

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

Independent auditor's report,  
Consolidated Annual Accounts and  
Consolidated Management Report  
for the period 13 June 2018 to 31 December 2018



***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*

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#### *Opinion*

We have audited the consolidated annual accounts of Árima Real Estate SOCIMI, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet at 31 December 2018, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the period 13 June 2018 to 31 December 2018.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at 31 December 2018, as well as its financial performance and cash flows, all consolidated, for the the period 13 June 2018 to 31 December 2018, 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.

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#### *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.

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#### *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>Investment properties</i></p> <p>Investment properties make up 41% of the Group's assets. As described in note 2.6, 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 €1,621 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 €39,975 thousand at 31 December 2018.</p> <p>The Group recognises the value of investment properties 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 2.3 and 6 to the consolidated annual accounts.</p> <p>The 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 properties is considered a key audit matter.</p>	<p>For acquisitions of investment properties, we verified the key supporting documentation, such as sale-purchase agreements and public documents or other documents affecting price.</p> <p>Additionally, 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"> <li>- Verification of the competence, capacity and independence of the expert valuer.</li> <li>- Verification that the valuations were performed according to appropriate methodology.</li> <li>- Discussion of the principal key assumptions of the valuation through sundry meetings with the expert valuer.</li> <li>- 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.</li> <li>- Evaluation of consistency of the main assumptions used taking into account existing market conditions.</li> </ul> <p>Additionally, we assessed the sufficiency of the information disclosed in the consolidated annual accounts.</p> <p>As a result of the aforementioned tests, we identified no incidents.</p>

*Other information: Consolidated management report*

Other information comprises only the consolidated management report for period 13 June 2018 to 31 December 2018, 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 regarding the consolidated management report, in accordance with legislation governing the audit practice, which establishes two distinct levels in this regard:

- a) A specific level applicable to the consolidated statement of 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 consolidated management report that consists of evaluating and reporting on the consistency between that information and the consolidated annual accounts as a result of our knowledge of the Group 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 consolidated 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.

On the basis of the work performed, as described above, we have ascertained that the information mentioned in paragraph a) above has been provided in the consolidated management report and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the period 13 June 2018 to 31 December 2018, and its content and presentation are in accordance with the applicable regulations.

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### *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 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.

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### *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.



Árma Real Estate SOCIMI, S.A. and subsidiaries

## *Report on other legal and regulatory requirements*

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### *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 25 January 2019.

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### *Appointment period*

The General Shareholders' Meeting held on 18 October 2018 appointed us as auditors of the Group for a period of three years, as from the year ended 31 December 2018.

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### *Services provided*

Services provided to the Group for services other than the audit of the accounts are indicated in the note 20 of the notes to the consolidated annual accounts.

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PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by  
Rafael Pérez Guerra (20738)

25 January 2019



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## **ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES**

Consolidated annual accounts for the period 13 June 2018 to 31 December 2018 and Consolidated Management Report for 2018



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S.A. AND ITS SUBSIDIARIES FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018**

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**ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2018**  
**(Thousand euros)**

<b>ASSETS</b>	<b>Note</b>	<b>At 31 December 2018</b>
<b>NON-CURRENT ASSETS</b>		
<b>Intangible assets</b>	<b>5</b>	<b>63</b>
<b>Investment properties</b>	<b>6</b>	<b>39,975</b>
		<b>40,038</b>
<b>CURRENT ASSETS</b>		
<b>Trade and other receivables</b>	<b>8</b>	<b>369</b>
Trade receivables for sales and services		12
Other credits held with Public Authorities		357
<b>Prepayments for current assets</b>		<b>105</b>
<b>Cash and cash equivalents</b>	<b>9</b>	<b>57,970</b>
Cash		57,970
		<b>58,444</b>
		<b>98,482</b>

Notes 1 to 22 to the consolidated annual accounts form an integral part of the consolidated annual accounts at 31 December 2018.

**ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2018  
(Thousand euros)**

<b>EQUITY AND LIABILITIES</b>	<b>Note</b>	<b>At 31 December 2018</b>
<b>EQUITY</b>		
Share Capital	10	100,063
Reserves	11	(3,553)
Treasury shares	10	(546)
Profit/(loss) for the period	11	<u>1,124</u>
		<b>97,088</b>
<b>LIABILITIES</b>		
<b>Trade and other payables</b>	<b>12</b>	<b>1,394</b>
Other payables		764
Other debts with Public Authorities		<u>630</u>
		<b>1,394</b>
		<u><b>98,482</b></u>

Notes 1 to 22 to the consolidated annual accounts form an integral part of the consolidated annual accounts at 31 December 2018.

**ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES**

**CONSOLIDATED INCOME STATEMENT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018**  
**(Thousand euros)**

	Note	For the period 13 June 2018 to 31 December 2018
Services rendered	13	12
Changes in fair value of investment properties	6	1,621
Personnel expenses	13	(321)
Other operating expenses	13	(186)
Depreciation of property, plant and equipment	5	(2)
<b>RESULTS FROM OPERATING ACTIVITIES</b>		<b>1,124</b>
Financial income		-
Financial expenses		-
<b>FINANCIAL RESULT</b>		<b>-</b>
<b>PRE-TAX RESULT</b>		<b>1,124</b>
<b>Income tax</b>		<b>-</b>
<b>PROFIT FOR THE PERIOD</b>	<b>11</b>	<b>1,124</b>
 <b>EARNINGS PER SHARE ATTRIBUTABLE TO THE PARENT COMPANY'S OWNERS</b>		
<b>Basic and diluted earnings per share</b>	<b>10</b>	<b>0.33</b>

Notes 1 to 22 to the consolidated annual accounts form an integral part of the consolidated annual accounts at 31 December 2018.

**ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD 13**  
**JUNE 2018 TO 31 DECEMBER 2018**  
**(Thousand euros)**

	Note	Thousand euros 2018
<b>Profit for the period</b>	<b>13</b>	<b>1,124</b>
<b><u>Other comprehensive income:</u></b>		
<i>Items that may subsequently be reclassified to profit (loss)</i>		
Other profit (loss)		-
<i>Entries that will not be reclassified to profit (loss)</i>		
Share capital increase costs / IPO, net	11	<u>(3,553)</u>
<b>Other comprehensive income for the financial period, after tax</b>		<b><u>(2,429)</u></b>
<b>Total comprehensive income for the period</b>		<b><u>(2,429)</u></b>

Notes 1 to 22 to the consolidated annual accounts form an integral part of the consolidated annual accounts at 31 December 2018.

**ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018**

**(Thousand euros)**

	Share Capital	Reserves	Profit for the period	Treasury shares	TOTAL
<b>BALANCE AT June 30,2018</b>	-	-	-	-	-
Profit for the period	-	-	1,124	-	1,124
Other comprehensive income for the period	-	(3,553)	-	-	(3,553)
<b>Total comprehensive income for the period</b>	-	<b>(3,553)</b>	<b>1,124</b>	-	<b>2,429</b>
Share capital increase (Note 10)	100,063	-	-	-	100,063
Treasury shares transactions (Note 10)	-	-	-	(546)	(546)
<b>Total transactions with owners, recognised directly in equity</b>	<b>100,063</b>	-	-	<b>(546)</b>	<b>99,517</b>
<b>BALANCE AT December 31, 2018</b>	<b>100,063</b>	<b>(3,553)</b>	<b>1,124</b>	<b>(546)</b>	<b>97,088</b>

Notes 1 to 22 to the consolidated annual accounts form an integral part of the consolidated annual accounts at 31 December 2018.

**ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES**
**CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018**
**(Thousand euros)**

	Note	For the period 13 June 2018 to 31 December 2018
<b>A) CASH FLOW FROM OPERATING ACTIVITIES</b>		
Pre-tax result for the period		1,124
<b>Adjustments to profit/loss</b>		
Depreciation of property, plant and equipment	5	2
Changes in fair value of investment properties	6	(1,621)
<b>Changes in working capital</b>		
Debtors and other receivables	8	(369)
Other current assets		(105)
Creditors and other payables	12	690
Other non-current assets and liabilities		-
<b>Cash flow from operating activities</b>		<b>(279)</b>
<b>B) CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
<b>Payments on investments</b>		
Property, plant and equipment	5	(65)
Investment properties	6	(37,374)
<b>Cash flow from investment activities</b>		<b>(37,439)</b>
<b>C) CASH FLOW FROM FINANCING ACTIVITIES</b>		
<b>Receivables and payments on equity instruments</b>		
Issue of equity instruments	10	96,510
Acquisition of treasury shares	10	(555)
Disposal of treasury shares	10	9
<b>Receivables and payments on financial liabilities</b>		
Repayment of financial borrowings with group companies	18	(276)
<b>Cash flow from financing activities</b>		<b>95,688</b>
<b>NET INCREASE/REDUCTION IN CASH AND CASH EQUIVALENTS</b>		<b>57,970</b>
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of the period	9	57,970

Notes 1 to 22 to the consolidated annual accounts form an integral part of the consolidated annual accounts at 31 December 2018.

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

#### 1. General Information

ÁrIMA Real Estate SOCIMI, S.A. (hereinafter, the “Company”) was incorporated in Spain on 13 June 2018 under the Spanish Capital Companies. Its registered office is located at Calle Fernando El Santo 15 4ª planta ático, 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:

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018

(Thousand euros)

- i) 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.
- ii) 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.
- iii) 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 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.

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

The amounts contained in these consolidated annual accounts are expressed in thousand euros, unless otherwise stated.

#### b) Subsidiary companies

As at 31 December 2018 Árima Real Estate SOCIMI, S.A. is the Parent Company of a Group of companies which is comprised of the following subsidiaries:

Name	Address	Activity	Shareholding %
Árima Real Estate Investments, S.L.U.	Calle Fernando El Santo 15 4ª planta ático, 28010 Madrid	Real estate activity	100

Árima Real Estate Investments, S.L.U. was incorporated on 10 December 2018. This company is starting up its operations.



## **ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)**

#### **2. PRESENTATION BASIS OF THE CONSOLIDATED ANNUAL ACCOUNTS**

The main accounting policies adopted in the preparation of these consolidated annual accounts are described below. These policies have been applied consistently to all the periods shown, unless otherwise stated.

##### **2.1 Presentation basis**

These consolidated annual accounts are the first that Árima Real Estate SOCIMI, S.A. and subsidiaries (the Group) present under International Financial Reporting Standards adopted by the European Union (IFRS-EU) and have been prepared in accordance with IFRS 1 “First time adoption of IFRS”. These consolidated annual accounts were prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations adopted by the European Union (IFRS-EU), in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and Council and successive amendments.

The preparation of these consolidated annual accounts in accordance with IFRS-EU requires the use of certain critical accounting estimates. It also requires Management to exercise judgement in the process of applying the Group’s accounting policies. Note 2.3 explains the areas that require a higher level of judgement or complexity and the areas in which assumptions and estimates have a significant effect on the consolidated annual accounts.

These consolidated annual accounts have been prepared by the parent company’s Board of Directors on 23 January 2019.

##### **2.2 New IFRS-EU standards, amendments and IFRIC interpretations issued**

###### **2.2.1 New compulsory rules, amendments and interpretations that become applicable in calendar years following the year beginning 1 January 2018**

On the date of preparation of these consolidated annual accounts the following standards and interpretations had been published by the IASB but were not effective either because they took effect after the date of the consolidated annual accounts or because they have not yet been adopted by the European Union:

- IFRS 16 "Leases"
- IFRS 9 (amendment): “Prepayment features with negative compensation”.
- IFRIC 23 “Uncertainty over income tax treatments”

Although these standards are not in effect at 31 December 2018, the Group has assessed the impacts of their early application on the consolidated annual accounts and has concluded that they are not significant.

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

#### 2.2.2. Standards, amendments and interpretations of existing rules that cannot be adopted early or have not been adopted by the European Union.

On the date on which these consolidated annual accounts were prepared, the IASB and IFRS Interpretations Committee had published the standards, amendments and interpretations that are outlined below, and which are pending adoption by the European Union.

- IFRS 10 (Amendment) and IAS 8 (Amendment) “ Sale or contribution of assets between an investor and its associates or joint ventures”
- IAS 19 (amendment) - “Plan amendment, curtailment or settlement”
- IAS 28 (amendment) - ‘Long-term Interests in Associates and Joint Ventures’.
- IFRS 17 - Insurance contracts.
- Annual improvements to IFRS Cycle 2015 to 2017:
  - o IAS 12 - “Income Taxes”.
  - o IAS 23 - “Borrowing costs”
  - o IFRS 11 - “Joint Arrangements”
  - o IFRS 3 - “Business combinations”

The Group is in the analysis phase of the impacts that can be taken the consolidated annual accounts. If any of the above standards are adopted by the EU, the Group will apply them with the corresponding effects on the consolidated annual accounts.

#### 2.3 Use of estimates

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 Group makes estimates and judgements concerning the future. The resulting accounting estimates, by definition, will rarely match actual results. The adjustments that arise after estimates are regularised will be prospective. 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.

##### ▪ Fair value of investment properties

Twice a year, the Directors carry out an assessment of the fair value of each property, taking into account the latest independent valuations. The Directors 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 Group 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.

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

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.

#### ▪ Income Tax

The parent 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 Parent 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.

Notwithstanding the fact that the criteria for making estimates are based on reasonable assessments and objective methods of analysis, it is possible that events may arise in the future that make it necessary to modify such estimates (upwards or downwards) during future periods; the method applied, when necessary and pursuant to IAS 8, is to enter the amended estimate prospectively in the income statement.

## 2.4 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 question 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.

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

#### (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.

#### 2.5 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.

#### 2.6 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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### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

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.

#### 2.7 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. 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.

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

#### 2.8 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.

#### 2.9 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 the close of this year, the Group did not have any stock.

#### 2.10 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 and other receivables".

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, 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.

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### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

#### 2.11 Financial liabilities

##### Debts and payables

This category includes trade and non-trade payables. These third-party resources are classified as current liabilities unless the Group 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, including any related financing fees, 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 receivables that are due within less than one year and do not have a contractually agreed interest rate are valued at their par 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.

#### 2.12 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.

#### 2.13 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.

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.

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

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.

#### 2.14 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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### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

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.

#### 2.15 Leases

##### a) When the Group 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. As the rental contracts are for less than 12 months, 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 Group is the lessor

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

#### 2.16 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 July and June of the following year), the conditions established in the plan are met, with the exception of the first fiscal year, whose first term includes the incorporation of the Company until 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 is exceeded. This plan does not include any "catch-up" or "promote equalization" mechanism, meaning that this is the only percentage that will be applied when making this calculation.

This incentive accrues and is calculated annually (between July and June of the following year), and it is settled with an award of company shares. The team may not dispose of these shares for a period of one year following their handover for the first third accrued; for the second third, 18 months, and for the third third, 24 months.

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#### 2.17 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.

#### 2.18 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. When the value of a receivable is impaired, the Group reduces the book amount to its recoverable amount, which is calculated as the estimated future cash flow discounted at the original effective interest rate of the instrument, and the receivable is continuously updated as interest income.

#### 2.19 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:

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### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

- 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.

#### 2.20 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 Group's activities are exposed to various financial risks: market risk (interest rate risk), credit risk and liquidity risk. The Group'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 Group's Finance Department, which identifies, evaluates and hedges financial risks in accordance with the policies approved by the Board of Directors. 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.

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

#### 3.1 Financial risk management

##### a) Market risk

The Group's interest rate risk originates from its financial borrowings. Borrowings issued at floating rates expose the Group to interest rate risk on cash flow. The Group has no financial debts at 31 December 2018.

##### b) Credit risk

Credit risk is managed at Group level. The Group defines its policy for managing and analysing the credit risk of its new customers before offering them normal terms and conditions. Credit risk mainly arises from deposits made with the relevant organisations, financial derivatives and receivables for sales and services rendered, as well as sundry receivables.

The Group's credit risk controls set out the credit quality that must be displayed by customers, taking account of their financial situation, past experience and other factors. Individual credit limits are established on the basis of internal and external ratings, in accordance with the limits established by the Board of Directors. The use of credit limits is regularly reviewed.

The Group believes that it does not have any 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 holds cash and equivalents at credit in two entities with the best credit ratings.

##### c) Liquidity risk

Cash flow predictions are carried out by the Group's Finance Department. This Department monitors 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 does not breach its financial obligations.

The cash surplus maintained by the Group is deposited in current accounts that attract interest at a specific rate or in term deposits, with maturity dates or levels of liquidity that are sufficient to offer the appropriate flexibility in light of the forecasts mentioned above.

##### d) Tax risk

As mentioned in Note 1, the Parent Company has applied the special tax regime for Spanish Listed Real Estate Investment Trusts (SOCIMIs). Pursuant to the contents of Article 6 of Law 11 of 26 October 2009, as amended by SOCIMI Act 16 of 27 December 2012, companies that have applied this regime 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 and paid within one month of the date of the distribution agreement (Note 11).

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If the General Shareholders Meeting of such companies does not approve the dividend distribution proposed by the Board of Directors, calculated in accordance with the requirements of the said Act, they will be in breach of the Act and will therefore be taxed under the general tax rules, rather than the rules that apply to SOCIMIs.

#### 3.2 Capital management

The Group's main capital management objectives are to ensure long- and short-term financial stability, the positive performance of Árima Real Estate SOCIMI, S.A.'s shares, and the appropriate financing of investments.

#### 3.3 Estimation of fair value of financial instruments and investment property

In accordance with the new IFRS 13 rules, the level at which an asset or a liability is classified in its entirety (Level 1, Level 2 or Level 3) is determined on the basis of the relevant data used to enter it at its lowest value, within the fair value band. In the event that the input data used to measure the fair value of an asset or liability may be classified in two different levels, the fair value is classified in its entirety at the same level as the lowest value regarded as significant when calculating its value.

- Level 1: Quoted prices (non-adjusted) in active markets for identical assets and liabilities that are accessible to the company on the valuation date.
- Level 2: Inputs that differ from the quoted price included in Level 1, that are observable for the asset or liability, either directly or indirectly, using valuation techniques that use observable market data.
- Level 3: Input data that is not observable in the market for the asset or liability.

The following table shows the Group's financial assets and liabilities at fair value.

#### 31 December 2018

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Long-term financial investments</b>				
- Investment properties	-	39,975	-	39,975
<b>Total assets</b>	<b>-</b>	<b>39,975</b>	<b>-</b>	<b>39,975</b>

See Note 6, which reports on the fair value of the investment properties.

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### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

#### 3.4 Offsetting financial assets and liabilities

The Group's only financial assets and liabilities are, respectively, deposits made with official bodies and deposits to be returned to tenants. It is the Group's intention that if these amounts are repaid they will be settled on a gross basis, meaning they have not, therefore, been offset.

#### 4. FINANCIAL INFORMATION BY SEGMENT

The Investments Committee acting together with the Board of Directors represent the Group's highest decision-making authority. Management has defined operating segments, based on information which is reviewed by these bodies for the purposes of allocating resources and evaluating the Group's performance. Management identifies two reporting segments: offices and corporate

#### 31 December 2018

	Thousand euros		
	Offices	Corporate	Total
Rendering of services	12	-	12
Changes in fair value of investment properties	1,621	-	1,621
Operating Costs	-	(509)	(509)
Income from disposals	-	-	-
<b>Operating income</b>	<b>1,633</b>	<b>(509)</b>	<b>1,124</b>
Financial income	-	-	-
Financial expenses	-	-	-
<b>Financial result</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Pre-tax result</b>	<b>1,633</b>	<b>(509)</b>	<b>1,124</b>
Income tax	-	-	-
<b>Profit (loss) for the period</b>	<b>1,633</b>	<b>(509)</b>	<b>1,124</b>

The amounts provided to the Investments Committee and the Board of Directors in respect of total assets and liabilities are valued in accordance with the same criteria as those applied in the consolidated annual accounts. These assets and liabilities are assigned on the basis of segment activities.

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**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

	Thousand euros		
	Offices	Corporate	Total
<b>Non- current assets</b>			
Investments property	39,975	-	<b>39,975</b>
Other assets	-	63	<b>63</b>
<b>Current assets</b>	12	58,432	<b>58,444</b>
<b>Current liabilities</b>	974	420	<b>1,394</b>

**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	
	Furniture, Information technology and other equipment	Total
<b>Balance at 13 June 2018</b>	-	-
Cost	-	-
Accumulated depreciation	-	-
<b>Book value</b>	-	-
Items added	65	65
Allocation to depreciation	(2)	(2)
<b>Balance at 31 December 2018</b>	<b>63</b>	<b>63</b>
Cost	65	65
Accumulated depreciation	(2)	(2)
<b>Book value</b>	<b>63</b>	<b>63</b>

a) Losses due to impairment

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

a) Fully depreciated property, plant and equipment

No item had been fully depreciated property, plant and equipment at 31 December 2018.

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**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

**6. INVESTMENT PROPERTIES**

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

The following table contains a breakdown of the entries shown for investment properties and the movements in these figures:

	<u>Thousand euros</u>
	<u>Investment properties</u>
<b>Balance at 13 June 2018</b>	-
Acquisitions	32,079
Investment properties in progress	6,275
Profit / (loss) net of adjustments at fair value	1,621
<b>Balance at 31 December 2018</b>	<b>39,975</b>

During 2018 the Group formalised the acquisition of real estate assets comprising two offices for €31 million (not including acquisition costs), located in the very heart of Madrid's business area: calle María de Molina, on the corner with calle Príncipe de Vergara, and the junction of Paseo de la Habana and Avenida de Alfonso XIII.

Additionally, the Group has signed a binding commitment to acquire two office buildings located in well-established business areas in North East Madrid, for an aggregate amount of €63 million, comprising an overall gross leasable area of 20,200 m<sup>2</sup> and 395 parking spaces. In this connection, the Company has made a down payment of €6,275 thousand that is recognised under "Investment properties in progress" in the table above.



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**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
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a) Income and expenses on investment properties

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

	<u>Thousand euros</u>
	<u>2018</u>
Rental income (Note 13)	12
Expenses for the operations resulting from investment properties that generate rental income	-
Expenses for the operations resulting from investment properties that do not generate rental income	-
	<u>12</u>

b) Operating leases

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

	<u>Thousand euros</u>
	<u>31 December 2018</u>
Less than one year	407
Between one and five years	500
More than five years	-
	<u>907</u>

c) Insurance

The Group maintains a policy of taking out all the insurance policies necessary to cover any possible risk that might affect any aspect of its investment properties. The coverage in these policies is deemed to be sufficient.

d) Obligations

At the close of the financial year, the Group did not have any contractual obligations to acquire, construct or develop real estate holdings or to repair or maintain or take out any additional insurance over the information already included in this note.

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

#### e) Valuation process

The cost and fair value of the investment properties at 31 December 2018 are detailed below:

	<b>Thousand euros</b>	
	<b>31 December 2018</b>	
	<b>Net cost value</b>	<b>Fair value</b>
Investment properties	38,354	39,975

Their valuation was made using “market value” hypotheses, in accordance with the Property Appraisal and Valuation method and the Guidance Notes published by the Royal Institution of Chartered Surveyors of Great Britain (RICS), Valuation Standards, 8th edition. The market value of the Group's properties has been determined on the basis of a valuation carried out by independent expert valuers (CBRE Valuation Advisory, S.A.).

“Market Value” is defined as the estimated amount at which a property should exchange on the valuation date, between a willing seller and a willing buyer and after a reasonable sales marketing period, during which both parties have acted knowledgeably, prudently and without compulsion.

The valuation methodology adopted by the independent valuers in order to determine fair value was primarily the discounted cash flow method at 10 years and the income capitalisation method (reflecting net rent, capitalised expenses, etc.), in addition to verifying the information against comparables. The residual amount at the end of year 10 is calculated by applying a rate of return (“Exit yield” or “cap rate”) to projections for net income during year 11. Cash flows are discounted at an internal rate of return in order to give the current net value. This internal rate of return is adjusted to reflect the risk associated with the investment and the assumptions adopted. Key variables are therefore income, exit yield and internal rate of return.

The income capitalisation method consists of capitalising estimated net income from each property, based on the length of the lease and reversion. This involves the capitalisation of current income over the entire period, together with the valuation of probable subsequent rentals following rent reviews or the arrangement of new rentals in each of the forecast periods, always taking current value as a basis. The yield applied to the different income categories reflects all forecasts and risks associated with cash flows and the investment. Therefore, the key variables involved in the capitalisation method are the determination of net income, the period over which it is discounted, the approximate value at which it is realised at the end of each period and the target internal rate of return used to discount cash flows.

The estimated yields depend on the type and age of the properties and their location. The properties have been valued individually, via calculations based on the lease agreements in place at the end of the financial year and, if applicable, the forecast value based on current market rents for the different areas, as well as comparables and completed transactions.

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(Thousand euros)**

On the basis of the simulations performed, the recalculated impact that a variation of 0.25% in the yield on the investment properties acquired would have on the fair value of the property, would be as follows:

**31 December 2018**

Thousand euros		
THEORETICAL RESULT YIELD VARIANCE		
	(0,25%)	0,25%
Offices	35.350	32.150

YIELDS	PRIME	DECENTRALISED
Offices	3.75%	5.25%

DISCOUNT RATES	
Offices	6.50% - 7.50%

The effect of a 10% variation in the rental increases considered will have the following impact on the consolidated assets as regards of investment properties acquired:

	2018	
	Asset	Thousand euros
Increase of 10% in market rents	Offices	37,550
Decrease of 10% in market rents	Offices	29,850

The valuation of investment properties is classified under level 2, according to the definition in Note 3.3 above. The fair value of investment properties has been calculated by independent expert valuers using valuation techniques involving observable and available market data, based, to a lesser extent, on specific estimates by the organisations.

During the year ending on 31 December 2018, no transfers between levels occurred. The total fees, including the fee for this assignment, earned by CBRE Valuation Advisory S.A. (or other companies forming part of the same group of companies in Spain) from the Addressee (or other companies forming part of the same group of companies) are less than 5.0% of the total revenues of the company.

**ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018**

**(Thousand euros)**

**7. ANALYSIS OF FINANCIAL INSTRUMENTS**

**a) Analysis by category**

The book value of each of the categories of financial instruments is as follows:

	<b>Short-term financial assets</b>		
	<b>Fair value changes in other comprehensive income</b>	<b>Amortised Cost</b>	<b>Fair value changes in profit (loss) for the period</b>
	<b>31 December 2018</b>	<b>31 December 2018</b>	<b>31 December 2018</b>
Trade and other receivables (Note 8) and other assets	-	117	-
<b>Total financial assets</b>	<b>-</b>	<b>117</b>	<b>-</b>

	<b>Short-term financial liabilities</b>		
	<b>Bank loans and credits</b>	<b>Bonds and other negotiable securities</b>	<b>Derivatives Others</b>
	<b>31 December 2018</b>	<b>31 December 2018</b>	<b>31 December 2018</b>
Debts and payables (Note 12)	-	-	764
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>764</b>

**b) Analysis by maturity date**

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

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**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

At 31 December 2018

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

**8. LOANS AND RECEIVABLES**

	Thousand euros
	2018
<b>Short-term loans and receivables:</b>	
- Trade receivables for sales and services	12
- Other credits with Public Administration (Note 14)	357
	<b>369</b>

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

Of total current loans and receivables, at 31 December 2018 trade receivables amounting to €0 thousand had fallen due, of which €0 thousand had been provided for, pursuant to the trade receivable ageing policy in place and the Group's assessment. Additionally, €0 thousand was recognised in the income statement in respect of bad debt write-offs.

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**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

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

	<u>Thousand euros</u>
	<u>2018</u>
Up to 3 months	-
Between 3 and 6 months	-
More than 6 months	-
	<u>-</u>

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

Movements in the provision for insolvencies over the period were as follows:

	<u>Thousand euros</u>
	<u>2018</u>
Opening balance	-
Allocation	-
Reversion	-
Application	-
<b>Closing balance</b>	<u>-</u>

**9. CASH AND CASH EQUIVALENTS**

	<u>Thousand euros</u>
	<u>2018</u>
Cash and banks	57,970
	<u>57,970</u>

The current accounts accrue a market interest rate.

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 2018 the Company holds €433 thousand of total cash destined for the cash account under that contract.

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

#### 10. SHARE CAPITAL, TREASURY SHARES AND EARNINGS PER SHARE

##### a) Parent capital

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

On 25 July 2018 the parent company changed its legal form from that of a private limited company to a public limited company and increased capital by €60 thousand. 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 Parent company's issued capital.

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

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

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

	<u>Thousand euros</u>
	<u>31 December 2018</u>
Subscribed share capital	100,063
	<u>100,063</u>

At 31 December 2018 the Parent company's share capital amounts to €100,063 thousand and consists of 10,006,300 shares with a par value of €10 each. All shares are of the same class and are fully subscribed and paid in. All shares carry the same voting and dividend rights.

All the parent company's shares have been listed on the Spanish Continuous Trading Market since 23 October 2018.

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

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

Company	% voting rights allocated to shares	% voting rights held through financial instruments	Total %
Bank of Montreal	9.794	-	<b>9.794</b>
Héctor Colonques Moreno	4.997	-	<b>4.997</b>
Mistral Iberia Real Estate SOCIMI, S.A.	5.097	-	<b>5.097</b>
Morgan Stanley	9.976	-	<b>9.976</b>
Pelham Long/Short Small Cap Master Fund Ltd.	-	9.984	<b>9.984</b>
Ross Turner	-	9.984	<b>9.984</b>
Rodex Asset Management, S.L.	10,906	-	
UBS Group AG	8.560	-	<b>8.560</b>
<b>Total</b>	<b>49.33</b>	<b>19.968</b>	<b>69.298</b>

#### b) Treasury shares

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

	2018	
	Number of treasury shares	Thousand euros
Opening balance	-	-
Increases / Purchases	60,202	555
Reductions	(2,072)	(9)
Closing balance	<b>58,130</b>	<b>546</b>

On 1 October 2018 the Company's Universal General Shareholders' Meeting agreed to authorize, for a period of 5 years, the acquisition of a maximum number of treasury shares equal to 10% of the Company's share capital at a minimum price of 90% of the par value per share and a maximum price equivalent to the higher of the following: a) share price on the continuous trading market and b) net value of assets per share, according to the latest valuation of the Company performed by the Company. With respect to the forecast final use of these treasury shares, they may be sold or redeemed, used to achieve potentials, traded in corporate transactions or businesses or delivered to the Parent Company's employees or directors.

On 6 November 2018 Árima Real Estate SOCIMI, S.A. entered into a 12 month liquidity contract 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.



## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018

(Thousand euros)

The General Shareholders' Meeting of 26 September 2018 resolved to implement the manager incentive plan consisting of handing over shares or cash (on a discretionary basis) to Company management (Note 19).

The treasury shares held at 31 December 2018 represent 0.58% of the Company's share capital and amount to 58,130 shares. The average cost of treasury shares was €9.4 per share.

These shares are carried by reducing the Company's shareholders' funds at 31 December 2018 by €546 thousand.

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.

#### c) Earnings per share

Basic earnings per share are calculated by dividing the net profit (loss) attributable to the parent Company's owners for the period by the weighted average number of ordinary shares in circulation during the period, excluding the weighted average number of treasury shares held over the period.

Diluted earnings per share are calculated by dividing the net profit (loss) attributable to the parent Company's owners for the period by the weighted average number of ordinary shares in circulation during the period, plus the weighted average number of ordinary shares that would be issued during the conversion of all potentially dilutive instruments. As shown in Note 2.16, the Group currently has a remuneration (incentive) plan in force based on the award of a number of shares. The Group's directors have evaluated the dilutive effect of these plans and calculated the impact of earnings per share, concluding that this effect is not significant and therefore making no distinction between them.

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

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**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

Calculation of basic and diluted earnings

	<u>2018</u>
Net Profit (thousand euros)	1,124
Weighted average number of shares issued (shares)	3,470,518
Average number of treasury shares held in the Company's own portfolio (shares)	3,455,820
Basic profit per share (euro)	0.33
Diluted profit per share (euro)	<u>0.33</u>

With regard to the calculation of earnings per share, there were no transactions involving ordinary shares or potential ordinary shares between the closing date for the consolidated annual accounts and the preparation of the accounts statements that were not taken into account when calculating such earnings for the period ended 31 December 2018.

**11. RESERVES AND PROFIT (LOSS) FOR THE PERIOD**

Reserves

	<u>Thousand euros</u> <u>December 31,2018</u>
<b>Others reserves:</b>	
- Voluntary reserves	(3,553)
- Legal reserve	-
	<u>(3,553)</u>

The Group has recognised the expenses related to the share issue carried out during the period mainly in voluntary reserves (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 ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

Distribution of the profit and loss for the period

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>Thousand euros</u>
	<u>2018</u>
<b><u>Base for distribution</u></b>	
Profit and loss for the period	<u>(503)</u>
<b><u>Application</u></b>	
Legal reserve	-
Net losses obtained from prior financial periods	(503)
Dividends	-
	<u>(503)</u>

**12. DEBTS AND PAYABLES**

	<u>Thousand euros</u>
	<u>2018</u>
<b>Short-term debts and payables:</b>	
- Trade and other payables (Note 7)	764
- Public entities, other (Note 14)	630
	<u>1,394</u>

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

“Trade and other payables” mainly includes provisioned amounts relating to the Company’s investment property acquisitions.

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

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

#### Deferred payments to suppliers

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

	<u>2018</u>
	<u>Days</u>
Average payment period to suppliers	28
Ratio of transactions paid	32
Ratio of transactions pending payment	22
	<b>Amount</b>
	<b>(Thousand euros)</b>
Total payments made	<u>325</u>
Total payments pending	<u>255</u>

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.

### 3. INCOME AND EXPENSES

#### a) Net turnover figure

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

Market	<u>2018</u>	
	<u>Percentage</u>	<u>Thousand euro</u>
Domestic	<u>100%</u>	<u>12</u>
	<b>100%</b>	<b>12</b>

**ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

The net turnover figure breaks down as follows:

	<b>Thousand euro</b>
	<b>31.12.18</b>
<b>Revenue</b>	
Rents	12
Reinvoicing of costs	-
	<b>12</b>

The lease agreements signed by the companies in the Group contain the usual market terms and conditions with regard to duration, early termination and rent.

b) Personnel expenses

	<b>Thousand euro</b>
	<b>2018</b>
Wages, salaries and associated costs	(291)
Welfare charges:	
- Other welfare charges	(30)
	<b>(321)</b>

At 31 December 2018 there was no compensation for dismissals.

The average number of employees during the period, shown by professional grade, was as follows:

	<b>Total</b>
<b>Grade</b>	<b>2018</b>
Management / Directors	11
Employees with degrees	2
Administrative personnel and others	1
	<b>14</b>

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

In addition, at 31 December 2018, Group personnel details broken down by gender were as follows:

Grade			2018
	Men	Women	Total
Management / Directors	9	2	11
Employees with degrees	2	-	2
Administrative personnel and others	-	1	1
	<b>11</b>	<b>3</b>	<b>14</b>

The Group did not have any employees classified as 33% disabled or more (or the local equivalent) at 31 December 2018.

#### c) Other operating expenses

The following table gives a breakdown of the other operating expenses:

	Thousand euros
	2018
External services attributable directly to investment properties	-
Other external services	(186)
	<b>(186)</b>

## 14. INCOME TAX AND STATUS

Reconciliation of the net income and expenses figure for the period with the tax base for Income Tax is as follows:

	Thousand euros					
	Income statement			Income and expenses attributed directly to equity		
	Increases	Reductions	Total	Increases	Reductions	Total
<b>Income and expenses for the period</b>	1,124	-	<b>1,124</b>	-	(3,553)	<b>(3,553)</b>
Corporate Income Tax	-	-	-	-	-	-
Permanent differences:	-	-	-	-	-	-
Temporary differences:	-	-	-	-	-	-
- Originating during this period	-	(1,627)	<b>(1,627)</b>	-	-	-
<b>Taxable base</b>	1,124	(1,627)	<b>(503)</b>	-	(3,553)	<b>(3,553)</b>

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

Pursuant to Act 11 of 26 October 2009, with the amendments introduced by Act 16 of 27 December 2012, under which SOCIMIs are governed, the current Company Tax amount is calculated by applying a tax rate of 0% to the tax base. No deductions have been applied to tax payable in 2018. Withholdings and payments on account amount to €0 thousand.

#### 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 liabilities may arise in the event of a tax inspection. In any event, the Directors consider that such liabilities, if they arise, would not have a significant effect on the balance sheet and income statement for the period 13 June 2018 to 31 December 2018.

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

	<u>Thousand euros</u>
	<u>2018</u>
<b>Tax assets</b>	
Taxation authorities, receivables (VAT)	357
Withholdings and payments on account	-
	<u>357</u>
<b>Tax liabilities</b>	
Taxation authorities, withholding tax	(147)
Social Security, payables	(17)
Stamp duty on the acquisition of investment properties (Note 6)	(466)
	<u>(630)</u>

## 15. PROVISIONS AND CONTINGENCIES

#### Contingent liabilities

At 31 December 2018 the Group has no contingent liabilities.

## 16. COMMITMENTS

#### Operational leasing commitments

The Group leases its office premises under an irrevocable operating lease. This contract is for one year and may be renewed on maturity under market conditions for another additional year following the relevant notification by the Group.

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

Minimum total future payments for non-cancellable operational leases are as follows:

	Thousand euros
	<u>2018</u>
Less than one year	19
Between one and five years	-
More than five years	-
	<u>19</u>

#### 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 Group'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

In 2018 the remuneration of the members of the parent company's Board of Directors amounts to €103 thousand, of which the executive received a total of €62 thousand. The executive has entered into a senior management contract with the Parent Company.

The executive has accrued no amounts whatsoever under the share-based remuneration plan approved by the General Shareholders' Meeting of the Parent Company on 26 September 2018.

The other members of the parent company's Board of Directors have received no shares or stock options during the period. No options have been exercised options and nor are there any options not yet exercised.

The members of the parent company's Board of Directors have no pension funds and nor have any similar commitments been entered into with them.

During 2018 the Company paid €26 thousand in respect of civil liability insurance premiums covering the members of the Board of Directors in their positions as such.



## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

During the period there are no senior management personnel who are not members of the parent company's Board of Directors.

#### 18. OTHER RELATED-PARTY TRANSACTIONS

The transactions listed below were carried out with group companies and related parties:

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

(\*) It is considered group company from the date of the Company's incorporation from 13 June to 23 October, date on which the company's shares started trading on the continuous trading 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. These loans were repaid in November 2018.

At 31 December 2018 there are no balances with group companies and related parties.

#### 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.

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018

(Thousand euros)

- 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	Location	Acquisition date
1	María de Molina	Calle María de Molina on the corner with Calle Príncipe Vergara, Madrid	21 December 2018
2	Paseo de la Habana	The junction of Paseo de la Habana and Avenida de Alfonso XIII, Madrid	21 December 2018

- 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.

Transitional Provision One of the SOCIMI Law permits the application of the SOCIMI tax scheme, as laid down in Article 8 of that Law, even when the requirements contained therein are not met on the date of application provided that such requirements are met in the two years following the date on which it is decided to apply the scheme. In the opinion of the Company's Directors, these requirements will be fully met in terms of time and form.

- 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 by PricewaterhouseCoopers Auditores, S.L. during the financial year beginning on 13 June 2018 and ending on 31 December 2018 for auditing totalled €33 thousand, and fees for other assurance services totalled €36 thousand.

In addition, during 2018, no other services were provided by the network of PricewaterhouseCopers Auditores, S.L.

**ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO  
31 DECEMBER 2018  
(Thousand euros)**

**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**

From 31 December 2018 to the date on which these consolidated annual accounts were authorised for issue, there were no significant events warranting disclosure.

**ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES**

**APPENDIX I - Detail of positions and interests held by the Directors in companies having similar objects**

**Luis Alfonso López de Herrera-Oria**

<b>Company</b>	<b>Position or duties</b>	<b>% Share</b>
Rodex Asset Management, S.L.	Sole Director	100
Agrodesarrollos Integrados, S. L.	Sole Director	100
Inmodesarrollos Integrados, S.L.	Representative of the sole director	100
Puerto Feliz, S.A.	Representative of the sole director	78.88
Heracles Proyectos y Promociones Inmobiliarias, S.A.	Sole Director	100

**Luis María Arredondo Malo**

<b>Company</b>	<b>Position or duties</b>	<b>% Share</b>
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 Consolidación	Chairman	19.77

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### CONSOLIDATED MANAGEMENT REPORT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018

#### 1. ORGANISATION STRUCTURE AND OPERATION

Árma Real Estate Socimi, S.A. (Árma) was incorporated in Spain on 13 June 2018 in accordance with the Spanish Companies Act through the issue of 300 registered shares with a par value of €10 each. Subsequently, on 25 July 2018, the company was transformed into a public limited company and increased its capital through the issue of 6,000 shares with a par value of €10 each. On 1 October 2018, the General Shareholders' Meeting was held during which it was resolved to increase capital, the shareholders' waiving their preferential subscription right, through an offer for the subscription of the Company's shares.

On 27 September 2018, the Company informed the Tax Agency of its decision to apply the scheme for Listed Real Estate Investment Companies.

Árma was floated on 23 October 2018 following a capital increase of €100 million and the issue of 10 million ordinary shares with a par value of €10 each.

Árma is a newly-formed company, incorporated with no assets - "blind pool" - with the aim of leveraging opportunities in the Spanish real estate market. At 31 December 2018, in just two months since its flotation, the company has invested €110 million, its market debut starting with the acquisition and investment commitment of four *prime* office assets located in the most established areas of Madrid.

The assets have been acquired through three complex operations and together they amount to 27,000 leasable square meters and more than 460 parking spaces. The properties are true to the investment model of the listed company, and make up a balanced portfolio of offices for rent, offering significant potential for revaluation for the Socimi's shareholders.



Infographic of the preliminary project Árma Paseo de la Habana (Fenwick Iribarren Architects)

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

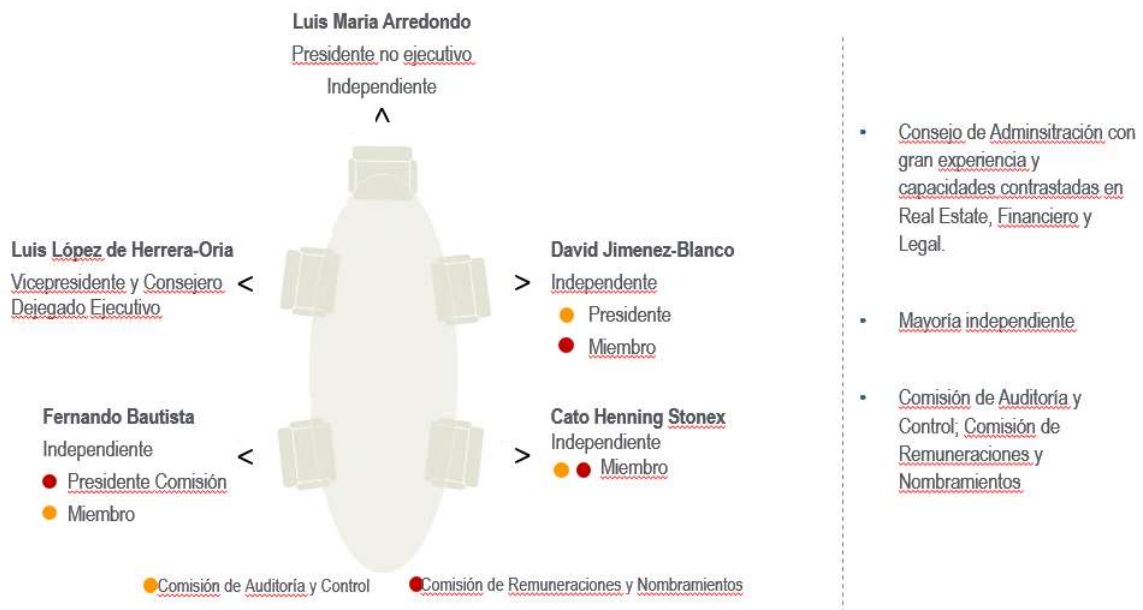
### CONSOLIDATED MANAGEMENT REPORT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018

Árима’s business strategy focuses on investments in up-market assets for rent with a major growth potential. Its commercial policy is mainly based on exploiting office premises in the financial centres of Madrid and Barcelona and in other consolidated locations outside the city centre, logistics properties in the most important distribution hubs in Spain and other tertiary assets to a lesser extent.

The Board of Directors of Socimi carries out its activity in accordance with corporate governance rules contained mainly in the Bylaws, in the General Shareholders’ Meeting Regulations and in the Board of Directors’ Regulations.

The Board of Directors is the body in charge of monitoring and controlling the company’s business, and has competence in all matters relating to approval of the Group’s general policies and strategies, its corporate governance and corporate social responsibility policy, and its policy on risk control and management and is responsible for ensuring compliance with the requirements to maintain the Group’s Socimi status.

The Board of Directors has two essential committees: an Audit and Control Committee and an Appointment and Remuneration Committee, the key role of both being to support the Board of Directors in its tasks of monitoring and overseeing the ordinary management of the Group.



The Company’s shareholders include large international and national funds that are very interested in the opportunities existing in the Spanish real estate market and in the management team’s ability to maximise and optimise the performance and value of the portfolio.

## 2. BUSINESS PERFORMANCE AND RESULTS

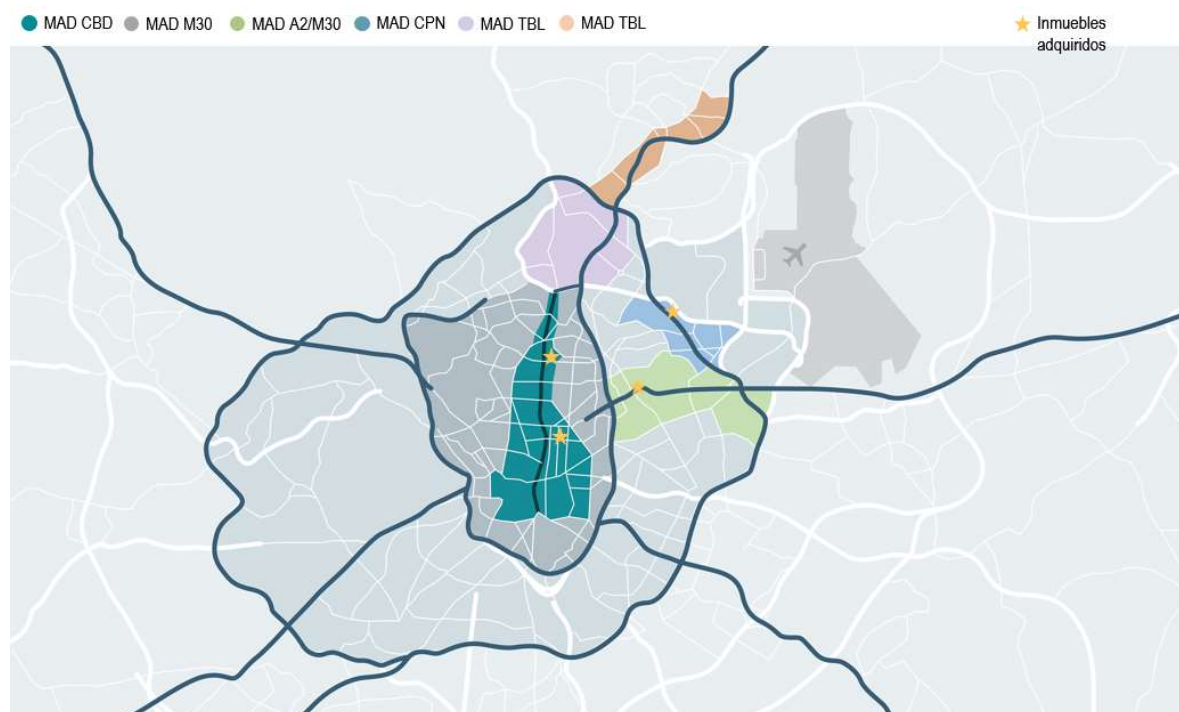
Since its flotation in October 2018, the Group has carried out several acquisitions of real estate assets, generating losses of €503 thousand in 2018 and profits of €1,124 thousand in 2018 on a consolidated level.

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### CONSOLIDATED MANAGEMENT REPORT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018

Investments by the Company result in a highly balanced portfolio with excellent indicators such as the internal rate of return and initial return on acquisition cost.

These investments respond to a disciplined strategy in which a product with great potential for generating value has been sought in well established locations in the Madrid metropolitan and surrounding areas, as shown in the following map:



The figure "Revenue" arising from the lease of real estate assets acquired has amounted to €12 thousand, bearing in mind that the first property was acquired just a few days before the year end.

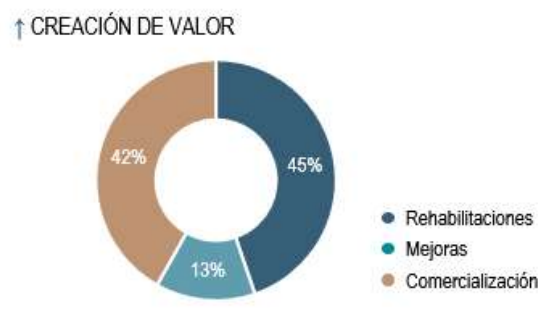
EBITDA in 2018 amounted to -€495 thousand (EBITDA: Earnings before interest, taxes, depreciation and amortization).

The market value of the company's assets at 31 December 2018 amounts to €39,975 thousand, which represents a 4.23% increase compared with the purchase price.

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### CONSOLIDATED MANAGEMENT REPORT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018

The following chart shows a breakdown of the value that will be created on the portfolio, taking into account the nature of the management that will be performed by the Árima team in each of the properties after a comprehensive analysis of the market and the property itself. Árima's strategic plan aims to generate shareholder value through the marketing of empty spaces, the refurbishment of the acquired properties or the comprehensive renovation of the assets:



### 3. STOCK DEVELOPMENT

The stock has practically not experienced any fluctuation during the year due to the recent entry to the stock markets in which it is listed.

### 4. TREASURY SHARES

Treasury shares at 31 December 2018 represent 0.58% of the Group's share capital and total 58,130 shares. The average cost of treasury shares was €9.3921 per share.

These shares are carried by reducing the Group's equity at 31 December 2018 by €546 thousand.

The parent company has complied with the requirements of Article 509 of the 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 treasury shares or shares in the Parent Company.

### 5. DIVIDEND POLICY

SOCIMIs are governed by the special tax scheme set out in Law 11/2009, of 26 October, as amended by Law 16/2012, of 27 December, governing listed real estate investment companies. They will be required to distribute in the form of dividends to shareholders, once the related corporate obligations have been met, the profit obtained in the year, the distribution of which must be approved within six months of each year end, as follows:

- a) All profits from dividends or shares in profits paid by the entities referred to in Article 2.1. of this Law.



## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### CONSOLIDATED MANAGEMENT REPORT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018

b) At least 50% of the profits arising from the transfer of property, shares or ownership interests referred to in Article 2.1. of this Law, carried out once the deadlines referred to in Article 3.3 of this Law have expired, which are used to achieve the company's principal object. The remainder of these profits should be reinvested in other property or investments related to the performance of this object within three years of the transfer date. Otherwise, these profits should be distributed in full together with any profit arising 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 should be distributed in full, together with the part of the profits, attributable to the years in which the Company was not taxed under the special tax scheme provided in said Law.

c) At least 80% of the remaining profits obtained.

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

When dividends are distributed with a charge to reserves out of profits for a year in which the special tax scheme had been applied, the distribution must be approved as set out above.

The Company is required to appropriate 10% of profits for the year to the legal reserve until the balance of this reserve amounts to 20% of share capital. This reserve is not available for distribution to shareholders until it exceeds this 20% limit. The Bylaws of these companies may not establish any other restricted reserve.

In this first year, the Company does not expect to distribute dividends as Spanish GAAP results do not meet the abovementioned requirements.

The table below sets out the reconciliation of IFRS results to *Spanish Gaap* results for a better understanding of results under both regulations:

<b>Reconciliation Spanish GAAP vs IFRS</b>	<b>(Thousand €)</b>
	<b>2018</b>
<b>Profit (loss) for the period under Spanish GAAP</b>	<b>(503)</b>
Adjustments:	
(i) Consolidation	0
(ii) Depreciation of investment properties	6
(iii) Changes in fair value of investment properties	1,621
<b>Profit (loss) for the period under IFRS</b>	<b>1,124</b>

## 6. RISK MANAGEMENT

Árma has a risk control system in place that covers its operations and is suited to its risk profile. Such policies are controlled by the Board of Directors.

The main risk regarding the attainment of the Company's objectives concerns compliance with the necessary legislative requirements to ensure it retains its SOCIMI status.

## ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES

### CONSOLIDATED MANAGEMENT REPORT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018

The risk control system also includes financial risk management. The policies to hedge against each type of risk are detailed in the accompanying notes.

Note 3 details the Group's risk management.

#### 7. AVERAGE SUPPLIER PAYMENT PERIOD

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

	<b>2018</b>
	<b>Days</b>
Average payment period to suppliers	28
Ratio of transactions paid	32
Ratio of transactions pending payment	22
	<b>Amount</b>
	<b>(Thousand euros)</b>
Total payments made	325
Total payments pending	255

#### 8. THE TEAM

The team of professionals who make up Árima is one of the Group's main strengths. Since its incorporation, the Group has hired the necessary personnel to develop its strategy and reach its objectives.

Árima Real Estate is a self-managed real estate investment group that includes the management team in its organisation structure.

This internal team works solely and is fully devoted to the company and its shareholders. The team is made up of specialist professionals with broad experience and a recognised trackrecord in the real estate sector and with a deep understanding of the market. This expert group of professionals is able to undertake highly complex investment operations in short periods of time and carry out in an integrated manner all value creation processes ranging from the identification of the investment to the active management and potential rotation of the property.

The company is overseen by a Board of Directors on which a majority of the directors are independent, grouping together skills in the real estate, financial and legal sector. This Board is advised by an Investment Committee, an Appointments and Remuneration Committee and an Audit and Control Committee that watches over compliance with the investment and profitability requirements established by the Company.

Árima has assembled a solid team of real estate professionals who together have more than 100 years' experience and are devoted exclusively to the creation of value for the company and shareholders, and to the satisfaction of their customers. Their specialization and existing contact network provides the management team with access to distinctive investment opportunities in the Spanish real estate market.



## **ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES**

### **CONSOLIDATED MANAGEMENT REPORT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018**

#### **9. R&D ACTIVITIES**

The Group has not carried out R&D activities during the period.

#### **10. ALTERNATIVE PERFORMANCE MEASURES**

Given the company's recent incorporation and the acquisition date of the investment property carried on the balance sheet at the year end, there are no alternative performance measure disclosure of which is significant. Nonetheless, the Company is considering implementing these measures in order to apply them in coming years.

#### **11. MAJOR EVENTS AFTER THE BALANCE SHEET DATE**

There have been no significant events after the balance sheet date.

**Appendix: Annual Corporate Governance Report.**

**ANNEX I**

**ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED  
COMPANIES**

**ISSUER IDENTIFICATION**

YEAR- END DATE

31/12/2018

Tax Identification No. [C.I.F.]  
A88130471

Company Name:

ÁRIMA REAL ESTATE SOCIMI, S.A.

Registered Office:

CALLE FERNANDO EL SANTO, 15 – 4º, 28010 MADRID

**ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES**

**A CAPITAL STRUCTURE**

A.1 Complete the table below with details of the share capital of the company:

Date of last change	Share capital (Euros)	Number of shares	Number of voting rights
23/10/2018	100.063.000	10.006.300	10.006.300

Remarks

Please state whether there are different classes of shares with different associated rights: :

Yes

No

Class	Number of shares	Par value	Number of votes	Associated rights

Remarks

A.2 Please provide details of the company's significant direct and indirect shareholders at year end, excluding any directors:

Name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
<b>BANK OF MONTREAL</b>	0,000	9,794	0,000	0,000	9,794
<b>COLONQUES MORENO, HECTOR</b>	0,000	4,997	0,000	0,000	4,997
<b>MISTRAL IBERIA REAL ESTATE SOCIMI S.A.</b>	5,097	0,000	0,000	0,000	5,097
<b>MORGAN STANLEY</b>	0,000	9,976	0,000	0,000	9,976
<b>PELHAM LONG/SHORT SMALL CAP MASTER FUND LTD</b>	0,000	0,000	9,984	0,000	9,984
<b>TURNER , ROSS</b>	0,000	0,000	9,984	0,000	9,984

Remarks

Breakdown of the indirect holding

Name of indirect shareholder	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights

Remarks

State the most significant shareholder structure changes during the year:

Name of the Shareholder	Date of the Operation	Description of the Operation
Mistral Iberia Real Estate Socimi S.A.	30/10/2018	Surpassed 3% of share capital
Morgan Stanley & Co. International plc	30/10/2018	Surpassed 10% of share capital
Morgan Stanley & Co. International plc	31/10/2018	Sold down below 10% of share capital
Mistral Iberia Real Estate Socimi S.A.	23/11/2018	Surpassed 5% of share capital

Most significant movements

A.3 In the following tables, list the members of the Board of Directors (hereinafter “directors”) with voting rights in the company:

Name of director	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights	% voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR LUIS ALFONSO LOPEZ DE HERRERA-ORIA	0,000	10,906	0,000	0,000	10,906	0,000	10,906

<b>Total percentage of voting rights held by the Board of Directors</b>	10,906
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Remarks

Breakdown of the indirect holding:

Name of director	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights	% voting rights that can be transmitted through financial instruments

Remarks

A.4 If applicable, state any family, commercial, contractual or corporate relationships that exist among significant shareholders to the extent that they are known to the company, unless they are insignificant or arise in the ordinary course of business, except those that are reported in Section A.6:

Name of related Party	Nature of relationship	Brief description

A.5 If applicable, state any commercial, contractual or corporate relationships that exist between significant shareholders and the company and/or group, unless they are insignificant or arise in the ordinary course of business:

Name of related party	Nature of relationship	Brief description

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

Explain, as the case may be, how the significant shareholders are represented. Specifically, state those directors appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders and/or companies in its group, specifying the nature of such relationships or ties. In particular, mention the existence, identity and post of directors, or their representatives, as the case may be, of the listed company, who are, in turn, members of the Board of Directors or their representatives of companies that hold significant shareholdings in the listed company or in group companies of these significant shareholders.

Name or company name of related director or representative	Name or company name of related significant shareholder	Company name of the group company of the significant shareholder	Description of relationship/post
MR LUIS ALFONSO LOPEZ DE HERRERA-ORIA		Rodex Asset Management, S.L.	Board Member

Remarks
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A.7 State whether the company has been notified of any shareholders' agreements that may affect it, in accordance with Articles 530 and 531 of the Ley de Sociedades de Capital ("Corporate Enterprises Act" or "LSC"). If so, describe these agreements and list the party shareholders:

Yes  No

Parties to the shareholders' agreement	Percentage of affected shares	Brief description of the agreement	Date of termination of agreement, if applicable

Remarks
---------



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

Yes  No

Parties to the concerted action	Percentage of affected shares	Brief description of the agreement	Date of termination of agreement, if applicable

Remarks
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If any of the aforementioned agreements or concerted actions have been modified or terminated during the year, please specify expressly:

--

A.8 State whether any individual or company exercises or may exercise control over the company in accordance with Article 5 of the Ley de Mercados de Valores (“Spanish Securities Market Act” or “LMV”). If so, please identify them:

Yes  No

Name of individual or company

Remarks

A.9 Complete the following table with details of the company’s treasury shares:

At the close of the year:

Number of direct shares	Number of indirect shares (*)	Total percentage of share capital
58,130	0	0.58

Remarks

(\*) through:

Name of direct shareholder	Number of direct shares
<b>Total:</b>	

<b>Remarks</b>

Explain any significant changes during the year:

<b>Explain significant changes</b>

A.10 Provide a detailed description of the conditions and terms of the authority given to the Board of Directors to issue, repurchase, or dispose of treasury shares.

At the Annual General Meeting held on 1 October 2018, the Company's shareholders authorised the buyback of own shares for a period of five years.
---

A.11 Estimated working capital:

	%
<b>Estimated working capital</b>	

<b>Remarks</b>

A.12 State whether there are any restrictions (article of associations, legislative or of any other nature) placed on the transfer of shares and/or any restrictions on voting rights. In particular, state the existence of any type of restriction that may inhibit a takeover attempt of the company through acquisition of its shares on the market, and those regimes for the prior authorisation or notification that may be applicable, under sector regulations, to acquisitions or transfers of the company's financial instruments.

Yes                       No

<b>Description of restrictions</b>

A.13 State if the shareholders have resolved at a meeting to adopt measures to neutralise a take-over bid pursuant to the provisions of Act 6/2007.

Yes                       No

If so, please explain the measures approved and the terms under which such limitations would cease to apply:

Explain the measures approved and the terms under which such limitations would cease to apply

A.14 State if the company has issued shares that are not traded on a regulated EU market.

Yes

No

If so, please list each type of share and the rights and obligations conferred on each.

List each type of share

**B GENERAL SHAREHOLDERS' MEETING**

B.1 State whether there are any differences between the quorum established by the LSC for General Shareholders' Meetings and those set by the company and if so, describe them in detail:

Yes

No

	% quorum different from that contained in Article 193 LSC for general matters	% quorum different from that contained in Article 194 LSC for special resolutions
Quorum required at 1st call		
Quorum required at 2nd call		

Description of differences

B.2 State whether there are any differences in the company's manner of adopting corporate resolutions and the manner for adopting corporate resolutions described by the LSC and, if so, explain:

Yes

No

Describe how it is different from that contained in the LSC.

	Qualified majority different from that established in Article 201.2 LSC for Article 194.1 LSC matters	Other matters requiring a qualified majority
% established by the company for adoption of resolutions		

Describe the differences

- B.3 State the rules for amending the company's Articles of Association. In particular, state the majorities required for amendment of the Articles of Association and any provisions in place to protect shareholders' rights in the event of amendments to the Articles of Association.

The bylaw-stipulated regime for carrying resolutions is that established in Spain's Corporate Enterprises Act.

- B.4 Give details of attendance at General Shareholders' Meetings held during the year of this report and the previous year:

Date of General Meeting	Attendance data				Total
	% physically present	% present by proxy	% distance voting		
			Electronic voting	Other	
26/09/2018	100	0	0	0	100
01/10/2018	100	0	0	0	100
18/10/2018	100	0	0	0	100
<b>Of which, free float:</b>					

<b>Remarks</b>

- 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

Points on agenda not approved	% votes against (*)

(\*) If the non-approval of the point is for a reason other than the votes against, this will be explained in the text part and "N/A" will be placed in the "% votes against" column.

- B.6 State if the Articles of Association contain any restrictions requiring a minimum number of shares to attend General Shareholders' Meetings, or on distance voting:

Yes

No

<b>Number of shares required to attend General Meetings</b>	
<b>Number of shares required for distance voting</b>	

<b>Remarks</b>

B.7 State whether it has been established that certain decisions other than those established by law exist that entail an acquisition, disposal or contribution to another company of essential assets or other similar corporate transactions that must be subject to the approval of the General Shareholders' Meeting.

Yes

No

<b>Explain the decisions that must be subject to the General Shareholders' Meeting, other than those established by law</b>

B.8 State the address and manner of access to the page on the company website where one may find information on corporate governance and other information regarding General Shareholders' Meetings that must be made available to shareholders through the company website.

www.arimainmo.com
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## C COMPANY ADMINISTRATIVE 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:

<b>Maximum number of directors</b>	7
<b>Minimum number of directors</b>	5
<b>Number of directors set by the general meeting</b>	5

<b>Remarks</b>

C.1.2 Please complete the following table on directors:

Name of director	Natural person representative	Director category	Position on the Board	Date first appointed to Board	Last re-election date	Method of selection to Board	Date of birth
MR LUIS ALFONSO LOPEZ DE HERRERAORIA		Executive	CEO	26/09/2018		SHAREHOLDERS MEETING	09/08/1956
MR LUIS MARIA ARREDONDO MALO		Independent	Chairman	26/09/2018		SHAREHOLDERS MEETING	24/01/1943
MR FERNANDO BAUTISTA SAGÜES		Independent	Board Member	26/09/2018		SHAREHOLDERS MEETING	29/10/1957
MR DAVID JIMENEZ BLANCO CARRILLO DE ALBORNOZ		Independent	Board Member	26/09/2018		SHAREHOLDERS MEETING	31/05/1963
MR CATO HENNING STONEX		Independent	Board Member	26/09/2018		SHAREHOLDERS MEETING	17/12/1963

<b>Total number of directors</b>	5
----------------------------------	---

State if any directors, whether through resignation, dismissal or any other reason, have left the Board during the period subject to this report:

Name of director	Director type at time of leaving	Date of last appointment	Date director left	Specialised committees of which he/she was a member	Indicate whether the director left before the end of the term

<b>Reason for leaving and other remarks</b>

C.1.3 Complete the following tables regarding the members of the Board and their categories:

**EXECUTIVE DIRECTORS**

Name or company name of director	Post in organisational chart of the company	Profile
MR LUIS ALFONSO LOPEZ DE HERRERA-ORIA	Consejero Delegado	<p>He was the CEO of Axiare from 2014 until 2018 and Managing Director of Prima from 1986 until 2002. During that time, Prima's shares were listed on the Madrid stock exchange (1988) and in 1990 it became the largest real estate company in Spain.</p> <p>In 2002, he founded Rodex with a small team from Prima</p> <p>In 2007, Rodex's core business was transferred to Alza Real Estate, SA, where he continued his career as CEO and independent advisor.</p> <p>Luis Alfonso López de Herrera-Oria has also acted as independent advisor to funds such as Falcon II Real Estate, set up by Morgan Stanley and CBRE, and iAdvise Partners, EAFI, SL. He holds a Bachelor's Degree in Economics and is a Fellow of the Royal Institution of Chartered Surveyors (FRICS).</p>

<b>Total number of executive directors</b>	1
<b>Percentage of Board</b>	20

<b>Remarks</b>

**PROPRIETARY DIRECTORS**

Name of director	Name or company name of the significant shareholder represented or that has proposed their appointment	Profile

<b>Total number of proprietary directors</b>	
<b>Percentage of the Board</b>	

<b>Remarks</b>

**INDEPENDENT DIRECTORS**

<b>Name of director</b>	<b>Profile</b>
MR LUIS MARIA ARREDONDO MALO	He is a civil engineer and holds the Medal for Professional Merit from the Chamber of Civil Engineers. He has also completed a senior management programme at IESE Business School (University of Navarra). Between 1969 and 1975 he worked as a project engineer at the Ministry of Public Works. From 1975 until 1978 he worked as General Manager of SACRA, a construction firm and subsidiary of Belgium's CFE. Between 1980 and 1988 he served as General Manager of Corporación Inmobiliaria Hispamer (CIH) and of Edificaciones de Madrid y Provincia, S.A. (EMPSA). From 1988 until 1994, he was CEO of Inmobiliaria Zabálburu, S.A., a company listed on the Spanish stock exchange. Under his management, that real estate company delivered fast and steady growth. Between 1994 and 2006, he worked as CEO of Inmobiliaria Urbis, a company he also chaired until 2006; during that period Urbis's market value reached €3.4 billion. From 2006 to 2013, he served as Chairman and CEO of Santander Global Property, Banco Santander's property arm, overseeing large-scale international projects in cities such as Madrid, Sao Paulo, Mexico City, Monterrey, Miami and Berlin. Between 2014 and 2018, he chaired the board of Axiare Patrimonio, one of Spain's largest listed REITs, which was recently acquired by Inmobiliaria Colonial.
MR FERNANDO BAUTISTA SAGÜES	He is one of the Company's non-executive independent directors. He holds a Bachelor's Degree in Law from Deusto University and in Economics and Business Administration from ICADE and has been a member of Madrid's Bar Association since 1981. Fernando Bautista Sagüés was named a partner at law firm J&A Garrigues in 1989 and, following that firm's merger with Arthur Andersen, became a partner



	<p>of Arthur Andersen Worldwide in 1996. Two years later, in 1998, he was made partner at Freshfields. Between 2014 and 2018, he served as a non-executive independent director of Axiare Patrimonio. Today, Mr. Fernando Bautista Sagüés works as an independent legal advisor specialised in matters of corporate and financial law; he is a director at Abante Asesores, S.A. and the secretary of Iberdrola, S.A.'s corporate social responsibility committee.</p>
<p>MR DAVID JIMENEZ BLANCO CARRILLO DE ALBORNOZ</p>	<p>He is one of the Company's non-executive independent directors. He holds a Bachelor's Degree in Economics and Business Administration from CUNEF. Mr. Jiménez-Blanco worked at Goldman Sachs International from 1995 until 2006, where he headed up the European Industrial Clients Group and the investment banking teams in Spain and Portugal. Between 2006 and 2009, Mr. Jiménez-Blanco chaired Merrill Lynch Capital Markets España, S.A, Sociedad de Valores in his capacity as Head of Investment Banking and Global Markets in Spain and Portugal and member of the EMEA Investment Banking Operations Committee. From 2010 until 2013, he was partner at BK Partners, a management company focused primarily on direct investment in Mexico, and between 2013 and 2016, he served as CFO of World Duty Free Group SpA, a company listed in Milan. Between 2014 and 2018, he served as a non-executive independent director of Axiare Patrimonio. Today, Mr. Jiménez-Blanco is the head of restructuring at Abengoa, S.A. and the Lead Independent Director of BME, S.A.</p>
<p>MR CATO HENNING STONEX</p>	<p>He is one of the Company's non-executive independent directors. He holds a Bachelor of Science (Economics) from the London School of Economics and Political Science. From 2006 until 2016, he served as Governor of the LSE and in 2016 he was named Emeritus Governor. Mr. Cato Henning Stonex directs LSE Ideas (a think-tank) and is also a member of the LSE's Investment Committee. He joined Morgan Grenfell &amp; Co in 1986, specifically the government bond trading desk. In 1989, he joined J. Rothschild Administration as a fund manager. He co-founded Taube Hodson Stonex in 1996. Taube</p>

	Hodson Stonex merged with Global Asset Management in 2016. In 2017, he founded Partners Investment Company, LLP. He was an independent non-executive director of Axiare Patrimonio between 2017 and 2018.
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<b>Number of independent directors</b>	4
<b>Percentage of the Board</b>	80

<b>Remarks</b>

State whether any independent director receives from the company or any company in the group any amount or benefit other than compensation as a director, or has or has had a business relationship with the company or any company in the group during the past year, whether in his or her own name or as a significant shareholder, director or senior executive of a company that has or has had such a relationship.

N/A.

In this case, include a statement by the Board explaining why it believes that the director in question can perform his or her duties as an independent director.

<b>Name of the director</b>	<b>Description of the relationship</b>	<b>Statement of the Board</b>

#### **OTHER EXTERNAL DIRECTORS**

Identify the other external directors and state the reasons why these directors are considered neither proprietary nor independent, and detail their ties with the company or its management or shareholders:

<b>Name of director</b>	<b>Reason</b>	<b>Company, director or shareholder to whom the director is related</b>	<b>Profile</b>

<b>Total number of other external directors</b>	
<b>Percentage of the Board</b>	

<b>Remarks</b>

State any changes in status that has occurred during the period for each director:

Name of director	Date of change	Previous Status	Current status

Remarks

C.1.4 Complete the following table with information relating to the number of female directors at the close of the past 4 years, as well as the category of each:

	Number of female directors				% of directors for each category			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
<b>Executive</b>	0	0	0	0	0	0	0	0
<b>Proprietary</b>	0	0	0	0	0	0	0	0
<b>Independent</b>	0	0	0	0	0	0	0	0
<b>Other external</b>	0	0	0	0	0	0	0	0
<b>Total</b>	0	0	0	0	0	0	0	0

Remarks

C.1.5 State whether the company has diversity policies in relation to the Board of Directors of the company on such questions as age, gender, disability and training and professional experience. Small and medium-sized enterprises, in accordance with the definition set out in the Accounts Audit Act, will have to report at least 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 state the specific measures adopted by the Board of Directors and the appointments and remuneration committee to achieve a balanced and diverse presence of directors.

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

<b>Description of policies, objectives, measures and how they have been implemented, including results achieved</b>
The board of directors is in the process of approving the director selection policy. That policy will ensure that the director selection procedures are conducive to fostering diversity in terms of gender, professional experience and knowledge/skills and are unbiased, so as to prevent discrimination on any grounds. It will also be designed to ensure that non-executive director candidates have sufficient time available to discharge their duties effectively.

- C.1.6 Describe the means, if any, agreed upon by the appointments committee to ensure that selection procedures do not contain hidden biases which impede the selection of female directors and that the company deliberately seeks and includes women who meet the target professional profile among potential candidates and which makes it possible to achieve a balance between men and women:

<b>Explanation of means</b>
Although there are no female directors at present, it is the board's intention to address that situation. It plans to carry out the corresponding internal assessments to this end.

In the event that there are few or no female directors in spite of any measures adopted, please explain the reasons that justify such a situation:

<b>Explanation of means</b>
As noted above, the Company is conducting the internal assessments required in relation to the incorporation of female directors. However, this effort has yet to yield the desired results.

- C.1.7 Describe the conclusions of the appointments committee regarding verification of compliance with the selection policy for directors; in particular, as it relates to the goal of ensuring that the number of female directors represents at least 30% of the total membership of the Board of Directors by the year 2020.

The Company has articulated a director selection policy based on an analysis of the Company's needs. Director candidates must be well-regarded, solvent, competent, qualified, skilled, available and committed. They must be upstanding professionals whose professional conduct and trajectory are aligned with the Company's mission, vision and values. Note that the Company is working to deliver its diversity policies and its specific targets for female board representation.
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C.1.8 If applicable, please explain the reasons for the appointment of any proprietary directors at the request of shareholders with less than a 3% equity interest:

Name of shareholder	Reason

State whether the Board has failed to meet any formal requests for membership from shareholders whose equity interest is equal to or higher than that of others at whose request proprietary directors have been appointed. If this is the case, please explain why the aforementioned requests were not met:

Yes  No

Name of shareholder	Explanation

C.1.9 State the powers delegated by the Board of Directors, as the case may be, to directors or Board committees:

Name of director	Brief description
MR LUIS ALFONSO LOPEZ DE HERRERA-ORIA	Each and every one of the powers vested in the board of directors that can be delegated in keeping with the provisions in company law, the bylaws and the board regulations.

C.1.10 Identify any members of the Board who are also directors or officers in other companies in the group of which the listed company is a member:

Name of director	Name of group member	Position	Does the director have executive powers?
MR LUIS ALFONSO LOPEZ DE HERRERA-ORIA	Árma Real Estate Investments, S.L.U.	Individual representing Sole Director	Yes

Remarks

C.1.11 List any legal-person directors of your company who are 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:

Name of director	Name of listed company	Position

Remarks

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

Yes  No

Explanation of the rules and identification of the document where this is regulated
As stipulated in article 21.2.a) of the board regulations, under no circumstances can a director sit on more than five boards of directors.

C.1.13 State total remuneration received by the Board of Directors:

Board remuneration in financial year (thousand euros)	103
Amount of vested pension interests for current members (thousand euros)	0
Amount of vested pension interests for former members (thousand euros)	0

Remarks

C.1.14 Identify senior management staff who are not executive directors and their total remuneration accrued during the year:

Name	Position

Total senior management remuneration (thousand euros)	
---	--

Remarks

C.1.15 State whether the Board rules were amended during the year:

Yes

No

Description of amendment

C.1.16 Specify the procedures for selection, appointment, re-election and removal of directors: the competent bodies, steps to follow and criteria applied in each procedure.

The director selection policy is framed by the following principles:
1.- The composition of the board of directors should be balanced, with a wide majority of non-executive directors and a proportionate mix between proprietary and independent directors.
2.- The board of directors must ensure that the director selection procedures foster diversity of gender, backgrounds and skills and are free from any bias that could lead to discrimination. It must also ensure that non-executive director candidates have sufficient time available to discharge their duties effectively.
3.- The director selection process must be based on prior analysis of the needs of the Company and its group. That analysis must be conducted by the Company's board of directors at the recommendation (along with a prior report substantiating that recommendation) of the appointments and remuneration committee.
4.- That committee report must be published in conjunction with the calls to general meetings at which director ratifications, appointments or re-elections are to be voted on.
5.- The remuneration and appointments committee must verify compliance with the director selection policy annually and report on its findings in the annual corporate governance report.

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

Description of changes
The board's internal organisation has not been changed as a result of its self-evaluation.

Describe the evaluation process and the areas evaluated by the Board of Directors with the help, if any, of external advisors, regarding the function and composition of the board and its committees and any other area or aspect that has been evaluated.

<b>Description of the evaluation process and evaluated areas</b>
<p>The board of directors is required to carry out a self-assessment annually, evaluating the performance of it and its committees, paying special attention to the diversity of backgrounds and skills represented on the board, the performances of the chairman of the board, the Company's CEO and the other directors, taking the opportune measures as needed.</p> <p>The results of the evaluation must be recorded in the meeting minutes or appended thereto.</p> <p>The evaluation of the various board committees must be based on the reports they submit to the board of directors, while that of the board itself must start from the report of the appointments and remuneration committee.</p> <p>Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence must be verified by the appointments and remuneration committee.</p> <p>Any business dealings that the facilitator (or any member of its corporate group) has with the Company (or any member of its corporate group) must be disclosed in the annual corporate governance report. The process followed and areas evaluated must also be detailed in the annual corporate governance report.</p>

C.1.18 Describe, in those years in which the external advisor has participated, the business relationships that the external advisor or any group company maintains with the company or any company in its group.

N/A
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C.1.19 State the situations in which directors are required to resign.

<p>Article 12 of the Regulations of the Board of Directors regulates the removal and separation of Directors:</p> <p>1. The directors must present their resignation to the position and formalize their resignation when they have incurred in any of the cases of incompatibility or prohibition for the performance of the position of director provided for in the Law, as well as in the following cases:</p> <p>a) In the case of proprietary directors, when the shareholder at whose request they have been appointed transmits in its entirety the share it held in the Company or reduce it to a level that requires the reduction of the number of proprietary directors.</p>
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C.1.20

b) When the Board itself so requests by a majority of at least two thirds (2/3) of its members, for having breached its obligations as a director, prior proposal or report of the Nomination and Remuneration Committee, or when its permanence in the Board may put at risk the credit and reputation of the Company.

2. In the event that a natural person representing a legal person finds him- or herself party to any of the legally-stipulated conflicts of duty or interest, the latter must be replaced immediately by the legal person director.

3. The board of directors may not propose the removal of independent directors before the end of their bylaw-stipulated tenure, except for cause and based on a prior report from the appointments and remuneration committee. Specifically, just cause is deemed to exist when a director has failed to uphold his or her fiduciary duties, breaches any of the corporate governance recommendations applicable to the Company or meets any of the circumstances that would disqualify him or her as an independent director. Notwithstanding the foregoing, the removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction produces changes in the Company's capital structure in order to meet the proportionality criterion with respect to the board's composition.

4. Directors who give up their board seats before their tenure expires, through resignation or otherwise, must state their reasons in a letter to be sent to all members of the board, without prejudice to the potential need to disclose the resignation as a price-sensitive event and to explain the reasons in the annual corporate governance report. Specifically, in the event that a director resigns because the board has taken material or reiterated decisions about which the director has expressed reservations and those reservations have prompted him or her to resign, those circumstances must be stated in the resignation letter. This provision also applies to the secretary of the board, director or otherwise.

5. Notwithstanding the foregoing, the removal of directors can be ratified by the shareholders in general meeting at any time, even if a motion to do so is not included on the meeting agenda.

Are qualified majorities other than those established by law required for any specific decision?

Yes

No

If so, please describe any differences.

Description of differences
Article 31.6 of the board regulations states that the report needed to ask the shareholders to approve the creation of a remuneration scheme for the Company's directors and executives entailing the delivery of shares or rights over shares must be approved by a qualified majority of directors.

C.1.21 Explain whether there are any specific requirements, other than those relating to directors, to be appointed as chairman of the Board of Directors.

Yes                       No

Description of requirements

C.1.22 State whether the Articles of Association or the Board Rules establish any limit as to the age of directors:

Yes                       No

	Age limit
<b>Chairman</b>	
<b>CEO</b>	
<b>Directors</b>	

Remarks

C.1.23 State whether the Articles of Association or the Board Rules establish any term limits for independent directors other than those required by law:

Yes                       No

Additional requirements and/or maximum number of term limits

C.1.24 State whether the Articles of Association or Board Rules establish specific proxy rules for votes at Board meetings, how they are to be delegated and, in particular, the maximum number of delegations that a director may have, as well as if any limit regarding the category of director to whom votes may be delegated and whether a director is required to delegate to a director of the same category. If so, please briefly describe the rules.

Article 31.2 of the board regulations stipulates that even though the Company's directors must attend any board meetings in person, they may appoint another director as proxy, in keeping with prevailing company law. Proxies must be appointed separately for each meeting of the board and may be notified using any of the channels provided for in article 30.5 of the regulations.
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C.1.25 State the number of meetings held by the Board of Directors during the year, and if applicable, the number of times the Board met without the chairman present. Meetings where the chairman sent specific proxy instructions are to be counted as attended.

<b>Number of Board meetings</b>	7
<b>Number of Board meetings without the chairman</b>	0

<b>Remarks</b>

State the number of meetings held by the coordinating director with the other directors, where there was neither attendance nor representation of any executive director:

<b>Number of meetings</b>	0
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<b>Remarks</b>

Please specify the number of meetings held by each committee of the Board during the year:

<b>Number of meetings held by the Executive Committee</b>	
<b>Number of meetings held by the Audit Committee</b>	1
<b>Number of Meetings held by the Appointments and Remuneration Committee</b>	2
<b>Number of meetings held by the Appointments Committee</b>	
<b>Number of meetings held by the Remuneration Committee</b>	
<b>Number of meetings held by the _____ Committee</b>	

<b>Remarks</b>

C.1.26 State the number of meetings held by the Board of Directors during the year in which all of its directors were present. For the purposes of this section, proxies given with specific instructions should be considered as attendance

<b>Number of meetings when all directors attended</b>	4
<b>% of attendance over total votes during the year</b>	57
<b>Number of meetings in situ or representations made with specific instructions of all directors</b>	4
<b>% of votes issued at in situ meetings or with representations made with specific instructions out of all votes cast during the year</b>	57

<b>Remarks</b>

C.1.27 State if the individual and consolidated financial statements submitted to the Board for preparation were previously certified:

Yes                       No

Identify, if applicable, the person/s who certified the individual and consolidated financial statements of the company for preparation by the Board:

Name	Position

<b>Remarks</b>

C.1.28 Explain any measures established by the Board of Directors to prevent the individual and consolidated financial statements prepared by the Board from being submitted to the General Shareholders' Meeting with a qualified audit opinion.

Article 40 of the board regulations regulates dealings between the Company and its external auditor as follows:

1. The dealings between the board of directors and the Company's external auditor must be channelled through the audit and control committee.
2. The board of directors must refrain from engaging audit firms if the total estimated fees payable by the Company and its group amount to more than 5% of that audit firm's total income in Spain during the immediately preceding year.
3. The board of directors must strive to present the financial statements to shareholders without reservations or qualifications in the audit report. Should, exceptionally, such reservations or qualifications exist, both the chairman of the audit and control committee and the auditor are required to give the Company's shareholders a clear account their scope and content.

C.1.29 Is the secretary of the Board also a director?

Yes                       No

If the secretary is not a director, please complete the following table:

Name of the secretary	Representative
MR IVAN AZINOVIC GAMO	
<b>Remarks</b>	

C.1.30 State, if any, the concrete measures established by the entity to ensure the independence of its external auditors, financial analysts, investment banks, and rating agencies, including how legal provisions have been implemented in practice.

Article 35.5 of the board regulations vests the audit committee with the following duties in respect of the external auditor:

- (i) Making recommendations to the board of directors regarding the selection, appointment, reappointment and removal of the external auditor (which must be a prestigious international audit firm), and the terms and conditions of its engagement;
- (ii) Receiving regular information from the external auditor on the progress and findings of the audit plan and verifying that senior management is acting on its recommendations;
- (iii) Safeguarding the independence of the external auditor and, to that end, ensuring that the Company notifies the securities market regulator (the CNMV), in the form of a price-sensitive filing, of any change in auditor, accompanied as necessary by a statement regarding the existence and content of disagreements with the outgoing auditor, if any, and in the event that it is the external auditor that steps down, an explanation of the circumstances leading up to that decision.

The audit and control committee must establish the opportune relationship with the auditor(s) in order to receive feedback on any issues that could jeopardise its independence and on any other matters related to the financial statement auditing process, and to facilitate the other communications provided for in prevailing audit legislation and audit standards. Regardless, at least once a year, the auditor(s) must provide the committee with written confirmation of its independence vis-à-vis the Company and its direct and indirect related parties, including disclosures regarding additional services of any kind provided to those entities by the auditor(s) and any parties related thereto, as stipulated in Spanish audit legislation (Law 22/2015);

- (iv) Encouraging the Company's auditor to audit any other entities comprising its group;
- (v) In the event the external auditor resigns, investigating the underlying issues;
- (vi) Ensuring that the remuneration of the external auditor does not compromise its quality or independence;
- (vii) Ensuring that the external auditor meets once a year with the board in full to inform it of the work undertaken and developments in the Company's risk and accounting positions;
- (viii) Ensuring that the Company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence. In addition, the audit committee must issue annually, prior to issuance of the audit report, a report expressing an opinion on the independence of the external

auditor(s). That report should refer specifically to the provision of non-audit services.

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

Yes  No

Outgoing auditor	Incoming auditor

Remarks

If there were any disagreements with the outgoing auditor, please provide an explanation:

Yes  No

Explanation of disagreements

C.1.32 State whether the audit firm provides any non-audit services to the company and/or its Group and, if so, the fees paid and the corresponding percentage of total fees invoiced to the company and/or Group:

Yes  No

	Company	Group Companies	Total
Amount invoiced for non-audit services (thousand euros)	0	0	0
Amount invoiced for non-audit services/Amount for audit work (in %)	0%	0%	0%

Remarks

C.1.33 State whether the auditors' report on the financial statements for the preceding year contains a qualified opinion or reservations. If so, please explain the reasons given by the chairman of the audit committee to explain the content and extent of the aforementioned qualified opinion or reservations.

Yes  No

Explanation of reasons

C.1.34 State the number of consecutive years the current audit firm has been auditing the financial statements of the company and/or group. Furthermore, state the number of years audited by the current audit firm as a percentage of the total number of years that the financial statements have been audited:

	Individual	Consolidated
Number of consecutive years	1	1

	Individual	Consolidated
Number of years audited by the current audit firm/number of fiscal years the company has been audited (by %)	100%	100%

Remarks

C.1.35 State whether there is a procedure whereby directors have the information necessary to prepare the meetings of the governing bodies with sufficient time and provide details if applicable:

Yes  No

Explanation of procedure
<p>Article 30.5 of the board regulations stipulates that:  Board meetings must be called by letter, fax, telegram, e-mail or any other means that allows for proof of receipt; calls must be authorised by the signature of the chairman, secretary or vice-secretary, at the behest of the chairman. Meeting calls must be made with enough time so that the directors are notified no later than the third day before the scheduled meeting, with the exception of emergency meetings, which may even be called immediately. Under certain circumstances a specific call notice period is legally required. Call notices must always state the place, date and time of the scheduled meeting and the meeting agenda, unless its exclusion can be substantiated. Exceptionally, unless the board meeting has been called for reasons of urgency, the notice must be accompanied by the information needed by the directors to deliberate and decide on the matters on the agenda.</p>

C.1.36 State whether the company has established rules whereby directors must provide information regarding and, if applicable, resign, in circumstances that may damage the company's standing and reputation. If so, provide details:

Yes

No

**Explain the rules**

Article 21 of the board regulations governs the directors' disclosure obligations:

1. Directors must report to the Company the shareholdings they or their related parties have in any entity with the same, analogous or complementary business as that constituting the Company's core object and the positions held or duties performed at those companies. They must also report any professional duties discharged, as independent professionals or as employees, at entities whose business is complementary to that of the Company. That information must be included in the Company's financial statements and annual corporate governance report, as required by company law.

2. Directors must also inform the Company about:

a) All of the positions they hold and the activities performed at other companies or entities and any other professional obligations. Specifically, before accepting any directorships or executive positions at another company or entity, directors must first consult the audit and control committee. Under no circumstances may directors sit on more than five (5) boards of directors;

b) Any significant change in their professional situations that affect the terms on which they were appointed as directors;

c) Any proceedings, whether judicial, administrative or otherwise, taken against the directors that, on account of their significance or specifics, could gravely harm the Company's reputation. Specifically, directors must inform the Company, through the chairman, if they are indicted or tried for any of the crimes itemised in article 213 of Spain's Corporate Enterprises Act. If that happens, the board shall examine the circumstances as soon as possible and take the decisions it deems in the Company's best interests;

d) The shares held, directly or indirectly, by them or their related persons, in the Company, any changes in those shareholdings and any transactions executed directly or indirectly by them or their related persons involving or related with the Company's shares. To this end, 'related person' shall be understood to include any persons deemed, in keeping with Regulation (EU) No. 596/2014 of the European Parliament and of the Council, of 16 April 2014, on market abuse, to be 'closely associated' with the directors; and

e) In general, any development or situation that could be relevant to their performance as Company directors.



C.1.37 State whether any member of the Board of Directors has notified the company that he or she has been tried or notified that legal proceedings have been filed against him or her, for any offences described in Article 213 of the LSC:

Yes

No

Name of director	Criminal charge	Remarks

State whether the Board of Directors has examined the case. If so, explain in detail the decision taken as to whether the director in question should continue in his or her post or, if applicable, describe any actions taken by the Board up to the date of this report, or which it intends to take.

Yes

No

Decision/Action taken	Explanation

C.1.38 Detail any material agreements entered into by the company that come into force, are modified or are terminated in the event of a change in control of the company following a public takeover bid, and their effects.

Árma Real Estate Socimi, S.A. has set up a share incentive plan for its management team. That plan was approved at the Annual General Meeting on 26 September 2018 and is detailed in the offering prospectus filed with the CNMV on 9 October 2018. As noted in the prospectus, a change of control as a result of a public tender offer, in accordance with Spain's takeover code (Royal Decree 1066/2007), would qualify as a vesting event, as defined in the incentive plan. That plan can be settled in shares or in cash; it is up to the board of directors to decide.

C.1.39 Identify individually for director, and generally in other cases, and provide detail of any agreements made between the company and its directors, executives or employees containing indemnity or golden parachute clauses in the event of resignation or dismissal or termination of employment without cause following a takeover bid or any other type of transaction.

Number of beneficiaries	
Type of beneficiary	Description of agreement
CEO	<p>The services provision agreement in effect between the Company and the CEO stipulates that if the Company terminates the agreement without just cause (i.e., unfair dismissal, as defined in Spain's Workers' Statute), the CEO would be entitled to receive cash compensation equivalent to the higher of two times' the last total annual remuneration received (including his fixed remuneration, annual bonus, medium- and long-term incentive plans and company benefits).</p> <p>If in the year immediately preceding the year in which the relationship with the CEO is terminated by the Company two or more medium- and long-term incentive plans were paid out, only the higher payout shall compute for compensation purposes.</p> <p>In addition, six executives besides the CEO have termination clauses that would be triggered in the event they are discontinued for any reason other than for cause or at the executive's request. Those executives would be entitled to the same compensation in certain other circumstances, including a change of control. In those instances, the executives would be entitled to two years' total annual remuneration.</p>

State if these contracts have been communicated to and/or approved by management bodies of the company or of the Group. If they have, specify the procedures, events and nature of the bodies responsible for their approval or for communicating this:

	<b>Board of Directors</b>	<b>General Shareholders' Meeting</b>
<b>Body authorising the severance clauses</b>	<b>YES</b>	

	<b>YES</b>	<b>NO</b>
<b>Are these clauses notified to the General Shareholders' Meeting?</b>		X

<b>Remarks</b>

## C.2 Committees of the Board of Directors

C.2.1 Provide details of all committees of the Board of Directors, their membership, and the proportion of executive, proprietary, independent and other external directors that comprise them:

### EXECUTIVE COMMITTEE

Name	Post	Category

<b>% of executive directors</b>	
<b>% of proprietary directors</b>	
<b>% of independent directors</b>	
<b>% of external directors</b>	

<b>Remarks</b>

Explain the duties exercised by this committee, other than those that have already been described in Section C.1.10, and describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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**AUDIT COMMITTEE**

<b>Name</b>	<b>Post</b>	<b>Category</b>
D. David Jiménez-Blanco Carrillo de Albornoz	Chairman	Independent
D. Fernando Bautista Sagüés	Vocal	Independent
D. Cato Henning Stonex	Vocal	Independent

<b>% of proprietary directors</b>	0%
<b>% of independent directors</b>	100%
<b>% of external directors</b>	0%

<b>Remarks</b>

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

The audit committee's overriding mission is to support the board of directors in its duty of oversight by regularly reviewing the financial reporting process, the related internal controls and the independence of the external auditor.

Identify the directors who are member of the audit committee and have been appointed taking into account their knowledge and experience in accounting or audit matters, or both, and state the date that the Chairperson of this committee was appointed.

<b>Name of directors with experience</b>	Mr. Fernando Bautista Sagüés
<b>Date of appointment of the chairperson</b>	26/09/2018

<b>Remarks</b>

**APPOINTMENTS AND REMUNERATION COMMITTEE**

<b>Name</b>	<b>Post</b>	<b>Category</b>
Mr. Fernando Bautista Sagüés	President	Independent

Mr. David Jiménez-Blanco Carrillo de Albornoz	Member	Independent
Mr. Cato Henning Stonex	Member	Independent

<b>% of proprietary directors</b>	0%
<b>% of independent directors</b>	100%
<b>% of external directors</b>	0%
<b>Remarks</b>	

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

This committee focuses its duties on supporting and assisting the board of directors with motions for the appointment, re-election, ratification and discontinuation of directors, establishing the remuneration policy for the Company's directors and executives, ensuring that the directors are upholding their fiduciary duties, particularly in relation to potential conflicts of interest and related-party transactions, and checking compliance with the Company's internal code of conduct and corporate governance rules.

#### APPOINTMENTS COMMITTEE

Name	Post	Category

<b>% of proprietary directors</b>	
<b>% of independent directors</b>	
<b>% of external directors</b>	

<b>Remarks</b>

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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**REMUNERATION COMMITTEE**

Name	Post	Category

<b>% of proprietary directors</b>	
<b>% of independent directors</b>	
<b>% of external directors</b>	

Remarks

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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\_\_\_\_\_ COMMITTEE

Name	Post	Category

<b>% of executive directors</b>	
<b>% of proprietary directors</b>	
<b>% of independent directors</b>	
<b>% of other external directors</b>	

Remarks

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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C.2.2 Complete the following table with information regarding the number of female directors who were members of Board committees at the close of the past four years:

	Number of female directors			
	Year t	Year t-1	Year t-2	Year t-3
	Number %	Number %	Number %	Number %
Executive committee	0 / 0%	0 / 0%	0 / 0%	0 / 0%
Audit committee	0 / 0%	0 / 0%	0 / 0%	0 / 0%
Appointments and remuneration committee	0 / 0%	0 / 0%	0 / 0%	0 / 0%
Appointments committee				
Remuneration committee				
_____ committee				

Remarks

C.2.3 State, where applicable, the existence of any regulations governing Board committees, where these regulations may be found, and any amendments made to them during the year. Also state whether any annual reports on the activities of each committee have been voluntarily prepared.

The rules governing the organisation and operation of the board committees are stipulated in articles 34, 35 and 36 of the board regulations. The board regulations are available for consultation on the Company's website.
No annual reports have been drawn up voluntarily on the activities of any of the committees.

## **D** RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Describe, if applicable, the procedure for approval of related-party and intragroup transactions.

Sections 3, 4 and 5 of article 22 of the board regulations establish the following procedure for approving related-party transactions:

1. Transactions between the Company and its directors, executives or persons related to them, 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 executive, or any person related to them, is entitled to receive consideration, remuneration or a fee, must be approved by the board of directors on the basis of a favourable report from the audit and control committee.

2. Before authorising the Company to execute transactions of this nature, the audit and control committee and the board of directors must analyse the transaction from the standpoints of (i) the requirement to treat all shareholders equally; and (ii) arm's length terms.

3. In the event a related-party transaction involves one of the directors, that director is not provided with any additional information about the transaction in question; and if that director is present at the meeting of the board or audit and control committee, in addition to not being allowed to exercise or delegate his or her vote, he or she must leave the room while the members of the board or the audit and control committee deliberate and vote on the transaction.

4. The prior board authorisation contemplated above is not necessary when the following three conditions are met simultaneously:

- a) The transactions are governed by standard-form agreements applied on an across-the-board basis to a large number of clients;
- b) They go through at market rates, generally set by the person supplying the goods or services; and
- c) Their amount is no more than 1% of the Company's annual revenues.

5. In the case of transactions falling within the ordinary course of the Company's business that are customary or recurring in nature, a standard-form board approval will suffice.

D.2 Describe any transactions which are significant, either because of the amount involved or subject matter, entered into between the company or entities within its group and the company's significant shareholders:



Name of significant shareholder	Name of company within the group	Nature of the relationship	Type of transaction	Amount (thousand euros)

Remarks

- D.3 Describe any transactions that are significant, either because of their amount or subject matter, entered into between the company or entities within its group and directors or managers of the company:

Name of director or manager	Name of the related party	Relationship	Type of transaction	Amount (thousand euros)

Remarks

- D.4 Report any material transactions carried out by the company with other entities belonging to the same group, provided that these are not eliminated in the preparation of the consolidated financial statements and do not form part of the company's ordinary business activities in terms of their purpose and conditions.

In any event, note any intragroup transaction conducted with entities established in countries or territories which are considered tax havens:

Name of entity within the group	Brief description of the transaction	Amount (thousand euros)

Remarks

- D.5 State the amount of any transactions conducted with other related parties that have not been reported in the previous sections.

Name of entity within the group	Brief description of the transaction	Amount (thousand euros)
Rodex Asset Management, S.L.	In June and September, the Company's former majority shareholder converted creditor balances into two profit-participating loans, which were cancelled in November.	276

Remarks

D.6 Describe the mechanisms in place to detect, determine and resolve potential conflicts of interest between the company and/or its group and its directors, senior management or significant shareholders.

Article 17 of the board regulations governs conflicts of interest as follows:

1. A conflict of interest is deemed to exist in situations in which the interests of the Company or its group companies and the personal interests of its directors clash, directly or indirectly. Directors are deemed to have a vested interest in a matter when that matter affects them or a person related to them (as defined next).
2. For conflict purposes, the following are considered "related persons":
  - a) In relation to natural person directors:
    - (i) Their spouses or significant others;
    - (ii) The ancestors, descendants and siblings of the directors and of their spouses (or significant others);
    - (iii) The spouses of the ancestors, descendants and siblings of the directors;
    - (iv) The companies in which the directors, directly or through a representative, exercise or may exercise control, directly or indirectly, as contemplated in article 42 of Spain's Code of Commerce;
  - a) In relation to legal person directors:
    - (i) The owners or shareholders that exercise or could exercise, directly or indirectly, with respect to the legal person director, control, as contemplated in article 42 of Spain's Code of Commerce;
    - (ii) The companies in the same group, as defined in article 42 of Spain's Code of Commerce, and their owners or shareholders;
    - (iii) The legal person directors' natural person representatives, directors, de facto or by law, liquidators and legal representatives with general power of attorney;

(iv) The persons who are considered related parties of the representative of the legal person director under the above provisions with respect to natural person directors.

3. Conflicts of interest are governed by the following rules:

a) Communication: directors must inform the board of directors, specifically the chairman or the secretary, of any conflict of interest in which they find themselves;

b) Abstention: directors must refrain from intervening in deliberations and votes on the matters pertaining to the conflict affecting them; note that in such instances, those directors are not counted for quorum calculation purposes; In the case of proprietary directors, they must refrain from participating in votes on matters that could imply a conflict of interest between the shareholder(s) that proposed their directorships and the Company;

c) Transparency: the Company must disclose any conflicts of interest affecting its directors that are notified to it by the affected parties or of which it is aware by any other means in the annual corporate governance report.

4. The rules outlined herein may be further developed by means of rules issued by the board of directors, including in internal code of conduct rules.

D.7 Is there more than one company in the group listed in Spain?

Yes

No

Identify the other companies that are listed in Spain and their relationship to the company:

<b>Identity and relationship with other listed group companies</b>

State if the respective areas of activity and business relationships between the listed companies have been defined publicly and precisely, as well as between the subsidiary and other members of the group;

Yes

No

<b>Describe the business relationship between the parent and subsidiary listed companies as well as between the subsidiary and other members of the group</b>

Identify measures taken to resolve potential conflicts of interest between the listed subsidiary and the other group companies:

<b>Measures taken to resolve potential conflicts of interest</b>
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**E RISK MANAGEMENT AND CONTROL SYSTEMS**

- E.1 Explain the scope of the company's Risk Management and Control System, including tax compliance risk.

The Company has developed an enterprise risk management system that factors in the Company's specific characteristics as well as those related to the environments in which it does business at the economic, geographical and regulatory levels. The board of directors is responsible for the risk management policy and strategy. However, all members of the organisation participate in the risk management effort and are responsible for ensuring the success of the system.

- E.2 Identify the bodies within the company responsible for creating and executing the Risk Management and Control System, including tax compliance risk.

The governing bodies with responsibility over risk management and control are the board of directors and the audit committee:

**Board of directors**

The board of directors is the body responsible for approving the Company's strategy and the organisational resources needed to carry it forward and for overseeing and controlling that management delivers the targets set. It likewise ensures that in dealing with its direct and indirect stakeholders, the Company abides by applicable laws and regulations; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories in which it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily. Article 43 of the Company's bylaws stipulates that the board of directors set up and maintain a permanent, internal audit and control committee.

**Audit and control committee**

Article 44 of the Company's bylaws vests the audit and control committee with the overriding mission of supporting the board of directors in its duty of oversight by regularly reviewing the financial reporting process, the related internal controls and the independence of the external auditor.

- E.3 State the primary risks, including tax compliance risks, and those deriving from corruption (with the scope of these risks as set out in Royal Decree Law 18/2017), to the extent that these are significant, which may affect the achievement of business objectives.

The schematic below presents the key risks, but not all of the risks, deriving from the Company's real estate investment and management activities, all of which are covered by the established enterprise risk management system.

#### 1. Financial risks

##### a) Market risk

Interest rate risk. The Company's interest rate risk arises from its borrowings. The Company had no borrowings as at 31 December 2018.

##### b) Credit risk

The Company's credit risk, defined as the risk of a loss as a result of non-performing accounts receivable, is not significantly concentrated. The Company has designed policies to ensure that it sells and leases properties to customers with suitable credit histories.

##### c) Liquidity risk

The Company's finance department is responsible for managing liquidity risk to ensure the ability to service its payment obligations and/or commitments deriving from new investments. To this end, it prepares annual cash flow projections.

#### 2. Market risk.

The Company minimises market risk through its business strategy and model. Árima invests in prime real estate assets that present significant valuation upside, mainly in the office and logistics segments, in well-established locations. The Company's long-term business plan is focused on creating value via active portfolio management and repositioning, emphasising environmental sustainability.

#### 3. Financial risks

In acquisitions, these risks are managed by meticulously analysing proposed transactions, examining and anticipating potential problems and problem-solving. In disposals, the main risk is the inability to collect the proceeds on the terms agreed as a result of a breach by the buyers. That risk is managed by securing collateral of all kinds to ensure collection in full of the agreed price or the ability to take back ownership of the property being sold.

#### 4. Legal and tax risks

The Company's activities are regulated by legal, tax and urban planning and zoning requirements. Local, regional, national and European authorities have the power to impose fines if the Company violates these rules and requirements. Changes in the prevailing legal and tax environment could affect how the Company plans its business activities: the corresponding departments, with the help of their legal and

tax advisors, watch and analyse developments and take the required measures as needed.

The risks associated with compliance with specific legislation are the following:

a) Court and out-of-court claims. The Company's business exposes it to legal action in relation to the properties it leases, albeit derived from the actions of third parties hired by the Company (architects, engineers, contractors and subcontractors). The Company mitigates this risk by arranging appropriate civil liability and casualty insurance cover.

b) Company responsibilities in its capacity as a REIT, or SOCIMI for its acronym in Spanish. All of the Company's actions must comply with Spanish Law 11/2009, which governs listed real estate investment vehicles. The Company continually monitors its compliance with all prevailing legislation in this respect.

#### 5. Money laundering risks

These risks are controlled by means of preventative policies and control over the transactions performed by the Company, in keeping with applicable legislation.

#### 6. Data protection risks

These risks are controlled by including boilerplate and specific disclaimers in the Company's agreements in different situations, as prescribed in applicable data protection regulations, so as to limit and even eliminate any Company liability in this respect.

#### 7. Consumer/user protection risks

The Company complies with its requirements under the various state and regional consumer and user protection standards. In addition, it has an internal code of conduct specific for its securities markets activities.

Sections IV and V of that internal code of conduct outline the criteria that must be upheld by bound parties in respect of the affected securities, inside and price-sensitive information and confidential documents in order to foster transparent business operations and ensure adequate investor information and protection.

E.4 State whether the entity has a risk tolerance level, including tolerance for tax compliance risk.

Risk tolerance at Árima is defined as the level of risk the Company is willing to accept in order to deliver its strategic targets. Risk tolerance is shaped by the Company's strategy and is agreed at the board level.

Risk tolerance is also defined as the level of variability the Company is willing to accept with respect to a given target. It is, therefore, the acceptable threshold for each risk and target. Risk tolerance must be updated regularly by each department's risk officers and duly reported to the compliance officer.

E.5 State which risks, including tax compliance risks, have materialised during the year.

None of the risks outlined above materialised during the reporting period.

E.6 Explain the response and monitoring plans for all major risks, including tax compliance risks, of the company, as well as the procedures followed by the company in order to ensure that the board of directors responds to any new challenges that arise.

The Company articulates the management and control of the risks to which it is exposed by designing a series of policies and procedures that can be adapted for the differing nature of those risks. The board of directors is committed to the risk management and control processes and approves the corresponding policies, procedures, limits and structures. During its weekly meetings, the Company's management committee, on which all of the business areas and the finance department are represented, analyses the status and trend in the main risks and takes corrective measures when deemed necessary. Any risk considered critical is handled by the management committee at its regular meetings. The management committee recommends specific response plans for all critical risks to the board of directors. The board then takes those proposals under advisement, modifying them as warranted.

## **F INTERNAL RISK MANAGEMENT AND CONTROL SYSTEMS RELATED TO THE PROCESS OF PUBLISHING FINANCIAL INFORMATION (ICFR)**

Describe the mechanisms comprising the System of Internal Control over Financial Reporting (ICFR) of your company.

### **F.1 Control environment**

Report on at least the following, describing their principal features:

F.1.1. The bodies and/or departments that are responsible for (i) the existence and maintenance of an adequate and effective ICFR; (ii) their implementation; and (iii) their supervision.

Responsibility for the design, implementation and working of the internal control over financial reporting (ICFR) system has been entrusted to the Company's finance and internal audit departments.

As for responsibility for the ICFR system, the board regulations formally set out the audit committee's basic duties, which include that of supervising the process of drawing up the Company's financial information and its integrity.

F.1.2. State whether the following are present, especially if they relate to the creation of financial information:

- Departments and/or mechanisms in charge of: (i) design and review of corporate structure; (ii) clear definition of lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) assurance that adequate procedures exist for proper communication throughout the entity.

The CEO is ultimately responsible for designing and reviewing the Company's organisational structure, a responsibility delegated in it by the board of directors.

As for the process of preparing the Company's financial information, in addition to organisational charts, all of those involved in the process are clear about the guidelines, responsibilities and timing specific to each period end.

- Code of conduct, the body approving this, degree of dissemination and instruction, including principles and values, (state if there is specific mention of transaction recording and creation of financial information), a body charged with analysing breaches and proposing corrective actions and sanctions.

The Company has a board-approved, mandatory code of conduct.

The purpose of the code is to establish the basic rules and principles regulating the conduct of everyone who acts in the name of Árima and its subsidiaries. The code is applicable at all of the companies comprising Árima and is binding upon the members of its board of directors and all of its employees, irrespective of their titles and duties. This code complements the internal code of conduct governing securities market dealings, the company's other rules, its bylaws and other prevailing legislation applicable to the business of Árima. It is binding upon Árima and all the companies with which there is a material contractual relationship. Failure to comply with the provisions set down in the code constitutes an infraction and could result in the application of disciplinary measures, governed by a disciplinary regime.

- Whistleblower channel, that allows notifications to the audit committee of irregularities of a financial and accounting nature, in addition to potential breaches of the code of conduct and unlawful activities undertaken in the organisation, reporting, as the case may be, if this is of a confidential nature.



The Company is currently in the process of implementing a whistle-blowing channel for matters related with the Company's internal rules of conduct and another procedure for reporting potentially significant financial and accounting incidents.

- Training and periodic refresher programmes for staff involved in the preparation and revision of financial information, as well as assessment of the ICFR (Internal Control System for Financial Information), that covers at least accounting rules, audits, internal control and risk management.

The finance department has organised training and refresher sessions on the Company's internal rules of conduct and controls.

## **F.2 Assessment of financial information risks**

Report on at least the following:

F.2.1. The main characteristics of the risk identification process, including error and fraud risk, as regards:

- Whether the process exists and is documented.
- If the process covers all of the objectives of financial information, (existence and occurrence; completeness; valuation; delivery; breakdown and comparability; and rights and obligations), whether it is updated and with what frequency.
- The existence of a process for identifying the scope of consolidation, taking into account, among other factors, the possible existence of complex company structures, shell companies, or special purpose entities.
- If the process takes into account the effects of other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements.
- The governing body within the company that supervises the process.

## **F.3 Control activities**

Report on whether the company has at least the following, describing their main characteristics:

- F.3.1. Review and authorisation procedures for financial information published by the stock markets and a description of the ICFR, indicating those responsible, as well as documentation describing the flow of activity and controls (including those relating to the risk of fraud) of the various types of transactions which may materially affect the financial statements, including financial closing procedures and the specific review of judgements, estimates, valuations and relevant forecasts.

The Company has an internal financial information review procedure (which includes the annual financial statements, the interim financial statements and the annual corporate governance report) which encompasses the process from when that information is generated in the finance area until it is approved by the audit and control committee and, ultimately, by the board of directors, prior to publication.

- F.3.2. Internal IT control policies and procedures (access security, change controls, their operation, operational continuity, and segregation of duties, among others) which support relevant processes within the company and relate to the creation and publication of financial information.

The internal control policies and procedures associated with the financial reporting systems are designed by the Company's management. The main risks considered by the Company, for which responses are defined, relate to physical security (back-ups, maintenance, server access, etc.), logical security (access controls, procedures for granting/revoking access, protection against viruses/malware, etc.), due segregation of duties, information record-keeping and traceability, privacy (data protection), system development and maintenance.

- F.3.3. Internal control policies and procedures intended to guide the management of subcontracted activities and those of third parties, as well as those aspects of assessment, calculation or evaluation entrusted to independent experts, which may materially affect financial statements.

The activity outsourced to third parties with the most significant impact on the financial statements is the asset valuation exercise conducted by an independent expert. The procedure implemented by the Company in this respect essentially follows the recommendations made by the CNMV to appraisers and listed real estate investment trusts in relation to property appraisals.

#### **F.4 Information and communication**

State whether the company has at least the following, describing their main characteristics:

- F.4.1. A specifically assigned function for defining and updating accounting policies (accounting policy area or department) and resolving doubts or conflicts arising from their interpretation, maintaining a free flow of information to those responsible for operations in the organisation, as well

as an up-to-date accounting policy manual distributed to the business units through which the company operates.

EI The Company's finance department designs and updates accounting policies and handles any queries in relation thereto.

- F.4.2. Measures for capturing and preparing financial information with consistent formats for application and use by all of the units of the entity or the group, and which contain the main financial statements and notes, as well as detailed information regarding ICFR.

The accounting policies defined by the finance department form the basis for drawing up the financial information of the Company and its subsidiaries. These policies guarantee the application of uniform financial preparation standards as well as uniform presentation.

## F.5 **Supervision of system performance**

Describe at least the following:

- F.5.1. The activities of the audit committee in overseeing ICFR as well as whether there is an internal audit function that has among its mandates support of the committee and the task of supervising the internal control system, including ICFR. Additionally, describe the scope of ICFR assessment made during the year and the procedure through which the person responsible prepares the assessment reports on its results, whether the company has an action plan describing possible corrective measures, and whether its impact on financial reporting is considered.

As stated in article 44 of the Company's bylaws, the audit and control committee's duties include regularly reviewing the financial reporting process, the related internal controls and the independence of the external auditor. Regarding the scope of the ICFR assessment, in 2019, the Company plans to expand the reach of its evaluation of the operational effectiveness of the controls in place and the definition of the various activity cycles. That work will be carried out by the various business areas under the supervision of the audit and control committee through the internal audit function.

- F.5.2. If there is a procedure by which the account auditor (in accordance with the contents of the *Normas Técnicas de Auditoría* (NTA) - "Auditing Standards"), internal auditor and other experts may communicate with senior management and the audit committee or senior managers of the company regarding significant weakness in internal control identified during the review of the annual accounts or any others they have been assigned. Additionally, state whether an action plan is available for correcting or mitigating any weaknesses found.

The audit and control committee meets to discharge its primary duty, which is supporting the board of directors in its oversight duties by regularly reviewing the financial reporting process, the internal audit function and the independence of the external auditor, to which end it carries out the following activities, among others:

It talks with the external auditor (particularly when the latter has intervened: audit reports, limited reviews, etc.) in order to:

- Obtener información sobre la planificación, alcance y conclusiones de los trabajos realizados.
- Obtener información acerca de debilidades de control interno detectadas en el transcurso de sus trabajos.
- Informar al auditor externo de aquellas cuestiones que pudieran afectar a su trabajo.
- Discutir con el auditor externo el contenido previsto de sus informes.
- Obtener la información necesaria para, en cumplimiento de las funciones de la Comisión de Auditoría y Control, comprobar la independencia del auditor externo.

In addition, the audit and control committee is entitled to ask for additional information or call on outside experts when analysing matters related with the discharge of its duties.

#### **F.6 Other relevant information**

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#### **F.7 External auditor's report**

Report from:

- F.7.1. If the ICFR information submitted to the markets has been subject to review by the external auditor, in which case the entity shall include its report as an attachment. If not, reasons why should be given.

The Company has not submitted its ICFR system to external assurance as it is currently in the process of evaluating in-house the operational effectiveness of the Company's controls, including, by extension, the internal control system.

**G EXTENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS**

Specify the company's level of compliance with recommendations from the Unified Code of Good Governance.

In the event that a recommendation is not followed or only partially followed, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to judge the company's actions. General explanations are not acceptable.

- 1. That the Articles of Association of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.**

Complies  Explanation

- 2. That when the parent company and a subsidiary are listed on the stock market, both should publicly and specifically define:**
  - a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with other group companies.**
  - b) The mechanisms in place to resolve any conflicts of interest that may arise.**

Complies  Complies Partially  Explanation  Not Applicable

- 3. That, during the course of the ordinary General Shareholders' Meeting, complementary to the distribution of a written Annual Corporate Governance Report, the chairman of the Board of Directors makes a detailed oral report to the shareholders regarding the most material aspects of corporate governance of the company, and in particular:**
  - a) Changes that have occurred since the last General Shareholders' Meeting.**
  - b) Specific reasons why the company did not follow one or more of the recommendations of the Code of Corporate Governance and, if so, the alternative rules that were followed instead.**

Complies  Complies partially  Explanation

- 4. That the company has defined and promoted a policy of communication and contact with shareholders, institutional investors and proxy advisors that complies in all aspects with rules preventing market abuse and gives equal treatment to similarly situated shareholders.**

**And that the company has made such a policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.**

Complies  Complies partially  Explanation

5. That the Board of Directors should not propose to the General Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.

And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable company law.

Complies  Complies partially  Explanation

6. That listed companies which draft reports listed below, whether under a legal obligation or voluntarily, publish them on their web page with sufficient time before the General Shareholders' Meeting, even when their publication is not mandatory:

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

Complies  Complies partially  Explanation

7. That the company reports in real time, through its web page, the proceedings of the General Shareholders' Meetings.

Complies  Explanation

Compliance with this recommendation will be reviewed annually but is not currently contemplated.

8. That the audit committee ensures that the Board of Directors presents financial statements in the audit report for the General Shareholders' Meetings which do not have qualifications or reservations and that, in the exceptional circumstances in which qualifications may appear, that the chairman of the audit committee and the auditors clearly explain to the shareholders the content and scope of said qualifications or reservations.

Complies  Complies partially  Explanation

9. That the company permanently maintains on its web page the requirements and procedures for certification of share ownership, the right of attendance at the General Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

Complies  Complies partially  Explanation

La The Company is currently working on meeting this recommendation.

**10. That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the General Shareholders' Meeting, the company:**

- a) Immediately distributes the additions and new proposals.
- b) Publishes the attendance card credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.
- c) Submits all of these items on the agenda or alternative proposals to a vote and applies the same voting rules to them as are applied to those drafted by the Board of Directors including, particularly, assumptions or default positions regarding votes for or against.
- d) That after the General Shareholders' Meeting, a breakdown of the results of said additions or alternative proposals is communicated.

Complies  Complies Partially  Explanation  Not Applicable

**11. That, in the event the company intends to pay for attendance at the General Shareholders' Meeting, it establish in advance a general policy of long-term effect regarding such payments.**

Complies  Complies Partially  Explanation  Not Applicable

**12. That the Board of Directors completes its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it is guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximisation of the economic value of the business.**

And that in pursuit of the company's interest, in addition to complying with applicable law and rules and in engaging in conduct based on good faith, ethics and a respect for commonly accepted best practices, it seeks to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

Complies  Complies partially  Explanation

**13. That the Board of Directors is of an adequate size to perform its duties effectively and collegially, and that its optimum size is between five and fifteen members.**

Complies  Explanation

**14. That the Board of Directors approves a selection policy for directors that:**

- a) Is concrete and verifiable.
- b) Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the Board of Directors.

**c) Favours diversity in knowledge, experience and gender.**

**That the resulting prior analysis of the needs of the Board of Directors is contained in the supporting report from the appointments committee published upon a call from the General Shareholders' Meeting submitted for ratification, appointment or re-election of each director.**

**And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors accounts for at least 30% of the total number of members of the Board of Directors.**

**The appointments committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Corporate Governance Report.**

Complies  Complies partially  Explanation

**15. That proprietary and independent directors constitute a substantial majority of the Board of Directors and that the number of executive directors is kept at a minimum, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.**

Complies  Complies partially  Explanation

**16. That the percentage of proprietary directors divided by the number of non-executive directors is no greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.**

**This criterion may be relaxed:**

**a) In companies with a high market capitalisation in which interests that are legally considered significant are minimal.**

**b) In companies where a diversity of shareholders is represented on the Board of Directors without ties among them.**

Complies  Explanation

**17. That the number of independent directors represents at least half of the total number of directors.**

**Nonetheless, when the company does not have a high level of market capitalisation or in the event that it is a high cap company with one shareholder or a group acting in a coordinated fashion who together control more than 30% of the company's equity, the number of independent directors represents at least one third of the total number of directors.**

Complies  Explanation

**18. That companies publish and update the following information regarding directors on the company website:**

**a) Professional profile and biography.**



- b) Any other Boards to which the director belongs, regardless of whether the companies are listed, as well as any other remunerated activities engaged in, regardless of type.
- c) Category of directorship, indicating, in the case of individuals who represent significant shareholders, the shareholder that they represent or to which they are connected.
- d) The date of their first appointment as a director of the company's Board of Directors, and any subsequent re-election.
- e) The shares and options they own.

Complies  Complies partially  Explanation

19. That the Annual Corporate Governance Report, after verification by the appointments committee, explains the reasons for the appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the Board meeting were not honoured, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honoured.

Complies  Complies Partially  Explanation  Not Applicable

20. That proprietary directors representing significant shareholders must resign from the Board if the shareholder they represent disposes of its entire equity interest. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder.

Complies  Complies Partially  Explanation  Not Applicable

21. That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the Articles of Association unless the Board of Directors finds just cause and a prior report has been prepared by the appointments committee. Specifically, just cause is considered to exist if the director takes on new duties or commits to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her post, or enters into any of the circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public share offer, joint venture or similar transaction entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board are the result of the proportionate representation criteria provided for in Recommendation 16.

Complies  Explanation

22. That companies establish rules requiring that directors inform the Board of Directors and, where appropriate, resign from their posts, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.

And that should a director be indicted or tried for any of the offences set out in company law legislation, the Board of Directors must investigate the case as soon as possible and, based on the particular situation, decide whether the director should continue in his or her post. And that the Board of Directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies  Complies partially  Explanation

23. That all directors clearly express their opposition when they consider any proposal submitted to the Board of Directors to be against the company's interests. This particularly applies to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the Board of Directors.

Furthermore, when the Board of Directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next recommendation.

This recommendation also applies in the case of the secretary of the Board of Directors, despite not being a director.

Complies  Complies Partially  Explanation  Not Applicable

24. That whenever, due to resignation or any other reason, a director leaves before the completion of his or her term, the director should explain the reasons for this decision in a letter addressed to all the directors of the Board of Directors. Irrespective of whether the resignation has been reported as a relevant fact, it must be included in the Annual Corporate Governance Report.

Complies  Complies Partially  Explanation  Not Applicable

25. That the appointments committee ensures that non-executive directors have sufficient time in order to properly perform their duties.

And that the Board rules establish the maximum number of company Boards on which directors may sit.

Complies  Complies partially  Explanation

26. That the Board of Directors meet frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the year and allowing each director individually to propose items do not originally appear on the agenda.

Complies  Complies partially  Explanation

**27. That director absences only occur when absolutely necessary and are quantified in the Annual Corporate Governance Report. And when absences occur, that the director appoints a proxy with instructions.**

Complies  Complies partially  Explanation

**28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the Board of Directors, such concerns should be included in the minutes, upon a request from the protesting party.**

Complies  Complies Partially  Explanation  Not Applicable

**29. That the company establishes adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, external advice at the company's expense.**

Complies  Complies partially  Explanation

**30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require**

Complies  Explanation  Not Applicable

**31. That the agenda for meetings clearly states those matters about which the Board of Directors are to make a decision or adopt a resolution so that the directors may study or gather all relevant information ahead of time.**

**When, under exceptional circumstances, the chairman wishes to bring urgent matters for decision or resolution before the Board of Directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall be duly recorded in the minutes.**

Complies  Complies partially  Explanation

**32. That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.**

Complies  Complies partially  Explanation

**33. That the chairman, as the person responsible for the efficient workings of the Board of Directors, in addition to carrying out his duties required by law and the Articles of Association, should prepare and submit to the Board of Directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the Board as well as, if applicable, the chief executive of the company, should be responsible for leading the Board and the effectiveness of its work; ensuring that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.**

Complies  Complies partially  Explanation

**34. That when there is a coordinating director, the Articles of Association or the Board rules should confer upon him the following competencies in addition to those conferred by law: chairman of the Board of Directors in the absence of the chairman and deputy chairmen, should there be any; reflect the concerns of non-executive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and coordinate a succession plan for the chairman.**

Complies  Complies Partially  Explanation  Not Applicable

**35. That the secretary of the Board of Directors should pay special attention to ensure that the activities and decisions of the Board of Directors take into account the recommendations regarding good governance contained in this Code of Good Governance and which are applicable to the company.**

Complies  Explanation

**36. That the Board of Directors meet in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:**

- a) The quality and efficiency of the Board of Directors' work.
- b) The workings and composition of its committees.
- c) Diversity of membership and competence of the Board of Directors.
- d) Performance of the chairman of the Board of Directors and the chief executive officer of the company.
- e) Performance and input of each director, paying special attention to those in charge of the various Board committees.

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointments committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the appointments committee.

Business relationships between the external adviser or any member of the adviser's group and the company or any company within its group shall be specified in the Annual Corporate Governance Report.

The process and the areas evaluated shall be described in the Annual Corporate Governance Report.

Complies  Complies partially  Explanation

**37. That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.**

Complies  Complies Partially  Explanation  Not Applicable

**38. That the Board of Directors must always be aware of the matters discussed and decisions taken by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.**

Complies  Complies Partially  Explanation  Not Applicable

**39. That the members of the audit committee, in particular its chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.**

Complies  Complies partially  Explanation

**40. That under the supervision of the audit committee, there must be a unit in charge of the internal audit function, which ensures that information and internal control systems operate correctly, and which reports to the non-executive chairman of the Board or of the audit committee.**

Complies  Complies partially  Explanation

The Company, given its recent incorporation and current size, is weighing up the creation of an internal audit function.

**41. That the person in charge of the group performing the internal audit function should present an annual work plan to the audit committee, reporting directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each year.**

Complies  Complies Partially  Explanation  Not Applicable

**42. That in addition to the provisions of applicable law, the audit committee should be responsible for the following:**

**1. With regard to information systems and internal control:**

- a) Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.
- b) Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, re-election and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.
- c) Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.

**2. With regard to the external auditor:**

- a) In the event that the external auditor resigns, examine the circumstances which caused said resignation.**
- b) Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.**
- c) Insist that the company file a relevant fact with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.**
- d) Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.**
- e) Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor's billing, and all other rules regarding the auditor's independence.**

Complies  Complies partially  Explanation

**43. That the audit committee may require the presence of any employee or manager of the company, even without the presence of any other member of management.**

Complies  Complies partially  Explanation

**44. That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.**

Complies  Complies Partially  Explanation  Not Applicable

**45. That the risk management and control policy identify, as a minimum:**

- a) The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including financial or economic risks, contingent liabilities and other off balance sheet risks.**
- b) Fixing of the level of risk the company considers acceptable.**
- c) Means identified in order to minimise identified risks in the event they transpire.**
- d) Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off balance sheet risks.**

Complies  Complies partially  Explanation

**46. That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal control and management**

function should exist delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:

- a) **Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.**
- b) **Actively participate in the creation of the risk strategy and in important decisions regarding risk management.**
- c) **Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.**

Complies  Complies partially  Explanation

The Company, given its recent incorporation and current size, is weighing up the creation of the internal risk management and control function that is currently performed by the board of directors.

- 47. That members of the appointment and remuneration committee -- or of the appointments committee and the remuneration committee if they are separate – are chosen taking into account the knowledge, ability and experience necessary to perform the duties they are called upon to carry out and that the majority of said members are independent directors.**

Complies  Complies partially  Explanation

- 48. That high market capitalisation companies have formed separate appointments and remuneration committees.**

Complies  Explanation  Not Applicable

- 49. That the appointments committee consult with the chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.**

**And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate to fill a vacancy on the Board of Directors.**

Complies  Complies partially  Explanation

- 50. That the remuneration committee exercises its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:**

- a) **Propose basic conditions of employment for senior management.**
- b) **Verify compliance with company remuneration policy.**
- c) **Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.**

- d) **Oversee that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.**
- e) **Verify information regarding remuneration paid to directors and senior managers contained in the various corporate documents, including the Annual Report on Director Remuneration.**

Complies  Complies partially  Explanation

**51. That the remuneration committee consults with the chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.**

Complies  Complies partially  Explanation

**52. That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they are consistent with those that apply to mandatory committees in accordance with the recommendations above, including:**

- a) **That they are comprised exclusively of non-executive directors, with a majority of them independent.**
- b) **That their chairmen be independent directors.**
- c) **That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the Board of Directors held after the committee's last meeting.**
- d) **That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.**
- e) **That their meetings be recorded and the minutes be made available to all directors.**

Complies  Complies Partially  Explanation  Not Applicable

**53. That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the Board of Directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the Board of Directors pursuant to its powers of self-organisation, which at least the following responsibilities shall be specifically assigned thereto:**

- a) **Verification of compliance with internal codes of conduct and the company's corporate governance rules.**
- b) **Supervision of the communication strategy and relations with shareholders and investors, including small- and medium-sized shareholders.**
- c) **The periodic evaluation of the suitability of the company's corporate governance system, with the goal that the company promotes company interests and take into**



account, where appropriate, the legitimate interests of other stakeholders.

- d) **Review of the company's corporate social responsibility policy, ensuring that it is orientated towards value creation.**
- e) **Follow-up of social responsibility strategy and practice, and evaluation of degree of compliance.**
- f) **Supervision and evaluation of the way relations with various stakeholders are handled.**
- g) **Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational.**
- h) **Coordination of the process of reporting on diversity and reporting non-financial information in accordance with applicable rules and international benchmarks.**

Complies  Complies partially  Explanation

**54. That the corporate social responsibility policy include principles or commitments which the company voluntarily assumes regarding specific stakeholders and identifies, as a minimum:**

- a) **The objectives of the corporate social responsibility policy and the development of tools to support it.**
- b) **Corporate strategy related to sustainability, the natural environment and social issues.**
- c) **Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.**
- d) **Means or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.**
- e) **Means of supervising non-financial risk, ethics, and business conduct.**
- f) **Communication channels, participation and dialogue with stakeholders.**
- g) **Responsible communication practices that impede the manipulation of data and protect integrity and honour.**

Complies  Complies partially  Explanation

Given its recent incorporation, the Company's corporate social responsibility policy is currently in the process of being approved.

**55. That the company reports, in a separate document or within the management report, on matters related to corporate social responsibility, following internationally recognised methodologies.**

Complies  Complies partially  Explanation

**56. That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgment of non-executive directors.**

Complies  Explanation

**57. That only executive directors receive remuneration linked to corporate results or personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments whose value is indexed to share value, or long-term savings plans such as pension plans, retirement accounts or any other retirement plan.**

Shares may be given to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The forgoing shall not apply to shares that the director may be obliged sell in order to meet the costs related to their acquisition.

Complies  Complies partially  Explanation

**58. That as regards variable remuneration, the policies incorporate limits and administrative safeguards in order to ensure that said remuneration is in line with the work performance of the beneficiaries and are not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.**

And, in particular, that variable remuneration components:

- a) Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.
- b) Promote sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with rules and internal operating procedures and risk management and control policies.
- c) Are based upon balancing short-, medium- and long-term objectives, permitting the reward of continuous achievement over a period of time long enough to judge creation of sustainable value such that the benchmarks used for evaluation are not comprised of one-off, seldom occurring or extraordinary events.

Complies  Complies Partially  Explanation  Not Applicable

**59. That a material portion of variable remuneration components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.**

Complies  Complies Partially  Explanation  Not Applicable

**60. That remuneration related to company results takes into account any reservations which may appear in the external auditor's report which would diminish said results.**

Complies  Complies Partially  Explanation  Not Applicable

**61. That a material portion of variable remuneration for executive directors depends upon the delivery of shares or instruments indexed to share value.**

Complies  Complies Partially  Explanation  Not Applicable

- 62. That once shares or options or rights to shares arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times their annual fixed remuneration, and the director may not exercise options or rights until a term of at least three years has elapsed since they received said shares.**

**The forgoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.**

Complies  Complies Partially  Explanation  Not Applicable

- 63. That contractual arrangements include a clause which permits the company to seek reimbursement of variable remuneration components in the event that payment does not coincide with performance criteria or when delivery was made based upon data later deemed to be inaccurate.**

Complies  Complies Partially  Explanation  Not Applicable

There is no equivalent clause in the services provision agreement executed between the Company and the CEO.

- 64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual remuneration and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.**

Complies  Complies Partially  Explanation  Not Applicable

## **H** FURTHER INFORMATION OF INTEREST

1. If there is any aspect regarding corporate governance in the company or other companies in the group that have not been included in other sections of this report, but which are necessary in order to obtain a more complete and comprehensible picture of the structure and governance practices in the company or group, describe them briefly below.
2. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

Specifically, state whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report.

3. The company may also state whether it voluntarily complies with other ethical or best practice codes, whether international, sector-based, or other. In such a case, name the code in question and the date the company began following it. It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July, 2010

Although not disclosed in section C.2 of the report, the Company has an investment committee which analyses and approves the investments submitted to it by the CEO. The reason for not disclosing its composition alongside the equivalent disclosures for the appointments and remuneration and the audit and control committees is that not all of its members are members of the board of directors.

That committee's composition is as follows:

Mr. Luis Alfonso López de Herrera-Oria  
Mrs. Chony Martín Vicente-Mazariegos  
Mrs. Carmen Boyero-Klossner  
Mr. Guillermo Fernández-Cuesta Laborde  
Mr. Fernando Arenas Liñán  
Mr. Stuart William McDonald  
Mr. Fabio Alen Viani

This Annual Corporate Governance Report was approved by the Board of Directors of the company at the meeting held on 23 January 2019.

State whether any directors voted against or abstained from voting on this report.

Yes

No



## **ÁRIMA REAL ESTATE SOCIMI, S.A. AND ITS SUBSIDIARIES**

### **PREPARATION OF THE CONSOLIDATED ANNUAL ACCOUNTS AND MANAGEMENT REPORT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018**

The Board of Directors of Árima Real Estate SOCIMI, S.A. on January 23, 2019, and in compliance with the requirements established in article 253 of LSC and article 37 of Commercial Code proceeds to formulate the consolidated annual accounts and the consolidated management report for the period between June 13, 2018 and December 31, 2018, which are constituted by the attached documents that precede this writing.

Mr. Luis María Arredondo Malo  
Chairman

Mr. Luis Alfonso López de Herrera-Oria  
Board Member

Mr. Fernando Bautista Sagüés  
Board Member

Mr. David Jiménez-Blanco Carrillo de Albornoz  
Board Member

Mr. Cato Henning Stonex  
Board Member (Absent)

Notice extended by the Secretary to the Board, placing on record that, following the authorisation for issue by the members of the Board of Directors of ÁRIMA Real Estate SOCIMI, S.A. of the Annual Accounts and Management Report for the reporting period 13 June 2018 to 31 December 2018, all directors have signed this document and stamped their signature on this last page, to which I bear witness, in Madrid, on 23 January 2019. I also CERTIFY that these Financial Statements are the same as those approved by that Board of Directors, and therefore I sign and stamp all pages.

Mr. Ivan Azinovic

For the purposes of the provisions of Art. 8.1 b) of Royal Decree 1362/2007, of October 19, the members of the Board of Directors of Árima Real Estate SOCIMI, S.A.

Declare

That, to the best of their knowledge, the consolidated annual accounts of Árima Real Estate SOCIMI, S.A. (balance sheet, income statement, statement of changes in equity, statement of cash flows and notes) corresponding to the period between June 13, 2018 and December 31, 2018, prepared by the Board of Directors at its meeting of January 23, 2019 and prepared in accordance with accounting principles that are applicable, show a true and fair view of the equity, financial situation and the results of Árima Real Estate SOCIMI, S.A.

They also declare that the supplementary management report of the consolidated annual accounts includes a faithful analysis of the evolution and business results and of the position of Árima Real Estate SOCIMI, S.A., as well as the description of the main risks and uncertainties to which face.

Madrid, 23 January 2019

Mr. Luis María Arredondo Malo  
President of the Board of Directors

Mr. Luis Alfonso López de Herrera-Oria  
Vice-president of the Board of Directors

Mr. Fernando Bautista Sagüés  
Member of the Board of Directors

Mr. David Jiménez-Blanco Carrillo de Albornoz  
Member of the Board of Directors

Mr. Cato Henning Stonex  
Member of the Board of Directors (Absent)

**Árima Real Estate SOCIMI, S.A.**

Independent auditor's report,  
Annual accounts and Management report  
for the period 13 June 2018 to 31 December 2018



***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*

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#### *Opinion*

We have audited the annual accounts of Árima Real Estate SOCIMI, S.A. (the Company), which comprise the balance sheet at 31 December 2018, and the income statement, statement of changes in equity, cash flow statement and related notes for the period 13 June 2018 to 31 December 2018.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2018, as well as its financial performance and cash flows for the period 13 June 2018 to 31 December 2018, 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.

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#### *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.

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#### *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 data-bbox="263 465 534 497"><i>Investment properties</i></p> <p data-bbox="263 533 837 772">Investment properties makes up 40% of the Company's assets. The Company values its investment properties at acquisition cost less depreciation and any impairment losses recognised, as provided in notes 3.2 and 6. Total investment properties recognised under non-current assets on the balance sheet amounts to €38,348 thousand at 31 December 2018.</p> <p data-bbox="263 817 837 1003">At the end of the reporting period, the Company assesses whether there is any indication that investment property may be impaired, specifically, if there is a significant decrease in the fair value or value in use of that asset. There was no need to recognise impairment in 2018.</p> <p data-bbox="263 1048 837 1438">In order to consider the fair value of investment properties, the Company basis itself on the valuations performed by independent experts. The valuations are performed in accordance with international standards whose methodology is described in notes 3.3. and 6 to the accompanying annual accounts. The valuers consider specific variables such as the lease contracts signed. Similarly, they assume certain assumptions with respect to variations such as the discount rates, estimated market rents and comparable transactions, arriving at a final valuation.</p> <p data-bbox="263 1482 837 1601">The Company recognises depreciation on investment properties on a straight-line basis, based on the estimated useful lives included in note 3.2.</p>	<p data-bbox="861 533 1476 654">For acquisitions of investment properties, we verified the key supporting documentation, such as sale-purchase agreements and public documents or other documents affecting price.</p> <p data-bbox="861 698 1476 819">We verified that the useful life taken into account for each asset is consistent with its nature and we carried out tests on the arithmetic calculation of the depreciation expense for the period.</p> <p data-bbox="861 864 1476 983">With respect to potential impairment losses, we obtained the valuation of investment properties performed by management's independent experts on which we carried out the following procedures:</p> <ul data-bbox="885 1016 1476 1653" style="list-style-type: none"> <li>- Verification of the competence, capacity and independence of the expert valuer.</li> <li>- Verification that the valuations were performed according to appropriate methodology.</li> <li>- Discussion of the principal key assumptions of the valuation through sundry meetings with the expert valuer.</li> <li>- 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.</li> <li>- Evaluation of consistency of the main assumptions used taking into account existing market conditions.</li> </ul> <p data-bbox="861 1682 1476 1740">Additionally, we assessed the sufficiency of the information disclosed in the annual accounts.</p> <p data-bbox="861 1778 1476 1832">As a result of the aforementioned tests, we identified no incidents.</p>

*Other information: Management report*

Other information comprises only the management report for the period 13 June 2018 to 31 December 2018, 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.

On the basis of the work performed, as described above, we have ascertained that the information mentioned in paragraph a) above has been provided in the management report and that the rest of the information contained in the management report is consistent with that contained in the annual accounts for the period 13 June 2018 to 31 December 2018, and its content and presentation are in accordance with the applicable regulations.

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### *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 the Company, 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.

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### *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*

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### *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 25 January 2019.

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### *Appointment period*

The General Shareholders' Meeting held on 18 October 2018 appointed us as auditors for a period of three years, as from the year ended 31 December 2018.



Árma Real Estate SOCIMI, S.A.

### Services provided

Services provided to the Company for services other than the audit of the accounts are indicated in the note 22 of the notes to the annual accounts.

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PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by  
Rafael Pérez Guerra (20738)

25 January 2019



*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 for the period 13 June 2018 to 31 December 2018  
and Management Report for the period 2018



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### **Appendix**

Appendix I - Details of positions and interests held by the Directors in companies with a similar corporate purpose

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**BALANCE SHEET AT 31 DECEMBER 2018**  
**(Thousand euros)**

<b>ASSETS</b>	<b>Note</b>	<b>At 31 December 2018</b>
<b>NON- CURRENT ASSETS</b>		
<b>Property, plant and equipment</b>	<b>5</b>	<b>63</b>
<b>Investments properties</b>	<b>6</b>	<b>38,348</b>
<b>Long-term investments in group companies</b>		<b>3</b>
Equity instruments	8	3
		<b>38,414</b>
<b>CURRENT ASSETS</b>		
<b>Trade receivables and other accounts receivable</b>	<b>9</b>	<b>369</b>
Trade receivables for sales and services	7, 9	12
Other credits held with Public Authorities	16	357
<b>Prepayments for current assets</b>		<b>105</b>
<b>Cash and cash equivalents</b>	<b>10</b>	<b>57,967</b>
Cash and banks		57,967
		<b>58,441</b>
		<b>96,855</b>

Notes 1 to 25 to the annual accounts form an integral part of the annual accounts at 31 December 2018.



**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**BALANCE SHEET AT 31 DECEMBER 2018**  
**(Thousand euros)**

<b>EQUITY AND LIABILITIES</b>	<b>Note</b>	<b>At 31 December 2018</b>
<b>EQUITY</b>		
<b>Shareholder equity</b>		<b>95,461</b>
Share capital	11 a)	100,063
Reserves	12	(3,553)
Treasury shares	11 b)	(546)
Profit (loss) for the period	13	(503)
		<b>95,461</b>
<b>CURRENT LIABILITIES</b>		
<b>Trade and other payables</b>	14	<b>1,394</b>
Other payables	7, 14	764
Other debts with Public Authorities	16	630
		<b>1,394</b>
		<b>96,855</b>

Notes 1 to 25 to the annual accounts form an integral part of the annual accounts at 31 December 2018.





**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**INCOME STATEMENT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

	Note	For the period 13 June 2018 to 31 December 2018
<b><u>CONTINUED OPERATIONS</u></b>		
<b>Net turnover figure</b>	15 a)	12
Rendering of services		12
<b>Personnel expenses</b>	15 b)	<b>(321)</b>
Wages, salaries and associated costs		(291)
Welfare charges		(30)
<b>Other operating expenses</b>		<b>(186)</b>
External services	15 c)	(186)
Losses, impairment and change in operating provisions		-
<b>Depreciation of property, plant and equipment and investment properties</b>	5 and 6	<b>(8)</b>
<b>OPERATING RESULTS</b>		<b>(503)</b>
<b>Financial income</b>		-
<b>Financial expenses</b>		-
<b>FINANCIAL RESULT</b>		<b>-</b>
<b>PRE-TAX RESULT</b>		<b>(503)</b>
<b>Income tax</b>	16	-
<b>PRPFIT (LOSS) FOR THE PERIOD</b>		<b>(503)</b>

Notes 1 to 25 to the annual accounts form an integral part of the annual accounts at 31 December 2018.



**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018**

**(Thousand euros)**

**A) STATEMENT OF RECOGNISED INCOME AND EXPENSES FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)**

	Note	For the period 13 June 2018 to 31 December 2018
<b>Profit (loss) for the period in the income statement</b>	<b>13</b>	<b>(503)</b>
Share capital increase costs	12	(3,553)
<b>Total income and expenses attributed directly to equity</b>		<b>(4,056)</b>
Transfers to the income statement		-
<b>Total transfers to the income statement</b>		<b>-</b>
<b>TOTAL RECOGNISED INCOME AND EXPENSES</b>		<b>(4,056)</b>

Notes 1 to 25 to the annual accounts form an integral part of the annual accounts at 31 December 2018.



**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**STATEMENT OF CHANGES TO EQUITY FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

**B) STATEMENT OF TOTAL CHANGES IN EQUITY FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)**

	Share Capital	Reserves	Treasury shares	Profit (loss) for the period	TOTAL
	Note 11 a)	Note 12	Note 11 b)	Note 13	
<b>BALANCE AT 13 JUNE 2018</b>	-	-	-	-	-
Total recognised income and expenses	-	(3,553)	-	(503)	(4,056)
Transactions with shareholders or owners:					
Share capital increase	100,063	-	-	-	100,063
Treasury shares net transactions (Note 11b)	-	-	(546)	-	(546)
<b>BALANCE AT 31 DECEMBER 2018</b>	<b>100,063</b>	<b>(3,553)</b>	<b>(546)</b>	<b>(503)</b>	<b>95,461</b>

Notes 1 to 25 to the annual accounts form an integral part of the annual accounts at 31 December 2018.

**ÁRIMA REAL ESTATE SOCIMI, S.A.**
**CASH FLOW STATEMENT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

b	Note	For the period 13 June to 31 December 2018
<b>A) CASH FLOW FROM OPERATING ACTIVITIES</b>		
Pre-tax result for the period		(503)
<b>Adjustments to profit/loss</b>		
Depreciation of property, plant and equipment and Investment properties	5 and 6	8
<b>Changes in working capital</b>		
Debtors and other receivables	9	(369)
Other current assets		(105)
Creditors and other payables	14	690
Other non-current assets and liabilities		-
<b>Cash flow from operating activities</b>		<b>(279)</b>
<b>B) CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
<b>Payments on investments</b>		
Group companies	8	(3)
Property, plant and equipment	5	(65)
Investment properties	6	(37,374)
<b>Cash flow from investment activities</b>		<b>(37,442)</b>
<b>C) CASH FLOW FROM FINANCING ACTIVITIES</b>		
<b>Receivables and payments on equity instruments</b>		
Issue of equity instruments	11	96,510
Acquisition of treasury shares	11	(555)
Disposal of treasury shares	11	9
<b>Receivables and payments on financial liabilities</b>		
Repayment of financial borrowings with Group companies	20	(276)
<b>Cash flow from financing activities</b>		<b>95,688</b>
<b>NET INCREASE/REDUCTION IN CASH AND CASH EQUIVALENTS</b>		<b>57,967</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>-</b>
<b>Cash and cash equivalents at end of period</b>		<b>57,967</b>

Notes 1 to 25 to the annual accounts form an integral part of the annual accounts at 31 December 2018.

## ÁRIMA REAL ESTATE SOCIMI, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

#### 1. General Information

Árma 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 Fernando El Santo 15 4ª planta ático, 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 PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (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 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.

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

As mentioned in Note 8, the Company is the parent of a Corporate Group (hereinafter the Group). The accompanying annual accounts have been prepared on a non-consolidated basis. On 23 January 2019, the Board of Directors has prepared the consolidated annual accounts of Árima Real Estate SOCIMI, S.A. and subsidiaries at 31 December 2018 under international financial reporting standards adopted by the European Union (IFRS-EU). In accordance with the content of these consolidated annual accounts, equity amounts to 97,088 thousand euros, including a profit for 2018 of 1,124 thousand euros and that will be filed with the Commercial Registry of Madrid.

#### 2. Presentation basis

##### a) Fair presentatios

The financial statements for the period 13 June 2018 and 31 December 2018 were authorised for issue by the Board of Directors on 23 January 2019, 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.
- 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.

## ÁRIMA REAL ESTATE SOCIMI, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

The annual accounts for the period 13 June 2018 to 31 December 2018, 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 period 13 June 2018 to 31 December 2018.

#### 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.

#### Fair value of investment properties

The best evidence of the fair value of investment properties in an active market is the price of similar assets. The Company determines fair value using a range of reasonable values. 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.

#### 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 the close of each year, 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.

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

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 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.

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.

**3. Accounting criteria**

**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. Estimated useful lives:

	<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 suffered 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.



**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

	<u>Depreciation rate (%)</u>
Buildings	2%
Technical installations	8%

**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) in the United Kingdom and the International Valuation Standards (IVS) established by the International Valuation Standards Council (IVSC).

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.

## ÁRIMA REAL ESTATE SOCIMI, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

#### 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".

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.

## ÁRIMA REAL ESTATE SOCIMI, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

#### 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.
- 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 par value, both when initially entered and on subsequent valuation, provided that the effect of not updating cash flows is not significant.

## **ÁRIMA REAL ESTATE SOCIMI, S.A.**

### **NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)**

Should any existing liabilities be renegotiated, no substantial modification to financial liabilities is deemed to exist when the new lender is the same party that granted the initial loan and the present value of cash flows, including net commissions, does not differ by more than 10% of the present value of the cash flows pending payment with respect to the original liability calculated using the same 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%.

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 17).

#### **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.

## ÁRIMA REAL ESTATE SOCIMI, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

#### 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.

#### **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

When assets are leased under an operational lease agreement, the assets in question are entered in the balance sheet according to their individual type. 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 July and June of the following year), the conditions established in the plan are met, with the exception of the first fiscal year, whose first term includes the incorporation of the Company until 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.

## ÁRIMA REAL ESTATE SOCIMI, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

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. This plan does not include any “catch-up” or “promote equalization” mechanism, meaning that this is the only percentage that will be applied when making this calculation.

This incentive accrues and is calculated annually (between July and June of the following year), and it is settled with an award of company shares. The team may not dispose of these shares for a period of one year following their handover for the first third accrued; for the second third, 18 months, and for the third third, 24 months.

#### **4. Financial risk management**

##### **4.1 Financial risk factors**

The Company’s activities are exposed to various financial risks: market risk (including interest rate risk), credit risk and liquidity 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. 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.

##### **a) Market risk**

###### *(i) Interest rate risk*

The Company’s interest rate risk originates from its debt financing. The Company does not have financial debt as of December 31, 2018.

##### **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 prepares annual projections of expected cash flows.

The maturity dates set for the Company’s financial asset and liability instruments at 31 December 2018 are shown in Note 7.

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

**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	
	Furniture, Information technology and other equipment	Total
<b>Balance at June 13, 2018</b>	-	-
Cost	-	-
Accumulated depreciation	-	-
<b>Book value</b>	-	-
Added	65	65
Allocation to depreciation	(2)	(2)
<b>Balance at December 31, 2018</b>	<b>63</b>	<b>63</b>
Cost	65	65
Accumulated depreciation	(2)	(2)
<b>Book value</b>	<b>63</b>	<b>63</b>

a) Losses due to impairment

During 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 property, plant and equipment at 31 December 2018.

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(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.

The following table contains a breakdown of the entries shown for investment properties and the movements in these figures:

	Thousand euros				
	Land	Building	Technical installations	Investment Properties in progress	Total
<b>Balance at 13 June 2018</b>	-	-	-	-	-
Cost	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
<b>Book value at 13 June 2018</b>	-	-	-	-	-
Added	23,630	6,952	1,497	6,275	38,354
Allocation to depreciation	-	(3)	(3)	-	(6)
<b>Balance at 31 December 2018</b>	<b>23,630</b>	<b>6,949</b>	<b>1,494</b>	<b>6,275</b>	<b>38,348</b>
Cost	23,630	6,952	1,497	6,275	38,354
Accumulated depreciation	-	(3)	(3)	-	(6)
<b>Book value at 31 December 2018</b>	<b>23,630</b>	<b>6,949</b>	<b>1,494</b>	<b>6,275</b>	<b>38,348</b>

During 2018 the Company formalised the acquisition of real estate assets comprising two offices for €31 million (not including acquisition costs), located in the very heart of Madrid's business area: calle Maria de Molina, on the corner with calle Principe de Vergara, and the junction of Paseo de la Habana and Avenida de Alfonso XIII.

Additionally, the Company has signed a binding commitment to acquire two office buildings located in well established business areas in North East Madrid, for an aggregate amount of €63 million, comprising an overall gross leasable area of 20,200 m<sup>2</sup> and 395 parking spaces. In this connection, the Company has made a down payment of €6,275 thousand that is recognised under Investment properties in progress in the table above.

The market value of investment properties amounts to €39,975 thousand at 31 December 2018.

a) Losses due to impairment

During 2018 no entries were made or reversed in respect of value correction for impairment in relation to any real estate investment.

b) Fully depreciated assets

No items had fully depreciated at 31 December 2018.



**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

c) Income and expenses on investment properties

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

	<u>Thousand euros</u>
	<u>2018</u>
Rental income	12
Expenses for the operations resulting from investment properties that generate rental income	-
Expenses for the operations resulting from investment properties that do not generate rental income	-
	<u>12</u>

d) Operating leases

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

	<u>Thousand euros</u>
	<u>2018</u>
Less than one year	417
Between one and five years	500
More than five years	-
	<u>917</u>

e) Insurance

The Company maintains a policy of taking out all the insurance policies necessary to cover any possible risk that might affect any aspect of its investment properties. The coverage in these policies is deemed to be sufficient.

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

**7. Analysis of financial instruments**

The book value of each of the categories of financial instruments established in the regulations on the recording and valuation of “financial instruments”, excluding investments in group company equity (Note 8), is as follows:

	<b>Short-term financial assets</b>		
	<b>Equity instruments</b>	<b>Credits</b>	
		<b>Debt values</b>	<b>Derivatives</b>
			<b>Others</b>
	<b>December 31,2018</b>	<b>December 31,2018</b>	<b>December 31,2018</b>
Loans and receivables (Note 9) and other assets	-	-	<b>117</b>
<b>Total financial assets</b>	<b>-</b>	<b>-</b>	<b>117</b>
	<b>Short-term financial liabilities</b>		
	<b>Bank loans and credits</b>	<b>Bonds and other negotiable securities</b>	<b>Credits</b>
			<b>Derivatives</b>
			<b>Others</b>
	<b>December 31,2018</b>	<b>December 31,2018</b>	<b>December 31,2018</b>
Creditors and payables (Note 14)	-	-	<b>764</b>
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>764</b>

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

**7.2 Analysis by maturity date**

At 31 December 2018 the value of financial instruments with a specific maturity date or with a maturity date falling within a specific year was as follows:

At 31 December 2018:

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

**8. Long-term investments in group companies**

The following table shows a breakdown of long-term investments in group companies at 31 December 2018:

Name	Address	Activity	Share capital percentage		Voting rights	
			Direct %	Indirect %	Direct %	Indirect %
Árma Real Estate Investments, S.L.U.	Fernando El Santo 15 4ª planta ático, 28010 Madrid	Real estate activity	100	-	100	-

This investee company's shares are not listed on the stock exchange.

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

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(Thousand euros)**

At 31 December 2018 the capital and reserve amounts, results for the financial period and other information of interest, as shown in the annual accounts of the individual companies, were as follows:

	Thousand euros						
	Equity			Operating result	Profit (loss) for the period	Book value of holding	Dividends received
Capital	Reserves	Other entries					
Árma Real Estate Investments, S.L.U.	3	-	-	-	-	3	-

The Company incorporated Árma Real Estate Investments, S.L.U. in December 2018 with a contribution of €3 thousand.

**9. Loans and receivables**

	Thousand euros
	<u>2018</u>
<b>Short-term loans and receivables:</b>	
- Trade receivables for sales and services	12
- Other credits with Public Administration (Note 16)	357
	<u>369</u>

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

Of total current loans and receivables, at 31 December 2018 trade receivables amounting to €0 thousand had fallen due, of which €0 thousand had been provided for, pursuant to the trade receivable ageing policy in place and the Company's assessment. Additionally, €0 thousand was recognised in the income statement in respect of bad debt write-offs.

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

	Thousand euros
	<u>2018</u>
Up to 3 months	-
Between 3 and 6 months	-
More than 6 months	-
	<u>-</u>

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

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

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(Thousand euros)**

Movements in the provision for insolvencies over the period were as follows:

	<u>Thousand euros</u>
	<u>2018</u>
<b>Opening balance</b>	-
Allocation	-
Reversion	-
Application	-
<b>Closing balance</b>	<u>-</u>

**10. Cash and cash equivalents**

	<u>Thousand euros</u>
	<u>2018</u>
Cash and banks	57,967
	<u>57,967</u>

The current accounts accrue market interest rates.

Due to the liquidity contract entered into with JB Capital Markets, Sociedad de Valores, S.A.U., detailed in note 11b, at 31 December 2018 the Company holds €433 thousand of total cash destined for the cash account under that contract.

**11. Share capital and treasury shares**

a) Share capital

The Company was incorporated on 13 June 2018 with the issue of 300 registered shares, each with a par value of €10. 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 that of a private limited company to a public limited company and increased capital by €60 thousand. 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 (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 Share Subscription Prospectus for the Company's flotation. On 19 October 2018 the Board of Directors approved the capital increase amounting to €100,000 thousand which was entered in the Madrid Commercial Register and trading began of 10,000,000 new shares with a par value of €10 each on 23 October 2018.

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

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(Thousand euros)**

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

	<u>Thousand euros</u>
	<u>31.12.2018</u>
Subscribed share capital	100,063
	<u>100,063</u>

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

All the parent company's shares have been listed on the Spanish Continuous Stock Market since 23 October 2018.

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

<u>Entity</u>	<u>% voting rights allocated to shares</u>	<u>% voting rights held through financial instruments</u>	<u>Total %</u>
Bank of Montreal	9.794	-	<b>9.794</b>
Héctor Colonques Moreno	4.997	-	<b>4.997</b>
Mistral Iberia Real Estate SOCIMI, S.A.	5.097	-	<b>5.097</b>
Morgan Stanley	9.976	-	<b>9.976</b>
Pelham Long/Short Small Cap Master Fund Ltd.	-	9.984	<b>9.984</b>
Ross Turner	-	9.984	<b>9.984</b>
Rodex Asset Management, S.L.	10.906	-	<b>10.906</b>
UBS Group AG	8.560	-	<b>8.560</b>
<b>Total</b>	<b>49.33</b>	<b>19.968</b>	<b>69.298</b>

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

b) Treasury shares

Movements in treasury stock over the period have been as follows:

	<b>2018</b>	
	<b>Number of treasury shares</b>	<b>Thousand euros</b>
Opening balance	-	-
Additions/ Purchases	60,202	555
Reductions	(2,072)	(9)
Closing balance	<b>58,130</b>	<b>546</b>

On 1 October 2018 the Company's Universal General Shareholders' Meeting agreed to authorize, for a period 5 of years, the acquisition of a maximum number of treasury shares equal to 10% of the Company's share capital at a minimum price of 90% of the par value per share and a maximum price equivalent to the higher of the following: a) share price on the continuous trading market and b) net value of assets per share, according to the latest valuation of the Company performed by the Company. The treasury shares acquired may be sold or redeemed, traded to obtain profits on major operations, used in corporate transactions or business or delivered to the Company's employees or directors.

On 6 November 2018 Árima Real Estate SOCIMI, S.A. entered into a 12 month liquidity contract 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 the manager incentive plan consisting of handing over shares or cash (on a discretionary basis) to Company management (Note 19).

The treasury shares held at 31 December 2018 represent 0.58% of the Company's share capital and amount to 58,130 shares. The average cost of treasury shares was €9.4 per share.

These shares are carried by reducing the Company's shareholders' funds at 31 December 2018 by €546 thousand.

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.

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

**12. Reserves**

	<u>Thousand euros</u>
	<u>December 31, 2018</u>
<b>Other reserves:</b>	
- Voluntary reserves	(3,553)
- Legal reserve	-
	<u>(3,553)</u>

The Company has recognised the expenses related to the share issue carried out during the period mainly in voluntary reserves (Note 11 a).

Legal reserve

Appropriations to the legal reserve should be made in compliance with Article 274 of the Spanish Companies Act 2010 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.

**13. Profit (loss) for the period**

Proposed distribution of the result

The proposed distribution for the result and the reserve amount to be submitted to the General Shareholders Meeting, is as follows:

	<u>Thousand euros</u>
	<u>2018</u>
<b><u>Base for distribution</u></b>	
Profit and loss	<u>(503)</u>
<b><u>Application</u></b>	
Legal reserve	-
Prior periods' profit and loss	(503)
Dividends	-
	<u>(503)</u>

**14. Debts and payables**

	<u>Thousand euros</u>
	<u>2018</u>
<b>Short-term debts and payables</b>	
- Trade and other payables (Note 7)	764
- Public entities, other (Note 16)	630
	<u>1,394</u>



**ÁRIMA REAL ESTATE SOCIMI, S.A.**

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(Thousand euros)**

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

Trade and other payables mainly includes provisioned amounts relating to the Company's property acquisitions.

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

Deferred payments to suppliers

Payments on business operations carried out during the 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:

	<b>2018</b>
	<b>Days</b>
Average supplier payment term	28
Ratio of transactions paid	32
Ratio of transactions pending payment	22
	<b>Amount</b>
	<b>(Thousand euros)</b>
Total payments made	325
Total payments pending	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.

**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:

<b>Market</b>	<b>2018</b>	
	<b>Percentage</b>	<b>Thousand euros</b>
Domestic	100%	12
	<b>100%</b>	<b>12</b>

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

The net turnover figure breaks down as follows:

	<b>Thousand euros</b>
	<b>December 31, 2018</b>
<b>Revenue</b>	
Rents	12
Reinvoicing of costs	-
	<b>12</b>

b) Personnel expenses

	<b>Thousand euros</b>
	<b>2018</b>
Wages, salaries and associated costs	(291)
Welfare charges:	
- Other welfare charges	(30)
	<b>(321)</b>

At 31 December 2018 there was no compensation for dismissals

The average number of employees during the period, shown by professional grade, was as follows:

	<b>Total</b>
<b>Grade</b>	<b>2018</b>
Management / Directors	11
Employees with degrees	2
Administrative personnel and others	1
	<b>14</b>

In addition, at 31 December 2018, Company personnel details broken down by gender were as follows:

	<b>2018</b>		
<b>Grades</b>	<b>Men</b>	<b>Women</b>	<b>Total</b>
Management / Directors	9	2	11
Employees with degrees	2	-	2
Administrative personnel and others	-	1	1
	<b>11</b>	<b>3</b>	<b>14</b>

The Company did not have any employees classified as 33% disabled or more (or the local equivalent) at 31 December 2018.

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

c) External services

The following table gives a breakdown of the external services:

	<u>Thousand euros</u>
	<u>2018</u>
External professional services	(76)
Leases and royalties	(23)
Other external services	(87)
	<u>(186)</u>

**16. Income tax and tax status**

Reconciliation of the net income and expenses figure for the year with the tax base for Income Tax is as follows:

	<u>Miles de euros</u>					
	<u>Income statement</u>			<u>Income and expenses attributed directly to equity</u>		
	<u>Increases</u>	<u>Reductions</u>	<u>Total</u>	<u>Increases</u>	<u>Reductions</u>	<u>Total</u>
<b>Income and expenses balance for the period</b>	-	(503)	<b>(503)</b>		(3,553)	<b>(3,553)</b>
Income tax	-	-	-	-	-	-
Permanent differences	-	-	-	-	-	-
Temporary differences:	-	-	-	-	-	-
<b>Taxable base</b>	-	<b>(503)</b>	<b>(503)</b>	-	<b>(3,553)</b>	<b>(3,553)</b>

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 2018 tax profits are calculated as accounting losses for the year plus expenses resulting from the Company's incorporation 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 year.

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.

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(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.

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 for the financial year beginning on 13 June 2018 and ending on 31 December 2018.

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

	<u>Miles de euros</u>
	<u>2018</u>
<b>Accounts receivable</b>	
Receivables from Spanish Tax Authorities (VAT)	357
Receivables from Spanish Tax Authorities (withholdings and payments on account)	-
	<u>357</u>
<b>Payables</b>	
Payables to Spanish Tax Authorities (withholdings collected)	(147)
Payables to Social Security Bodies	(17)
Stamp duty on the acquisition of investment properties (Note 6)	(466)
	<u>(630)</u>

**17. Contingencies**

Contingent liabilities

At 31 December 2018, the Company has no contingent liabilities.

**18. Commitments**

Operational leasing commitments

The Company leases its office premises under an irrevocable operating lease. This contract is for one year and may be renewed on maturity under market conditions for another additional year following the relevant notification by the Company.

Minimum total future payments for non-cancellable operational leases are as follows:

	<u>Thousand euros</u>
	<u>2018</u>
Less than one year	19
Between one and five years	-
More than five years	-
	<u>19</u>

## ÁRIMA REAL ESTATE SOCIMI, S.A.

### NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018 (Thousand euros)

#### 19. 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.

##### Remuneration of members of the Board of Directors

During 2018 the remuneration of the members of the Board of Directors amounts to €103 thousand, of which €62 thousand was received by the executive. The executive has entered into a senior management contract with the Company.

No amount has accrued to the executive under the share-based compensation plan approved by the General Shareholders' Meeting on 26 September.

The other members of the Board of Directors have received no shares or options during the period and nor have they exercised any options and nor do they have options which have not yet been exercised.

No pension funds have been arranged for the members of the Board of Directors and nor have any similar commitments been entered into with them.

During 2018 the Company paid €26 thousand in respect of civil liability insurance premiums covering the members of the Board of Directors in their positions as such.

During the period, there are no senior management personal who are not members of the Board of Directors.

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**NOTES TO THE ANNUAL ACCOUNTS FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(Thousand euros)**

**20. Other group companies and related-party transactions**

The transactions listed below were carried out with group companies and related parties:

	<u>Thousand euros</u>
	<u>2018</u>
<b>Transactions with group companies</b>	
Rodex Asset Management, S.L.	276

(\* ) It is considered group company from the date of the Company's incorporation from 13 June to 23 October, 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. These loans were cancelled for the Company in November 2018.

At 31 December 2018 there are no balances with group companies and related parties.

**21. 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 PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018  
(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.

	<b>Property</b>	<b>Location</b>	<b>Acquisition date</b>
1	María de Molina	Calle María de Molina, on the corner with Calle Príncipe Vergara, Madrid	21 December 2018
2	Paseo de la Habana	The junction of Paseo de la Habana and Avenida de Alfonso XIII, Madrid	21 December 2018

- 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.

Transitional Provision One of the SOCIMI Law permits the application of the SOCIMI tax scheme, as laid down in Article 8 of that Law, even when the requirements contained therein are not met on the date of application provided that such requirements are met in the two years following the date on which it is decided to apply the scheme. In the opinion of the Company's Directors, these requirements will be fully met in terms of time and form.

- 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

**22. Auditors' fees**

The fees accrued by PricewaterhouseCoopers Auditores, S.L. during the financial year beginning on 13 June 2018 and ending on 31 December 2018 for auditing totalled €33 thousand, and fees for other assurance services totalled €36 thousand.

In addition, during 2018, no other services were provided by the network of PricewaterhouseCopers Auditores, S.L.

**23. Information on greenhouse gas emission rights**

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.

**24. Environmental information**

The Company's activities do not give rise to any negative environmental impacts and the Company has not, therefore, incurred any significant costs or made any significant investments with a view to mitigating such potential impacts.

**25. Subsequent events**

From 31 December 2018 to the date on which these annual accounts were authorised for issue, there were no significant events warranting disclosure.

**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**

<b>Company</b>	<b>Position or duties</b>	<b>% Share</b>
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**

<b>Company</b>	<b>Position or duties</b>	<b>% Share</b>
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	19.77



## ÁRIMA REAL ESTATE SOCIMI, S.A.

### MANAGEMENT REPORT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018

#### 1. ORGANISATION STRUCTURE AND OPERATION

Árma Real Estate Socimi, S.A. (Árma) was incorporated in Spain on 13 June 2018 in accordance with the Spanish Companies Act through the issue of 300 registered shares with a par value of €10 each. Subsequently, on 25 July 2018, the company was transformed into a public limited company and increased its capital through the issue of 6,000 shares with a par value of €10 each. On 1 October 2018, the General Shareholders' Meeting was held during which it was resolved to increase capital, the shareholders' waiving their preferential subscription right, through an offer for the subscription of the Company's shares.

On 27 September 2018, the Company informed the Tax Agency of its decision to apply the scheme for Listed Real Estate Investment Companies.

Árma was floated on 23 October 2018 following a capital increase of €100 million and the issue of 10 million ordinary shares with a par value of €10 each.

Árma is a newly-formed company, incorporated with no assets - "blind pool" - with the aim of leveraging opportunities in the Spanish real estate market. At 31 December 2018, in just two months since its flotation, the company has invested €110 million, its market debut starting with the acquisition and investment commitment of four *prime* office assets located in the most established areas of Madrid.

The assets have been acquired through three complex operations and together they amount to 27,000 leasable square meters and more than 460 parking spaces. The properties are true to the investment model of the listed company, and make up a balanced portfolio of offices for rent, offering significant potential for revaluation for the Socimi's shareholders.



Infographic of the preliminary project Árma Paseo de la Habana (Fenwick Iribarren Architects)

Árma's business strategy focuses on investments in up-market assets for rent with a major growth potential. Its commercial policy is mainly based on exploiting office premises in the financial centres of Madrid and Barcelona and in other consolidated locations outside the city centre, logistics properties in the most important distribution hubs in Spain and other tertiary assets to a lesser extent.

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**MANAGEMENT REPORT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018**

The Board of Directors of Socimi carries out its activity in accordance with corporate governance rules contained mainly in the Bylaws, in the General Shareholders' Meeting Regulations and in the Board of Directors' Regulations.

The Board of Directors is the body in charge of monitoring and controlling the company's business, and has competence in all matters relating to approval of the Company's general policies and strategies, its corporate governance and corporate social responsibility policy, and its policy on risk control and management and is responsible for ensuring compliance with the requirements to maintain the Company's Socimi status.

The Board of Directors has two essential committees: an Audit and Control Committee and an Appointment and Remuneration Committee, the key role of both being to support the Board of Directors in its tasks of monitoring and overseeing the ordinary management of the Company.



The Company's shareholders include large international and national funds that are very interested in the opportunities existing in the Spanish real estate market and in the management team's ability to maximise and optimise the performance and value of the portfolio.

**2. BUSINESS PERFORMANCE AND RESULTS**

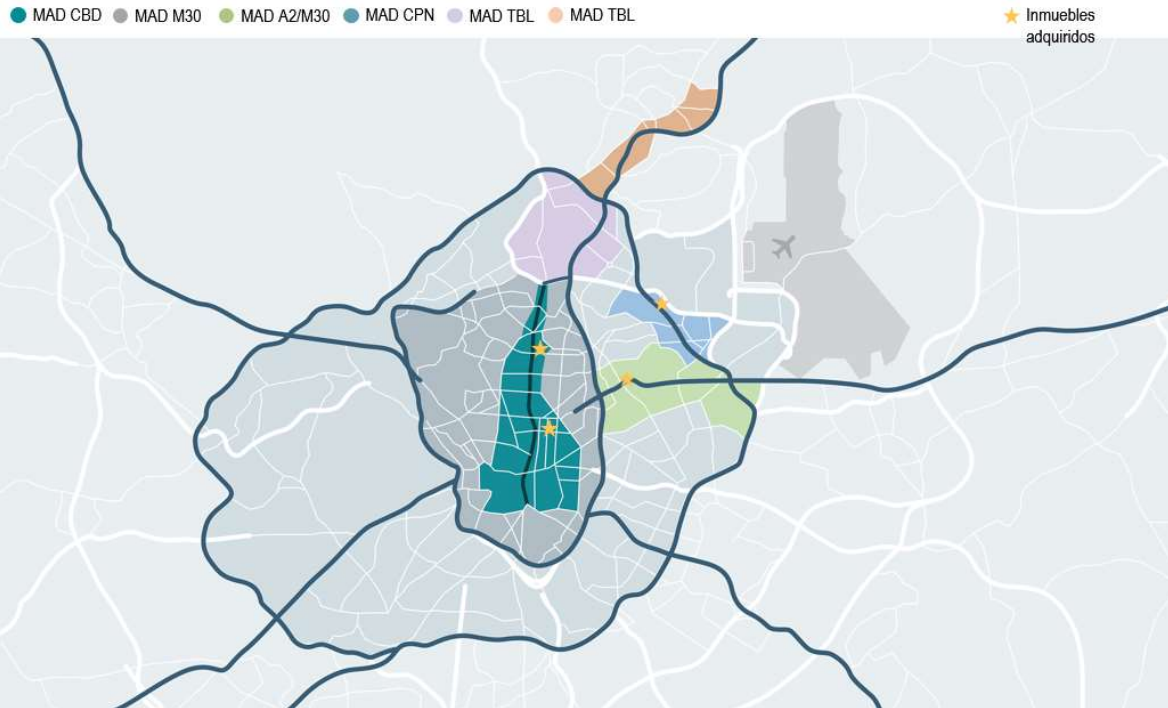
Since its flotation in October 2018, the Company has carried out several acquisitions of real estate assets, generating losses of €503 thousand in 2018 and profits of €1,124 thousand in 2018 on a consolidated level.

Investments by the Company result in a highly balanced portfolio with excellent indicators such as the internal rate of return and initial return on acquisition cost.

These investments respond to a disciplined strategy in which a product with great potential for generating value has been sought in well established locations in the Madrid metropolitan and surrounding areas, as shown in the following map:

**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**MANAGEMENT REPORT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018**

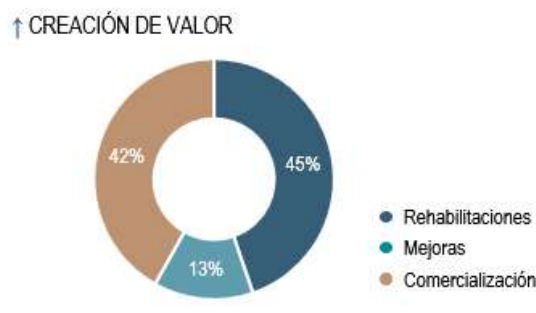


The figure "Revenue" arising from the lease of real estate assets acquired has amounted to €12 thousand, bearing in mind that the first property was acquired just a few days before the year end.

EBITDA in 2018 amounted to -€495 thousand (EBITDA: Earnings before interest, taxes, depreciation and amortization).

The market value of the company's assets at 31 December 2018 amounts to €39,975 thousand, which represents a 4.23% increase compared with the purchase price.

The following chart shows a breakdown of the value that will be created on the portfolio, taking into account the nature of the management that will be performed by the Árima team in each of the properties after a comprehensive analysis of the market and the property itself. Árima's strategic plan aims to generate shareholder value through the marketing of empty spaces, the refurbishment of the acquired properties or the comprehensive renovation of the assets:





## **ÁRIMA REAL ESTATE SOCIMI, S.A.**

### **MANAGEMENT REPORT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018**

#### **3. STOCK DEVELOPMENT**

The stock has practically not experienced any fluctuation during the year due to the recent entry to the stock markets in which it is listed.

#### **4. TREASURY SHARES**

The shares of the Company owning the same at 31 December 2018 represent 0.58% of the Company's share capital and total 58,130 shares. The average cost of treasury shares was €9.3921 per share.

These shares are carried by reducing the Company's equity at 31 December 2018 by €546 thousand.

The parent company has complied with the requirements of Article 509 of the 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 treasury shares or shares in the Parent Company.

#### **5. DIVIDEND POLICY**

SOCIMIs are governed by the special tax scheme set out in Law 11/2009, of 26 October, as amended by Law 16/2012, of 27 December, governing listed real estate investment companies. They will be required to distribute in the form of dividends to shareholders, once the related corporate obligations have been met, the profit obtained in the year, the distribution of which must be approved within six months of each year end, as follows:

- a) All profits from dividends or shares in profits paid by the entities referred to in Article 2.1. of this Law.
- b) At least 50% of the profits arising from the transfer of property, shares or ownership interests referred to in Article 2.1. of this Law, carried out once the deadlines referred to in Article 3.3 of this Law have expired, which are used to achieve the company's principal object. The remainder of these profits should be reinvested in other property or investments related to the performance of this object within three years of the transfer date. Otherwise, these profits should be distributed in full together with any profit arising 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 should be distributed in full, together with the part of the profits, attributable to the years in which the Company was not taxed under the special tax scheme provided in said Law.
- c) At least 80% of the remaining profits obtained.

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

When dividends are distributed with a charge to reserves out of profits for a year in which the special tax scheme had been applied, the distribution must be approved as set out above.

The Company is required to appropriate 10% of profits for the year to the legal reserve until the balance of this reserve amounts to 20% of share capital. This reserve is not available for distribution to shareholders until it exceeds this 20% limit. The Bylaws of these companies may not establish any other restricted reserve.



## ÁRIMA REAL ESTATE SOCIMI, S.A.

### MANAGEMENT REPORT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018

In this first year, the Company does not expect to distribute dividends as Spanish GAAP results do not meet the abovementioned requirements.

The table below sets out the reconciliation of IFRS results to *Spanish Gaap* results for a better understanding of results under both regulations:

Reconciliation Spanish GAAP vs IFRS	(Thousand €)
	<u>2018</u>
<b>Profit (loss) for the period under Spanish GAAP</b>	<b>(503)</b>
Adjustments:	
(i) Consolidation	0
(ii) Amortization investment properties	6
(iii) Changes in fair value of investment properties	1,621
<b>Profit (loss) for the period under IFRS</b>	<b>1,124</b>

#### 6. RISK MANAGEMENT

Árima has a risk control system in place that covers its operations and is suited to its risk profile. Such policies are controlled by the Board of Directors.

The main risk regarding the attainment of the Company's objectives concerns compliance with the necessary legislative requirements to ensure it retains its SOCIMI status.

The risk control system also includes financial risk management. The policies to hedge against each type of risk are detailed in the accompanying notes.

Note 3 details the Group's risk management.

#### 7. AVERAGE SUPPLIER PAYMENT PERIOD

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

#### 8. THE TEAM

The team of professionals who make up Árima is one of the Company's main strengths. Since its incorporation, the Group has hired the necessary personnel to develop its strategy and reach its objectives.

Árima Real Estate is a self-managed real estate investment group that includes the management team in its organisation structure.

This internal team works solely and is fully devoted to the company and its shareholders. The team is made up of specialist professionals with broad experience and a recognised trackrecord in the real estate sector and with a deep understanding of the market. This expert group of professionals is able to undertake highly complex investment operations in short periods of time and carry out in an integrated manner all value creation processes ranging from the identification of the investment to the active management and potential rotation of the property.



## **ÁRIMA REAL ESTATE SOCIMI, S.A.**

### **MANAGEMENT REPORT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018**

The company is overseen by a Board of Directors on which a majority of the directors are independent, grouping together skills in the real estate, financial and legal sector. This Board is advised by an Investment Committee, an Appointments and Remuneration Committee and an Audit and Control Committee that watches over compliance with the investment and profitability requirements established by the Company.

ÁrIMA has assembled a solid team of real estate professionals who together have more than 100 years' experience and are devoted exclusively to the creation of value for the company and shareholders, and to the satisfaction of their customers. Their specialization and existing contact network provides the management team with access to distinctive investment opportunities in the Spanish real estate market.

#### **9. R&D ACTIVITIES**

The Company has not carried out R&D activities during the period.

#### **10. ALTERNATIVE PERFORMANCE MEASURES**

Given the company's recent incorporation and the acquisition date of the investment property carried on the balance sheet at the year end, there are no alternative performance measure disclosure of which is significant. Nonetheless, the Company is considering implementing these measures in order to apply them in coming years.

#### **11. MAJOR EVENTS AFTER THE BALANCE SHEET DATE**

There have been no significant events after the balance sheet date.

**Appendix: Annual Corporate Governance Report.**

**ANNEX I**

**ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED  
COMPANIES**

**ISSUER IDENTIFICATION**

YEAR- END DATE

31/12/2018

Tax Identification No. [C.I.F.]  
A88130471

Company Name:

ÁRIMA REAL ESTATE SOCIMI, S.A.

Registered Office:

CALLE FERNANDO EL SANTO, 15 – 4º, 28010 MADRID

## ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

### A CAPITAL STRUCTURE

A.1 Complete the table below with details of the share capital of the company:

Date of last change	Share capital (Euros)	Number of shares	Number of voting rights
23/10/2018	100.063.000	100.06.300	10.006.300

Remarks

Please state whether there are different classes of shares with different associated rights :

Yes

No

Class	Number of shares	Par value	Number of votes	Associated rights

Remarks

A.2 Please provide details of the company's significant direct and indirect shareholders at year end, excluding any directors:



Name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
<b>BANK OF MONTREAL</b>	0,000	9,794	0,000	0,000	9,794
<b>COLONQUES MORENO, HECTOR</b>	0,000	4,997	0,000	0,000	4,997
<b>MISTRAL IBERIA REAL ESTATE SOCIMI S.A.</b>	5,097	0,000	0,000	0,000	5,097
<b>MORGAN STANLEY</b>	0,000	9,976	0,000	0,000	9,976
<b>PELHAM LONG/SHORT SMALL CAP MASTER FUND LTD</b>	0,000	0,000	9,984	0,000	9,984
<b>TURNER , ROSS</b>	0,000	0,000	9,984	0,000	9,984

Remarks

Breakdown of the indirect holding

Name of indirect shareholder	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights

Remarks

State the most significant shareholder structure changes during the year:

Name of the Shareholder	Date of the Operation	Description of the Operation
Mistral Iberia Real Estate Socimi S.A.	30/10/2018	Surpassed 3% of share capital
Morgan Stanley & Co. International plc	30/10/2018	Surpassed 10% of share capital
Morgan Stanley & Co. International plc	31/10/2018	Sold down below 10% of share capital
Mistral Iberia Real Estate Socimi S.A.	23/11/2018	Surpassed 5% of share capital

Most significant movements

A.3 In the following tables, list the members of the Board of Directors (hereinafter “directors”) with voting rights in the company:

Name of director	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights	% voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR LUIS ALFONSO LOPEZ DE HERRERA-ORIA	0,000	10,906	0,000	0,000	10,906	0,000	10,906

<b>Total percentage of voting rights held by the Board of Directors</b>	10,906
---	--------

Remarks

Breakdown of the indirect holding:

Name of director	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights	% voting rights that <u>can be transmitted</u> through financial instruments

Remarks

A.4 If applicable, state any family, commercial, contractual or corporate relationships that exist among significant shareholders to the extent that they are known to the company, unless they are insignificant or arise in the ordinary course of business, except those that are reported in Section A.6:

Name of related Party	Nature of relationship	Brief description

A.5 If applicable, state any commercial, contractual or corporate relationships that exist between significant shareholders and the company and/or group, unless they are insignificant or arise in the ordinary course of business:

Name of related party	Nature of relationship	Brief description

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

Explain, as the case may be, how the significant shareholders are represented. Specifically, state those directors appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders and/or companies in its group, specifying the nature of such relationships or ties. In particular, mention the existence, identity and post of directors, or their representatives, as the case may be, of the listed company, who are, in turn, members of the Board of Directors or their representatives of companies that hold significant shareholdings in the listed company or in group companies of these significant shareholders.

Name or company name of related director or representative	Name or company name of related significant shareholder	Company name of the group company of the significant shareholder	Description of relationship/post
MR LUIS ALFONSO LOPEZ DE HERRERA-ORIA		Rodex Asset Management, S.L.	Board Member

Remarks

A.7 State whether the company has been notified of any shareholders' agreements that may affect it, in accordance with Articles 530 and 531 of the Ley de Sociedades de Capital ("Corporate Enterprises Act" or "LSC"). If so, describe these agreements and list the party shareholders:

Yes  No

Parties to the shareholders' agreement	Percentage of affected shares	Brief description of the agreement	Date of termination of agreement, if applicable

Remarks

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

Yes  No

Parties to the concerted action	Percentage of affected shares	Brief description of the agreement	Date of termination of agreement, if applicable

Remarks

If any of the aforementioned agreements or concerted actions have been modified or terminated during the year, please specify expressly:

A.8 State whether any individual or company exercises or may exercise control over the company in accordance with Article 5 of the Ley de Mercados de Valores ("Spanish Securities Market Act" or "LMV"). If so, please identify them:

Yes  No

Name of individual or company

Remarks

A.9 Complete the following table with details of the company's treasury shares:

At the close of the year:

Number of direct shares	Number of indirect shares (*)	Total percentage of share capital
58,130	0	0.58

Remarks

(\*) through:

Name of direct shareholder	Number of direct shares
<b>Total:</b>	

Remarks

Explain any significant changes during the year:

Explain significant changes

A.10 Provide a detailed description of the conditions and terms of the authority given to the Board of Directors to issue, repurchase, or dispose of treasury shares.

At the Annual General Meeting held on 1 October 2018, the Company's shareholders authorised the buyback of own shares for a period of five years.
---

A.11 Estimated working capital:

	%
<b>Estimated working capital</b>	

<b>Remarks</b>

A.12 State whether there are any restrictions (article of associations, legislative or of any other nature) placed on the transfer of shares and/or any restrictions on voting rights. In particular, state the existence of any type of restriction that may inhibit a takeover attempt of the company through acquisition of its shares on the market, and those regimes for the prior authorisation or notification that may be applicable, under sector regulations, to acquisitions or transfers of the company's financial instruments.

Yes                       No

<b>Description of restrictions</b>

A.13 State if the shareholders have resolved at a meeting to adopt measures to neutralise a take-over bid pursuant to the provisions of Act 6/2007.

Yes                       No

If so, please explain the measures approved and the terms under which such limitations would cease to apply:

Explain the measures approved and the terms under which such limitations would cease to apply

A.14 State if the company has issued shares that are not traded on a regulated EU market.

Yes                       No

If so, please list each type of share and the rights and obligations conferred on each.

List each type of share

**B GENERAL SHAREHOLDERS' MEETING**

B.1 State whether there are any differences between the quorum established by the LSC for General Shareholders' Meetings and those set by the company and if so, describe them in detail:

Yes  No

	% quorum different from that contained in Article 193 LSC for general matters	% quorum different from that contained in Article 194 LSC for special resolutions
Quorum required at 1st call		
Quorum required at 2nd call		

Description of differences

B.2 State whether there are any differences in the company's manner of adopting corporate resolutions and the manner for adopting corporate resolutions described by the LSC and, if so, explain:

Yes  No

Describe how it is different from that contained in the LSC.

	Qualified majority different from that established in Article 201.2 LSC for Article 194.1 LSC matters	Other matters requiring a qualified majority
% established by the company for adoption of resolutions		

Describe the differences

B.3 State the rules for amending the company's Articles of Association. In particular, state the majorities required for amendment of the Articles of Association and any provisions in place to protect shareholders' rights in the event of amendments to the Articles of Association.

The bylaw-stipulated regime for carrying resolutions is that established in Spain's Corporate Enterprises Act.
--

B.4 Give details of attendance at General Shareholders' Meetings held during the year of this report and the previous year:

Date of General Meeting	Attendance data				Total
	% physically present	% present by proxy	% distance voting		
			Electronic voting	Other	
26/09/2018	100	0	0	0	100
01/10/2018	100	0	0	0	100
18/10/2018	100	0	0	0	100
<b>Of which, free float:</b>					

<b>Remarks</b>

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

Points on agenda not approved	% votes against (*)

(\*) If the non-approval of the point is for a reason other than the votes against, this will be explained in the text part and "N/A" will be placed in the "% votes against" column.

B.6 State if the Articles of Association contain any restrictions requiring a minimum number of shares to attend General Shareholders' Meetings, or on distance voting:

Yes  No

<b>Number of shares required to attend General Meetings</b>	
<b>Number of shares required for distance voting</b>	

<b>Remarks</b>



B.7 State whether it has been established that certain decisions other than those established by law exist that entail an acquisition, disposal or contribution to another company of essential assets or other similar corporate transactions that must be subject to the approval of the General Shareholders' Meeting.

Yes

No

<b>Explain the decisions that must be subject to the General Shareholders' Meeting, other than those established by law</b>

B.8 State the address and manner of access to the page on the company website where one may find information on corporate governance and other information regarding General Shareholders' Meetings that must be made available to shareholders through the company website.

www.arimainmo.com
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## **C** COMPANY ADMINISTRATIVE 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:

<b>Maximum number of directors</b>	7
<b>Minimum number of directors</b>	5
<b>Number of directors set by the general meeting</b>	5

<b>Remarks</b>

C.1.2 Please complete the following table on directors:

Name of director	Natural person representative	Director category	Position on the Board	Date first appointed to Board	Last re-election date	Method of selection to Board	Date of birth
MR LUIS ALFONSO LOPEZ DE HERRERAORIA		Executive	CEO	26/09/2018		SHAREHOLDERS MEETING	09/08/1956
MR LUIS MARIA ARREDONDO MALO		Independent	Chairman	26/09/2018		SHAREHOLDERS MEETING	24/01/1943
MR FERNANDO BAUTISTA SAGÜES		Independent	Board Member	26/09/2018		SHAREHOLDERS MEETING	29/10/1957
MR DAVID JIMENEZ BLANCO CARRILLO DE ALBORNOZ		Independent	Board Member	26/09/2018		SHAREHOLDERS MEETING	31/05/1963
MR CATO HENNING STONEX		Independent	Board Member	26/09/2018		SHAREHOLDERS MEETING	17/12/1963

<b>Total number of directors</b>	5
----------------------------------	---

State if any directors, whether through resignation, dismissal or any other reason, have left the Board during the period subject to this report:

Name of director	Director type at time of leaving	Date of last appointment	Date director left	Specialised committees of which he/she was a member	Indicate whether the director left before the end of the term

<b>Reason for leaving and other remarks</b>

C.1.3 Complete the following tables regarding the members of the Board and their categories:

**EXECUTIVE DIRECTORS**

Name or company name of director	Post in organisational chart of the company	Profile
MR LUIS ALFONSO LOPEZ DE HERRERA-ORIA	Consejero Delegado	<p>He was the CEO of Axiare from 2014 until 2018 and Managing Director of Prima from 1986 until 2002. During that time, Prima's shares were listed on the Madrid stock exchange (1988) and in 1990 it became the largest real estate company in Spain.</p> <p>In 2002, he founded Rodex with a small team from Prima</p> <p>In 2007, Rodex's core business was transferred to Alza Real Estate, SA, where he continued his career as CEO and independent advisor.</p> <p>Luis Alfonso López de Herrera-Oria has also acted as independent advisor to funds such as Falcon II Real Estate, set up by Morgan Stanley and CBRE, and iAdvise Partners, EAFI, SL. He holds a Bachelor's Degree in Economics and is a Fellow of the Royal Institution of Chartered Surveyors (FRICS).</p>

Total number of executive directors	1
Percentage of Board	20

Remarks

**PROPRIETARY DIRECTORS**

Name of director	Name or company name of the significant shareholder represented or that has proposed their appointment	Profile

<b>Total number of proprietary directors</b>	
<b>Percentage of the Board</b>	

<b>Remarks</b>

**INDEPENDENT DIRECTORS**

<b>Name of director</b>	<b>Profile</b>
MR LUIS MARIA ARREDONDO MALO	He is a civil engineer and holds the Medal for Professional Merit from the Chamber of Civil Engineers. He has also completed a senior management programme at IESE Business School (University of Navarra). Between 1969 and 1975 he worked as a project engineer at the Ministry of Public Works. From 1975 until 1978 he worked as General Manager of SACRA, a construction firm and subsidiary of Belgium's CFE. Between 1980 and 1988 he served as General Manager of Corporación Inmobiliaria Hispamer (CIH) and of Edificaciones de Madrid y Provincia, S.A. (EMPSA). From 1988 until 1994, he was CEO of Inmobiliaria Zabálburu, S.A., a company listed on the Spanish stock exchange. Under his management, that real estate company delivered fast and steady growth. Between 1994 and 2006, he worked as CEO of Inmobiliaria Urbis, a company he also chaired until 2006; during that period Urbis's market value reached €3.4 billion. From 2006 to 2013, he served as Chairman and CEO of Santander Global Property, Banco Santander's property arm, overseeing large-scale international projects in cities such as Madrid, Sao Paulo, Mexico City, Monterrey, Miami and Berlin. Between 2014 and 2018, he chaired the board of Axiare Patrimonio, one of Spain's largest listed REITs, which was recently acquired by Inmobiliaria Colonial.
MR FERNANDO BAUTISTA SAGÜES	He is one of the Company's non-executive independent directors. He holds a Bachelor's Degree in Law from Deusto University and in Economics and Business Administration from ICADE and has been a member of Madrid's Bar

	<p>Association since 1981. Fernando Bautista Sagüés was named a partner at law firm J&amp;A Garrigues in 1989 and, following that firm's merger with Arthur Andersen, became a partner of Arthur Andersen Worldwide in 1996. Two years later, in 1998, he was made partner at Freshfields. Between 2014 and 2018, he served as a non-executive independent director of Axiare Patrimonio. Today, Mr. Fernando Bautista Sagüés works as an independent legal advisor specialised in matters of corporate and financial law; he is a director at Abante Asesores, S.A. and the secretary of Iberdrola, S.A.'s corporate social responsibility committee.</p>
<p>MR DAVID JIMENEZ BLANCO CARRILLO DE ALBORNOZ</p>	<p>He is one of the Company's non-executive independent directors. He holds a Bachelor's Degree in Economics and Business Administration from CUNEF. Mr. Jiménez-Blanco worked at Goldman Sachs International from 1995 until 2006, where he headed up the European Industrial Clients Group and the investment banking teams in Spain and Portugal. Between 2006 and 2009, Mr. Jiménez-Blanco chaired Merrill Lynch Capital Markets España, S.A, Sociedad de Valores in his capacity as Head of Investment Banking and Global Markets in Spain and Portugal and member of the EMEA Investment Banking Operations Committee. From 2010 until 2013, he was partner at BK Partners, a management company focused primarily on direct investment in Mexico, and between 2013 and 2016, he served as CFO of World Duty Free Group SpA, a company listed in Milan. Between 2014 and 2018, he served as a non-executive independent director of Axiare Patrimonio. Today, Mr. Jiménez-Blanco is the head of restructuring at Abengoa, S.A. and the Lead Independent Director of BME, S.A.</p>
<p>MR CATO HENNING STONEX</p>	<p>He is one of the Company's non-executive independent directors. He holds a Bachelor of Science (Economics) from the London School of Economics and Political Science. From 2006 until 2016, he served as Governor of the LSE and in 2016 he was named Emeritus Governor. Mr. Cato Henning Stonex directs LSE Ideas (a think-tank) and is also a member of the LSE's Investment</p>

	Committee. He joined Morgan Grenfell & Co in 1986, specifically the government bond trading desk. In 1989, he joined J. Rothschild Administration as a fund manager. He co-founded Taube Hodson Stonex in 1996. Taube Hodson Stonex merged with Global Asset Management in 2016. In 2017, he founded Partners Investment Company, LLP. He was an independent non-executive director of Axiare Patrimonio between 2017 and 2018.
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<b>Number of independent directors</b>	4
<b>Percentage of the Board</b>	80

<b>Remarks</b>

State whether any independent director receives from the company or any company in the group any amount or benefit other than compensation as a director, or has or has had a business relationship with the company or any company in the group during the past year, whether in his or her own name or as a significant shareholder, director or senior executive of a company that has or has had such a relationship.

N/A.

In this case, include a statement by the Board explaining why it believes that the director in question can perform his or her duties as an independent director.

Name of the director	Description of the relationship	Statement of the Board

**OTHER EXTERNAL DIRECTORS**

Identify the other external directors and state the reasons why these directors are considered neither proprietary nor independent, and detail their ties with the company or its management or shareholders:

Name of director	Reason	Company, director or shareholder to whom the director is related	Profile

<b>Total number of other external directors</b>	
<b>Percentage of the Board</b>	

<b>Remarks</b>

State any changes in status that has occurred during the period for each director:

Name of director	Date of change	Previous Status	Current status

<b>Remarks</b>

C.1.4 Complete the following table with information relating to the number of female directors at the close of the past 4 years, as well as the category of each:

	Number of female directors				% of directors for each category			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
<b>Executive</b>	0	0	0	0	0	0	0	0
<b>Proprietary</b>	0	0	0	0	0	0	0	0
<b>Independent</b>	0	0	0	0	0	0	0	0
<b>Other external</b>	0	0	0	0	0	0	0	0
<b>Total</b>	0	0	0	0	0	0	0	0

<b>Remarks</b>

C.1.5 State whether the company has diversity policies in relation to the Board of Directors of the company on such questions as age, gender, disability and training and professional experience. Small and medium-sized enterprises, in accordance with the definition set out in the Accounts Audit Act, will have to report at least 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 state the specific measures adopted by the Board of Directors and the appointments and remuneration committee to achieve a balanced and diverse presence of directors.

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

<b>Description of policies, objectives, measures and how they have been implemented, including results achieved</b>
The board of directors is in the process of approving the director selection policy. That policy will ensure that the director selection procedures are conducive to fostering diversity in terms of gender, professional experience and knowledge/skills and are unbiased, so as to prevent discrimination on any grounds. It will also be designed to ensure that non-executive director candidates have sufficient time available to discharge their duties effectively.

- C.1.6 Describe the means, if any, agreed upon by the appointments committee to ensure that selection procedures do not contain hidden biases which impede the selection of female directors and that the company deliberately seeks and includes women who meet the target professional profile among potential candidates and which makes it possible to achieve a balance between men and women:

<b>Explanation of means</b>
Although there are no female directors at present, it is the board's intention to address that situation. It plans to carry out the corresponding internal assessments to this end.

In the event that there are few or no female directors in spite of any measures adopted, please explain the reasons that justify such a situation:

<b>Explanation of means</b>
As noted above, the Company is conducting the internal assessments required in relation to the incorporation of female directors. However, this effort has yet to yield the desired results.

- C.1.7 Describe the conclusions of the appointments committee regarding verification of compliance with the selection policy for directors; in particular, as it relates to the goal of ensuring that the number of female directors represents at least 30% of the total membership of the Board of Directors by the year 2020.



The Company has articulated a director selection policy based on an analysis of the Company's needs. Director candidates must be well-regarded, solvent, competent, qualified, skilled, available and committed. They must be upstanding professionals whose professional conduct and trajectory are aligned with the Company's mission, vision and values. Note that the Company is working to deliver its diversity policies and its specific targets for female board representation.

C.1.8 If applicable, please explain the reasons for the appointment of any proprietary directors at the request of shareholders with less than a 3% equity interest:

Name of shareholder	Reason

State whether the Board has failed to meet any formal requests for membership from shareholders whose equity interest is equal to or higher than that of others at whose request proprietary directors have been appointed. If this is the case, please explain why the aforementioned requests were not met:

Yes  No

Name of shareholder	Explanation

C.1.9 State the powers delegated by the Board of Directors, as the case may be, to directors or Board committees:

Name of director	Brief description
MR LUIS ALFONSO LOPEZ DE HERRERA-ORIA	Each and every one of the powers vested in the board of directors that can be delegated in keeping with the provisions in company law, the bylaws and the board regulations.

C.1.10 Identify any members of the Board who are also directors or officers in other companies in the group of which the listed company is a member:

Name of director	Name of group member	Position	Does the director have executive powers?
MR LUIS ALFONSO LOPEZ DE HERRERA-ORIA	Árma Real Estate Investments, S.L.U.	Individual representing Sole Director	Yes

Remarks

C.1.11 List any legal-person directors of your company who are 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:

Name of director	Name of listed company	Position

Remarks

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

Yes  No

Explanation of the rules and identification of the document where this is regulated
As stipulated in article 21.2.a) of the board regulations, under no circumstances can a director sit on more than five boards of directors.

C.1.13 State total remuneration received by the Board of Directors:

Board remuneration in financial year (thousand euros)	103
Amount of vested pension interests for current members (thousand euros)	0
Amount of vested pension interests for former members (thousand euros)	0

Remarks

C.1.14 Identify senior management staff who are not executive directors and their total remuneration accrued during the year:

Name	Position

<b>Total senior management remuneration (thousand euros)</b>	
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<b>Remarks</b>

C.1.15 State whether the Board rules were amended during the year:

Yes  No

<b>Description of amendment</b>

C.1.16 Specify the procedures for selection, appointment, re-election and removal of directors: the competent bodies, steps to follow and criteria applied in each procedure.

The director selection policy is framed by the following principles:
1.- The composition of the board of directors should be balanced, with a wide majority of non-executive directors and a proportionate mix between proprietary and independent directors.
2.- The board of directors must ensure that the director selection procedures foster diversity of gender, backgrounds and skills and are free from any bias that could lead to discrimination. It must also ensure that non-executive director candidates have sufficient time available to discharge their duties effectively.
3.- The director selection process must be based on prior analysis of the needs of the Company and its group. That analysis must be conducted by the Company's board of directors at the recommendation (along with a prior report substantiating that recommendation) of the appointments and remuneration committee.
4.- That committee report must be published in conjunction with the calls to general meetings at which director ratifications, appointments or re-elections are to be voted on.
5.- The remuneration and appointments committee must verify compliance with the director selection policy annually and report on its findings in the annual corporate governance report.

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

Description of changes
The board's internal organisation has not been changed as a result of its self-evaluation.

Describe the evaluation process and the areas evaluated by the Board of Directors with the help, if any, of external advisors, regarding the function and composition of the board and its committees and any other area or aspect that has been evaluated.

Description of the evaluation process and evaluated areas
The board of directors is required to carry out a self-assessment annually, evaluating the performance of it and its committees, paying special attention to the diversity of backgrounds and skills represented on the board, the performances of the chairman of the board, the Company's CEO and the other directors, taking the opportune measures as needed.
The results of the evaluation must be recorded in the meeting minutes or appended thereto.
The evaluation of the various board committees must be based on the reports they submit to the board of directors, while that of the board itself must start from the report of the appointments and remuneration committee.
Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence must be verified by the appointments and remuneration committee.
Any business dealings that the facilitator (or any member of its corporate group) has with the Company (or any member of its corporate group) must be disclosed in the annual corporate governance report. The process followed and areas evaluated must also be detailed in the annual corporate governance report.

C.1.18 Describe, in those years in which the external advisor has participated, the business relationships that the external advisor or any group company maintains with the company or any company in its group.

N/A
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C.1.19 State the situations in which directors are required to resign.

Article 12 of the Regulations of the Board of Directors regulates the removal and separation of Directors:
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1. The directors must present their resignation to the position and formalize their resignation when they have incurred in any of the cases of incompatibility or prohibition for the performance of the position of director provided for in the Law, as well as in the following cases:

a) In the case of proprietary directors, when the shareholder at whose request they have been appointed transmits in its entirety the share it held in the Company or reduce it to a level that requires the reduction of the number of proprietary directors.

b) When the Board itself so requests by a majority of at least two thirds (2/3) of its members, for having breached its obligations as a director, prior proposal or report of the Nomination and Remuneration Committee, or when its permanence in the Board may put at risk the credit and reputation of the Company.

2. In the event that a natural person representing a legal person finds him- or herself party to any of the legally-stipulated conflicts of duty or interest, the latter must be replaced immediately by the legal person director.

3. The board of directors may not propose the removal of independent directors before the end of their bylaw-stipulated tenure, except for cause and based on a prior report from the appointments and remuneration committee. Specifically, just cause is deemed to exist when a director has failed to uphold his or her fiduciary duties, breaches any of the corporate governance recommendations applicable to the Company or meets any of the circumstances that would disqualify him or her as an independent director. Notwithstanding the foregoing, the removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction produces changes in the Company's capital structure in order to meet the proportionality criterion with respect to the board's composition.

4. Directors who give up their board seats before their tenure expires, through resignation or otherwise, must state their reasons in a letter to be sent to all members of the board, without prejudice to the potential need to disclose the resignation as a price-sensitive event and to explain the reasons in the annual corporate governance report. Specifically, in the event that a director resigns because the board has taken material or reiterated decisions about which the director has expressed reservations and those reservations have prompted him or her to resign, those circumstances must be stated in the resignation letter. This provision also applies to the secretary of the board, director or otherwise.

5. Notwithstanding the foregoing, the removal of directors can be ratified by the shareholders in general meeting at any time, even if a motion to do so is not included on the meeting agenda.

C.1.20 Are qualified majorities other than those established by law required for any specific decision?

Yes  No

If so, please describe any differences.

Description of differences
Article 31.6 of the board regulations states that the report needed to ask the shareholders to approve the creation of a remuneration scheme for the Company's directors and executives entailing the delivery of shares or rights over shares must be approved by a qualified majority of directors.

C.1.21 Explain whether there are any specific requirements, other than those relating to directors, to be appointed as chairman of the Board of Directors.

Yes  No

Description of requirements

C.1.22 State whether the Articles of Association or the Board Rules establish any limit as to the age of directors:

Yes  No

	Age limit
Chairman	
CEO	
Directors	

Remarks

C.1.23 State whether the Articles of Association or the Board Rules establish any term limits for independent directors other than those required by law:

Yes  No

<b>Additional requirements and/or maximum number of term limits</b>	
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C.1.24 State whether the Articles of Association or Board Rules establish specific proxy rules for votes at Board meetings, how they are to be delegated and, in particular, the maximum number of delegations that a director may have, as well as if any limit regarding the category of director to whom votes may be delegated and whether a director is required to delegate to a director of the same category. If so, please briefly describe the rules.

Article 31.2 of the board regulations stipulates that even though the Company's directors must attend any board meetings in person, they may appoint another director as proxy, in keeping with prevailing company law. Proxies must be appointed separately for each meeting of the board and may be notified using any of the channels provided for in article 30.5 of the regulations.

C.1.25 State the number of meetings held by the Board of Directors during the year, and if applicable, the number of times the Board met without the chairman present. Meetings where the chairman sent specific proxy instructions are to be counted as attended.

<b>Number of Board meetings</b>	7
<b>Number of Board meetings without the chairman</b>	0

<b>Remarks</b>

State the number of meetings held by the coordinating director with the other directors, where there was neither attendance nor representation of any executive director:

<b>Number of meetings</b>	0
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<b>Remarks</b>

Please specify the number of meetings held by each committee of the Board during the year:

<b>Number of meetings held by the Executive Committee</b>	
<b>Number of meetings held by the Audit Committee</b>	1
<b>Number of Meetings held by the Appointments and Remuneration Committee</b>	2
<b>Number of meetings held by the Appointments Committee</b>	
<b>Number of meetings held by the Remuneration Committee</b>	
<b>Number of meetings held by the _____ Committee</b>	

<b>Remarks</b>

C.1.26 State the number of meetings held by the Board of Directors during the year in which all of its directors were present. For the purposes of this section, proxies given with specific instructions should be considered as attendance

<b>Number of meetings when all directors attended</b>	4
<b>% of attendance over total votes during the year</b>	57
<b>Number of meetings in situ or representations made with specific instructions of all directors</b>	4
<b>% of votes issued at in situ meetings or with representations made with specific instructions out of all votes cast during the year</b>	57

<b>Remarks</b>

C.1.27 State if the individual and consolidated financial statements submitted to the Board for preparation were previously certified:

Yes  No

Identify, if applicable, the person/s who certified the individual and consolidated financial statements of the company for preparation by the Board:

<b>Name</b>	<b>Position</b>

<b>Remarks</b>



C.1.28 Explain any measures established by the Board of Directors to prevent the individual and consolidated financial statements prepared by the Board from being submitted to the General Shareholders' Meeting with a qualified audit opinion.

Article 40 of the board regulations regulates dealings between the Company and its external auditor as follows:

1. The dealings between the board of directors and the Company's external auditor must be channelled through the audit and control committee.
2. The board of directors must refrain from engaging audit firms if the total estimated fees payable by the Company and its group amount to more than 5% of that audit firm's total income in Spain during the immediately preceding year.
3. The board of directors must strive to present the financial statements to shareholders without reservations or qualifications in the audit report. Should, exceptionally, such reservations or qualifications exist, both the chairman of the audit and control committee and the auditor are required to give the Company's shareholders a clear account their scope and content.

C.1.29 Is the secretary of the Board also a director?

Yes

No

If the secretary is not a director, please complete the following table:

Name of the secretary	Representative
MR IVAN AZINOVIC GAMO	
Remarks	

C.1.30 State, if any, the concrete measures established by the entity to ensure the independence of its external auditors, financial analysts, investment banks, and rating agencies, including how legal provisions have been implemented in practice.

Article 35.5 of the board regulations vests the audit committee with the following duties in respect of the external auditor:

- (i) Making recommendations to the board of directors regarding the selection, appointment, reappointment and removal of the external auditor (which must be a prestigious international audit firm), and the terms and conditions of its engagement;
- (ii) Receiving regular information from the external auditor on the progress and findings of the audit plan and verifying that senior management is acting on its recommendations;
- (iii) Safeguarding the independence of the external auditor and, to that end, ensuring that the Company notifies the securities market regulator (the CNMV), in

the form of a price-sensitive filing, of any change in auditor, accompanied as necessary by a statement regarding the existence and content of disagreements with the outgoing auditor, if any, and in the event that it is the external auditor that steps down, an explanation of the circumstances leading up to that decision.

The audit and control committee must establish the opportune relationship with the auditor(s) in order to receive feedback on any issues that could jeopardise its independence and on any other matters related to the financial statement auditing process, and to facilitate the other communications provided for in prevailing audit legislation and audit standards. Regardless, at least once a year, the auditor(s) must provide the committee with written confirmation of its independence vis-à-vis the Company and its direct and indirect related parties, including disclosures regarding additional services of any kind provided to those entities by the auditor(s) and any parties related thereto, as stipulated in Spanish audit legislation (Law 22/2015);

- (iv) Encouraging the Company's auditor to audit any other entities comprising its group;
  - (v) In the event the external auditor resigns, investigating the underlying issues;
  - (vi) Ensuring that the remuneration of the external auditor does not compromise its quality or independence;
  - (vii) Ensuring that the external auditor meets once a year with the board in full to inform it of the work undertaken and developments in the Company's risk and accounting positions;
  - (viii) Ensuring that the Company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.
- In addition, the audit committee must issue annually, prior to issuance of the audit report, a report expressing an opinion on the independence of the external auditor(s). That report should refer specifically to the provision of non-audit services.

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

Yes

No

Outgoing auditor	Incoming auditor

Remarks

If there were any disagreements with the outgoing auditor, please provide an explanation:

Yes

No

Explanation of disagreements

C.1.32 State whether the audit firm provides any non-audit services to the company and/or its Group and, if so, the fees paid and the corresponding percentage of total fees invoiced to the company and/or Group:

Yes

No

	Company	Group Companies	Total
Amount invoiced for non-audit services (thousand euros)	0	0	0
Amount invoiced for non-audit services/Amount for audit work (in %)	0%	0%	0%

Remarks

C.1.33 State whether the auditors' report on the financial statements for the preceding year contains a qualified opinion or reservations. If so, please explain the reasons given by the chairman of the audit committee to explain the content and extent of the aforementioned qualified opinion or reservations.

Yes

No

Explanation of reasons

C.1.34 State the number of consecutive years the current audit firm has been auditing the financial statements of the company and/or group. Furthermore, state the number of years audited by the current audit firm as a percentage of the total number of years that the financial statements have been audited:

	Individual	Consolidated
Number of consecutive years	1	1

	Individual	Consolidated
Number of years audited by the current audit firm/number of fiscal years the company has been audited (by %)	100%	100%

Remarks

C.1.35 State whether there is a procedure whereby directors have the information necessary to prepare the meetings of the governing bodies with sufficient time and provide details if applicable:

Yes  No

Explanation of procedure
<p>Article 30.5 of the board regulations stipulates that:  Board meetings must be called by letter, fax, telegram, e-mail or any other means that allows for proof of receipt; calls must be authorised by the signature of the chairman, secretary or vice-secretary, at the behest of the chairman. Meeting calls must be made with enough time so that the directors are notified no later than the third day before the scheduled meeting, with the exception of emergency meetings, which may even be called immediately. Under certain circumstances a specific call notice period is legally required. Call notices must always state the place, date and time of the scheduled meeting and the meeting agenda, unless its exclusion can be substantiated. Exceptionally, unless the board meeting has been called for reasons of urgency, the notice must be accompanied by the information needed by the directors to deliberate and decide on the matters on the agenda.</p>

C.1.36 State whether the company has established rules whereby directors must provide information regarding and, if applicable, resign, in circumstances that may damage the company's standing and reputation. If so, provide details:

Yes  No

Explain the rules
<p>Article 21 of the board regulations governs the directors' disclosure obligations:</p> <p>1. Directors must report to the Company the shareholdings they or their related parties have in any entity with the same, analogous or complementary business as that constituting the Company's core object and the positions held or duties performed at those companies. They must also report any professional duties discharged, as independent</p>

professionals or as employees, at entities whose business is complementary to that of the Company. That information must be included in the Company's financial statements and annual corporate governance report, as required by company law.

2. Directors must also inform the Company about:

a) All of the positions they hold and the activities performed at other companies or entities and any other professional obligations. Specifically, before accepting any directorships or executive positions at another company or entity, directors must first consult the audit and control committee. Under no circumstances may directors sit on more than five (5) boards of directors;

b) Any significant change in their professional situations that affect the terms on which they were appointed as directors;

c) Any proceedings, whether judicial, administrative or otherwise, taken against the directors that, on account of their significance or specifics, could gravely harm the Company's reputation. Specifically, directors must inform the Company, through the chairman, if they are indicted or tried for any of the crimes itemised in article 213 of Spain's Corporate Enterprises Act. If that happens, the board shall examine the circumstances as soon as possible and take the decisions it deems in the Company's best interests;

d) The shares held, directly or indirectly, by them or their related persons, in the Company, any changes in those shareholdings and any transactions executed directly or indirectly by them or their related persons involving or related with the Company's shares. To this end, 'related person' shall be understood to include any persons deemed, in keeping with Regulation (EU) No. 596/2014 of the European Parliament and of the Council, of 16 April 2014, on market abuse, to be 'closely associated' with the directors; and

e) In general, any development or situation that could be relevant to their performance as Company directors.

C.1.37 State whether any member of the Board of Directors has notified the company that he or she has been tried or notified that legal proceedings have been filed against him or her, for any offences described in Article 213 of the LSC:

Yes

No

Name of director	Criminal charge	Remarks

State whether the Board of Directors has examined the case. If so, explain in detail the decision taken as to whether the director in question should continue in his or her post or, if applicable, describe any actions taken by the Board up to the date of this report, or which it intends to take.

Yes

No

Decision/Action taken	Explanation

- C.1.38 Detail any material agreements entered into by the company that come into force, are modified or are terminated in the event of a change in control of the company following a public takeover bid, and their effects.

Árma Real Estate Socimi, S.A. has set up a share incentive plan for its management team. That plan was approved at the Annual General Meeting on 26 September 2018 and is detailed in the offering prospectus filed with the CNMV on 9 October 2018. As noted in the prospectus, a change of control as a result of a public tender offer, in accordance with Spain's takeover code (Royal Decree 1066/2007), would qualify as a vesting event, as defined in the incentive plan. That plan can be settled in shares or in cash; it is up to the board of directors to decide.

- C.1.39 Identify individually for director, and generally in other cases, and provide detail of any agreements made between the company and its directors, executives or employees containing indemnity or golden parachute clauses in the event of resignation or dismissal or termination of employment without cause following a takeover bid or any other type of transaction.

Number of beneficiaries	
Type of beneficiary	Description of agreement
CEO	The services provision agreement in effect between the Company and the CEO stipulates that if the Company terminates the agreement without just cause (i.e., unfair dismissal, as defined in Spain's Workers' Statute), the CEO would be entitled to receive cash compensation equivalent to the higher of two times' the last total annual remuneration received (including his fixed remuneration, annual bonus, medium- and long-

	<p>term incentive plans and company benefits).</p> <p>If in the year immediately preceding the year in which the relationship with the CEO is terminated by the Company two or more medium- and long-term incentive plans were paid out, only the higher payout shall compute for compensation purposes.</p> <p>In addition, six executives besides the CEO have termination clauses that would be triggered in the event they are discontinued for any reason other than for cause or at the executive's request. Those executives would be entitled to the same compensation in certain other circumstances, including a change of control. In those instances, the executives would be entitled to two years' total annual remuneration.</p>
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State if these contracts have been communicated to and/or approved by management bodies of the company or of the Group. If they have, specify the procedures, events and nature of the bodies responsible for their approval or for communicating this:

	<b>Board of Directors</b>	<b>General Shareholders' Meeting</b>
<b>Body authorising the severance clauses</b>	YES	

	<b>YES</b>	<b>NO</b>
<b>Are these clauses notified to the General Shareholders' Meeting?</b>		X

<b>Remarks</b>

## C.2 Committees of the Board of Directors

C.2.1 Provide details of all committees of the Board of Directors, their membership, and the proportion of executive, proprietary, independent and other external directors that comprise them:

### EXECUTIVE COMMITTEE

Name	Post	Category

% of executive directors	
% of proprietary directors	
% of independent directors	
% of external directors	

Remarks

Explain the duties exercised by this committee, other than those that have already been described in Section C.1.10, and describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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### AUDIT COMMITTEE

Name	Post	Category
D. David Jiménez-Blanco Carrillo de Albornoz	Chairman	Independent
D. Fernando Bautista Sagüés	Vocal	Independent
D. Cato Henning Stonex	Vocal	Independent

% of proprietary directors	0%
% of independent directors	100%
% of external directors	0%



<b>Remarks</b>

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

The audit committee's overriding mission is to support the board of directors in its duty of oversight by regularly reviewing the financial reporting process, the related internal controls and the independence of the external auditor.

Identify the directors who are member of the audit committee and have been appointed taking into account their knowledge and experience in accounting or audit matters, or both, and state the date that the Chairperson of this committee was appointed.

<b>Name of directors with experience</b>	Mr. Fernando Bautista Sagüés
<b>Date of appointment of the chairperson</b>	26/09/2018

<b>Remarks</b>

#### APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Post	Category
Mr. Fernando Bautista Sagüés	President	Independent
Mr. David Jiménez-Blanco Carrillo de Albornoz	Member	Independent
Mr. Cato Henning Stonex	Member	Independent

<b>% of proprietary directors</b>	0%
<b>% of independent directors</b>	100%
<b>% of external directors</b>	0%
<b>Remarks</b>	

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

This committee focuses its duties on supporting and assisting the board of directors with motions for the appointment, re-election, ratification and discontinuation of directors, establishing the remuneration policy for the Company's directors and executives, ensuring that the directors are upholding their fiduciary duties, particularly in relation to potential conflicts of interest and related-party transactions, and checking compliance with the Company's internal code of conduct and corporate governance rules.

**APPOINTMENTS COMMITTEE**

Name	Post	Category

<b>% of proprietary directors</b>	
<b>% of independent directors</b>	
<b>% of external directors</b>	

Remarks

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

**REMUNERATION COMMITTEE**

Name	Post	Category

<b>% of proprietary directors</b>	
<b>% of independent directors</b>	
<b>% of external directors</b>	

<b>Remarks</b>

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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\_\_\_\_\_ COMMITTEE

Name	Post	Category

<b>% of executive directors</b>	
<b>% of proprietary directors</b>	
<b>% of independent directors</b>	
<b>% of other external directors</b>	

<b>Remarks</b>

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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C.2.2 Complete the following table with information regarding the number of female directors who were members of Board committees at the close of the past four years:

	Number of female directors			
	Year t	Year t-1	Year t-2	Year t-3
	Number %	Number %	Number %	Number %
Executive committee	0 / 0%	0 / 0%	0 / 0%	0 / 0%
Audit committee	0 / 0%	0 / 0%	0 / 0%	0 / 0%
Appointments and remuneration committee	0 / 0%	0 / 0%	0 / 0%	0 / 0%
Appointments committee				
Remuneration committee				
_____ committee				

Remarks

C.2.3 State, where applicable, the existence of any regulations governing Board committees, where these regulations may be found, and any amendments made to them during the year. Also state whether any annual reports on the activities of each committee have been voluntarily prepared.

The rules governing the organisation and operation of the board committees are stipulated in articles 34, 35 and 36 of the board regulations. The board regulations are available for consultation on the Company's website.
No annual reports have been drawn up voluntarily on the activities of any of the committees.

## **D** RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Describe, if applicable, the procedure for approval of related-party and intragroup transactions.

Sections 3, 4 and 5 of article 22 of the board regulations establish the following procedure for approving related-party transactions:
--

1. Transactions between the Company and its directors, executives or persons related to them, 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 executive, or any person related to them, is entitled to receive consideration, remuneration or a fee, must be approved by the board of directors on the basis of a favourable report from the audit and control committee.
2. Before authorising the Company to execute transactions of this nature, the audit and control committee and the board of directors must analyse the transaction from the standpoints of (i) the requirement to treat all shareholders equally; and (ii) arm's length terms.
3. In the event a related-party transaction involves one of the directors, that director is not provided with any additional information about the transaction in question; and if that director is present at the meeting of the board or audit and control committee, in addition to not being allowed to exercise or delegate his or her vote, he or she must leave the room while the members of the board or the audit and control committee deliberate and vote on the transaction.
4. The prior board authorisation contemplated above is not necessary when the following three conditions are met simultaneously:
  - a) The transactions are governed by standard-form agreements applied on an across-the-board basis to a large number of clients;
  - b) They go through at market rates, generally set by the person supplying the goods or services; and
  - c) Their amount is no more than 1% of the Company's annual revenues.
5. In the case of transactions falling within the ordinary course of the Company's business that are customary or recurring in nature, a standard-form board approval will suffice.

D.2 Describe any transactions which are significant, either because of the amount involved or subject matter, entered into between the company or entities within its group and the company's significant shareholders:

Name of significant shareholder	Name of company within the group	Nature of the relationship	Type of transaction	Amount (thousand euros)

<b>Remarks</b>

D.3 Describe any transactions that are significant, either because of their amount or subject matter, entered into between the company or entities within its group and directors or managers of the company:

Name of director or manager	Name of the related party	Relationship	Type of transaction	Amount (thousand euros)

<b>Remarks</b>

D.4 Report any material transactions carried out by the company with other entities belonging to the same group, provided that these are not eliminated in the preparation of the consolidated financial statements and do not form part of the company's ordinary business activities in terms of their purpose and conditions.

In any event, note any intragroup transaction conducted with entities established in countries or territories which are considered tax havens:

Name of entity within the group	Brief description of the transaction	Amount (thousand euros)

<b>Remarks</b>

D.5 State the amount of any transactions conducted with other related parties that have not been reported in the previous sections.

Name of entity within the group	Brief description of the transaction	Amount (thousand euros)
Rodex Asset Management, S.L.	In June and September, the Company's former majority shareholder converted creditor balances into two profit-participating loans, which were cancelled in November.	276

Remarks

- D.6 Describe the mechanisms in place to detect, determine and resolve potential conflicts of interest between the company and/or its group and its directors, senior management or significant shareholders.

<p>Article 17 of the board regulations governs conflicts of interest as follows:</p> <ol style="list-style-type: none"> <li>1. A conflict of interest is deemed to exist in situations in which the interests of the Company or its group companies and the personal interests of its directors clash, directly or indirectly. Directors are deemed to have a vested interest in a matter when that matter affects them or a person related to them (as defined next).</li> <li>2. For conflict purposes, the following are considered "related persons": <ol style="list-style-type: none"> <li>a) In relation to natural person directors: <ol style="list-style-type: none"> <li>(i) Their spouses or significant others;</li> <li>(ii) The ancestors, descendants and siblings of the directors and of their spouses (or significant others);</li> <li>(iii) The spouses of the ancestors, descendants and siblings of the directors;</li> <li>(iv) The companies in which the directors, directly or through a representative, exercise or may exercise control, directly or indirectly, as contemplated in article 42 of Spain's Code of Commerce;</li> </ol> </li> <li>a) In relation to legal person directors: <ol style="list-style-type: none"> <li>(i) The owners or shareholders that exercise or could exercise, directly or indirectly, with respect to the legal person director, control, as contemplated in article 42 of Spain's Code of Commerce;</li> <li>(ii) The companies in the same group, as defined in article 42 of Spain's Code of Commerce, and their owners or shareholders;</li> <li>(iii) The legal person directors' natural person representatives, directors, de facto or by law, liquidators and legal representatives with general power of attorney;</li> </ol> </li> </ol> </li> </ol>
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(iv) The persons who are considered related parties of the representative of the legal person director under the above provisions with respect to natural person directors.

3. Conflicts of interest are governed by the following rules:

a) Communication: directors must inform the board of directors, specifically the chairman or the secretary, of any conflict of interest in which they find themselves;

b) Abstention: directors must refrain from intervening in deliberations and votes on the matters pertaining to the conflict affecting them; note that in such instances, those directors are not counted for quorum calculation purposes; In the case of proprietary directors, they must refrain from participating in votes on matters that could imply a conflict of interest between the shareholder(s) that proposed their directorships and the Company;

c) Transparency: the Company must disclose any conflicts of interest affecting its directors that are notified to it by the affected parties or of which it is aware by any other means in the annual corporate governance report.

4. The rules outlined herein may be further developed by means of rules issued by the board of directors, including in internal code of conduct rules.

D.7 Is there more than one company in the group listed in Spain?

Yes

No

Identify the other companies that are listed in Spain and their relationship to the company:

Identity and relationship with other listed group companies

State if the respective areas of activity and business relationships between the listed companies have been defined publicly and precisely, as well as between the subsidiary and other members of the group;

Yes

No

Describe the business relationship between the parent and subsidiary listed companies as well as between the subsidiary and other members of the group

Identify measures taken to resolve potential conflicts of interest between the listed subsidiary and the other group companies:

Measures taken to resolve potential conflicts of interest



## **E** RISK MANAGEMENT AND CONTROL SYSTEMS

- E.1 Explain the scope of the company's Risk Management and Control System, including tax compliance risk.

The Company has developed an enterprise risk management system that factors in the Company's specific characteristics as well as those related to the environments in which it does business at the economic, geographical and regulatory levels. The board of directors is responsible for the risk management policy and strategy. However, all members of the organisation participate in the risk management effort and are responsible for ensuring the success of the system.

- E.2 Identify the bodies within the company responsible for creating and executing the Risk Management and Control System, including tax compliance risk.

The governing bodies with responsibility over risk management and control are the board of directors and the audit committee:

### Board of directors

The board of directors is the body responsible for approving the Company's strategy and the organisational resources needed to carry it forward and for overseeing and controlling that management delivers the targets set. It likewise ensures that in dealing with its direct and indirect stakeholders, the Company abides by applicable laws and regulations; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories in which it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily. Article 43 of the Company's bylaws stipulates that the board of directors set up and maintain a permanent, internal audit and control committee.

### Audit and control committee

Article 44 of the Company's bylaws vests the audit and control committee with the overriding mission of supporting the board of directors in its duty of oversight by regularly reviewing the financial reporting process, the related internal controls and the independence of the external auditor.

- E.3 State the primary risks, including tax compliance risks, and those deriving from corruption (with the scope of these risks as set out in Royal Decree Law 18/2017), to the extent that these are significant, which may affect the achievement of business objectives.

The schematic below presents the key risks, but not all of the risks, deriving from the Company's real estate investment and management activities, all of which are covered by the established enterprise risk management system.

#### 1. Financial risks

##### a) Market risk

Interest rate risk. The Company's interest rate risk arises from its borrowings. The Company had no borrowings as at 31 December 2018.

##### b) Credit risk

The Company's credit risk, defined as the risk of a loss as a result of non-performing accounts receivable, is not significantly concentrated. The Company has designed policies to ensure that it sells and leases properties to customers with suitable credit histories.

##### c) Liquidity risk

The Company's finance department is responsible for managing liquidity risk to ensure the ability to service its payment obligations and/or commitments deriving from new investments. To this end, it prepares annual cash flow projections.

#### 2. Market risk.

The Company minimises market risk through its business strategy and model. Árima invests in prime real estate assets that present significant valuation upside, mainly in the office and logistics segments, in well-established locations. The Company's long-term business plan is focused on creating value via active portfolio management and repositioning, emphasising environmental sustainability.

#### 3. Financial risks

In acquisitions, these risks are managed by meticulously analysing proposed transactions, examining and anticipating potential problems and problem-solving. In disposals, the main risk is the inability to collect the proceeds on the terms agreed as a result of a breach by the buyers. That risk is managed by securing collateral of all kinds to ensure collection in full of the agreed price or the ability to take back ownership of the property being sold.

#### 4. Legal and tax risks

The Company's activities are regulated by legal, tax and urban planning and zoning requirements. Local, regional, national and European authorities have the power to impose fines if the Company violates these rules and requirements. Changes in the prevailing legal and tax environment could affect how the Company plans its business activities: the corresponding departments, with the help of their legal and

tax advisors, watch and analyse developments and take the required measures as needed.

The risks associated with compliance with specific legislation are the following:

a) Court and out-of-court claims. The Company's business exposes it to legal action in relation to the properties it leases, albeit derived from the actions of third parties hired by the Company (architects, engineers, contractors and subcontractors). The Company mitigates this risk by arranging appropriate civil liability and casualty insurance cover.

b) Company responsibilities in its capacity as a REIT, or SOCIMI for its acronym in Spanish. All of the Company's actions must comply with Spanish Law 11/2009, which governs listed real estate investment vehicles. The Company continually monitors its compliance with all prevailing legislation in this respect.

#### 5. Money laundering risks

These risks are controlled by means of preventative policies and control over the transactions performed by the Company, in keeping with applicable legislation.

#### 6. Data protection risks

These risks are controlled by including boilerplate and specific disclaimers in the Company's agreements in different situations, as prescribed in applicable data protection regulations, so as to limit and even eliminate any Company liability in this respect.

#### 7. Consumer/user protection risks

The Company complies with its requirements under the various state and regional consumer and user protection standards. In addition, it has an internal code of conduct specific for its securities markets activities.

Sections IV and V of that internal code of conduct outline the criteria that must be upheld by bound parties in respect of the affected securities, inside and price-sensitive information and confidential documents in order to foster transparent business operations and ensure adequate investor information and protection.

E.4 State whether the entity has a risk tolerance level, including tolerance for tax compliance risk.

Risk tolerance at Árima is defined as the level of risk the Company is willing to accept in order to deliver its strategic targets. Risk tolerance is shaped by the Company's strategy and is agreed at the board level.

Risk tolerance is also defined as the level of variability the Company is willing to accept with respect to a given target. It is, therefore, the acceptable threshold for each risk and target. Risk tolerance must be updated regularly by each department's risk officers and duly reported to the compliance officer.

E.5 State which risks, including tax compliance risks, have materialised during the year.

None of the risks outlined above materialised during the reporting period.

E.6 Explain the response and monitoring plans for all major risks, including tax compliance risks, of the company, as well as the procedures followed by the company in order to ensure that the board of directors responds to any new challenges that arise.

The Company articulates the management and control of the risks to which it is exposed by designing a series of policies and procedures that can be adapted for the differing nature of those risks. The board of directors is committed to the risk management and control processes and approves the corresponding policies, procedures, limits and structures. During its weekly meetings, the Company's management committee, on which all of the business areas and the finance department are represented, analyses the status and trend in the main risks and takes corrective measures when deemed necessary. Any risk considered critical is handled by the management committee at its regular meetings. The management committee recommends specific response plans for all critical risks to the board of directors. The board then takes those proposals under advisement, modifying them as warranted.

## **F INTERNAL RISK MANAGEMENT AND CONTROL SYSTEMS RELATED TO THE PROCESS OF PUBLISHING FINANCIAL INFORMATION (ICFR)**

Describe the mechanisms comprising the System of Internal Control over Financial Reporting (ICFR) of your company.

### **F.1 Control environment**

Report on at least the following, describing their principal features:

F.1.1. The bodies and/or departments that are responsible for (i) the existence and maintenance of an adequate and effective ICFR; (ii) their implementation; and (iii) their supervision.

Responsibility for the design, implementation and working of the internal control over financial reporting (ICFR) system has been entrusted to the Company's finance and internal audit departments.

As for responsibility for the ICFR system, the board regulations formally set out the audit committee's basic duties, which include that of supervising the process of drawing up the Company's financial information and its integrity.

F.1.2. State whether the following are present, especially if they relate to the creation of financial information:

- Departments and/or mechanisms in charge of: (i) design and review of corporate structure; (ii) clear definition of lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) assurance that adequate procedures exist for proper communication throughout the entity.

The CEO is ultimately responsible for designing and reviewing the Company's organisational structure, a responsibility delegated in it by the board of directors.

As for the process of preparing the Company's financial information, in addition to organisational charts, all of those involved in the process are clear about the guidelines, responsibilities and timing specific to each period end.

- Code of conduct, the body approving this, degree of dissemination and instruction, including principles and values, (state if there is specific mention of transaction recording and creation of financial information), a body charged with analysing breaches and proposing corrective actions and sanctions.

The Company has a board-approved, mandatory code of conduct.

The purpose of the code is to establish the basic rules and principles regulating the conduct of everyone who acts in the name of Árima and its subsidiaries. The code is applicable at all of the companies comprising Árima and is binding upon the members of its board of directors and all of its employees, irrespective of their titles and duties. This code complements the internal code of conduct governing securities market dealings, the company's other rules, its bylaws and other prevailing legislation applicable to the business of Árima. It is binding upon Árima and all the companies with which there is a material contractual relationship. Failure to comply with the provisions set down in the code constitutes an infraction and could result in the application of disciplinary measures, governed by a disciplinary regime.

- Whistleblower channel, that allows notifications to the audit committee of irregularities of a financial and accounting nature, in addition to potential breaches of the code of conduct and unlawful activities undertaken in the organisation, reporting, as the case may be, if this is of a confidential nature.

The Company is currently in the process of implementing a whistleblowing channel for matters related with the Company's internal rules of conduct and another procedure for reporting potentially significant financial and accounting incidents.

- Training and periodic refresher programmes for staff involved in the preparation and revision of financial information, as well as assessment of the ICFR (Internal Control System for Financial Information), that covers at least accounting rules, audits, internal control and risk management.

The finance department has organised training and refresher sessions on the Company's internal rules of conduct and controls.

## F.2 Assessment of financial information risks

Report on at least the following:

F.2.1. The main characteristics of the risk identification process, including error and fraud risk, as regards:

- Whether the process exists and is documented.
- If the process covers all of the objectives of financial information, (existence and occurrence; completeness; valuation; delivery; breakdown and comparability; and rights and obligations), whether it is updated and with what frequency.
- The existence of a process for identifying the scope of consolidation, taking into account, among other factors, the possible existence of complex company structures, shell companies, or special purpose entities.
- If the process takes into account the effects of other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements.
- The governing body within the company that supervises the process.

### F.3 Control activities

Report on whether the company has at least the following, describing their main characteristics:

- F.3.1. Review and authorisation procedures for financial information published by the stock markets and a description of the ICFR, indicating those responsible, as well as documentation describing the flow of activity and controls (including those relating to the risk of fraud) of the various types of transactions which may materially affect the financial statements, including financial closing procedures and the specific review of judgements, estimates, valuations and relevant forecasts.

The Company has an internal financial information review procedure (which includes the annual financial statements, the interim financial statements and the annual corporate governance report) which encompasses the process from when that information is generated in the finance area until it is approved by the audit and control committee and, ultimately, by the board of directors, prior to publication.

- F.3.2. Internal IT control policies and procedures (access security, change controls, their operation, operational continuity, and segregation of duties, among others) which support relevant processes within the company and relate to the creation and publication of financial information.

The internal control policies and procedures associated with the financial reporting systems are designed by the Company's management. The main risks considered by the Company, for which responses are defined, relate to physical security (back-ups, maintenance, server access, etc.), logical security (access controls, procedures for granting/revoking access, protection against viruses/malware, etc.), due segregation of duties, information record-keeping and traceability, privacy (data protection), system development and maintenance.

- F.3.3. Internal control policies and procedures intended to guide the management of subcontracted activities and those of third parties, as well as those aspects of assessment, calculation or evaluation entrusted to independent experts, which may materially affect financial statements.

The activity outsourced to third parties with the most significant impact on the financial statements is the asset valuation exercise conducted by an independent expert. The procedure implemented by the Company in this respect essentially follows the recommendations made by the CNMV to appraisers and listed real estate investment trusts in relation to property appraisals.

#### **F.4 Information and communication**

State whether the company has at least the following, describing their main characteristics:

- F.4.1. A specifically assigned function for defining and updating accounting policies (accounting policy area or department) and resolving doubts or conflicts arising from their interpretation, maintaining a free flow of information to those responsible for operations in the organisation, as well as an up-to-date accounting policy manual distributed to the business units through which the company operates.

El The Company's finance department designs and updates accounting policies and handles any queries in relation thereto.

- F.4.2. Measures for capturing and preparing financial information with consistent formats for application and use by all of the units of the entity or the group, and which contain the main financial statements and notes, as well as detailed information regarding ICFR.

The accounting policies defined by the finance department form the basis for drawing up the financial information of the Company and its subsidiaries. These policies guarantee the application of uniform financial preparation standards as well as uniform presentation.

#### **F.5 Supervision of system performance**

Describe at least the following:

- F.5.1. The activities of the audit committee in overseeing ICFR as well as whether there is an internal audit function that has among its mandates support of the committee and the task of supervising the internal control system, including ICFR. Additionally, describe the scope of ICFR assessment made during the year and the procedure through which the person responsible prepares the assessment reports on its results, whether the company has an action plan describing possible corrective measures, and whether its impact on financial reporting is considered.

As stated in article 44 of the Company's bylaws, the audit and control committee's duties include regularly reviewing the financial reporting process, the related internal controls and the independence of the external auditor. Regarding the scope of the ICFR assessment, in 2019, the Company plans to expand the reach of its evaluation of the operational effectiveness of the controls in place and the definition of the various activity cycles. That work will be carried out by the various business areas under the supervision of the audit and control committee through the internal audit function.



F.5.2. If there is a procedure by which the account auditor (in accordance with the contents of the *Normas Técnicas de Auditoría* (NTA) - "Auditing Standards"), internal auditor and other experts may communicate with senior management and the audit committee or senior managers of the company regarding significant weakness in internal control identified during the review of the annual accounts or any others they have been assigned. Additionally, state whether an action plan is available for correcting or mitigating any weaknesses found.

The audit and control committee meets to discharge its primary duty, which is supporting the board of directors in its oversight duties by regularly reviewing the financial reporting process, the internal audit function and the independence of the external auditor, to which end it carries out the following activities, among others:

It talks with the external auditor (particularly when the latter has intervened: audit reports, limited reviews, etc.) in order to:

- Obtener información sobre la planificación, alcance y conclusiones de los trabajos realizados.
- Obtener información acerca de debilidades de control interno detectadas en el transcurso de sus trabajos.
- Informar al auditor externo de aquellas cuestiones que pudieran afectar a su trabajo.
- Discutir con el auditor externo el contenido previsto de sus informes.
- Obtener la información necesaria para, en cumplimiento de las funciones de la Comisión de Auditoría y Control, comprobar la independencia del auditor externo.

In addition, the audit and control committee is entitled to ask for additional information or call on outside experts when analysing matters related with the discharge of its duties.

## F.6 Other relevant information

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## F.7 External auditor's report

Report from:

F.7.1. If the ICFR information submitted to the markets has been subject to review by the external auditor, in which case the entity shall include its report as an attachment. If not, reasons why should be given.

The Company has not submitted its ICFR system to external assurance as it is currently in the process of evaluating in-house the operational effectiveness of the Company's controls, including, by extension, the internal control system.

## **G** EXTENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Specify the company's level of compliance with recommendations from the Unified Code of Good Governance.

In the event that a recommendation is not followed or only partially followed, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to judge the company's actions. General explanations are not acceptable.

- 1. That the Articles of Association of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.**

Complies  Explanation

- 2. That when the parent company and a subsidiary are listed on the stock market, both should publicly and specifically define:**
  - a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with other group companies.**
  - b) The mechanisms in place to resolve any conflicts of interest that may arise.**

Complies  Complies Partially  Explanation  Not Applicable

- 3. That, during the course of the ordinary General Shareholders' Meeting, complementary to the distribution of a written Annual Corporate Governance Report, the chairman of the Board of Directors makes a detailed oral report to the shareholders regarding the most material aspects of corporate governance of the company, and in particular:**
  - a) Changes that have occurred since the last General Shareholders' Meeting.**
  - b) Specific reasons why the company did not follow one or more of the recommendations of the Code of Corporate Governance and, if so, the alternative rules that were followed instead.**

Complies  Complies partially  Explanation

- 4. That the company has defined and promoted a policy of communication and contact with shareholders, institutional investors and proxy advisors that complies in all aspects with rules preventing market abuse and gives equal treatment to similarly situated shareholders.**

**And that the company has made such a policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.**

Complies  Complies partially  Explanation

- 5. That the Board of Directors should not propose to the General Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.**

**And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable company law.**

Complies  Complies partially  Explanation

- 6. That listed companies which draft reports listed below, whether under a legal obligation or voluntarily, publish them on their web page with sufficient time before the General Shareholders' Meeting, even when their publication is not mandatory:**

- a) Report regarding the auditor's independence.**
- b) Reports regarding the workings of the audit committee and the appointments and remuneration committee.**
- c) Report by the audit committee regarding related-party transactions**
- d) Report on the corporate social responsibility policy.**

Complies  Complies partially  Explanation

- 7. That the company reports in real time, through its web page, the proceedings of the General Shareholders' Meetings.**

Complies  Explanation

Compliance with this recommendation will be reviewed annually but is not currently contemplated.

- 8. That the audit committee ensures that the Board of Directors presents financial statements in the audit report for the General Shareholders' Meetings which do not have qualifications or reservations and that, in the exceptional circumstances in which qualifications may appear, that the chairman of the audit committee and the auditors clearly explain to the shareholders the content and scope of said qualifications or reservations.**

Complies  Complies partially  Explanation

9. That the company permanently maintains on its web page the requirements and procedures for certification of share ownership, the right of attendance at the General Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

Complies  Complies partially  Explanation

La The Company is currently working on meeting this recommendation.

10. That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the General Shareholders' Meeting, the company:

a) Immediately distributes the additions and new proposals.

b) Publishes the attendance card credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.

c) Submits all of these items on the agenda or alternative proposals to a vote and applies the same voting rules to them as are applied to those drafted by the Board of Directors including, particularly, assumptions or default positions regarding votes for or against.

d) That after the General Shareholders' Meeting, a breakdown of the results of said additions or alternative proposals is communicated.

Complies  Complies Partially  Explanation  Not Applicable

11. That, in the event the company intends to pay for attendance at the General Shareholders' Meeting, it establish in advance a general policy of long-term effect regarding such payments.

Complies  Complies Partially  Explanation  Not Applicable

12. That the Board of Directors completes its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it is guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximisation of the economic value of the business.

And that in pursuit of the company's interest, in addition to complying with applicable law and rules and in engaging in conduct based on good faith, ethics and a respect for commonly accepted best practices, it seeks to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

Complies  Complies partially  Explanation

**13. That the Board of Directors is of an adequate size to perform its duties effectively and collegially, and that its optimum size is between five and fifteen members.**

Complies  Explanation

**14. That the Board of Directors approves a selection policy for directors that:**

a) Is concrete and verifiable.

b) Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the Board of Directors.

c) Favours diversity in knowledge, experience and gender.

That the resulting prior analysis of the needs of the Board of Directors is contained in the supporting report from the appointments committee published upon a call from the General Shareholders' Meeting submitted for ratification, appointment or re-election of each director.

And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors accounts for at least 30% of the total number of members of the Board of Directors.

The appointments committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Corporate Governance Report.

Complies  Complies partially  Explanation

**15. That proprietary and independent directors constitute a substantial majority of the Board of Directors and that the number of executive directors is kept at a minimum, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.**

Complies  Complies partially  Explanation

**16. That the percentage of proprietary directors divided by the number of non-executive directors is no greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.**

This criterion may be relaxed:

a) In companies with a high market capitalisation in which interests that are legally considered significant are minimal.

b) In companies where a diversity of shareholders is represented on the Board of Directors without ties among them.

Complies  Explanation

**17. That the number of independent directors represents at least half of the total number of directors.**

**Nonetheless, when the company does not have a high level of market capitalisation or in the event that it is a high cap company with one shareholder or a group acting in a coordinated fashion who together control more than 30% of the company's equity, the number of independent directors represents at least one third of the total number of directors.**

Complies  Explanation

**18. That companies publish and update the following information regarding directors on the company website:**

- a) Professional profile and biography.**
- b) Any other Boards to which the director belongs, regardless of whether the companies are listed, as well as any other remunerated activities engaged in, regardless of type.**
- c) Category of directorship, indicating, in the case of individuals who represent significant shareholders, the shareholder that they represent or to which they are connected.**
- d) The date of their first appointment as a director of the company's Board of Directors, and any subsequent re-election.**
- e) The shares and options they own.**

Complies  Complies partially  Explanation

**19. That the Annual Corporate Governance Report, after verification by the appointments committee, explains the reasons for the appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the Board meeting were not honoured, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honoured.**

Complies  Complies Partially  Explanation  Not Applicable

**20. That proprietary directors representing significant shareholders must resign from the Board if the shareholder they represent disposes of its entire equity interest. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder.**

Complies  Complies Partially  Explanation  Not Applicable

**21. That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the Articles of Association unless the Board of Directors finds just cause and a prior report has been prepared by the appointments committee. Specifically, just cause is considered to exist if the director takes on new duties or commits to new obligations that would interfere with**

his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her post, or enters into any of the circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public share offer, joint venture or similar transaction entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board are the result of the proportionate representation criteria provided for in Recommendation 16.

Complies  Explanation

22. That companies establish rules requiring that directors inform the Board of Directors and, where appropriate, resign from their posts, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.

And that should a director be indicted or tried for any of the offences set out in company law legislation, the Board of Directors must investigate the case as soon as possible and, based on the particular situation, decide whether the director should continue in his or her post. And that the Board of Directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies  Complies partially  Explanation

23. That all directors clearly express their opposition when they consider any proposal submitted to the Board of Directors to be against the company's interests. This particularly applies to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the Board of Directors.

Furthermore, when the Board of Directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next recommendation.

This recommendation also applies in the case of the secretary of the Board of Directors, despite not being a director.

Complies  Complies Partially  Explanation  Not Applicable

24. That whenever, due to resignation or any other reason, a director leaves before the completion of his or her term, the director should explain the reasons for this decision in a letter addressed to all the directors of the Board of Directors. Irrespective of whether the resignation has been reported as a relevant fact, it must be included in the Annual Corporate Governance Report.

Complies  Complies Partially  Explanation  Not Applicable

**25. That the appointments committee ensures that non-executive directors have sufficient time in order to properly perform their duties.**

**And that the Board rules establish the maximum number of company Boards on which directors may sit.**

Complies  Complies partially  Explanation

**26. That the Board of Directors meet frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the year and allowing each director individually to propose items do not originally appear on the agenda.**

Complies  Complies partially  Explanation

**27. That director absences only occur when absolutely necessary and are quantified in the Annual Corporate Governance Report. And when absences occur, that the director appoints a proxy with instructions.**

Complies  Complies partially  Explanation

**28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the Board of Directors, such concerns should be included in the minutes, upon a request from the protesting party.**

Complies  Complies Partially  Explanation  Not Applicable

**29. That the company establishes adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, external advice at the company's expense.**

Complies  Complies partially  Explanation

**30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require**

Complies  Explanation  Not Applicable

**31. That the agenda for meetings clearly states those matters about which the Board of Directors are to make a decision or adopt a resolution so that the directors may study or gather all relevant information ahead of time.**

**When, under exceptional circumstances, the chairman wishes to bring urgent matters for decision or resolution before the Board of Directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall be duly recorded in the minutes.**

Complies  Complies partially  Explanation



**32. That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.**

Complies  Complies partially  Explanation

**33. That the chairman, as the person responsible for the efficient workings of the Board of Directors, in addition to carrying out his duties required by law and the Articles of Association, should prepare and submit to the Board of Directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the Board as well as, if applicable, the chief executive of the company, should be responsible for leading the Board and the effectiveness of its work; ensuring that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.**

Complies  Complies partially  Explanation

**34. That when there is a coordinating director, the Articles of Association or the Board rules should confer upon him the following competencies in addition to those conferred by law: chairman of the Board of Directors in the absence of the chairman and deputy chairmen, should there be any; reflect the concerns of non-executive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and coordinate a succession plan for the chairman.**

Complies  Complies Partially  Explanation  Not Applicable

**35. That the secretary of the Board of Directors should pay special attention to ensure that the activities and decisions of the Board of Directors take into account the recommendations regarding good governance contained in this Code of Good Governance and which are applicable to the company.**

Complies  Explanation

**36. That the Board of Directors meet in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:**

- a) The quality and efficiency of the Board of Directors' work.
- b) The workings and composition of its committees.
- c) Diversity of membership and competence of the Board of Directors.
- d) Performance of the chairman of the Board of Directors and the chief executive officer of the company.
- e) Performance and input of each director, paying special attention to those in charge of the various Board committees.

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointments committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the appointments committee.

Business relationships between the external adviser or any member of the adviser's group and the company or any company within its group shall be specified in the Annual Corporate Governance Report.

The process and the areas evaluated shall be described in the Annual Corporate Governance Report.

Complies  Complies partially  Explanation

37. That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.

Complies  Complies Partially  Explanation  Not Applicable

38. That the Board of Directors must always be aware of the matters discussed and decisions taken by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.

Complies  Complies Partially  Explanation  Not Applicable

39. That the members of the audit committee, in particular its chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.

Complies  Complies partially  Explanation

40. That under the supervision of the audit committee, there must be a unit in charge of the internal audit function, which ensures that information and internal control systems operate correctly, and which reports to the non-executive chairman of the Board or of the audit committee.

Complies  Complies partially  Explanation

The Company, given its recent incorporation and current size, is weighing up the creation of an internal audit function.

41. That the person in charge of the group performing the internal audit function should present an annual work plan to the audit committee, reporting directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each year.

Complies  Complies Partially  Explanation  Not Applicable

42. That in addition to the provisions of applicable law, the audit committee should be responsible for the following:

1. With regard to information systems and internal control:

- a) Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.
- b) Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, re-election and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.
- c) Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.

2. With regard to the external auditor:

- a) In the event that the external auditor resigns, examine the circumstances which caused said resignation.
- b) Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.
- c) Insist that the company file a relevant fact with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.
- d) Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.
- e) Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor's billing, and all other rules regarding the auditor's independence.

Complies  Complies partially  Explanation

43. That the audit committee may require the presence of any employee or manager of the company, even without the presence of any other member of management.

Complies  Complies partially  Explanation

**44. That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.**

Complies  Complies Partially  Explanation  Not Applicable

**45. That the risk management and control policy identify, as a minimum:**

- a) The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including financial or economic risks, contingent liabilities and other off balance sheet risks.**
- b) Fixing of the level of risk the company considers acceptable.**
- c) Means identified in order to minimise identified risks in the event they transpire.**
- d) Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off balance sheet risks.**

Complies  Complies partially  Explanation

**46. That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal control and management function should exist delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:**

- a) Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.**
- b) Actively participate in the creation of the risk strategy and in important decisions regarding risk management.**
- c) Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.**

Complies  Complies partially  Explanation

The Company, given its recent incorporation and current size, is weighing up the creation of the internal risk management and control function that is currently performed by the board of directors.

**47. That members of the appointment and remuneration committee -- or of the appointments committee and the remuneration committee if they are separate -- are chosen taking into account the knowledge, ability and experience necessary to perform the duties they are called upon to carry out and that the majority of said members are independent directors.**

Complies  Complies partially  Explanation

**48. That high market capitalisation companies have formed separate appointments and remuneration committees.**

Complies  Explanation  Not Applicable

**49. That the appointments committee consult with the chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.**

**And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate to fill a vacancy on the Board of Directors.**

Complies  Complies partially  Explanation

**50. That the remuneration committee exercises its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:**

- a) Propose basic conditions of employment for senior management.
- b) Verify compliance with company remuneration policy.
- c) Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.
- d) Oversee that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.
- e) Verify information regarding remuneration paid to directors and senior managers contained in the various corporate documents, including the Annual Report on Director Remuneration.

Complies  Complies partially  Explanation

**51. That the remuneration committee consults with the chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.**

Complies  Complies partially  Explanation

**52. That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they are consistent with those that apply to mandatory committees in accordance with the recommendations above, including:**

- a) That they are comprised exclusively of non-executive directors, with a majority of them independent.
- b) That their chairmen be independent directors.

- c) That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the Board of Directors held after the committee's last meeting.
- d) That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.
- e) That their meetings be recorded and the minutes be made available to all directors.

Complies  Complies Partially  Explanation  Not Applicable

**53. That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the Board of Directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the Board of Directors pursuant to its powers of self-organisation, which at least the following responsibilities shall be specifically assigned thereto:**

- a) Verification of compliance with internal codes of conduct and the company's corporate governance rules.
- b) Supervision of the communication strategy and relations with shareholders and investors, including small- and medium-sized shareholders.
- c) The periodic evaluation of the suitability of the company's corporate governance system, with the goal that the company promotes company interests and take into account, where appropriate, the legitimate interests of other stakeholders.
- d) Review of the company's corporate social responsibility policy, ensuring that it is orientated towards value creation.
- e) Follow-up of social responsibility strategy and practice, and evaluation of degree of compliance.
- f) Supervision and evaluation of the way relations with various stakeholders are handled.
- g) Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational.
- h) Coordination of the process of reporting on diversity and reporting non-financial information in accordance with applicable rules and international benchmarks.

Complies  Complies partially  Explanation

**54. That the corporate social responsibility policy include principles or commitments which the company voluntarily assumes regarding specific stakeholders and identifies, as a minimum:**

- a) **The objectives of the corporate social responsibility policy and the development of tools to support it.**
- b) **Corporate strategy related to sustainability, the natural environment and social issues.**
- c) **Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.**
- d) **Means or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.**
- e) **Means of supervising non-financial risk, ethics, and business conduct.**
- f) **Communication channels, participation and dialogue with stakeholders.**
- g) **Responsible communication practices that impede the manipulation of data and protect integrity and honour.**

Complies  Complies partially  Explanation

Given its recent incorporation, the Company's corporate social responsibility policy is currently in the process of being approved.

- 55. That the company reports, in a separate document or within the management report, on matters related to corporate social responsibility, following internationally recognised methodologies.**

Complies  Complies partially  Explanation

- 56. That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgment of non-executive directors.**

Complies  Explanation

- 57. That only executive directors receive remuneration linked to corporate results or personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments whose value is indexed to share value, or long-term savings plans such as pension plans, retirement accounts or any other retirement plan.**

Shares may be given to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The forgoing shall not apply to shares that the director may be obliged sell in order to meet the costs related to their acquisition.

Complies  Complies partially  Explanation

**58. That as regards variable remuneration, the policies incorporate limits and administrative safeguards in order to ensure that said remuneration is in line with the work performance of the beneficiaries and are not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.**

**And, in particular, that variable remuneration components:**

- a) Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.**
- b) Promote sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with rules and internal operating procedures and risk management and control policies.**
- c) Are based upon balancing short-, medium- and long-term objectives, permitting the reward of continuous achievement over a period of time long enough to judge creation of sustainable value such that the benchmarks used for evaluation are not comprised of one-off, seldom occurring or extraordinary events.**

Complies  Complies Partially  Explanation  Not Applicable

**59. That a material portion of variable remuneration components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.**

Complies  Complies Partially  Explanation  Not Applicable

**60. That remuneration related to company results takes into account any reservations which may appear in the external auditor's report which would diminish said results.**

Complies  Complies Partially  Explanation  Not Applicable

**61. That a material portion of variable remuneration for executive directors depends upon the delivery of shares or instruments indexed to share value.**

Complies  Complies Partially  Explanation  Not Applicable

**62. That once shares or options or rights to shares arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times their annual fixed remuneration, and the director may not exercise options or rights until a term of at least three years has elapsed since they received said shares.**

**The forgoing shall not apply to shares which the director may need to sell in order to meet the costs related to their acquisition.**

Complies  Complies Partially  Explanation  Not Applicable



**63. That contractual arrangements include a clause which permits the company to seek reimbursement of variable remuneration components in the event that payment does not coincide with performance criteria or when delivery was made based upon data later deemed to be inaccurate.**

Complies  Complies Partially  Explanation  Not Applicable

There is no equivalent clause in the services provision agreement executed between the Company and the CEO.

**64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual remuneration and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.**

Complies  Complies Partially  Explanation  Not Applicable

## **H** FURTHER INFORMATION OF INTEREST

1. If there is any aspect regarding corporate governance in the company or other companies in the group that have not been included in other sections of this report, but which are necessary in order to obtain a more complete and comprehensible picture of the structure and governance practices in the company or group, describe them briefly below.
2. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

Specifically, state whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report.

3. The company may also state whether it voluntarily complies with other ethical or best practice codes, whether international, sector-based, or other. In such a case, name the code in question and the date the company began following it. It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July, 2010

Although not disclosed in section C.2 of the report, the Company has an investment committee which analyses and approves the investments submitted to it by the CEO. The reason for not disclosing its composition alongside the equivalent disclosures for the appointments and remuneration and the audit and control committees is that not all of its members are members of the board of directors.

That committee's composition is as follows:

Mr. Luis Alfonso López de Herrera-Oria  
Mrs. Chony Martín Vicente-Mazariegos  
Mrs. Carmen Boyero-Klossner  
Mr. Guillermo Fernández-Cuesta Laborde  
Mr. Fernando Arenas Liñán  
Mr. Stuart William McDonald  
Mr. Fabio Alen Viani

This Annual Corporate Governance Report was approved by the Board of Directors of the company at the meeting held on 23 January 2019.

State whether any directors voted against or abstained from voting on this report.

Yes

No



**ÁRIMA REAL ESTATE SOCIMI, S.A.**

**PREPARATION OF THE ANNUAL ACCOUNTS AND MANAGEMENT REPORT FOR THE PERIOD 13 JUNE 2018 TO 31 DECEMBER 2018**

The Board of Directors of the company Árima Real Estate SOCIMI, S.A. on January 23, 2019, and in compliance with the requirements established in article 253 of LSC and article 37 of Commercial Code proceeds to formulate the annual accounts and the management report for the period 13 June 2018 to 31 December 2018, which are constituted by the attached documents that precede this writing.

Mr. Luis María Arredondo Malo  
President

Mr. Luis Alfonso López de Herrera-Oria  
Board Member

Mr. Fernando Bautista Sagüés  
Board Member

Mr. David Jiménez-Blanco Carrillo de Albornoz  
Board Member

Mr. Cato Henning Stonex  
Board Member (Absent)

Notice extended by the Secretary to the Board, placing on record that, following the authorisation for issue by the members of the Board of Directors of ÁRIMA Real Estate SOCIMI, S.A. of the Annual Accounts and Management Report for the reporting period 13 June 2018 to 31 December 2018, all directors have signed this document and stamped their signature on this last page, to which I bear witness, in Madrid, on 23 January 2019. I also CERTIFY that these Financial Statements are the same as those approved by that Board of Directors, and therefore I sign and stamp all pages

Mr. Ivan Azinovich

For the purposes of the provisions of Art. 8.1 b) of Royal Decree 1362/2007, of October 19, the members of the Board of Directors of Árima Real Estate SOCIMI, S.A.

Declare

That, to the best of their knowledge, 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) corresponding to the period between June 13, 2018 and December 31, 2018, prepared by the Board of Directors at its meeting of January 23, 2019 and prepared in accordance with accounting principles that are applicable, show a true and fair view of the equity, financial situation and the results of Árima Real Estate SOCIMI, S.A.

They also declare that the supplementary management report of the annual accounts includes a faithful analysis of the evolution and business results and of the position of Árima Real Estate SOCIMI, S.A., as well as the description of the main risks and uncertainties to which face.

Madrid, a 23 January 2019

Mr. Luis María Arredondo Malo  
President of the Board of Directors

Mr. Luis Alfonso López de Herrera-Oria  
Vice-president of the Board of Directors

Mr. Fernando Bautista Sagüés  
Member of the Board of Directors

Mr. David Jiménez-Blanco Carrillo de Albornoz  
Member of the Board of Directors

Mr. Cato Henning Stonex  
Member of the Board of Directors (Absent)