

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

Report on limited review of condensed
interim consolidated financial statements
at 30 September 2019



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

Report on limited review of condensed interim consolidated financial statements

To the shareholders of Árima Real Estate SOCIMI, S.A. at the request of the Board of Directors,

Introduction

We have performed a limited review of the accompanying condensed interim consolidated financial statements (hereinafter, the interim financial statements) of Árima Real Estate SOCIMI, S.A. (hereinafter, “the Parent Company”) and its subsidiaries (hereinafter, “the Group”), which comprise the interim balance sheet at 30 September 2019, and the interim income statement, interim statement of other comprehensive income, interim statement of changes in equity, interim statement of cash flows and related notes, all condensed and consolidated, for the nine month period then ended. The Parent Company’s directors are responsible for the preparation of these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, “Interim Financial Reporting”, as adopted by the European Union, for the preparation of condensed interim financial information. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with legislation governing the audit practice in Spain and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these interim financial statements.

Conclusion

Based on our limited review, that cannot be considered as an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the nine month period ended 30 September 2019 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, “Interim Financial Reporting”, as adopted by the European Union, for the preparation of condensed interim financial statements.



Emphasis of Matter

We draw attention to Note 2.1, in which it is mentioned that these interim financial statements do not include all the information required of complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, therefore the accompanying interim financial statements should be read together with the consolidated annual accounts of the Group for the year ended 31 December 2018. Our conclusion is not modified in respect of this matter.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Rafael Pérez Guerra

30 October 2019



This version of the condensed interim consolidated financial statements 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 condensed interim consolidated financial statements takes precedence over this translation.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

Condensed Consolidated Interim Financial Statements
for the nine-month period ended at 30 September 2019



ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

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**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET AT 30 SEPTEMBER 2019
(Thousand euros)**

ASSETS	Note	At 30 September 2019	At 31 December 2018
NON-CURRENT ASSETS			
Property, plant and equipment	5	125	63
Investments properties	6	175,566	39,975
Other non-current financial assets	7, 8	1,067	-
		176,758	40,038
CURRENT ASSETS			
Trade receivables and other accounts receivable		2,597	369
Trade receivables for sales and services	7, 8	774	12
Other accounts receivable	7, 8	1,323	-
Personnel		3	-
Other credits held with Public Authorities	13	497	357
Prepayments for current assets		156	105
Cash and cash equivalents	9	39,684	57,970
Cash and banks		39,684	57,970
		42,437	58,444
		219,195	98,482

Notes 1 to 18 form an integral part of these Condensed Consolidated Interim Financial Statements at 30 September 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET AT 30 SEPTEMBER 2019
(Thousand euros)**

EQUITY AND LIABILITIES	Note	At 30 September 2019	At 31 December 2018
EQUITY			
Share capital	10	140,063	100,063
Reserves	10	(4,233)	(3,553)
Treasury shares	10	(487)	(546)
Profit (loss) for the period		15,281	1,124
Hedging transactions	11	(1,367)	-
		149,257	97,088
NON CURRENT LIABILITIES			
Bank loans and credits	7, 11	64,928	-
Financial hedging derivatives	7, 11	1,367	-
Other non-current financial liabilities	7, 11	1,166	-
		67,461	-
CURRENT LIABILITIES			
Bank loans and credits	11	159	-
Trade and other payables		2,318	1,394
Commercial creditors and other payables	7, 11	875	764
Other current debts	11	37	-
Other debts held with Public Authorities	13	1,406	630
		2,477	1,394
		219,195	96,482

Notes 1 to 18 form an integral part of the Condensed Consolidated Interim Financial Statements at 30 September 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019
(Thousand euros)**

	Note	Nine-month period ended 30 September 2019	For the period 13 June 2018 to 30 September 2018
CONTINUED OPERATIONS			
Revenue	12	3,890	-
Changes in fair value of investment properties	6	15,033	-
Personnel costs	12	(1,483)	-
Other operating costs	12	(1,642)	(221)
Losses on disposal of fixed assets		(33)	-
Amortisation 0	5	(7)	(2)
OPERATING RESULTS		15,758	(223)
Financial income		-	-
Financial expenses		(477)	-
FINANCIAL RESULT		(477)	-
PRE-TAX RESULT		15,281	(223)
Income tax		-	-
PROFIT (LOSS) FOR THE PERIOD	12	15,281	(223)

Earnings per share attributable to the Parent Company's owners
(euros per share)

Basic and diluted earning per share	10	1.22	-
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Notes 1 to 18 form an integral part of the Condensed Consolidated Interim Financial Statements at 30 September 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF OTHER COMPREHENSIVE
INCOME FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019
(Thousand euros)**

	Note	Nine-month period ended 30 September 2019	For the period 13 June 2018 to 30 September 2018
Profit (Loss) for the period	12	15,281	(223)
Other comprehensive income:			
Entries that may subsequently be reclassified to results		(1,367)	-
On cash-flow hedges transactions	11	(1,367)	-
Other comprehensive results for the period		13,914	(223)
Total comprehensive income for the period		13,914	(223)

Notes 1 to 18 form an integral part of the Condensed Consolidated Interim Financial Statements at 30 September 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019

(Thousand euros)

	Capital	Reserves	Hedging Reserve	Accumulated earnings	Treasury Shares	TOTAL
BALANCE AT 13 JUNE 2018	-	-	-	-	-	-
Profit /(loss) for the period	-	-	-	(223)	-	(223)
Other comprehensive results for the period	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(223)	-	(223)
Incorporation	63	(2)	-	-	-	61
Others results in treasury shares (Note 10)	-	-	-	-	-	-
Total transactions with owners, recognised directly in equity	63	(2)	-	-	-	61
BALANCE AT 30 SEPTEMBER 2018	63	(2)	-	(223)	-	(162)
BALANCE AT 1 JANUARY 2019	100,063	(3,553)	-	1,124	(546)	97,088
Profit /(loss) for the period	-	-	-	15,281	-	15,281
Other comprehensive results for the period	-	-	(1,367)	-	-	(1,367)
Total comprehensive income for the period	-	-	(1,367)	15,281	-	13,914
Capital increase	40,000	(1,822)	-	-	-	38,178
Other movements	-	1,124	-	(1,124)	-	-
Other results in treasury shares (Note 10)	-	18	-	-	59	77
Total transactions with owners, recognised directly in equity	40,000	(680)	-	(1,124)	59	38,255
BALANCE AT 30 SEPTEMBER 2019	140,063	(4,233)	(1,367)	15,281	(487)	149,257

Notes 1 to 18 form an integral part of the Condensed Consolidated Interim Financial Statements at 30 September 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019
(Thousand euros)**

	Note	Nine-month period ended 30 September 2019	For the period 13 June 2018 to 30 September 2018
A) CASH FLOW FROM OPERATING ACTIVITIES			
Pre-tax result for the period		15,281	(223)
Adjustments to profit/loss		(14,516)	2
Amortisation of property, plant and equipment	5	7	2
Financial expenses		477	-
Changes in fair value of investment properties	6	(15,033)	-
Result on disposal of fixed assets		33	-
Changes in working capital		(966)	(11)
Debtors and other receivables	8	(902)	(54)
Other current assets		(51)	-
Creditors and other payables	11	(329)	-
Other current liabilities		217	-
Other non-current assets and liabilities		99	43
Cash flow from operating activities		(201)	(232)
B) CASH FLOW FROM INVESTMENT ACTIVITIES			
Payments on investments		(121,168)	(65)
Property, plant and equipment	5	(103)	(65)
Investment properties	6	(121,065)	-
Cash flow from investment activities		(121,168)	(65)
C) CASH FLOW FROM FINANCING ACTIVITIES			
Receivables and payments on equity instruments		38,255	61
Issue of equity instruments	10	38,178	61
Acquisition of treasury shares	10	(348)	-
Disposal of treasury shares	10	425	-
Receivables and payments on financial liabilities		64,828	276
Financial borrowings	11	95,021	-
Financial payments	11	(30,000)	-
Paid interest		(193)	-
Debts with special features		-	276
Cash flow from financing activities		103,083	337
NET INCREASE/REDUCTION IN CASH AND CASH EQUIVALENTS		(18,286)	40
Cash and cash equivalents at beginning of period		57,970	-
Cash and cash equivalents at end of period	9	39,684	40

Notes 1 to 18 form an integral part of the Condensed Consolidated Interim Financial Statements at 30 September 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019 (Thousand euros)

1. GENERAL INFORMATION

Árma Real Estate SOCIMI, S.A. (hereinafter, the “Company” or the “Parent Company”) was incorporated in Spain on 13 June 2018 under the Spanish Capital Companies Act. Its registered office is located at calle Serrano, 47 4ª planta, 28001 Madrid. During this period the company has changed its registered office from calle Fernando el Sando, 15, 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 regulated by Spanish Collective Investment Institutions Act 35 of 4 November 2003.

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

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

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

a) Regulatory regime

The Company is regulated under the Spanish Capital Companies Act.

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

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

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019 (Thousand euros)

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

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

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

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

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

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

b) Subsidiary companies

Árima Real Estate SOCIMI, S.A., is the Parent Company of a Group of companies (hereinafter, the "Group") which is comprised of the next subsidiary as of 30 September 2019 and 31 December 2018:

Name	Address	Activity	Share %
Árima Real Estate Investments, S.L.U.	Calle Serrano 47, 4ª planta, 28001 Madrid	Real Estate Business	100

Árima Real Estate Investments, S.L.U. was incorporated on 10 December 2018. At that moment, Árima Real Estate SOCIMI, S.A. became the Parent Company of a group of companies.

2. BASES FOR THE PRESENTATION OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2.1 Bases for presentation

These condensed consolidated interim financial statements for the nine-month period ended September 30, 2019 have been prepared in accordance with IAS 34, "Interim financial information", and therefore do not include all the information required by consolidated financial statements, completed in accordance with the International Financial Reporting Standards, adopted by the European Union, so that the accompanying condensed consolidated interim financial statements must be read together with the consolidated annual

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019 (Thousand euros)

accounts of the Group for the year ended December 31, 2018, prepared from in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU).

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

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

The accounting policies adopted by the Group in these condensed consolidated interim financial statements are consistent with those of the consolidated annual accounts for the 2018 fiscal year, except as described in Note 2.3, the adoption of new and modified standards as indicated below.

These consolidated condensed interim financial statements have been prepared by the Board of Directors on 29 October 2019. These condensed consolidated interim financial statements have been subject to a limited review, but have not been audited.

2.2 Comparative information

Until 10 December 2018, the Company was not a Parent Company in a group of companies according to the IFRS-EU standards. As a result, the figures presented in the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows with respect to the period between on 13 June 2018 and 30 September 2018 correspond to the stand-alone accounts of the Company.

2.3 IFRS Interpretation Committee and IFRIC modifications

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

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

These amendments on the condensed consolidated interim financial statements of the company have not had a significant impact.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019 (Thousand euros)

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

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

- IFRS 10 (Modification) y IAS 28 (Modification) – “Sale of contribution of assets between an investor and its associates of joint venture.”
- IFRS 17 – Insurance contract.
- IFRS 3 (Modification) – “Definition of business.”
- IAS 1 (Modification) – “Definition of material.”

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

2.4 Use of estimates

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

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

Fair value of real estate investments

The Directors of the Parent Company carry out an evaluation of the fair value of each property taking into account the most recent independent valuations. The Directors determines fair value using a range of reasonable values.

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

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

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019 (Thousand euros)

At 30 September 2019, the Directors have kept the valuations carried out by independent experts on 30 June 2019 which still remain in force at the date of preparation of these condensed consolidated interim financial statements to book their fair value, due to the absence of specific situations significantly impacting their value. In Note 6 has been detailed the methodology used to reflect the fair value of investment properties at 30 September 2019.

Fair value of derivatives and other financial instruments

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

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

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

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

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

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

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

Cash flow hedges

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

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019 (Thousand euros)

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

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

Income Tax

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

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

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

3. FINANCIAL RISK MANAGEMENT

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

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

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019 (Thousand euros)

3.1 Financial risk factors

a) Market risk

The Group's interest rate risk arises from the financial debt. Loans issued at variable rates expose the Group to interest rate risk of cash flows during the nine-month period ended September 30, 2019. The Group has signed long-term financing agreements with prestigious financial institutions at a variable market interest rate with mortgage guarantee (see Note 6 and Note 11). As of September 30, 2019, the amount drawn down in nominal terms amounts to 46,805 thousand euros.

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

These analyzes take into account:

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

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

b) Credit risk

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

The Group's risk control establishes the credit quality that the client must possess, taking into account its financial position, past experience and other factors. The individual risk limits are established based on internal and external classifications in accordance with the limits established by the Board of Directors. The use of credit limits is monitored regularly.

The Group considers that it does not have significant concentrations of credit risk, this being understood to refer to the possible impact that a default on receivables could have on the income statement.

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

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NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019 (Thousand euros)

c) Liquidity risk

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

d) Tax risk

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

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

3.2 Capital management

The main objectives of the Group's capital management are to ensure financial stability in the short and long term, the positive performance Árima Real Estate SOCIMI, S.A.'s share and the appropriate financing of investments. The financial leverage ratios, calculated as: (Financial debt / (Financial debt + Net equity)) as of September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
Financial debt	65,087	-
Equity	149,258	97,088
Leverage	30.36%	-%

3.3 Estimation of fair value

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

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

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

September 30, 2019

	Thousand euros			
Assets	Level 1	Level 2	Level 3	Total
- Investment property (Note 6)	-	175,566	-	175,566
Total assets	-	175,566	-	175,566
Liabilities	Level 1	Level 2	Level 3	Total
Financial hedging instruments	-	1,367	-	1,367
Total liabilities	-	1,367	-	1,367

December 31, 2018

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

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

During the nine-month period ended at September 30, 2019, there were no level transfers.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
**NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019
(Thousand euros)**
4. FINANCIAL INFORMATION BY SEGMENT

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

September 30, 2019				Thousand euros
	Offices	Logistics	Corporate	Total
Revenue	3,150	740	-	3,890
Changes in fair value of investment properties	10,060	4,973	-	15,033
Operating costs	(854)	(55)	(2,216)	(3,125)
Losses on disposal of fixed assets	-	-	(33)	(33)
Fixed assets amortization	-	-	(7)	(7)
Operating Results	12,356	5,658	(2,256)	15,758
Financial income	-	-	-	-
Financial expenses	(341)	-	(136)	(477)
Financial Result	(341)	-	(136)	(477)
Pre-tax result	12,015	5,658	(2,392)	15,281
Income tax	-	-	-	-
Profit (loss) for the period	12,015	5,658	(2,392)	15,281

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

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

September 30, 2019				Thousand euros
	Offices	Logistics	Corporate	Total
Non-current assets	154,247	22,358	153	176,758
Investments properties	153,544	22,022	-	175,566
Other non-current assets	703	336	153	1,192
Current assets	4,214	412	37,811	42,437
Non-current liabilities	67,087	374	-	67,461
Current liabilities	1,697	51	729	2,477

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**NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019
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5. PROPERTY, PLANT AND EQUIPMENT

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

	Thousand euros	
	<u>Property, plant and equipment</u>	<u>Total</u>
Balance at June 13, 2018	-	-
Cost	-	-
Accumulated depreciation	-	-
Book value	-	-
Added	65	65
Allocation to depreciation	(2)	(2)
Balance at December 31, 2018	63	63
Cost	65	65
Accumulated depreciation	(2)	(2)
Net book value	63	63
Added	103	103
Sales	(37)	(37)
Allocation to depreciation	(7)	(4)
Reduction of depreciation charge	3	3
Balance at September 30, 2019	125	125
Cost	131	131
Accumulated depreciation	(6)	(6)
Net book value	125	125

a) Losses due to impairment

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

b) Fully depreciated property, plant and equipment

No item had been fully depreciated at September 30, 2019 neither at June 30, 2018.

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NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019 (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
	<u>Investment properties</u>
Balance at June 13, 2018	-
Acquisitions	32,079
Subsequent capitalised disbursements	6,275
Gain / (loss) net of adjustments at fair value	1,621
Balance at December 31, 2018	39,975
Added	119,969
Ongoing investment property	589
Gain / (loss) net of adjustments at fair value	15,033
Balance at September 30, 2019	175,566

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

Additionally to the investments above, the Group has formalized the acquisition of two buildings for offices and one logistics for a total amount of 59,863 thousand euros (not including acquisition costs): a floor and a half of offices on María de Molina street, acquired on February 28, 2019, a warehouse in San Agustín de Guadalix, acquired on April 12, 2019, and a building on Calle Ramírez de Arellano 21, acquired on June 28, June 2019. The logistic warehouse in Guadalix has a gross leasable area of 25,694 m² and is fully rented to one of the largest food distribution companies in Spain. The offices of Ramírez de Arellano have a gross leasable area of 6,759 m² and 110 parking spaces, and María de Molina has a leaseable area of 4,120 m² and 22 parking spaces.

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

a) Insurances

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.

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NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019 (Thousand euros)

b) Liabilities

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

c) Valuation process

The following is the cost and fair value of the real estate investments as of September 30, 2019 and December 31, 2018:

	Thousand euros			
	30 September 3019		31 December 2018	
	Net book value	Fair value (*)	Net book value	Fair value
Investment properties	158,912	175,566	38,354	39,975

(*) See Note 2.4 of these condensed consolidated interim financial statements.

The valuations of these real estate assets have been carried out using "market value" hypothesis, these valuations being made in accordance with the statements of the Appraisal-Valuation method of goods and the guide of observations published by the Royal Institution of Chartered Surveyors of Gran Brittany (RICS) standard assessment, 8th edition. The market value of the Group's properties has been determined on the basis of evaluation carried out by independent expert valuers (CBRE Valuation Advisory, S.A.).

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

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

The income capitalization method consists of the capitalization of the estimated net income from each property, based on the lease period and the reversal. This supposes the capitalization of the current revenues throughout the period, together with the valuation of each one of the probable subsequent rents after the updates of the rents or after the formalization of new rents in each one of the foreseen periods, always starting from the current value. The yield applied to the different income categories reflects all the forecasts and risks associated with cash flow and investment.

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

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As provided in Note 2.4, the Directors requested an assessment on June 30, 2019 of all real estate investments. As a result of this valuation, there has been a change in the fair value of the investment properties in the consolidated condensed interim income statement of 15,033 thousand euros.

Based on the simulations performed on these valuations, the recalculated impact on the fair value of the properties in the portfolio at June 30, 2019, of a variation of 0.25% in the yield rate, would produce:

- in the event that the yield was reduced by 0.25%, the market value of these properties would be 181,960 thousand euros.
- in the case that the yield was increased by 0.25%, the market value of these properties would be 169,280 thousand euros.

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

- in the event that the market rents increased by 10%, the market value of these properties would be 192,060 thousand euros.
- in the case that the market rents were reduced by 10%, the market value of these properties would be 158,490 thousand euros.

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

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

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

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

The yields have not changed significantly from 30 June 2019 to 30 September 2019.

As of June 30, 2019, the yields used in the valuations of offices located in the prime area at 30 June 2019 were 3.50% and for those that are decentralized the yields were 5.25% (3,75% and 5,25% respectively in December 2018). The discount rates are between 6.50% and 7.50%.

As of June 30, 2019, the yields used in the industrial valuations located in the prime area would be 5.25% and for those that are decentralized the yields would be 6.50%. The discount rates used would be around 8.50%.

The valuation of real estate investments has been framed within level 2 according to the definition described in Note 3.3.

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During the nine-month period ended at 30 September 2019, no level transfers have occurred.

7. FINANCIAL INSTRUMENTS ANALYSIS

a) Analysis by category

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

	Thousand euros					
	Non-current financial assets					
	Fair value with changes in global result		Amortized cost		Fair value with changes in the account of results	
	30.09.2019	31.12.2018	30.09.2019	31.12.2018	30.09.2019	31.12.2018
Other long-term financial liabilities	-	-	1,067	-	-	-
Total long-term financial liabilities	-	-	1,067	-	-	-
	Current financial assets					
	Fair value with changes in global result		Amortized cost		Fair value with changes in the account of results	
	30.09.2019	31.12.2018	30.09.2019	31.12.2018	30.09.2019	31.12.2018
Trade receivables for sales and services (Note 8) and other assets	-	-	2,256	117	-	-
Total short-term financial assets	-	-	2,256	117	-	-

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**NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019
(Thousand euros)**

	Thousand of euros					
	Non-current financial liabilities					
	Debts with credit entities		Debentures and other marketable securities		Financial hedging instruments and other liabilities	
	30.09.2019	31.12.2018	30.09.2019	31.12.2018	30.09.2019	31.12.2018
Debts and other financial liabilities (Note 11)	64,928	-	-	-	2,533	-
Total non-current financial liabilities	64,928	-	-	-	2,533	-
	Current financial liabilities					
	Debts with credit entities		Debentures and other marketable securities		Financial hedging instruments and other liabilities	
	30.09.2019	31.12.2018	30.09.2019	31.12.2018	30.09.2019	31.12.2018
Debts and other payables (Note 11)	159	-	-	-	912	764
Total current financial liabilities	159	-	-	-	912	764

b) Analysis by maturity date

At 30 September 2019 and 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 30 September 2019

	Thousand euros						
	Financial assets						
	2020	2021	2022	2023	2024	Subsequent years	Total
Trade receivables:							
- Trade receivables	2,097	-	-	-	-	-	2,097
- Other financial assets	3	-	-	1,067	-	-	1,070
	2,100	-	-	1,067	-	-	3,167

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	Financial liabilities						
	2020	2021	2022	2023	2024	Subsequent years	Total
Debts:							
- Debts with credit entities	159	-	-	-	3,320	62,985	66,464
- Financial hedging instruments	-	-	-	-	201	1,166	1,367
Trade payables:							
- Trade and other payables	875	-	-	-	-	-	875
- Other financial liabilities	37	-	-	1,166	-	-	1,203
	1,071	-	-	1,166	3,521	64,151	69,909

At 31 December 2018

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

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

8. LOANS AND RECEIVABLES

	Thousand euros	
	September 30, 2019	December 31, 2018
Trade receivables and other long-term accounts receivable		
- Other financial assets	1,067	-
Trade receivables and other accounts receivable:		
- Trade receivables for sales and services	774	12
- Other accounts receivable	1,323	-
- Personnel	3	-
- Other credits held with Public Authorities (Note 13)	467	357
	3,664	369

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

Under the heading "Other debtors", the amounts corresponding to the provision of funds derived from the acquisitions of the investment property (Note 6) and its financing (Note 11) are included.

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

Under the heading of "Trade receivables" there is an amount of 322 thousand euros relating to invoices pending issuance.

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

	<u>Thousand euros</u>
	<u>September 30, 2019</u>
Up to 3 months	443
Between 3 and 6 months	9
More than 6 months	-
	<u>452</u>

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

9. CASH AND CASH EQUIVALENTS

	<u>Thousand euros</u>	
	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Cash and banks	39,684	57,970
	<u>39,684</u>	<u>57,970</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 10b, at 30 September 2019 the Company holds 510 thousand euros of total cash destined for the cash account under that contract (at 31 December 2018 held 433 thousand euros).

10. 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 euros. On the date of its incorporation, Rodex Asset Management, S.L. held 299 shares representing 99.99% of the Company's issued share capital, and Inmodesarrollos Integrados, S.L. held 1 ordinary share representing 0.01% of the Company's issued share capital.

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

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

On 8 October 2018 the Board of Directors approved the resolutions concerning the capital increase and the 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 euros which was entered in the Madrid Commercial Register and began trading of 10,000,000 new shares with a par value of 10 euros each on 23 October 2018.

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

As of 30 September 2019 and 31 December 2018 the breakdown of share capital is as follows:

	Thousand euros	
	September 30, 2019	December 31, 2018
Share capital	140,063	100,063
	140,063	100,063

As of September 30, 2019, the capital stock of the Parent Company is 140,063 thousand euros and is represented by 14,006,300 shares with a par value of 10 euros each, all belonging to the same class and fully subscribed and paid. All the shares carry the same voting and dividend rights.

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

All the Parent Company's shares are listed on the Spanish Continuous Stock Market.

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At 30 September 2019, the companies that held a share of 3% or more in the share capital are as follows:

Shareholder	% voting rights allocated to shares	% voting rights held through financial instruments	Total %
AFFM S.A.	3.606	-	3.606
Bank of Montreal	10.422	-	10.422
BSMA Limited	-	1.321	1.321
Héctor Colonqués Moreno	4.997	-	4.997
Elgeti, Rolf	3.570	-	3.570
Mistral Iberia Real Estate SOCIMI S.A.	4.997	-	4.997
Pelham Long/Short small CAP Master Fund LTD	-	9.984	9.984
Ross Turner	-	9.984	9.984
Rodex Asset Management, S.L.	7.791	-	7.791
UBS Group AG	2.686	7.185	9.871
Total	38.069	28.474	66.543

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

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

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NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019 (Thousand euros)

b) Treasury shares

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

	<u>September 30, 2019</u>		<u>December 31, 2018</u>	
	<u>Number of treasury shares</u>	<u>Thousand euros</u>	<u>Number of treasury shares</u>	<u>Thousand euros</u>
At the beginning of the period/financial year	58,130	546	-	-
Additions / purchases	35,742	348	60,202	555
Reductions	(43,035)	(407)	(2,072)	(9)
At the end of the period/financial year	50,837	487	58,130	546

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

On 6 November 2018 Árima Real Estate SOCIMI, S.A. entered into a 12 month liquidity contract with 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 2.16 and Note 17 of the consolidated annual accounts of the Group at 31 December 2018).

The treasury shares held at 30 September 2019 represent 0.36% of the Company's share capital and amount to 50,837 shares (at 31 December 2018 represented 0.58% of the Company's share capital and amounted to 58,130 shares). The average cost of treasury shares has been 9.58 euros per share (the average cost of treasury shares in 2018 was 9.4 euros per share).

These shares are carried by reducing the Company's equity at 30 September 2019 by 487 thousand euros (at 31 December 2018 it was 546 thousand euros).

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

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019 (Thousand euros)

c) Profit (losses) per share

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

Diluted earnings per share are calculated by dividing the net gain / (loss) for the period attributable to the owners of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued in the conversion of all potentially dilutive instruments. The Group has in place a compensation plan (incentives) based on the concession of a number of shares, although as of September 30, 2019 this plan has not been accrued.

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

Basic and diluted earnings per share:

	Nine-month period ended at 30 September 2019
Net income (thousand euros)	15,281
Weighted average number of issued shares (shares)	12,629,011
Weighted average number of common shares (shares)	12,572,951
Basic earning per share (euros)	1.22
Diluted earning per share (euros)	1.22

In relation to the calculation of earnings per share, there have been no transactions on ordinary shares or ordinary potential shares between the closing date of the condensed consolidated interim financial statements and the preparation thereof, which have not been taken into account in said calculations for the period between January 1, 2019 and September 30, 2019.

11. DEBTS AND OTHER PAYABLES

	Thousand euros	
	September 30, 2019	December 31, 2018
Debts and non-current liabilities:		
- Debts with credit entities	64,928	-
- Financial hedging instruments	1,367	-
- Guarantees	1,166	-
	67,461	-
Debts and current liabilities:		
- Debts with credit entities (Note 7)	159	-
- Other payables (Note 7)	875	764
- Other short term debts	37	-
- Other debts with Public Authorities (Note 13)	1,406	630
	2,477	1,394

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019 (Thousand euros)

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

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

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

On January 28, 2019, the Group signed a financial agreement with a prestigious financial institution at a market interest rate. This financing was considered a bridge financing to continue with its investment activity, foreseeing its formalization in the long term in the following months. This financing was canceled in the second quarter, in which two bilateral financing transactions were signed with prestigious financial institutions at a variable market interest rate (Note 3.1a). Furthermore, in the third quarter of 2019 the Group has signed a new financial agreement of 20.000 thousand euros with a prestigious financial institution at a fixed interest rate.

This financing is recorded at amortized cost in the long-term liability under the heading "Debts with credit institutions". As of September 30, 2019 the amount of the amortized cost amounts to 1,377 thousand euros. The nominal maturities of the financing have been included in Note 7. Such financing is guaranteed by the properties described in Note 6.

Under the heading "Short-term debt with credit entities" the amount of unpaid accrued interest in the amount of 159 thousand euros has been recorded.

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

Additionally, the Group has contracted two interest rate swaps. The amount registered in the "Financial hedging instruments" correspond to the valuation of the derivative financial instruments as of 30 September 2019. The effective part of the changes in the fair value of derivatives that are designated and classified as hedges is recognized in the hedge reserve within equity.

12. INCOME AND EXPENSES

a) Net turnover figure

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

Market	Nine-month period ended at September 30, 2019	
	Percentage	Thousand euros
Domestic	100%	3,890
	100%	3,890

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019
(Thousand euros)**

The net turnover figure breaks down as follows:

	<u>Thousand euros</u>
	<u>Nine-month period ended at September 30, 2019</u>
Revenue	
Rents	3,231
Reinvoicing of costs	659
	<u>3,890</u>

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

The detail of the future minimum payments from the non-cancelable lease agreements is as follows:

	<u>Thousand euros</u>	
	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Less than a year	5,424	407
Between one and five years	11,695	500
More tan five years	959	-
	<u>18,078</u>	<u>907</u>

b) Personnel costs

	<u>Thousand euros</u>
	<u>Nine-month period ended at September 30, 2019</u>
Wages, salaries and associated costs	(1,348)
Welfare charges:	
- Other welfare charges	(135)
	<u>(1,483)</u>

At 30 September 2019 there was no compensation for dismissals.

The average number of employees during the nine-month period ended at 30 September 2019 is 10 people, shown by professional grade, was as follows:

Categories	<u>September 30, 2019</u>
Management / Directors	7
Employees with degrees	2
Administrative personnel and others	1
	<u>10</u>

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019
(Thousand euros)**

In addition, at 30 June 2019, Company personnel details broken down by gender were as follows:

Categories	September 30, 2019		
	Men	Women	Total
Management / Directors	5	2	7
Employees with degrees	2	-	2
Administrative personnel and others	-	1	1
	7	3	10

c) External services

The following table gives a breakdown of the external services:

	Thousand euros Nine-month period ended at September 30, 2019
External services directly attributable to real estates assets	(909)
Other external services	(733)
	(1,642)

d) Financial expenses

Financial expenses accrued in the nine-month period ended September 30, 2019 are associated with the financing obtained in the period (Note 11).

13. INCOME TAX AND TAX POSITION

The expense for income tax is recognized based on Management's estimate of the expected weighted average tax rate for the entire financial year. The estimated annual average tax rate for the nine-month period ended September 30, 2019 is 0%, according to Law 11/2009, of October 26, and the amendments incorporated to it by Law 16/2012, of December 27, by which the SOCIMIs are regulated.

Tax inspections

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

As a result, among other things, of the different interpretations to which Spanish tax legislation lends itself, additional tax assessments may be raised in the event of a tax inspection. In any case, the Directors believe that any such liabilities, in the event that they arise, will not have any significant effect on the condensed consolidated interimbalance sheet or on the condensed consolidated interim income statement for the nine-month period ended at 30 September 2019.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019 (Thousand euros)

At 30 September 2019 and 31 December 2018, the amounts receivable and the amounts payable by the Company in respect of the Public Authorities broke down as follows:

	Thousand euros	
	At September 30, 2019	At December 31, 2018
Accounts receivable		
Receivables from Spanish Tax Authorities (VAT)	497	357
	497	357
Payment commitments		
Payables to Spanish Tax Authorities (withholdings collected)	(184)	(147)
Payables to Social Security Bodies	(18)	(17)
Stamp duty on the acquisition of investment properties (Note 6)	(1,204)	(466)
	(1,406)	(630)

14. PROVISIONS AND CONTINGENCIES

Contingent liabilities

Neither at 30 September 2019 nor at 31 December 2018 has the Company contingent liabilities.

15. BOARD OF DIRECTORS AND OTHER PAYMENTS

Remuneration of members of the Board of Directors

During the period between January 1, 2019 and September 30, 2019, the remuneration of the members of the Board of Directors of the Company has amounted to 499 thousand euros (103 thousand euros at 31 December 2018).

Likewise, based on the compensation plan based on shares approved by the General Shareholders' Meeting on September 26, 2018, the executive and other personnel of the Parent Company have not been accrued any amount neither on September 30, 2019 nor September 30, 2018.

The rest of the members of the Board of Directors of the Company have not received any shares or options on shares during the period, nor have they exercised any options nor do they have any options to be exercised neither at September 30, 2019 nor at September 30, 2018.

The members of the Board of Directors of the Parent Company do not have pension funds or similar obligations for their benefit. During the period ended at September 30, 2019 and the period ended at September 30, 2018, there is no senior management personnel that does not belong to the Board of Directors of the Parent Company.

16. RELATED-PARTY TRANSACTIONS

As of September 30, 2019, there are no pending balances with group companies and related parties. As of December 31, 2018, there were no pending balances with group companies and related parties. During the nine-month period ended September 30, 2019 there have been no transactions with related parties.

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

**NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019
(Thousand euros)**

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

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

Not applicable.

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

Not applicable

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

Not applicable

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

Not applicable

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

Not applicable

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

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

ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM STATEMENTS FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019 (Thousand euros)

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

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

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

Not applicable

18. SUBSEQUENT EVENTS

From 30 September 2019 to the date on which these interim consolidated financial statements were prepared, there are the following worthwhile points:

On October 1, 2019 has been called an Extraordinary Shareholders Meeting on the days 4th and 5th of November, 2019, in first and second call respectively. The first item on the agenda is a proposal of increase in share capital by an utmost amount of 100.000 thousand euros, corresponding to a maximum of 10 million of new ordinary shares of the same type, range and nominal value than the current shares, with 10 euros of nominal value each one.

There are no other relevant subsequent events needed to be disaggregated on this interim consolidated financial statements.



ÁRIMA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

PREPARATION OF THE CONDENSED CONSOLIDATED INTERIM STATEMENTS AND THE CONSOLIDATED MANAGEMENT REPORT FOR THE NINE-MONTH PERIOD ENDED AT 30 SEPTEMBER 2019

The Board of Directors of the company Árima Real Estate SOCIMI, S.A. on October 29, 2019, proceeds to prepare the Condensed Consolidated Interim Financial Statements for the nine-month period ended on 30 September 2019.

Mr. Luis Alfonso López de Herrera-Oria
President

Mr. Luis María Arredondo Malo
Vicepresident and Board Member

Mr. Fernando Bautista Sagüés
Board Member

Mr. David Jiménez-Blanco Carrillo de Albornoz
Board Member

Mr. Cato Henning Stonex
Board Member

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. and subsidiaries of the Condensed Interim Consolidated Financial Statements for the period of nine months ended on September, 30 2019 in the meeting held on October 29, 2019, all directors have signed this document and stamped their signature on this last page, to which I bear witness, in Madrid, on October 29, 2019. I also certify that these condensed interim consolidated financial statements are the same as those approved by that Board of Directors, and therefore I sign all pages.

D. Iván Azinovic Gamo