> <ul style="list-style-type: none"> • Verification of the expert's competence, capacity and independence by obtaining confirmation and corroborating its professional standing in the market. • Verification that the valuations were performed according to accepted methodology. • Discussion of the principal key assumptions of the valuation through sundry meetings with the expert valuer and management, assessing the consistency of the main assumptions used taking existing market conditions into account. • Performance of selective tests to corroborate the accuracy of the most relevant data provided by Management to the valuer and used by it in the valuations <p>Additionally, we assessed the sufficiency of the information disclosed in the consolidated annual accounts.</p> <p>The results of the procedures performed allowed us to reasonably obtain the audit objectives for which these procedures were designed.</p>

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2019 financial year, the formulation of which is the responsibility of the Parent company's directors and does not form an integral part of the consolidated annual accounts.



Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in auditing regulations that distinguish two levels of responsibility:

- a) A specific level which is applicable to certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Audit Law 22/2015, that consists of verifying solely that that information was provided in the management report and if not, reporting this matter.
- b) A general level applicable to other information included in the consolidated management report that consists of assessing and reporting on the consistency of that information with the consolidated annual accounts, on the basis of the understanding of the Group obtained in the performance of the audit of those annual accounts, without including information other than that obtained as evidence during the audit and assessing and reporting on whether the content and presentation of that part of the consolidated management report are in conformity with applicable legislation. If we conclude that there are material misstatements on the basis of our work, we are required to report them.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided in the consolidated management report, and that the other information contained therein is consistent with that provided in the 2019 consolidated annual accounts and its content and presentation are in conformity with applicable regulations.

Responsibility of the directors and the audit and control committee for the consolidated annual accounts

The Parent company's directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the aforementioned directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company's audit and control committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. 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 consolidated annual accounts.



As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and 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.
- Obtain 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company's directors.
- Conclude on the appropriateness of the Parent company's directors' 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 Group'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 consolidated annual accounts 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 the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Parent company's audit and control committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit and control committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company's audit and control committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.



Report on other legal and regulatory requirements

Report to the Parent company's audit and control committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit and control committee dated February 24, 2020.

Appointment period

We were appointed Group auditors for a three-year period as from the year ended 31 December 2018 at the general meeting of shareholders held on 18 October 2018.

Services provided

Non-audit services provided to the Group are described in note 20 to the accompanying consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish by
Rafael Pérez Guerra (20738)

February 24, 2020



This version of the consolidated annual accounts is a free translation from the original, which is prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the consolidated annual accounts takes precedence over this translation.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

Consolidated Annual Accounts at 31 December 2019
and Consolidated Management Report
for the financial year 2019



ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

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Consolidated Management Report for the financial year ended on 31 December 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2019
(Thousand euros)**

ASSETS	Note	At 31 December 2019	At 31 December 2018
NON- CURRENT ASSETS			
Property, plant and equipment	5	136	63
Investments properties	6	221,650	39,975
Other non-current financial assets	7, 8	842	-
		222,628	40,038
CURRENT ASSETS			
Trade receivables and other receivable accounts		1,204	369
Trade receivables for sales and services	7, 8	303	12
Other receivable accounts	7, 8	322	-
Personnel	7, 8	103	-
Other credits held with Public Authorities	8, 15	476	357
Other current financial assets	7	303	-
Prepayments for current assets	7	158	105
Cash and cash equivalents	9	153,967	57,970
Cash and banks		153,967	57,970
		155,632	58,444
		378,260	98,482

Notes 1 to 22 to the consolidated annual accounts form an integral part of the Consolidated Annual Accounts at 31 December 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2019
(Thousand euros)**

EQUITY AND LIABILITIES	Note	At 31 December 2019	At 31 December 2018
EQUITY			
Share capital	10	284,294	100,063
Share premium	10	5,769	-
Reserves	11	(9,924)	(3,553)
Treasury shares	10	(625)	(546)
Profit (loss) for the period		15,389	1,124
Other equity instruments	17	5,610	-
Hedging reserve	11, 14	(735)	-
		299,778	97,088
NON CURRENT LIABILITIES			
Bank loans and credits	7, 12	72,427	-
Financial hedging derivatives	7, 14	735	-
Other non-current financial liabilities	7	956	-
		74,118	-
CURRENT LIABILITIES			
Bank loans and credits	7, 12	210	-
Other current financial assets	7	250	-
Trade and other payables	12	3,804	1,394
Commercial creditors and other payables	12	2,314	764
Other current debts	12	135	-
Other debts with Public Authorities	15	1,355	630
Prelevables for current assets		100	-
		4,364	1,394
		378,260	98,482

Notes 1 to 22 to the consolidated annual accounts form an integral part of the Consolidated Annual Accounts at 31 December 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

**CONSOLIDATED INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED ON 31
DECEMBER 2019
(Thousand euros)**

	Note	Financial year ended 31 December 2019	Financial year from 13 June 2018 to 31 December 2018
<u>CONTINUED OPERATIONS</u>			
Revenue	13	5,740	12
Changes in fair value of investment properties	6	21,589	1,621
Personnel costs	13, 17	(8,609)	(321)
Other operating costs	13	(2,543)	(186)
Losses on disposal of fixed assets		(33)	-
Amortisation and depreciation	5	(11)	(2)
OPERATING RESULTS		16,133	(1,124)
Financial income		-	-
Financial expenses	13	(744)	-
FINANCIAL RESULT		(744)	-
PRE-TAX RESULT		15,389	1,124
Income tax		-	-
PROFIT (LOSS) FOR THE FINANCIAL YEAR	13	15,389	1,124
Earnings per share attributable to the parent Company's owners (euros per share)			
Basic and diluted earning per share	10	1.05	0.33

Notes 1 to 22 to the consolidated annual accounts form an integral part of the Consolidated Annual Accounts at 31 December 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES TO EQUITY FOR THE FINANCIAL YEAR ENDED
ON 31 DECEMBER 2019
(Thousand euros)**

	Note	Financial year ended on 31 December 2019	Financial year from 13 June 2018 to 31 December 2018
Profit (Loss) for the financial year	13	15,389	1,124
<u>Other comprehensive income:</u>			
Entries that may subsequently be reclassified to results		(735)	-
Cash-flow hedges transactions	11	(735)	-
Entries that won't subsequently be reclassified to results		-	-
Other comprehensive results for the financial year		14,654	1,124
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		14,654	1,124

Notes 1 to 22 to the consolidated annual accounts form an integral part of the Consolidated Annual Accounts at 31 December 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**

	Capital (Note 10)	Share Premium (Note 10)	Reserves (Note 11)	Hedging Reserve (Note 11)	Accumulated earnings (Note 11)	Other equity instruments	Treasury Shares (Note 10)	TOTAL
BALANCE AT 13 JUNE 2018	-	-	-	-	-	-	-	-
Profit /(loss) for the financial year	-	-	-	-	1,124	-	-	1,124
Other comprehensive results for the financial year	-	-	-	-	-	-	-	-
Total comprehensive income for the financial year	-	-	-	-	1,124	-	-	1,124
Incorporation	100,063	-	(3,553)	-	-	-	-	96,510
Others results in treasury shares (Note 10)	-	-	-	-	-	-	(546)	(546)
Total transactions with owners, recognised directly in equity	100,063	-	(3,553)	-	-	-	(546)	95,964
BALANCE AT 31 DECEMBER 2018	100,063	-	(3,553)	-	1,124	-	(546)	97,088
BALANCE AT 1 JANUARY 2019	100,063	-	(3,553)	-	1,124	-	(546)	97,088
Profit /(loss) for the financial year	-	-	-	-	15,389	-	-	18,359
Other comprehensive results for the financial year	-	-	-	(735)	-	-	-	(735)
Total comprehensive income for the financial year	-	-	-	(735)	15,389	-	-	14,654
Capital increase	184,231	5,769	(7,572)	-	-	-	-	182,428
Other movements	-	-	1,124	-	(1,124)	5,610	-	5,610
Other results in treasury shares (Note 10)	-	-	77	-	-	-	(79)	(2)
Total transactions with owners, recognised directly in equity	184,231	5,769	(6,371)	-	(1,124)	5,610	(79)	188,036
BALANCE AT 31 DECEMBER 2019	284,294	5,769	(9,924)	(735)	15,389	5,610	(625)	299,778

Notes 1 to 22 to the consolidated annual accounts form an integral part of the Consolidated Annual Accounts at 31 December 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED ON 31
DECEMBER 2019
(Thousand euros)**

	Note	Financial year ended on 31 December 2019	For the period 13 June 2018 to 31 December 2018
A) CASH FLOW FROM OPERATING ACTIVITIES			
Pre-tax result for the financial year		15,389	1,124
Adjustments to profit/loss		(15,191)	(1,619)
Depreciation of property, plant and equipment	5	11	2
Financial expenses	13	744	-
Changes in fair value of investment properties	6	(21,589)	(1,621)
Profit / (losses) on disposal of fixed assets		33	-
Other adjustments to profit/loss	17	5,610	-
Changes in working capital		770	216
Debtors and other receivables	8	(616)	(369)
Other current assets	8	(475)	(105)
Creditors and other payables	11	1,419	690
Other current liabilities		250	-
Other non-current assets and liabilities		192	-
Cash flow from operating activities		968	(279)
B) CASH FLOW FROM INVESTMENT ACTIVITIES			
Payments on investments		(160,203)	(37,439)
Property, plant and equipment	5	(116)	(65)
Investment properties	6	(160,087)	(37,374)
Cash flow from investment activities		(160,203)	(37,439)
C) CASH FLOW FROM FINANCING ACTIVITIES			
Receivables and payments on equity instruments		182,426	95,964
Issue of equity instruments	10	182,428	96,510
Acquisition of treasury shares	10	(1,487)	(555)
Disposal of treasury shares	10	1,485	9
Receivables and payments on financial liabilities		72,806	(276)
Bank loans	11	103,203	-
Bank loans repayments	11	(30,000)	-
Paid interest		(397)	-
Debts with special features		-	(276)
Cash flow from financing activities		255,232	95,688
NET INCREASE/REDUCTION IN CASH AND CASH EQUIVALENTS		95,997	57,970
Cash and cash equivalents at beginning of financial year		57,970	-
Cash and cash equivalents at end of financial year	9	153,967	57,970

Notes 1 to 22 to the consolidated annual accounts form an integral part of the Consolidated Annual Accounts at 31 December 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019 (Thousand euros)

1. ACTIVITIES AND GENERAL INFORMATION

Árma Real Estate SOCIMI, S.A. (hereinafter, the “Company” or the “dominant Company”) was incorporated in Spain on 13 June 2018 under the Spanish Capital Companies Act. Its registered office is located at calle Serrano, 47 4ª planta, 28001 Madrid. During this period the company has changed its registered office from calle Fernando el Santo, 15, 28010, Madrid.

Its corporate purpose is described in Article 2 of its articles of association and consists of:

- The acquisition and development of urban properties intended for lease.
- The ownership of interests in the share capital of other Spanish Real Estate Investment Trusts (*Sociedad Anónima Cotizada de Inversión en el Mercado Inmobiliario*, “SOCIMI”) or other companies that are not resident in Spain, that have the same corporate purpose, and that are governed by rules similar to those governing SOCIMIs as regards the compulsory, legal or statutory policy on profit distribution.
- The ownership of interests in the share capital of other companies that are both resident and non-resident in Spain, whose corporate purpose is the acquisition of urban properties for lease, and which are governed by the same rules that govern SOCIMIs as regards the compulsory, legal or statutory policy on profit distribution, and which meet the investment requirements set out in Article 3 of the Spanish SOCIMI Act.
- The ownership of shares or holdings in Collective Investment Institutions governed by Spanish Collective Investment Institutions Act 35 of 4 November 2003.

The Company may also engage in other ancillary activities, this being understood to mean activities that generate income accounting for less than 20% of the Company’s total income over a single tax period.

Any activity that must by law meet special requirements that are not met by the Company are excluded.

The aforementioned business activities may also be fully or partially engaged in indirectly by the Company through the ownership of interests in another company or companies with a similar corporate purpose.

a) Regulatory regime

The Company is regulated under the Spanish Capital Companies Act.

In addition, on 27 September 2018 the Company informed the Tax Authorities that it wished to opt for application of the rules governing Spanish Real Estate Investment Trusts (SOCIMIs), and is therefore subject to Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs are governed. Article 3 of Act 11 of 26 October 2009 sets out certain requirements that must be met by this type of company, namely:

- a) They must have invested at least 80% of the value of their assets in urban properties intended for lease, or in land for the development of properties that are to be used for the same purpose, provided that development begins within three years following its acquisition, or in equity investments in other companies, as set out in Article 2 section 1 of the aforementioned Act.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019 (Thousand euros)

b) At least 80% of the income from the tax period corresponding to each year, excluding the income deriving from the transfer of ownership interests and real estate properties used by the Company to comply with its main corporate purpose, once the retention period referred to in the following paragraph has elapsed, must come from the lease of properties and from dividends or shares in profits associated with the aforementioned investments.

c) The real estate properties that make up the Company's assets must remain leased for at least three years. Calculation of this term will include the time that the properties have been offered for lease, up to a maximum of one year.

The First Transitional Provision of the SOCIMI Act allows for application of the SOCIMI tax rules under the terms set out in Article 8 of the SOCIMI Act, even when the requirements it contains are not met on the date of incorporation, on the condition that these requirements are met during the two years following the date on which it is decided to opt for application of the said tax rules. In this regard, the Directors of the dominant Company consider that the necessary requirements have already met within the established terms and periods, and they have therefore not entered any income or expense in respect of Corporate Income Tax.

The Company has been listed on the Spanish Stock Market since 23 October 2018.

On 23 January 2019 the individual annual accounts of Árima Real Estate SOCIMI, S.A. and the consolidated annual accounts of Árima Real Estate SOCIMI, S.A. and subsidiaries at 31 December 2018 were prepared by the Board of Directors and were approved, without modifications, by the share holders on 21 March 2019.

The figures contained in these consolidated interim summary financial statements are expressed in thousands of euros, unless otherwise indicated.

b) Subsidiary companies

As of 31 December 2019, Árima Real Estate SOCIMI, S.A., is the parent company of a Group of companies (hereinafter, the "Group") which is comprised of the next subsidiary:

Name	Address	Activity	Share %
Árima Investigación, Desarrollo e Innovación, S.L.U.	Calle Serrano 47, 4ª planta, 28001 Madrid	Real Estate Business Sustainability projects Exploitation of industrial property rights	100

Árima Real Estate Investments, S.L.U. was incorporated in December 2018. At 7 November 2019 its corporate name was changed to Árima Investigación, Desarrollo e Innovación, S.L.U. At the time of its incorporation, Árima Real Estate SOCIMI, S.A. became the dominant company of a group of companies of which it has control, forming a group at that time.

2. BASES FOR THE PRESENTATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

The main accounting policies adopted in the preparation of the consolidated annual accounts are described below. These policies have been applied uniformly for the period presented, unless otherwise indicated.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019 (Thousand euros)

2.1 Bases for presentation

These consolidated annual accounts for the year ended 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the Interpretations of The International Financial Reporting Committee (IFRS) adopted by the European Union (collectively, IFRS-EU), in accordance with Regulation (EC) No 1606/2002 of the Parliament and the European Council and subsequent amendments.

The preparation of these consolidated annual accounts in accordance with the IFRS-EU requires the use of certain critical accounting estimates. It also requires the Management to exercise its judgment in the process of applying the Group's accounting policies. Note 2.4 discloses the areas that imply a higher degree of judgment or complexity or the areas where the hypotheses and estimates are significant for the consolidated annual accounts.

The Group's activity does not have a seasonal nature.

These consolidated annual accounts have been prepared by the Board of Directors on 19 February 2020.

2.2 Comparative information

The figures presented in the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows correspond to the 12 months year ended on 31 December 2019, while the financial year 2018 corresponds to the period from 13 June to 31 December 2018. Therefore they are not comparative.

2.3 IFRS Interpretation Committee and IFRIC modifications

Standards, modifications and mandatory interpretations for all years beginning on January 1, 2019:

- IFRS 16 – “Leasings.”
- IFRS 9 (Modification) – “Component of payment advice with negative compensation.”
- IFRIC 23 – “Uncertainty over income tax treatments.”
- IAS 28 (Modification) – “Investments in Associates and Joint Ventures.”
- IAS 19 (Modification) – “Employee Benefits.”
- Annual improvement of IFRS – Cycle 2015-2017:
 - o IAS 12 – “Income taxes.”
 - o IAS 23 – “Borrowing costs.”
 - o IFRS 11 – “Joint arrangements.”
 - o IFRS 3 – “Business combinations.”

These amendments on the consolidated annual accounts of the company have not had a significant impact.

Norms, modifications and interpretations to the existing norms that have not come into effect, but which can be adopted in advance for the financial years started in January 2019:

- IAS 1 (Modification) and IAS 28 (Modification) – “Definition of materiality and relative significance”.
- IFRS 9 (Modification), IFRS 7 (Modification) and IAS 39 (Modification) – “Interest rate benchmark reform”.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019 (Thousand euros)

The potential application of these rules and modifications would not have a significant effect on these consolidated annual accounts.

Norms, modifications and interpretations to the existing norms that can not be adopted in advance or that have not been adopted by the European Union:

At the date on which these condensed consolidated interim financial statements are signed, the IASB and the IFRS Interpretations Committee had published the standards, modifications and interpretations detailed below that are pending adoption by the European Union.

- IFRS 10 (Modification) and IAS 28 (Modification) – “Sale of contribution of assets between an investor and its associates of joint venture.”
- IFRS 17 – Insurance contract.
- IFRS 3 (Modification) – “Definition of business.”

If any of the above standards were adopted by the European Union, the Group will apply them with the corresponding effects in its financial statements.

2.4 Use of estimates

Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are considered reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, will rarely equal the corresponding actual results. The adjustments that occur when regularizing the estimates will be prospective. Below, we explain the estimates and judgments that have a significant risk of giving rise to a material adjustment in the carrying amounts of the assets and liabilities within the following financial year.

Fair value of real estate investments

The Administrators of the dominant Company carry out an assessment of the fair value of each property taking into account the most recent independent valuations, and determine the value of a property within a range of acceptable fair value estimates.

The best evidence of the fair value of investment properties in an active market is the price of similar assets. When making such judgements, the Company uses a series of sources, including:

- i. The current prices in an active marketplace of different kinds of properties in varying states of repair and different locations, adjusted to reflect differences with the Company’s own assets.
- ii. The recent prices paid for properties in other, less active marketplaces, adjusted to reflect changes in economic conditions since the transaction date.
- iii. The discounting of cash flows based on estimates resulting from the terms and conditions contained in current lease contracts and, where possible, evidence of the market prices of similar properties in the same location, through the use of discount rates that reflect the uncertainty of the time factor.

At 31 December 2019, the Directors have requested valuations carried out by independent experts (Note 6) in order to book their fair value at this date.

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Fair value of derivatives and other financial instruments

The fair value of those financial instruments that are not traded in an active market (for example, off-exchange derivatives) is determined using valuation techniques. The Group uses its judgment to select several methods and makes assumptions that are based mainly on the market conditions at each balance sheet. The Group has used a discounted cash flow analysis for several interest rate contracts that are not traded in active markets.

As indicated in Note 3.1, the Group has signed several interest rate swap financial instruments, classified as hedging instruments and registered in accordance with the following registration and valuation policy:

Financial derivatives are measured at fair value both on initial entry and on subsequent measurement. The method used to enter any resulting gains or losses depends on whether the derivative is designated as a hedging instrument or not and, if so, the type of hedging applied.

Hedging instruments are valued and entered according to their characteristics, insofar as they do not provide, or cease to provide, effective coverage. In the case of derivatives that do not qualify for hedge accounting, gains or losses in their fair value are immediately entered in the consolidated income statement.

The Group designates certain derivatives as hedges for a specific risk associated with a recognised asset or liability or with a highly probable forecast transaction (cash flow hedges).

Upon initiating the transaction, the Group documents the relationship between the hedging instruments and hedged items and its risk management objectives and strategy for arranging various hedging transactions. The Group also documents its evaluation, both at the outset and continuously thereafter, as to whether the derivatives being used in the hedging transactions are expected to be highly effective in order to offset changes in fair value or in cash flows from hedged items.

The total fair value of a hedging derivative is entered under non-current assets or liabilities if the time remaining to maturity of the hedged item is more than 12 months and under current assets or liabilities if the time remaining to maturity of the hedged item is less than 12 months. Derivatives held for trading are entered under current assets or liabilities.

Cash flow hedges

The effective portion of changes in the fair value of a derivative designated as a cash flow hedge is entered under other comprehensive income. The profit or loss on the ineffective portion is entered immediately in the income statement under "other (losses)/gains - net".

Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). Gains or losses on the effective part of interest rate swaps used to hedge loans at variable rates are entered in the income statement under "financial income/expenses". However, when the forecast transaction that is being hedged results in the entry of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial valuation of the cost of the asset. The deferred amounts are definitively entered as the cost of the assets sold, in the case of stocks, or as depreciation in the case of property, plant and equipment.

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When a hedging instrument matures or is sold or when the requirements for the application of hedge accounting cease to be met, any gains or losses accumulated in equity to that date will remain in equity and will be entered when the forecast transaction is finally entered in the income statement. When it is expected that the scheduled transaction is not going to take place after all, the profit or loss accumulated in the equity is immediately transferred to the income statement under the heading “other net (losses)/profits”.

Income Tax

The company applies the system provided for in Act 11 of 26 October 2009, which governs Spanish Real Estate Investment Trusts (SOCIMIs), which in practice means that, provided that it meets certain requirements, the Company is subject to a Corporate Income Tax rate of 0% (Note 1).

The Directors monitor compliance with the requirements set out in the relevant legislation in order to secure the tax advantages offered. In this regard, the Directors consider that the necessary requirements will be met within the established terms and periods, and they have therefore not entered any income or expense in respect of Corporate Income Tax.

Although the aforementioned criteria are based on rational appreciations and elements of objective analysis, events that may take place in the future may make it necessary to adjust these estimates (upwards or downwards) in coming reporting periods or years. Changes in accounting estimates, if required, would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the consolidated income statements for the periods or years concerned.

2.5 Consolidation

(a) Subsidiaries

Subsidiaries are all the companies (including structured institutions) over which the Group has control. The Group controls a company or institutions when it obtains, or has the right to obtain, variable returns as the result of its involvement in the subsidiary and also has the ability to use its power over the company in order to influence these returns. Subsidiaries are consolidated from the date on which control is transferred to the Group and deconsolidated on the date on which such control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Where necessary, amounts presented by subsidiaries have been adjusted to bring them into line with the Group’s accounting policies.

(b) Changes to shareholdings held in subsidiaries without any change of control

Transactions involving non-controlling shareholdings that do not result in a loss of control are entered as equity transactions, i.e. as transactions with the owners in their capacity as such. The difference between the fair value of the consideration paid and the corresponding proportion of the book value of the subsidiary’s net assets is entered under equity. Any gains or losses resulting from the disposal of non-controlling shareholdings are entered under equity.

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(c) Disposal of subsidiary companies

When the Group ceases to have control, any shareholding retained in the company is remeasured at its fair value on the date on which control is lost, and the change is entered in the book value in the income statement. Fair value is the initial book value for the purposes of the subsequent entry of the shareholding maintained as an associate, joint venture or financial asset. In addition, any amount previously entered in respect of the company in question under other comprehensive income is accounted for as if the Group had directly sold the related assets and liabilities. This could mean that the amounts previously entered under other comprehensive income are moved to the income statement.

2.6 Financial information by segment

Information on business segments is reported on the basis of the internal information supplied to the body with ultimate authority to make decisions. The investments committee has been identified as the body with ultimate authority to make decisions, since it is responsible for allocating resources and assessing the performance of operating segments, as well as being in charge of strategic decision-making, with final approval from the Board of Directors.

2.7 Investment properties

Property that is held in order to obtain long-term rent or capital gains or both and is not occupied by Group companies is classified as investment property. Investment properties include office buildings, logistics warehouses and other items owned by the Group. Investment property also includes property that is under construction or being developed for future use as investment property.

Investment properties are initially valued at cost, including related transaction costs and financing costs, if applicable. Following their initial entry, investment properties are accounted for at fair value.

The fair value of investment property reflects, inter alia, income from leasing and other assumptions that market players would take into account when valuing the property under current market conditions. Calculation of the fair value of such items is described in Note 6.

Subsequent expenses are capitalised at the asset's book value only when it is likely that future profits associated with these expenses will flow to the Group and the item's cost may be reliably measured. Any remaining costs are entered in the income statement when they are incurred. When part of an investment property is replaced, the book value of the replaced part is written down.

Any changes to fair value are entered in the income statement. When the Group disposes of a property at fair value in an arm's-length transaction, the book value immediately prior to the sale is adjusted to the transaction price and the adjustment is entered in the income statement as part of the net gain from the adjustment to the fair value of investment properties.

If an investment property becomes an owner-occupied property, it is reclassified as property, plant and equipment. Its fair value on the date on which it is reclassified becomes its cost for subsequent accounting purposes.

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If an owner-occupied property becomes an investment property, due to a change of use, the resulting difference between the book value and fair value of that asset on the transfer date is treated in the same way as a restatement under IAS 16. Any resulting increase in the book value of the property is entered in the income statement, insofar as it reverses a previous loss due to impairment. Any remaining increase is entered under other comprehensive income, directly increasing equity in the revaluation reserve. Any resulting fall in the book value of the property is initially entered under other comprehensive income against any previously entered restatement reserve, and any remaining fall in value is entered in the income statement.

When an investment property is subject to a change of use, as demonstrated by the beginning of development work with a view to its sale, the property is transferred to stocks. The cost allocated to property for subsequent entry under stocks is its reasonable value on the date on which the change of use occurs.

2.8 Property, plant and equipment

Property, plant and equipment items are entered at their acquisition price or production cost, minus accumulated depreciation and the accumulated value of any recognised losses. Subsequent expenses are capitalised at the asset's book value only when it is likely that future profits associated with these expenses will flow to the Group and the item's cost may be reliably measured. Maintenance and repair expenses are charged to the income statement when they are incurred.

The depreciation of property, plant and equipment (except for land, which is not depreciated) is systematically calculated by the straight-line method according to its estimated useful life, taking account of the actual depreciation caused by its operation, use and benefit. Depreciation rate based on estimated useful life figures are as follows:

	<u>Depreciation rate (%)</u>
Other Facilities	10%
Furnishings	10%
Data processing equipment	25%
Transport items	25%
Other fixed assets	10%

The useful life of all property, plant and equipment is reviewed and, where applicable, adjusted on the date of each balance sheet.

When the book value of a fixed asset is higher than its estimated recoverable value, its book value is immediately reduced to its recoverable value.

2.9 Losses due to the value impairment of non-financial assets

Assets subject to depreciation are subjected to impairment reviews whenever some event or a change in circumstances indicates that the book value may not be recoverable. An impairment loss is entered in the amount by which the asset's book value exceeds its recoverable value. The recoverable value is calculated as either the fair value minus sale costs or the operational value, whichever is higher. In order to assess impairment losses, assets are grouped at the lowest level for which there are generally independent identifiable cash flows (cash generating units). Previous impairment losses on non-financial assets are reviewed for their possible reversal on each financial reporting date. The value of non-financial assets subject to amortisation is not significant.

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2.10 Investments

Investments arise when there is a change in the use of investment properties, as demonstrated by the beginning of development work with a view to its sale, and the properties are reclassified as stock at attributed cost, which is the fair value on the date on which they are reclassified. These are subsequently valued at either cost price or net realisable value, whichever is the lower. The realisable value is the estimated sale price in the normal course of business, minus the costs incurred in completing the development and sale costs. At year end, the Group did not have any stock.

2.11 Financial assets

Classification

Classification depends on the valuation category on the basis on the business model and the characteristics of the contractual cash flows, and only reclassifies the financial asset when, and only when, its model of business changes to manage those assets.

The Group classified its financial assets in this categories: financial assets at fair value with changes in results, financial assets at fair value with changes in other comprehensive income and financial assets at amortized cost.

Valuation

Acquisitions and disposals of investments are recognized on the trading date, i.e. the date on which the Group undertakes to acquire or sell the asset. Investments are initially recognized at fair value plus transaction costs for all non-fair financial assets with changes in results. Financial assets valued at fair value with changes in results are initially recognized at fair value, and transaction costs are debited to Profitability Analysis. Investments are decommissioned when the rights to receive cash flows from investments have expired or been transferred and the Group has substantially transferred all risks and advantages arising from their ownership.

For assets measured at fair value, gains and losses shall be recorded in results or other comprehensive income. For investments in equity instruments that are not maintained for trading, the Group has made an irrevocable choice at the time of initial recognition to account for all capital investment at fair value with changes in other comprehensive income.

Financial assets at amortized cost (Loans and receivables)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. They arise when the Group supplies money, goods or services directly to a debtor with no intention of trading with the receivables. They are included in current assets, except for maturities longer than 12 months from the balance sheet date on which they are classified as non-current assets.

In addition, this category includes deposits and bonds granted to third parties. Loans and receivables are then posted for their amortized cost according to the effective interest rate method. Receivables that do not explicitly accrue interest are valued by their nominal, provided that the effect of not financially updating cash flows is not significant. Subsequent valuation, if any, continues to be made at face value.

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Financial assets at fair value with changes in other comprehensive income

Assets held for the collection of contractual cash flows and for the sale of financial assets, where cash flows from the assets represent only principal and interest payments, are measured at fair value with changes in other comprehensive income. Movements in book value are taken through another global result, except for the recognition of impairment gains or losses, interest income, and foreign exchange gains and losses that are recognized in profit and loss. Unrealized gains and losses arising from changes in fair value are recognized in the other overall result. When these financial assets are sold or suffer impairment losses, the accumulated fair value adjustments recognized in equity are included in the income statement as profit and loss.

The fair values of the trading investments are based on current purchase prices. If the market for a financial asset is not active (and for non-listed securities), the Group establishes fair value using valuation techniques including the use of recent free transactions between interested parties and duly informed, other substantially equal instruments and the analysis of discounted cash flows. In the event that none of the above techniques can be used to estimate fair value, investments are accounted for at their acquisition cost minus impairment losses, if applicable.

In the case of equity instruments falling into this category, the Group's management has chosen to present the fair value gains and losses of equity instruments in another overall result.

There is no subsequent reclassification of fair value gains and losses to results after investment decline. Impairment losses (and reversal of impairment losses) on equity instruments valued at fair value with changes in another overall result are not reported separately from other changes in fair value.

Dividends from such investments continue to be recognized in profit and loss when the Group is entitled to receive payments.

Financial assets at fair value with changes in results

Assets that do not meet the amortized cost or fair value criteria with changes in other comprehensive income, are measured at fair value with changes in results. Realized and unrealized gains and losses arising from changes in the fair value of the category of financial assets at fair value with changes in results are included in the income statement in the financial year in which they arise.

Impairment

The impairment model requires recognition of impairment provisions based on the expected loss model rather than just the credit losses incurred.

The Group applies for its customer accounts, receivables and other assets, which correspond for the most part to customers of recognized solvency with which it has extensive experience, the simplified approach, recognizing the expected loss of credit for the entire life of assets.

For receivables and contract assets, provided they do not contain a significant financial component, the Group applies the simplified approach, which requires recognizing a loss allocation based on the expected lifetime loss model asset on each filing date. The Group's model considers internal information, such as the balance exposed in customers, external factors such as customer credit valuations and agency risk ratings, as well as the specific circumstances of customers considering the available information about past events, current conditions and forward-looking items.

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2.12 Financial liabilities

Financial liabilities at amortized cost (Loans and receivables)

The financial debt is initially recognized at fair value, net of the transaction costs incurred. Subsequently, financial debts are valued for their amortized cost. Any difference between the income earned (net of transaction costs) and the repayment value is recognized in results over the life of the debt according to the effective interest rate method. The fees paid for obtaining loans are recognized as costs of the loan transaction to the extent that part or all of the line is likely to be available. In this case, the commissions are deferred until the provision occurs. To the extent that there is no evidence that all or part of the credit line is likely to be available, the commission is capitalized as an advance payment for liquidity services and amortized in the period to which the credit availability relates.

Financial debt is removed from the balance sheet when the obligation specified in the contract has been paid, canceled, or expired. The difference between the carrying amount of a financial liability that has been cancelled or transferred to another party and the consideration paid, including any assigned assets other than the cash or liabilities assumed, is recognized in the outcome of the financial year as others income or financial expenses.

Financial debt is classified as current liabilities unless the Group has an unconditional right to defer its liquidation for at least 12 months after the balance sheet date.

Financial liabilities at fair value with changes in results

Liabilities that are acquired for the purpose of selling them in the short term. Derivatives are considered in this category unless they are designated as hedging instruments (Note 14). These financial liabilities are measured, both at the initial and subsequent valuations, at fair value, allocating changes in that value to the Consolidated Income Statement for the financial year.

2.13 Offsetting financial instruments

Financial assets and financial liabilities are offset and are shown in the net amount on the balance sheet when there is a legally enforceable right to offset the amounts recognised and the Group intends to settle them for the net amount or realise the asset or cancel the liability simultaneously. The legally enforceable right should not be contingent on future events and should be enforceable in the normal course of business and in the event of a breach or the insolvency or bankruptcy of the company or counterparty.

2.14 Share capital

The share capital is made up of ordinary shares.

The costs of issuing new shares or options are entered directly in equity as a reduction in reserves.

In the event that the Company acquires treasury shares, the consideration paid including any incremental cost that is directly attributable, is deducted from equity until the shares are redeemed, issued again or otherwise disposed of. When treasury shares are subsequently sold or reissued, any amount received is moved to equity, net of any directly attributable incremental costs.

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Basic earnings per share are calculated by dividing the profit attributable to the company's owners, excluding any cost of servicing equity other than ordinary shares, among the average number of ordinary shares outstanding during the year, adjusted for incentives in ordinary shares issued during the year and excluding treasury shares.

For diluted earnings per share, the figures used in determining basic earnings per share are adjusted, taking account of the effect after income tax of interest and other financial costs associated with potential ordinary shares with dilutive effects and the weighted average number of additional ordinary shares that would have been in circulation, assuming the conversion of all potential ordinary shares with dilutive effects.

2.15 Current and deferred income tax

In accordance with the SOCIMI tax rules, the Parent company is subject to a Corporate Income Tax rate of 0%.

As established in Article 9.2 of Act 11 of 26 October 2009, with the amendments incorporated via Act 16 of 27 December 2012, the Company shall be subject to a special rate of 19% on the overall sum of the dividends or profit distributions received by shareholders whose stake in the share capital of the Company is equal to or greater than 5%, when those dividends, in the possession of its shareholders, are exempt from or have a tax rate of less than 10% (to this effect, the tax due will be taken into consideration under the Non-Resident Income Tax Act).

However, that special rate will not apply when the dividends or profit shares are received by entities whose purpose is the ownership of interests in the share capital of other SOCIMIs or other companies that are not resident in Spain, that have the same corporate purpose, and that are governed by rules similar to those governing SOCIMIs as regards the compulsory, legal or statutory policy on profit distribution, with respect to companies that have a share that is equal to or greater than 5% of the share capital of the SOCIMIs and that pay tax on those dividends or profit shares at a rate of at least 10%.

For each Company in the Group that does not form part of the aforementioned tax rules, the income tax expense (income) is the sum that, for this concept, accrues in the financial year and comprises the expense (income) related to both current tax and deferred tax.

Both the current tax expense and deferred tax expense (income) is entered in the income statement. However, the tax effect related to entries that are directly registered in the equity have been entered in equity.

The assets and liabilities related to current tax will be valued at the amounts expected to be paid or recovered from the tax authorities, in line with the legislation in force or approved and pending publication at the end of the financial year.

Deferred taxes are calculated, in accordance with the liability method, on the time-period differences arising between the tax bases for assets and liabilities and their book values.

However, the deferred taxes will not be entered if they arise from the initial entry of an asset or liability in a transaction that is not a combination of businesses which, at the time of transaction, does not affect the accounting result or the tax base. The deferred tax is determined by applying the regulation and tax rates approved or about to be approved at the date of the balance sheet, and that are expected to be applied when the relevant deferred tax asset is realised or the deferred tax liability is paid.

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As regards assets due to deferred taxes, these are only recognised to the extent that it is probable that the company will earn future taxable profits that will allow these time-period differences to be offset.

2.16 Leases

a) When the Group is the lessee

Until financial year 2018, leases for fixed assets (offices) were classified as operating leases. As of 1 January 2019, leases are recognized as an asset, by right of use and the corresponding liability, on the date the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially valued on a current value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including fixed payments in essence), minus any lease incentives to be receivable
- variable lease payments that depend on an index or rate, initially valued according to the index or rate on the start date
- amounts expected by the group to pay for residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain that it will exercise that option, and
- lease termination penalty payments, if the lease term reflects the exercise by the group of that option.

Lease payments to be made under reasonably certain extension options are also included in the liability valuation.

Lease payments are deducted using the interest rate implied in the lease.

After the analysis carried out by the Directorate and taking into account that the Group only acts as a tenant in the contract in which it rents the offices where it carries out its activity and the terms of it (duration square meters rented, extensions, amounts, etc.) has concluded that the impact of the recognition of the asset and liability discounted at the implied interest rate is not significant based on its consolidated balance sheet structure and financial obligations included in the financings. Minimum total future payments for non-cancellable leases are 389 thousand euros at 31 December 2019 (19 thousand euros at 31 December 2018).

b) When the Group is the lessor

Properties let out under operating lease are included within investment properties in the balance sheet. Income earned from the leasing of property is entered on a straight-line basis over the lease period.

2.17 Share- based payments

On 26 September 2018, the Annual General Shareholders Meeting approved a new remuneration plan based on the Company's own shares, granted to the Árima Real Estate team. That plan will be in effect for 6 years and the right to receive shares as an incentive will accrue when the conditions set out in the plan are met for each calculation period (a period of one year, between 1 July and 30 June of the following year), the conditions established in the plan are met, with the exception of the first accrual period, whose first term includes from the dominant Company IPO on 23 October 2018 to 30 June 2020.

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These conditions principally require the total return for shareholders to be in excess of a specific percentage. This return is measured as the sum of the total dividends distributed plus revaluation of the Net Asset Value, excluding any share capital increase that may have occurred during the calculation period. This payment is therefore focused on the return generated for the shareholder through active management of the portfolio, and not on the size of the portfolio.

In order for this incentive to take effect, shareholders must obtain a return in excess of 10%. When the return exceeds this threshold, the incentive corresponds to 20% of any amount by which is exceeded.

The right to receive this incentive is accrued on a yearly basis (from 1 July to 30 June of the following year) and it is liquidated by the delivery of shares. The team may dispose of the shares received after the following periods: one third of the shares after twelve months, one third after eighteen months and one third after twenty-four months.

2.18 Provisions

Provisions are set aside: when the Group has a present legal or implied obligation as a result of past events; when it is likely that an outflow of resources will be required to settle the obligation; and when the amount has been reliably estimated. No provisions are set aside for future operating losses.

Provisions are valued at the current value of the payments that are expected to be required to settle the obligation, using a pre-tax rate that reflects the current market assessment of the time value of money and the specific risks of the obligation. The adjustments to provisions as the result of their restatement are entered as a financial expense as they accrue.

Provisions that mature in one year or less and have non-significant financial effects are not discounted. When it is expected that a portion of the payment necessary to cancel the provision will be reimbursed by a third party, this reimbursement is entered as an independent asset, provided that its receipt is practically certain.

2.19 Revenue recognition

Income is stated at the fair value of the consideration to be received and it represents the amounts to be collected for the services rendered during the ordinary course of the Group's activities, minus returns, discounts, rebates and VAT.

Rendering of services

The Group provides leasing services. The income received from the leasing of property is entered as it accrues, and profits are distributed on a straight-line basis with regard to incentives and initial lease agreement costs. When the Group offers incentives to its tenants, the cost of the incentive is entered during the lease period on a linear basis, as a reduction in rental income. The costs associated with each rental payment are entered as an expense.

Interest income

Interest income is entered using the effective interest method.

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2.20 Dividend distribution

The payment of dividends to the Company's shareholders is entered as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. The parent company falls into the special category of SOCIMI (Spanish Real Estate Investment Trust), and is thus governed by the special tax rules established under Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs are governed. They are required to distribute the profits they obtain over the course of the year to their shareholders in the form of dividends, after complying with the relevant corporate obligations. Distribution must be approved within the six months following the year end, in the following way:

- a) 100% of the profits resulting from dividends or profit shares received from the companies referred to in Article 2.1 of this Act.
- b) At least 50% of the profits earned from the transfer of the property, shares or ownership interests referred to in Article 2.1. of the Act, where this occurs after the deadlines referred to in Article 3.3 of the Act have expired, when the property, shares or interests are used to comply with the Company's primary corporate purpose. The remainder of these profits must be reinvested in other property or investments related to the performance of this corporate purpose within three years of the transfer date. Otherwise, these profits must be distributed in full together with any profit earned, where applicable, in the year in which the reinvestment period expires. If the items in which the reinvestment has been made are transferred prior to the end of the holding period, profits must be distributed in full, together, where applicable, with the part of the profits attributable to the years in which the Company was not taxed under the special tax scheme provided for in the aforementioned Act.
- c) At least 80% of the remaining profits obtained.

The dividend must be paid within one month of the distribution agreement.

When dividends are distributed with a charge to reserves originating from profits for a year in which the special tax rules were applied, the distribution must compulsorily be approved by means of the resolution referred to above.

2.21 Cash and cash equivalents

Cash and cash equivalents include cash holdings, instantly accessible deposits with credit institutions, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

3. FINANCIAL RISK MANAGEMENT

The Company's activities are exposed to various financial risks: market risk (including interest rate risk), credit risk, liquidity risk and tax risk. The Company's risk management programme focuses on uncertainty in financial markets and seeks to minimise any potential adverse impact on its financial profitability.

Risk management is overseen by the Company's Finance Department, which identifies, evaluates and hedges financial risks in accordance with the policies approved by the Board of Directors of the dominant Company. The Board provides policies for overall risk management and policies covering specific areas such as interest rate risk, liquidity risk, the use of derivatives and non-derivatives and investing excess liquidity.

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3.1 Financial risk factors

a) Market risk

The Group's interest rate risk arises from the financial debt. Loans issued at variable rates expose the Group to interest rate risk of cash flows during the financial year ended at 31 December 2019. The Group has signed long-term financing agreements with prestigious financial institutions at a variable market interest rate with mortgage guarantee (Note 6 and Note 12). As of 31 December 2019, the amount drawn down in nominal terms related to these financing agreements amounts to 54,244 thousand euros.

The Group analyzes exposure to interest rate risk dynamically. Several scenarios are simulated taking into account the alternatives of financing and coverage. Based on these scenarios, the Group calculates the impact on the result for a given change in the interest rate (scenarios are used only for liabilities that represent the most significant positions subject to interest rates).

These analyzes take into account:

- Economic environment in which it carries out its activity: design of different economic scenarios modifying the key variables that may affect the group (interest rates, share price,% occupancy of real estate investments, etc.).
- Identification of those interdependent variables and their level of linkage.
- Temporary framework in which the evaluation is being carried out: the time frame for the analysis and its possible deviations will be taken into account.

Based on the simulation carried out, the Group manages the cash flow interest rate risk through variable to fixed interest rate swap. These interest rate swaps have the economic effect of converting loans at variable interest rates into loans at fixed interest rates. Generally, the Group obtains foreign long-term resources with variable interest and exchanges them for a fixed interest rate lower than those that would be available if the Group had obtained the external resources directly at fixed interest rates. Under interest rate swaps, the Group undertakes with third parties to exchange, on a regular basis, the difference between the fixed interest and the variable interest based on the principal notional contracted.

b) Credit risk

Credit risk is managed at the Group level. The Group defines the credit risk management and analysis policy of its new clients before proceeding to offer them the usual payment terms and conditions. Credit risk originates, mainly from customers for sales and services, as well as from other debtors.

The Group's risk control establishes the credit quality that the client must possess, taking into account its financial position, past experience and other factors. The Group considers that it does not have significant concentrations of credit risk, this being understood to refer to the possible impact that a default on receivables could have on the income statement.

The Group maintains its cash and other equivalent liquid assets in entities with the best credit quality.

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c) Liquidity risk

Cash flow predictions are carried out by the Group's Finance Department. This Department monitors forecasts of the Group's liquidity requirements in order to ensure that it has sufficient cash to meet its operational needs while maintaining sufficient available liquidity at all times to ensure that the Group continues to comply with its financing limits and covenants (Note 12).

d) Tax risk

As mentioned in Note 1, the Company is subject to the special tax regime of the rules governing Spanish Real Estate Investment Trusts (SOCIMIs). It is therefore subject to Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs are governed. Article 3 of Act 11 of 26 October 2009 sets out certain requirements that must be met by this type of company. The companies that have opted for said regime are obliged to distribute dividends to its shareholders, once the pertinent mercantile obligations have been fulfilled, the benefit obtained in the year, having to arrange their distribution within the six months following the end of each year and be paid within the month following the date of the agreement of distribution.

In the event that the Shareholders' Meeting of such companies does not approve the distribution of dividends proposed by the Board of Directors, which has been calculated in accordance with the requirements set forth in the aforementioned law, they would not be complying with it, and therefore they should be taxed under the general tax regime and not the one applicable to the SOCIMI.

3.2 Capital management

The main objectives of the Group's capital management are to ensure financial stability in the short and long term, the positive performance Árima Real Estate SOCIMI, S.A.'s share and the appropriate financing of investments. The financial leverage ratios, calculated as: (Financial debt / (Financial debt + Net equity)) as of 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
Financial debt	72,637	-
Equity	299,778	97,088
Leverage	19.50%	-%

The Board of Directors consider the Group's level of indebtedness as low. At 31 December 2019, the leverage amounted to 19.50% due to the financing signed over the financial year.

3.3 Estimation of fair value.

In accordance with IFRS 13, the hierarchical level at which an asset or liability is classified in its entirety (Level 1, Level 2 or Level 3) is determined based on the relevant input data used in the lowest valuation within the hierarchy of fair value. In case the input data used to measure the fair value of an asset or liability can be classified within the different levels, the fair value measurement is classified in its entirety at the same level of the fair value hierarchy as the data input level that is significant for the value measurement.

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- Level 1: Quoted prices (unadjusted) in active markets for assets or liabilities identical to those that the entity can access on the date of valuation.
- Level 2: Distinguished data of quoted prices included in Level 1 that are observable for assets or liabilities, directly or indirectly through valuation techniques that use observable market data.
- Level 3: Input data not observable in the market for the asset or liability.

The following table shows the financial assets and financial liabilities of the Group valued at fair value:

31 December 2019

	Thousand euros			
Assets	Level 1	Level 2	Level 3	Total
- Investment property (Note 6)	-	221,650	-	221,650
Total assets	-	221,650	-	221,650
Liabilities	Level 1	Level 2	Level 3	Total
- Financial hedging instruments (Note 14)	-	735	-	735
Total liabilities	-	735	-	735

31 December 2018:

	Thousand euros			
Assets	Level 1	Level 2	Level 3	Total
- Investment properties (Note 6)	-	39,975	-	39,975
Total assets	-	39,975	-	39,975
Liabilities	Level 1	Level 2	Level 3	Total
- Financial hedging instruments	-	-	-	-
Total liabilities	-	-	-	-

The fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on estimated interest rate curves.

Neither the financial year ended at 31 December 2019 nor the financial year ended at 31 December 2018, there were level transfers.

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4. FINANCIAL INFORMATION BY SEGMENT

The Investments Committee, together with the Board of Directors of the dominant Company, are the highest level of decision-making in operations. The Management has defined the operating segments, based on the information reviewed by these bodies in order to assign resources and evaluate the Group's performance. The management identifies three segments that must be reported: offices, logistics and corporate.

All the assets are located in the Community of Madrid, so the segments are not disaggregated by geographical area.

31 December 2019

	Thousand euros			
	Offices	Logistics	Corporate	Total
Revenue	4,519	1,221	-	5,740
Changes in the estimated fair value of investment properties	16,138	5,451	-	21,589
Operating costs	(1,295)	(108)	(9,749)	(11,152)
Losses on disposal of fixed assets	-	-	(33)	(33)
Fixed assets amortization	-	-	(11)	(11)
Operating Results	19,362	6,564	(9,793)	16,133
Financial income	-	-	-	-
Financial expenses	(608)	-	(136)	(744)
Financial Result	(608)	-	(136)	(744)
Pre-tax result	18,754	6,564	(9,929)	15,389
Income tax	-	-	-	-
Profit (loss) for the period	18,754	6,564	(9,929)	15,389

31 December 2018

	Thousand euros		
	Offices	Corporate	Total
Revenue	12	-	12
Changes in the estimated fair value of investment properties	1,621	-	1,621
Operating costs	-	(507)	(507)
Losses on disposal of fixed assets	-	-	-
Fixed assets amortization	-	(2)	(2)
Operating Results	1,633	(509)	1,124
Financial income	-	-	-
Financial expenses	-	-	-
Financial Result	-	-	-
Pre-tax result	1,633	(509)	1,124
Income tax	-	-	-
Profit (loss) for the period	1,633	(509)	1,124

100% of the income corresponds to transactions carried out in Spain.

The amounts that are provided to the Investment Committee and the Board of Directors in respect of the total assets and liabilities are valued in accordance with criteria that are uniform to those applied in the Consolidated Financial Statements. These assets and liabilities are allocated on the basis of segment activities.

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31 December 2019	Thousand euros			
	Offices	Logistics	Corporate	Total
Non-current assets	199,627	22,836	165	222,628
Investments properties	199,150	22,500	-	221,650
Other non-current assets	477	336	165	978
Current assets	2,769	403	152,460	155,632
Non-current liabilities	73,744	374	-	74,118
Current liabilities	2,620	8	1,736	4,364

31 December 2018

	Thousand euros		
	Offices	Corporate	Total
Non-current assets			
Investment properties	39,975	-	39,975
Other non-current assets	-	63	63
Current assets	12	58,432	58,444
Current liabilities	974	420	1,394

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5. PROPERTY, PLANT AND EQUIPMENT

The following table contains a breakdown of the entries shown for “Property, plant and equipment” and the relevant movements:

	Thousand euros	
	<u>Property, plant and equipment</u>	<u>Total</u>
Balance at 13 June 2018	-	-
Cost	-	-
Accumulated depreciation	-	-
Book value	-	-
Added	65	65
Allocation to depreciation	(2)	(2)
Balance at 31 December 2018	63	63
Cost	65	65
Accumulated depreciation	(2)	(2)
Net book value	63	63
Added	121	121
Sales	(40)	(40)
Allocation to depreciation	(11)	(11)
Reduction of depreciation charge	3	3
Balance at 31 December 2019	136	136
Cost	149	149
Accumulated depreciation	(13)	(13)
Net book value	136	136

a) Losses due to impairment

During 2019 and 2018, no entries were made or reversed in respect of value correction for impairment in relation to any property, plant and equipment item.

b) Fully depreciated property, plant and equipment

No item had been fully depreciated at 31 December 2019 neither at 31 December 2018.

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6. INVESTMENT PROPERTIES

Investment properties include office buildings and other items owned by the Company that are held to obtain long-term rental income and are not occupied by the Company.

Movement and breakdown of investment properties are shown below:

	Thousand euros
	Investment properties
Balance at 13 June 2018	-
Acquisitions	32,079
Investment properties in progress	6,275
Gain / (loss) net of adjustments at fair value	1,621
Balance at 31 December 2018	39,975
Added	158,471
Investment properties in progress	1,615
Gain / (loss) net of adjustments at fair value	21,589
Balance at 31 December 2019	221,650

In the financial year 2018, the Group formalized the acquisition of two office buildings for a total amount of 31,000 thousand euros (not including acquisition costs), in the most consolidated business areas of Madrid: one of them in María de Molina street, corner with Príncipe de Vergara avenue and the other building in the confluence between Paseo de la Habana and Alfonso XII avenue.

In January 2019, the Group formalized the acquisition of two office buildings, thus executing the binding purchase commitment signed in December 2018 and for which it made a deposit payment of 6,275 thousand euros (classified under the "Investment properties in progress" caption as of December 31, 2018). The acquisition involved a final investment of 62,750 thousand euros (not including acquisition costs), which corresponds to two office buildings totaling a gross leasable gross area of 20,200 m² and 395 parking spaces in the most consolidated business areas of the northeast of Madrid: on the urban axis M30-A2 and in the business park of Cristalia, in the business district of Campo de las Naciones.

Subsequently, during the financial year 2019, the Group has formalized the acquisition of three office buildings and one logistic facility for a total amount of 97,608 thousand euros (not including acquisition costs): a floor and a half of offices on María de Molina street (Madrid), acquired on February 28, 2019, a warehouse in San Agustín de Guadalix, acquired on April 12, 2019, a building on Calle Ramírez de Arellano, 21 (Madrid), acquired on June 28, June 2019 and a building on Vía de los Poblados, 7 (Madrid), acquired on 30 december 2019. The logistics warehouse in Guadalix has a gross leasable area of 25,694 m² and is fully rented to one of the largest food distribution companies in Spain. The offices of María de Molina has a leaseable area un 4,120 m² and 22 parking spaces, Ramírez de Arellano has a gross leasable area of 6,759 m² and 110 parking spaces and Via de los Poblados has a leaseable area of 14.000 m² and 213 parking spaces.

On some real estate investments, a mortgage was constituted as a guarantee of the granted financing. The financed buildings correspond to the Cristalia, María de Molina, Habana, América and Ramírez de Arellano properties.

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**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED
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(Thousand euros)**

a) Income and expenses on investment properties

The following income and expenses on investment properties have been detailed in the income statement:

	Thousand euros	
	31.12.2019	31.12.2018
Rental income (Note 13)	5,740	12
Expenses for the operations resulting from investment properties that generate rental income	(1,352)	-
Expenses for the operations resulting from investment properties that do not generate rental income	(50)	-
	4,338	12

b) Operating leases

The total amount of future minimum receivables from non-cancellable operating leases is as follows:

	Thousand euros	
	31.12.2019	31.12.2018
Less than one year	4,896	417
Between one and two years	4,558	500
Between two and three years	2,744	-
Between three and four years	1,727	-
Between four and five years	1,759	-
More than five years	590	-
	16,274	917

c) Insurances

The Company signs all the insurance policies necessary to cover any possible risk that might affect its investment properties. The coverage in these policies is deemed to be sufficient.

d) Liabilities

At year end, the Group does not have contractual obligations for the acquisition, construction or development of real estate investments, or for repairs, maintenance or insurance, in addition to those already included in the Note.

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e) Valuation process

The cost and fair value of the real estate investments as of 31 December 2019 and 31 December 2018 are detailed below:

	Thousand euros			
	31 December 2019		31 December 2018	
	Net book value	Fair value	Net book value	Fair value
Investment properties	196,689	221,650	38,354	39,975

The valuations of these real estate assets have been carried out using "market value" hypothesis, and have been prepared in accordance with the Professional Standards of assessment by the Royal Institution of Chartered Surveyors of Great Britain (RICS), edition of July 2017 – 'Red Book'. The market value of the Group's properties has been determined on the basis of evaluation carried out by independent expert valuers (CBRE Valuation Advisory, S.A.).

The "Market Value" is defined as the estimated amount for which an asset should be able to be exchanged at the valuation date, between a willing seller and a willing buyer, after a reasonable sales marketing period, and in which both parties have acted with knowledge, prudence and without any coercion.

The valuation methodology adopted by the independent appraisers in relation to the determination of fair value was basically the 10-year discount cash flow method and the income capitalization method (reflecting net income, capitalized expenses, etc.), besides comparing the information with comparables. The residual amount at the end of year 10 is calculated by applying a rate of return (exit yield or cap rate) of the projections of net income for year 11. Cash flows are discounted at an internal rate of return for reach the current net value. This internal rate of return is adjusted to reflect the risk associated with the investment and the assumptions adopted. The key variables are, therefore, the income, the exit yield and the exit yield.

The estimated yields depend on the type and age of the properties and their location. The properties have been valued individually, considering each one of the lease agreements in force at the end of the year and, if applicable, the foreseeable ones, based on the current market rents for the different areas, supported by comparables and transactions carried out for your calculations.

As provided in Note 2.4, the Directors requested an assessment on 31 December 2019 of all real estate investments. Derived from this valuation, there has been a change in the fair value of the investment properties in the consolidated income statement of 21,589 thousand euros (1,621 thousand euros at 31 December 2018).

Based on the simulations performed on these valuations, the recalculated impact on the fair value of the properties in the portfolio at 31 December 2019, of a variation of 0.25% in the yield rate (exit yield), would produce:

- in the event that the exit yield was reduced by 0.25%, the market value of these properties would be 230,215 thousand euros.
- in the case that the exit yield was increased by 0.25%, the market value of these properties would be 213,910 thousand euros.

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The effect of a variation of 10% on the income increases considered in the valuations of these assets has the following impacts on the consolidated asset and, by difference with the fair value of the asset, on the summarized interim consolidated income statement, with regarding real estate investments:

- in the event that the market rents increased by 10%, the market value of these properties would be 244,090 thousand euros.
- in the case that the market rents were reduced by 10%, the market value of these properties would be 199,150 thousand euros.

As of 31 December 2018, the following simulations were carried out, in exit yields and market income increases, on the valuations of the same, as well as the recalculated impact on the fair value of properties acquired from a variation of 0.25% in the yield rate (exit yield), would produce:

- in the event that the exit yield was reduced by 0.25%, the market value of these properties would be 35,350 thousand euros.
- in the case that the exit yield was increased by 0.25%, the market value of these properties would be 32,150 thousand euros.

The effect of a variation of 10% on the income increases considered in the valuations of these assets has the following impacts on consolidated assets with respect to real estate investments,

- in the event that the market rents increased by 10%, the real estate investments would amount to 37,550 thousand euros.
- in the event that market rents were reduced by 10%, real estate investments would amount to 29,850 thousand euros.

As of 31 December 2019, the exit yields used in the valuations of offices located in the prime area would be 4.25% and for those that are decentralized the yields would be 5.25% (3.75% and 5.25% respectively in December 2018). The discount rates used are between 6.50% and 7.50% (6.50% y 7.50% in 2018).

As of 31 December 2019, the exit yields used in the industrial valuations located in the prime area would be 5.25% and for those that are decentralized the yields would be 6.50%. The discount rates used are around 8.50%.

The valuation of real estate investments has been framed within level 2 according to the definition described in Note 3.3 above. In this sense, the fair value of the investment properties has been carried out by independent valuation experts through the use of valuation techniques observable in the market and that are available based to a lesser extent on specific estimates of the entities.

Neither on the financial year ended on 31 December 2019 nor the financial year ended on 31 December 2018, level transfers have occurred.

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7. FINANCIAL INSTRUMENTS ANALYSIS
a) Analysis by category

The book value of each of the categories of financial instruments, excluding cash and cash equivalents, is as follows:

	Thousand euros					
	Non-current financial assets					
	Fair value with changes in comprehensive income		Amortized cost		Fair value with changes in the income statement	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Other long-term financial liabilities	-	-	842	-	-	-
Total long-term financial liabilities	-	-	842	-	-	-
	Current financial assets					
	Fair value with changes in comprehensive income		Amortized cost		Fair value with changes in the income statement	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Trade receivables for sales and services and other assets	-	-	1,189	117	-	-
Total short-term financial assets	-	-	1,189	117	-	-
	Thousand of euros					
	Non-current financial liabilities					
	Debts with credit entities		Debentures and other marketable securities		Financial hedging instruments and other liabilities	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Debts and other financial liabilities (Note 12)	72,427	-	-	-	1,691	-
Total non-current financial liabilities	72,427	-	-	-	1,691	-

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	Current financial liabilities					
	Debts with credit entities		Debentures and other marketable securities		Financial hedging instruments and other liabilities	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Debts and other payables (Note 12)	210	-	-	-	2,699	764
Total current financial liabilities	210	-	-	-	2,699	764

b) Analysis by maturity date

At 31 December 2019 and 31 December 2018, the value of financial instruments, excluding cash and cash equivalents, with a specific maturity date or with a maturity date falling within a specific year was as follows:

At 31 December 2019

	Thousand euros						
	Financial assets						Total
	2020	2021	2022	2023	2024	Subsequent years	
Trade receivables:							
- Trade receivables	625	-	-	-	-	-	625
- Other financial assets	564	205	-	50	-	587	1,406
	1,189	205	-	50	-	587	2,031
	Financial liabilities						Total
	2020	2021	2022	2023	2024	Subsequent years	
Debts:							
- Debts with credit entities	210	-	-	-	3,599	70,145	73,954
- Financial hedging instruments	-	-	-	-	150	585	735
Trade payables:							
- Trade and other payables	2,449	-	-	-	-	-	2,449
- Other financial liabilities	250	303	-	24	-	629	1,206
	2,909	303	-	24	3,749	71,359	78,344

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At 31 December 2018

	Thousand euros						
	Financial assets						
	2019	2020	2021	2022	2023	Subsequent years	Total
Trade receivables:							
- Trade receivables	12	-	-	-	-	-	12
- Other financial assets	105	-	-	-	-	-	105
	117	-	-	-	-	-	117
	Financial liabilities						
	2019	2020	2021	2022	2023	Subsequent years	Total
Trade payables:							
- Trade and other payables	764	-	-	-	-	-	764
	764	-	-	-	-	-	764

The debts shown in the previous break downs are expressed at their nominal value.

8. LOANS AND RECEIVABLES

	Thousand euros	
	31 December 2019	31 December 2018
Trade receivables and other long-term accounts receivable		
- Guarantees ("Other long-term financial assets")	842	-
Trade receivables and other accounts receivable:		
- Trade receivables for sales al services	303	12
- Other accounts receivable	322	-
- Personnel	103	-
- Other credits held with Public Authorities (Note 15)	476	357
- Guarantees ("Other short-term financial assets")	303	-
	2,349	369

The amount recorded under the heading "Other long-term financial assets" in the balance sheet includes the amount of the guarantees associated with the rental agreements deposited with the corresponding public bodies.

Under the heading "Other debtors", the amounts corresponding to the provision of funds, derived from the acquisitions of the investment property (Note 6) and its financing (Note 12), are included.

The carrying amount of the loans and receivables approximates their fair value, given that the effect of the discount is not significant.

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Under the heading of customers there is an amount of 282 thousand euros relating to invoices pending issuance (12 thousand euros at 31 December 2018).

The following table contains a breakdown of the age of receivables for sales and services:

	Thousand euros	
	At 31 December 2019	At 31 December 2018
Up to 3 months	21	-
Between 3 and 6 months	-	-
More than 6 months	-	-
	21	-

The book value of loans and receivables is denominated in euros.

9. CASH AND CASH EQUIVALENTS

	Thousand euros	
	31 December 2019	31 December 2018
Cash and banks	153,967	57,970
	153,967	57,970

The current accounts are denominated in euros.

Due to the liquidity contract entered into with JB Capital Markets, Sociedad de Valores, S.A.U., detailed in Note 10.b, at 31 December 2019 the Company holds 432 thousand euros of total cash destined for the cash account under that contract (at 31 December 2018 held 433 thousand euros).

10. SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

a) Share capital and share premium

The Company was incorporated on 13 June 2018 with the issue of 300 registered shares, each with a par value of 10 euros. On the date of its incorporation, Rodex Asset Management, S.L. held 299 shares representing 99.99% of the Company's issued share capital, and Inmodesarrollos Integrados, S.L. held 1 ordinary share representing 0.01% of the Company's issued share capital.

On 25 July 2018 the Company changed its legal form from a private limited company to a public limited company and increased capital by 60 thousand euros. At that date, following the increase, Rodex Asset Management, S.L. held 6,279 registered shares, representing 99.99% of the Company's issued capital while Inmodesarrollos Integrados, S.L. held 21 registered shares, representing 0.01% of the Company's issued capital.

On 1 October 2018 an Universal General Shareholders' Meeting was held during which it was resolved to increase capital by 350,000 thousand euros maximum (the shareholders' waiving their preferential subscription right), through an offer for the subscription of the Company's shares.

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On 8 October 2018 the Board of Directors approved the resolutions concerning the capital increase and the approval of the Share Subscription Prospectus for the admission to trading on the stock exchange of the Company's shares. On 19 October 2018 the Board of Directors approved the capital increase amounting to 100,000 thousand euros which was entered in the Madrid Commercial Register and began trading 10,000,000 new shares with a par value of 10 euros each on 23 October 2018.

In 2019, the Universal General Shareholders' Meeting, at its meeting of March 21, approved a new capital increase, waiving the right of preferential subscription, and delegated to the Board of Directors the necessary powers to carry it out. This capital increase was approved by the CNMV on April 8, 2019, becoming effective through the issuance and circulation of 4 million new ordinary shares of 10 euros each as face value, resulting in an increase in the share capital of 40,000 thousand euros.

Subsequently, as part of a new capital increase, the Company sign a subscription agreement with Ivanhoé Cambridge Holdings UK LTD, which compels it to subscribe and disburse 60.000 thousand euros for the new shares, with a maximum issue price of 10.40 euros each share. On 5 November 2019, the Universal General Shareholder's Meeting approved the resolutions concerning the capital increase, waiving the right of preferential subscription, and delegated to the Board of Directors the necessary powers to carry it out. This capital increase was approved by the CNMV on 15 November 2019, becoming effective through the issuance and circulation of 14.423.076 new ordinary shares of 10 euros each as face value and 0.40 euros each as share premium, resulting in an increase in the share capital of 150.000 thousand euros.

As of 31 December 2019 and 31 December 2018 the breakdown of share capital is as follows:

	Thousand euros	
	31 December 2019	31 December 2018
Share capital	284,294	100,063
Share premium	5,769	-
	290,063	100,063

As of 31 December 2019, the share capital of the Parent Company is 284,294 thousand euros and is represented by 28,429,376 shares with a par value of 10 euros each, all belonging to the same class and fully subscribed and paid. All the shares carry the same voting and dividend rights.

At 31 December 2018 the Company's share capital amounted to 100,063 thousand euros and consisted of 10,006,300 shares with a par value of 10 euros each. All shares were of the same class and are fully subscribed and paid in. All shares carried the same voting and dividend rights.

The share premium is considered a freely distributable reserve.

All the parent company's shares are listed on the Spanish Stock Market.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED
ON 31 DECEMBER 2019
(Thousand euros)**

At 31 December 2019, the companies that held a share of 3% or more in the share capital are as follows:

Entity	% voting rights allocated to shares	% voting rights held through financial instruments	Total %
Bank of Montreal	8.400	-	8.400
Ivanhoe Cambridge, INC.	20.293	-	20.293
Morgan Stanley	5.498	-	5.498
Rodex Asset Management, SL	3.840	-	3.840
Pelham Long/Short small CAP Master Fund LTD	-	9.984	9.984
Ross Turner	-	9.984	9.984
Total	38.031	19.968	57.999

At 31 December 2018, the companies that held a share of 3% or more in the share capital were as follows:

Entity	% voting rights allocated to shares	% voting rights held through financial instruments	Total %
Bank of Montreal	9.794	-	9.794
Héctor Colonqués Moreno	4.997	-	4.997
Mistral Iberia Real Estate SOCIMI S.A.	5.097	-	5.097
Morgan Stanley	9.976	-	9.976
Pelham Long/Short small CAP Master Fund LTD	-	9.984	9.984
Ross Turner	-	9.984	9.984
Rodex Asset Management, S.L.	10.906	-	10.906
UBS Group AG	8.560	-	8.560
Total	49.330	19.968	69.298

b) Treasury shares

Movements in treasury shares over the year have been as follows:

	31 December 2019		31 December 2018	
	Number of treasury shares	Thousand euros	Number of treasury shares	Thousand euros
At the beginning of the period/financial year	58,130	546	-	-
Additions / purchases	138,340	1,518	60,202	555
Reductions	(140,628)	(1,439)	(2,072)	(9)
At the end of the period/financial year	55,842	625	58,130	546

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019 (Thousand euros)

The General Shareholders' Meeting of the Company agreed on March 21, 2019 to authorize, for a period of 5 years, the derivative acquisition of shares of Árima Real Estate SOCIMI, S.A. by the Company itself, under the provisions of articles 146 and concordant of the Capital Companies Act, complying with the requirements and limitations established in current legislation at all times, in the following terms: (i) the acquisitions may be made directly by the Company or indirectly through companies of its group, and they may be formalized, once or several times, through purchase, barter or any other legal transaction valid in Law. Acquisitions may also be made through an intermediary that acquires the shares on behalf of the Company under a liquidity contract subscribed between the Company and the intermediary; (ii) the nominal value of the shares to be acquired, added, where appropriate, to those already held, directly or indirectly, shall not exceed the maximum percentage legally permitted at any time; and (iii) the acquisition price per share will be at least the nominal value and, at most, the market price on the date of acquisition.

On 6 November 2018 Árima Real Estate SOCIMI, S.A. entered into a 12 month liquidity contract with tacit renewal with JB Capital Markets, Sociedad de Valores, S.A.U. in order to increase liquidity and favour the regular trading of the Company's shares.

The General Shareholders' Meeting of 26 September 2018 resolved to implement an incentive plan consisting of handing over shares or cash on a discretionary basis to the Company's team. This incentive plan was corroborated in the General Shareholder's Meeting of 5 November 2019 (Notes 2.17 and 17).

The treasury shares held at 31 December 2019 represent 0.20% of the Company's share capital and amount to 55,842 shares (at 31 December 2018 represented 0.58% of the Company's share capital and amounted to 58,130 shares). The average cost of treasury shares has been 11.00 euros per share (the average cost of treasury shares in 2018 was 9.4 euros per share).

These shares are carried by reducing the Company's equity at 31 December 2019 by 625 thousand euros (at 31 December 2018 it was 546 thousand euros).

The Company has complied with the requirements of Article 509 of the Spanish Capital Companies Act, which establishes that the par value of acquired shares listed on official secondary markets, together with those already held by the Parent Company and its subsidiaries, must not exceed 10% of the share capital. The subsidiaries do not hold either treasury shares or shares of the Parent Company.

c) Profit (losses) per share

Basic earnings per share are calculated by dividing the net gain / (loss) for the financial year attributable to the owners of the Parent Company by the weighted average number of ordinary shares outstanding during the financial year, excluding the weighted average number of treasury shares held as throughout the period.

Diluted earnings per share are calculated by dividing the net gain / (loss) for the financial year attributable to the owners of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued in the conversion of all potentially dilutive instruments. The Group has in place a compensation plan (incentives) based on the concession of a number of shares (Note 17).

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019 (Thousand euros)

The following table reflects the income and information of the number of shares used to calculate basic and diluted earnings per share:

Basic and diluted earnings per share:

	Financial year ended at 31 December 2019	Financial year ended at 31 December 2018
Net income (thousand euros)	15,389	1,124
Weighted average number of issued shares (shares)	14,714,835	3,470,518
Weighted average number of common shares (shares)	14,661,803	3,455,820
Basic earning per share (euros)	1.05	0.33
Diluted earning per share (euros)	1.05	0.33

In relation to the calculation of earnings per share, there have been no transactions on ordinary shares or ordinary potential shares between the closing date of the consolidated annual accounts and the preparation thereof, which have not been taken into account in said calculations for the financial year ended on 31 December 2019 and 31 December 2018.

11. RESERVES AND PROFIT (LOSS) FOR THE FINANCIAL YEAR

Reserves

	Thousand euros	
	At 31 December of 2019	At 31 December of 2018
Others reserves:		
- Voluntary reserves	(9,924)	(3,553)
- Legal reserve	-	-
- Hedging transactions reserves	(735)	-
	(10,659)	(3,553)

The Group has registered in voluntary reserves, mainly, the expenses related to the capital increases (Note 10).

Legal reserve

Appropriations to the legal reserve should be made in compliance with Article 274 of the Spanish Companies which stipulates that 10% of the profits for each year must be transferred to this reserve until it represents at least 20% of share capital.

The legal reserve is not available for distribution. Should it be used to offset losses in the event of no other reserves being available, it must be replenished out of future profits.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**

Distribution of the profit and loss for the financial year

The proposed distribution for the profit and loss for the period obtained by the Parent Company and the reserve amount to be submitted to the General Shareholders Meeting, is as follows:

	<u>Miles de euros</u>	
	<u>2019</u>	<u>2018</u>
<u>Base for distribution:</u>		
Profit and los for the financial year	(7,945)	(503)
<u>Application:</u>		
Legal reserve	-	-
Net losses obtained from prior financial years	(7,945)	(503)
Dividends	-	-
	(7,945)	(503)

On 21 March 2019, the General Shareholders' Meeting approved, without modification, the proposal to distribute the 2018 result.

12. DEBTS AND OTHER PAYABLES

	<u>Thousand euros</u>	
	<u>31 December 2019</u>	<u>31 December 2018</u>
<u>Debts and non-current liabilities:</u>		
- Debts with credit entities	72,427	-
- Financial hedging instruments (Note14)	735	-
- Guarantees	956	-
	74,118	-
<u>Debts and current liabilities:</u>		
- Debts with credit entities	210	-
- Other payables	2,314	764
- Other short term debts	135	-
- Other debts with Public Authorities (Note 15)	1,355	630
- Guarantees	250	-
	4,264	1,394

The book amounts of debts and payables approximate their fair values, since the effect of discounting is not significant.

The heading "Guarantees" in the balance sheet includes the guarantees granted by the tenants of real estate registered in real estate investments.

The book value of loans and receivables to be paid by the Company is denominated in euros.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019 (Thousand euros)

On January 28, 2019, the Group signed a financial agreement with a prestigious financial institution at a market interest rate. This financing was considered a bridge financing to continue with its investment activity, foreseeing its formalization in the long term in the following months. This financing was cancelled in the second quarter, in which two bilateral financing transactions were signed with prestigious financial institutions at a variable market interest rate for an amount of 64 million euros (Note 3.1a). Furthermore, in the third quarter of 2019 the Group has signed a new financial agreement of 20 million euros with a prestigious financial institution at a fixed interest rate. The interest rates of the financing signed by the Group are within the range of 0.90% and 1.50%.

This financing is recorded at amortized cost in the long-term liability under the heading "Debts with credit institutions". As of 31 December 2019 the amount of the amortized cost amounts to 1,317 thousand euros. The nominal maturities of the financing have been included in Note 7. Such financing is guaranteed by the properties described in Note 6.

Under the heading "Short-term debt with credit entities" the amount of unpaid accrued interest in the amount of 210 thousand euros has been recorded.

These loans are subject to compliance with certain financial ratios, which are common in the sector in which the Company operates and are calculated annually at the end of the year. This financial ratios are successfully fulfilled at 31 December 2019.

Additionally, the Group has contracted two interest rate swaps. The amount registered in the "Financial hedging instruments" correspond to the valuation of the derivative financial instruments as of 31 December 2019 (Note 14). The effective part of the changes in the fair value of derivatives that are designated and classified as hedges is recognized in the hedge reserve within equity (Note 11).

Deferred payments to suppliers

Payments on business operations carried out during the financial year which are outstanding at the year end, with respect to the maximum terms allowed by Law 15/2010, amended by Law 31/2014, are as follows:

	2019	2018
	Days	Days
Average payment period to suppliers	19	28
Ratio of transactions paid	19	32
Ratio de transactions pending payment	28	22
		Amount
		(thousand euros)
Total payments made	12,186	325
Total payments pending	501	255

The calculation of the figures in the table above agrees with that established in the ICAC resolution of 4 February 2016. For the purposes of this Note, trade payables include sundry suppliers and creditors for debts with suppliers of goods and services included in the scope of the regulation with respect to the legal payment periods.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**

13. INCOME AND EXPENSES

a) Net turnover figure

The net turnover figure corresponding to the Company's ordinary business activities broke down in geographical terms as follows:

Market			Thousand euros	
	Percentage 2019	Percentage 2018	2019	2018
Domestic	100%	100%	5,740	12
	100%	100%	5,740	12

The net turnover figure breaks down as follows:

	Thousand euros	
	2019	2018
Revenue		
Rents	4,719	12
Reinvoicing of costs	1,021	-
	5,740	12

The lease agreements signed by the Group companies are in normal market conditions in terms of their duration, maturity dates and rent.

b) Personnel costs

	Thousand euros	
	2019	2018
Wages, salaries and associated costs	(8,429)	(291)
Welfare charges:		
- Other welfare charges	(180)	(30)
	(8,609)	(321)

A cost of 5,610 thousand euros has been recorded in personnel costs in relation to the incentive plan approved by the Shareholders' Meeting (Note 17).

There have been no compensation for dismissals at 31 December 2019 neither 2018.

The average number of employees during the financial year ended on 31 December 2019 is 10 people (in the financial year 2018 were 3 people).

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**

The average number of employees during the financial years ended on 31 December 2019 and 31 December 2018 is as follows:

Categories	Financial year ended on 31 December 2019	Financial year ended on 31 December 2018
Management	7	2
Employees with degrees	2	1
Administrative personnel and others	1	-
	10	3

The number of employees at 31 December 2019 and 31 December 2018 is as follows:

Categories	At 31 December 2019	At 31 December 2018
Management	7	7
Employees with degrees	2	2
Administrative personnel and others	1	1
	10	10

In addition, at 31 December 2019, Company personnel details broken down by gender were as follows:

Categories	31 December 2019		
	Men	Women	Total
Management	5	2	7
Employees with degrees	2	-	2
Administrative personnel and others	-	1	1
	7	3	10

At 31 December 2018, Company personnel details broken down by gender were as follows:

Categories	31 December 2018		
	Men	Women	Total
Management	5	2	7
Employees with degrees	2	-	2
Administrative personnel and others	-	1	1
	7	3	10

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**

c) External services

The following table gives a breakdown of the external services:

	Thousand euros	
	2019	2018
External services directly attributable to real estates assets	(1,402)	(13)
Other external services	(1,141)	(173)
	(2,543)	(186)

d) Financial expenses

Financial expenses accrued in the financial year ended on 31 December 2019 are associated with the financing obtained in the period (Note 12).

14. FINANCIAL HEDGING DERIVATIVES

	Covered principal (Thousand euros)	Maturity	Thousand euros			
			2019		2018	
			Non current	Current	Non current	Current
			Asset	Liability(*)	Asset	Liability
Interest rate swap	22,700	2026	-	585	-	-
Interest rate swap	21,626	2024	-	150	-	-
			-	735	-	-

(*) See Note 7.b

The fair value of financial hedgings derivatives is registered as a non current asset or non current liability if its maturity is beyond 12 months, and as a current asset or current liability if its maturity is prior to 12 months.

The interest rate swap derivative (financial swap) allows to change a variable interest rate to a fixed interest rate in bank loans signed by the Group. The cashflow covered is the foreseen future payments of interests related to the financial debts (Note 12). Changes in fair value of the interest rate swap are registered in "Adjustements for changes in value" in Equity.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED
ON 31 DECEMBER 2019
(Thousand euros)**
15. INCOME TAX AND TAX POSITION

The annual average tax rate for the financial year ended at 31 December 2019 is 0%, according to Law 11/2009, of October 26, and the amendments incorporated to it by Law 16/2012, of December 27, by which the SOCIMIs are regulated.

31 December 2019	Thousand euros					
	Consolidated Income Statement			Income and expenses charged directly to Equity		
	Increase	Decrease	Total	Increase	Decrease	Total
Profit (loss) for the financial year	15,389	-	15,389	-	(8,307)	(8,307)
Income tax	-	-	-	-	-	-
Permanent differences	-	-	-	-	-	-
Temporary differences (**)	5,610	-	5,610	735	-	735
Consolidation adjustment (*)	-	(23,334)	(23,334)	-	-	-
Tax base	20,999	(23,334)	(2,335)	735	(8,307)	(7,572)

31 December 2018	Thousand euros					
	Consolidated Income Statement			Income and expenses charged directly to Equity		
	Increase	Decrease	Total	Increase	Decrease	Total
Profit (loss) for the financial year	1,124	-	1,124	-	(3,553)	(3,553)
Income tax	-	-	-	-	-	-
Permanent differences	-	-	-	-	-	-
Temporary differences	-	-	-	-	-	-
Consolidation adjustment (*)	-	(1,627)	(1,627)	-	-	-
Tax base	1,124	(1,627)	(503)	-	(3,553)	(3,553)

(*) Mainly include the effect of the fair value accounting of real estate investments (Note 6).

(**) Notes 14 and 17.

Tax inspections

Under current law, taxes cannot be understood to have been effectively settled until the tax authorities have reviewed the tax returns submitted or until the time-bar period of four years has elapsed.

As a result, among other things, of the different interpretations to which Spanish tax legislation lends itself, additional tax assessments may be raised in the event of a tax inspection. In any case, the Directors believe that any such liabilities, in the event that they arise, will not have any significant effect on the condensed consolidated balance sheet or the condensed consolidated income statement neither for the financial year

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019 (Thousand euros)

ended on 31 December 2019 nor 31 December 2018.

At 31 December 2019 and 31 December 2018, the amounts receivable and the amounts payable by the Group in respect of the Public Authorities broke down as follows:

	Thousand euros	
	At 31 December 2019	At 31 December 2018
Accounts receivable		
Receivables from Spanish Tax Authorities (VAT)	476	357
	476	357
Payment commitments		
Payables to Spanish Tax Authorities (withholdings collected)	(579)	(147)
Payables to Social Security Bodies	(18)	(17)
Stamp duty on the operations of the Group (Note 6)	(758)	(466)
	(1,355)	(630)

16. PROVISIONS AND CONTINGENCIES

Contingent liabilities

Neither at 31 December 2019 nor 31 December 2018 has the Company contingent liabilities.

Bank guarantees

At 31 December 2019, the Group has contracted a bank guarantee in the amount of 122 thousand euros with a prestigious financial institution. At 31 December 2018, there were no contracted endorsements.

17. BOARD OF DIRECTORS AND OTHER PAYMENTS

Shareholdings, positions and activities of the members of the Board of Directors

Article 229 of the Spanish Capital Companies Act, which was approved by Royal Legislative Decree 1 of 2 July 2010, requires Directors to notify the Board of Directors (or, in the absence of such a body, the other Directors or the General Shareholders Meeting) of any direct or indirect conflict of interest they may have with the Company's interests.

Likewise, Directors must disclose any direct or indirect interest they or persons related to them may hold in any company engaging in activities which are identical, analogous or complementary to those comprising the Company's corporate purpose. They must also disclose the positions they hold or duties they perform at such companies. In this regard, Appendix I sets out the information provided by Directors who have declared that they hold positions and perform duties in companies with an identical, similar or complementary kind of activity.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019 (Thousand euros)

Remuneration of members of the Board of Directors

During the financial year ended on 31 December 2019, the remuneration of the members of the Board of Directors of the Parent Company has amounted to 992 thousand euros (103 thousand euros at 31 December 2018). In addition, the Parent Company has paid during the financial year 2019 the amount of 26 thousand euros regarding a civil liability insurance that covers the Directors.

The members of the Board of Directors of the Parent Company have not received any shares or options on shares during the year, nor have any options nor do they have any options to be exercised neither on 31 December 2019 nor 31 December 2018.

The members of the Board of Directors of the Parent Company do not have pension funds or similar obligations for their benefit issued by the Group. During the financial year ended on 31 December 2019 and the financial year ended on 31 December 2018, there is no senior management personnel that does not belong to the Board of Directors of the Parent Company.

On the other hand, there is a compensation plan based on the delivery of shares whose beneficiary is the Company's team (Note 2.17). This plan, which is in force, is accrued annually when, for each calculation period (between 1 July and 30 June of the following year), certain conditions of value generation are met. The first calculation period ends on 30 June 2020 and the Company has estimated a cost of 5,610 thousand euros as of 31 December 2019, which has been registered under the heading of Other equity instruments.

18. RELATED-PARTY TRANSACTIONS

As of 31 December 2019, there are no pending balances with group companies and related parties. As of 31 December 2018, there were no pending balances with group companies and related parties. During the financial year ended on 31 December 2019 there have been no transactions with related parties.

The following transactions were carried out with group companies and related parties during each financial year:

	<u>2019</u>	<u>Thousand euros</u> <u>2018</u>
Transactions carried out with group companies		
Rodex Asset Management, S.L. (*)	-	276

(*) It was considered a company of the group from the establishment of the Company on 13 June 2018 until 23 October 2018, the date on which the shares of the parent Company began trading on the Stock Exchange Market.

The former majority shareholder (Rodex Asset Management, S.L.), in June and September 2018, converted the credit balances into two equity loans totaling 276 thousand euros. These loans were cancelled by the parent Company in November 2018.

At 31 December 2019, there are no outstanding balances with group companies and related parties.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**

19. INFORMATION REQUIREMENTS RESULTING FROM SOCIMI STATUS, ACT 11/2009, AS AMENDED BY ACT 16/2012

- a) Reserves from financial years prior to the application of the tax rules set out in Act 11/2009, as amended by Act 16 of 27 December 2012.

Not applicable.

- b) Reserves from financial years in which the tax rules set out in Act 11/2009, as amended by Act 16 of 27 December 2012, have been applied.

Not applicable.

- c) Dividends distributed against profits each year in which the tax rules contained in this Act applied, with differentiation between the portion originating from income subject to tax at a rate of 0% or 19%, and the portion originating from income subject to tax at the general rate.

Not applicable.

- d) In the case of distribution against reserves, identifying the year from which the reserves applied originate, and whether they were taxed at 0%, 19% or the general rate.

Not applicable.

- e) Date of the agreement for the distribution of dividends referred to in c) and d) above.

Not applicable.

- f) Date of acquisition of properties intended for rent and interests in the share capital of companies referred to in Article 2.1 of this Act.

	Property	Localization	Date acquired
1	María de Molina	Calle María de Molina, on the corner with Calle Príncipe de Vergara, Madrid	December 21, 2018
2	Paseo de la Habana	The junction of Paseo de la Habana and Avenida de Alfonso XIII, Madrid	December 21, 2018
3	Edificio América	Calle Josefa Valcárcel, 42, Madrid	January 29, 2019
4	Edificio Play	Vía de los Poblados, 3 -Parque Empresarial Cristalia, Edificio 4B, Madrid	January 29, 2019
5	María de Molina	Calle María de Molina, on the corner with Calle Príncipe de Vergara, Madrid	February 28, 2019
6	Nave Guadalix	Barranco Hondo, San Agustín de Guadalix	April 12, 2019

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019 (Thousand euros)

7	Ramírez de Arellano, 21	Calle Ramírez de Arellano, 21, Madrid	June 28, 2019
8	Vía de los Poblados	Vía de los Poblados, 7, Madrid	December 30, 2019

- g) Identification of assets taken into account when calculating the 80% referred to in Article 3.1 of this Act.

The assets taken into account when calculating the 80% referred to in Article 3.1 of the SOCIMI Act are the ones listed in the above table.

- h) Reserves from years in which the tax system provided for under the Act was applicable and which have been made use of (not for distribution or offsetting losses) during the tax period, with identification of the year from which the reserves originate.

Not applicable.

20. AUDITOR'S FEES

The fees accrued during the financial years ended on 31 December 2019 and 31 December 2018 by PricewaterhouseCoopers Auditores, S.L. and its network are as follows:

	Thousand euros	
	2019	2018
Account auditing services	52	33
Other verification work carried out by the auditor	155	36
Other services provided by the auditor	2	-
Other services provided by entities within the auditor's network	95	-
	304	69

21. ENVIRONMENTAL INFORMATION

The Group's operations do not have negative environmental impacts and therefore it does not incur significant costs or make significant investments the aim of which is to mitigate possible impacts.

22. SUBSEQUENT EVENTS

The Group has signed a financing agreement (mortgage) for an amount of 9.4 million euros on 30 January 2020 on the logistics warehouse of San Agustín de Guadalix.

There have been no other relevant subsequent events that have not been included in these consolidated annual accounts.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

Appendix I – Detail of positions and ownership interests held by the Directors in companies with a similar company object

Luis Alfonso López de Herrera-Oria

Company	Position or duties	% Share
Rodex Asset Management, S.L.	Sole Director	100.00
Agrodesarrollos Integrados, S. L.	Sole Director	100.00
Inmodesarrollos Integrados, S.L.	Representative of the Sole Director	100.00
Puerto Feliz, S.A.	Representative of the Sole Director	78.88
Heracles Proyectos y Promociones Inmobiliarias, S.A.	Sole Director	100.00

Luis María Arredondo Malo

Company	Position or duties	% Share
Nieve de Andalucía, S.A.	Chairman	80.69
Castellar Ingenieros, S.L.	Attorney	99.99
Olivarera del Condado	-	18.01
Aljaral, S.A.	Chairman	80.69
Rústica de Consolación	Chairman	20.27



ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

PREPARATION OF THE CONSOLIDATED ANNUAL ACCOUNTS AND THE CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019

The Board of Directors of the company Árima Real Estate SOCIMI, S.A. on 19 February 2020, and in compliance with the requirements set out in the article 253 of the Ley de Sociedades de Capital y the article 37 of the Código de Comercio, proceeds to prepare the Consolidated Annual Accounts and Consolidated Management Report for the financial year ended on 31 December 2019, which are constituted by the attached documents that precede this writing.

D. Luis María Arredondo Malo
President

D. David Jiménez-Blanco Carrillo de Albornoz
Board Member

D. Luis Alfonso López de Herrera-Oria
Vice-president and CEO

D. Cato Henning Stonex
Board Member

D. Fernando Bautista Sagüés
Board Member

D. Stanislas Henry
Board Member

Notice extended by the Secretary to the Board, placing on record that, following the preparation by the members of the Board of Directors of Árima Real Estate SOCIMI, S.A. and subsidiaries of the Consolidated Annual Accounts and Consolidated Management Report for the financial year ended on 31 December 2019 in the meeting held on 19 February 2020, all Directors have signed this document and stamped their signature on this last page, to which I bear witness, in Madrid, on 19 February 2020. I also certify that these Consolidated Annual Accounts are the same as those approved by that Board of Directors, and therefore I sign all pages.

D. Iván Azinovic Gamo

For the purposes of Article 8.1(b) of Real Decreto 1362/2007 of 19 October, the members of the Board of Directors of Arima Real Estate SOCIMI, S.A.

State:

That, as far as their knowledge reach, the Consolidated Annual Accounts of Árima Real Estate SOCIMI, S.A. and subsidiaries (consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated annual accounts) for the financial year ended on 31 December 2019, prepared for the Board of Directors in the meeting held on 19 February 2020, developed in accordance with the accounting principles that are applicable, they offer the faithful image of the equity, financial situation and the results of Árima Real Estate SOCIMI, S.A.

They also state that the Consolidated Management Report supplementing the Consolidated Annual Accounts includes a faithful analysis of the evolution, business results and position of Árima Real Estate SOCIMI, S.A. and subsidiaries, as well as the description of the major risks and uncertainties it faces.

Madrid, 19 February 2020.

Mr. Luis María Arredondo Malo
President

Mr. David Jiménez-Blanco Carrillo de Albornoz
Board Member

Mr. Luis Alfonso López de Herrera-Oria
Vice-president and CEO

Mr. Cato Henning Stonex
Board Member

Mr. Fernando Bautista Sagüés
Board Member

Mr. Stanislas Henry
Board Member

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

1. ORGANISATIONAL STRUCTURE AND OPERATION

Árma Real Estate SOCIMI, S.A. (Árma, or the Company or the parent Company) was incorporated in Spain on 13 June 2018 as Árma Real Estate, S.L., in accordance with the Spanish Capital Companies Act, through the issue of 300 registered shares, each with a par value of 10 euros. Subsequently, on 25 July 2018 the Company was transformed into a public limited company and increased its share capital with the issue of 6,000 new shares, each with a par value of 10 euros.

On 27 September 2018, the Company notified the Tax Agency that it opted to operate under the rules governing Spanish Real Estate Investment Trusts (SOCIMIs).

On 1 October 2018, a General Shareholders' Meeting was held, through which a capital increase was decided with the waiver of the pre-emptive subscription right of the shareholders in an offer to subscribe to shares of the Company. Subsequently, on 23 October 2018, Árma was admitted for trading on the Stock Market through a share capital increase of €100M, with the issue of 10 million ordinary shares, each with a par value of 10 euros.

In 2019, at its session of 21 March, the General Shareholders' Meeting approved a further share capital increase with a waiver of preferential subscription rights, delegating the necessary powers to implement this increase to the Board of Directors. This increase was approved by the CNMV on 8 April 2019, and it was put into effect by means of the issue and placement in circulation of 4 million new ordinary shares, each with a par value of 10 euros, thus resulting in an increase of €40M in the Company's share capital.

During the last quarter of 2019, within a new share capital increase, the Company signed a subscription agreement with Ivanhoé Cambridge Holdings UK Ltd on 1 November 2019, under which this company undertook to subscribe and pay up new shares for a total value of €60M at a maximum issue price of €10.40 per share. At its session of 5 November 2019, the General Shareholders' Meeting approved this new share capital increase, with a waiver of preferential subscription rights, delegating the necessary powers to implement this increase to the Board of Directors. This increase was approved by the CNMV on 15 November 2019, and it was put into effect by means of the issue and placement in circulation of 14,423,076 new shares, each with a par value of 10 euros plus an issue premium of €0.40, thus resulting in a share capital increase plus issue premium amounting to €150M.

Árma is a company that was incorporated without assets - "blind pool" - in order to take advantage of the opportunities of the Spanish real estate sector. On 31 December 2018, just two months after admission for trading on the Stock Market, the Group invested €110M, debuting in the market with the acquisition and investment commitment of four prime office assets located in the most consolidated areas of Madrid.

During the 2019 financial year, the Group formalized the acquisition commitments it had acquired at the end of the previous year and made four additional investments in the amount of €98M. In line with the Group's strategy, these are three prime office properties located in one of Madrid's most consolidated business districts, and a logistics warehouse located in San Agustín de Guadalix, in Tier II of Madrid's logistics market, an excellent location for distribution throughout Spain.

Following these acquisitions, the Group's portfolio totals more than 75,000 sqm of gross lettable area and more than 770 parking spaces. The properties are in line with the listed company's investment strategy: they form a balanced portfolio of rented offices that offer considerable value uplift potential for the SOCIMI's shareholders.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

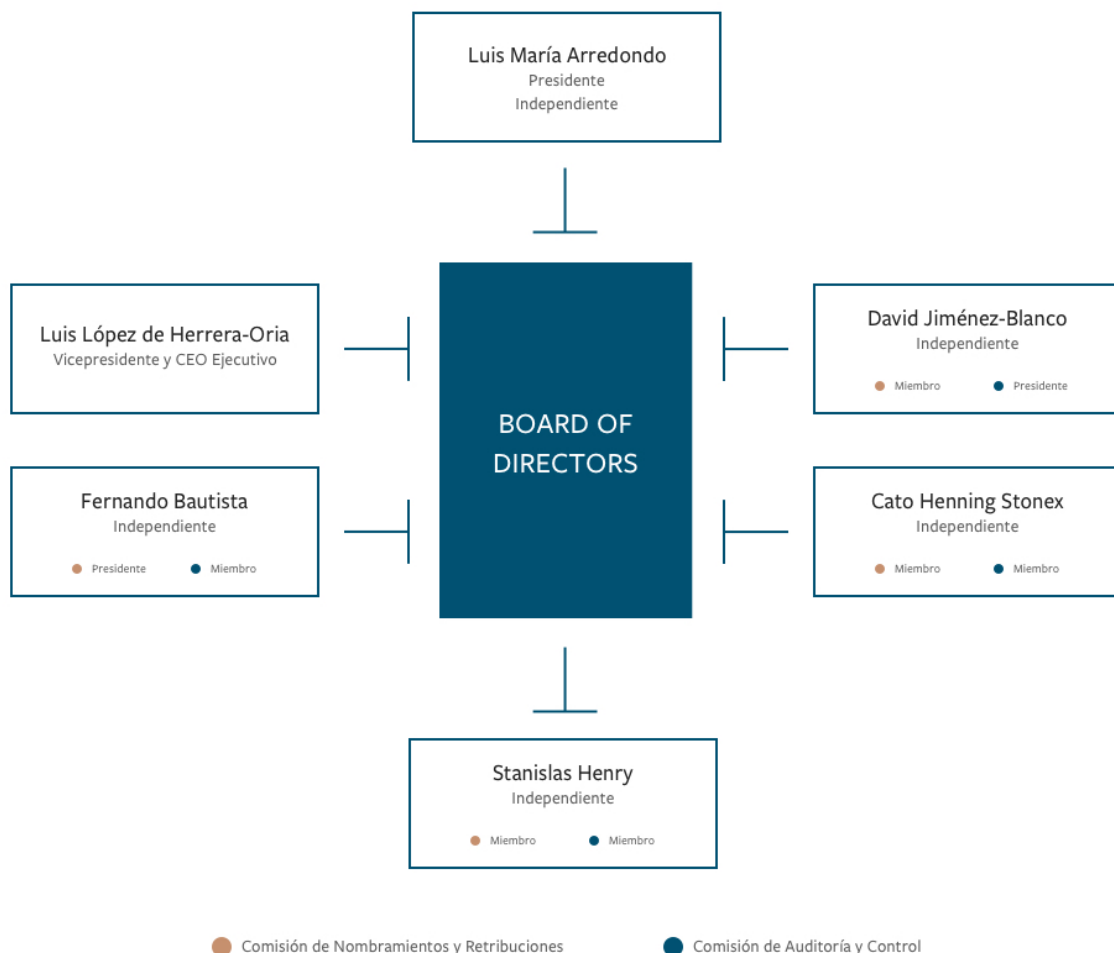
CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

Árима’s business strategy is focused on investment in high quality rental assets with strong growth potential. Its commercial policy is mainly focused on operating offices in the Madrid and Barcelona business districts and in other consolidated districts outside the city centre, logistics properties in Spain’s most important distribution hubs and, to a lesser extent, other commercial properties.

The parent Company’s Board of Directors conducts its business in accordance with the rules of good corporate governance, which are set out primarily in the Company’s Bylaws, the Rules of the General Meeting of Shareholders and the Board of Directors’ Regulations. It is also fully committed to compliance with the recommendations of the Good Governance Code.

The Board of Directors of the parent Company is the oversight and control body for the Company's activity, with competence over matters such as the approval of the Group's general policies and strategies, corporate governance and corporate social responsibility policy, risk control and management policy and compliance with the requirements necessary for maintaining the status of a SOCIMI.

The Board of Directors has two basic committees: an Audit and Control Committee and an Appointments and Remuneration Committee. Their essential function is to support the Board of Directors in its duties of supervision and control of the Group's ordinary management.



ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

Experienced board of directors, with proven Real Estate, financial and legal capabilities

Majority independent board

Audit and control of Appointments and Remuneration Committees

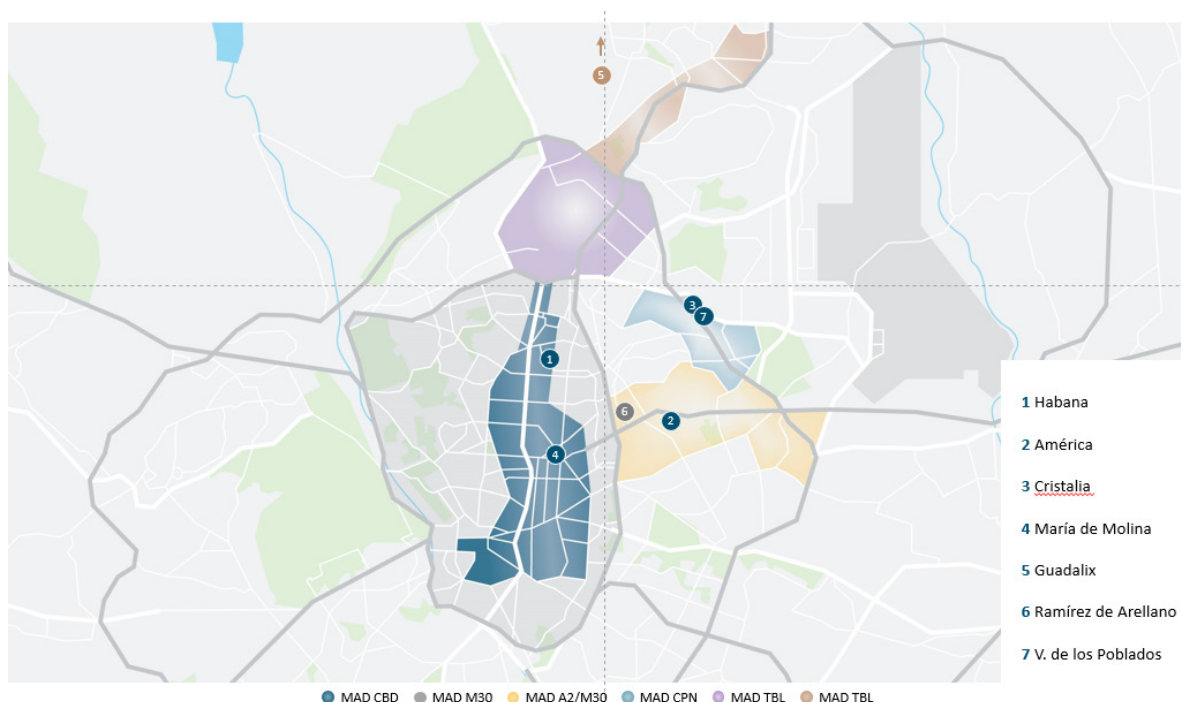
The Group's shareholders include large international and domestic funds that are very interested in the opportunities offered by the Spanish real estate market and in the ability of the management team to maximize and optimize the portfolio's performance and value.

2. BUSINESS PERFORMANCE AND INCOME

Since it was listed on the stock market in October 2018, the Group has engaged in several transactions for the acquisition of real estate assets which have led to positive consolidated earnings amounting to 15,389 thousand euros in 2019 (2018: 1,124 thousand euros).

The investments made by the Group have produced a very balanced portfolio with excellent indicators such as the internal rate of return and the initial return on acquisition cost, all of which is in line with the undertakings made by the Company and detailed in its IPO Prospectus and its Share Capital Increase Prospectuses.

The investments made are in line with a disciplined strategy designed to seek products with great potential for generating value in well-established areas of Madrid's metropolitan and border areas, as shown on the following map:



ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

The properties that currently form part of the Group's portfolio are the following:

Habana

 TYPE	 LOCATION	 GLA	 PARKING SPACES	 PRICE GLA	 PRICE PARKING/SPACE
Offices	MAD CBD	4,200 m ²	65	€4,017/m ²	€25,000/p.s.



María de Molina, 39

 TYPE	 LOCATION	 GLA	 PARKING SPACES	 PRICE GLA	 PRICE PARKING/SPACE
Offices	CBD	3,897.20 m ²	24	€5,737/m ²	€55,000/p.s.



ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

Josefa Valcárcel 42

					
TYPE	LOCATION	GLA	PARKING SPACES	PRICE GLA	PRICE PARKING/SPACE
Offices	MAD A2/M30	9,272 m ²	193	€2,264/m ²	€15,000/p.s.



Edificio Play






					
TYPE	LOCATION	GLA	PARKING SPACES	PRICE GLA	PRICE PARKING/SPACE
Offices	MAD A2/CN	10,928m ²	202	€3,222/m ²	€20,000/p.s.



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CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

Guadalix

					
TYPE	LOCATION	GLA	PARKING SPACES	PRICE GLA	PRICE PARKING/SPACE
Logistics	MAD S. Agustín de Guadalix	25,694 m ²	177	€638/m ²	€0/p.s.



Ramírez de Arellano 21

					
TYPE	LOCATION	GLA	PARKING SPACES	PRICE GLA	PRICE PARKING/SPACE
Offices	MAD M30-A2	6,759 m ²	110	€4,233/m ²	€35,000/p.s.



ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

Vía de los Poblados 7

 TYPE Offices	 LOCATION MAD A2/CN	 GLA 14,651 m ²	 PARKING SPACES 228	 PRICE GLA €2,265/m ²	 PRICE PARKING/SPACE €20,000/p.s.
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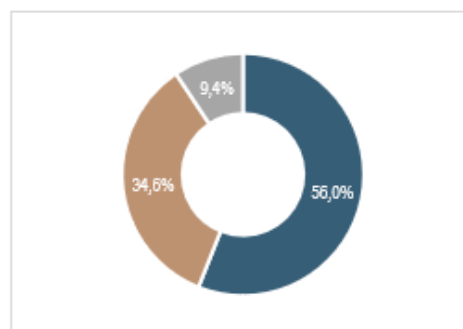


The “net turnover figure” from lease of the acquired real estate properties amounted to 5,740 thousand euros in 2019 (2018: 12 thousand euros). EBITDA (earnings before interest, taxes, depreciation and amortization) amounted to 16,144 thousand euros (2018: 1,126 thousand euros).

The market value of the Group's assets at 31 December 2019 amounted to 221,650 thousand euros (2018: 39,975 thousand euros), an increase of 16% on the purchase price.

The following chart shows a breakdown of the objective value creation in the portfolio, taking account of the type of management and strategy applied for each of the properties (the marketing of empty spaces, the repositioning and improvement of properties acquired or the full-scale refurbishment of assets) after completing a detailed analysis of the market and the properties themselves.

Active Management	GAV (€m)	GAV (%)
Repositioning & Improvement	124,2	56,0%
Re-gearing & Re-leasing	76,8	34,6%
Leasing vacant	20,8	9,4%
Total	221,7	100,0%



ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

3. EPRA INFORMATION

The following table shows the Company's NAV, defined in line with the European Public Real Estate Association (EPRA) recommended best practices:

EPRA Net Asset Value (NAV)

	Thousand euros	
	31/12/2019	31/12/2018
NAV	299,778	97,088
Effect of exercise of options, convertibles and other equity interests	-	-
Diluted NAV	299,778	97,088
Excludes:		
Fair value of financial instruments	(735)	-
EPRA NAV	300,513	97,088
No. of shares at end of period (net of treasury shares)	28,373,534	9,948,170
EPRA NAV per share (euros)	10.6	9.8

4. PERFORMANCE OF THE COMPANY'S SHARES

The share price was listed at €11.30 on 31 December 2019. The share price was listed at €9 on 31 December 2018.

5. TREASURY SHARES

Movements in treasury shares over the year have been as follows:

	31 December 2019		31 December 2018	
	Number of treasury shares	Thousands euros	Number of treasury shares	Thousand euros
Opening balance	58,130	546	-	-
Increases / Purchases	138,340	1,487	60,202	555
Reductions	(140,628)	(1,408)	(2,072)	(9)
Closing balance	55,842	625	58,130	546

Treasury shares held by the parent Company on 31 December 2019 accounted for 0.20% of the parent Company's share capital and totalled 55,842 shares (on 31 December 2018 it accounted for 0.58%, amounting to 58,130 shares). The average cost of treasury shares was €11.00 per share in 2019 (€9.40 per share in 2018).

These shares are registered, thus reducing the value of the Group equity on 31 December 2019 in the amount of 625 thousand euros (546 thousand euros on 31 December 2018).

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

The parent Company has complied with its obligations under Article 509 of the Spanish Capital Companies Act, which establishes that the par value of acquired shares that are listed on official secondary markets, added to the value of those that are already held by the parent Company and its subsidiaries, must not exceed 10% of the share capital. The subsidiary does not hold either treasury shares or shares in the parent Company.

6. DIVIDEND POLICY

SOCIMIs are governed by the special tax rules established under Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs are governed. They are required to distribute the profits they obtain over the course of the year to their shareholders in the form of dividends, after complying with the relevant corporate obligations. Distribution must be approved within the six months following the year end, in the following way:

- a) 100% of the profits resulting from dividends or profit shares received from the companies referred to in Article 2.1 of this Act.
- b) At least 50% of the profits earned from the transfer of the property, shares or ownership interests referred to in Article 2.1. of the Act, where this occurs after the deadlines referred to in Article 3.3 of the Act have expired, when the property, shares or interests are used to comply with the Company's primary corporate purpose. The remainder of these profits must be reinvested in other property or investments related to the performance of this corporate purpose within three years of the transfer date. Otherwise, these profits must be distributed in full together with any profit earned, where applicable, in the year in which the reinvestment period expires. If the items in which the reinvestment has been made are transferred prior to the end of the holding period, profits must be distributed in full, together, where applicable, with the part of the profits attributable to the years in which the Company was not taxed under the special tax scheme provided for in the aforementioned Act.
- c) At least 80% of the remaining profits obtained.

The dividend must be paid within one month of the distribution agreement. When dividends are distributed with a charge to reserves originating from profits for a year in which the special tax rules were applied, the distribution must compulsorily be approved by means of the resolution referred to above.

The Company is required to allocate 10% of its profits for the year to the legal reserve until the balance held in this reserve amounts to 20% of its share capital. The balance of this reserve is not available for distribution to the shareholders until it exceeds the 20% limit. The articles of association of these companies may not establish any restricted reserve other than the foregoing.

The following table shows a reconciliation between the result under Spanish Gaap and the result under IFRS:

	Thousand euros	
	31/12/2019	31/12/2018
Result for the year - Spanish GAAP	(7,945)	(503)
Adjustments:		
(i) Amortization of investment properties	1,745	6
(ii) Changes in value of investment properties	21,589	1,621
Result for the year - IFRS	15,389	1,124

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

7. RISK MANAGEMENT

Árma has established a risk control system that covers its activity and is appropriate to its risk profile. Risk management policies are monitored by the parent Company's Board of Directors. The main risk to achieve the Group's objectives is compliance with the regulatory requirements necessary to maintain its status as SOCIMI. The risk monitoring system also includes the management of financial risk. Note 3 of the Notes to the consolidated annual accounts gives details of the Group's risk management activities.

8. DEFERRED PAYMENTS TO SUPPLIERS

The following table shows a breakdown of the payments due to commercial operations completed during the year and that remained pending at year end, with reference to the maximum payment deadlines provided under Act 15/2010 and subsequently modified under Act 31/2014:

	Financial year ending 31 December 2019	Financial year from 13 June to 31 December 2018
	Days	Days
Average supplier payment term	19	28
Ratio of transactions paid	19	32
Ratio of transactions that remain pending	28	22
	Amount (Thousand euros)	Amount (Thousand euros)
Total payments made	12,186	325
Total payments pending	501	255

9. THE TEAM

The team of professionals who make up Árma is one of the Group's main strengths. Since its incorporation, it has selected the highly qualified personnel necessary to develop its strategies and achieve its objectives.

Árma Real Estate is an internally managed real estate investment group that integrates the management team into its organisational structure. This internal team works exclusively and full time for the Group and its shareholders. The team comprises specialist professionals with extensive experience and a proven track record in the real estate sector as well as a deep understanding of the market. This expert group of professionals is able to undertake highly complex investment operations over short periods of time and complete all aspects of the value creation process, from identification of the investment to the active management of the property and its potential turnaround.

The Group is supervised by a Board of Directors with a large majority of independent directors who have a combination of skills in the real estate, financial and legal sectors. The Board is advised by an Investment Committee, an Appointments and Remuneration Committee and an Audit and Control Committee that ensure compliance with the investment and profitability requirements established.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

Árима has assembled a solid team of real estate professionals, whose members have more than 100 years of professional experience. The team works exclusively to the creation of value for the Group and its shareholders and to the satisfaction of its clients. Their specialist skills and existing contact network provide the management team with access to unique investment opportunities in the Spanish real estate market.

10. ALTERNATIVE PERFORMANCE MEASURES

On 5 October 2015, the European Securities and Markets Authority (ESMA) published a set of Guidelines (2015/1415) on Alternative Performance Measures (APM). Compliance with these guidelines is mandatory for all issuers whose securities are admitted for trading on a regulated market and who are required to publish regulatory information under Directive 2004/109/EC on transparency.

Árима's financial information contains figures and measures that have been prepared in accordance with the applicable accounting regulations, together with a further series of measures prepared in accordance with the reporting standards that the company has established and developed internally ("*Medidas Alternativas de Rendimiento – MAR*").

Alternative performance measures relating to the income statement

- EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization): this is an indicator that measures the Company's operating margin before interest, taxes, depreciation and amortization have been deducted. Given that this figure does not include financial and tax costs or the accounting costs that do not involve any cash outflows, it is used by the Management to assess results over the long term and allows these results to be compared with other companies in the real estate sector. See point 2 of this Consolidated Management Report.

Alternative performance measures relating to the balance sheet

- Gross Asset Value (GAV): this is the value of the portfolio according to its most recent external valuation by an independent expert. This figure is used to determine the value generated as a result of the Group's management of its asset portfolio. See Note 6 to these Consolidated Annual Accounts.

- Financial leveraging ratio: calculated as financial debt / (financial debt plus equity). This figure allows the Management to assess levels of borrowing at the Group, given that the Group's main capital management objectives are to ensure long- and short-term financial stability, the positive performance of Árима Real Estate SOCIMI, S.A.'s shares and the appropriate financing of investments. See Note 3.2 to these Consolidated Annual Accounts.

11. SUBSEQUENT EVENTS

The Group has signed a financing agreement (mortgage) for an amount of 9.4 million euros on 30 January 2020 on the logistics warehouse of San Agustín de Guadalix.

There have been no other relevant subsequent events that have not been included in these consolidated annual accounts.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

12. PRINCIPAL RISKS AND UNCERTAINTY

The Group's business is subject to a range of risks that are inherent in the sector, such as changes to tax rules, developments in the real estate market, the search for further potential acquisitions in the Spanish prime assets market and the availability of financing and resources to undertake these acquisitions.

The Group therefore undertakes its activities with close attention to risk management, with the aim of acquiring real estate investments that match its strategy and that will offer maximum value for shareholders in the medium and long term. The Group has investment resources that result from its cash flows, with the capacity to finance the assets that still require financing, thus allowing it to continue to pursue its investment strategy centred on real estate assets in Spain.

13. USE OF DERIVATIVES

The interest rate swap derivative (financial swap) allows to change a variable interest rate to a fixed interest rate in bank loans signed by the Group. The cashflow covered is the foreseen future payments of interests related to the financial debts. Changes in fair value of the interest rate swap are registered in "Hedging reserves" in equity. See Note 14 to these Consolidated Annual Accounts.

Attached: Annual Corporate Governance Report.



ISSUER'S IDENTIFICATION DATA

Financial year end date [31/12/2019]

Company Tax ID No. (CIF): [A88130471]

Company name:

[**ARIMA REAL ESTATE SOCIMI, S.A.**]

Registered office:

[SERRANO, 47 - 4ª PLANTA, 28001 MADRID]

A. OWNERSHIP STRUCTURE

A.1. Complete the following table on the company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
15/11/2019	284,293,760.00	28,429,376	28,429,376

Indicate whether there are different types of shares with different associated rights:

- Yes
 No

A.2. List the direct and indirect holders of significant ownership interests at year-end, excluding board members:

Personal or corporate name of shareholder	% voting rights allocated to shares		% voting rights held through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
BANK OF MONTREAL	0.00	8.40	0.00	0.00	8.40
MORGAN STANLEY	0.00	5.49	0.00	0.00	5.49
PELHAM LONG/ SHORT SMALL CAP MASTER FUND LTD.	0.00	0.00	9.98	0.00	9.98
ROSS TURNER	0.00	0.00	9.98	0.00	9.98
RODEX ASSET MANAGEMENT, S.L.	3.84	0.00	0.00	0.00	3.84
IVANHOÉ CAMBRIDGE, INC.	0.00	20.29	0.00	0.00	20.29

Breakdown of indirect holdings:

Personal or corporate name of indirect holder	Personal or corporate name of direct holder	% voting rights allocated to shares	% voting rights held through financial instruments	% of total voting rights
ROSS TURNER	ROSS TURNER	0.00	9.98	9.98

Please indicate the most significant movements in shareholding structure during the year:

Most significant movements

The Company has made two share capital increases during this financial year. One in April in the amount of 40 million euros and another in November in the amount of 150 million euros, which brought Ivanhoé Cambridge, INC in as a shareholder with a holding of 20.293%.

A.3. Complete the following tables on members of the company's board of directors that hold voting rights over company shares:

Personal or corporate name of board member	% voting rights allocated to shares		% voting rights held through financial instruments		% of total voting rights	% voting rights <u>that can be transmitted</u> through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR. LUIS ALFONSO LÓPEZ HERRERA-ORIA	0.00	3.84	0.00	0.00	3.84	0.00	3.84

% of total voting rights held by the board of directors

3.84

Breakdown of indirect holdings:

Personal or corporate name of board member	Personal or corporate name of direct holder	% voting rights allocated to shares	% voting rights held through financial instruments	% of total voting rights	% voting rights <u>that can be transmitted</u> through financial instruments
MR. LUIS ALFONSO LÓPEZ HERRERA-ORIA	RODEX ASSET MANAGEMENT, S.L.	3.84	3.84	100.00	3.84

A.4. Indicate, where applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities, and excluding those reported in section A.6:

Related-party name or corporate name	Type of relationship	Brief description
No data available		

- A.5. Indicate, where applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Related-party name or corporate name	Type of relationship	Brief description
No data available		

- A.6. Describe the relationships (unless insignificant for both parties) that exist between significant shareholders or shareholders represented on the Board, and directors, or their representatives in the case of proprietary directors.

Explain, where applicable, how significant shareholders are represented. Specifically, name the directors who have been appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders or who are linked to significant shareholders and/or companies in their group, specifying the nature of such relationships or links. In particular, and where applicable, mention the existence, identity and position of directors of the listed company, or their representatives, who are in turn members of the board of directors or the representatives of companies that hold significant shareholdings in the listed company or in group companies of these significant shareholders:

Personal or corporate name of linked board member or representative	Name or corporate name of linked significant shareholder	Name of the significant shareholder's group company	Description relationship/position
Mr. LUIS ALFONSO LÓPEZ HERRERA-ORIA	RODEX ASSET MANAGEMENT, S.L.	RODEX ASSET MANAGEMENT, S.L.	Chief Executive Officer
Mr. STANISLAS HENRY	IVANHOÉ CAMBRIDGE, INC.	IVANHOÉ CAMBRIDGE, INC.	Proprietary Director

- A.7. Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Capital Companies Act. Provide a brief description and list of the shareholders bound by the agreement, as applicable:

Yes
 No

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. If so, give a brief description:

Yes
 No

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year, where applicable:

A.8. Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 5 of the Spanish Securities' Market Act. If so, give details:

Yes
 No

A.9. Complete the following tables on the company's treasury stock:

At year-end:

Number of shares held directly	Number of shares held indirectly(*)	% of total share capital
55,842		0.20

(*) Held through:

Personal or corporate name of direct shareholder	Number of shares held directly
No data available	

A.10. Give details of the applicable conditions and time periods governing any resolutions by the general shareholders' meeting allowing the board of directors to issue, buy back and/or transfer treasury stock:

The Ordinary General Shareholders' Meeting held on 21 May 2019 agreed to authorise the acquisition of treasury stock by the Company over a period of 5 years.

A.11. Estimated free float:

	%
Estimated free float	51.99

A.12. Give details of any restriction (statutory, legislative or of any other kind) on the transfer of securities and/or any restriction on voting rights. In particular, state whether there is any type of restriction that may make it difficult to take over control of the company through the acquisition of its shares on the market, or any rules governing prior authorisation or notification that may be applicable, under sector regulations, to acquisitions or transfers of the company's financial instruments.

Yes
 No

A.13. Indicate whether the General Shareholders' Meeting has agreed to take neutralisation measures to prevent a public takeover bid under the terms of Act 6/2007.

Yes
 No

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

A.14. Indicate whether the company has issued securities that are not traded in a regulated European Union market.

Yes
 No

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer:

B. GENERAL SHAREHOLDERS' MEETING

B.1. Indicate and detail the differences, if any, between the required quorum for convening the General Shareholders' Meeting and the quorum required in the Spanish Capital Companies Act (LSC):

Yes
 No

B.2. Indicate and, where applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the Spanish Capital Companies Act (LSC):

Yes
 No

B.3. Indicate the rules governing amendments to the company's Bylaws. In particular, indicate the majorities required to amend the articles of association and, if applicable, the rules for protecting shareholders' rights when changing the articles of association.

The system for the adoption of resolutions refers to the LSC.

B.4. Indicate the attendance figures for the general shareholders' meetings held during the year to which this report relates and during the preceding two years:

Attendance Data						
Date of General Meeting	% attending in person	% attending by proxy	% remote voting		Total	
			Electronic vote	Others		
26/09/2018	100.00	0.00	0.00	0.00	100.00	
Of which, free float	0.00	0.00	0.00	0.00	0.00	
01/10/2018	100.00	0.00	0.00	0.00	100.00	
Of which, free float	0.00	0.00	0.00	0.00	0.00	
18/10/2018	100.00	0.00	0.00	0.00	100.00	
Of which, free float	0.00	0.00	0.00	0.00	0.00	
21/03/2019	10.91	47.54	0.00	0.00	58.45	
Of which, free float	0.00	45.80	0.00	0.00	45.80	
05/11/2019	8.76	51.58	0.00	0.00	60.34	
Of which, free float	0.96	49.96	0.00	0.00	50.92	

B.5. State whether any point on the agenda of the general shareholders' meetings during the year has not been approved by the shareholders for any reason:

Yes
 No

B.6. State whether the articles of association impose any minimum requirement on the number of shares required to attend the general shareholders' meetings or to vote remotely:

Yes
 No

B.7. State whether it has been established that certain decisions (other than those established by law) that entail an acquisition, disposal, the contribution of essential assets to another company or other similar corporate transactions, must be subject to the approval of the general shareholders' meeting:

Yes
 No



**ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED
PUBLIC LIMITED COMPANIES**

B.8. Indicate the address of your company's website and the way in which corporate governance content may be accessed, along with any other information on general meetings which must be made available to shareholders on the Company website.

[www.arimainmo.com]

C. COMPANY MANAGEMENT STRUCTURE

C.1. Board of directors

C.1.1 Maximum and minimum number of directors established in the articles of association and the number set by the general meeting:

Maximum number of Directors	7
Minimum number of Directors	5
Number of directors set by the general meeting	6

C.1.2 Complete the following table with board members' details:

Personal or corporate name of board member	Representative	Category of board member	Position on the board	Date of first appointment	Date of last appointment	Election procedure
LUIS ALFONSO LÓPEZ HERRERA-ORIA		Executive	CHIEF EXECUTIVE OFFICER	26/09/2018	26/09/2018	RESOLUTION OF GENERAL SHAREHOLDERS' MEETING
FERNANDO BAUTISTA SAGÜÉS		Independent	DIRECTOR	26/09/2018	26/09/2018	RESOLUTION OF GENERAL SHAREHOLDERS' MEETING
DAVID JIMÉNEZ-BLANCO CARRILLO DE ALBORNOZ		Independent	DIRECTOR	26/09/2018	26/09/2018	RESOLUTION OF GENERAL SHAREHOLDERS' MEETING
LUIS MARÍA ARREDONDO MALO		Independent	CHAIRMAN	26/09/2018	26/09/2018	RESOLUTION OF GENERAL SHAREHOLDERS' MEETING
CATO HENNING STONEX		Independent	DIRECTOR	26/09/2018	26/09/2018	RESOLUTION OF GENERAL SHAREHOLDERS' MEETING
STANISLAS HENRY		Proprietary	DIRECTOR	12/11/2019	12/11/2019	RESOLUTION OF BOARD OF DIRECTORS

Total number of board members	6
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State if any directors have left the board of directors during the period forming the subject of this report, whether through resignation, dismissal or for any other reason:

Personal or corporate name of board member	Category of director at the time of leaving	Date of last appointment	Leaving date	Specialist committees of which he/she was a member	Indicate whether the director left before the end of their term
No data available					

C.1.3 Complete the following tables on the members of the board and their specific category:

EXECUTIVE DIRECTORS		
Personal or corporate name of board member	Position in company's organisational structure	Profile
LUIS ALFONSO LÓPEZ HERRERA-ORIA	CHIEF EXECUTIVE OFFICER	Luis Alfonso López de Herrera-Oria has been CEO of the Company since its incorporation. He has more than 30 years of experience in the real estate sector. He was Managing Director of Axiare from 2014 to 2018 and Executive Director of Prima from 1986 to 2002. During this period, Prima was admitted for listing on the Madrid stock market (1988), and in 1990 it became the largest real estate company in Spain. In 2002, he founded Rodex with a small team of former colleagues from Prima. In 2007, Rodex's main business was transferred to Alza Real Estate, SA, where he took up the role of CEO and Independent Director. Luis Alfonso López de Herrera-Oria has also worked as an independent adviser for funds such as Falcon II Real Estate, founded by Morgan Stanley, and CBRE, and he is a former adviser with iAdvise Partners, EAFI, SL. He has a degree in Economics and is a member of the Royal Institution of Chartered Surveyors (FRICS).

Total number of Executive Directors	1
% of the Board	16.67

EXTERNAL PROPRIETARY DIRECTORS		
Personal or corporate name of board member	Individual or corporate name of the significant shareholder that he/she represents or that proposed his/her appointment	Profile
STANISLAS HENRY	IVANHOÉ CAMBRIDGE, INC.	Stanislas Henry is an independent non-executive director of the Company. He is a French national and resident in France and has an MBA from INSEAD (1996). He is currently Vice President of Ivanhoé Cambridge

EXTERNAL PROPRIETARY DIRECTORS		
Personal or corporate name of board member	Individual or corporate name of the significant shareholder that he/she represents or that proposed his/her appointment	Profile
		<p>Europe, where he manages all strategic alliances in Europe. He began his career in Corporate Finance with Paribas Group from 1988 to 1995, holding positions in branches of this group in Paris (Project and Media Financing), London (LBO financing) and New York (European Corporate Desk). He subsequently worked for five years at GE Capital and GE Real Estate in London and Paris, working in corporate development, helping to build a greater presence for GE in the European real estate markets (in France, the United Kingdom, Spain and Italy).</p> <p>After a year working in M&A and Treasury at Allianz France (formerly AGF), he joined Credit Agricole Group, where he managed M&A activities in the real estate market for CA CIB between 2002 and 2008. He eventually joined Amundi Real Estate, Credit Agricole Group's Asset Management business, where he created the department for institutional real estate funds, building the business to a point where it had €12Bn worth of AUM. He joined Ivanhoé Cambridge in May 2019.</p>

Total number of proprietary directors	1
% of the Board	16.67

INDEPENDENT EXTERNAL DIRECTORS	
Personal or corporate name of board member	Profile
FERNANDO BAUTISTA SAGÜÉS	<p>Fernando Bautista Sagüés is an independent non-executive director of the Company. He holds a degree in Law from Deusto University and a diploma in Business Economics from the Catholic Institute of Business Management ICADE, and he has been a member of the Madrid Bar Association since 1981. Fernando Bautista Sagüés became a partner at the law firm J&A Garrigues in 1989 and after its merger with Arthur Andersen, he became a partner of Arthur Andersen Worldwide in 1996. Two years later, in 1998, Fernando Bautista Sagüés was made a partner of Freshfields. Between 2014 and 2018 he was an independent non-executive director of Axiare Patrimonio. Fernando Bautista Sagüés currently works as an independent legal adviser on matters relating to corporate and finance law. He is Director of Abante Asesores S.A. and Secretary of the Corporate Social Responsibility Committee at Iberdrola, S.A.</p>
DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ	<p>David Jiménez-Blanco Carrillo de Albornoz is an independent non-executive director of the Company. He holds a degree in Business Economics from CUNEF. Mr Jiménez-Blanco worked at Goldman Sachs International between 1995 and 2006, where he was responsible for the European Industrial Clients Group and the Investment Banking teams in Spain and Portugal. Between 2006 and 2009, Mr Jiménez-Blanco was Chairman of Merrill Lynch Capital Markets</p>

INDEPENDENT EXTERNAL DIRECTORS	
Personal or corporate name of board member	Profile
	<p>España, S.A, Sociedad de Valores, in his position as Head of Investment Banking and Global Markets in Spain and Portugal, as well as sitting on the Investment Banking Operations Committee for EMEA. Between 2010 and 2013, he was a partner at BK Partners, a management company focused mainly on direct investment in Mexico, and from 2013 to 2016 he was Finance Director at World Duty Free Group SpA, a company that is listed on the Milan stock exchange. Between 2014 and 2018 he was an independent non-executive director of Axiare Patrimonio. Mr Jiménez-Blanco is currently head of Restructuring at Abengoa, S.A., an independent coordinator and board member at Bolsas y Mercados Españoles, S.A. and Chairman of Gawa Capital Partners, S.L.</p>
<p>LUIS MARÍA ARREDONDO MALO</p>	<p>Luis Maria Arredondo Malo holds a degree in Civil Engineering and has received the Professional Medal of Merit from the Association of Civil Engineers. He completed a senior programme in Business Administration (PADE) at IESE Business School (University of Navarra). From 1969 to 1975 he worked at the Spanish Ministry of Public Works as a project engineer. From 1975 to 1978 he was General Manager of the construction company S.A.C.R.A., a subsidiary of the Belgian Group C.F.E. Between 1980 and 1988 he was General Manager of Corporación Inmobiliaria Hispamer (CIH) and General Manager of the Company Edificaciones de Madrid y Provincia, S.A. (EMPSA). From 1988 to 1994 he was Managing Director (CEO) of Inmobiliaria Zabálburu, S.A., a company listed on the Spanish stock market. Over that period, the real estate company developed into a business that recorded rapid and continuous growth. From 1994 to 2006 he was Managing Director of Inmobiliaria Urbis, also holding the position of Chairman in 2006. Over that period, the company achieved a market value of 3,400 million euros. From 2006 to 2013 he was Chairman and Managing Director of Santander Global Property, Banco Santander's asset management company, with large international projects in cities such as Madrid, Sao Paulo, Mexico City, Monterrey, Miami and Berlin. From 2014 to 2018 he was Chairman of the Board of Directors of Axiare Patrimonio, one of the largest SOCIMIs listed on the Spanish stock market, which was recently acquired by Inmobiliaria Colonial.</p>
<p>CATO HENNING STONEX</p>	<p>Cato Henning Stonex is an independent non-executive director of the Company. He holds a BSC (Econ) from the London School of Economics and Political Science. From 2006 to 2016 he was a governor and in 2016 was appointed governor emeritus. Cato Henning Stonex is Director of LSE Ideas (think tank) and a member of its Investments Committee. Cato Henning Stonex joined Morgan Grenfell & Co in 1986, where he became a trader in European government bonds. In 1989 he joined J. Rothschild Administration as a fund manager. In 1996 he was a founding partner at Taube Hodson Stonex. In 2016, Taube Hodson Stonex merged with Global Asset Management. In 2017, Cato Henning Stonex founded the Partners' Investment Company. He was an independent non-executive director of Axiare Patrimonio from 2017 to 2018.</p>

Total number of independent directors	4
% of the Board	66.67

List any Independent Directors who receive any amount or payment from the company or its corporate group other than standard director remuneration, or who maintain or have maintained during the last financial year a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior officer of an entity, which maintains or has maintained such a relationship.

Where applicable, include a reasoned statement from the Board detailing why it believes that the said director will be able to perform his/her duties as an independent director.

Personal or corporate name of board member	Description of the relationship	Reasoned statement
No data available		

OTHER EXTERNAL DIRECTORS

Give details of any other external directors and list the reasons why they cannot be considered proprietary or independent directors. Give details of their relationships with the company, its executives or shareholders:

Personal or corporate name of board member	Reasons	Company, manager or shareholder to whom he/she is linked	Profile
No data available			

Total number of other external directors	N.A.
% of the Board	N.A.

List any changes in the category of each director that have occurred during the period reported:

Personal or corporate name of board member	Date of change	Previous category	Current category
No data available			

C.1.4 Complete the following table with information on the number of female board members at the close of the last 4 financial years and their category:

	Number of female board members				% of the total number of directors of each type			
	FY 2019	FY 2018	FY 2017	FY 2016	FY 2019	FY 2018	FY 2017	FY 2016
Executive			N.A.	N.A.	0.00	0.00	N.A.	N.A.
Proprietary			N.A.	N.A.	0.00	0.00	N.A.	N.A.
Independent			N.A.	N.A.	0.00	0.00	N.A.	N.A.

	Number of female board members				% of the total number of directors of each type			
	FY 2019	FY 2018	FY 2017	FY 2016	FY 2019	FY 2018	FY 2017	FY 2016
Other External Directors			N.A.	N.A.	0.00	0.00	N.A.	N.A.
Total			N.A.	N.A.	0.00	0.00	N.A.	N.A.

C.1.5 State whether the company has diversity policies that apply to its board of directors on such questions as age, gender, disability and professional training and experience. Small and medium-sized enterprises, as these are defined in the Accounts Audit Act, must at least report the policy they have implemented in relation to gender diversity.

- Yes

 No
 Partial policies

Should this be the case, describe these diversity policies, their objectives, the measures and way in which they have been applied and their results over the year. Also describe the specific measures adopted by the board of directors and the appointments and remuneration committee to achieve a balanced and diverse group of directors.

In the event that the company does not apply a diversity policy, explain the reasons why.

Description of policies, objectives, measures and how they have been implemented, including results achieved

The Board of Directors has approved a director selection policy which ensures that the procedures used to select directors favour diversity in respect of gender, experience and knowledge and that they are free from any implicit bias that might involve some form of discrimination. It also ensures that candidates for the position of non-executive director have sufficient time available to properly perform their duties.

C.1.6 Explain the measures agreed by the appointments committee, where applicable, to ensure that selection processes are not subject to any implicit bias that would make it difficult to select female directors, and to ensure that the company makes a conscious effort to search for and include female candidates who have the required professional profile, thus allowing for a balanced presence between men and women.

Explanation of measures

Although it is true that there are no women on the Board of Directors, the Board is committed to redressing this situation. To this end, the relevant internal assessments are being made.

When, in spite of the measures taken (where applicable), there are few or no female directors, please give the reasons why this is the case:

Explanation of reasons

As mentioned in the previous section, the company is making the relevant internal assessments regarding the inclusion of women on the Board of Directors, though as yet no such appointments have been made.

C.1.7 Explain the conclusions of the appointments committee regarding verification of compliance with the director selection policy. In particular, explain how this policy pursues the goal of having at least 30% of all positions on the board of directors occupied by women directors by the year 2020.

The Company has established a policy of selecting board members based on an analysis of the Company's needs. Candidates for board members will be persons of known reputation, reliability, competence, qualification, training and availability who are committed to the role. In addition, they must be professionals whose conduct and career path are aligned with the mission, vision and values of the Company. It is also the Company's wish to pursue diversity policies and ensure compliance with the targets set with regard to participation by women in board of directors, a situation that is currently under analysis.

C.1.8 Explain, where applicable, the reasons why proprietary directors have been appointed at the request of shareholders who hold less than 3% of the share capital:

Personal or corporate name of shareholder	Reasons
No data available	

Provide details of any rejections of formal requests for board representation from shareholders whose shareholding interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. Where applicable, explain the reasons why they were rejected.

Yes
 No

C.1.9 Where applicable, give details of the powers and duties delegated by the board of directors to directors or board committees:

Personal or corporate name of board member or committee	Brief description
LUIS ALFONSO LÓPEZ HERRERA-ORIA	Each and every one of the powers accorded to the Board of Directors which may be subject to delegation under Law, Bylaws and the Board of Directors' Regulations

C.1.10 List the directors, if any, who hold office as directors, directors' representatives or executives in other companies belonging to the listed company's group:

Personal or corporate name of board member	Name of the group company	Position	Does he/she have executive powers?
Mr. LUIS ALFONSO LÓPEZ HERRERA-ORIA	Árma Investigación, Desarrollo e Innovación, S.L.U.	Representative of the Sole Director	YES

C.1.11 Where applicable, list any directors or directors' representatives that are legal entities and are members of the board of directors or the representatives of members of the board of directors of other companies listed on official securities markets other than group companies, and have communicated that status to the Company:

Personal or corporate name of board member	Name of the listed company	Position
No data available		

C.1.12 State and, where applicable, explain whether the company has established rules on the maximum number of company boards on which its directors may hold seats, identifying, where appropriate, where this is regulated:

Yes
 No

Explanation of the rules and identification of the document where this is regulated.

In accordance with Article 21, section 2.a of the Board of Directors Regulations, under no circumstances may a director be a member of more than 5 Boards of Directors.

C.1.13 Give details of the following amounts paid in relation to the overall remuneration received by the board of directors:

Amount of remuneration accrued by the board (thousands of euros)	992
Value of rights accumulated by current board members in respect of pensions (thousands of euros)	
Value of rights accumulated by former board members in respect of pensions (thousands of euros)	

C.1.14 List any members of senior management who are not executive directors and indicate the total remuneration paid to them during the financial year:

Name or corporate name	Position/s
No data available	

C.1.15 Indicate whether any changes have been made to the board regulations during the year

Yes
 No

C.1.16 Give details of the procedures for selecting, appointing, re-electing and removing Directors. List the competent bodies and the processes and criteria used for each procedure.

The selection policy for candidates for the position of director establishes that candidates for the Company's Board of Directors will be selected on the basis of the following principles:

1. The aim will be to ensure that the Board of Directors comprises a balanced membership with the majority being Non-Executive Directors and with a reasonable ratio of Proprietary and Independent Directors.
2. The Board of Directors shall ensure that the procedures for the selection of Directors favour diversity of gender, experience and knowledge and are free from any implicit bias that might lead to discrimination. It will also ensure that candidates for Non-Executive Directors have sufficient time available to properly perform their duties.

3. Additionally, the process of selecting candidates for the position of Director will begin with a preliminary analysis of the needs of the Company and its Group. This analysis will be carried out by the Company's Board of Directors, with advice and a mandatory prior supporting report from the Appointments and Remuneration Committee.
4. The supporting report from the Appointments and Remuneration Committee shall be published when convening the General Shareholders' Meeting to which the ratification, appointment or re-election of each Director is to be submitted.
5. The Appointments and Remuneration Committee will annually verify compliance with the Board Member Selection Policy and will detail its findings in the Annual Corporate Governance Report.

C.1.17 Explain the extent to which the annual appraisal of the Board has given rise to significant changes in its internal organisation and the procedures applicable to its activities:

Description of changes

There have been no changes to the internal organisation of the Board due to its appraisal.

Describe the appraisal process and the areas assessed by the Board of Directors with the help, where required, of external advisors, regarding the function and composition of the board and its committees and any other area or aspect that has been subject to appraisal.

Description of the appraisal process and areas assessed

The Board of Directors shall conduct an annual self-assessment of its operation and of its Commissions and Committees, in particular the diversity in the composition and competence of the Board of Directors, as well as the performance of the Chairman of the Board of Directors, the Chief Executive Officer of the Company and of the different Directors, paying special attention to the heads of the different Board Commissions and Committees, and it shall take the appropriate measures for their improvement.

The result of this assessment shall be recorded in the minutes of the meeting or attached to this report as an appendix.

The assessment of the various Board Commissions and Committees should start from the reports they send the Board of Directors, while that of the Board itself should start from the report drafted by the Appointments and Remunerations Committee.

Every three years, the Board of Directors shall be assisted in carrying out the assessment by an External Consultant, whose independence shall be verified by the Appointments and Remuneration Committee.

Any business relationships that the consultant (or any company from its group) maintains with the Company (or any company within the Group) must be listed in the Annual Corporate Governance Report. The process and the areas assessed will be described in the aforementioned Annual Corporate Governance Report.

At present, at the close of the financial year, now that the Company has completed its first year of trading, an assessment is being made of the board and its committees, with a view to adopting an action plan to deal with any deficiencies detected, where applicable.

C.1.18 For financial years in which the assessment has been assisted by an external advisor, give details of the business relationships that the external advisor or any company in its group maintains with the company or any company in its group.

N/A.

C.1.19 Indicate the cases in which Directors are obliged to resign.

Article 12 of the Board of Directors' Regulations regulates the dismissal and removal of Directors:

1. Directors must relinquish their post and formalise their resignation whenever any of the grounds set out in law for incompatibility or disqualification from holding the position of director become apparent, and also in the following cases:

a) In the case of proprietary directors, when the shareholder at whose request they were appointed transfers the entire holding that it had in the Company or reduces it to such a level that this requires a reduction in the number of its proprietary directors.

b) When the Board itself requests this by a majority of at least two thirds (2/3) of its members, due to the director having infringed his/her obligations, following a proposal or report from the Appointment and Remuneration Committee, or when his/her remaining on the Board could endanger the Company's credit and reputation.

2. In the event that a private individual representing a legal entity that holds a position of the board becomes affected by any of the grounds set out in law for incompatibility or disqualification from office, the legal entity that holds the position on the board must immediately replace that person.

3. The Board of Directors may not propose the removal of any independent director prior to the end of the statutory period for which he/she was appointed, unless there are fair grounds as assessed by the Board following a report from the Appointments and Remuneration Committee. In particular, it shall be understood that just cause exists when the director has failed to comply with the duties inherent in his/her post, has failed to comply with any applicable recommendation on the subject of corporate governance or has become bound by any of the circumstances preventing his/her appointment as an independent director. Notwithstanding the foregoing, the Board may also propose the removal of independent directors resulting from takeover bids, mergers or other similar corporate operations that imply a change in the Company's capital structure, when such changes in the structure of the Board are supported by the criterion for proportionality set out in article 9, section 3, above.

4. When a director leaves his/her post before the end of his/her term, whether through resignation or due to any other cause, he/she shall explain their reasons in a letter sent to all members of the Board, notwithstanding the resignation being notified as a significant event and the reason for the resignation being noted in the Annual Corporate Governance Report. In particular, in the event that the resignation of the Director is due to the Board having adopted significant or repeated resolutions regarding which the director has set down on record his/her reservations and as a consequence of this has decided to resign, this circumstance shall be expressly stated in his/her resignation letter. This provision also applies to the secretary of the Board, even if he/she is not a director.

5. Notwithstanding the above, the removal of directors may be approved by the General Shareholders' Meeting at any moment, even when not provided for in the meeting's agenda.

C.1.20 Are enhanced majorities required for any type of decision, other than those that are stipulated in law?

Yes

No

Where applicable, describe the differences.

Description of differences

Article 31 of the Regulations of the Board of Directors establishes in section 6 that the favourable vote of a qualified majority of directors will be necessary for (i) the approval of the report necessary for the General Meeting to approve the establishment of the compensation system for directors and management of the Company, consisting of the delivery of shares or rights over them, for (ii) the modifications with respect to the Company's business and for (iii) the modification of article 31.6 itself.

Likewise, article 4.3. of the Board Regulations establishes a 2/3 majority of the Board to be able to modify the Regulation itself, and 12.1. b) of the Board Regulations establishes a 2/3 majority of the Board in order to request termination or resignation of the Directors.

C.1.21 Indicate whether there are any specific requirements, other than those that apply to directors, to be appointed chairman of the board of directors:

Yes

No

C.1.22 Indicate whether the articles of association or the board regulations set any age limit for directors:

Yes

No

C.1.23 State whether the articles of association or the board regulations establish any term limits or other stricter requirements for independent directors in addition to those that are required by law:

Yes

No

C.1.24 Indicate whether the articles of association or the board regulations stipulate specific rules for delegating voting rights on the board of directors, how this is done and, in particular, the maximum number of times that voting rights may be delegated to a board member, as well as whether there is any limitation on the categories of director to whom proxies can be delegated, beyond the restrictions imposed by law. Where applicable, detail these briefly.

Article 31.2 of the Board of Directors' Regulations states that directors must attend board meetings in person, notwithstanding the contents of paragraph 8 of Article 30. However, directors may be represented by another director in accordance with the legislation in force from time to time. The power of representation shall be granted especially for the board meeting in question, and it may be notified using any of the means provided for in paragraph 5 of Article 30 of the Regulations.

C.1.25 Indicate the number of board meetings held during the year. Indicate how many times the board has met without the chairman in attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	14
Number of board meetings held without the chairman's attendance	0

State the number of meetings held by the coordinating director with the other directors when no executive director was present either in person or by proxy:

Number of meetings	0
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Indicate the number of meetings held of the various board committees during the year:

Number of meetings of the AUDIT COMMITTEE	5
Number of meetings of the APPOINTMENTS AND REMUNERATION COMMITTEE	7

C.1.26 State the number of meetings held by the board of directors during the year and details of the number of members in attendance:

Number of meetings held with at least 80% of board members present in person	11
% of personal attendance over total votes during the year	78.57
Number of meetings at which all board members were present in person or represented by proxy with specific instructions	10
% of votes issued at meetings in person or by proxy with specific instructions over total votes during the year	71.43

C.1.27 State whether the consolidated and individual financial statements submitted for authorisation by the board are previously certified:

- Yes
 No

Identify, where applicable, the person(s) who certified the company's individual and consolidated annual accounts prior to their authorisation for issue by the board:

C.1.28 Explain the mechanisms, if any, put in place by the board of directors to ensure that the individual and consolidated financial statements prepared by the board are not presented at the general shareholders' meeting with a qualified audit report.

Article 40 of the Board of Directors' Regulations governs relations with the external auditors in the following terms:

1. Relations between the Board of Directors and the Company's external auditors shall be channelled via the Audit and Compliance Committee.
2. The Board of Directors shall refrain from contracting audit firms in which the fees which the company and the companies in its group are expected to pay for all items are greater than five percent (5%) of the income of the audit firm in Spain during the immediately preceding financial year.
3. The Board of Directors shall aim to formulate the annual accounts definitively in such a way that there are no provisos or reservations in the audit report, and in the exceptional case that these exist, both the chairman of the Audit and Control Committee and the auditors shall clearly explain to the shareholders the content and scope of those provisos or reservations.

C.1.29 Is the board secretary also a member of the board?

- Yes
 No

If the Secretary does not have the status of director, please complete the following table:

Personal or corporate name of board secretary	Representative
Mr. IVÁN AZINOVIC GAMO	

C.1.30 Give details of the specific measures established by the company to ensure the independence of its external auditors and, where applicable the mechanisms implemented to maintain the independence of financial analysts, investment banks, and rating agencies, including how the provisions set out in law have been implemented in practice.

Section five of Article 35 of the Board of Directors' Regulations establishes the following duties for the Audit and Control Committee in relation to the external auditor:

- (i) to bring before the Board of Directors proposals for the selection, appointment, re-election and replacement of the external auditor (which must be international firms of acknowledged standing), along with the terms of their engagement;
 - (ii) to receive information from the external auditor on a regular basis regarding the audit plan and the results of its execution, and to check that the management takes its recommendations into account;
 - (iii) to ensure the independence of the external auditor and, to that end, ensure that the Company informs the CNMV (Spanish Securities Market Commission) of the change of auditor as a significant event, enclosing a declaration on the possible existence of disagreements with the outgoing auditor and their content, where applicable; and in the event that the external auditor resigns, to examine the circumstances that caused its resignation.
- The Audit and Control Committee must establish the appropriate relations with the accounts auditors or auditing companies in order to receive information on those questions that could endanger their independence, so that these can be examined by the Audit and Control Committee, along with any other questions relating to the process of conducting the accounts audits and any other communications provided for in the legislation on accounts audits and auditing standards. In all cases, they must receive written confirmation each year from the accounts auditors or the auditing companies regarding their independence from the company and any companies directly or indirectly related to it, along with information on additional services of any kind that have been provided to these companies by the said auditors or companies or parties related to them, in accordance with the provisions of Spanish Accounts Auditing Act 22 of 20 July 2015;

(iv) to aid the Company's auditor so that it can accept responsibility for the audits of the companies belonging to the group, where applicable;
(v) in the event of the external auditor's resignation, to examine the circumstances that have caused it;
(vi) to ensure that the payment of the external auditor does not compromise its quality or independence;
(vii) to ensure that the external auditor has a yearly meeting with the Board of Directors in full session to inform it of the work undertaken and developments in the Company's risk and accounting positions;
(viii) to ensure that the Company and its external auditor respect the regulations in force on the provision of services other than auditing, the limits on the concentration of the auditor's business and, in general, all other regulations governing the independence of auditors.
In addition, prior to the issue of the accounts audit report, the Audit and Control Committee must produce an annual report in which it gives an opinion on the independence of the accounts auditors or auditing companies. This report must, in all cases, include a statement regarding the provision of the additional services referred to in section b), point (iii), above.

C.1.31 State whether the Company has changed its external auditor during the year. If so, identify the incoming and outgoing auditors:

- Yes
 No

If there have been disagreements with the outgoing auditor, explain the reasons:

- Yes
 No

C.1.32 Indicate whether the auditing firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group:

- Yes
 No

	Company	Group companies	Total
Fees for non-audit work (thousands of euros)	95	0	95
Amount invoiced for non-auditing work / Amount for auditing work (as a %)	45.45	0.00	45.45

C.1.33 Indicate whether the audit report on the previous year's annual accounts is qualified or includes reservations. If so, please explain the reasons given by the chairman of the audit committee to shareholders at the General Shareholders' Meeting to explain the content and extent of these qualified opinions or reservations.

- Yes
 No

C.1.34 Indicate the number of consecutive years during which the current audit firm has been auditing the company's individual and/or consolidated annual financial statements. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the annual accounts have been audited:

	Individual	Consolidated
Number of consecutive years	2	2

	Individual	Consolidated
Number of years audited by the current audit firm / number of years the company or its group have been audited (as a %)	100.00	100.00

C.1.35 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies and, where applicable, give details:

- Yes
 No

Details of the procedure

Section 5 of Article 30 of the Board of Directors' Regulations establishes the following:

Meetings of the Board of Directors will be notified by letter, fax, telegram, email or any other means that provides proof of receipt, and notification will be authorised with the signature of the chairman, or with the signature of the secretary or deputy secretary, by order of the chairman. Such notifications shall be sent sufficiently in advance so that they are received by board members no later than the third day before the date set for the meeting, except in the case of urgent meetings, which may even be convened and held immediately. This shall exclude those cases in which the Regulations require a specific period of advance notice. Notifications shall always include the place, date and time at which the meeting is to be held and, unless duly justified, the meeting's agenda, and they shall be accompanied by any information deemed necessary in order to debate and adopt resolutions on the items to be discussed, unless the Board of Directors has been constituted or exceptionally convened for reasons of urgency.

In this regard, the company's usual practice is to make all information available to board members a week before the meeting is to be held.

C.1.36 Indicate and, where applicable, give details of whether the company has established regulations obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, resigning as the case may be:

- Yes
 No

Details of the regulations

Article 21 of the Board of Directors' Regulations governs the duty of notification on the part of directors:

1. Directors shall inform the Company of any stake that they or their Related Parties hold in the capital of any company with the same or a similar or complementary kind of business activity to the one forming the corporate purpose, giving details of any positions held or duties performed at the company in question. They shall also inform the Company of any activity that they engage in, either for themselves or for others, that is complementary to the one forming the Company's the corporate purpose. All such information shall be included in the notes to the annual accounts and in the Annual Corporate Governance Report, in accordance with legal requirements.

2. Directors must also notify the Company:

a) of all the posts held and the activities carried out in other companies or organisations, along with any other professional obligations. In particular, and prior to accepting any appointment as a director or executive in another company or organisation, directors must consult the Appointments and Remuneration Committee. No Director may, under any circumstances, sit on more than five (5) Boards of Directors;

- b) of any material change in their professional situation that may affect the nature or condition by virtue of which they had been appointed as directors;
- c) of any judicial, administrative or other proceedings that they may be involved in and that, due to their characteristics or importance, could have a serious impact on the Company's reputation. In particular, all directors must inform the Company, through its Chairman, of any cases in which they are arraigned, or if a court decides to hold a trial involving them in connection with any of the crimes listed in Article 213 of the Spanish Capital Companies Act. In such cases, the Board of Directors shall examine the matter as promptly as possible and adopt any resolutions it deems appropriate in the Company's best interests;
- d) of any holding taken directly or indirectly in the Company's share capital by the director or any of his/her Related Parties, and of any change to that holding, and of any transaction that is engaged in directly or indirectly by the director or any of his/her Related Parties in relation to the Company's share capital. For these purposes, the term "Related Parties" shall be understood to include any other persons who are deemed to have close ties with directors, pursuant to the terms of Article 3 of Regulation (EU) 596/2014 of the European Parliament and Council of 16 April 2014 on market abuse (market abuse regulation); and
- e) in general, of any fact or situation that may be of relevance to their actions as a director of the Company.

C.1.37 Indicate whether any member of the board of directors has notified the company that they have been indicted or tried for any of the offences listed in Article 213 of the Spanish Capital Companies Act:

- Yes
 No

C.1.38 List any significant agreements entered into by the company which come into force, will be amended or will be terminated in the event of a change of control of the company due to a takeover bid, and the effects thereof.

Árima Real Estate Socimi, S.A. has an incentive scheme for the Company's team. This plan was approved at the General Shareholders' Meeting of 26 September 2018 and can be found in the information prospectuses for the Company's IPO and share capital increases, which have been registered with the Spanish Securities Market Commission (CNMV). As set out for information purposes in the prospectus, if there is a change of control as a consequence of a public share offering, in accordance with the terms of Royal Decree 1066 of 27 July 2007 on public tenders for the acquisition of securities, this event shall be classified as a liquidation event, as this is defined in the incentive scheme. This plan may be settled both in shares or in cash, at the Board of Directors discretion.

C.1.39 Identify and provide detailed information, individually in respect of directors and in aggregate form in all other cases, regarding any agreements between the company and its administrative officers, executives and employees that offer compensation, guarantees or protection clauses in the event of their resignation or unfair dismissal, or that provide for their contractual termination as a result of a takeover bid or other kinds of operations.

Number of beneficiaries	7
Type of beneficiary	Description of the agreement
CHIEF EXECUTIVE OFFICER AND MANAGERS	The services contract entered into by the company and the Managing Director establishes that if the company terminates the contract without just cause (i.e. unfair dismissal as defined by the Spanish Workers' Statute), the Managing Director will be entitled to receive compensation in cash equivalent to two (2) years' total annual remuneration at the most recent rate. In addition, six of the Company's managers, excluding the managing director, have clauses that offer them compensation in the event of the termination of their employment contracts on any grounds other than a disciplinary action deemed lawful or the voluntary resignation of the manager him/herself. Managers would receive the same compensation in other cases, such as a change of control. In the event that managers are entitled to receive compensation, this will be two years' total annual remuneration at the most recent rate.

Indicate whether, beyond the cases provided for in law, these contracts have been notified to and/or approved by the company's or the group's management bodies. If they have, specify the procedures and events provided for and the nature of the bodies responsible for their approval or for making this notification:

	Board of directors	General Shareholders' Meeting
Body that authorises clauses	√	

	Yes	No
Is the General Shareholders' Meeting informed of such clauses?		√

C.2. Board committees

C.2.1 Give details of all of the fees paid to the board of directors, its members, and the proportion of executive, proprietary, independent and other external directors that they represent:

AUDIT COMMITTEE		
Name	Position	Category
DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ	CHAIRMAN	Independent
CATO HENNING STONEX	MEMBER	Independent
STANISLAS HENRY	MEMBER	Proprietary

% of executive directors	0.00
% of proprietary directors	33.33
% of independent directors	66.67
% of other external directors	0.00

Explain the duties exercised by this committee, including, where applicable, any duties that are additional to those set out in law, and describe the rules and procedures it follows for its organisation and function. For each of these duties, briefly describe the most important actions taken during the year and how, in practice, the committee has performed each of the duties attributed to it, either by law or pursuant to the articles of association or other corporate resolutions.

The primary function of the Audit and Control Committee is to support the Board of Directors in its oversight role by regularly reviewing the process for the preparation of economic and financial information, its internal controls and the independence of the external auditor.

Identify the board members who are members of the audit committee and have been appointed taking into account their knowledge and experience of accounting or auditing or both and state the date that the Chairman of this committee was appointed.

Names of directors with experience	DAVID JIMENEZ-BLANCO CARRILLO DE ALBORNOZ
Date of appointment of the Chairman	26/09/2018

APPOINTMENTS AND REMUNERATION COMMITTEE		
Name	Position	Category
FERNANDO BAUTISTA SAGÜÉS	CHAIRMAN	Independent
CATO HENNING STONEX	MEMBER	Independent
STANISLAS HENRY	MEMBER	Proprietary

% of executive directors	0.00
% of proprietary directors	33.33
% of independent directors	66.67
% of other external directors	0.00

Explain the duties exercised by this committee, including, where applicable, any duties that are additional to those set out in law, and describe the rules and procedures it follows for its organisation and function. For each of these duties, briefly describe the most important actions taken during the year and how, in practice, the committee has performed each of the duties attributed to it, either by law or pursuant to the articles of association or other corporate resolutions.

The main duty of this committee is essentially to provide the Board of Directors with support and assistance in relation to the proposed appointment, re-election, approval and dismissal of board members, the setting-up and overseeing of payment policy for the Company's board members and directors, the monitoring of directors' compliance with their duties, particularly as regards conflicts of interest and related-party transactions, and the supervision of compliance with the Internal Codes of Conduct and Corporate Governance regulations.

C.2.2 Complete the following table with information on the number of female board members sitting on the board's committees at the close of the last four financial years:

	Number of female board members							
	FY 2019		FY 2018		FY 2017		FY 2016	
	Number	%	Number	%	Number	%	Number	%
AUDIT COMMITTEE	0	0.00	0	0.00	N.A.	N.A.	N.A.	N.A.
APPOINTMENTS AND REMUNERATION COMMITTEE	0	0.00	0	0.00	N.A.	N.A.	N.A.	N.A.

C.2.3 Indicate, where appropriate, whether the board committees are subject to regulations, the place where they are available for consultation and any amendments made during the financial year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

The rules for the organisation and operation of the board's committees are set out in Articles 34, 35 and 36 of the Board of Directors Regulations. The Board of Directors Regulations are available for consultation on the company's website. No voluntary annual reports have been drawn up on the activities of each committee.

D. RELATED PARTY AND INTRA-GROUP TRANSACTIONS

- D.1.** Explain, where applicable, the procedures for approving related party or inter-group transactions and the bodies with the competence to grant this approval.

Sections 3, 4 and 5 of Article 22 of the Board of Directors Regulations establish the following procedure for the approval of related party transactions:

1. Any transactions carried out by the Company with directors, significant shareholders or shareholders that are represented on the Board, or with Managers or persons related to any of the parties mentioned, including transactions that could give rise to a conflict of interest and any transaction with third parties pursuant to which any director, significant shareholder or shareholder that is represented on the Board, Manager or related person is entitled to receive any compensation, remuneration or commission, are subject to authorisation from the Board of Directors, following a favourable report from the Audit and Control Committee.
2. Prior to authorising the Company's engagement in transactions of this nature, the Audit and Control Committee and the Board of Directors shall evaluate the transaction from the perspective of the equal treatment of all shareholders and current market conditions.
3. In the event that the related party transaction affects a director, he or she will not be provided with any additional information about the operation or transaction in question and, if the director in question is present at the meeting of the Board of Directors or the Audit and Control Committee then, in addition to being unable to exercise or delegate their voting rights, they must withdraw from the meeting room during any deliberation and, where applicable, vote on the transaction at sessions of both the Board and the Audit and Control Committee.
4. The prior authorisation of the Board provided for in Section 1 of this Article shall not be required when the following three conditions are simultaneously met:
 - a) when the transactions in question are carried out pursuant to standard contracts with pre-established conditions that are applied en masse to many customers;
 - b) when the transactions in question are carried out at prices or rates established at a general level with the party acting as the supplier of the good or service involved; and
 - c) when their value does not exceed 1% of the Company's annual turnover.
5. Where these are transactions that fall within the Company's ordinary business and involve usual or recurring activities, a general authorisation from the Board of Directors shall be sufficient.

- D.2.** List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

Significant shareholder's name or corporate name	Name or corporate name of the group company or entity	Nature of the relationship	Type of operation	Amount (thousands of euros)
No data available				N.A.

- D.3.** List any transactions that are significant, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors:

Name or corporate name of administrators or directors	Name or corporate name of the related party	Relationship	Nature of the operation	Amount (thousands of euros)
No data available				N.A.

- D.4. List any relevant transactions undertaken by the company with other companies in its group, provided that they are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms do not set them apart from the company's ordinary trading activities:

In any case, information shall be given regarding any intra-group transactions carried out with entities established in countries or territories that have the status of tax haven:

Name of the group company	Brief description of the operation	Amount (thousands of euros)
No data available		N.A.

- D.5. Give details of any significant transactions conducted between the company or companies in its group with other related parties that have not been reported in the previous sections:

Name or corporate name of the related party	Brief description of the operation	Amount (thousands of euros)
No data available		N.A.

- D.6. List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

Article 17 of the Board of Directors' Regulations governs conflicts of interest in the following terms:

1. A conflict of interest will be deemed to exist in situations in which the interests of the Company or companies in its group collide, directly or indirectly, with the personal interests of the director. Directors will be deemed to have personal interest whenever the matter in question affects the director personally or a Related Party (as defined below).

2. For the purposes of the present Regulations, "Related Parties" shall be defined as follows:

a) with regard to an individual, the following:

(i) the spouse or a person who is spousal equivalent;

(ii) forebears, descendants and siblings of the person subject to these Regulations or of the spouse (or spousal equivalent) of the person subject to these Regulations;

(iii) the spouses of all forebears, descendants and siblings of the person subject to these Regulations;

(iv) companies in which the person subject to these Regulations, in their own name or through an intermediary, holds or could hold control, either directly or indirectly, in accordance with the scenarios contemplated in Article 42 of the Spanish Commercial Code;

b) with regard to a body corporate, the following:

(i) partners or shareholders who hold or could hold control, either directly or indirectly, over the body corporate subject to these Regulations, in accordance with the scenarios contemplated in Article 42 of the Spanish Commercial Code;

(ii) companies which form part of the same business group, as defined in Article 42 of the Spanish Commercial Code, and the partners or shareholders thereof;

(iii) the personal representative, the managers, whether *de jure* or *de facto*, the liquidators, and the attorneys with general powers to act on behalf of the body corporate subject to these Regulations;

(iv) any persons who, with regard to the representative of the body corporate subject to these Regulations, are deemed to be related persons, in accordance with the terms set out in the previous section for directors who are natural persons.

3. All conflict of interest situations will be governed by the following rules:

a) notification: directors must inform the Board of Directors, through its chairman or secretary, of any situation affecting them that entails a conflict of interest;

b) abstention: directors must refrain from attending and participating in any deliberation or votes on those matters in which a conflict of interest may exist and, as a consequence, their presence will not be taken into account in such cases for the calculation of the quorum. In the case of proprietary directors, these must refrain from participating in any voting on matters which might imply a conflict of interest between the shareholders who have proposed their appointment and the Company;

c) transparency: the Company's Annual Corporate Governance Report will give details of any conflict of interest situation involving directors that is known to the Company as a result of notification by the person concerned or by any other means.

4. The provisions contained in this present Article may be developed further through the corresponding rules issued by the Company's Board of Directors, including an Internal Code of Conduct.

D.7. Is more than one group company listed on the stock exchange in Spain?

Yes

No

E. RISK CONTROL AND MANAGEMENT SYSTEMS

E.1. Explain the scope of the Company's Risk Control and Management System, including measures relating to tax risk:

The Company has developed a Risk management system that not only takes account of the nature of the company itself, but also allows for the particular economic, geographical and regulatory characteristics of the environment in which the company operates. The risk management strategy and policy is the responsibility of the Board of Directors. However, all the members of the organisation are stakeholders and are therefore responsible for ensuring the success of the risk management system.

E.2. Identify the company bodies responsible for preparing and implementing the Risk Management System, including measures relating to tax risk.

The Board of Directors is the body responsible for approving the Company's strategy and the organisation required to put it into practice, as well as for supervising and ensuring that the Management meets the stated targets. In addition, the Board is responsible for ensuring that, in relations with all the parties that have a direct or indirect interest in the Company, the laws and regulations are duly complied with, obligations and contracts are fulfilled in good faith, the actions and best practices of the sectors and areas in which the company carries out its activities are respected, and any other principles of social responsibility that the company has accepted voluntarily are duly observed. Article 43 of the Company's Articles of Association establishes that the Board of Directors must create and maintain an Audit and Control Committee on a permanent and internal basis.

Audit and Control Committee

Article 44 of the Company's Bylaws entrusts the Audit and Control Committee with the fundamental duty of acting as support to the Board of Directors in its supervisory work by carrying out a periodic review of the process for the preparation of economic and financial information, the Company's internal controls and the independence of the external auditor.

E.3. State the primary risks, including tax compliance risk and, where significant, risk arising from corruption (this being understood in the terms set out in Royal Legislative Decree 18/2017), where such risks may affect the achievement of business objectives:

The following is a list of some of the main kinds of risk that may be encountered as a result of the Company's real estate and assets management activity, all of which are covered by the risk monitoring system.

1. Financial risk

a) Market risk

Interest rate risk. The Company's interest rate risk arises from its financial debt. The Company engages in interest rate swaps to cover this risk.

b) Credit risk

The Company is not exposed to significant levels of credit risk, this being understood to mean the impact that the non-payment of receivables could have on its income statement. The company has policies that ensure that both sales and lettings are made to clients with an appropriate credit history.

c) Liquidity risk

The Company's Finance Department is responsible for managing liquidity risk in order to cover any existing payment obligations and/or any undertakings arising from new investments. To this end it analyses the expected cash flows.

2. Market risk

The Company minimises this type of risk through its own strategy and business model. Árima invests in prime properties, with strong upside potential in the office, logistics and retail sectors, in the most consolidated areas. The Company has implemented a long-term business plan that focuses on value creation through active management and repositioning of the portfolio, with special attention to environmental sustainability.

3. Economic risk

Risks in acquisitions is managed by completing a meticulous analysis of transactions, examining and foreseeing any problems that might arise in the future, and considering the possible solutions to such problems. In disposals, the main risk resides in the failure to collect the amounts agreed in the contracts as a result of the buyers' non-compliance. These risks are minimised through the establishment of all kinds of guarantees that will, if necessary, allow the total price to be received or the property forming the object of disposal to be recovered.

4. Risks of a legal and fiscal nature

The Company's activities are subject to legal and fiscal provisions and to the requirements of urban development. Local, regional, national and European authorities can impose sanctions for breaches of these regulations and requirements. Any changes to this legal and fiscal environment could affect general planning of the Company activities which, through the corresponding internal departments, with assistance from legal and tax advisors, will monitor, analyse and, where appropriate take the necessary measures in this regard.

The risks associated with complying with the specific legislation, would be the following:

a) Judicial and extrajudicial claims. The Company's business activities may lead to legal action being taken in relation to properties being let, even if these may result from the actions of third parties contracted by the Company (architects, engineers, construction contractors and subcontractors). The Company has taken out various civil liability and damage insurance policies in order to mitigate this type of risk.

b) Company responsibilities resulting from its classification as a SOCIMI. All of the Company's activities must comply with Act 11/2009, which sets out the regulations for SOCIMIs. As a result, the Company constantly monitors its own activities and checks that they are in line with the legislation currently in force in this regard.

5. Risks regarding the prevention of money laundering and monetary infringements

This category of risk is controlled through the prevention and monitoring of transactions carried out by the Company, in accordance with the legislation in force.

6. Risks relating to personal data protection

These risks are controlled by means of special and standardised clauses to be included in contracts in different situations, which in accordance with the rules regulating this area, allow any kind of liability that may affect the Company to be limited and even eliminated.

7. Risks relating to the Protection of Consumers and End Users

The Company complies with the requirements of the different state and regional rules regarding consumers and end users. The Company also has an Internal Code of Conduct focused on matters relating to stock markets.

Sections IV and V of the Internal Code of Conduct establish the behaviour and action criteria that recipients of the Code must comply with in relation to the relevant securities and instruments, any privileged and relevant information, and confidential documents, in order to aid transparency in the performance of the Company's activities and provide adequate information and protection for investors.

E.4. Indicate whether the company has a risk tolerance level, including against tax risk:

Árma's risk tolerance is defined as the level of Risk that the Company is prepared to accept in order to achieve its established strategic objectives. Risk tolerance is shaped by the Company's strategy and is agreed by the Board of Directors. Risk tolerance is defined as the level of variation that the Company accepts in achieving an objective. It is, therefore, the acceptable threshold for each risk and objective. Risk tolerance must be updated regularly by the people from each department who are responsible for reporting to and properly informing the compliance supervisor.

E.5. Identify any risks, including tax risk, which have emerged during the year:

No risk of the type described above has emerged during the year.

E.6. Explain the plans for responding to and monitoring the main risks facing the company, including tax risk, and the procedures put in place by the company to ensure that the board of directors is able to respond to any new challenges that may arise:

The Company has designed its management and monitoring of risk on the basis of a series of policies and procedures that are adjusted to the different kinds of risks by which it could be affected. The Board of Directors is committed to its risk management and monitoring processes, approving policies, procedures, limits and structure. The company's Management Committee, on which all business areas are represented, together with the Finance Department, analyse the situation and evolution of the main risks affecting the Company at their regular meetings, taking corrective measures if these are deemed necessary. Any risk regarded as critical is dealt with by the Management Committee at its regular meetings. The Management Committee proposes the specific plans for responding to any critical risk to the Board of Directors. The Board of Directors takes the proposal into consideration, accepting it or modifying it as the case might be.

F. INTERNAL RISK MONITORING AND MANAGEMENT SYSTEMS RELATING TO THE FINANCIAL REPORTING (ICFR) PROCESS

Describe the mechanisms that comprise the risk monitoring and management systems associated with the company's financial reporting process (ICFR).

F.1. The company's monitoring environment.

Specify at least the following components with a description of their main characteristics:

F.1.1 The bodies and/or officers that are responsible for: (i) the existence and regular updating of a suitable, effective ICFR, (ii) its implementation; and (iii) its monitoring.

Responsibility for the design, implementation and functioning of the ICFR has been assumed by the Economic and Financial Department. As regards responsibility for supervising the ICFR, the Board of Directors' Regulations formally include the basic duties of the Audit and Control Committee, notable among which is that of supervising the process for the preparation and integration of the financial information that relates to the Company.

F.1.2 Where applicable, and particularly as regards the process for the preparation of the financial information, the following items:

- The departments and/or mechanisms responsible for: (i) designing and revising the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of duties and tasks; and (iii) ensuring the existence of sufficient procedures for their correct reporting throughout the company:

Ultimate responsibility for the design and review of the Company's organisational structure lies with the Managing Director, under the delegation of the Board of Directors. As regards the process for the preparation of the financial information, in addition to the organisational charts, all of the people involved in the process also have a clear knowledge of the specific guidelines, responsibilities and periods that apply to each closure.

- Code of conduct, approval body, level of dissemination and instruction, principles and values included (indicating whether there is specific mention of the recording of transactions and the preparation of financial information), the body in charge of analysing breaches and of proposing corrective actions and sanctions:

The Company has a Code of Conduct, compliance with which is mandatory and which is approved by the Board of Directors. The aim of this code of conduct is to establish the basic principles and rules that will govern the behaviour of everyone who acts on behalf of Árima and its subsidiary companies. The Code is applicable to all companies that make up the Árima Group and it is binding on the members of the Board of Directors and all company personnel, irrespective of the position they occupy and the duties they perform. This Code of Conduct is supplementary to the Securities Market Internal Code of Conduct, company regulations, the Articles of Association and any other legislation that applies to Árima's activities, and compliance is mandatory for both Árima and all of the companies with which a significant contractual relationship is in place. Non-compliance with the terms of this Code shall be deemed infringement and may result in the adoption of disciplinary measures.

- Whistle-blowing channel, which enables irregularities of a financial and accounting nature to be reported to the audit committee, along with potential breaches of the code of conduct and irregular activities within the organisation. State, where applicable, whether this process is confidential:

The Company has already implemented a whistle-blowing channel for matters relating to the Company's internal regulations, along with a procedure for reporting potentially serious incidents at a financial and accounting level.

- Training and regular refresher courses for personnel involved in preparing and reviewing financial information and evaluating ICFR, which address, at least, accounting regulations, auditing, internal monitoring and risk management:

The Finance Department has organised training and refresher sessions on regulation and internal monitoring.

F.2. Financial reporting risk assessment.

Provide details of at least the following:

F.2.1 The main characteristics of the risk identification process, including risks of error or fraud, in respect of:

- Whether there is an existing documented process:

The Company is engaged in analyses and preparations in order to establish a corporate risks map, along with an analysis of the business cycles and monitoring of the most critical areas. However, there is an Investments Committee for the real estate investments business. The Finance Department is also regularly assessed by the Board of Directors and the financial information provided is reviewed by the Company's Auditors.

- Whether the process covers all financial reporting objectives (existence and occurrence; integrity; evaluation; presentation, breakdown and comparability; and rights and obligations), whether it is updated and how frequently:

As part of the process mentioned in the previous section, the Company's aim is to include all the key points relating to financial reporting in order to update them on an annual basis.

- The existence of a process for identifying the consolidation perimeter, taking account, among other things, of the potential existence of complex corporate structures, vehicle companies or special purpose entities:

Árma's organisational structure is simple, comprising Árma Real Estate SOCIMI, S.A. and its dependent company (100%) Árma Investigación, Desarrollo e Innovación, S.L.U.

- Whether the process takes account of the effects of other types of risk (operational, technological, financial, legal, fiscal, reputational, environmental, etc.) in the manner in which they affect the financial statements:

Any analysis will include all regulatory, technological and reputational risk, risk of fraud, human resource-related risk, operational risk, etc. that are relevant for the financial statements.

- The corporate governance body that supervises the process:

It is responsibility of the compliance area, under supervision from the Audit and Control Committee, with responsibility for coordinating and supervising the regular updating of the risk maps in coordination with the people responsible for each of the operational areas, who ultimately identify the risks associated with the Company's business.

F.3. Monitoring activities.

State whether at least the following items are in place and specify their main characteristics:

- F.3.1 Procedures for reviewing and authorising the financial information and the description of ICFR to be disclosed to the securities markets, stating who is responsible in each case, along with the documentation showing flow charts of activities and controls (including those that address the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the specific review of critical judgements, estimates, evaluations and projections.

The Company has an internal procedure for reviewing financial information (including annual accounts, financial statements for interim periods, the Management Report and the Annual Corporate Governance Report), which oversees the process from the moment that information is generated in the Administration and Finances Department up to its approval by the Audit and Control Committee and, finally, by the Board of Directors prior to publication.

- F.3.2 Internal control policies and procedures for IT systems (including secure access, tracking changes, system operation, continuity and segregation of duties) giving support to key company processes relating to the preparation and publication of financial information.

The internal control policies and procedures associated with the IT systems are defined by the Company Management. The main risks considered by the Company, to which it provides a response, concern physical security (security copies, maintenance and access to servers, etc.), logic security (access controls, procedures for registrations and removals, protection against viruses and other malware, etc.), sufficient segregation of functions, registration and traceability of information, privacy (LOPD - the Spanish Data Protection Act), systems development and systems maintenance.

- F.3.3 Internal control policies and procedures for overseeing the management of activities outsourced to third parties, and the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

Activity outsourced to third parties that has a greater impact on the financial statements corresponds to the valuation of assets made by an independent expert. The procedure that has been implemented by the Company in this regard primarily contains recommendations from the CNMV (Spanish Securities Market Commission) made to listed valuation and real estate companies in relation to the valuation of properties. In addition, when subcontracting or requesting services, the Company works with companies of acknowledged reputation.

F.4. Information and communications.

State whether at least the following items are in place and specify their main characteristics:

- F.4.1 A specific office which is in charge of defining and maintaining accounting policies (accounting policies area or department) and settling queries or disputes over their interpretation, and which is in regular communication with the team in charge of company operations, and an up-to-date manual of accounting policies that has been sent to all the company's operational units.

The Company's Administration and Finance Department is responsible for defining and updating accounting policies and for responding to queries and consultations in this regard.

- F.4.2 Mechanisms for collecting and preparing financial information with standardised formats, which are to be applied and used by all the company or group units and which support the main financial statements and notes to the accounts, along with the detailed information on the ICFR.

The accounting policies defined by the Management form the basis for the preparation of the financial information of both the Company and its subsidiaries. These accounting policies guarantee the application of the same criteria during the preparation of information and consistency in its presentation.

F.5. Supervising the operation of the system.

Indicate the existence of at least the following components, and specify their main characteristics:

- F.5.1 The activities of the audit committee in overseeing ICFR, and whether there is an internal auditing office whose duties include supporting the committee in the task of supervising the internal control system, including ICFR. Describe the scope of the ICFR assessment carried out over the course of the year and the procedure by which the person responsible for making this assessment can communicate his/her findings. State also whether the company has an action plan detailing the potential corrective measures, and whether it has taken account of their impact on its financial information.

As stated in Article 44 of the Company's Articles of Association, the Audit and Control Committee is responsible, among other duties, for carrying out a regular review of the process for the preparation of the economic and financial information, internal controls and the independence of the External Auditor. In addition, as regards the scope of assessment of the ICFR, the Company's aim is to continue extending its assessment of the operational efficacy of the controls that have been implemented and its definition of the different activity cycles. The work mentioned above will be carried out by the different business areas under supervision from the Audit and Control Committee. In addition, the conclusion reached by the Company's auditors regarding the Company's financial information provided has been satisfactory.

- F.5.2 Whether the Company has a procedure by which the accounts auditor (in accordance with the contents of the Auditing Standards ("NTA")), the internal auditing department and other experts may communicate with senior management and the audit committee or senior managers of the company regarding any significant internal control weaknesses identified during their review of the annual accounts or any others they have been assigned. State also whether the Company has an action plan to correct or mitigate the weaknesses found.

The Audit and Control Committee meets in order to perform its prime function, which is to act as support for the Board of Directors in its supervisory work, by carrying out a regular review of the process for the preparation of the economic and financial information, the internal auditing department and the independence of the external auditor. In addition to other potential actions, it also carries out the following duties:

Discussions with External Auditors (with particular significance when they have taken action on any specific matter: Audit reports, limited reviews, etc.) in order to:

- Obtain information on the planning, scope and conclusions of the work carried out.
- Obtain information on internal control weaknesses detected during the course of their work.
- Inform the external auditor about any matters that could affect their work.
- Talk to the external auditor regarding the expected contents of its reports.
- Obtain the necessary information for ensuring the independence of the External Auditor in compliance with the duties of the Audit and Control Committee.

In addition, the Audit and Control Committee may demand additional information or the participation of experts when it comes to analysing topics relating to compliance with their duties.

F.6. Other relevant information

F.7. External auditor's report.

State whether:

F.7.1 The ICFR information supplied to the markets has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The Company has not submitted the information on the ICFR for review by the external auditor. However, it is considered that the established controls are adequate for the current volume and complexity of the Company, having passed since its incorporation through several processes of review and audit of the financial information. The conclusion of the external auditor has been satisfactory in all cases.

G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree to which the company complies with the Code of Corporate Governance recommendations for listed companies.

In the event that the company does not comply with any of the recommendations or complies only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations will not be acceptable.

1. The articles of association of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles on the takeover of the company through the purchase of shares on the market.

Compliant Explain

2. When the parent company and a subsidiary company are listed on the stock market, both companies shall publish details of the following:

- a) The type of activity they respectively engage in, and any potential business dealings between them, as well as between the subsidiary and other group companies.
- b) The mechanisms in place to resolve any potential conflicts of interest that may arise.

Compliant Partially compliant Explain N.A.

3. During the general shareholders' meeting, as a supplement to the written information circulated in the annual corporate governance report, the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, in particular:

- a) Any changes that have taken place since the previous general shareholders' meeting.
- b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead, where applicable.

Compliant Partially compliant Explain

During its first year of trading, the Company has made an exhaustive analysis of the Good Governance Code with a view to implementing the highest number of applicable recommendations possible. At year end, an assessment was made of compliance with these recommendations, and shareholders will be informed of this assessment at the next general shareholders' meeting.

4. The company should draw up and implement a policy for communicating with and contacting shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or the people charged with its implementation.

Compliant [X] Partially compliant [] Explain []

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When the Board approves an issue of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant [] Partially compliant [X] Explain []

The General Shareholders' Meeting held on 21 March 2019 agreed to authorise the Board of Directors to increase the share capital, as provided for in Article 297.1.b) of the Spanish Capital Companies Act, over a maximum period of five years, through monetary contributions and up to a maximum amount equal to half (50%) of the share capital, with the attribution of powers to exclude the pre-emptive right, revoking previous authorisations.

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the general shareholders' meeting, even if their distribution is not compulsory:

- a) Report on auditor independence.
- b) Reports on the operation of the audit committee and the appointments and remuneration committee.
- c) Report by the audit committee report on related party transactions.
- d) Report on corporate social responsibility policy.

Compliant [X] Partially compliant [] Explain []

7. The company should broadcast its general shareholders' meetings live via its website.

Compliant [] Explain [X]

This recommendation will be analysed on an annual basis, though it is not envisaged at present.

8. The audit committee should strive to ensure that the Board of directors can present the company's accounts to the general shareholders' meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of the scope and content of such limitations or qualifications.

Compliant [] Partially compliant [] Explain []

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general shareholders' meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant [] Partially compliant [] Explain []

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals for agreement prior to the general shareholders' meeting, the company should:

- a) Immediately circulate the supplementary items and new proposals for agreement.
- b) Publish the standard form of attendance card or proxy appointment or remote voting form with the necessary modifications so that new items on the agenda and alternative proposals for agreement can be voted on in the same terms as those submitted by the board of directors.
- c) Put all these items or alternative proposals to the vote, applying the same voting rules as for those submitted by the board of directors, with particular regard for presumptions or deductions about the direction of votes.
- d) After the general shareholders' meeting, disclose the breakdown of votes on these supplementary items or alternative proposals.

Compliant [] Partially compliant [] Explain [] N.A.. []

11. In the event that a company plans to pay for attendance at the general shareholders' meeting, it should first establish a general, long-term policy in this respect.

Compliant [] Partially compliant [] Explain [] N.A.. []

12. The board of directors should perform its duties with a unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable and sustainable business over the long term which ensures its continuity and maximises the company's economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to the principles of good faith, ethics and respect for commonly accepted customs and good practices, but should also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and any other stakeholders who could be affected, as well as reconciling the impact of its activities on the broader community and the natural environment.

Compliant [X] Partially compliant [] Explain []

13. The board of directors should have the appropriate size to achieve maximum effectiveness and participation, which means it should ideally have between five and fifteen members.

Compliant [X] Explain []

14. The board of directors should approve a director selection policy that:

- a) Is specific and verifiable.
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the board of directors' own needs.
- c) Favours a diversity of know-how, experience and gender.

The results of the prior analysis of the Board's needs should be written up in the appointments committee's explanatory report, to be published when the general meeting is convened to ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of all seats on the board of directors occupied by women directors by 2020.

The appointments committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Compliant [X] Partially compliant [] Explain []

15. Proprietary and independent directors should occupy a broad majority of seats on the board, while the number of executive directors should be the minimum necessary, bearing in mind the complexity of the corporate group and the percentage of the company's share capital held by the executive directors.

Compliant [X] Partially compliant [] Explain []

16. The number of proprietary directors as a percentage of the total number of non-executive directors should not exceed the proportion between the company share capital represented by these directors and the remainder of this share capital.

This criterion can be attenuated:

- a) In companies with a high level of market capitalisation in which few equity stakes attain the legal threshold to be considered a significant shareholding.
- b) In companies in which a plurality of shareholders is represented on the board of directors and they are not related to one another.

Compliant Explain

17. The number of Independent Directors should represent at least one half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30% of share capital, independent directors should occupy, at least, a third of all Board places.

Compliant Explain

18. Companies should post the following information on directors on their websites, and keep this information permanently updated:

- a) Background and professional experience.
- b) Directorships held at other companies, listed or otherwise, and any other paid activities that they may engage in, of whatever nature.
- c) Information on the director category to which they belong and, in the case of proprietary directors, information on the shareholder they represent or have links with.
- d) The date of their first appointment as board member and the dates of any subsequent re-elections.
- e) Shares that they hold in the company, and any options thereover.

Compliant Partially compliant Explain

19. The annual corporate governance report, following verification by the appointments committee, should explain the reasons for the appointment of proprietary directors at the behest of shareholders controlling less than 3% of capital; it should also explain, where applicable, any rejection of a formal request for a seat on the board from shareholders whose equity stake is equal to or greater than that of others that have successfully applied for a proprietary directorship.

Compliant Partially compliant Explain N.A.

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Compliant [] Partially compliant [] Explain [] N.A. []

21. The board of directors should not propose the removal of any independent directors before the expiry of their tenure as mandated by the articles of association, except where just cause is found by the board of directors, based on a report by the appointments committee. In particular, just cause shall be presumed when directors take up new posts or responsibilities that prevent them from allocating sufficient time to the performance of their duties as board member, or are in breach of the duties inherent in their position, or are affected by one of the grounds that disqualifies them from classification as independent, as set out in the applicable legislation.

The removal of independent directors may also be proposed as a consequence of a takeover bid, merger or similar corporate operation which involves changes to the company's capital structure, when the changes to the structure of the board of directors are triggered by the proportionality criterion set out in recommendation 16.

Compliant [] Explain []

22. Companies should establish rules obliging directors to inform and, where applicable, resign in any circumstances that might harm the organisation's name or reputation, and directors should particularly be obliged to inform the board of directors of any criminal charges brought against them and of any subsequent court proceedings.

If a director is indicted or tried for any of the crimes stipulated in corporate legislation, the board of directors should examine the matter as quickly as possible and, in view of the particular circumstances, decide whether or not the director should remain in his or her post. The board should also disclose all such decisions in a reasoned manner in the annual corporate governance report.

Compliant [] Partially compliant [] Explain []

23. All directors should express clear opposition when they feel a proposal submitted for the board of directors' approval might damage the corporate interest. In particular, independents and other directors unaffected by a potential conflict of interest should challenge any decision that could go against the interests of shareholders lacking representation on the board of directors.

When the board takes significant or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation should also apply to the secretary of the board, director or otherwise.

Compliant Partially compliant Explain N.A.

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board of directors. Irrespective of whether the resignation is filed as a significant event, the reason for this must be explained in the annual corporate governance report.

Compliant Partially compliant Explain N.A.

25. The appointments committee should ensure that non-executive directors have sufficient time available to perform their responsibilities effectively.

The board's regulations should establish rules for the maximum number of company directorships that board members may hold.

Compliant Partially compliant Explain

26. The Board should meet with the necessary frequency to properly perform its functions properly, at least eight times a year, in accordance with a calendar and agendas set at the beginning of the year, and each director may individually propose the addition of other items to the agenda.

Compliant Partially compliant Explain

27. Director absences should be kept to the bare minimum and quantified in the annual corporate governance report. In the event that their absence is unavoidable, directors should grant a proxy with the appropriate instructions.

Compliant Partially compliant Explain

28. When directors or the secretary express concerns about a proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the board meeting, the person expressing them can request that they be recorded in the minutes.

Compliant Partially compliant Explain N.A.

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, and this should extend, if the circumstances make this necessary, to external assistance at the company's expense.

Compliant Partially compliant Explain

30. Regardless of the knowledge directors must possess in order to perform their duties, companies should also offer them refresher programmes when the circumstances make this advisable.

Compliant Explain N.A.

31. The agendas of meetings should clearly indicate the points on which the board of directors must arrive at a decision or adopt a resolution, so that directors may study or gather the necessary information beforehand.

When, exceptionally and for reasons of urgency, the chairman wishes to present decisions or resolutions for board approval that were not on the meeting agenda, their inclusion shall require the express prior consent, duly recorded in the minutes, of the majority of directors present.

Compliant Partially compliant Explain

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Compliant Partially compliant Explain

33. In addition to the duties assigned to him by law and the company's articles of association, the chairman, as the person responsible for the efficient functioning of the board of directors, should: prepare and submit a schedule of meeting dates and agendas to the board; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; take responsibility for managing the board and its proper functioning; ensure that sufficient time is devoted to the discussion of strategic issues, and approve and review refresher courses for each director, when the circumstances make this advisable.

Compliant Partially compliant Explain

34. When a coordinating director has been appointed, the articles of association or board of directors' regulations should grant him or her the following powers over and above those conferred by law: chairing the board of directors in the absence of the chairman and vice chairmen, where applicable; giving voice to the concerns of non-executive directors; maintaining contacts with investors and shareholders to hear their views and developing a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinating the plan for the chairman's succession.

Compliant [] Partially compliant [] Explain [] N.A. []

35. The board secretary should particularly strive to ensure that the board's actions and decisions are informed by the governance recommendations set out in this good governance code, to the extent that they apply to the company.

Compliant [] Explain []

36. The board of directors sitting in full session should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the board's own actions.
- b) The performance and membership of its committees.
- c) The diversity of board membership and skills.
- d) The performance of the chairman of the board of directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the chairs of board committees.

The evaluation of the various board committees should start from the reports they submit to the board of directors, while the evaluation of the board itself should start from the report submitted by the appointments committee.

Every three years, the board of directors should engage an external consultant to aid in the evaluation process. This consultant's independence should be verified by the appointments committee.

Any business dealings that the consultant or any member of its corporate group maintains with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Compliant [] Partially compliant [] Explain []

At present, at the close of the financial year, now that the Company has completed its first year of trading, an assessment is being made of the board and its committees, with a view to adopting an action plan to deal with any deficiencies detected, where applicable.

37. When the company has an Executive committee, the breakdown of its members by director category should be similar to that of the board itself. The secretary of the board should also act as secretary to the executive committee.

Compliant [] Partially compliant [] Explain [] N.A. []

38. The board of directors should be kept fully informed of the matters debated and the decisions adopted by the executive committee, and all board members should receive a copy of the executive committee's minutes.

Compliant [] Partially compliant [] Explain [] N.A. []

39. Audit committee members, particularly the chairman, are appointed in the light of their knowledge and experience of accounting, audit or risk management, and the majority of members should be independent directors.

Compliant [] Partially compliant [] Explain []

40. Companies should have a unit in charge of internal auditing duties, under the supervision of the audit committee, to monitor the effectiveness of internal reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Compliant [] Partially compliant [] Explain []

[Given its recent incorporation and current size, the company will assess the need to create an internal auditing unit.]

41. The head of the unit responsible for internal auditing should submit an annual work programme to the audit committee, directly report any incidents arising during the programme's implementation, and submit an activity report at the end of each year.

Compliant [] Partially compliant [] Explain [] N.A. []

42. The audit committee should have the following duties, over and above those set out in law:

1. With regard to internal reporting and monitoring systems:
 - a) Monitoring the preparation and the integrity of the financial information relating to the company and, where appropriate, the group, checking compliance with the requirements set out in law, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
 - b) Monitoring the independence of the unit responsible for internal auditing duties; proposing the selection, appointment, re-election and removal of the head of the internal auditing service; proposing the service's budget; approving its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receiving regular information on its activities; and verifying that senior management take account of the findings and recommendations contained in its reports.
 - c) Establishing and supervising a mechanism whereby employees can report, confidentially and, wherever possible and deemed necessary, anonymously, any major irregularities they detect at the company in the course of their duties, especially financial or accounting irregularities.
2. With regard to the external auditor:
 - a) In the event of the external auditor's resignation, examining the circumstances that have caused it.
 - b) Ensuring that the payment of the external auditor does not compromise its quality or independence.
 - c) Ensuring that the company notifies any change of auditor to the CNMV as a significant event, accompanied by a statement detailing any potential disagreements arising with the outgoing auditor, where applicable, and the reasons for these disagreements.
 - d) Ensuring that the external auditor has a yearly meeting with the board of directors in full session to inform it of the work undertaken and developments in the company's risk and accounting positions.
 - e) Ensuring that the company and the external auditor adhere to current regulations on the provision of non-auditing services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Compliant [X]

Partially compliant []

Explain []

43. The audit committee should be empowered to meet with any company employee or manager, even in the absence of other senior officers.

Compliant [X]

Partially compliant []

Explain []

44. The audit committee should be informed of any structural changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, where applicable, the exchange ratio proposed.

Compliant Partially compliant Explain N.A.

45. Control and risk management policy should at least identify:

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risk), with the inclusion under financial or economic risk of contingent liabilities and other off-balance sheet risk.
- b) The determination of the risk level the company sees as acceptable.
- c) The measures in place to mitigate the impact of identified risk events should they occur.
- d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risk.

Compliant Partially compliant Explain

The Company is engaged in analyses and preparations in order to establish a corporate risks map, along with an analysis of the business cycles and monitoring of the most critical areas. However, there is an Investments Committee for the real estate investments business. The Finance Department is also regularly assessed by the Board of Directors and the financial information provided is reviewed by the Company's Auditors.

46. The company should establish an internal risk monitoring and management office within one of the company's own internal departments or units, with direct supervision from the audit committee or some other specialist board committee. This office should be expressly charged with the following duties:

- a) Ensuring that risk control and management systems are functioning correctly and, specifically, that any major risks the company is exposed to are correctly identified, managed and quantified.
- b) Participating actively in the preparation of risk strategies and in key decisions about their management.
- c) Ensuring that risk control and management systems are mitigating risk effectively within the framework of the policy drawn up by the board of directors.

Compliant Partially compliant Explain

Given its recent incorporation and current size, the company will assess the need to create an internal risk control and management unit. These duties are currently performed by the board of directors.

47. Appointees to the appointments and remuneration committee (or the appointments committee and the remuneration committee, if separately constituted) should have the right balance of knowledge, skills and experience for the duties they are called on to perform, and the majority of their members should be independent directors.

Compliant [] Partially compliant [] Explain []

48. Companies with high levels of capitalisation should have a separate appointments committee and remuneration committee.

Compliant [] Explain [] N.A. []

49. The appointments committee should consult with chairman of the board of directors and the company's chief executive, especially on matters relating to executive directors.

Any board member should be able to suggest directorship candidates for consideration by the appointments committee, in order to cover vacant director positions.

Compliant [] Partially compliant [] Explain []

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

- a) Proposing standard conditions for senior officer contracts to the board of directors.
- b) Monitoring compliance with the remuneration policy set by the company.
- c) Periodically reviewing the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensuring that their individual remuneration is proportionate to the amounts paid to other directors and senior officers in the company.
- d) Ensuring that potential conflicts of interest do not undermine the independence of any external advice provided to the committee.
- e) Verifying the information on directors' and senior officers' pay contained in the various corporate documents, including the annual report on directors' pay.

Compliant [] Partially compliant [] Explain []

51. The remuneration committee should consult with the company's chairman and chief executive, especially where matters relating to executive directors and senior officers are concerned.

Compliant [] Partially compliant [] Explain []

52. The rules governing the composition and operation of the supervision and control committees should be set out in the board of directors' regulations and they should be consistent with the rules that govern legally mandatory board committees, as specified in the foregoing recommendations, including:
- a) Committees should be formed exclusively by non-executive directors, with a majority of independent directors.
 - b) They should be chaired by independent directors.
 - c) The board of directors should appoint the members of such committees in consideration of the knowledge, skills and experience of its directors and the duties to be performed by each committee, and it should discuss their proposals and reports. Committees should submit an account to the first full meeting of the board after the committee in question has met, and the board should respond to the work carried out.
 - d) Committees may engage external advice, when they feel it necessary for the performance of their duties.
 - e) Meetings should be minuted and a copy made available to all board members.

Compliant [X]

Partially compliant []

Explain []

N.A. []

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the appointments committee, the corporate social responsibility committee, where one has been appointed, or a specialist committee established to this end by the board under its powers of self-organisation, and the committee or committees in question shall be charged with performing at least the following duties:
- a) Monitoring compliance with the company's internal codes of conduct and corporate governance rules.
 - b) Overseeing strategy for communications and relations with shareholders and investors, including small and medium-sized shareholders.
 - c) Periodically evaluating the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest, taking account, as required, of the legitimate interests of the remaining stakeholders.
 - d) Reviewing the company's corporate social responsibility policy, ensuring that it is geared to value creation.
 - e) Monitoring corporate social responsibility strategy and practices and assessing the extent to which they are fulfilled.
 - f) Monitoring and evaluating the company's interaction with its stakeholder groups.
 - g) Evaluating all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
 - h) Coordinating non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Compliant [X]

Partially compliant []

Explain []

54. The corporate social responsibility policy should include the principles or commitments that the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:
- a) The goals of its corporate social responsibility policy and the supporting instruments developed.
 - b) Corporate strategy with regard to sustainability, the environment and social issues.
 - c) Specific practices in matters relating to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal behaviour.
 - d) The methods or systems to be used to monitor the results of applying the specific practices referred to above, their associated risk and its management.
 - e) The mechanisms for supervising non-financial risk, ethics and business conduct.
 - f) Channels for stakeholder communication, participation and dialogue.
 - g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.
- Compliant [X] Partially compliant [] Explain []

55. The company should report on corporate social responsibility developments in a separate document or in its management report, using an internationally accepted methodology to this end.
- Compliant [X] Partially compliant [] Explain []

56. Director remuneration should be sufficient to attract and retain directors with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.
- Compliant [X] Explain []

57. Variable remuneration linked to the company's and the director's individual performance, remuneration via the awarding of shares, options or any other right over shares, or the right to be remunerated on the basis of share price movements should be confined to executive directors, along with membership of long-term savings schemes, such as pension plans, retirements schemes or other social welfare programmes.

The company may consider the payment of non-executive directors through the handover of shares, provided that they retain such shares until the end of their mandate. The above condition shall not apply to any shares that the director must dispose of to settle costs related to their acquisition, where applicable.

Compliant [X] Partially compliant [] Explain []

58. In the case of variable payments, remuneration policies should include the necessary limits and technical safeguards to ensure that such payments reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's business sector or other similar circumstances.

In particular, variable payment items should meet the following conditions:

- a) They should be linked to predetermined and measurable performance criteria that factor in the risk assumed in order to obtain a given outcome.
- b) They should promote the sustainability of the company and include non-financial criteria that are relevant to the creation of long-term value, such as compliance with the company's internal rules and procedures and its risk control and management policies.
- c) They should be designed to achieve a balance between the delivery of short, medium and long-term objectives, in such a way that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to sustainable value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant [] Partially compliant [] Explain [X] N.A. []

Given its recent incorporation, the Company is currently in the process of analysing the establishment of predetermined and measurable performance criteria that are in line with its turnover and the business activities that form the basis for calculating any variable payments.

59. A major part of variable payment items should be deferred over a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant [X] Partially compliant [] Explain [] N.A. []

60. In the case of remuneration linked to company earnings, any qualifications stated in the external auditor's report should be taken into account and the said earnings reduced accordingly.

Compliant [X] Partially compliant [] Explain [] N.A. []

61. A significant percentage of executive directors' variable remuneration should be linked to the handover of shares or financial instruments linked to their value.

Compliant [X] Partially compliant [] Explain [] N.A. []

62. When the shares or options or rights in shares corresponding to remuneration systems have been allocated, directors should not be able to transfer ownership of a number of shares equivalent to twice their fixed annual remuneration, nor should they be able to exercise the options or rights granted to them until a term of at least three years has elapsed since their allocation.

The above condition will not apply to any shares that the director must dispose of to settle costs related to their acquisition, where applicable.

Compliant [] Partially compliant [] Explain [X] N.A. []

[With regard to variable payments made in the form of shares, a twelve-month lock-up period has been established and approved for a third of the shares handed over, a eighteen months' lock-up for a further third and a twenty-four months for the final third.]

63. Contractual arrangements should include provisions that permit the company to reclaim variable payment amounts when payment is found to be out of step with the director's actual performance or based on data subsequently found to be incorrect.

Compliant [] Partially compliant [] Explain [X] N.A. []

[No similar clause has been included in the provision of services contract signed between the Company and the CEO.]

64. Contract termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that the director in question has met the predetermined performance criteria.

Compliant [X] Partially compliant [] Explain [] N.A. []

H. OTHER INFORMATION OF INTEREST

1. If there is any material aspect or principle relating to the corporate governance practices followed by the company or the companies in its group that has not been addressed in this report and which should be included in order to provide a more comprehensive and reasoned view of the corporate governance structure and practices at the company or group, explain briefly.
2. In this section, you may include any other information, clarification or observation related to the above sections of this report, insofar as they are relevant and do not repeat information already provided.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when it differs from the information required by this report.

3. The company may also indicate whether it voluntarily subscribes to other international, industry specific or other ethical principles or standard practices. Where appropriate, the code in question shall be identified along with the date of affiliation. In particular, state whether the company has signed up to the Good Tax Practices Code of 20 July 2010:

To complete the information provided in section C.2 of this report, the Company has an Investment Committee that analyses and approves investments. The reason why its composition has not been detailed together with the Audit and Control Committee and the Appointments and Remuneration Committee is that some of its members are not members of the Board of Directors.

Its composition is as follows:

Luis Alfonso López de Herrera-Oria (CEO)
Stanislas Henry (Proprietary Director)
Chony Martín Vicente-Mazariegos (CFO)
Carmen Boyero-Klossner (Investors Relations Officer)
Guillermo Fernández-Cuesta Laborde (Real Estate Director)
Fernando Arenas Liñán (Real Estate Director)
Stuart William McDonald (Real Estate Director)
Fabio Alen Viani (Real Estate Director)

This annual corporate governance report was adopted by the company's Board of Directors at its meeting held on:

[19/02/2020]

Indicate whether any director abstained or voted against the approval of this Report.

[] Yes
[v] No

Árma Real Estate SOCIMI, S.A.

Independent auditor's report on the annual accounts
for the year-ended December 31, 2019



This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

Independent auditor's report on the annual accounts

To the shareholders of Árima Real Estate SOCIMI, S.A.:

Report on the annual accounts

Opinion

We have audited the annual accounts of Árima Real Estate SOCIMI, S.A. (the Company), which comprise the balance sheet as at December 31, 2019, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at December 31, 2019, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 2.a of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the annual accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of Investment properties</p> <p>Investment properties make up 56% of the Company's assets. The Company values investment property at acquisition cost less the relevant depreciation and impairment losses, if any, as detailed in notes 3.2 and 6. Total investment properties recognised in non-current assets on the balance sheet amount to €196,689 thousand at 31 December 2019.</p> <p>At the year end at least, the Company assesses whether there is any indication that any of its investment property may be impaired and specifically if there is any significant decrease in the asset's fair value or value in use. There was no need to recognise any impairment in 2019.</p> <p>In order to consider the fair value of investment property, the Company bases itself on the valuations carried out by independent experts. The valuations are performed in accordance with international standards, the methodology being described in notes 3.3 and 6 to the accompanying annual accounts. Valuers consider specific variables such as the lease contracts signed. Similarly, they apply certain assumptions with respect to variables such as discount rates, estimated market rent and comparable transactions in order to arrive at a final valuation.</p> <p>The Company recognises depreciation on investment property on a straight-line basis, based on the estimated useful life included in note 3.2.</p> <p>The significance of the estimates and judgements involved in these valuations, coupled with a minor difference in percentage terms in the valuation of a property, could result in a material figure, meaning that the valuation of investment property is considered a key audit matter.</p>	<p>For acquisitions of investment property, we verified the key supporting documentation, such as contracts and sale-purchase deeds or other documents affecting the price.</p> <p>We verified that the useful life taken into account for each asset is appropriate with respect to its nature and we carried out tests on the arithmetic calculation of the depreciation charge for the year.</p> <p>With respect to potential impairment losses, we obtained the valuation of investment properties carried out by Management's independent expert, on which we performed the following procedures:</p> <ul style="list-style-type: none"> • Verification of the expert's competence, capacity and independence by obtaining confirmation and corroborating its professional standing in the market. • Verification that the valuations were performed according to accepted methodology. • Discussion of the principal key assumptions of the valuation through sundry meetings with the expert valuer and management, assessing the consistency of the main assumptions used taking existing market conditions into account. • Performance of selective tests to corroborate the accuracy of the most relevant data provided by Management to the valuer and used by it in the valuations. <p>Additionally, we assessed the sufficiency of the information disclosed in the financial statements.</p> <p>The results of the procedures performed allowed us to reasonably obtain the audit objectives for which these procedures were designed.</p>

Other information: Management report

Other information comprises only the management report for the 2019 financial year, the formulation of which is the responsibility of the Company's directors and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the management report. Our responsibility regarding the management report, in accordance with legislation governing the audit practice, which establishes two distinct levels in this regard:

- a) A specific level applicable to certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Audit Act 22/2015, that consists of verifying solely that the aforementioned information has been provided in the management report and if not, we are required to report that fact.
- b) A general level applicable to the rest of the information included in the management report that consists of evaluating and reporting on the consistency between that information and the annual accounts as a result of our knowledge of the entity obtained during the audit of the aforementioned accounts and does not include information different to that obtained as evidence during our audit, as well as evaluating and reporting on whether the content and presentation of that part of the management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

Based on the work performed, as described above, we have verified that the specific information mentioned in paragraph a) above is provided in the management report and the other information contained therein is consistent with that of the annual accounts for 2019 and its content and presentation are in conformity with applicable regulations.

Responsibility of the directors and the audit and control committee for the annual accounts

The Company's directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of Árima Real Estate SOCIMI, S.A., in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Company's directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The audit and control committee is responsible for overseeing the process of preparation and presentation of the annual accounts.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material



misstatement when it exists. 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 annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and 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.
- Obtain 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's directors.
- Conclude on the appropriateness of the directors' 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 annual accounts 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 the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the Company's audit and control committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit and control committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Company's audit and control committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.



Report on other legal and regulatory requirements

Report to the audit and control committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit and control committee dated February 24, 2020.

Appointment period

We were appointed auditors for a three-year period as from the year ended 31 December 2018 at the general meeting of shareholders held on 18 October 2018.

Services provided

Non-audit services provided to the Company are described in note 23 to the accompanying annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish by
Rafael Pérez Guerra (20738)

February 24, 2020



This version of the annual accounts is a free translation from the original, which is prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the annual accounts takes precedence over this translation.

ÁRIMA REAL ESTATE SOCIMI, S.A.

Annual Accounts at 31 December 2019
and Management Report for
the financial year ended on 31 December 2019



ÁRIMA REAL ESTATE SOCIMI, S.A.

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Appendix

Appendix I – Detail of positions and ownership interests held by the Directors in companies with a similar company object.

Management Report for the financial year 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A.

**BALANCE SHEET AT 31 DECEMBER 2019
(Thousand euros)**

ASSETS	Note	At 31 December 2019	At 31 December 2018
NON- CURRENT ASSETS			
Property, plant and equipment	5	136	63
Investments properties	6	196,689	38,348
Long-term investments in group companies		3	3
Equity instruments	8	3	3
Other non-current financial assets	7, 9	842	-
		197,670	38,414
CURRENT ASSETS			
Trade receivables and other accounts receivable		1,204	369
Trade receivables for sales and services	7, 9	303	12
Other accounts receivable	7, 9	322	-
Personnel	9	103	-
Other credits held with Public Authorities	9, 17	476	357
Other current financial assets	7	303	-
Prepayments for current assets	7	158	105
Cash and cash equivalents	10	153,964	57,967
Cash and banks		153,964	57,967
		155,629	58,441
		353,299	96,855

Notes 1 to 26 to the annual accounts form an integral part of the Annual Accounts at 31 December 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A.

**BALANCE SHEET AT 31 DECEMBER 2019
(Thousand euros)**

EQUITY AND LIABILITIES	Note	At 31 December 2019	At 31 December 2018
EQUITY			
Share capital	11 a)	284,294	100,063
Share premium	11 a)	5,769	-
Reserves	12	(11,551)	(3,553)
Treasury shares	11 b)	(625)	(546)
Profit (loss) for the period	13	(7,945)	(503)
Other equity instruments	20	5,610	-
Hedging reserve	12, 16	(735)	-
		274,817	95,461
NON CURRENT LIABILITIES			
Bank loans and credits	14	72,427	-
Financial hedging derivatives	14, 16	735	-
Other non-current financial liabilities	14	956	-
		74,118	-
CURRENT LIABILITIES			
Bank loans and credits		210	-
Other current financial liabilities		250	-
Trade and other payables		3,804	1,394
Commercial creditors and other payables	7, 14	2,314	764
Other current debts		135	-
Other debts with Public Authorities	17	1,355	630
Prelevables for current assets		100	-
		4,364	1,394
		353,299	96,855

Notes 1 to 26 to the annual accounts form an integral part of the Annual Accounts at 31 December 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A.

**INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**

	Note	Financial year ended on 31 December 2019	Financial year from 13 June to 31 December 2018
<u>COTINUED OPERATIONS</u>			
Net turnover figure	15 a)	5,740	12
Rendering of services		5,740	12
Personnel expenses	15 b)	(8,609)	(321)
Wages, salaries and personnel costs		(8,429)	(291)
Welfare charges		(180)	(30)
Other operating expenses		(2,543)	(186)
External services	15 c)	(1,985)	(186)
Taxes		(558)	-
Losses on disposal of fixed assets		(33)	-
Depreciation of property, plant and equipment and investment properties	5, 6	(1,756)	(8)
OPERATING RESULTS		(7,201)	(503)
Financial income		-	-
Financial expenses	15	(744)	-
FINANCIAL RESULT		(744)	-
PRE-TAX RESULT		(7,945)	(503)
Income tax	17	-	-
PROFIT (LOSS) FOR THE PERIOD		(7,945)	(503)

Notes 1 to 26 to the annual accounts form an integral part of the Annual Accounts at 31 December 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A.

**STATEMENT OF CHANGES TO EQUITY FOR THE FINANCIAL YEAR ENDED ON 31
DECEMBER 2019
(Thousand euros)**

**A) STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER
2019
(Thousand euros)**

	Note	Financial year ended on 31 December 2019	Financial year from 13 June to 31 December 2018
Profit (loss) in the income statement	13	(7,945)	(503)
Entries that may subsequently be reclassified to results		(735)	-
Cash-flow hedges transactions	16	(735)	-
Other comprehensive results for the financial year		(8,680)	-
Total comprehensive income for the financial year		(8,680)	(503)

Notes 1 to 26 to the annual accounts form an integral part of the Annual Accounts at 31 December 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A.

STATEMENT OF CHANGES TO EQUITY FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)

B) STATEMENT OF CHANGES TO EQUITY FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)

	Capital (Note 11.a)	Share Premium (Note 11.a)	Reserves (Note 12)	Accumulated earnings (Note 13)	Other equity instruments (Note 20)	Treasury Shares (Note 12)	Hedging Reserve (Note 12)	TOTAL
BALANCE AT 13 JUNE 2018	-	-	-	-	-	-	-	-
Profit /(loss) for the period	-	-	-	(503)	-	-	-	(503)
Other comprehensive results for the year	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(503)	-	-	-	(503)
Constitution / Capital increase	100,063	-	(3,553)	-	-	-	-	96,510
Others results in treasury shares (Note 10)	-	-	-	-	-	(546)	-	(546)
Total transactions with owners, recognised directly in equity	100,063	-	(3,553)	-	-	(546)	-	95,964
BALANCE AT 31 DECEMBER 2018	100,063	-	(3,553)	(503)	-	(546)	-	95,461
BALANCE AT 1 JANUARY 2019	100,063	-	(3,553)	(503)	-	(546)	-	95,461
Profit /(loss) for the period	-	-	-	(7,945)	-	-	-	(2,335)
Other comprehensive results for the year	-	-	-	-	-	-	(735)	(8,307)
Total comprehensive income for the year	-	-	-	(7,945)	-	-	(735)	(5,710)
Capital increase	184,231	5,769	(7,572)	-	-	-	-	182,428
Other movements	-	-	(503)	503	5,610	-	-	5,610
Other results in treasury shares (Note 10)	-	-	77	-	-	(79)	-	(2)
Total transactions with owners, recognised directly in equity	184,231	5,769	(7,998)	503	5,610	(79)	-	188,036
BALANCE AT 31 DECEMBER 2019	284,294	5,769	(11,551)	(7,945)	5,610	(625)	(735)	274,817

Notes 1 to 26 to the annual accounts form an integral part of the Annual Accounts at 31 December 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A.
**CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**

	Note	Financial year ended on 31 December 2019	Financial year from 13 June to 31 December 2018
A) CASH FLOW FROM OPERATING ACTIVITIES			
Pre-tax result for the period		(7,945)	(503)
Adjustments to profit/loss		8,144	8
Depreciation of property, plant and equipment	5	11	2
Depreciation of investment properties	6	1,746	6
Financial expenses	15	744	-
Profit / (losses) on disposal of fixed assets		33	-
Other adjustments to profit/loss	20	5,610	-
Changes in working capital		770	216
Debtors and other receivables	9	(616)	(369)
Other current assets	9	(475)	(105)
Other current liabilities		250	-
Creditors and other payables	14	1,419	690
Other non-current assets and liabilities		192	-
Cash flow from operating activities		969	(279)
B) CASH FLOW FROM INVESTMENT ACTIVITIES			
Payments on investments		(160,204)	(37,442)
Group companies	8	-	(3)
Property, plant and equipment	5	(117)	(65)
Investment properties	6	(160,087)	(37,374)
Cash flow from investment activities		(160,204)	(37,442)
C) CASH FLOW FROM FINANCING ACTIVITIES			
Receivables and payments on equity instruments		182,426	95,964
Issue of equity instruments	11	182,428	96,510
Acquisition of treasury shares	11	(1,487)	(555)
Disposal of treasury shares	11	1,485	9
Receivables and payments on financial liabilities		72,806	(276)
Bank loans	14	103,203	-
Bank loans repayments	14	(30,000)	-
Paid interest		(397)	-
Debts with special features		-	(276)
Cash flow from financing activities		255,232	95,688
NET INCREASE/REDUCTION IN CASH AND CASH EQUIVALENTS		95,997	57,967
Cash and cash equivalents at beginning of financial year		57,967	-
Cash and cash equivalents at end of financial year	10	153,964	57,967

Notes 1 to 26 to the annual accounts form an integral part of the Annual Accounts at 31 December 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019 (Thousand euros)

1. ACTIVITIES AND GENERAL INFORMATION

ÁrIMA Real Estate SOCIMI, S.A. (hereinafter, the “Company”) was incorporated in Spain on 13 June 2018 under the Spanish Capital Companies Act. Its registered office is located at calle Serrano, 47 4º planta, 28001 Madrid. During this period the company has changed its registered office from calle Fernando el Santo, 15, 28010, Madrid.

Its corporate purpose is described in Article 2 of its articles of association and consists of:

- The acquisition and development of urban properties intended for lease.
- The ownership of interests in the share capital of other Spanish Real Estate Investment Trusts (*Sociedad Anónima Cotizada de Inversión en el Mercado Inmobiliario*, “SOCIMI”) or other companies that are not resident in Spain, that have the same corporate purpose, and that are governed by rules similar to those governing SOCIMIs as regards the compulsory, legal or statutory policy on profit distribution.
- The ownership of interests in the share capital of other companies that are both resident and non-resident in Spain, whose corporate purpose is the acquisition of urban properties for lease, and which are governed by the same rules that govern SOCIMIs as regards the compulsory, legal or statutory policy on profit distribution, and which meet the investment requirements set out in Article 3 of the Spanish SOCIMI Act.
- The ownership of shares or holdings in Collective Investment Institutions governed by Spanish Collective Investment Institutions Act 35 of 4 November 2003.

The Company may also engage in other ancillary activities, this being understood to mean activities that generate income accounting for less than 20% of the Company’s total income over a single tax period.

Any activity that must by law meet special requirements that are not met by the Company are excluded.

The aforementioned business activities may also be fully or partially engaged in indirectly by the Company through the ownership of interests in another company or companies with a similar corporate purpose.

a) Regulatory regime

The Company is regulated under the Spanish Capital Companies Act.

In addition, on 27 September 2018 the Company informed the Tax Authorities that it wished to opt for application of the rules governing Spanish Real Estate Investment Trusts (SOCIMIs), and is therefore subject to Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs are governed. Article 3 of Act 11 of 26 October 2009 sets out certain requirements that must be met by this type of company, namely:

- a) They must have invested at least 80% of the value of their assets in urban properties intended for lease, or in land for the development of properties that are to be used for the same purpose, provided that development begins within three years following its acquisition, or in equity investments in other companies, as set out in Article 2 section 1 of the aforementioned Act.

ÁRIMA REAL ESTATE SOCIMI, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)

b) At least 80% of the income from the tax period corresponding to each year, excluding the income deriving from the transfer of ownership interests and real estate properties used by the Company to comply with its main corporate purpose, once the retention period referred to in the following paragraph has elapsed, must come from the lease of properties and from dividends or shares in profits associated with the aforementioned investments.

c) The real estate properties that make up the Company's assets must remain leased for at least three years. Calculation of this term will include the time that the properties have been offered for lease, up to a maximum of one year.

The First Transitional Provision of the SOCIMI Act allows for application of the SOCIMI tax rules under the terms set out in Article 8 of the SOCIMI Act, even when the requirements it contains are not met on the date of incorporation, on the condition that these requirements are met during the two years following the date on which it is decided to opt for application of the said tax rules. In this regard, the Directors of the Company consider that the necessary requirements have already met within the established terms and periods, and they have therefore not entered any income or expense in respect of Corporate Income Tax.

The Company has been listed on the Spanish Stock Market since 23 October 2018.

As stated on Note 8, the Company is the dominant Company of a Group (hereinafter, the "Group"). This individual annual accounts have been prepared on a non-consolidated basis. On 19 February 2020, the Board of Directors of the Company has prepared the consolidated annual accounts of Árima Real Estate SOCIMI, S.A. and its subsidiaries as of 31 December 2019 that have been prepared applying the international financial reporting standards adopted by the European Union (IFRS-EU), having at that date a consolidated equity and a consolidated result of 299,778 thousand euros and 18,359 thousand euros, respectively.

On 23 January 2019 the individual annual accounts of Árima Real Estate SOCIMI, S.A. and the consolidated annual accounts of Árima Real Estate SOCIMI, S.A. and subsidiaries at 31 December 2018 were prepared by the Board of Directors and were approved, without modifications, by the share holders on 21 March 2019.

The figures contained in these individual annual accounts are expressed in thousands of euros, unless otherwise indicated.

The functional and presentation currency is the "euro".

2. PRESENTATION BASIS OF THE ANNUAL ACCOUNTS

a) Fair presentations

The annual accounts for the financial year ended on 31 December 2019 were prepared by the Board of Directors on 19 February 2020, in accordance with the regulatory financial reporting framework applicable to the Company, comprising:

- a) The Spanish Code of Commerce and other corporate legislation applicable in Spain.
- b) The General Chart of Accounts approved by Royal Decree 1514/2007, of 16 November, as amended by Royal Decree 1159/2010, of 17 September, Royal Decree 602/2016, of 2 December, and the sector adaptation for companies in the real estate sector.

ÁRIMA REAL ESTATE SOCIMI, S.A.

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**

- c) The mandatory standards approved by the Spanish Institute of Auditors and Accountants in order to implement the General Chart of Accounts and significant secondary legislation.
- d) All other accounting legislation applicable in Spain.

The annual accounts for the financial year ended on 31 December 2019, obtained from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework applicable to the Company and specifically, the accounting principles and standards contained therein and therefore present fairly the Company's equity, financial position, and financial performance and accurately reflect cash flows included in the cash flow statement for the financial year ended on 31 December 2019.

b) Non-compulsory accounting principles

Where an accounting principle is compulsory and has a significant effect on the preparation of the annual accounts, there is no instance in which it has not been applied.

c) Critical aspects relating to the valuation and assessment of uncertainty

The preparation of the annual accounts requires the Company to make certain estimates and judgements with regard to the future. These estimates and judgements are continually reassessed and are based on historical experience and other factors, including expectations of future events that are considered reasonable under the circumstances.

The resulting accounting estimates, by definition, will rarely match actual results. The estimates and judgements that entail a significant risk of giving rise to a substantial adjustment to the book values of assets and liabilities during the next financial year are discussed below.

Estimates made by the Board of Directors have been used in the preparation of the annual accounts for the financial year ended on 31 December 2019 to assess some of the assets, liabilities, income, expenses and commitments registered in them. This estimates are referred to:

Fair value of investment properties

The Management of the dominant Company carry out an assessment of the fair value of each property taking into account the most recent independent valuations, and determine the value of a property within a range of acceptable fair value estimates.

The best evidence of the fair value of investment properties in an active market is the price of similar assets. When making such judgements, the Company uses a series of sources, including:

- i. The current prices in an active marketplace of different kinds of properties in varying states of repair and different locations, adjusted to reflect differences with the Company's own assets.
- ii. The recent prices paid for properties in other, less active marketplaces, adjusted to reflect changes in economic conditions since the transaction date.
- iii. The discounting of cash flows based on estimates resulting from the terms and conditions contained in current lease contracts and, where possible, evidence of the market prices of similar properties in the same location, through the use of discount rates that reflect the uncertainty of the time factor.

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Useful life of investment properties

The Company Management establishes the estimated useful life of its investment properties, along with the corresponding charges for depreciation. The useful life of an investment property is estimated on the basis of the period in which each of the elements included under this heading will generate financial profits. At year end, the Company reviews the useful life of its investment properties, and if its estimates differ from the estimates made in the past, the effects of this change are entered prospectively from the financial year in which the change is made.

Cash flow hedges

The effective portion of changes in the fair value of a derivative designated as a cash flow hedge is entered under other comprehensive income. The profit or loss on the ineffective portion is entered immediately in the income statement under "other (losses)/gains - net".

Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). Gains or losses on the effective part of interest rate swaps used to hedge loans at variable rates are entered in the income statement under "financial income/expenses". However, when the forecast transaction that is being hedged results in the entry of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial valuation of the cost of the asset. The deferred amounts are definitively entered as the cost of the assets sold, in the case of stocks, or as depreciation in the case of property, plant and equipment.

When a hedging instrument matures or is sold or when the requirements for the application of hedge accounting cease to be met, any gains or losses accumulated in equity to that date will remain in equity and will be entered when the forecast transaction is finally entered in the income statement. When it is expected that the scheduled transaction is not going to take place after all, the profit or loss accumulated in the equity is immediately transferred to the income statement under the heading "other net (losses)/profits".

Income Tax

The company applies the system provided for in Act 11 of 26 October 2009, which governs Spanish Real Estate Investment Trusts (SOCIMIs), which in practice means that, provided that it meets certain requirements, the Company is subject to a Corporate Income Tax rate of 0%.

The Directors monitor compliance with the requirements set out in the relevant legislation in order to secure the tax advantages offered. In this regard, the Directors consider that the necessary requirements are met within the established terms and periods, and they have therefore not entered any income or expense in respect of Corporate Income Tax.

While these estimates were developed on the basis of the best available information at the end of the 2019 financial year, future events may lead to a change in these estimates (up or down) in the future. Changes in accounting estimates will be applied prospectively.

d) Grouped entries

To facilitate understanding of the balance sheet and the income statement, the entries in these annual accounts are presented in grouped form, and the necessary analysis is set out in the relevant notes to the accounts.

ÁRIMA REAL ESTATE SOCIMI, S.A.

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e) Comparative information

The figures presented in the income statement, the statement of changes to equity and the statement of cash flows correspond to the 12 months for the financial year ended on 31 December 2019, while the financial year 2018 corresponds to the period from 13 June to 31 December 2018. Therefore they are not comparative.

3. ACCOUNTING CRITERIA

The main accounting policies adopted in the preparation of the annual accounts are described below. These policies have been applied uniformly for the financial year presented, unless otherwise indicated.

3.1 Property, plant and equipment

Property, plant and equipment items are entered at their acquisition price or production cost, minus accumulated depreciation and the accumulated value of any recognised losses.

The costs of major repairs are activated and amortised over their estimated useful life, while recurring maintenance costs are charged to the income statement during the financial year in which they are incurred.

Depreciation of property, plant and equipment, with the exception of land, which is not depreciated, is calculated systematically using the straight-line method over the assets' estimated useful lives based on the actual decline in value brought about by operation, use and possession. Depreciation rate based on estimated useful lives are as follow:

	<u>Depreciation rate (%)</u>
Other facilities	10%
Furnishing	10%
Data processing equipment	25%
Transport items	25%
Other fixed assets	10%

3.2 Investment properties

Investment properties include office buildings, logistics warehouses and other items owned by the Company that are held to obtain long-term rental income and are not occupied by the Company. Investment properties are valued at cost of acquisition minus the relevant accumulated amortisation and any losses due to impairment.

Investment properties are depreciated using the straight-line method, based on the number of years of useful life estimated in each case. Depreciation rate based on estimated useful lives are as follow:

	<u>Depreciation rate (%)</u>
Buildings	2%
Technical installations	8%

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3.3 Losses due to the impairment of non-financial assets

Assets subject to depreciation are subjected to impairment reviews whenever some event or a change in circumstances indicates that the book value may not be recoverable.

A loss due to impairment is entered in the amount by which the book value of an asset exceeds its recoverable value, the latter being understood to mean the fair value of the asset minus sale costs, or its operational value, whichever is higher.

In order to assess impairment losses, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units). Non-financial assets, other than goodwill, in respect of which an impairment loss has been recognised, are reviewed at each balance sheet date in case the loss has reversed.

The Company engages independent expert CBRE Valuation Advisory, S.A. to calculate the value of all of its investment properties at least twice a year. These valuations are made in accordance with the valuation standards issued by the Royal Institute of Chartered Surveyors (RICS).

When calculating the value of investment properties, consideration is given to the amount that the Company expects to recover as a result of their lease. To this end, projections are made in respect of the cash flows that will be generated, based on the best estimate of leasing rates and on expectations for each individual asset, taking account of any uncertainty that may be caused by a reduction in cash flows or discount rates. The operational value of a real estate property will not necessarily be the same as its fair value, insofar as the former will be based on factors that are specific to the organisation, mainly the capacity to ask prices that are above or below market levels, due to the assumption of certain risks or the assumption of costs (construction or marketing in respect of investment properties under development; refurbishment; maintenance; etc.) other than those that are generally associated with companies in the sector, while the latter is the value at which two independent parties would be willing to complete a transaction.

The estimated yields depend on the type and age of the properties and their location. The properties have been valued individually, taking account of the lease agreements in place at the end of the financial year and, where applicable, the forecast value.

The book value of the Company's investment properties is corrected at the end of each financial year with the entry of the relevant loss due to impairment, in order to bring this figure into line with the recoverable value when the fair value is lower than the book value.

When a loss due to impairment is subsequently reversed, the book value of the asset is increased to reflect the corrected estimate of its recoverable amount, though the increased book value may not exceed the book value that would have been allocated of the loss due to impairment had not been entered in previous financial years. Reversals of losses due to impairment are entered in the income statement.

3.4 Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are included under current assets unless they mature more than 12 months after the balance sheet date, in which case they are entered under non-current assets. Loans and receivables are entered on the balance sheet under "Trade receivables and other accounts receivable".

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These financial assets are initially valued at fair value, including directly attributable transaction costs, and are subsequently valued at amortised cost. Accrued interest is entered at the effective interest rate, this being understood to be the updated rate that brings the instrument's book value into line with all estimated cash flows through to maturity. Notwithstanding the foregoing, trade receivables that are due within less than one year are valued at their par value, both when initially entered and on subsequent valuation, provided that the effect of not updating flows is not significant.

At least at the end of each financial year, the necessary value adjustments are made to account for impairment when there is objective evidence that all receivables will not be collected.

Losses due to impairment are calculated as the difference between book value of the asset in question and the current value of estimated future cash flows, discounted at the effective interest rate at the time of initial entry. Value adjustments, as well as any applicable reversions, are accounted for in the income statement.

Investments in the equity of group companies

These are valued at cost, minus (where applicable) the accumulated amount of any losses due to impairment. If there is objective evidence that the book value is not recoverable, the relevant valuation correction will be made for the difference between the book value and the recoverable amount, which is understood to be either the fair value minus sale costs or the actual value of cash flows from the investment, whichever is higher.

Unless there is better evidence of the recoverable amount, when estimating the impairment of these investments, the net equity of the subsidiary company is taken into account and adjusted for the unrealised capital gains existing on the valuation date. Value corrections and, where applicable, their reversal, are entered in the income statement in the financial year in which they occur.

3.5 Equity

The share capital is made up of ordinary shares.

The costs of issuing new shares or options are entered directly in equity as a reduction in reserves.

In the event that the Company acquires treasury shares, the consideration paid including any incremental cost that is directly attributable, is deducted from equity until the shares are redeemed, issued again or otherwise disposed of. When treasury shares are subsequently sold or reissued, any amount received is moved to equity, net of any directly attributable incremental costs.

Distribution of the result and compulsory payment of dividends

SOCIMIs are governed by the special tax rules established under Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs (Spanish Real Estate Investment Trusts) are governed. They are required to distribute the profits they obtain over the course of the year to their shareholders in the form of dividends, after complying with the relevant corporate obligations. Distribution must be approved within the six months following the year end, in the following way:

- a) 100% of the profits resulting from dividends or profit shares received from the companies referred to in Article 2.1 of this Act.

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- b) At least 50% of the profits earned from the transfer of the property, shares or ownership interests referred to in Article 2.1. of the Act, where this occurs after the deadlines referred to in Article 3.3 of the Act have expired, when the property, shares or interests are used to comply with the Company's primary corporate purpose. The remainder of these profits must be reinvested in other property or investments related to the performance of this corporate purpose within three years of the transfer date. Otherwise, these profits must be distributed in full together with any profit earned, where applicable, in the year in which the reinvestment period expires. If the items in which the reinvestment has been made are transferred prior to the end of the holding period, profits must be distributed in full, together, where applicable, with the part of the profits attributable to the years in which the Company was not taxed under the special tax scheme provided for in the aforementioned Act.
- c) At least 80% of the remaining profits obtained.

The dividend must be paid within one month of the distribution agreement. When dividends are distributed with a charge to reserves originating from profits for a year in which the special tax rules were applied, the distribution must compulsorily be approved by means of the resolution referred to above.

The Company is required to allocate 10% of its profits for the year to the legal reserve until the balance held in this reserve amounts to 20% of its share capital. The balance of this reserve is not available for distribution to the shareholders until it exceeds the 20% limit. The articles of association of these companies may not establish any restricted reserve other than the foregoing.

3.6 Financial liabilities

Debts and payables

This category includes trade and non-trade payables. These third-party resources are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

These payables are initially entered at their fair value, adjusted for directly attributable transaction costs, and subsequently entered at amortised cost using the effective interest rate method. The effective interest rate is the updated rate which brings the instrument's book value into line with expected future payment flows until maturity of the liability.

Nonetheless, trade payables that are due within less than one year and do not have a contractually agreed interest rate are valued at their nominal value, both when initially entered and on subsequent valuation, provided that the effect of not updating cash flows is not significant.

Financial borrowings

Financial borrowings are initially entered at their fair value, minus any transaction costs incurred. Subsequently, financial borrowings are valued at amortised cost: any difference between the proceeds obtained (net of the costs required to obtain them) and the redemption value is entered in the income statement over the life of the borrowings using the effective interest rate method.

3.7 Current and deferred income tax

In accordance with the SOCIMI tax rules, the Company is subject to a Corporate Income Tax rate of 0%.

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As established in Article 9.2 of Act 11 of 26 October 2009, with the amendments incorporated via Act 16 of 27 December 2012, the Company shall be subject to a special rate of 19% on the overall sum of the dividends or profit distributions received by shareholders whose stake in the share capital of the Company is equal to or greater than 5%, when those dividends, in the possession of its shareholders, are exempt from or have a tax rate of less than 10% (to this effect, the tax due will be taken into consideration under the Non-Resident Income Tax Act).

However, that special rate will not apply when the dividends or profit shares are received by entities whose purpose is the ownership of interests in the share capital of other SOCIMIs or other companies that are not resident in Spain, that have the same corporate purpose, and that are governed by rules similar to those governing SOCIMIs as regards the compulsory, legal or statutory policy on profit distribution, with respect to companies that have a share that is equal to or greater than 5% of the share capital of the SOCIMIs and that pay tax on those dividends or profit shares at a rate of at least 10%.

3.8 Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is likely that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are valued at the current value of the payments that are expected to be required to settle the obligation, using a pre-tax rate that reflects the current market assessment of the time value of money and the specific risks of the obligation. The adjustments to provisions as the result of their restatement are entered as a financial expense as they accrue.

Provisions that mature in one year or less and have non-significant financial effects are not discounted.

When it is expected that a portion of the payment necessary to cancel the provision will be reimbursed by a third party, this reimbursement is entered as an independent asset, provided that its receipt is practically certain.

Contingent liabilities are considered to be potential liabilities deriving from past events, the existence of which is subject to the occurrence of one or more future events that lie outside the control of the Company. These contingent liabilities are not recorded in the accounts but are described in the notes (Note 18).

3.9 Revenue Recognition

Income is stated at the fair value of the consideration to be received and it represents the amounts to be collected for the services rendered during the ordinary course of the Company's activities, minus returns, discounts, rebates and VAT.

Provision of services

The Company provides leasing services. Income earned from the leasing of property is entered as it becomes payable, and profits are entered on a straight-line basis with regard to incentives and initial lease agreement costs.

The costs associated with each rental payment, including any items removed as a result of impairment, are entered as an expense. Properties let out to third parties, all of which are let under operational leases, are included under the heading "investment properties" in the balance sheet.

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3.10 Leases

a) When the Company is the lessee - Operating lease

Leases in which the lessor maintains a significant part of the risks and benefits arising from ownership are classified as operating leases. Operating lease payments (net of any incentive received by the lessor) are charged to the income statement for the year in which they accrue on a straight-line basis over the lease period.

b) When the Company is the lessor

Properties let out under operating lease are included within investment properties in the balance sheet. Income earned from the leasing of property is entered on a straight-line basis over the lease period.

3.11 Operational currency and currency in which the accounts are presented

The figures in these annual accounts are presented in euro thousand, the euro is the currency that the Company uses for both accounting and operational purposes.

3.12 Transactions between related parties

Generally speaking, transactions performed between related parties are initially entered in the accounts at their fair value. Where applicable, if the agreed price differs from the fair value, this difference will be entered, taking account of the real financial conditions of the transaction. It will subsequently be valued in accordance with the provisions set out in the relevant standards.

3.13 Share-based payments

On 26 September 2018, the Annual General Shareholders Meeting approved a new remuneration plan based on the Company's own shares, granted to the Árima Real Estate team. That plan will be in effect for 6 years and the right to receive shares as an incentive will accrue when the conditions set out in the plan are met for each calculation period (a period of one year, between 1 July and 30 June of the following year), the conditions established in the plan are met, with the exception of the first accrual period, whose first term includes from the Company IPO on 23 October 2018 to 30 June 2020.

These conditions principally require the total return for shareholders to be in excess of a specific percentage. This return is measured as the sum of the total dividends distributed plus revaluation of the Net Asset Value, excluding any share capital increase that may have occurred during the calculation period. This payment is therefore focused on the return generated for the shareholder through active management of the portfolio, and not on the size of the portfolio.

In order for this incentive to take effect, shareholders must obtain a return in excess of 10%. When the return exceeds this threshold, the incentive corresponds to 20% of any amount by which the threshold is exceeded.

The right to receive this incentive is accrued on a yearly basis (from 1 July to 30 June of the following year) and it is liquidated by the delivery of shares. The team may dispose of the shares received after the following periods: one third of the shares after twelve months, one third after eighteen months and one third after twenty-four months.

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3.14 Cash and cash equivalents

Cash and cash equivalents include cash holdings, instantly accessible deposits with credit institutions, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

3.15 Financial derivatives and hedging financial instruments

Financial derivatives are valued, both at the initial and in subsequent valuations, at fair value. The method of recognizing the resulting loss or gain depends on whether the derivative has been designated as a hedging instrument or not, and, where appropriate, the type of hedging. The Company designates certain derivatives as:

Cash flow hedges

The effective amount of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are transiently recognized in equity. Its allocation to the profit and loss account is made in the years in which the planned covered transaction affects the result, unless the coverage corresponds to a planned transaction that ends in the recognition of a non-financial asset or liability, in which case the amounts recorded in the equity are included in the cost of the asset when it is acquired or the liability when it is assumed. Loss or gain relative to the ineffective part is immediately recognized in the profit and loss account.

4. FINANCIAL RISK MANAGEMENT

The Company's activities are exposed to various financial risks: market risk (including interest rate risk), credit risk, liquidity risk and tax risk. The Company's risk management programme focuses on uncertainty in financial markets and seeks to minimise any potential adverse impact on its financial profitability.

Risk management is overseen by the Company's Finance Department, which identifies, evaluates and hedges financial risks in accordance with the policies approved by the Board of Directors of the dominant Company. The Board provides policies for overall risk management and policies covering specific areas such as interest rate risk, liquidity risk, the use of derivatives and non-derivatives and investing excess liquidity.

4.1 Financial risk factors

a) Market risk

The Company's interest rate risk arises from the financial debt. Loans issued at variable rates expose the Company to interest rate risk of cash flows during the financial year ended at 31 December 2019. The Company has signed long-term financing agreements with prestigious financial institutions at a variable market interest rate with mortgage guarantee (Note 6 and Note 12). As of 31 December 2019, the amount drawn down related to these financing agreements, in nominal terms amounts to 54,244 thousand euros.

The Company manages the cash flow interest rate risk through variable to fixed interest rate swap. These interest rate swaps have the economic effect of converting loans at variable interest rates into loans at fixed interest rates. Generally, the Company obtains foreign long-term resources with variable interest and exchanges them for a fixed interest rate lower than those that would be available if the Company had obtained the external resources directly at fixed interest rates. Under interest rate swaps, the Company undertakes with third parties to exchange, on a regular basis, the difference between the fixed interest and the variable interest based on the principal notional contracted.

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b) Credit risk

Credit risk originates, mainly from customers for sales and services, as well as from other debtors. The Company defines the credit risk management and analysis policy of its new clients before proceeding to offer them the usual payment terms and conditions. The Company's risk control establishes the credit quality that the client must possess, taking into account its financial position, past experience and other factors. The Company considers that it does not have significant concentrations of credit risk, this being understood to refer to the possible impact that a default on receivables could have on the income statement.

The Company maintains its cash and other equivalent liquid assets in entities with the best credit quality.

c) Liquidity risk

Cash flow predictions are carried out by the Group's Finance Department. This Department monitors forecasts of the Group's liquidity requirements in order to ensure that it has sufficient cash to meet its operational needs while maintaining sufficient available liquidity at all times to ensure that the Group continues to comply with its financing limits and covenants.

The maturity dates set for the Company's financial asset and liability instruments at 31 December 2019 and 31 December 2018 are shown in Note 7.

d) Tax risk

As mentioned in Note 1, the Company is subject to the special tax regime of the rules governing Spanish Real Estate Investment Trusts (SOCIMIs). It is therefore subject to Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs are governed. Article 3 of Act 11 of 26 October 2009 sets out certain requirements that must be met by this type of company. The companies that have opted for said regime are obliged to distribute dividends to its shareholders, once the pertinent mercantile obligations have been fulfilled, the benefit obtained in the year, having to arrange their distribution within the six months following the end of each year and be paid within the month following the date of the agreement of distribution.

In the event that the Shareholders' Meeting of such companies does not approve the distribution of dividends proposed by the Board of Directors, which has been calculated in accordance with the requirements set forth in the aforementioned law, they would not be complying with it, and therefore they should be taxed under the general tax regime and not the one applicable to the SOCIMI.

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5. PROPERTY, PLANT AND EQUIPMENT

The following table contains a breakdown of the entries shown for “Property, plant and equipment” and the relevant movements:

	Thousand euros	
	<u>Property, plant and equipment</u>	<u>Total</u>
Balance at 13 June 2018	-	-
Cost	-	-
Accumulated depreciation	-	-
Book value	-	-
Added	65	65
Allocation to depreciation	(2)	(2)
Balance at 31 December 2018	63	63
Cost	65	65
Accumulated depreciation	(2)	(2)
Net book value	63	63
Added	121	121
Sales	(40)	(40)
Allocation to depreciation	(11)	(11)
Reduction of depreciation charge	3	3
Balance at 31 December 2019	136	136
Cost	149	149
Accumulated depreciation	(13)	(13)
Net book value	136	136

a) Losses due to impairment

During 2019 and 2018, no entries were made or reversed in respect of value correction for impairment in relation to any property, plant and equipment item.

b) Fully depreciated property, plant and equipment

No item had been fully depreciated at 31 December 2019 neither at 31 December 2018.

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(Thousand euros)**
6. INVESTMENT PROPERTIES

Investment properties include office buildings and other items owned by the Company that are held to obtain long-term rental income and are not occupied by the Company.

Movement and breakdown of investment properties are shown below:

	Thousand euros				
	Land	Building	Technical Installations	Investment Properties in progress	Total
Balance at 13 June 2018	-	-	-	-	-
Added	23,630	6,952	1,497	6,275	38,354
Allocation to depreciation	-	(3)	(3)	-	(6)
Balance at 31 December 2018	23,630	6,949	1,494	6,275	38,348
Cost	23,630	6,952	1,497	6,275	38,354
Accumulated depreciation	-	(3)	(3)	-	(6)
Book value at 31 December 2018	23,630	6,949	1,494	6,275	38,348
Added	74,312	66,304	17,855	1,615	160,086
Transfers	2,603	2,975	697	(6,275)	-
Allocation to depreciation	-	(650)	(1,095)	-	(1,745)
Balance at 31 December 2019	100,545	75,578	18,951	1,615	196,689
Cost	100,545	76,231	20,049	1,615	198,440
Accumulated depreciation	-	(653)	(1,098)	-	(1,751)
Book value at 31 December 2019	100,545	75,578	18,951	1,615	196,689

In the financial year 2018, the Company formalized the acquisition of two office buildings for a total amount of 31,000 thousand euros (not including acquisition costs), in the most consolidated business areas of Madrid: on of them in María de Molina street, corner with Príncipe de Vergara avenue and the other building in the confluence between Paseo de la Habana and Alfonso XII avenue.

In January 2019, the Company formalized the acquisition of two office buildings, thus executing the binding purchase commitment signed in December 2018 and for which it made a deposit payment of 6,275 thousand euros (classified under the "Real Estate Investments in Progress" caption as of 31 December 2018). The acquisition involved a final investment of 62,750 thousand euros (not including acquisition costs), which corresponds to two office buildings totaling a gross leasable gross area of 20,200 m² and 395 parking spaces in the most consolidated business areas of the northeast of Madrid: on the urban axis M30-A2 and in the business park of Cristalia, in the business district of Campo de las Naciones.

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Subsequently, during the financial year 2019, the Company has formalized the acquisition of three office buildings and one logistic facility for a total amount of 97,608 thousand euros (not including acquisition costs): a floor and a half of offices on María de Molina street (Madrid), acquired on 28 February 2019, a warehouse in San Agustín de Guadalix, acquired on 12 April 2019, a building on Calle Ramírez de Arellano 21 (Madrid), acquired on 28 June 2019 and a building on Vía de los Poblados, 7 (Madrid), acquired on 30 December 2019. The logistics warehouse in Guadalix has a gross leasable area of 25,694 m² and is fully rented to one of the largest food distribution companies in Spain. The offices of María de Molina has a leasable area of 4,120 m² and 22 parking spaces, the offices of Ramírez de Arellano has a gross leasable area of 6,759 m² and 110 parking spaces and Vía de los Poblados has a leaseable area of 14.000 m² and 213 parking spaces.

On some real estate investments, a mortgage was constituted as a guarantee of the granted financing at 31 December 2019. The financed buildings correspond to the Cristalia, María de Molina, Habana, América and Ramírez de Arellano properties.

At 31 December 2018, there were not mortgage constituted as a guarantee over investment properties.

a) Losses due to impairment

Neither on financial year 2019 nor 2018, were entries made or reversed in respect of value correction for impairment in relation to any real estate investment.

a) Fully depreciated assets

No items had fully depreciated at 31 December 2019 and 31 December 2018.

c) Income and expenses on investment properties

The following income and expenses on investment properties have been detailed in the income statement:

	Thousand euros	
	31.12.2019	31.12.2018
Rental income (Note 13)	5,740	12
Expenses for the operations resulting from investment properties that generate rental income	(1,352)	-
Expenses for the operations resulting from investment properties that do not generate rental income	(50)	-
	4,338	12

d) Operating leases

The total amount of future minimum receivables from non-cancellable operating leases is as follows:

	Thousand euros	
	31.12.2019	31.12.2018
Less than one year	4,896	417
Between one and five years	10,787	500
More than five years	590	-
	16,273	917

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e) Insurances

The Company signs the insurance policies necessary to cover any possible risk that might affect its investment properties. The coverage in these policies is deemed to be sufficient.

f) Liabilities

At year end, the Company does not have contractual obligations for the acquisition, construction or development of real estate investments, or for repairs, maintenance or insurance, in addition to those already included in the Note.

g) Valuation process

Information on the cost and fair value of real estate investments at 31 December 2019:

	Thousand euros			
	31 December 2019		31 December 2018	
	Net cost value	Fair value	Net cost value	Fair value
Investment properties	196,689	221,650	38,348	39,975

Cost value – Fair value

The market value of the properties owned by the Company has been determined on the basis of valuation carried out by independent valuemakers. Valuations of such real estate assets have been carried out under the "market value" scenario, and have been prepared in accordance with the Professional Standards of assesment by the Royal Institution of Chartered Surveyors of Great Britain (RICS), edition of july 2017 – 'Red Book'. "Market value" is defined as the estimated amount by which an asset should be able to exchange at the valuation date, between a seller and a buyer arranged with each other, after a reasonable marketing period, and in which both parties have acted knowingly, prudently and without coercion. The valuation methodology adopted by independent tivers in determining fair value was essentially the 10-year cash flow discount method, in addition to contrasting the information with comparables.

The cash flow discount method is based on the prediction of the likely net income generated by the assets over a given period of time, considering the residual value of the assets at the end of that period. Cash flows are discounted at an internal rate of return to reach the current net value. This internal rate of return is adjusted to reflect the risk associated with the investment and the assumptions adopted. The key variables are therefore net income, residual value approximation and internal rate of return.

ÁRIMA REAL ESTATE SOCIMI, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)

7. ANALYSIS OF FINANCIAL INSTRUMENTS

a) Analysis by category

The book value of each of the categories of financial instruments, excluding investments in the equity of group companies (Note 8) and cash and cash equivalents, is as follows:

	Thousand euros					
	Non-current financial assets					
	Equity instruments		Debts values		Credits Derivatives Others	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Other long-term financial liabilities	-	-	-	-	842	-
Total long-term financial assets	-	-	-	-	842	-
	Current financial assets					
	Equity instruments		Debts values		Credits Derivatives Others	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Trade receivables for sales and services (Note 9) and other assets	-	-	-	-	1,189	117
Total short-term financial assets	-	-	-	-	1,189	117
	Thousand euros					
	Non-current financial liabilities					
	Bank loans and credits		Bonds and other negotiable securities		Credits Derivatives Others	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Debts and other financial liabilities (Note 14)	72,427	-	-	-	1,691	-
Total non-current financial liabilities	72,427	-	-	-	1,691	-

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	Current financial liabilities					
	Bank loans and credits		Bonds and other negotiable securities		Credits Derivatives Others	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Debts and other payables (Note 14)	210	-	-	-	2,799	764
Total current financial liabilities	210	-	-	-	2,799	764

b) Analysis by maturity date

At 31 December 2019 and 31 December 2018, the value of financial instruments, excluding investments in the equity of group companies (Note 8) and cash and cash equivalents, with a specific maturity date or with a maturity date falling within a specific year was as follows:

At 31 December 2019

	Thousand euros						
	Financial assets						Total
	2020	2021	2022	2023	2024	Subsequent years	
Trade receivables:							
- Trade receivables	625	-	-	-	-	-	625
- Other financial assets	564	205	-	50	-	587	1,406
	1,189	205	-	50	-	587	2,031
	Financial liabilities						Total
	2020	2021	2022	2023	2024	Subsequent years	
Debts:							
- Debts with credit entities	210	-	-	-	3,599	70,145	73,954
- Financial hedging instruments	-	-	-	-	150	585	735
Trade payables:							
- Trade and other payables	2,449	-	-	-	-	-	2,449
- Other financial liabilities	350	303	-	24	-	629	1,306
	3,009	303	-	24	3,749	71,359	78,444

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(Thousand euros)**
At 31 December 2018

	Thousand euros						
	Financial assets						
	2019	2020	2021	2022	2023	Subsequent years	Total
Trade receivables:							
- Trade receivables	12	-	-	-	-	-	12
- Other financial assets	105	-	-	-	-	-	105
	117	-	-	-	-	-	117
	Financial liabilities						
	2019	2020	2021	2022	2023	Subsequent years	Total
Trade payables:							
- Trade and other payables	764	-	-	-	-	-	764
	764	-	-	-	-	-	764

The debts shown in the previous break downs are expressed at their nominal value.

8. LONG TERM INVESTMENTS IN GROUP COMPANIES

The following table shows a breakdown of long-term investments in group companies at 31 December 2019 and 2018:

Name	Address	Activity	Share capital percentage		Voting rights	
			Direct %	Indirect %	Direct %	Indirect %
Árma Investigación, Desarrollo e Innovación, S.L.U.	Serrano, 47 4º planta, 28001 Madrid	Real Estate activity Sustainability projects Exploitation of industrial property rights	100	-	100	-

Árma Real Estate Investments, S.L.U. was incorporated in December 2018. At 7 November 2019 its corporate name was changed to Árma Investigación, Desarrollo e Innovación, S.L.U. At the time of its incorporation, Árma Real Estate SOCIMI, S.A. became the dominant company of a group of companies of which it has control, forming a group at that time. This subsidiary is not a listed company.

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**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**
9. LOANS AND RECEIVABLES

	Thousand euros	
	31 December 2019	31 December 2018
Trade receivables and other long-term accounts receivable		
- Guarantees ("Other long-term financial assets")	842	-
Trade receivables and other accounts receivable:		
- Trade receivables for sales and services	303	12
- Other accounts receivable	322	-
- Personnel	103	-
- Other credits held with Public Authorities (Note 15)	476	357
- Guarantees ("Other short-term financial assets")	303	-
	2,349	369

The amount recorded under the heading "Other long-term financial assets" in the balance sheet includes the amount of the guarantees associated with the rental agreements deposited with the corresponding public bodies.

Under the heading "Other debtors", the amounts corresponding to the provision of funds, derived from the acquisitions of the investment property (Note 6) and its financing (Note 14), are included.

The carrying amount of the loans and receivables approximates their fair value, given that the effect of the discount is not significant.

Under the heading of customers there is an amount of 282 thousand euros relating to invoices pending issuance (12 thousand euros at 31 December 2018).

The following table contains a breakdown of the age of receivables for sales and services:

	Thousand euros	
	At 31 December 2019	At 31 December 2018
Up to 3 months	21	-
Between 3 and 6 months	-	-
More than 6 months	-	-
	21	-

The book value of loans and receivables is denominated in euros.

10. CASH AND CASH EQUIVALENTS

	Thousand euros	
	31 December 2019	31 December 2018
Cash and banks	153,964	57,967
	153,964	57,970

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NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019 (Thousand euros)

The current accounts are denominated in euros.

Due to the liquidity contract entered into with JB Capital Markets, Sociedad de Valores, S.A.U., detailed in Note 11.b, at 31 December 2019 the Company holds 432 thousand euros of total cash destined for the cash account under that contract (at 31 December 2018 held 433 thousand euros).

11. SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

a) Share capital and share premium

The Company was incorporated on 13 June 2018 with the issue of 300 registered shares, each with a par value of 10 euros. On the date of its incorporation, Rodex Asset Management, S.L. held 299 shares representing 99.99% of the Company's issued share capital, and Inmodesarrollos Integrados, S.L. held 1 ordinary share representing 0.01% of the Company's issued share capital.

On 25 July 2018 the Company changed its legal form from a private limited company to a public limited company and increased capital by 60 thousand euros. At that date, following the increase, Rodex Asset Management, S.L. held 6,279 registered shares, representing 99.99% of the Company's issued capital while Inmodesarrollos Integrados, S.L. held 21 registered shares, representing 0.01% of the Company's issued capital.

On 1 October 2018 an Universal General Shareholders' Meeting was held during which it was resolved to increase capital by 350,000 thousand euros maximum (the shareholders' waiving their preferential subscription right), through an offer for the subscription of the Company's shares.

On 8 October 2018 the Board of Directors approved the resolutions concerning the capital increase and the approval of the Share Subscription Prospectus for the admission of the trading on the stock exchange of the Company's shares. On 19 October 2018 the Board of Directors approved the capital increase amounting to 100,000 thousand euros which was entered in the Madrid Commercial Register and began trading of 10,000,000 new shares with a par value of 10 euros each on 23 October 2018.

In 2019, the Universal General Shareholders' Meeting, at its meeting of March 21, approved a new capital increase, waiving the right of preferential subscription, and delegated to the Board of Directors the necessary powers to carry it out. This capital increase was approved by the CNMV on April 8, 2019, becoming effective through the issuance and circulation of 4 million new ordinary shares of 10 euros each as face value, resulting in an increase in the share capital of 40,000 thousand euros.

Subsequently, as part of a new capital increase, the Company sign a subscription agreement with Ivanhoé Cambridge Holdings UK LTD, which compels it to subscribe and disburse 60.000 thousand euros for the new shares, with a maximum issue price of 10.40 euros each share. On 5 November 2019, the Universal General Shareholder's Meeting approved the resolutions concerning the capital increase, waiving the right of preferential subscription, and delegated to the Board of Directors the necessary powers to carry it out. This capital increase was approved by the CNMV on 15 November 2019, becoming effective through the issuance and circulation of 14.423.076 new ordinary shares of 10 euros each as face value and 0.40 euros each as share premium, resulting in an increase in the share capital of 150.000 thousand euros.

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(Thousand euros)

As of 31 December 2019 and 31 December 2018 the breakdown of share capital is as follows:

	Thousand euros	
	31 December 2019	31 December 2018
Share capital	284,294	100,063
Share premium	5,769	-
	290,063	100,063

As of 31 December 2019, the share capital of the Company is 284,294 thousand euros and is represented by 28,429,376 shares with a par value of 10 euros each, all belonging to the same class and fully subscribed and paid. All the shares carry the same voting and dividend rights.

At 31 December 2018 the Company's share capital amounted to 100,063 thousand euros and consisted of 10,006,300 shares with a par value of 10 euros each. All shares were of the same class and are fully subscribed and paid in. All shares carried the same voting and dividend rights.

All the Company's shares are listed on the Spanish Stock Market.

At 31 December 2019, the companies that held a share of 3% or more in the share capital are as follows:

Entity	% voting rights allocated to shares	% voting rights held through financial instruments	Total %
Bank of Montreal	8.400	-	8.400
Ivanhoe Cambridge, INC.	20.293	-	20.293
Morgan Stanley	5.498	-	5.498
Rodex Asset Management, S.L.	3.840	-	3.840
Pelham Long/Short small CAP Master Fund LTD	-	9.984	9.984
Ross Turner	-	9.984	9.984
Total	38.031	19.968	57.999

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**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**

At 31 December 2018, the companies that held a share of 3% or more in the share capital were as follows:

Entity	% voting rights allocated to shares	% voting rights held through financial instruments	Total %
Bank of Montreal	9.794	-	9.794
Héctor Colonqués Moreno	4.997	-	4.997
Mistral Iberia Real Estate SOCIMI S.A.	5.097	-	5.097
Morgan Stanley	9.976	-	9.976
Pelham Long/Short small CAP Master Fund LTD	-	9.984	9.984
Ross Turner	-	9.984	9.984
Rodex Asset Management, S.L.	10.906	-	10.906
UBS Group AG	8.560	-	8.560
Total	49.330	19.968	69.298

b) Treasury shares

Movements in treasury shares over the year have been as follows:

	31 December 2019		31 December 2018	
	Number of treasury shares	Thousand euros	Number of treasury shares	Thousand euros
At the beginning of the period/financial year	58,130	546	-	-
Additions / purchases	141,764	1,487	60,202	555
Reductions	(144,052)	(1,408)	(2,072)	(9)
At the end of the period/financial year	55,842	625	58,130	546

The General Shareholders' Meeting of the Company agreed on 21 March 2019 to authorize, for a period of 5 years, the derivative acquisition of shares of Árima Real Estate SOCIMI, S.A. by the Company itself, under the provisions of articles 146 and concordant of the Capital Companies Act, complying with the requirements and limitations established in current legislation at all times, in the following terms: (i) the acquisitions may be made directly by the Company or indirectly through companies of its group, and they may be formalized, once or several times, through purchase, barter or any other legal transaction valid in Law. Acquisitions may also be made through an intermediary that acquires the shares on behalf of the Company under a liquidity contract subscribed between the Company and the intermediary; (ii) the nominal value of the shares to be acquired, added, where appropriate, to those already held, directly or indirectly, shall not exceed the maximum percentage legally permitted at any time; and (iii) the acquisition price per share will be at least the nominal value and, at most, the market price on the date of acquisition.

On 6 November 2019, Árima Real Estate SOCIMI, S.A. renewed with JB Capital Markets, Sociedad de Valores, S.A.U. a 12 month liquidity contract, with tacit renewal unless otherwise stated, with the aim of improve liquidity and promote the regularity of the Company's share price.

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(Thousand euros)**

The General Shareholders' Meeting of 26 September 2018 resolved to implement an incentive plan consisting of handing over shares or cash on a discretionary basis to the Company's team. This incentive plan was corroborated in the General Shareholder's Meeting of 5 November 2019 (Note 20).

The treasury shares held at 31 December 2019 represent 0.20% of the Company's share capital and amount to 55,842 shares (at 31 December 2018 represented 0.58% of the Company's share capital and amounted to 58,130 shares). The average cost of treasury shares has been 11.00 euros per share (the average cost of treasury shares in 2018 was 9.4 euros per share).

These shares are carried by reducing the Company's equity at 31 December 2019 by 625 thousand euros (at 31 December 2018 it was 546 thousand euros).

The Company has complied with the requirements of Article 509 of the Spanish Capital Companies Act, which establishes that the par value of acquired shares listed on official secondary markets, together with those already held by the Parent Company and its subsidiaries, must not exceed 10% of the share capital. The subsidiaries do not hold either treasury shares or shares in the Company.

12. RESERVES

Reserves

	Thousand euros	
	At 31 December of 2019	At 31 December of 2018
Others reserves:		
- Voluntary reserve	(11,048)	(3,553)
- Legal reserve	-	-
- Hedging transactions reserve	(735)	-
- Net losses obtained from prior financial years	(503)	-
	(12,286)	(3,553)

The Company has registered in voluntary reserve, mainly, the expenses related to the capital increase (Note 11).

Legal reserve

Appropriations to the legal reserve should be made in compliance with Article 274 of the Spanish Companies which stipulates that 10% of the profits for each year must be transferred to this reserve until it represents at least 20% of share capital.

The legal reserve is not available for distribution. Should it be used to offset losses in the event of no other reserves being available, it must be replenished out of future profits.

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**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**

13. PROFIT (LOSS) FOR THE FINANCIAL YEAR

Distribution of the profit and loss for the financial year

The proposed distribution for the profit and loss for the financial year ended on 31 December 2019 obtained by the Company and the reserve amount to be submitted to the General Shareholders Meeting, is as follows:

	Thousand euros	
	2019	2018
<u>Base for distribution:</u>		
Profit and los for the financial year	(7,945)	(503)
<u>Application:</u>		
Legal reserve	-	-
Net losses obtained from prior financial years / Reserves	(7,945)	(503)
Dividends	-	-
	(7,945)	(503)

14. DEBTS AND OTHER PAYABLES

	Thousand euros	
	31 December 2019	31 December 2018
<u>Debts and non-current liabilities:</u>		
- Debts with credit entities	72,427	-
- Financial hedging instruments (Note14)	735	-
- Guarantees	956	-
	74,118	-
<u>Debts and current liabilities:</u>		
- Debts with credit entities (Note 7)	210	-
- Other payables (Note 7)	2,314	764
- Other short term debts	135	-
- Other debts with Public Authorities (Note 17)	1,355	630
- Guarantees	250	-
	4,264	1,394

The book amounts of debts and payables approximate their fair values, since the effect of discounting is not significant.

The heading "Guarantees" in the balance sheet includes the guarantees granted by the tenants of real estate registered in real estate investments (Note 6).

The book value of loans and receivables to be paid by the Company is denominated in euros.

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(Thousand euros)

On January 28, 2019, the Company signed a financial agreement with a prestigious financial institution at a market interest rate. This financing was considered a bridge financing to continue with its investment activity, foreseeing its formalization in the long term in the following months. This financing was cancelled in the second quarter, in which two bilateral financing transactions were signed with prestigious financial institutions at a variable market interest rate (Note 4a) for a total amount of 64 millions euros. Furthermore, in the third quarter of 2019 the Company has signed a new financial agreement of 20 million euros with a prestigious financial institution at a fixed interest rate.

This financing is recorded at amortized cost in the long-term liability under the heading "Debts with credit institutions". As of 31 December 2019 the amount of the amortized cost amounts to 1,317 thousand euros. The nominal maturities of the financing have been included in Note 7. Such financing is guaranteed by the properties described in Note 6.

Under the heading "Short-term debt with credit entities" the amount of unpaid accrued interest in the amount of 210 thousand euros has been recorded.

These loans are subject to compliance with certain financial ratios, which are common in the sector in which the Company operates and are calculated annually at the end of the year. Those financial ratios are fulfilled at 31 December 2019.

Additionally, the Group has contracted two interest rate swaps. The amount registered in the "Financial hedging derivatives" correspond to the valuation of the derivative financial instruments as of 31 December 2019. The effective part of the changes in the fair value of derivatives that are designated and classified as hedges is recognized in the hedge reserve within equity (Note 16).

Deferred payments to suppliers

Payments on business operations carried out during the financial year which are outstanding at the year end, with respect to the maximum terms allowed by Law 15/2010, amended by Law 31/2014, are as follows:

	Financial year ended on 31 December 2019	Financial year from 13 June to 31 December 2018
	Days	Days
Average payment period to suppliers	19	28
Ratio of transactions paid	19	32
Ratio of transactions pending payment	28	22
	Amount	Amount
	(thousand euros)	(thousand euros)
Total payments made	12,186	325
Total payments pending	501	255

The calculation of the figures in the table above agrees with that established in the ICAC resolution of 4 February 2016. For the purposes of this Note, trade payables include sundry suppliers and creditors for debts with suppliers of goods and services included in the scope of the regulation with respect to the legal payment periods.

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(Thousand euros)

15. INCOME AND EXPENSES

a) Net turnover figure

The net turnover figure corresponding to the Company's ordinary business activities broke down in geographical terms as follows:

Mercado	Porcentaje 2019	Porcentaje 2018	Miles de euros	
			2019	2018
Nacional	100%	100%	5.740	12
	100%	100%	5.740	12

The net turnover figure breaks down as follows:

	Thousand euros	
	2019	2018
Revenue		
Rents	4,719	12
Reinvoicing of costs	1,021	-
	5,740	12

The lease agreements signed by the Company are in normal market conditions in terms of their duration, maturity dates and rent.

b) Personnel costs

	Thousand euros	
	Financial year ended on 31 December 2019	Financial year from 13 June to 31 December 2018
Wages, salaries and associated costes	(8,429)	(291)
Welfare charges:		
- Other welfare charges	(180)	(30)
	(8,609)	(321)

A cost of 5,610 thousand euros has been recorded in personnel costs in relation to the incentive plan approved by the Shareholders' Meeting (Note 20).

There have been no compensation for dismissals at 31 December 2019 neither 2018.

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(Thousand euros)**

The average number of employees during the financial year ended on 31 December 2019 is 10 people. In the financial year from 13 June to 31 December 2018 it was 3 people. Shown by professional grade, is as follows:

Categories	Financial year ended on 31 December 2019	Financial year from 13 June to 31 December 2018
Management	7	2
Employees with degrees	2	1
Administrative personnel and others	1	-
	10	3

The number of employees at 31 December 2019 and 31 December 2018, shown by professional grade, was as follows:

Categories	At 31 December 2019	At 31 December 2018
Management	7	7
Employees with degrees	2	2
Administrative personnel and others	1	1
	10	10

In addition, at 31 December 2019, Company personnel details broken down by gender were as follows:

Categories	At 31 December 2019		
	Men	Women	Total
Management	5	2	7
Employee with degrees	2	-	2
Administrative personnel and others	-	1	1
	7	3	10

In addition, at 31 December 2018, Company personnel details broken down by gender were as follows:

Categories	At 31 December 2018		
	Men	Women	Total
Management	5	2	7
Employee with degrees	2	-	2
Administrative personnel and others	-	1	1
	7	3	10

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**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**

c) External services

The following table gives a breakdown of the external services:

	Thousand euros	
	Financial year ended on 31 December 2019	Financial year from 13 June to 31 December 2018
External services directly attributable to real estates assets	(1,402)	(13)
Other external services	(1,141)	(173)
	(2,543)	(186)

d) Financial expenses

Financial expenses accrued in the financial year ended on 31 December 2019 are associated with the financing obtained in the period (Note 14).

16. FINANCIAL HEDGING DERIVATIVES

	Thousand euros					
	Covered principal	Maturity	2019			
			Non current		Current	
			Asset	Liability(*)	Asset	Liability
Interest rate swap	22,700	2026	-	585	-	-
Interest rate swap	21,626	2026	-	150	-	-
			-	735	-	-

(*) See Note 7.b.

The fair value of financial hedgings derivatives is registered as a non current asset or non current liability if its maturity is beyond 12 months, and as a current asset or current liability if its maturity is prior to 12 months.

The interest rate swap derivative (financial swap) allows to change a variable interest rate to a fixed interest rate in bank loans signed by the Company. The cashflow covered is the foreseen future payments of interests related to the financial debts. Changes in fair value of the interest rate swap are registered in "Hedging transactions" in Equity (Note 12).

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**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**
17. INCOME TAX AND TAX POSITION

31 December 2019	Thousand euros					
	Income statement			Income and expenses attributed directly to Equity		
	Increases	Reductions	Total	Increases	Reductions	Total
Income and expenses balance for the period	-	(7,945)	(7,945)	-	(8,307)	(8,307)
Income tax	-	-	-	-	-	-
Permanent differences	-	-	-	-	-	-
Temporary differences (N.20)	5,610	-	5,610	735	-	735
Taxable base	5,610	(7,945)	(2,335)	735	(8,307)	(7,572)

31 December 2018	Thousand euros					
	Income statement			Income and expenses attributed directly to Equity		
	Increases	Reductions	Total	Increases	Reductions	Total
Income and expenses balance for the period	-	(503)	(503)	-	(3,553)	(3,553)
Income tax	-	-	-	-	-	-
Permanent differences	-	-	-	-	-	-
Temporary differences	-	-	-	-	-	-
Taxable base	-	(503)	(503)	-	(3,553)	(3,553)

When reading this Note, it should be borne in mind that the Company is covered by the special SOCIMI scheme and has not recognised any deferred tax assets as it considers that they will not be recoverable.

At 31 December 2019 tax profits are calculated as accounting losses for the year plus expenses resulting from the Company's incorporation and capital increases which are recognised directly in equity. At the year end date the Company has not recognised deferred tax assets. There were no payments on account of corporate income tax during the financial year 2019 neither 2018.

In accordance with Law 11/2009, as amended by Law 16/2012, regulating REITs (SOCIMIs), current corporate income tax is the result of applying 0% to the tax base. Withholdings and payments on account amount to 0 thousand euros.

Tax inspections

Under current law, taxes cannot be understood to have been effectively settled until the tax authorities have reviewed the tax returns submitted or until the time-bar period of four years has elapsed. All the Company's taxes are open to inspection.

ÁRIMA REAL ESTATE SOCIMI, S.A.

NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)

As a result, among other things, of the different interpretations to which Spanish tax legislation lends itself, additional tax assessments may be raised in the event of a tax inspection. In any case, the Directors believe that any such liabilities, in the event that they arise, will not have any significant effect on the balance sheet or the income statement neither for the financial year ended on 31 December 2019 nor the financial year from 13 June to 31 December 2018.

At 31 December 2019 and 31 December 2018, the amounts receivable and the amounts payable by the Company in respect of the Public Authorities broke down as follows:

	At 31 December	Thousand euros
	2019	At 31 December
		2018
Accounts receivable		
Receivables from Spanish Tax Authorities (VAT)	476	357
	476	357
Payment commitments		
Payables to Spanish Tax Authorities (withholdings collected)	(579)	(147)
Payables to Social Security Bodies	(18)	(17)
Stamp duty on the operations of the Company (Note 6)	(758)	(466)
	(1,355)	(630)

18. PROVISIONS, CONTINGENCIES AND BANK GUARANTEES

Contingent liabilities

Neither at 31 December 2019 nor 31 December 2018 has the Company contingent liabilities.

Bank Guarantees

At 31 December 2019, the Company has contracted a bank guarantee in the amount of 122 thousand euros with a prestigious financial institution. At 31 December 2018, there were no contracted endorsements.

19. COMMITMENTS

Operational leasing commitments

The Company leases its office premises under an irrevocable operating lease. This contract is for two years and four months and may be renewed on maturity for another additional three years following the relevant notification by the Company. Minimum total future payments for non-cancellable leases are 389 thousand euros at 31 December 2019 (19 thousand euros at 31 December 2018).

20. BOARD OF DIRECTORS AND OTHER PAYMENTS

Shareholdings, positions and activities of the members of the Board of Directors

Article 229 of the Spanish Capital Companies Act, which was approved by Royal Legislative Decree 1 of 2 July 2010, requires Directors to notify the Board of Directors (or, in the absence of such a body, the other Directors or the General Shareholders Meeting) of any direct or indirect conflict of interest they may have with the Company's interests.

ÁRIMA REAL ESTATE SOCIMI, S.A.

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**

Likewise, Directors must disclose any direct or indirect interest they or persons related to them may hold in any company engaging in activities which are identical, analogous or complementary to those comprising the Company's corporate purpose. They must also disclose the positions they hold or duties they perform at such companies. In this regard, Appendix I sets out the information provided by Directors who have declared that they hold positions and perform duties in companies with an identical, similar or complementary kind of activity.

Remuneration of members of the Board of Directors

During the financial year ended on 31 December 2019, the remuneration of the members of the Board of Directors of the Company has amounted to 992 thousand euros (103 thousand euros at 31 December 2018). In addition, the Company has paid during the financial year 2019 the amount of 26 thousand euros regarding a civil liability insurance that covers the Directors.

The members of the Board of Directors of the Company have not received any shares or options on shares during the year, nor have they exercised any options nor do they have any options to be exercised neither on 31 December 2019 nor 31 December 2018.

The members of the Board of Directors of the Parent Company do not have pension funds or similar obligations for their benefit issued by the Company. During the financial year ended on 31 December 2019 and the financial year ended on 31 December 2018, there is no senior management personnel that does not belong to the Board of Directors of the Parent Company.

On the other hand, there is a compensation plan based on the delivery of shares whose beneficiary is the Company's team (Note 3.13). This plan, which is in force, is accrued annually when, for each calculation period (between 1 July and 30 June of the following year), certain conditions of value generation are met. The first calculation period ends on 30 June 2020 and the Company has estimated a cost of 5,610 thousand euros as of 31 December 2019, which has been registered under the heading of Other equity instruments.

21. RELATED-PARTY TRANSACTIONS

The transactions listed below were carried out with group companies and related parties during each financial year:

	<u>2019</u>	<u>Thousand euros</u> <u>2018</u>
Transactions with group companies		
Rodex Asset Management, S.L. (*)	-	276

(*) It was considered group company from the date of the Company's incorporation 13 June 2018 to 23 October 2018, date on which the company's shares started trading on the continuous stock market.

In June and September 2018 the former majority shareholder (Rodex Asset Management, S.L.) converted creditor balances into two participating loans amounting to 276 thousand euros. These loans were cancelled by the Company in November 2018.

At 31 December 2019, there are no outstanding balances with group companies and related parties.

ÁRIMA REAL ESTATE SOCIMI, S.A.

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**

22. INFORMATION REQUIREMENTS RESULTING FROM SOCIMI STATUS, ACT 11/2009, AS AMENDED BY ACT 16/2012

- a) Reserves from financial years prior to the application of the tax rules set out in Act 11/2009, as amended by Act 16 of 27 December 2012.

Not applicable.

- b) Reserves from financial years in which the tax rules set out in Act 11/2009, as amended by Act 16 of 27 December 2012, have been applied.

Not applicable.

- c) Dividends distributed against profits each year in which the tax rules contained in this Act applied, with differentiation between the portion originating from income subject to tax at a rate of 0% or 19%, and the portion originating from income subject to tax at the general rate.

Not applicable.

- d) In the case of distribution against reserves, identifying the year from which the reserves applied originate, and whether they were taxed at 0%, 19% or the general rate.

Not applicable.

- e) Date of the agreement for the distribution of dividends referred to in c) and d) above.

Not applicable.

ÁRIMA REAL ESTATE SOCIMI, S.A.

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**

- f) Date of acquisition of properties intended for rent and interests in the share capital of companies referred to in Article 2.1 of this Act.

	Property	Localization	Date acquired
1	María de Molina	Calle María de Molina, on the corner with Calle Príncipe de Vergara, Madrid	December 21, 2018
2	Paseo de la Habana	The junction of Paseo de la Habana and Avenida de Alfonso XIII, Madrid	December 21, 2018
3	Edificio América	Calle Josefa Valcárcel, 42, Madrid	January 29, 2019
4	Edificio Play	Vía de los Poblados, 3 -Parque Empresarial Cristalia, Edificio 4B, Madrid	January 29, 2019
5	María de Molina	Calle María de Molina, on the corner with Calle Príncipe de Vergara, Madrid	February 28, 2019
6	Nave Guadalix	Barranco Hondo, San Agustín de Guadalix	April 12, 2019
7	Ramírez de Arellano, 21	Calle Ramírez de Arellano, 21, Madrid	June 28, 2019
8	Vía de los Poblados	Vía de los Poblados, 7, Madrid	December 30, 2019

- g) Identification of assets taken into account when calculating the 80% referred to in Article 3.1 of this Act.

The assets taken into account when calculating the 80% referred to in Article 3.1 of the SOCIMI Act are the ones listed in the above table.

- h) Reserves from years in which the tax system provided for under the Act was applicable and which have been made use of (not for distribution or offsetting losses) during the tax period, with identification of the year from which the reserves originate.

Not applicable.

ÁRIMA REAL ESTATE SOCIMI, S.A.

**NOTES TO THE ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019
(Thousand euros)**

23. AUDITOR'S FEES

The fees accrued during the financial years ended on 31 December 2019 and 31 December 2018 by PricewaterhouseCoopers Auditores, S.L. and its network are as follows:

	Thousand euros	
	2019	2018
Services related to account auditing	52	33
Other verification works provided by the auditor	155	36
Other services provided by the auditor	2	-
Other services provided by entities within the network of the auditor	95	-
	304	69

24. INFORMATION ON GREENHOUSE GAS EMISSION RIGHTS

The Company's operations do not have negative environmental impacts during the financial years ended on 31 December 2019 and 31 December 2018 and therefore it does not incur significant costs or make significant investments the aim of which is to mitigate possible impacts.

25. ENVIRONMENTAL INFORMATION

The Company's operations do not have negative environmental impacts and therefore it does not incur significant costs or make significant investments the aim of which is to mitigate possible impacts.

26. SUBSEQUENT EVENTS

The Company has signed a financing agreement (mortgage) for an amount of 9.4 million euros on 30 January 2020 on the logistics warehouse of San Agustín de Guadalix.

There have been no other relevant subsequent events that have not been included in these annual accounts.



ÁRIMA REAL ESTATE SOCIMI, S.A.

Appendix I – Detail of positions and ownership interests held by the Directors in companies with a similar company object.

Luis Alfonso López de Herrera-Oria

Company	Position or duties	% Share
Rodex Asset Management, S.L.	Sole Director	100.00
Agrodesarrollos Integrados, S. L.	Sole Director	100.00
Inmodesarrollos Integrados, S.L.	Representative of the Sole Director	100.00
Puerto Feliz, S.A.	Representative of the Sole Director	78.88
Heracles Proyectos y Promociones Inmobiliarias, S.A.	Sole Director	100.00

Luis María Arredondo Malo

Company	Position or duties	% Share
Nieve de Andalucía, S.A.	Chairman	80.69
Castellar Ingenieros, S.L.	Attorney	99.99
Olivarera del Condado	-	18.01
Aljaral, S.A.	Chairman	80.69
Rústica de Consolación	Chairman	20.27



ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

PREPARATION OF THE ANNUAL ACCOUNTS AND THE MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2019

The Board of Directors of the company Árima Real Estate SOCIMI, S.A. on 19 February 2020, and in compliance with the requirements established in article 253 of LSC and article 37 of Commercial Code proceeds to prepare the Annual Accounts and the Management Report for the financial year ended on 31 December 2019, which are constituted by the attached documents that precede this writing.

D. Luis María Arredondo Malo
President

D. David Jiménez-Blanco Carrillo de Albornoz
Board Member

D. Luis Alfonso López de Herrera-Oria
Vice-president and CEO

D. Cato Henning Stonex
Board Member

D. Fernando Bautista Sagüés
Board Member

D. Stanislas Henry
Board Member

Notice extended by the Secretary to the Board, placing on record that, following the preparation by the members of the Board of Directors of Árima Real Estate SOCIMI, S.A. of the Annual Accounts and the Management Report for the financial year ended on 31 December 2019 in the meeting held on 19 February 2020, all Directors have signed this document and stamped their signature on this last page, to which I bear witness, in Madrid, on 19 February 2020. I also certify that these Consolidated Annual Accounts are the same as those approved by that Board of Directors, and therefore I sign all pages.

D. Iván Azinovic Gamo

For the purposes of Article 8.1(b) of Real Decreto 1362/2007 of 19 October, the members of the Board of Directors of Arima Real Estate SOCIMI, S.A.

State:

That, as far as their knowledge reach, the Annual Accounts of Árima Real Estate SOCIMI, S.A. (balance sheet, income statement, statement of changes in equity, statement of cash flows and notes to the annual accounts) for the financial year ended on 31 December 2019, prepared for the Board of Directors in the meeting held on 19 February 2020, developed in accordance with the accounting principles that are applicable, they offer the faithful image of the equity, financial situation and the results of Árima Real Estate SOCIMI, S.A.

They also state that the Management Report supplementing the Annual Accounts includes a faithful analysis of the evolution, business results and position of Árima Real Estate SOCIMI, S.A., as well as the description of the major risks and uncertainties it faces.

Madrid, 19 February 2020.

Mr. Luis María Arredondo Malo
President

Mr. David Jiménez-Blanco Carrillo de Albornoz
Board Member

Mr. Luis Alfonso López de Herrera-Oria
Vice-president and CEO

Mr. Cato Henning Stonex
Board Member

Mr. Fernando Bautista Sagüés
Board Member

Mr. Stanislas Henry
Board Member

ÁRIMA REAL ESTATE SOCIMI, S.A.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

1. ORGANISATIONAL STRUCTURE AND OPERATION

ÁrIMA Real Estate SOCIMI, S.A. (ÁrIMA or the Company) was incorporated in Spain on 13 June 2018 as ÁrIMA Real Estate, S.L., in accordance with the Spanish Capital Companies Act, through the issue of 300 registered shares, each with a par value of 10 euros. Subsequently, on 25 July 2018 the Company was transformed into a public limited company and increased its share capital with the issue of 6,000 new shares, each with a par value of 10 euros.

On 27 September 2018, the Company notified the Tax Agency that it opted to operate under the rules governing Spanish Real Estate Investment Trusts (SOCIMIs).

On 1 October 2018, a General Shareholders' Meeting was held, through which a capital increase was decided with the waiver of the pre-emptive subscription right of the shareholders in an offer to subscribe to shares of the Company. Subsequently, on 23 October 2018, ÁrIMA was admitted for trading on the Stock Market through a share capital increase of €100M, with the issue of 10 million ordinary shares, each with a par value of 10 euros.

In 2019, at its session of 21 March, the General Shareholders' Meeting approved a further share capital increase with a waiver of preferential subscription rights, delegating the necessary powers to implement this increase to the Board of Directors. This increase was approved by the CNMV on 8 April 2019, and it was put into effect by means of the issue and placement in circulation of 4 million new ordinary shares, each with a par value of 10 euros, thus resulting in an increase of €40M in the Company's share capital.

During the last quarter of 2019, within a new share capital increase, the Company signed a subscription agreement with Ivanhoé Cambridge Holdings UK Ltd on 1 November 2019, under which this company undertook to subscribe and pay up new shares for a total value of €60M at a maximum issue price of €10.40 per share. At its session of 5 November 2019, the General Shareholders' Meeting approved this new share capital increase, with a waiver of preferential subscription rights, delegating the necessary powers to implement this increase to the Board of Directors. This increase was approved by the CNMV on 15 November 2019, and it was put into effect by means of the issue and placement in circulation of 14,423,076 new shares, each with a par value of 10 euros plus an issue premium of €0.40, thus resulting in a share capital increase plus issue premium amounting to €150M.

ÁrIMA is a company that was incorporated without assets - "blind pool" - in order to take advantage of the opportunities of the Spanish real estate sector. On 31 December 2018, just two months after admission for trading on the Stock Market, the Company invested €110M, debuting in the market with the acquisition and investment commitment of four prime office assets located in the most consolidated areas of Madrid.

During the 2019 financial year, the Company formalized the acquisition commitments it had acquired at the end of the previous year and made four additional investments in the amount of €98M. In line with the Company's strategy, these are three prime office properties located in one of Madrid's most consolidated business districts, and a logistics warehouse located in San Agustín de Guadalix, in Tier II of Madrid's logistics market, an excellent location for distribution throughout Spain.

Following these acquisitions, the Company's portfolio totals more than 75,000 sqm of gross lettable area and more than 770 parking spaces. The properties are in line with the listed company's investment strategy: they form a balanced portfolio of rented offices that offer considerable value uplift potential for the SOCIMI's shareholders.

ÁrIMA's business strategy is focused on investment in high quality rental assets with strong growth potential. Its commercial policy is mainly focused on operating offices in the Madrid and Barcelona business districts

ÁRIMA REAL ESTATE SOCIMI, S.A.

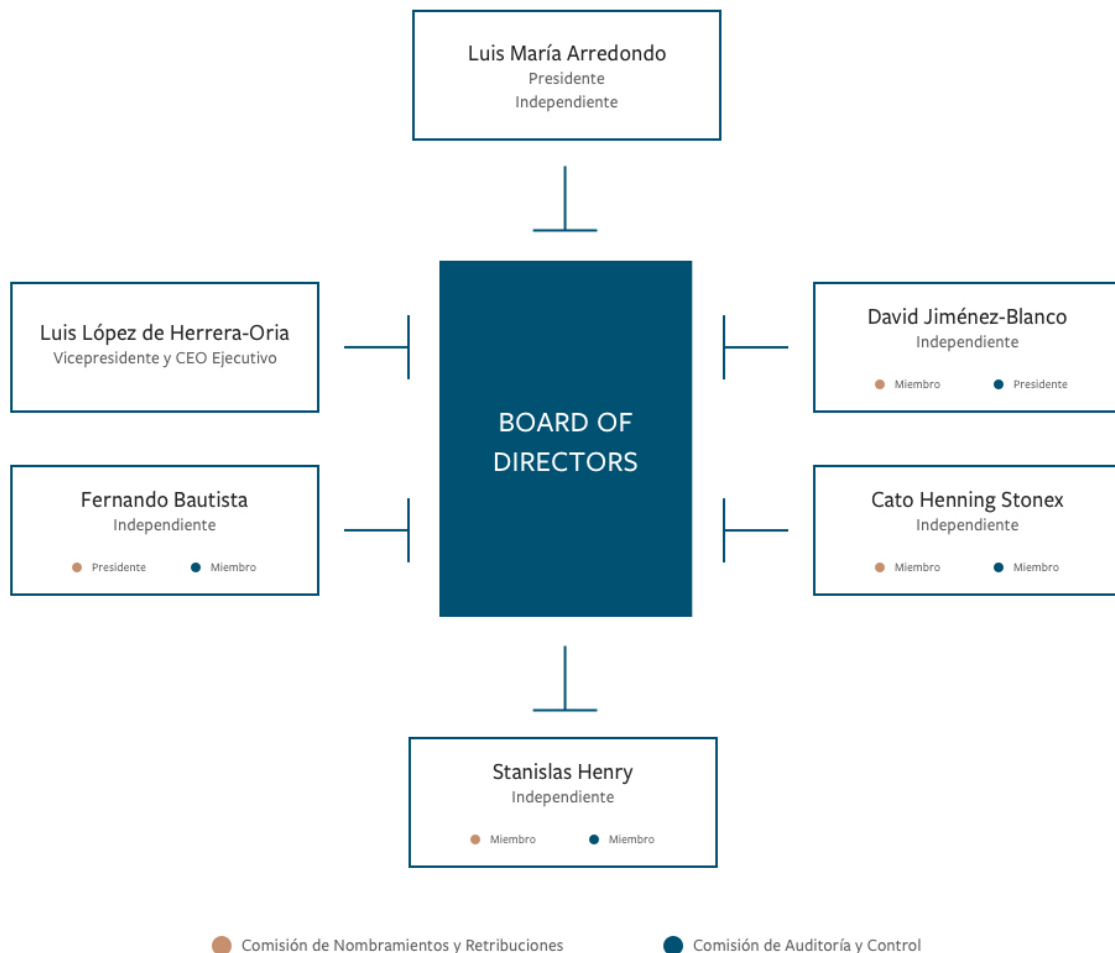
MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

and in other consolidated districts outside the city centre, logistics properties in Spain’s most important distribution hubs and, to a lesser extent, other commercial properties.

The parent Company’s Board of Directors conducts its business in accordance with the rules of good corporate governance, which are set out primarily in the Company’s Bylaws, the Rules of the General Meeting of Shareholders and the Board of Directors’ Regulations. It is also fully committed to compliance with the recommendations of the Good Governance Code.

The Board of Directors of the parent Company is the oversight and control body for the Company's activity, with competence over matters such as the approval of the Company’s general policies and strategies, corporate governance and corporate social responsibility policy, risk control and management policy and compliance with the requirements necessary for maintaining the status of a SOCIMI.

The Board of Directors has two basic committees: an Audit and Control Committee and an Appointments and Remuneration Committee. Their essential function is to support the Board of Directors in its duties of supervision and control of the Company’s ordinary management.



ÁRIMA REAL ESTATE SOCIMI, S.A.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

Experienced board of directors, with proven Real Estate, financial and legal capabilities

Majority independent board

Audit and control of Appointments and Remuneration Committees

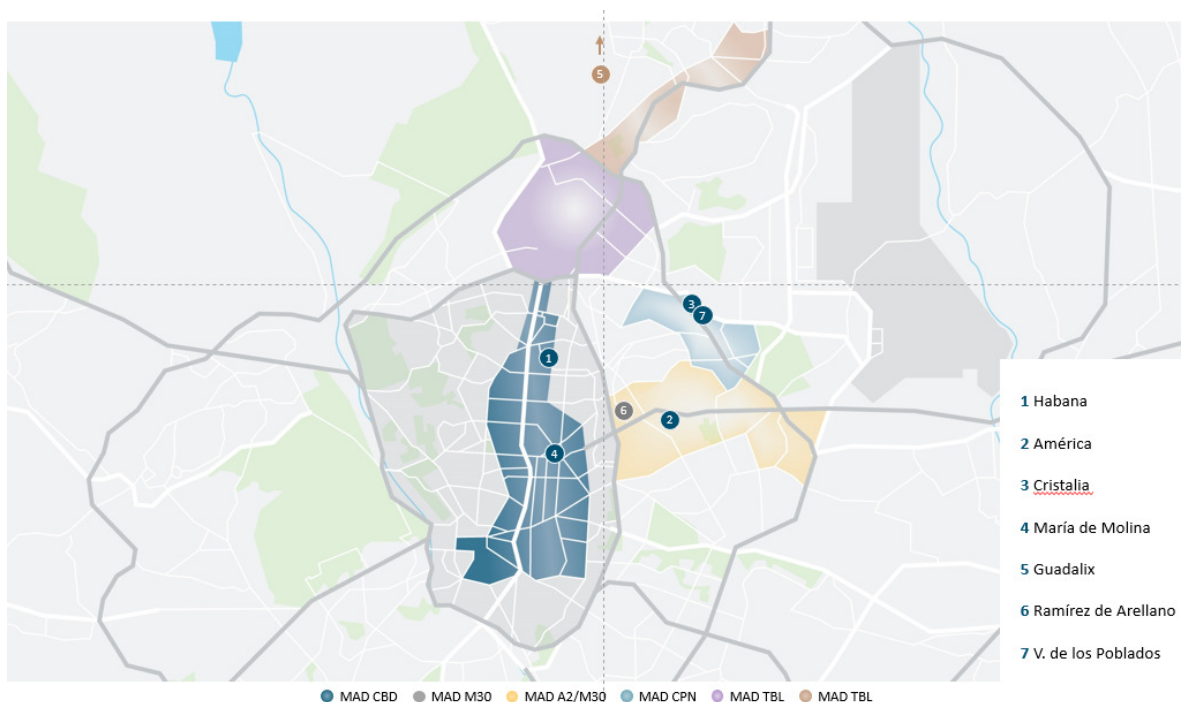
The Company’s shareholders include large international and domestic funds that are very interested in the opportunities offered by the Spanish real estate market and in the ability of the management team to maximize and optimize the portfolio's performance and value.

2. BUSINESS PERFORMANCE AND INCOME

Since it was listed on the stock market in October 2018, the Company has engaged in several transactions for the acquisition of real estate assets which have led to positive consolidated earnings amounting to 15,389 thousand euros in 2019 (2018: 1,124 thousand euros).

The investments made by the Company have produced a very balanced portfolio with excellent indicators such as the internal rate of return and the initial return on acquisition cost, all of which is in line with the undertakings made by the Company and detailed in its IPO Prospectus and its Share Capital Increase Prospectuses.

The investments made are in line with a disciplined strategy designed to seek products with great potential for generating value in well-established areas of Madrid’s metropolitan and border areas, as shown on the following map:



ÁRIMA REAL ESTATE SOCIMI, S.A.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

The properties that currently form part of the Company's portfolio are the following:

Habana

					
TYPE	LOCATION	GLA	PARKING SPACES	PRICE GLA	PRICE PARKING/SPACE
Offices	MAD CBD	4,200 m ²	65	€4,017/m ²	€25,000/p.s.



María de Molina, 39

					
TYPE	LOCATION	GLA	PARKING SPACES	PRICE GLA	PRICE PARKING/SPACE
Offices	CBD	3,897.20 m ²	24	€5,737/m ²	€55,000/p.s.



ÁRIMA REAL ESTATE SOCIMI, S.A.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

Josefa Valcárcel 42


TYPE
Offices


LOCATION
MAD A2/M30


GLA
9,272 m²


PARKING SPACES
193


PRICE GLA
€2,264/m²


PRICE PARKING/SPACE
€15,000/p.s.



Edificio Play


TYPE
Offices


LOCATION
MAD A2/CN


GLA
10,928m²


PARKING SPACES
202


PRICE GLA
€3,222/m²


PRICE PARKING/SPACE
€20,000/p.s.



ÁRIMA REAL ESTATE SOCIMI, S.A.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

Guadalix

					
TYPE Logistics	LOCATION MAD S. Agustín de Guadalix	GLA 25,694 m ²	PARKING SPACES 177	PRICE GLA €638/m ²	PRICE PARKING/SPACE €0/p.s.



Ramírez de Arellano 21

					
TYPE Offices	LOCATION MAD M30-A2	GLA 6,759 m ²	PARKING SPACES 110	PRICE GLA €4,233/m ²	PRICE PARKING/SPACE €35,000/p.s.



ÁRIMA REAL ESTATE SOCIMI, S.A.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

Vía de los Poblados 7


TYPE
Offices


LOCATION
MAD A2/CN


GLA
14,651 m²


PARKING SPACES
228


PRICE GLA
€2,265/m²


PRICE PARKING/SPACE
€20,000/p.s.

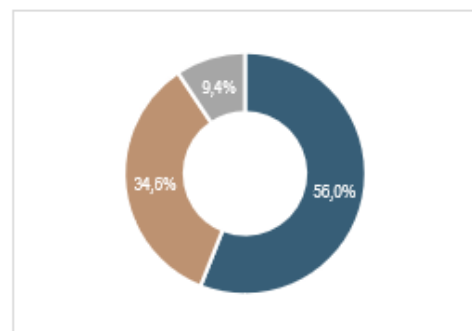


The “net turnover figure” from lease of the acquired real estate properties amounted to 5,740 thousand euros in 2019 (2018: 12 thousand euros). EBITDA (earnings before interest, taxes, depreciation and amortization) amounted to 16,144 thousand euros (2018: 1,126 thousand euros).

The market value of the Company’s assets at 31 December 2019 amounted to 221,650 thousand euros (2018: 39,975 thousand euros), an increase of 16% on the purchase price.

The following chart shows a breakdown of the objective value creation in the portfolio, taking account of the type of management and strategy applied for each of the properties (the marketing of empty spaces, the repositioning and improvement of properties acquired or the full-scale refurbishment of assets) after completing a detailed analysis of the market and the properties themselves.

Active Management	GAV (€m)	GAV (%)
Repositioning & Improvement	124,2	56,0%
Re-gearing & Re-leasing	76,8	34,6%
Leasing vacant	20,8	9,4%
Total	221,7	100,0%



ÁRIMA REAL ESTATE SOCIMI, S.A.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

3. EPRA INFORMATION

The following table shows the Company's NAV, defined in line with the European Public Real Estate Association (EPRA) recommended best practices:

EPRA Net Asset Value (NAV)

	Thousand euros	
	31/12/2019	31/12/2018
NAV	299,778	97,088
Effect of exercise of options, convertibles and other equity interests	-	-
Diluted NAV	299,778	97,088
Excludes:		
Fair value of financial instruments	(735)	-
EPRA NAV	300,513	97,088
No. of shares at end of period (net of treasury shares)	28,373,534	9,948,170
EPRA NAV per share (euros)	10.6	9.8

4. PERFORMANCE OF THE COMPANY'S SHARES

The share price was listed at €11.30 on 31 December 2019. The share price was listed at €9 on 31 December 2018.

5. TREASURY SHARES

Movements in treasury shares over the year have been as follows:

	31 December 2019		31 December 2018	
	Number of treasury shares	Thousands euros	Number of treasury shares	Thousand euros
Opening balance	58,130	546	-	-
Increases / Purchases	138,340	1,487	60,202	555
Reductions	(140,628)	(1,408)	(2,072)	(9)
Closing balance	55,842	625	58,130	546

Treasury shares held by the parent Company on 31 December 2019 accounted for 0.20% of the parent Company's share capital and totalled 55,842 shares (on 31 December 2018 it accounted for 0.58%, amounting to 58,130 shares). The average cost of treasury shares was €11.00 per share in 2019 (€9.40 per share in 2018).

These shares are registered, thus reducing the value of the Company equity on 31 December 2019 in the amount of 625 thousand euros (546 thousand euros on 31 December 2018).

The parent Company has complied with its obligations under Article 509 of the Spanish Capital Companies Act, which establishes that the par value of acquired shares that are listed on official secondary markets, added to the value of those that are already held by the parent Company and its subsidiaries, must not exceed 10% of the share capital. The subsidiary does not hold either treasury shares or shares in the parent Company.

ÁRIMA REAL ESTATE SOCIMI, S.A.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

6. DIVIDEND POLICY

SOCIMIs are governed by the special tax rules established under Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs are governed. They are required to distribute the profits they obtain over the course of the year to their shareholders in the form of dividends, after complying with the relevant corporate obligations. Distribution must be approved within the six months following the year end, in the following way:

- a) 100% of the profits resulting from dividends or profit shares received from the companies referred to in Article 2.1 of this Act.
- b) At least 50% of the profits earned from the transfer of the property, shares or ownership interests referred to in Article 2.1. of the Act, where this occurs after the deadlines referred to in Article 3.3 of the Act have expired, when the property, shares or interests are used to comply with the Company's primary corporate purpose. The remainder of these profits must be reinvested in other property or investments related to the performance of this corporate purpose within three years of the transfer date. Otherwise, these profits must be distributed in full together with any profit earned, where applicable, in the year in which the reinvestment period expires. If the items in which the reinvestment has been made are transferred prior to the end of the holding period, profits must be distributed in full, together, where applicable, with the part of the profits attributable to the years in which the Company was not taxed under the special tax scheme provided for in the aforementioned Act.
- c) At least 80% of the remaining profits obtained.

The dividend must be paid within one month of the distribution agreement. When dividends are distributed with a charge to reserves originating from profits for a year in which the special tax rules were applied, the distribution must compulsorily be approved by means of the resolution referred to above.

The Company is required to allocate 10% of its profits for the year to the legal reserve until the balance held in this reserve amounts to 20% of its share capital. The balance of this reserve is not available for distribution to the shareholders until it exceeds the 20% limit. The articles of association of these companies may not establish any restricted reserve other than the foregoing.

The following table shows a reconciliation between the result under Spanish Gaap and the result under IFRS:

	Thousand euros	
	31/12/2019	31/12/2018
Result for the year - Spanish GAAP	(7,945)	(503)
Adjustments:		
(i) Amortization of investment properties	1,745	6
(ii) Changes in value of investment properties	21,589	1,621
Result for the year - IFRS	15,389	1,124

ÁRIMA REAL ESTATE SOCIMI, S.A.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

7. RISK MANAGEMENT

Árima has established a risk control system that covers its activity and is appropriate to its risk profile. Risk management policies are monitored by the parent Company's Board of Directors. The main risk to achieve the Company's objectives is compliance with the regulatory requirements necessary to maintain its status as SOCIMI. The risk monitoring system also includes the management of financial risk. Note 3 of the Notes to the consolidated annual accounts gives details of the Company's risk management activities.

8. DEFERRED PAYMENTS TO SUPPLIERS

The following table shows a breakdown of the payments due to commercial operations completed during the year and that remained pending at year end, with reference to the maximum payment deadlines provided under Act 15/2010 and subsequently modified under Act 31/2014:

	Financial year ending 31 December 2019	Financial year from 13 June to 31 December 2018
	Days	Days
Average supplier payment term	19	28
Ratio of transactions paid	19	32
Ratio of transactions that remain pending	28	22
	Amount	Amount
	(Thousand euros)	(Thousand euros)
Total payments made	12,186	325
Total payments pending	501	255

9. THE TEAM

The team of professionals who make up Árima is one of the Company's main strengths. Since its incorporation, it has selected the highly qualified personnel necessary to develop its strategies and achieve its objectives.

Árima Real Estate is an internally managed real estate investment company that integrates the management team into its organisational structure. This internal team works exclusively and full time for the Company and its shareholders. The team comprises specialist professionals with extensive experience and a proven track record in the real estate sector as well as a deep understanding of the market. This expert group of professionals is able to undertake highly complex investment operations over short periods of time and complete all aspects of the value creation process, from identification of the investment to the active management of the property and its potential turnaround.

The Company is supervised by a Board of Directors with a large majority of independent directors who have a combination of skills in the real estate, financial and legal sectors. The Board is advised by an Investment Committee, an Appointments and Remuneration Committee and an Audit and Control Committee that ensure compliance with the investment and profitability requirements established.

ÁRIMA REAL ESTATE SOCIMI, S.A.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

Árима has assembled a solid team of real estate professionals, whose members have more than 100 years of professional experience. The team works exclusively to the creation of value for the Company and its shareholders and to the satisfaction of its clients. Their specialist skills and existing contact network provide the management team with access to unique investment opportunities in the Spanish real estate market.

10. ALTERNATIVE PERFORMANCE MEASURES

On 5 October 2015, the European Securities and Markets Authority (ESMA) published a set of Guidelines (2015/1415) on Alternative Performance Measures (APM). Compliance with these guidelines is mandatory for all issuers whose securities are admitted for trading on a regulated market and who are required to publish regulatory information under Directive 2004/109/EC on transparency.

Árима's financial information contains figures and measures that have been prepared in accordance with the applicable accounting regulations, together with a further series of measures prepared in accordance with the reporting standards that the company has established and developed internally ("*Medidas Alternativas de Rendimiento – MAR*").

Alternative performance measures relating to the income statement

- EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization): this is an indicator that measures the Company's operating margin before interest, taxes, depreciation and amortization have been deducted. Given that this figure does not include financial and tax costs or the accounting costs that do not involve any cash outflows, it is used by the Management to assess results over the long term and allows these results to be compared with other companies in the real estate sector. See point 2 of this Consolidated Management Report.

Alternative performance measures relating to the balance sheet

- Gross Asset Value (GAV): this is the value of the portfolio according to its most recent external valuation by an independent expert. This figure is used to determine the value generated as a result of the Company's management of its asset portfolio. See Note 6 to these Consolidated Annual Accounts.

- Financial leveraging ratio: calculated as financial debt / (financial debt plus equity). This figure allows the Management to assess levels of borrowing at the Company, given that the Company's main capital management objectives are to ensure long- and short-term financial stability, the positive performance of Árима Real Estate SOCIMI, S.A.'s shares and the appropriate financing of investments. This ratio gives a result of 19.50% as of 31 December 2019 (as of 31 December 2018 the Company had no financial debt).

11. SUBSEQUENT EVENTS

The Company has signed a financing agreement (mortgage) for an amount of 9.4 million euros on 30 January 2020 on the logistics warehouse of San Agustín de Guadalix.

There have been no other relevant subsequent events that have not been included in these annual accounts.

12. PRINCIPAL RISKS AND UNCERTAINTY

The Company's business is subject to a range of risks that are inherent in the sector, such as changes to tax rules, developments in the real estate market, the search for further potential acquisitions in the Spanish prime assets market and the availability of financing and resources to undertake these acquisitions.

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The Company therefore undertakes its activities with close attention to risk management, with the aim of acquiring real estate investments that match its strategy and that will offer maximum value for shareholders in the medium and long term. The Company has investment resources that result from its cash flows, with the capacity to finance the assets that still require financing, thus allowing it to continue to pursue its investment strategy centred on real estate assets in Spain.

13. USE OF DERIVATIVES

The interest rate swap derivative (financial swap) allows to change a variable interest rate to a fixed interest rate in bank loans signed by the Company. The cashflow covered is the foreseen future payments of interests related to the financial debts. Changes in fair value of the interest rate swap are registered in “Hedging reserves” in equity. See Note 14 to these Consolidated Annual Accounts.

14. ANNUAL CORPORATE GOVERNANCE REPORT

The Annual Corporate Governance Report of Árima Real Estate SOCIMI, S.A. for the financial year 2019 has been attached to the Consolidated Management Report which is part of the Consolidated Annual Accounts of Árima Real Estate SOCIMI, S.A. and subsidiaries. Also, from the date of publication of these annual accounts, it is available on the website of the Spanish National Securities Market Commission (CNMV).