# Auditor's Report on MRE-III-Proyecto Cinco, SOCIMI, S.A.

(Together with the annual accounts and directors' report of MRE-III-Proyecto Cinco, SOCIMI, S.A. for the year ended 31 December 2019)

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores, S.L.
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Plaça d'Europa, 41-43
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(Barcelona)

# Independent Auditor's Report on the Annual Accounts

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Shareholders of MRE-III-Proyecto Cinco, SOCIMI, S.A.

## Opinion

We have audited the annual accounts of MRE-III-Proyecto Cinco, SOCIMI, S.A. (the "Company"), which comprise the balance sheet at 31 December 2019, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 2 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

## Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts 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 regarding independence, that are relevant to our audit of the annual accounts pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

## Most Relevant Aspects of the Audit

The most relevant aspects of the audit are those that, in our professional judgement, have been considered as the most significant risks of material misstatement in the audit of the annual accounts of the current period. These risks 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 risks.

Valuation of investment property and inventories (see notes 2 d), 4.c, h), 5 and 8)

The Company holds a significant amount of its assets in investment property and inventories corresponding to real estate property, part of which will be destined for lease to obtain revenues and the other part earmarked for sale. The Company assesses investment property and inventories quarterly for indications of impairment, for the purpose of determining whether their carrying amount exceeds their recoverable amount. The recoverable amount of real estate property is determined by an appraisal performed by an independent expert.

In this regard, this amount is calculated by applying valuation techniques which often require the exercise of judgement by the independent expert and the Directors, as well as the use of assumptions and estimates. Due to the high level of judgement, the uncertainty associated with these estimates and the significance of the carrying amount of the investment property and inventories, this has been considered a relevant aspect of our audit.

Our audit procedures included evaluating the design and implementation of key controls related to the investment property and inventories valuation process, as well as assessing the methodology and assumptions applied in the preparation of the appraisal used in this process, for which purpose we involved our valuation specialists.

We also assessed whether the disclosures in the annual accounts meet the requirements of the financial reporting framework applicable to the Company.

## Emphasis of Matter

We draw attention to note 22 to the accompanying annual accounts, in which the Directors mention the event after the reporting period in relation to the health emergency triggered by the spread of Coronavirus disease 2019 (COVID-19) and the main consequences identified at the date of the authorisation to issue these annual accounts, considering the measures adopted by the Spanish government in Royal Decree 463/2020 of 14 March 2020, as well as the difficulties of estimating the possible impacts that this situation could have. Our opinion is not modified in respect of this matter.

## Other Information: Directors' Report

Other information solely comprises the 2019 directors' report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not encompass the directors' report. Our responsibility for the directors' report, in accordance with the requirements of prevailing legislation regulating the audit of accounts, consists of assessing and reporting on the consistency of the directors' report with the annual accounts, based on knowledge of the entity obtained during the audit of the aforementioned accounts and without including any information other than that obtained as evidence during the audit.

It is also our responsibility to assess and report on whether the content and presentation of the directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described in the preceding paragraph, the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2019 and the content and presentation of the report are in accordance with applicable legislation.

## Directors' Responsibility for the Annual Accounts

The Directors are responsible for the preparation of the accompanying annual accounts in such a way that they give a true and fair view of 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 they 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 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.

## 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 prevailing legislation regulating the audit of accounts 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 economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement 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 entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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 a true and fair view.

We communicate with the Directors of the Company 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.

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

From the significant risks communicated to the Directors of MRE-III-Proyecto Cinco, SOCIMI, S.A., we determine those that were of most significance in the audit of the annual accounts of the current period and which are therefore the most significant risks.

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

KPMG Auditores, S.L.
On the Spanish Official Register of
Auditors ("ROAC") with No. S0702

*(Signed on original in Spanish)*

Joan Manuel Plà Hernàndez
On the Spanish Official Register of Auditors ("ROAC") with nº 20.531

19 June 2020

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Balance Sheet**

**at 31 December 2019**

(Expressed in Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| Assets | Note | 2019 | 2018 |
|---|---|---|---|
| **Intangible assets** | **Note 5** | **850.00** | **850.00** |
| Patents, licences, trademarks and similar rights | | 850.00 | 850.00 |
| **Investment property** | **Note 5** | **39,667,346.60** | **28,740,670.48** |
| Investments in adaptation and advances | | 39,667,346.60 | 28,740,670.48 |
| **Total non-current assets** | | **39,668,196.60** | **28,741,520.48** |
| **Inventories** | **Note 8** | **9,867,313.22** | **9,449,016.53** |
| Developments in progress | | 9,835,114.89 | 9,435,003.11 |
| Advances to suppliers | | 32,198.33 | 14,013.42 |
| **Trade and other receivables** | **Notes 9 and 10** | **683,975.63** | **491,835.38** |
| Trade receivables | | 42,872.22 | - |
| Other receivables | | 8,142.30 | - |
| Personnel | | - | 6,000.00 |
| Public entities, other | **Note 16** | 632,961.11 | 485,835.38 |
| **Current investments** | **Notes 9 and 10** | **55,814.55** | **55,814.55** |
| Other financial assets | | 55,814.55 | 55,814.55 |
| **Prepayments for current assets** | | **15,590.29** | **4,776.82** |
| **Cash and cash equivalents** | | **935,634.18** | **1,215,443.36** |
| Cash | | 935,634.18 | 1,215,443.36 |
| **Total current assets** | | **11,558,327.87** | **11,216,886.64** |
| **Total assets** | | **51,226,524.47** | **39,958,407.12** |

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Balance Sheet**

**at 31 December 2019**

(Expressed in Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| Equity and Liabilities | Note | 2019 | 2018 |
|---|---|---|---|
| **Capital and reserves** | | **34,131,811.08** | **35,310,928.57** |
| Capital | | | |
| Registered capital | | 36,725,000.00 | 36,725,000.00 |
| Prior years' losses | | (1,414,071.43) | (544,243.76) |
| Loss for the year | | (1,179,117.49) | (869,827.67) |
| **Total equity** | **Note 12** | **34,131,811.08** | **35,310,928.57** |
| **Non-current payables** | **Notes 13 and 14** | **13,912,670.19** | **3,375,000.00** |
| Loans and borrowings | | 10,402,327.15 | - |
| Derivatives | **Note 11** | 135,343.04 | - |
| Other financial liabilities | | 3,375,000.00 | 3,375,000.00 |
| **Total non-current liabilities** | | **13,912,670.19** | **3,375,000.00** |
| **Current payables** | **Notes 13 & 14** | **2,309,283.56** | **1,082,772.14** |
| Loans and borrowings | | 24,697.66 | - |
| Other financial liabilities | | 2,284,585.90 | 1,082,772.14 |
| **Group companies and associates, current** | **Notes 13 & 14** | **501,000.00** | **-** |
| **Trade and other payables** | **Notes 13 & 14** | **371,759.64** | **189,706.41** |
| Suppliers, Group companies and associates, current | | 118,428.75 | 58,193.44 |
| Other payables | | 207,433.91 | 89,504.43 |
| Public entities, other | **Note 16** | 45,896.98 | 42,008.54 |
| **Total current liabilities** | | **3,182,043.20** | **1,272,478.55** |
| **Total equity and liabilities** | | **51,226,524.47** | **39,958,407.12** |

The accompanying notes form an integral part of the annual accounts.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Income Statement**
**for the year ended**

**31 December 2019**

(Expressed in Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Revenues** | **Note 19** | **-** | **24,804.00** |
| Services rendered | | - | 24,804.00 |
| **Changes in inventories of finished goods and work in progress.** | **Note 8** | **400,111.78** | **759,741.71** |
| **Supplies** | **Note 19** | **(400,111.62)** | **(759,741.71)** |
| Merchandise used | | (14,020.03) | (339,669.04) |
| Subcontracted work | | (386,091.59) | (420,072.67) |
| **Other operating income** | | **35,431.43** | **-** |
| Non-trading and other operating income | | 35,431.43 | - |
| **Personnel expenses** | | **(216,176.11)** | **(289,019.71)** |
| Salaries and wages | | (196,999.92) | (260,449.91) |
| Employee benefits expense | **Note 19** | (19,176.19) | (28,569.80) |
| **Other operating expenses** | | **(1,003,789.63)** | **(610,689.76)** |
| External services | **Note 19** | (964,133.39) | (572,662.71) |
| Taxes | | (39,656.24) | (38,027.05) |
| **Other income/(expenses)** | | **-** | **3,440.08** |
| **Results from operating activities** | | **(1,184,534.15)** | **(871,465.39)** |
| **Finance income** | | **325,911.82** | **262,196.58** |
| Other | | 5,416.66 | 1,637.72 |
| Capitalised borrowing costs | **Notes 5 and 8** | 320,495.16 | 260,558.86 |
| **Finance costs** | | **(320,495.16)** | **(260,558.86)** |
| Group companies and associates | | (130,819.56) | (58,372.22) |
| Other | | (189,675.60) | (202,186.64) |
| **Net finance income** | | **5,416.66** | **1,637.72** |
| **Loss before income tax** | | **(1,179,117.49)** | **(869,827.67)** |
| **Income tax** | **Note 16** | **-** | **-** |
| **Loss for the year** | | **(1,179,117.49)** | **(869,827.67)** |

The accompanying notes form an integral part of the annual accounts.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Statement of Changes in Equity**
**for the year ended**
**31 December 2019**

**A) Statement of Recognised Income and Expense**
**for the year ended**
**31 December 2019**

(Expressed in Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| | 2019 | 2018 |
|---|---|---|
| **Loss for the year** | **(1,179,117.49)** | **(869,827.67)** |
| **Total recognised income and expense** | **(1,179,117.49)** | **(869,827.67)** |

The accompanying notes form an integral part of the annual accounts.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Statement of Changes in Equity**
**for the year ended**
**31 December 2019**

**B) Statement of Total Changes in Equity for the year ended**

**31 December 2019**

(Expressed in Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| | Registered capital | Prior years' profit and loss | Loss for the year | Total |
|---|---|---|---|---|
| **Balance at 31 December 2018** | 36,725,000.00 | (544,243.76) | (869,827.67) | 35,310,928.57 |
| Recognised income and expense | - | - | (1,179,117.49) | (1,179,117.49) |
| Other changes in equity | | | | |
| Application of loss for the year | - | (869,827.67) | 869,827.67 | - |
| **Balance at 31 December 2019** | 36,725,000.00 | (1,414,071.43) | (1,179,117.49) | 34,131,811.08 |

(Continued)

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Statement of Changes in Equity
for the year ended
31 December 2019**

**B) Statement of Total Changes in Equity for the year ended
31 December 2018**

(Expressed in Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| | | Registered capital | Prior years' profit and loss | Loss for the year | Total |
|---|---|---|---|---|---|
| **Balance at 31 December 2017** | | **15,000,000.00** | **(1,595.39)** | **(542,648.37)** | **14,455,756.24** |
| Recognised income and expense | | **-** | **-** | **(869,827.67)** | **(869,827.67)** |
| Transactions with shareholders or owners | | | | | |
| Capital increases | **Note 12** | **21,725,000.00** | **-** | **-** | **21,725,000** |
| Other changes in equity | | | | | |
| Application of loss for the year | | **-** | **(542,648.37)** | **542,648.37** | **-** |
| **Balance at 31 December 2018** | | **36,725,000.00** | **(544,243.76)** | **(869,827.67)** | **35,310,928.57** |

The accompanying notes form an integral part of the annual accounts.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Statement of Cash Flows**
**for the year ended**
**31 December 2019**

(Expressed in Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| | Note | 2019 | 2018 |
|---|---|---|---|
| *Cash flows from operating activities* | | | |
| **Loss for the year before tax** | | **(1, 179,117.49)** | **(869,827.67)** |
| **Adjustments for:** | | | |
| Finance income | | (325,911.82) | (262,196.58) |
| Finance costs | | 320,495.16 | 260,558.86 |
| Other income and expenses | | (10,812.83) | (719.22) |
| **Changes in operating assets and liabilities** | | | |
| Inventories | | (400,111.78) | (841,239.87) |
| Trade and other receivables | | (192,140.25) | (295,807.15) |
| Trade and other payables | | 182,053.23 | (91,933.8) |
| **Other cash flows from operating activities** | | | |
| Interest payments (including fees and commissions and other loan arrangement costs with financial institutions) | | (3,250,278.83) | (77,107.31) |
| Interest received | | 5,416.66 | 1,637.72 |
| **Cash flows used in operating activities** | | **(4,850,407.95)** | **(2,176,635.02)** |
| *Cash flows from investing activities* | | | |
| **Payments for/proceeds from investments** | | | |
| Investment property | | (9,422,552.11) | (16,291,308.78) |
| Other financial assets | **Note 9** | - | (47,562.00) |
| **Cash flows used in investing activities** | | (9,422,552.11) | (16,338,870.78) |
| *Cash flows from financing activities* | | | |
| **Proceeds from and payments for equity instruments** | | | |
| Capital increase | **Note 12** | - | 21,725,000.00 |
| **Proceeds from and payments for financial liability instruments** | | | |
| Issue | | | |
| Group companies and associates | **Notes 13 & 14** | 500,000.00 | - |
| Other payables | **Notes 13 & 14** | 13,493,150.88 | 3,375,000.00 |
| Redemption | | | |
| Group companies and associates | | - | (5,390,000.00) |
| Other payables | | - | (5,000.00) |
| **Cash flows from financing activities** | | 13,993,150.88 | 19,705,000.00 |
| **Net increase/decrease in cash and cash equivalents** | | (279,809.18) | 1,189,494.20 |
| Cash and cash equivalents at beginning of year | | 1,215,443.36 | 25,949.16 |
| Cash and cash equivalents at year end | | 935,634.18 | 1,215,443.36 |

The accompanying notes form an integral part of the annual accounts.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

## (1) Nature and Activities of the Company and Composition of the Group

MRE-III-Proyecto Cinco, SOCIMI, S.A. (hereinafter the Company) was incorporated as a solely-owned private limited liability company in Barcelona on 9 August 2016. The Company became a public limited company by deed on 12 June 2017. On 27 October 2017 the Company ceased to be solely-owned as a result of the capital increase through a non-monetary contribution. The Company's registered office is located at Avenida Diagonal, no. 640, in the city of Barcelona. The Company's statutory activity is mainly the acquisition of urban real estate for lease. During 2017, 10 sale and purchase agreements were signed in relation to an urban complex (hereinafter Suelo 22@), in the middle of calle Ávila, calle Doctor Trueta, calle Badajoz and Avenida Icaria, in the 22@ district in the city of Barcelona, one of the new business areas in the city. Part of this complex currently under construction is for the development of buildings for lease and the other part is for a building earmarked for sale.

### SOCIMI (Spanish REIT), Law 11/2009

On 12 July 2017 the Company requested from the Spanish taxation authorities that it be included in the special tax regime for SOCIMI (Spanish real estate investment trusts - REIT), regulated by Law 11/2009 of 26 October 2009 governing SOCIMI. The request to be included in this tax regime was approved by the Company's shareholders on 12 July 2017.

The Company's statutory activities fall within the statutory activities required of SOCIMI in article 2 of Law 11/2009 of 26 October 2009 governing SOCIMI.

Article 3 of Law 11/2009 also lays down the following investment requirements:

1. SOCIMI must have invested at least 80% of the value of their assets in urban real estate earmarked for lease, in land for real estate development earmarked for that purpose, provided that development begins within three years following its acquisition, and in capital or equity investments in other companies that also acquire and develop urban real estate for lease.

   This percentage must be calculated on the basis of the consolidated balance sheet if the company is the parent of a group, in accordance with the criteria set forth in article 42 of the Spanish Code of Commerce, regardless of its place of residence and of the obligation to prepare consolidated annual accounts. Such a group must be composed exclusively of SOCIMI and the other entities referred to in article 2.1 of this Law (companies the principal statutory activities of which are the acquisition and development of urban real estate for lease). This percentage was not met at 31 December 2019 or 31 December 2018. However, in accordance with applicable legislation this requirement will be met in the following year, i.e. 2020.

2. Furthermore, at least 80% of the rental income from the tax period corresponding to each year, excluding the rental income deriving from the transfer of the interests and conveyance of the real estate earmarked by the company to achieve its principal statutory activity, once the holding period referred to below has elapsed, should be obtained:

   (a) from the lease of real estate earmarked for the purpose of complying with the principal statutory activity to persons or entities with which none of the circumstances set forth in article 42 of the Spanish Code of Commerce arise, irrespective of their place of residence; and/or

   (b) from dividends or shares in profit from investments held to comply with the principal statutory activity.

   This percentage must be calculated on the basis of the consolidated profit or loss if the company is the parent of a group, in accordance with the criteria set forth in article 42 of the Spanish Code of Commerce, regardless of its place of residence and of the obligation to prepare consolidated annual accounts. Such a group must be composed exclusively of SOCIMI and the other entities referred to in article 2.1 of this Law. This percentage was met at 31 December 2019.

3. The real estate included in the company's assets should remain leased for at least three years. The period of time during which the real estate has been available for lease, up to a maximum of one year, shall be included for calculation purposes.

   The period shall be calculated as follows:

   (a) For real estate included in the company's assets before the company applies the regime, from the beginning of the first tax period in which the special tax regime stipulated in this law applies, provided that at that date, the asset is leased or made available for lease. Otherwise the following shall apply.

   (b) For real estate developed or acquired subsequently by the company, from the date on which they were leased or put up for lease for the first time.

   In the case of shares or capital interests in the entities referred to in article 2.1 of this Law, they should be retained under assets on the company's balance sheet for at least three years following their acquisition or, as appropriate, from the beginning of the first tax period in which the special tax regime set forth in this law applies.

   Articles 4 and 5 of Law 11/2009 also set out the following requirements:

   1. Throughout the entire tax period, SOCIMI shares must be continuously admitted to trading on a regulated market or on a multilateral trading facility in Spain, any other European Union Member State or the European Economic Area, or on a regulated market in any country or territory with which there is an effective exchange of tax information.

      SOCIMI shares must be registered shares.

      All of the Company's shares were admitted to trading on 24 May 2019 on the EURONEXT ACCESS PARIS market and therefore this requirement is met.

   2. SOCIMI must have minimum share capital of Euros 5 million, which the Company has exceeded; this requirement has therefore been met.

      Non-monetary contributions for capital formation or increase in the form of real estate must be appraised when they are contributed in accordance with article 38 of the revised Spanish Companies Act and, to this end, the independent appraiser appointed by the Mercantile Registrar must be one of the appraisal companies set forth in mortgage market legislation. Non-monetary contributions made in real estate for capital formation or increase in the entities indicated in article 2.1 c) of this Law must be appraised by one of the aforementioned appraisal companies.

      There must only be one class of shares. The Company has met this requirement, as indicated in note 12.

      If the company chooses to apply the special tax regime set forth in this law, its company name must include the words "Sociedad Cotizada de Inversión en el Mercado Inmobiliario, Sociedad Anónima" or the abbreviation thereof, "SOCIMI, S.A.".

      The Company meets this requirement.

4. Also, as described in article 6 of Law 11/2009 of 26 October 2009 governing SOCIMI, SOCIMI and the entities resident in Spain in which they hold investments that have opted to apply the special tax regime set out by this Law shall be required to distribute the profit for the year to shareholders in the form of dividends, once the related mercantile obligations have been met. The distribution of dividends must be approved within six months of each year end as follows:

   - 100% of the profit arising from dividends or shares of profits distributed by the entities subject to this regime.

- 50% of the profit arising from the conveyance of real estate and transfer of shares or investments performed once the time periods stipulated in the investment requirements have elapsed must be distributed in full. The remaining profit must be reinvested within three years from the conveyance/transfer date. If the reinvestment does not take place, the remaining 50% will be distributed.
- At least 80% of the remaining profit generated.

- The Company incurred losses during 2017 and 2018 and, therefore, it was not necessary to distribute dividends for these years in accordance with article 6 of Law 11/2009 of 26 October 2009 governing SOCIMI. At 31 December 2019 the Company continues to incur losses and therefore no dividends will be distributed.

As stipulated in Transitional Provision One of Law 11/2009 of 26 October 2009 governing SOCIMI, the Company may opt to apply the special tax regime under the terms set out in article 8 of this Law, even though it does not meet the requirements set out therein, provided that such requirements are met within two years of the date on which it opts to apply the aforementioned regime.

At 31 December 2019 the Company fails to meet the following requirements set out by Law 11/2009 of 26 October 2009 governing SOCIMI:

- The obligation to have invested at least 80% of the value of its real estate assets earmarked for lease, in land for real estate development earmarked for that purpose, and in capital or equity investments in other companies that also acquire and develop urban real estate for lease. However, in accordance with applicable legislation this requirement can be met in the following year, i.e. 2020.

  Failure to meet this condition would require the Company to file income tax returns under the general tax regime from the tax period in which the aforementioned condition was not met, unless this situation were redressed in the following tax period. The Company would also be obliged to pay, together with the amount relating to the aforementioned tax period, the difference between the amount of tax payable under the general tax regime and the amount paid under the special tax regime in the previous tax periods, including any applicable late payment interest, surcharges and penalties.

## (2) Basis of Presentation

(a) True and fair view

The annual accounts have been prepared on the basis of the accounting records of MRE-III-Proyecto Cinco, SOCIMI, S.A. in accordance with prevailing legislation and the Spanish General Chart of Accounts to give a true and fair view of the equity and financial position at 31 December 2019 and results of operations, changes in equity, and cash flows for the year then ended.

The directors consider that the annual accounts for 2019, authorised for issue on 17 June 2020, will be approved with no changes by the shareholders at their annual general meeting.

(b) Comparative information

The balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto for 2019 include comparative figures for 2018, which formed part of the annual accounts approved by shareholders at the annual general meeting held on 24 May 2019.

(c) Functional and presentation currency

The figures disclosed in the annual accounts are expressed in Euros, the Company’s functional and presentation currency.

(d) Critical issues regarding the valuation and estimation of relevant uncertainties and judgements used when applying accounting principles

Relevant accounting estimates and judgements and other estimates and assumptions have to be made when applying the Company's accounting principles to prepare the annual accounts. A summary of the items requiring a greater degree of judgement or which are more complex, or where the assumptions and estimates made are significant to the preparation of the annual accounts, is as follows:

- Estimating the useful life of investment property requires a high degree of judgement by management, based on historical experience and on the analysis carried out by the Company's technical personnel.

- The recoverable amount of investment property and inventories based on appraisals made by independent experts.

Although estimates are calculated by the Company's directors based on the best information available at 31 December 2019, future events may require changes to these estimates in subsequent years. Any effect of adjustments to be made in subsequent years would be recognised prospectively.

## (3) Application of Losses

The application of the Company's losses for the year ended 31 December 2018, approved by the shareholders at their annual general meeting held on 24 May 2019, was as follows:

| | Euros |
|---|---|
| Basis of allocation | |
| Loss for the year | (869,827.67) |
| Application | |
| Prior years' losses | (869,827.67) |

The proposed application of the Company's losses for the year ended 31 December 2019 to be submitted to the shareholders for approval at their annual general meeting is as follows:

| | Euros |
|---|---|
| Basis of allocation | |
| Loss for the year | (1,179,117.49) |
| Application | |
| Prior years' losses | (1,179,117.49) |

## (4) Significant Accounting Policies

(a) Foreign currency transactions, balances and cash flows

Foreign currency transactions are translated into Euros using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the reporting date. Exchange gains and losses arising from this process, as well as those arising from the write off of balances from foreign currency transactions, are recognised in the income statement as income or expense, where applicable, when they arise.

In the statement of cash flows, cash flows from foreign currency transactions have been translated into Euros at the exchange rates at the dates the cash flows occur.

The effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currencies is recognised separately in the statement of cash flows as effect of exchange rate fluctuations.

Exchange gains and losses arising on the settlement of foreign currency transactions and the translation into Euros of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(b) Intangible assets

Intangible assets are measured at cost of acquisition or production, using the same criteria as for determining the cost of production of inventories. Intangible assets are carried at cost, less any accumulated amortisation and impairment.

(i) Subsequent costs

Subsequent costs incurred on intangible assets are recognised in profit and loss, unless they increase the expected future economic benefits attributable to the intangible asset.

(ii) Useful life and amortisation rates

The Company assesses whether the useful life of each intangible asset acquired is finite or indefinite. An intangible asset is regarded by the Company as having an indefinite useful life when there is no foreseeable limit to the period over which the asset will generate net cash inflows.

Intangible assets with indefinite useful lives are not amortised, but are instead tested for impairment on an annual basis or whenever there is an indication that the intangible asset may be impaired. The Company assesses whether the useful life of each intangible asset acquired is finite or indefinite. An intangible asset is regarded by the Company as having an indefinite useful life when there is no foreseeable limit to the period over which the asset will generate net cash inflows.

(iii) Impairment losses

The Company measures and determines impairment of intangible assets to be recognised or reversed. (d) Impairment of non-financial assets subject to amortisation or depreciation

(c) Investment property

Investment property comprises property, including that which is under construction or being developed, which is earmarked totally or partially to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services, for administrative purposes or for sale in the ordinary course of business.

Buildings that are being constructed or developed for future use as investment property are classified as Investment property - Investments in adaptation and advances, until they are completed. Nevertheless, redevelopment work to extend or improve property is classified as investment property.

Investment property is initially measured at cost or cost of production. The purchase price comprises the amount invoiced by the seller, after deduction of any discounts, rebates or other similar items, such as interest incorporated into the nominal amount, plus any additional costs incurred to bring the goods to a saleable condition and other costs directly attributable to the acquisition After initial recognition assets are depreciated and, where applicable, subject to impairment.

Advances on account of investment property are initially measured at cost. In subsequent years, advances accrue interest at the supplier's incremental borrowing rate when the period between payment and the receipt of the asset exceeds one year.

The acquisition cost of assets fully or partially acquired in exchange for contingent consideration includes the best estimate of the present value of the aforementioned consideration. Changes to the estimates of the contingent consideration are recognised as an adjustment to the value of the assets. Changes related to variables such as interest rates or the Consumer Price Index are treated as an adjustment to the effective interest rate.

Property, plant and equipment are depreciated by allocating the depreciable amount of the asset on a systematic basis over its useful life. The depreciable amount is the cost of an asset, less its residual value. The Company determines the depreciation expense separately for each component, which has a significant cost in relation to the total cost of the item and a useful life different to the rest of the item. In this regard, items which due to their characteristics are depreciated between 5 and 10 years are recorded under Buildings, in addition to those items which are purely buildings which are indicated in the following point.

Investment property is depreciated applying the following policies:

| | **Depreciation method** | **Estimated years of useful life** |
|---|---|---|
| Buildings | Straight-line | 50 |

(d) Impairment of non-financial assets subject to amortisation or depreciation

The Company evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. This analysis is performed based on appraisals and valuations made by independent experts dated at the reporting date, but which had been carried out in January 2020. The methodology used to determine the market value of the Company's investment property for 2019 and 2018 is mainly the discounted cash flow method.

Impairment losses, where applicable, are recognised in the income statement.

At the end of each reporting period the Company assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Impairment losses are only reversed if there has been a change in the estimates used to calculate the recoverable amount of the asset.

A reversal of an impairment loss is recognised in the consolidated income statement. The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

After an impairment loss or reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods based on its new carrying amount.

(e) Leases

(i) Lessor accounting

The Company has conveyed the right to use all the buildings indicated in notes 1 and 5 through lease contracts. Leases which transfer to third parties substantially all the risks and rewards incidental to ownership of the assets are classified as finance leases. Otherwise they are classified as operating leases.

Given the nature of the lease contracts the Company has signed for the buildings indicated in notes 1 and 5, these contracts are classified as operating leases.

*Operating leases*

Assets leased to third parties under operating lease contracts are presented according to their nature, applying the accounting policies set out in Investment property.

Operating lease income, net of incentives granted, is recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefits deriving from the leased asset are diminished.

Initial direct costs are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Contingent rents are recognised as income when it is probable that they will be obtained, which is generally when the conditions agreed in the contract arise.

(f) Financial instruments

(i) Classification and separation of financial instruments

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument.

For measurement purposes, financial instruments are classified under financial assets and financial liabilities held for trading, financial assets and financial liabilities at fair value through profit or loss, loans and receivables, investments held to maturity, available-for-sale financial assets and financial liabilities at amortised cost. Financial instruments are classified into the above categories based on their nature and management's intentions on initial recognition.

(i) Own equity instruments

As described in note 1 to the annual accounts, pursuant to article 6 of Law 11/2009 of 26 October 2009 governing SOCIMI, SOCIMI and the entities resident in Spain in which they hold interests that have opted to apply the special tax regime set out by this Law shall be required to distribute the profit for the year to shareholders in the form of dividends, once the related mercantile obligations have been met. The distribution of dividends must be approved within six months of each year end.

The aforementioned obligation to distribute profits is understood to derive from a legal and non-contractual obligation and from opting voluntarily to apply a special tax regime. This is a self-imposed legal obligation and therefore the definition of financial liability is not met and the equity instruments issued by the Parent are classified as equity instruments. Likewise, the distribution of profits is recognised as a reduction in equity when legally enforceable.

(iii) Offsetting principles

A financial asset and a financial liability are offset only when the Company currently has the legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iv) Loans and receivables

Loans and receivables comprise trade and non-trade receivables with fixed or determinable payments that are not quoted in an active market other than those classified in other financial asset categories. These assets are initially recognised at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Nevertheless, financial assets included in this category which have no established interest rate, which mature or are expected to be received in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

(v) Amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured upon initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the amount receivable/payable on maturity, and minus any reduction for impairment or uncollectibility.

(vi) Fair value

Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

(vii) Impairment and uncollectibility of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and the event or events have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Company considers there is objective evidence of impairment of loans and receivables and debt instruments when a reduction or delay is incurred in the estimated future cash flows, which could be due to debtor insolvency.

(viii) Financial liabilities

Financial liabilities, including trade and other payables, that are not classified as held for trading or as financial liabilities at fair value through profit or loss are initially recognised at fair value less any transaction costs directly attributable to the issue of the financial liability. After initial recognition, liabilities classified under this category are measured at amortised cost using the effective interest method.

Co-investment loans (see note 14) with interest contingent on the Company achieving a milestone such as obtaining profits, or calculated by reference to the financial performance of the Company, are measured at cost plus interest payable to the lender as specified in the loan contract. In these cases, transaction costs are recognised on a straight-line basis over the term of the loan.

Nevertheless, financial liabilities which have no established interest rate, which mature or are expected to be settled in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

(ix) Derecognition and modifications of financial assets and financial liabilities

The Company derecognises a financial asset, or a part of a financial asset, when the contractual rights to the cash flows from the financial asset expire or have been transferred, provided that substantially all the risks and rewards of ownership have been transferred.

The Company derecognises all or part of a financial liability when it either discharges the liability by paying the creditor, or is legally released from primary responsibility for the liability either by process of law or by the creditor.

(g) Hedge accounting

The Company recognises as losses or gains for the year, those losses or gains arising from the measurement of derivatives at fair value, rather than those arising from the application of hedge accounting.

(h) Inventories

Inventories, principally including developments in progress which are all earmarked for sale, are measured at price of acquisition or construction.

Inventories that need a period of more than one year to be officially approved include finance costs accrued prior to becoming available for sale and directly attributable in the acquisition or construction.

Capitalisation of finance costs is suspended in the event construction is interrupted.

Finished developments: these are measured based on the costs incurred in the real estate developments. These costs include those directly applicable to construction that have been approved by the technicians in charge of managing the works, expenses associated with promotion and finance costs incurred during the construction period.

Building plots and land are measured at their acquisition price, including the costs directly associated with the purchase. The value of land and building plots includes the cost of urban development, the project and planning until the refurbishment works are completed.

The Company recognises impairment in those cases where the recoverable amount is lower than the amount recognised, or where there are doubts regarding recoverability. This analysis is made based on appraisals and valuations made by independent experts in January 2020.

(i) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions. They also include other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Provisions

Provisions are recognised when the Company has a present obligation (legal, contractual, constructive or tacit) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

If it is not probable that an outflow of resources will be required to settle an obligation, the provision is reversed. The financial effect of provisions is recognised as a finance cost in the income statement.

(k) Revenue from the sale of goods and rendering of services

The Group recognises revenue based on the economic substance of the transaction.

Revenue is recognised when it is probable that the economic benefits or returns associated with the transaction will flow to the Company, and the amount of revenue can be measured reliably.

Revenue from the sale of goods or services is measured at the fair value of the consideration received or receivable.

(i) Services rendered

Revenues associated with the rendering of services are recognised in the income statement by reference to the stage of completion at the reporting date when revenues, the stage of completion, the costs incurred and the costs to complete the transaction can be estimated reliably and it is probable that the economic benefits derived from the transaction will flow to the Company. In this regard, the Company's main services consist of lease revenues, as described in note 4(e) above.

(l) Income tax

The income tax expense or tax income for the year comprises current tax and deferred tax.

Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

Current and deferred tax are recognised as income or an expense and included in profit or loss for the year, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different year, directly in equity, or from a business combination.

Government assistance provided in the form of deductions and other tax relief applicable to income tax payable are recognised as a reduction in the income tax expense for the year in which it is accrued.

As described in note 1, the Company adheres to the tax regime for SOCIMI regulated by Law 11/2009 of 26 October 2009 governing SOCIMI. In compliance with certain requirements set out by this Law, the Company is subject to an income tax rate of 0%. The requirements to be met are set out in the section "SOCIMI (Spanish REIT), Law 11/2009" of note 1. Article 10 of this Law also regulates the special tax regime for shareholders and especially dividends on account of profits or reserves to which the special tax regime set forth in this Law has been applied, as well as the income obtained from the transfer or reimbursement of the investment in capital of the companies which have opted to apply this regime.

The board of directors monitors compliance with the requirements stipulated in this Law, for the purpose of maintaining the tax advantages thereof. It estimates that these requirements will be met in the terms and conditions stipulated and income tax for the year will be recognised.

(i) Taxable temporary differences

Taxable temporary differences are recognised in all cases except where:

- They arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.
- They are associated with investments in subsidiaries, associates, jointly controlled entities and interests in joint ventures over which the Company is able to control the timing of the reversal of the temporary difference and it is not probable that the difference will reverse in the foreseeable future.

(ii) Recognition of deductible temporary differences, tax credits and tax loss carryforwards

The Company recognises the corresponding deferred tax assets for all deductible temporary differences, unused tax credits and tax loss carryforwards available for offset provided that it is likely that the Company will generate sufficient taxable income in the future to apply these assets.

The Company does not recognise any deferred tax assets for those deductible temporary differences which:

- Arise from the initial recognition of assets or liabilities in a transaction that is not a business combination and, at the time of the transaction, affect neither accounting profit nor taxable income.
- Correspond to the temporary differences associated with investments in subsidiaries and interests in joint ventures that will reverse in the foreseeable future and sufficient taxable income is expected to be generated against which the temporary differences can be offset.

(iii) Measurement

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted. The tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of its assets or liabilities are also reflected in the measurement of deferred tax assets and liabilities.

(iv) Offset and classification

The Company only offsets tax assets and liabilities if it has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Deferred tax assets and liabilities are recognised in the balance sheet under non-current assets or liabilities, irrespective of the expected date of recovery or settlement.

(m) Classification of assets and liabilities as current and non-current

The Company classifies assets and liabilities in the balance sheet as current and non-current. Current assets and liabilities are determined as follows:

- Assets are classified as current when they are expected to be realised or are intended for sale or consumption in the Company’s normal operating cycle, they are held primarily for the purpose of trading, they are expected to be realised within 12 months after the reporting date or are cash or a cash equivalent, unless the assets may not be exchanged or used to settle a liability for at least 12 months after the reporting date.
- Liabilities are classified as current when they are expected to be settled in the Company’s normal operating cycle, they are held primarily for the purpose of trading or they are due to be settled within 12 months after the reporting date.

- Financial liabilities are classified as current when they are due to be settled within 12 months after the reporting date, even if the original term was for a period longer than 12 months, and an agreement to refinance or to reschedule payments on a long-term basis is completed after the reporting date and before the annual accounts are authorised for issue.

(n) Environmental issues

The Company takes measures to prevent, reduce or repair the damage caused to the environment by its activities.

Expenses derived from environmental activities are recognised as other operating expenses in the period in which they are incurred.

(o) Transactions between Group and related companies

Transactions between Group and related companies, except those related to mergers, spin-offs and non-monetary contributions, are recognised at the fair value of the consideration given or received. The difference between this value and the amount agreed is recognised in line with the underlying economic substance of the transaction.

## (5) Intangible Assets and Investment Property

Details of intangible assets and movement are as follows:

| | Euros | |
|---|---|---|
| | 2019 | |
| **Description** | **Patents, licences, trademarks and similar rights** | **Total** |
| Cost at 1 January 2019 | 850.00 | **850.00** |
| Cost at 31 December 2019 | 850.00 | **850.00** |
| Carrying amount at 31 December 2019 | 850.00 | **850.00** |

| | Euros | |
|---|---|---|
| | 2018 | |
| **Description** | **Patents, licences, trademarks and similar rights** | **Total** |
| Cost at 1 January 2018 | - | **-** |
| Additions | 850.00 | **850.00** |
| Cost at 31 December 2018 | 850.00 | **850.00** |
| Carrying amount at 31 December 2018 | 850.00 | **850.00** |

Details of investment property and movement during the year are as follows:

| | Euros | |
|---|---|---|
| | 2019 | |
| Description | Under development | Total |
| Cost at 1 January 2019 | **28,740,670.48** | **28,740,670.48** |
| Additions | 10,926,676.12 | 10,926,676.12 |
| Cost at 31 December 2019 | **39,667,346.60** | **39,667,346.60** |
| Carrying amount at 31 December 2019 | **39,667,346.60** | **39,667,346.60** |

| | Euros | |
|---|---|---|
| | 2018 | |
| Description | Under development | Total |
| Cost at 1 January 2018 | **33,923,619.58** | **33,923,619.58** |
| Additions | 3,424,827.56 | 3,424,827.56 |
| Transfers (note 8) | (8,607,776.66) | **(8,607,776.66)** |
| Cost at 31 December 2018 | **28,740,670.48** | **28,740,670.48** |
| Carrying amount at 31 December 2018 | **28,740,670.48** | **28,740,670.48** |

Additions in investments in progress during 2019 mainly reflect the capitalisation of costs relating to urban planning charges with regard to the special infrastructure plan for the re-zoning project and taxes on buildings, installations and development works (of which Euros 320,495.16 correspond to capitalised finance costs) being carried out on the buildings purchased by the Company in 2017 and 2018 and located in the 22@ district of Barcelona.

Movement in investment property in 2018 principally consisted of the acquisition of the following properties, together with the additional costs relating to these acquisitions:

Acquisition on 9 February 2018 of a property located in the 22@ district of Barcelona for a total amount of Euros 872,000.00. The purpose of these properties is to demolish and refurbish the buildings on them and subsequently build various offices (for lease) and dwellings (for sale), for management by lease. In this connection, in 2018 the costs for demolishing the pre-existing buildings, adjusting the purchase price, as well as the costs for the construction project studies were capitalised for a total of Euros 2,552,827.56, of which Euros 193,074.12 corresponded to capitalised finance costs. All the amounts capitalised as a result of the acquisition and adaptation of these properties were recognised under investments in adaptation and advances under investment property.

During 2018 the Company decided that the properties earmarked for housing would be transferred to developments in progress for sale and therefore, various properties for a value of Euros 8,607,776.66 were reclassified to inventories (see note 8).

On 23 May 2013 a works contract was signed for the construction of two office buildings, as well as the urbanisation of the block, located in the 22@ district of Barcelona, specifically in Avenida Icaria, Calle Badajoz, Calle Doctor Trueta and Calle Ávila. The contract price stands at Euros 50,573,927 and the works are scheduled for completion in May 2021.

(a) Fully depreciated/amortised assets

At 31 December 2019 and 2018 the Company does not have any fully depreciated investment property or fully amortised intangible assets.

(b) Insurance

The Company has taken out insurance policies to cover the risk of damage to its investment property. The coverage of these policies is considered sufficient.

## (6) Operating Leases - Lessor

At 31 December 2019 and 2018 the Company has not leased any buildings to third parties.

## (7) Risk Management Policy

(a) Financial risk factors

The Company's activities are exposed to various financial risks: market risk (including fair value interest rate risk and price risk), credit risk, liquidity risk, and cash flow interest rate risk. The Company's global risk management programme focuses on uncertainty in the financial markets and aims to minimise potential adverse effects on the Company's profits. The Company uses derivatives to mitigate certain risks.

Risks are managed by the Risk Management Unit in accordance with policies approved by the shareholders. This department identifies, evaluates and mitigates financial risks in close collaboration with the Company's operational units. The shareholders issue global risk management policies, as well as policies for specific issues such as interest rate risk, liquidity risk, the use of derivatives and non-derivative instruments, and investments of cash surpluses.

(i) Credit risk

The Company is not significantly exposed to credit risk. Cash transactions are only performed with financial institutions that have high credit ratings. The Company has policies to limit the amount of risk with any one financial institution.

(ii) Liquidity risk

The Company applies a prudent policy to cover its liquidity risks based on having sufficient cash as well as sufficient financing through credit facilities from own funds and from third parties.

Details of financial assets and financial liabilities by contractual maturity date are provided in Appendices I and III.

(iii) Cash flow and fair value interest rate risks

The Company manages cash flow interest rate risks by constantly monitoring the performance of interest rate forwards in order to determine the need to contract variable to fixed interest rate swaps.

## (8) Inventories

Details of developments in progress are as follows:

| | Euros | |
|---|---|---|
| | **2019** | **2018** |
| Property business | | |
| Opening balance at 1 January | 9,435,003.11 | - |
| Additions | 400,111.78 | 827,226.45 |
| Transfers (note 5) | - | 8,607,776.66 |
| | **9,835,114.89** | **9,435,003.11** |

At 31 December 2019 and 2018 inventories mainly comprise developments in progress corresponding to dwellings earmarked for sale. During 2019 costs of Euros 400,111.78 have been capitalised, corresponding to the urban planning charge in relation to the special infrastructure plan for the re-zoning project. During 2018 costs of Euros 827,226.45 were capitalised, Euros 67,484.74 of which corresponded to capitalisable finance costs and Euros 113,175.77 to the adjusted purchase price. The remaining amount reflects demolition costs.

(b) Insurance

The Company has taken out insurance policies to cover the risk of damage to its inventories. The coverage of these policies is considered sufficient.

## (9) Financial Assets by Category

(a) Classification of financial assets by category

| | Euros | | | |
|---|---|---|---|---|
| | 2019 | | | |
| | Non-current | | Current | |
| | Carrying amount | Total | Carrying amount | Total |
| *Loans and receivables* | | | | |
| Security and other deposits | - | **-** | 55,814.55 | **55,814.55** |
| *Trade and other receivables* | | | | |
| Trade receivables | | | 42,872.22 | **42,872.22** |
| Other receivables | - | **-** | 8,142.30 | **8,142.30** |
| Total financial assets | **-** | **-** | **106,829.07** | **106,829.07** |

| | Euros | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | Non-current | | Current | |
| | Carrying amount | Total | Carrying amount | Total |
| *Loans and receivables* | | | | |
| Security and other deposits | - | **-** | 55,814.55 | **55,814.55** |
| *Trade and other receivables* | | | | |
| Personnel | - | **-** | 6,000.00 | **6,000.00** |
| Total financial assets | **-** | **-** | **61,814.55** | **61,814.55** |

At 31 December 2019 and 2018 the carrying amounts of financial assets do not differ significantly from their fair values.

## (10) Investments and Trade Receivables

(a) Investments

Details of investments at 31 December 2019 and 2018 are as follows:

| | Euros | |
|---|---|---|
| | 2019 | |
| | Non-current | Current |
| Unrelated parties | | |
| Security and other deposits | - | 55,814.55 |
| Total | **-** | **55,814.55** |

| | Euros | |
|---|---|---|
| | 2018 | |
| | Non-current | Current |
| Unrelated parties | | |
| Security and other deposits | - | 55,814.55 |
| Total | **-** | **55,814.55** |

At 31 December 2019 and 2018 current security and other deposits reflect a deposit for the construction work being carried out in the 22@ district. No non-current security and other deposits have been recognised.

(b) Trade and other receivables

At 31 December 2019 and 2018 details of trade and other receivables are as follows:

| | Euros | |
|---|---|---|
| | 2019 | 2018 |
| | Current | Current |
| *Unrelated parties* | | |
| Trade receivables | 42,872.22 | - |
| Other receivables | 8,142.30 | - |
| Personnel | - | 6,000 |
| Public entities, other (note 16) | 632,961.11 | 485,835.38 |
| Total | **683,975.63** | **491,835.38** |

(c) Classification by maturity

The classification of financial assets by maturity is shown in Appendix I.

## (11) Derivative Financial Instruments

(a) Interest rate swaps

The Company has the following swaps:

On 22 November 2019 the Company entered into a financing agreement with Caixabank, S.A. and Banco Santander, S.A., which includes an interest rate swap to hedge exposure to interest rate fluctuations on the loan. The interest rate on these swaps is a fixed annual and variable rate of 0.0759% pegged to Euribor at 3 months, payable on a quarterly basis, in both financial institutions.

| Type of transaction | Start date | Maturity date | Initial nominal value |
|---|---|---|---|
| Financial interest rate swap: | | | |
| - CaixaBank, S.A. | 22/11/2019 | 22/11/2024 | 23,503,809.60 |
| - Banco Santander, S.A. | 22/11/2019 | 22/11/2024 | 15,669,206.40 |

The fair value of these financial swaps is based on the market values of equivalent derivative financial instruments at the reporting date. The Company does not apply hedge accounting on these instruments and their change in fair value is recognised as income or expense in the income statement for the year (losses of Euros 135,343.04 during 2019).

The value of this derivative at 31 December 2019 stands at Euros 80,005.94 in Caixabank, S.A. and Euros 55,337.10 in Banco Santander, S.A., both recognised as non-current liabilities.

## (12) Equity

Details of equity and movement during the year are shown in the statement of changes in equity.

(a) Capital

At 31 December 2017 the Company's share capital amounted to Euros 15,000,000 and was represented by 15,000,000 shares of Euros 1 par value each, subscribed and fully paid.

At an extraordinary and universal meeting held on 8 March 2018 the shareholders increased capital through a monetary contribution of Euros 4,962,500 by issuing 4,962,500 shares of Euros 1 par value each, fully subscribed and paid. The capital increase was entered in the Mercantile Registry on 14 May 2018.

At an extraordinary and universal meeting held on 14 August 2018 the shareholders increased capital again through a monetary contribution of Euros 16,762,500 by issuing 16,762,500 shares of Euros 1 par value each, fully subscribed and paid. The capital increase was entered in the Mercantile Registry on 2 October 2018.

Consequently, at 31 December 2019 and 2018 the Company's share capital amounts to Euros 36,725,000 and is represented by 36,725,000 shares of Euros 1 par value each, subscribed and fully paid.

Details of shareholders at 31 December 2019 and 2018 are as follows

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| | % | % |
| Meridia Real Estate III, SOCIMI, S.A. | 77.60 | 77.60 |
| Sucesores de W.Hoffmann, S.L. | 9.54 | 9.54 |
| DOF UK Meridia Holding IV Ltd | 1.84 | 1.84 |
| DOF UK Meridia Holding V Ltd | 1.84 | 1.84 |
| DREOF II UK Meridia Holding I Ltd | 3.06 | 3.06 |
| DREOF II UK Meridia Holding II Ltd | 3.06 | 3.06 |
| DREOF II UK Meridia Holding III Ltd | 3.06 | 3.06 |
| Total | **100** | **100** |

All of the Company's shares were listed on the EURONEXT ACCESS PARIS market on 24 May 2019.

At 31 December 2019 and 31 December 2018 all the shares are of the same class and have the same characteristics and rights.

Although the Company's equity at 31 December 2019 is lower than share capital and represents 92% thereof (96% at 31 December 2018), this situation has mainly arisen because the Company is still not generating any income because it is currently in the process of making real estate investments. The Company has no cash requirements other than those that are financed by loans and borrowings detailed in note 14. Therefore, there are no doubts regarding the application of the going concern principle, despite the Company's equity being lower than its share capital.

## (13) Financial Liabilities by Category

(a) Classification of financial liabilities by category

The classification of financial liabilities by category and class is provided in Appendix II.

At 31 December 2019 and 2018 the carrying amount of financial liabilities does not differ significantly from their fair value.

## (14) Payables and Trade Payables

(a) Group companies and associates

Details of payables to Group companies and associates are as follows:

| | Euros | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Non-current | Current | Non-current | Current |
| Group | | | | |
| Payables | - | 500,000.00 | - | - |
| Interest | - | 1,000.00 | - | - |
| Total | **-** | **501,000.00** | **-** | **-** |

Loans with Group companies reflect the amount drawn down from the credit facility arranged with the Company's shareholder, Meridia Real Estate III, SOCIMI, S.A. This credit facility accrues interest at an annual rate of 4%, payable upon maturity on 1 April 2020. The credit limit stands at Euros 6,000,000 and is extendable on a yearly basis.

(b) Payables

Details of payables are as follows:

| | Euros | | | |
|---|---|---|---|---|
| | 31/12/2019 | | 31/12/2018 | |
| | Non-current | Current | Non-current | Current |
| Unrelated parties | | | | |
| Contingent interest rate loans | 3,375,000.00 | - | 3,375,000.00 | - |
| Loans and borrowings | 13,493,150.88 | - | - | - |
| Loans and borrowings (fees and commissions and other expenses deducted from the liability of the loan) | (3,090,823.73) | - | - | - |
| Interest | - | 24,697.66 | - | - |
| Trading derivatives | 135,343.04 | - | - | - |
| Suppliers of fixed assets | - | 2,284,585.90 | - | 1,082,772.14 |
| Total | **13,912,670.19** | **2,309,283.56** | **3,375,000.00** | **1,082,772.14** |

At 31 December 2019 and 2018 contingent interest rate loans reflect a Euros 3,375,000 participating loan received from Periza Industries S.á.r.l on 8 March 2018. This loan falls due on 8 March 2033. The loan will be fully repaid either at the contract end date or on a prior date if any of the circumstances stipulated in the contract arise. This loan accrues contingent interest at a rate of 8.4% on the Company's accumulated net profit at each reporting date. At 31 December 2019 and 2018 this loan has not accrued any interest, nor was there any unpaid accrued interest as the Company posted accumulated losses in both years.

Loans and borrowings reflect the syndicated loan agreement that the Company arranged with CaixaBank, S.A. and Banco Santander, S.A. on 22 November 2019 and falling due on 22 November 2029, for a maximum amount of Euros 83,500.000.00 (60% provided by CaixaBank, S.A. and 40% by Banco Santander, S.A.). This loan has an initial drawdown of the principal until 22 November 2022. The amounts drawn down totalled Euros 13,493,150.88 in 2019 and the remaining amount can be drawn down upon submission of progress billings and invoices for the construction of the buildings, or adjacent areas.

The loan agreement sets out a repayment schedule up to 22 November 2029, whereupon an aggregate amount of 34.46% of the total extended will have been repaid. The following repayment, due on 22 November 2029, will be for the remaining 65.45% of the loan.

Furthermore, the loan has the following guarantees:

- First position full floating real estate mortgage, with a mortgage liability for 125% of each of the guaranteed obligations (derived from the loan agreement and the interest rate hedging contract).
- First position pledging of the rights to receivables derived from insurance contracts, interest rate hedging contracts, lease contracts, borrower's accounts, construction contracts and the receivables of Periza Industries S.à.r.l.
- Irrevocable powers to the lender.
- Pledging by the investors to the lender of the shares representing 100% of the share capital of the borrower to ensure compliance with the borrower's obligations.

The carrying amount of the investment property pledged to secure the two loans is Euros 39,346,851.44 at 31 December 2019 (Euros 28,740,670.48 at 31 December 2018). The loan is subject to compliance with certain obligations relating to specific financial ratios for continuity purposes. In accordance with the agreed terms, the degree of compliance with the financial ratios and levels will be determined at each year end as of the closing date for the end of the drawdown phase, i.e. 31 December 2022. In this regard, the loan includes mandatory early repayments based on surplus cash flows.

Suppliers of fixed assets at 31 December 2019 and 2018 reflect the amounts payable to suppliers who are carrying out the work (see note 5).

(c) Other information on payables

(i) Main characteristics of payables

The terms and conditions of loans and payables are shown in Appendix IV.

(d) Trade and other payables

Details of trade and other payables are as follows:

| | Euros | |
|---|---|---|
| | 2019 | 2018 |
| | Current | Current |
| *Group* | | |
| Meridia Real Estate III, SOCIMI, S.A. | 118,428.75 | 58,193.44 |
| *Related parties* | | |
| Payables | - | 5,133.99 |
| *Unrelated parties* | | |
| Payables | 207,433.91 | 84,370.44 |
| Public entities, other (note 16) | 45,896.98 | 42,008.54 |
| Advances | - | - |
| Total | **371,759.64** | **189,706.41** |

(e) Classification by maturity

The classification of financial liabilities by maturity is shown in Appendix III.

## (15) Average Supplier Payment Period. "Reporting Requirement". Third Additional Provision of Law 15/2010 of 5 July 2010

Details of the average supplier payment period are as follows:

| | 2019 | 2018 |
|---|---|---|
| | Days | |
| Average supplier payment period | 34.90 | 48.01 |
| Transactions paid ratio | 40.91 | 51.09 |
| Transactions payable ratio | 22.13 | 27.19 |
| | Amount in Euros | Amount in Euros |
| Total payments made | 4,801,185.50 | 2,089,705.45 |
| Total payments outstanding | 2,254,486.08 | 308,358.82 |

## (16) Taxation

Details of balances with public entities are as follows:

| | Euros | |
|---|---|---|
| | 2019 | 2018 |
| | Current | Current |
| Assets | | |
| Value added tax and similar taxes | 632,961.11 | 485,835.38 |
| | **632,961.11** | **485,835.38** |
| Liabilities | | |
| Social Security | 1,542.57 | 2,883.22 |
| Withholdings | 44,354.41 | 39,125.32 |
| | **45,896.98** | **42,008.54** |

The Company has the following main applicable taxes open to inspection by the Spanish taxation authorities:

| Tax | Years open to inspection |
|---|---|
| Income tax | 2016 - 2018 |
| Value added tax | 2016 - 2019 |
| Personal income tax | 2016 - 2019 |
| Tax on Economic Activities | 2016 - 2019 |

Due to different possible interpretations of prevailing tax legislation, additional tax liabilities could arise in the event of inspection. In any case, the Company's directors do not consider that any such liabilities that could arise would have a significant effect on these annual accounts.

(a) Income tax

A reconciliation of net income and expenses for the year and the tax loss is shown in Appendix V.

The relationship between the income tax expense and accounting loss for the year is provided in Appendix VI.

No income tax expense has been recorded.

Because the tax rate is 0%, the Company has not recognised the tax effect of unused tax loss carryforwards as deferred tax assets, the amounts and reversal periods of which are as follows:

| Year | Euros 2019 | Euros 2018 | Term |
|---|---|---|---|
| 2016 | (1,595.39) | (1,595.39) | Indefinite |
| 2017 | (542,648.37) | (542,648.37) | Indefinite |
| 2018 | (869,827.67) | (869,827.67) | Indefinite |
| 2019 (provisional) | (1,179,117.49) | | |

## (17) Environmental Information

At 31 December 2019 and 2018 the Company had no significant assets for protecting or improving the environment, nor did it incur any expenses of an environmental nature during either year.

The directors of the Company do not consider that there are any significant contingencies relating to the protection and improvement of the environment. Therefore, at 31 December 2019 and 2018 it was not considered necessary to recognise a provision for liabilities and charges of this nature.

Due to the nature of its activity, the Company does not have any emission allowances.

## (18) Related Party and Group Balances and Transactions

(a) Balances with the Group and related parties

Related party balances are shown in note 13.

(b) Transactions with the shareholders and related parties

The Company's transactions with related parties are as follows:

| 2019 | Euros<br>Shareholders | <br>Related parties | <br>Total |
|---|---|---|---|
| Expenses | | | |
| Services received | 375,536.26 | - | **375,536.26** |
| Interest | 130,819.56 | - | **130,819.56** |
| Total expense | **506,355.82** | **-** | **506,355.82** |

| | Euros | | |
|---|---|---|---|
| 2018 | Shareholders | Related parties | Total |
| Expenses | | | |
| Services received | 179,212.50 | 27,033.40 | **206,245.90** |
| Interest | 58,372.22 | - | **58,372.22** |
| Total expense | **237,584.72** | **27,033.40** | **264,618.12** |

In 2019 and 2018 transactions with Group companies and related parties are those arising from project management and from the financing obtained.

(c) Information on the Company's directors and senior management personnel

During 2019 and 2018 the Company's directors received remuneration for their duties not relating to their positions as directors, amounting to Euros 175 thousand, respectively. At 31 December 2019 and 2018 the directors have not received any loans or advances nor has the Company extended any guarantees on their behalf. The Company has no pension or life insurance obligations with its former or current directors. The Company has no senior management personnel.

The Company did not pay any public liability insurance premiums for the directors in 2019 and 2018 for damage or loss caused by actions or omissions in the performance of their duties.

(d) Transactions other than ordinary business or under terms differing from market conditions carried out by the directors of the Company

In 2019 and 2018 the directors of the Company have not carried out any transactions other than ordinary business or applying terms that differ from market conditions with the Company or any other Group company.

(c) Conflicts of interest concerning the directors

The directors of the Company and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Revised Spanish Companies Act.

## (19) Income and Expenses

(a) Revenues

Details of revenues by category of activity and geographical market are as follows:

| | Euros | |
|---|---|---|
| | 2019 | 2018 |
| | Domestic | Domestic |
| Lease income | - | 24,804.00 |
| | **-** | **24,804.00** |

No revenue is recognised at 31 December 2019 as the buildings are still under construction and therefore, no income has been generated from their lease.

Revenue at 31 December 2018 is generated from leasing the buildings to third parties.

All services are provided in Spain.

(b) Supplies and changes in inventories

At 31 December 2019 and 2018 these items entirely reflect costs capitalised in 2019 and 2018 recognised under inventories (see note 8).

(c) Employee benefits expense and provisions

Details of employee benefits expense and provisions are as follows:

| | Euros | |
|---|---|---|
| | 2019 | 2018 |
| Employee benefits expense | | |
| Social Security payable by the Company | 19,176.19 | 28,569.80 |
| | **19,176.19** | **28,569.80** |

(c) External services

Details of external services are as follows:

| | Euros | |
|---|---|---|
| | 2019 | 2018 |
| Independent professional services | 479,654.74 | 370,273.88 |
| Services rendered by Group companies | 375,536.26 | 179,212.50 |
| Other expenses | 108,942.39 | 23,176.33 |
| | **964,133.39** | **572,662.71** |

(d) Employee Information

At 31 December 2019 and 2018 there are two employees (a female lawyer and male asset management director). At 31 December 2019 and 2018 the Company had no employees with a disability rating equal to or higher than 33%. The average headcount at 31 December 2019 and 2018 is two employees.

## (20) Audit Fees

The auditor of the Company's annual accounts, and other individuals and companies related to the auditor as defined by Audit Law 19/1988 of 12 July 1988 have invoiced the Company the following fees for professional services:

| | Euros | |
|---|---|---|
| | 2019 | 2018 |
| Audit services | 8,200.00 | 7,500.00 |

The amounts detailed in the above table include the total fees for services rendered in the years ended 31 December 2019 and 2018, irrespective of the date of invoice.

## (21) Legislative requirements arising from status as SOCIMI, Law 11/2009

In compliance with the reporting obligations set forth in article 11 of Law 11/2009 of 26 October 2009 governing SOCIMI, the following is indicated:

<table>
<tr><th>Observation requirement</th><th>2019 information</th></tr>
<tr><td>a) Reserves from years prior to the application of the tax regime set forth in this Law.</td><td>The Company was incorporated on 9 August 2016, incurring losses in 2016, 2017 and 2018 and therefore there are no reserves from years prior to the application of the tax regime set forth in this Law.</td></tr>
<tr><td>b) Reserves from years in which the tax regime set forth in this Law has been applied, differentiating between the portion that comes from income subject to a 0% or 19% tax rate, and those which, where applicable, have been taxed at the general tax rate.</td><td>Because the Company incurred losses in 2016, 2017 and 2018 there are no reserves from the periods during which the tax regime set forth by the aforementioned Law has been applied.</td></tr>
<tr><td>c) Dividends distributed with a charge to profits for each year in which the tax regime set forth by this Law has been applied, differentiating between the portion that comes from income subject to a 0% or 19% tax rate and those which, where applicable, have been taxed at the general tax rate.</td><td rowspan="3">The Company has incurred losses during 2016, 2017, 2018 and 2019. As a result no dividends have been or will be distributed and the information required regarding distribution of dividends as stipulated by article 11 of the aforementioned Law is not necessary.</td></tr>
<tr><td>d) In the event of dividends distributed with a charge to reserves, designation of the year from which the applied reserve originates and whether they have been taxed at a 0% or 19% tax rate or at the general tax rate.</td></tr>
<tr><td>e) Dividend distribution agreement date referred to in sections c) and d) above.</td></tr>
<tr><td>f) Acquisition date of the properties earmarked for lease and of shares in the capital of the entities to which article 2.1 of the above Law refers.</td><td>The Company's properties were acquired in July and August 2017 and one property was acquired in 2018.</td></tr>
<tr><td>g) Identification of the asset that qualifies as part of the 80% mentioned in article 3.1 of this Law</td><td>At 2019 reporting date, the assets computed within the 80% as described in article 4 of this Law are those relating to the development and construction of office buildings. The carrying amount of these assets at 2019 reporting date amounts to Euros 39,667,346.60. As indicated in note 1, although this percentage is not met at 31 December 2019 and 2018, in accordance with applicable legislation this requirement could be met in the following year, i.e. 2020.</td></tr>
<tr><td>h) Reserves from years in which the special tax regime provided in this Law is applicable which have been applied in the tax period other than for the distribution thereof or to offset losses, identifying the year in which these reserves arise.</td><td>There are no reserves from years prior to the application of the tax regime set forth in this Law.</td></tr>
</table>

## (22) Events After the Reporting Period

On 11 March 2020, the World Health Organization declared the outbreak of Coronavirus disease 2019 (COVID-19) to be a pandemic, due to its rapid spread across the globe, having affected over 150 countries. The majority of governments are taking restrictive measures to contain the spread, including: isolation, confinement, quarantine and restrictions on the free movement of people, the closure of public and private premises (except for basic necessities and health services), border closures and a drastic reduction in air, sea, rail and land transport. In Spain, the government enacted Royal Decree 463/2020 of 14 March 2020, declaring a state of emergency to manage the health crisis triggered by COVID-19.

This situation is having a significant impact on the global economy due to the interruption or slowdown of supply chains and the substantial increase in economic uncertainty, evidenced by greater volatility in asset prices and exchange rates, and a drop in long-term interest rates.

To mitigate the economic impacts of this crisis, the Spanish government is publishing various legislation with extraordinary urgent measures to address the economic and social impact of COVID-19.

The consequences derived from COVID-19 are considered an event after the reporting period that does not require an adjustment in financial information at 31 December 2019, but must be disclosed in the financial information for 2020.

It should be highlighted that, to date, the Company is meeting all of its payments of debt and payments to suppliers.

Although no consequences have arisen at the date the annual accounts were authorised for issue, the Company expects significant events to arise in the future, which cannot be reliably estimated.

During 2020, the Company will assess the impact of the above-mentioned events on the equity and financial position at 31 December 2020 and on the results of operations and cash flows for the year then ended.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Classification of financial assets by maturity for the year ended 31 December 2019**

**(Expressed in Euros)**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| | Euros | | |
|---|---|---|---|
| | **2019** | **Less current portion** | **Total non-current** |
| *Investments* | | | |
| Security and other deposits | 55,814.55 | (55,814.55) | - |
| *Trade and other receivables* | | | |
| Trade receivables | 42,872.22 | (42,872.22) | |
| Other receivables | 8,142.30 | (8,142.30) | - |
| Total | **106,829.07** | **(106,829.07)** | **-** |

This appendix forms an integral part of note 10 to the annual accounts, in conjunction with which it should be read.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Classification of financial assets by maturity**
**for the year ended 31 December 2018**

**(Expressed in Euros)**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)



| | Euros | | |
|---|---|---|---|
| | **2019** | **Less current portion** | **Total non-current** |
| *Investments* | | | |
| Security and other deposits | 55,814.55 | (55,814.55) | - |
| *Trade and other receivables* | | | |
| Personnel | 6,000.00 | (6,000.00) | - |
| Total | **61,814.55** | **(61,814.55)** | **-** |

This appendix forms an integral part of note 10 to the annual accounts, in conjunction with which it should be read.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Details of Financial Liabilities by Category**
**for the year ended 31 December 2019**

**(Expressed in Euros)**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| | Euros | | | |
|---|---|---|---|---|
| | Non-current | | Current | |
| **2019** | **Carrying amount** | **Total** | **Carrying amount** | **Total** |
| *Debts and payables* | | | | |
| Group companies | | | | |
| Payables | - | **-** | 500,000.00 | **500,000.00** |
| Interest | - | **-** | 1,000.00 | **1,000.00** |
| Contingent interest rate loans | | | | |
| Payables | 3,375,000.00 | **3,375,000.00** | - | **-** |
| Loans and borrowings | | | | |
| Payables | 13,493,150.88 | **13,493,150.88** | - | **-** |
| Commissions which are deducted from liability of the loan | (3,090,823.73) | **(3,090,823.73)** | - | **-** |
| Interest | - | **-** | 24,697.66 | **24,697.66** |
| Derivatives | 135,343.04 | **135,343.04** | - | **-** |
| Suppliers of fixed assets | - | **-** | 2,284,585.90 | **2,284,585.90** |
| Trade and other payables | | | | |
| Suppliers, Group companies and associates | - | **-** | 118,428.75 | **118,428.75** |
| Suppliers and trade payables | - | **-** | 207,433.91 | **207,433.91** |
| Total financial liabilities | 13,912,670.19 | **13,912,670.19** | 3,136,146.22 | **3,136,146.22** |

This appendix forms an integral part of note 13 to the annual accounts, in conjunction with which it should be read.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Details of Financial Liabilities by Category**
**for the year ended 31 December 2018**

**(Expressed in Euros)**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| | Euros | | | |
|---|---|---|---|---|
| | Non-current | | Current | |
| **2018** | **Carrying amount** | **Total** | **Carrying amount** | **Total** |
| *Debts and payables* | | | | |
| Contingent interest rate loans | | | | |
| Payables | 3,375,000.00 | **3,375,000.00** | - | **-** |
| Interest | - | **-** | - | **-** |
| Suppliers of fixed assets | - | **-** | 1,082,772.14 | **1,082,772.14** |
| Trade and other payables | | | | |
| Suppliers, Group companies and associates | - | **-** | 58,193.44 | **58,193.44** |
| Suppliers and trade payables | - | **-** | 89,504.43 | **89,504.43** |
| Total financial liabilities | 3,375,000.00 | **3,375,000.00** | 1,230,470.01 | **1,230,470.01** |

This appendix forms an integral part of note 13 to the annual accounts, in conjunction with which it should be read.

**MRE-III-PROYECTO CINCO SOCIMI, S.A.**

**Classification of Financial Liabilities by Maturity for the year ended 31 December 2019**

**(Expressed in Euros)**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| | Euros | | | |
|---|---|---|---|---|
| **2019** | **2020** | **Subsequent years** | **Less current portion** | **Total non-current** |
| Group companies | | | | |
| Payables | 500,000.00 | - | (500,000.00) | - |
| Interest | 1,000.00 | - | (1,000.00) | - |
| Contingent interest rate loans | | | | |
| Payables | - | **3,375,000.00** | - | **3,375,000.00** |
| Loans and borrowings | | | | |
| Payables | - | **13,493,150.88** | - | **13,493,150.88** |
| Commissions which are deducted from liability of the loan | - | **(3,090,823.73)** | - | **(3,090,823.73)** |
| Interest | 24,697.66 | - | (24,697.66) | - |
| Derivatives | - | **135,343.04** | - | **135,343.04** |
| Suppliers of fixed assets | 2,284,585.90 | - | (2,284,585.90) | - |
| Trade and other payables | | | | |
| Suppliers, Group companies and associates | 118,428.75 | - | (118,428.75) | - |
| Suppliers and trade payables | 207,433.91 | - | (207,433.91) | - |
| Total financial liabilities | **3,136,146.22** | **13,912,670.19** | **(3,136,146.22)** | **13,912,670.19** |

This appendix forms an integral part of note 14 to the annual accounts, in conjunction with which it should be read.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Classification of Financial Liabilities by Maturity**
**for the year ended 31 December 2018**

**(Expressed in Euros)**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| | Euros | | | |
|---|---|---|---|---|
| **2018** | **2019** | **Subsequent years** | **Less current portion** | **Total non-current** |
| Contingent interest rate loans | | | | |
| Payables | - | **3,375,000.00** | - | **3,375,000.00** |
| Interest | - | - | - | - |
| Suppliers of fixed assets | 1,082,772.14 | - | (1,082,772.14) | - |
| Trade and other payables | | | | |
| Suppliers, Group companies and associates | 58,193.44 | - | (58,193.44) | - |
| Suppliers and trade payables | 89,504.43 | - | (89,504.43) | - |
| Total financial liabilities | **1,230,470.01** | **3,375,000.00** | **(1,230,470.01)** | **3,375,000.00** |

This appendix forms an integral part of note 14 to the annual accounts, in conjunction with which it should be read.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Main characteristics of payables**
**for the year ended 31 December 2019**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| | | | | | Euros | | |
|---|---|---|---|---|---|---|---|
| | | | | | | Carrying amount | |
| **Type** | **Currency** | **Nominal rate** | **Effective interest rate** | **Maturity** | **Nominal amount** | **Current** | **Non-current** |
| **Unrelated parties - Not financial institutions** | | | | | | | |
| Periza Industries S.à.r.l. | Euros | 8.4% of profit for each year, provided that the amount accumulated from previous years is positive. | 0.00% | 2033 | 3,375,000.00 | - | **3,375,000.00** |
| | | | | | **3,375,000.00** | **-** | **3,375,000.00** |
| **Unrelated parties - financial institutions** | | | | | | | |
| Loans and borrowings | Euros | 3-month Euribor + market margin | 1.65% | 2029 | 83,500,000.00 | - | **13,493,150.88** |
| Commission with credit institutions | Euros | 3-month Euribor + market margin | | | - | - | **(3,090,823.73)** |
| | | | | | **83,500,000.00** | **-** | **10,402,327.15** |
| Total | | | | | **86,875,000.00** | **-** | **13,777,327.15** |

This appendix forms an integral part of note 14 to the annual accounts, in conjunction with which it should be read.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Main characteristics of payables**
**for the year ended 31 December 2018**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| Type | Currency | Nominal rate | Effective interest rate | Maturity | Euros | | |
|---|---|---|---|---|---|---|---|
| | | | | | | Carrying amount | |
| | | | | | Nominal amount | Current | Non-current |
| **Unrelated parties - Not financial institutions** | | | | | | | |
| Periza Industries S.à.r.l. | Euros | 8.4% of profit for each year, provided that the amount accumulated from previous years is positive. | 0.00% | 2033 | 3,375,000.00 | - | **3,375,000.00** |
| Total | | | | | **3,375,000.00** | **-** | **3,375,000.00** |

This appendix forms an integral part of note 14 to the annual accounts, in conjunction with which it should be read.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Reconciliation between net income and expense with the tax loss for the year ended 31 December 2019**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| | Euros | | | |
|---|---|---|---|---|
| | Income statement | | | |
| **2019** | **Increases** | **Decreases** | **Net** | **Total** |
| Income and expenses for the period | - | - | (1,179,117.49) | (1,179,117.49) |
| Loss before income tax | - | - | (1,179,117.49) | (1,179,117.49) |
| Tax loss | - | - | **(1,179,117.49)** | **(1,179,117.49)** |

This appendix forms an integral part of note 16 to the annual accounts, in conjunction with which it should be read.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Reconciliation between net income and expense with the tax loss**
**for the year ended 31 December 2018**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| | Euros | | | |
|---|---|---|---|---|
| | Income statement | | | |
| **2018** | **Increases** | **Decreases** | **Net** | **Total** |
| Income and expenses for the period | - | - | (869,827.67) | (869,827.67) |
| Loss before income tax | - | - | (869,827.67) | (869,827.67) |
| Tax loss | - | - | **(869,827.67)** | **(869,827.67)** |

This appendix forms an integral part of note 16 to the annual accounts, in conjunction with which it should be read.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Relationship between the Income Tax Expense and Loss**
**for the year ended 31 December 2019**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| | Euros | |
|---|---|---|
| | **Gains and losses** | **Total** |
| Income and expenses for the period before tax | (1,179,117.49) | (1,179,117.49) |
| Income tax (0%) | - | - |
| Income tax expense | **-** | **-** |

This appendix forms an integral part of note 16 to the annual accounts, in conjunction with which it should be read.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Relationship between the Income Tax Expense and Loss for the year ended 31 December 2018**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| | Euros | |
|---|---|---|
| | Gains and losses | Total |
| Income and expenses for the period before tax | (869,827.67) | (869,827.67) |
| Income tax (0%) | - | - |
| Income tax expense | - | - |

This appendix forms an integral part of note 16 to the annual accounts, in conjunction with which it should be read.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

**Directors' Report**

**2019**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

In compliance with Article 262 of Royal Legislative Decree 1/2010 of 2 July 2010, which approves the Revised Spanish Companies Act, we state the following:

## 1. Business performance and situation of the Company

The Company was incorporated on 9 August 2016, having started its real estate development activity. It incurred losses during the year due to costs that could not be capitalised.

## 2. Research and development

No research or development costs were incurred during 2019 or 2018.

## 3. Own shares

The Company held no own shares and carried out no transactions with own shares during 2019 and 2018.

## 4. Financial risk management policies and objectives

The Company's activities are exposed to various financial risks: market risk (including fair value interest rate risk and price risk), credit risk, liquidity risk, and cash flow interest rate risk. The Company's global risk management programme focuses on uncertainty in the financial markets and aims to minimise potential adverse effects on the Company's profits.

## 5. Derivative financial instruments

The Company has the following swaps:

On 22 November 2019 the Company entered into a financing agreement with Caixabank, S.A. and Banco Santander, S.A., which includes an interest rate swap to hedge exposure to interest rate fluctuations on the loan. The interest rate on these swaps is a fixed annual and variable rate of 0.0759% pegged to Euribor at 3 months, payable on a quarterly basis, in both financial institutions.

| Type of transaction | Start date | Maturity date | Initial nominal value |
|---|---|---|---|
| Financial interest rate swap: | | | |
| - CaixaBank, S.A. | 22/11/2019 | 22/11/2024 | 23,503,809.60 |
| - Banco Santander, S.A. | 22/11/2019 | 22/11/2024 | 15,669,206.40 |

The fair value of these financial swaps is based on the market values of equivalent derivative financial instruments at the reporting date. The Company does not apply hedge accounting on these instruments and their change in fair value is recognised as income or expense in the income statement for the year (losses of Euros 135,343.04 during 2019).

The value of this derivative at 31 December 2019 stands at Euros 80,005.94 in Caixabank, S.A. and Euros 55,337.10 in Banco Santander, S.A., both recognised as non-current liabilities.

## 6. Average supplier payment period

The average payment period for suppliers is 35 days. The amount exceeding the limit stipulated by Late Payment Law shall be recovered in 2020 through stricter control over payments.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

## 7. Significant events after the reporting period

On 11 March 2020, the World Health Organization declared the outbreak of Coronavirus disease 2019 (COVID-19) to be a pandemic, due to its rapid spread across the globe, having affected over 150 countries. The majority of governments are taking restrictive measures to contain the spread, including: isolation, confinement, quarantine and restrictions on the free movement of people, the closure of public and private premises (except for basic necessities and health services), border closures and a drastic reduction in air, sea, rail and land transport. In Spain, the government enacted Royal Decree 463/2020 of 14 March 2020, declaring a state of emergency to manage the health crisis triggered by COVID-19.

This situation is having a significant impact on the global economy due to the interruption or slowdown of supply chains and the substantial increase in economic uncertainty, evidenced by greater volatility in asset prices and exchange rates, and a drop in long-term interest rates.

To mitigate the economic impacts of this crisis, the Spanish government is publishing various legislation with extraordinary urgent measures to address the economic and social impact of COVID-19.

The consequences derived from COVID-19 are considered an event after the reporting period that does not require an adjustment in financial information at 31 December 2019, but must be disclosed in the financial information for 2020.

It should be highlighted that, to date, the Company is meeting all of its payments of debt and payments to suppliers.

Although no consequences have arisen at the date the annual accounts were authorised for issue, the Company expects significant events to arise in the future, which cannot be reliably estimated.

During 2020, the Company will assess the impact of the above-mentioned events on the equity and financial position at 31 December 2020 and on the results of operations and cash flows for the year then ended.

**MRE-III-PROYECTO CINCO, SOCIMI, S.A.**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

On 17 June 2020, pursuant to the requirements of article 253.2 of the Revised Spanish Companies Act and article 37 of the Spanish Code of Commerce, the board of directors of MRE-III- Proyecto Cinco, SOCIMI, S.A. authorised for issue the annual accounts and directors' report for the period from 1 January 2019 to 31 December 2019. The annual accounts comprise the documents that precede this certification.

Signed:

Mr. Javier Faus Santasusana

Mr. José Luis Raso Fernández

Ms. Elisabet Gómez Canalejo