

M7 EREIP IV DK PropCo 2 K/S

c/o M7 Real Estate ApS, Borgergade 2, 6.
1300 København K
Denmark

CVR no. 39 37 19 36

Annual report for the period 1 January – 31 December 2019

The annual report was presented and approved at
the Company's annual general meeting on

7 May 2020

Line Pedersen
chairman

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M7 EREIP IV DK PropCo 2 K/S
Annual report 2019
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Statement by the Executive Board

The Executive Board has today discussed and approved the annual report of M7 EREIP IV DK PropCo 2 K/S for the financial year 1 January – 31 December 2019.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Company's operations for the financial year 1 January – 31 December 2019.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 7 May 2020
Executive Board:

Peter Matzen Drachmann

Niels Christian Wedell-
Wedellsborg

Mette Seifert

Independent auditor's report

To the shareholder of M7 EREIP IV DK PropCo 2 K/S

Opinion

We have audited the financial statements of M7 EREIP IV DK PropCo 2 K/S for the financial year 1 January – 31 December 2019 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Company's operations for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements 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 ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company financial statements, 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.

Independent auditor's report

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance 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.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 7 May 2020

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Jette Kjær Bach
State Authorised
Public Accountant
mne19812

M7 EREIP IV DK PropCo 2 K/S
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Management's review

Company details

M7 EREIP IV DK PropCo 2 K/S
c/o M7 Real Estate ApS
Borgergade 2, 6.
1300 København K
Denmark

CVR no.:	39 37 19 36
Established:	27 February 2018
Registered office:	Copenhagen
Financial year:	1 January – 31 December

Executive Board

Peter Matzen Drachmann
Niels Christian Wedell-Wedellsborg
Mette Seifert

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Dampfærgevej 28
DK-2100 Copenhagen
Denmark

Annual general meeting

The annual general meeting will be held on 7 May 2020.

Management's review

Operating review

Principal activities

The objective of the Company is to acquire real estate property for investment purposes.

Development in activities and financial position

The Company's income statement for the year ended 31 December 2019 shows profit of DKK 23,520 thousand, and the Company's balance sheet at 31 December 2019 shows equity of DKK 104,578 thousand.

The results for the period is considered to be in accordance with the expectations.

Events after the balance sheet date

On December 31, 2019, the World Health Organization was informed that a limited number of cases of pneumonia, of an unknown cause, were detected in Wuhan, China. On January 7, 2020, Chinese authorities identified coronavirus (COVID-19) as the cause. Since December 31, 2019, the rapid outbreak of the COVID-19 is not only causing a global health crisis but also causing a shock to the global economy and financial markets.

The Fund's investment portfolio comprises the light industrial properties which are measured at cost value. As a result of the COVID-19, there has been a significant negative impact in the financial markets. While the duration and future economic impact of COVID-19 is difficult to predict, the executive board of the Fund and the AIFM continue to watch the efforts of governments to contain the spread of the virus and monitor the economic impact, if any, on the companies in the portfolio.

The executive board informs that there is no indicators that the Company should suffer any problems collecting the rent for the year and will follow normal practice. Furthermore the Company does not expect the above will result in any major decrease in any of the property values and therefore do not anticipate any breaches on the debt covenants.

No events have occurred after the balance sheet date that materially affect the Company's financial position.

Financial statements 1 January – 31 December

Income statement

DKK'000	Note	2019	27/02/2018 - 31/12/2018
Gross profit		16,775	13,437
Operating profit		16,775	13,437
Fair value adjustment of investment properties		18,073	12,423
Financial expenses	3	-11,328	-12,013
Profit for the year		23,520	13,847
Proposed profit appropriation			
Retained earnings		23,520	13,847
		23,520	13,847

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2019	2018
ASSETS			
Fixed assets			
Property, plant and equipment			
Investment properties	4	<u>336,463</u>	<u>318,390</u>
Total fixed assets		<u>336,463</u>	<u>318,390</u>
Current assets			
Receivables			
Trade receivables		1,220	381
Prepayments		<u>67</u>	<u>291</u>
		<u>1,287</u>	<u>672</u>
Cash at bank and in hand		<u>22,292</u>	<u>18,326</u>
Total current assets		<u>23,579</u>	<u>18,998</u>
TOTAL ASSETS		<u><u>360,042</u></u>	<u><u>337,388</u></u>

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2019	2018
EQUITY AND LIABILITIES			
Equity			
Share premium		67,211	68,540
Retained earnings		37,367	13,847
Total equity		104,578	82,387
Liabilities			
Non-current liabilities			
	5		
Mezzanine loans		67,849	70,984
Debt to credit institutions		163,310	154,127
Payables to shareholders		4,180	11,640
Deposits and prepaid rent		9,208	8,911
		244,547	245,662
Current liabilities			
Mezzanine loans		1,394	1,518
Debt to credit institutions		5,336	4,977
Prepayments		554	0
Trade payables		292	537
Other payables	6	2,747	2,123
Payables to shareholders		593	184
		10,916	9,339
Total liabilities		255,463	255,001
TOTAL EQUITY AND LIABILITIES		360,041	337,388
Average number of employees	2		
Contractual obligations, contingencies, etc.	7		
Mortgages and securities	8		
Related parties	9		

Financial statements 1 January – 31 December

Statement of changes in equity

DKK'000	Share premium	Retained earnings	Total
Equity at 1 January 2019	68,540	13,847	82,387
Transferred over the profit appropriation	0	23,520	23,520
Repayment of share premium	-1,329	0	-1,329
Equity at 31 December 2019	67,211	37,367	104,578

Financial statements 1 January – 31 December

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1 Accounting policies

The annual report of M7 EREIP IV DK PropCo 2 K/S for 2019 has been prepared in accordance with the provisions applying to reporting class B entities under the Danish Financial Statements Act with option from higher reporting classes.

Prior financial year was extended and the income statement was for the financial period 11 October 2017 to 31 December 2018.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Income statement

Gross profit

Pursuant to Section 32 of the Danish Financial Statements Act, the Company does not disclose its revenue.

The gross profit reflects an aggregation of revenue and other external expenses.

Revenue

Revenue, comprising rental income, is recognised in the period to which it relates.

Other external costs

Other external costs comprise costs incurred during the period as a result of the rental of the Company's properties and administration.

Fair value adjustment of investment properties

Fair value adjustment comprises the year's changes in the fair value of investment properties.

Financial expenses

Financial costs comprise interest expenses, realised and unrealised capital losses on mortgage debt.

Balance sheet

Property, plant and equipment

Investment properties comprise properties that are held to earn rentals, held for capital appreciation or both.

Initially, investment properties are measured at cost including purchase price and directly related costs. The carrying amount also includes costs for improvements if the recognition criteria are met.

Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values are included in the income statement in the year in which they arise.

Financial statements 1 January – 31 December

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1 Accounting policies (continued)

The properties are valued using the income capitalisation method where a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation rate. The calculated value is adjusted with expected future change in rental value, voids, capital expenses and other special circumstances.

Investment properties are not depreciated.

Gains and losses on the disposal of property, plant and equipment are stated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as other operating income or other operating costs, respectively.

Receivables

Receivables are measured at amortised cost. Other receivables includes accrued rent incentives.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a portfolio of receivables has been impaired. If there is an objective indication that an individual receivable has been impaired, a write-down is made.

Prepayments

Prepayments comprise prepayments of costs incurred relating to subsequent financial years.

Cash at bank and in hand

Cash at bank and in hand comprise cash.

Liabilities

Payables to credit institutions are recognised at cost at the date of borrowing, equivalent to proceeds received less transactions costs paid.

Subsequently, these financial liabilities are measured at amortised cost.

Other liabilities are measured at net realisable value.

Prepayments

Prepayments related to accrued rent rebates.

Derivative financial instruments

On initial recognition, derivative financial instruments are recognised in the balance sheet at cost and subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are recognised as other receivables and other payables, respectively.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a fair value hedge of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability.

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1 Accounting policies (continued)

Changes in the fair value are recognised in the income statement on an ongoing basis.

Corporation tax and deferred tax

The Company is not subject to taxation. Taxable income is taxed in the parent company M7 EREIP IV Lux Denmark HoldCo S.a.r.l.

2 Average number of employees

	2019	27/02/2018 - 31/12/2018
Average number of full-time employees	<u>0</u>	<u>0</u>

3 Financial expenses

	2019	27/02/2018 - 31/12/2018
DKK'000		
Interest expense to group entities	904	775
Other financial costs	<u>10,424</u>	<u>11,238</u>
	<u>11,328</u>	<u>12,013</u>

4 Property, plant and equipment

	Investment properties
DKK'000	
Cost at 1 January 2019	<u>305,967</u>
Cost at 31 December 2019	<u>305,967</u>
Revaluations at 1 January 2019	12,423
Revaluations for the year	<u>18,073</u>
Revaluations at 31 December 2019	<u>30,496</u>
Carrying amount at 31 December 2019	<u><u>336,463</u></u>

The valuations were performed by CBRE, an accredited independent valuer with a recognised and relevant professional qualification and recent experience of the location and category of the investment property being valued. The valuation model applied is in accordance with that recommended by the International Valuation Standards Committee.

The valuation report prepared by CBRE shows a property value of DKK 336,900 thousand. The property value includes rent incentives of DKK 437 thousand presented as other receivables.

Investment properties comprise of 10 logistic properties located in Denmark.

Assumptions:

In valuation of the properties there have been applied an equivalent yield of between 6.15% and 10.0%

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with an average of 6,78%. When the non-termination lease terms of current rental agreement expires, it is assumed that the tenancies can be re-let to market rent. Furthermore, it is assumed that vacant units of 2,412 m² can be re-let to market rent within 12-15 months.

Sensitivity analysis:

An increase of the equivalent yield by 0.50 percentage points would reduce the value of investment properties by DKK 31 million and a decrease of the equivalent yield by 0.50 percentage points would increase the property value by DKK 18 million at the balance sheet date.

5 Non-current liabilities

DKK'000	Total debt at 31/12 2019	Repayment, first year	Outstanding debt after five years
Mezzanine loans	72,502	1,394	0
Debt to credit institutions	169,494	5,336	0
Payables to shareholders	11,824	593	0
Prepaid rent and deposits	9,208	0	0
	<u>263,028</u>	<u>7,323</u>	<u>0</u>

6 Derivative financial instruments

2019

DKK'000	Notional amount	Value adjustment	Fair value	Remaining term
Interest rate swap	81,335	175	512	2022

7 Contractual obligations, contingencies, etc.

The Company has provided a self-liable guarantee to credit institutions of DKK 13,500 thousands.

8 Mortgages and securities

Investment properties with a carrying amount of DKK 336 million at 31 December 2019 have been provided as collateral for debt to credit institutions of DKK 169 million.

Hedging of recognised transactions primarily comprises receivables and payables denominated in foreign currencies.

9 Related parties

M7 EREIP IV DK PropCo 2 K/S is included in the consolidated financial statement of M7 European Real Estate Investment Partners IV LP, The Monument Building, 11 Monument Street, London, EC3R 8AF, United Kingdom, where they can be obtained.