Inmobiliaria Colonial, SOCIMI, S.A.

Audit Report,
Annual Accounts and Directors' Report
as at 31 December 2019

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

Independent auditor's report on the annual accounts

To the shareholders of Inmobiliaria Colonial, SOCIMI, S.A.:

Report on the annual accounts

Opinion

We have audited the annual accounts of Inmobiliaria Colonial, SOCIMI, S.A. (the Company), which comprise the balance sheet as at December 31, 2019, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at December 31, 2019, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 2 of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

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

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

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

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter
Recoverability of non-current investments in Group companies	
At 31 December 2019 Inmobiliaria Colonial, SOCIMI, S.A. recognises a balance under Non-current investments in group companies amounting to Euro 2,308,364 thousand, as detailed in Notes 4.e) and 9 to the accompanying annual accounts. These investments are significant with respect to the Company's annual accounts as they account for approximately 36% of total assets. As indicated in Note 4.e) to the accompanying annual accounts, the Company carries out an assessment of the possible impairment adjustments by comparing the carrying amount of the shares with the recoverable amount , this being, unless otherwise evidenced, the investee's equity adjusted for any latent capital gains existing at the measurement date. Value adjustments and, if appropriate, their reversal, are recognised in the income statement for the year in which they arise. The quantification of the recoverable amount of such investments requires the use of judgements and significant estimates by Company Management when determining the valuation method and considering the key assumptions established. The materiality of the investments in group companies and the significant judgements and estimates described above mean that we consider this matter a key audit matter.	Our audit procedures included, among others, the review of the process implemented by the Company to assess the potential impairment of non-current investments in group companies. In addition, we assessed the valuation methodology used by the Company. We obtained the audited balance sheets of the most relevant investees and reviewed the amounts of the capital gains identified and checked them against the valuations of their investment property carried out by independent experts, whom we assessed in terms of the requisite competence and independence, finding no exceptions. We ascertained that these valuations were performed in accordance with the Valuation Rules of the Royal Institution of Chartered Surveyors (RICS), included in the so-called "Red Book" - valuation manual. In this respect, we held meetings with the valuers together with our internal experts and verified for a representative sample of these valuations the reasonability of the variables used, such as final profitability, term of the rental contracts, the type and age of the properties, their location and occupancy rate and the discount rate used. Also, for a sample of assets, we verified, through the relevant purchase deeds, the technical specifications used by the independent experts in determining the fair value of those assets. Lastly, we assessed whether the disclosures of information included in Notes 4.e) and 9 to the accompanying annual accounts in relation to this matter are adequate with respect to those required under applicable accounting regulations. We concluded that Management's approach is consistent and is supported by the available evidence.

Key audit matter	How our audit addressed the key audit matter
Valuation of Investment Property	
The Company has real estate assets which are recognised under Investment property amounting to Euro 3,480,369 thousand at 31 December 2019, representing 55% of total assets. Notes 4.c) and 7 to the accompanying annual accounts include information on the assets included under this heading. As indicated in Note 4.c), these properties are tested for impairment in order to check that the registered value does not exceed its recoverable value. In order to obtain the recoverable amount of such assets, the Company determines the fair value through independent expert valuations. The methodology used to determine the fair value of the investment properties is mainly the discounted cash flows method, in accordance with standard market practice. Such valuations are based on a series of significant judgements and estimates. We have therefore focused on this area due to the materiality of this heading with respect to the Company's total assets and the significant judgement required on the part of Management. Changes in the assumptions used could lead to a significant variation in the recoverable value of such assets and their impact on the income statement.	For the purposes of validating their carrying amount before considering any impairment, we verified the annual depreciation of investment property and observed that it is calculated on a straight-line basis, without detecting significant incidents. We obtained the year-end valuations of these assets by independent experts and we assessed that these experts meet the requirements of competence and independence, finding no exceptions. We determined that the valuations were performed in accordance with the Valuation Rules of the Royal Institution of Chartered Surveyors (RICS), included in the so-called “Red Book” - valuation manual. In this respect, we held meetings with the valuers together with our internal experts and verified for a representative sample of these valuations the reasonability of the variables used, such as final profitability, term of the rental contracts, the type and age of the properties, their location and occupancy rate and the discount rate used. Also, for a sample of assets, we verified the technical specifications used by the independent experts when determining the fair value of those assets. Lastly, we verified the relevant disclosures in Notes 4.c) and 7 to the accompanying annual accounts. We consider that we obtained enough audit evidence in the course of our work to corroborate the reasonableness of the carrying amount of investment property.

Other information: Management report

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

Our audit opinion on the annual accounts does not cover the management report. Our responsibility regarding the management report is defined in the legislation governing the audit practice, which establishes two different levels:

a) A specific level that is applicable to certain information included in the Annual Corporate Governance Report (ACGR), as defined in art. 35.2. b) of Law 22/2015, on Audit of Accounts, which consists in verifying only that the aforementioned information has been provided in the management report, and otherwise, to report on it.

b) A general level applicable to the rest of the information included in the management report, which consists of evaluating and reporting on the concordance of the aforementioned information with the annual accounts, based on the Company´s knowledge obtained in the performance of the audit of the aforementioned accounts and without including information other than that obtained as evidence during the same, as well as evaluating and reporting whether the content and presentation of this part of the management report are in accordance with the regulations that result from application. If, based on the work we have done, we conclude that there are material inaccuracies, we are obliged to report it.

On the basis of the work performed, as described above, we have verified that the information mentioned in section a) above is provided in the management report and that the rest of the information contained in the management report is consistent with that contained in the annual accounts for the 2019 financial year, and its content and presentation are in accordance with the applicable regulations.

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

The Company´s directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of Inmobiliaria Colonial, SOCIMI, S.A., in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

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

The audit committee is responsible for overseeing the process of preparation and presentation of the annual accounts.

Auditor's responsibilities for the audit of the annual accounts

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

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

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company´s directors.

- Conclude on the appropriateness of the directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with the Company´s audit committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters.

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

Report on other legal and regulatory requirements

Report to the audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit committee dated February 27, 2020.

Appointment period

The General Ordinary Shareholders' Meeting held on 28 June 2016 appointed us as auditors for a period of 3 years, as from the year ended 31 December 2017.

Services provided

Services, other than the audit, that has been provided to the Company are indicated in Note 21 to the annual accounts.

In relation to the services provided to the Company and its subsidiaries for services other than the audit of the accounts, see the audit report dated February 27, 2020 of the Inmobiliaria Colonial, SOCIMI, S.A. and its subsidiaries Consolidated Annual Accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
Mireia Oranias Casajoanes (20973)

February 27, 2020

Inmobiliaria Colonial, SOCIMI, S.A.

Financial Statements for the year ended
31 December 2019 and
Management Report, together with the
Audit Report

Translation of financial statements for the year ended 31 December 2019, prepared in accordance with Spanish General Accounting Accepted Principles and management report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Translation of a report originally Issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally Issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the company In Spain. In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

(Thousands of euros)

ASSETS	Notes to the Financial Statements	31.12.2019	31.12.2018	LIABILITIES	Notes to the Financial Statements	31.12.2019	31.12.2018
NON-CURRENT ASSETS:				**EQUITY:**			
Intangible assets-	**Note 5**	**146.969**	**163.187**	**SHAREHOLDERS' EQUITY-**		**3.055.497**	**3.096.736**
Goodwill		142.694	160.347	**Capital-**		**1.270.287**	**1.270.287**
Intellectual property		2.339	1.451	Authorised capital		1.270.287	1.270.287
Computer software		1.936	1.389	**Share premium**		**1.513.749**	**1.578.439**
Property, plant and equipment-	**Note 6**	**21.032**	**18.783**	**Reserves-**		**186.822**	**215.991**
Land and buildings		18.074	18.131	Legal and bylaw-mandated reserves		45.980	42.349
Installations and other P, P & E		5.048	3.950	Other reserves		140.842	173.642
Impairment of property, plant and equipment		(2.090)	(3.298)	**Treasury shares**		**(6.179)**	**(5.606)**
Investment property-	**Note 7**	**3.480.369**	**2.742.136**	**Profit/(loss) for the year**		**87.867**	**36.308**
Land		1.845.711	1.654.032	**Other equity instruments**		**2.951**	**1.317**
Constructions and installations		1.188.505	1.001.758	**VALUE CHANGE ADJUSTMENTS-**		**18.791**	**(492)**
Investment property in progress		512.220	154.793	Hedging transactions		18.791	(492)
Impairment of investment property		(66.067)	(68.447)	**Total equity**	**Note 13**	**3.074.288**	**3.096.244**
Non-current investments in group companies and associates-	**Note 9**	**2.330.130**	**3.155.478**				
Non-current equity instruments in group companies		2.321.504	3.008.823				
Non-current loans to group companies and associates	**Note 19**	21.766	156.016				
Impairment of investments in group companies and associates		(13.140)	(9.361)				
Non-current financial investments-		**47.662**	**18.191**				
Derivatives	**Note 10**	19.683	-				
Other non-current financial assets	**Note 9**	27.979	18.191				
Total non-current assets		**6.026.162**	**6.097.775**				
				NON-CURRENT LIABILITIES:			
				Non-current provisions-	**Note 14**	**85**	**160**
				Non-current employee benefit obligations		58	71
				Other provisions		27	89
				Non-current payables-		**2.816.008**	**2.920.628**
				Bonds and other marketable securities	**Note 15**	2.586.069	2.582.966
				Bank borrowings	**Note 15**	197.846	316.205
				Derivatives	**Note 10**	1.177	1.108
				Other non-current financial liabilities	**Note 16**	30.916	20.349
				Non-current debts to group companies and associates-	**Note 19**	**7.500**	**44.842**
				Deferred tax liabilities and other payables to public authorities-	**Note 17**	**92.229**	**38.636**
				Non-current accruals	**Note 9**	**21.215**	**14.142**
CURRENT ASSETS:				**Total non-current liabilities**		**2.937.037**	**3.018.408**
Non-current assets held for sale	**Note 11**	**133.004**	**26.091**				
Trade and other receivables-		**50.652**	**50.796**	**CURRENT LIABILITIES:**			
Trade receivables for sales and services		17.896	2.844	**Current provisions**	**Note 14**	**6.465**	**16.311**
Trade and other payables, group companies and associates	**Note 19**	2.744	23.203	**Current payables-**		**256.345**	**19.715**
Other receivables	**Note 12**	28.989	13.628	Bonds and other marketable securities	**Note 15**	256.600	17.116
Prepayments to suppliers		179	949	Bank borrowings	**Note 15**	(873)	2.446
Staff		-	5	Derivatives	**Note 10**	616	150
Other receivables from public authorities	**Note 17**	844	10.167	Other current financial liabilities		2	3
Current investments in group companies and associates-	**Note 19**	**37**	**4.190**	**Current debts to group companies and associates**	**Note 19**	**102**	**6.653**
Current loans to group companies and associates		37	4.190	**Trade and other payables-**		**88.851**	**56.174**
Current financial investments-	**Note 12**	**90**	**1.300**	Suppliers		60.106	45.081
Current equity instruments		9	9	Other payables		5.293	6.845
Other current financial assets		81	1.291	Prepayments from customers		18.659	2.750
Current accruals		**766**	**121**	Other payables to public authorities	**Note 17**	4.793	1.498
Cash and cash equivalents	**Note 15**	**152.386**	**33.236**	**Current accruals**		**9**	**4**
Total current assets		**336.935**	**115.734**	**Total current liabilities**		**351.772**	**98.857**
TOTAL ASSETS		**6.363.097**	**6.213.509**	**TOTAL EQUITY AND LIABILITIES**		**6.363.097**	**6.213.509**

The accompanying Notes 1 to 24 and Appendices I, II and III are an integral part of the statement of financial position at 31 December 2019.

Translation of a report originally Issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally Issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the company In Spain. In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

INCOME STATEMENT FOR 2019
(Thousands of euros)

	Notes to the Financial Statements	2019	2018
CONTINUING OPERATIONS:			
Revenue -	Note 18	**254.521**	**198.422**
Sales		153.193	123.976
Service provision		579	1.587
Income from equity investments in group companies		100.749	72.859
Other operating income-		**165**	**7**
Ancillary and other current management income		165	7
Staff costs-	Note 18	**(14.131)**	**(15.147)**
Wages and salaries		(9.927)	(12.645)
Social charges		(4.204)	(2.502)
Other operating expenses-		**(25.197)**	**(29.556)**
External services		(28.458)	(25.590)
Taxes		(4.359)	(7.680)
Losses, impairment and change in trade provisions	Note 18	7.775	3.776
Other current operating expenses		(155)	(62)
Depreciation and amortisation-	Notes 5, 6 and 7	**(80.468)**	**(59.008)**
Impairment and gains/(losses) on disposal of property, plant and equipment-	Note 18	**28.201**	**17.876**
Impairments and losses		(19.889)	4.053
Gains/(losses) on disposals and other		48.090	13.823
Operating income-		**163.091**	**112.594**
Finance income-	Note 18	**1.901**	**2.626**
From marketable securities and other financial instruments-		**1.901**	**2.626**
At group companies and associates	Note 19	453	1.744
At third parties		1.448	882
Finance cost-	Note 18	**(67.371)**	**(84.396)**
Due to debts to group companies and associates	Note 19	-	(422)
Due to debts to third parties		(67.371)	(83.974)
Change in fair value of financial instruments-	Note 18	**(1.625)**	**11.309**
Trading portfolio and others		(1.625)	(4.329)
Allocation to profit or loss for the year for financial assets		-	15.638
Impairment and gains/(losses) on disposal of financial instruments-	Notes 9 and 18	**(7.136)**	**(6.552)**
Impairments and losses		(7.136)	(6.552)
Financial gain/(loss)-		**(74.231)**	**(77.013)**
Profit/(loss) before tax-		**88.860**	**35.581**
Corporate income tax	Note 17	(993)	727
Profit/(loss) for the year from continuing operations-		**87.867**	**36.308**
Profit/(loss) for the year-		**87.867**	**36.308**

The accompanying Notes 1 to 24 and Appendices I, II and III are an integral part of the income statement for 2019.

Translation of a report originally Issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally Issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the company In Spain. In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

STATEMENT OF CHANGES IN EQUITY FOR 2019

A) STATEMENT OF COMPREHENSIVE INCOME

(Thousands of euros)

	Notes to the Financial Statements	2019	2018
INCOME STATEMENT (I)		**87.867**	**36.308**
Income and expenses charged directly to equity:			
Cash flow hedges	**Note 13**	18.698	(2.791)
Change in fair value of available-for-sale financial assets		-	(54.777)
Total income and expenses charged directly to equity (II)		**18.698**	**(57.568)**
Transfers to income statement:			
Cash flow hedges	**Note 13**	2.115	2.299
Change in fair value of available-for-sale financial assets		-	(15.638)
Total transfers to income statement (III)		**2.115**	**(13.339)**
Total comprehensive income (I+II+III)		**108.680**	**(34.599)**

The accompanying Notes 1 to 24 and Appendices I, II and III are an integral part of the statement of comprehensive income for 2019.

Translation of a report originally Issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally Issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the company In Spain. In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

STATEMENT OF CHANGES IN EQUITY FOR 2019

B) STATEMENT OF TOTAL CHANGES IN EQUITY

(Thousands of euros)

	Notes to the Financial Statements	Capital	Share Issue	Reserves	Shares Own	Result for the year	Other Instruments equity	Assets financial available for sale	Transactions hedge	Total
Balance at 31 December 2017		**1.088.293**	**1.126.248**	**245.118**	**(31.262)**	**32.497**	**1.251**	**70.415**	**-**	**2.532.560**
Total comprehensive income		-	-	-	-	36.308	-	(70.415)	(492)	**(34.599)**
Transactions with shareholders:	**Note 13**									
Capital increases		181.994	463.517	(1.149)	-	-	-	-	-	**644.362**
Net treasury share transactions		-	-	7.332	22.754	-	-	-	-	**30.086**
Distribution of results (dividends)		-	(11.326)	(33.796)	-	(32.497)	-	-	-	**(77.619)**
Accrual of long term remuneration plan 2018	**Note 18**	-	-	-	-	-	1.454	-	-	**1.454**
Delivery of long term remuneration plan 2017	**Note 20**	-	-	(1.514)	2.902	-	(1.388)	-	-	**-**
Balance at 31 December 2018		**1.270.287**	**1.578.439**	**215.991**	**(5.606)**	**36.308**	**1.317**	**-**	**(492)**	**3.096.244**
Total comprehensive income		-	-	-	-	87.867	-	-	20.813	**108.680**
Transactions with shareholders:	**Note 13**									
Net treasury share transactions		-	-	-	(3.395)	-	-	-	-	**(3.395)**
Distribution of results (dividends)		-	(64.690)	(569)	-	(36.308)	-	-	-	**(101.567)**
Business combinations		-	-	(27.469)	-	-	-	-	(1.530)	**(28.999)**
Accrual of long term remuneration plan 2019	**Note 18**	-	-	-	-	-	2.951	-	-	**2.951**
Delivery of long term remuneration plan 2018	**Note 20**	-	-	(1.131)	2.822	-	(1.317)	-	-	**374**
Balance at 31 December 2019		**1.270.287**	**1.513.749**	**186.822**	**(6.179)**	**87.867**	**2.951**	**-**	**18.791**	**3.074.288**

The accompanying Notes 1 to 24 and Appendices I, II and III are an integral part of the statement of comprehensive income for 2019.

Translation of a report originally Issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally Issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the company In Spain. In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

STATEMENT OF CASH FLOWS FOR 2019

(Thousands of euros)

	Notes to the Financial Statements	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES (I):		**184.483**	**(52.542)**
Profit/(loss) for the year before tax from continuing operations-		**88.860**	**35.581**
Adjustments to profit-		**17.974**	**41.510**
Depreciation and amortisation	**Notes 5, 6 and 7**	80.468	59.008
Impairment losses	**Note 18**	19.889	(4.053)
Changes in provisions	**Notes 14 and 18**	(7.775)	(3.776)
Impairment and gains/(losses) on disposal of assets	**Notes 5, 6 and 7**	(48.090)	(13.823)
Impairment and gains/(losses) on disposal of financial instruments	**Notes 8 and 18**	7.136	6.552
Finance income	**Note 18**	(1.901)	(2.626)
Income from equity investments in group companies	**Note 19**	(100.749)	(72.859)
Finance cost	**Note 18**	67.371	84.396
Change in fair value of financial instruments	**Notes 9 and 18**	1.625	(11.309)
Changes in working capital-		**32.752**	**(126.307)**
Trade and other receivables		16.042	(28.327)
Other current assets		(645)	4.181
Trade and other payables		19.644	(101.004)
Other current liabilities		(2.289)	(1.157)
Other cash flows from operating activities-		**44.897**	**(3.326)**
Interest paid		(57.428)	(76.313)
Income from equity investments in group companies	**Notes 18 and 19**	100.749	72.859
Finance income		1.576	128
CASH FLOWS FROM INVESTING ACTIVITIES (II):		**29.729**	**(800.142)**
Investments in-		**(264.773)**	**(1.203.185)**
Group companies and associates	**Note 9**	(41.533)	(313.861)
Intangible assets	**Note 5**	(3.929)	(2.251)
Property, plant and equipment	**Note 6**	(1.847)	(494)
Investment property	**Note 7**	(186.919)	(143.968)
Other financial assets	**Note 8**	(26.515)	(45.545)
Business combinations	**Note 23**	-	(693.159)
Non-current assets held for sale	**Note 11**	(4.030)	-
Other financial assets	**Note 12**	-	(3.907)
Proceeds of disposals of-		**294.502**	**403.043**
Property, plant and equipment	**Note 6**	13	-
Investment property	**Note 7**	22.950	378.708
Other current financial assets	**Notes 9 and 19**	6.851	24.335
Non-current assets held for sale	**Note 11**	257.840	-
Business combinations	**Note 23**	6.848	-
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**(95.062)**	**(183.435)**
Proceeds from/(payments for) equity instruments-		**(101.657)**	**(77.371)**
Dividends paid	**Note 3**	(101.567)	(77.619)
Acquisition/Disposal of own equity instruments	**Note 13**	(90)	1.397
Expenses associated with capital increases	**Note 13**	-	(1.149)
Proceeds from/(payments for) financial liability instruments-		**6.595**	**(106.064)**
Bank borrowings	**Note 15**	75.000	262.555
Bonds and similar marketable securities	**Note 15**	239.500	650.000
Debts to group companies and associates	**Note 19**	-	33.353
Other debts		10.151	12.205
Repayment of bank borrowings	**Note 15**	(318.056)	(689.177)
Redemption of bonds and similar marketable securities	**Note 15**	-	(375.000)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**119.150**	**(1.036.119)**
Cash or cash equivalents at beginning of year		33.236	1.069.355
Cash or cash equivalents at end of year		152.386	33.236

The accompanying Notes 1 to 24 and Appendices I, II and III are an integral part of the statement of cash flows for 2019.

Inmobiliaria Colonial, SOCIMI, S.A.

Notes to the financial statements for the year ended 31 December 2019

1. Company activity

Inmobiliaria Colonial, S.A. is a public limited company incorporated in Spain, for an indefinite period, on 8 November 1956. Its registered offices are at Paseo de la Castellana, 52, Madrid.

On 29 June 2017, the shareholders at the Company's Annual General Meeting resolved to adopt the SOCIMI (hereinafter, REIT) Tax Regime and to make the corresponding bylaw amendments to bring the Company Bylaws into line with the requirements stipulated in this regime, which included changing the corporate name to Inmobiliaria Colonial, SOCIMI, S.A.

On 30 June 2017, the Company submitted a request to the tax authorities to be included in the REIT Tax Regime, applicable as of 1 January 2017.

In 2007, the merger by absorption of Inmobiliaria Colonial, SOCIMI, S.A. (formerly Grupo Inmocaral, S.A.) with Inmobiliaria Colonial, S.A. (absorbed company) was undertaken. In 2008, Inmobiliaria Colonial, SOCIMI, S.A. (absorbing company) merged with the companies Subirats-Coslada Logística, S.L.U., Diagonal Les Punxes 2002, S.L.U., Dehesa de Valme, S.L., Urbaplan 2001, S.A.U., Entrenúcleos Desarrollo Inmobiliario, S.L., Inversiones Tres Cantos, S.L. and Inversiones Notenth, S.L. (absorbed companies).

In 2010 the land and development activity branch was spun off and contributed to the subsidiary Asentia Project, S.L., hereinafter "Asentia", which included the shares of the subsidiary Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U., hereinafter "DUE", to which a project located in Seville was contributed. The non-cash contribution to the subsidiary Abix Service, S.L.U., hereinafter "Abix", of the Llacuna real estate project, located in Barcelona, was also made. These operations were carried out within the framework of the refinancing agreement signed on 19 February 2010 between the Company and the financial institutions.

The above-mentioned merger, spin-off and non-cash contribution transactions were subject to the tax regime provided for in Chapter VIII of Title VII of the Corporate Income Tax Act. All relevant information on these corporate transactions, as required by law, is detailed in the financial statements for the corresponding years.

In 2014, a global transfer was undertaken of the assets and liabilities of Abix, previously a wholly-owned company, to Inmobiliaria Colonial, SOCIMI, S.A. The aforementioned transfer entailed the transfer en bloc by universal succession of all the assets and liabilities of Abix to the Company, with the consequent extinction of the investee company, all in accordance with the provisions of Article 87.1 of Law 3/2009 of 3 April on structural modifications of commercial companies.

On 2 July 2018, the Company carried out the merger by absorption with Axiare Patrimonio SOCIMI, S.A., which had its registered office at Calle Ortega y Gasset 29 in Madrid and whose main activity was the acquisition and development of urban real estate for lease, and the holding of shares in the capital of other listed real estate investment companies. The merger was carried out with the aim of optimising the Company's resources, improving the cost structure in its activity and acting in the market as a single entity.

On 17 April 2019, the Company carried out the merger by absorption of Axiare Properties, S.L.U., Axiare Investigación, Desarrollo e Innovación, S.L.U., Chamaleon (CEDRO), S.L.U., Venusaur, S.L.U., Colonial Invest, S.L.U., Hofinac Real Estate, S.L.U., Fincas y Representaciones, S.A.U., Colonial Arturo Soria, S.L.U. and LE Offices Egeo, S.A.U.

On 9 August 2019, the Company carried out the merger by absorption of Danieltown Spain, S.L.U., Moorage Inversiones 2014, S.L.U., Almacenes Generales Internacionales, S.A.U., Soller, S.A.U. and Axiare Investments, S.L.U.

On 3 September 2019, the Company carried out the merger by absorption with Torre Marenostrum, S.L.U., whose main activity was the acquisition and development of urban real estate for lease.

The main activity of the absorbed companies was the acquisition and development of urban real estate for lease, and the holding of equity interests in other listed real estate investment companies. The mergers were carried out with the aim of optimising the Company's resources, improving the cost structure in its activity and acting in the market as a single entity.

The Company's purpose, as set out in its bylaws, is as follows:

- the acquisition and development of urban properties for lease.

- the ownership of interests in the share capital of listed real estate investment companies (REITs) or other non-resident entities in Spain with the same corporate purpose, which are subject to a regime similar to that established for REITs in relation to the obligatory profit distribution policy stipulated by law or the bylaws;

- the ownership of interests in the share capital of other resident or non-resident entities in Spain, the main corporate purpose of which is the acquisition of urban properties earmarked for lease, which are subject to the regime established for REITs in relation to the obligatory profit distribution policy stipulated by law or the bylaws and meet the investment requirements stipulated for these companies; and

- the ownership of shares or equity interests in collective real estate investment undertakings governed by Law 35/2003, of 4 November, on collective investment undertakings or any law that may replace it in the future.

In addition to the economic activity relating to the main corporate purpose, the Parent may also carry on any other ancillary activities, i.e., those that they generate income representing less than 20%, taken as a whole, of its income in each tax period, or those that may be considered ancillary activities under the legislation applicable at any time, including, in any case, the management, restoration and operation of properties and the performance of all manner of studies, reports, appraisals, valuations and surveys; and in general, the provision of real estate consulting and advisory services, property asset management, development and marketing services, and technical assistance through contracts with other public or private companies or entities/

Activities that by law are attributable exclusively to special purpose vehicles are expressly excluded from its corporate purpose.

All activities included in the corporate purpose will be carried out as authorised by current legislation at any given time, expressly excluding its own activities that are exclusively granted by prevailing legislation to natural persons or legal persons other than this Company.

The Company may also carry out the aforementioned activities, in full or in part, indirectly through ownership interests in other companies with an identical or similar corporate purpose.

Inmobiliaria Colonial, SOCIMI, S.A. carries out its activities in Spain (mainly in Barcelona and Madrid) and in France (Paris) through the group of which the parent is Société Foncière Lyonnaise, S.A (hereinafter, SFL).

Inmobiliaria Colonial, SOCIMI, S.A. has been listed on the Spanish electronic trading system and Stock Exchange since 19 June 2017, when it was included on the benchmark stock market index, the IBEX-35.

In 2019, the Company maintains the credit rating obtained from Standard & Poor's Rating Credit Market Services Europe Limited at "BBB+" long-term credit rating and an "A-2" short-term credit rating, both with a stable outlook, and the rating of Moody's at "Baa2" with a stable outlook, all achieved in the year 2018.

In view of the business activity carried on by the Group, it does not have any environmental expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these explanatory notes. However, the Group does apply an active environmental policy in relation to urban processes of construction and maintenance and the preservation of its property portfolio.

The Company is the head of a group of subsidiaries and is obliged under current legislation to prepare consolidated financial statements separately. The consolidated financial statements for 2018 were approved at the General Shareholders' Meeting of Inmobiliaria Colonial SOCIMI, S.A. of 14 June 2019, and they were subsequently filed at the Madrid Mercantile Registry.

2. Basis of presentation of the financial statements

a) Regulatory financial reporting framework applicable to the Company

These financial statements have been authorised for issue by the directors in accordance with the regulatory financial reporting framework applicable to the Company, as set out in:

a) The Spanish Code of Commerce and other commercial and corporate legislation.

b) The Spanish Chart of Accounts approved by Royal Decree 1514/2007 together with Royal Decrees 1159/2010 and 602/2016 amending certain aspects of the Chart of Accounts and its sectoral adaptations and, in particular, the sectoral adaptation of the chart of accounts for real estate companies approved by the order of 28 December 1994, as well as the provisions approved by the National Securities Market Commission.

c) The mandatory rules approved by the Institute of Accounting and Auditing in the implementation of the chart of accounts and its supplementary rules, the Securities Market Law and other regulations issued by the National Securities Market Commission.

d) All other applicable Spanish accounting legislation.

b) True and fair view

The accompanying financial statements were prepared from the Company's accounting records and are presented in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein and, accordingly, give a true and fair view of the Company's equity, financial position, results and cash flows for the year. These financial statements were prepared by the Company's directors for approval by the shareholders at the annual general meeting and are expected to be approved without any modification.

The financial statements for 2018 were approved by the shareholders at the annual general meeting of the Company held on 14 June 2019.

c) Non-mandatory accounting principles applied

No non-mandatory accounting policies have been applied. Consequently, the directors formally prepared these financial statements by taking into account all the mandatory accounting principles and rules with a significant effect thereon. All mandatory accounting principles were applied.

d) Critical issues regarding the measurement and estimation of uncertainty

In preparing the accompanying financial statements, estimates were made by the Company's directors in order to measure certain assets, liabilities, income, expenses and obligations reported herein. These estimates and criteria relate to the following:

- Impairment losses or, conversely, reversals of impairment losses recognised in prior years on properties for own use and investment property as a result of the lower or higher value obtained from property valuations performed by independent experts with respect to the carrying amount of these assets (Notes 6 and 7).

  The market value of own-use property and investment property has been obtained from the valuations carried out periodically by independent experts. These valuations were performed at 31 December 2019 and 2018 in accordance with the methods described in Notes 4-b and 4-c.

- The useful life of the property for own use and of the investment property (Notes 4-b and 4-c).

- The classification, measurement and impairment of certain financial assets, including derivative financial instruments (Notes 4-e, 9 and 10).

- The valuation of the non-current assets held for sale (Note 4-f).

- Estimation of the appropriate provisions for bad debts (Note 4-g).

- Measurement of deferred tax liabilities recognised on the balance sheet (Notes 4-m and 17).

- The measurement and impairment of goodwill (Notes 4-a and 5).

- Estimate of current provisions arising from various risks inherent to the Company's business.

Although these estimates were made on the basis of the best information available at year-end 2019, future events may make it necessary to change these estimates (upwards or downwards) in subsequent reporting periods. Any changes in accounting estimates are recognised prospectively, with recognition of the effects of the change of estimate in profit and loss.

e) Comparison of information

The information relating to 2019 included in these notes to the consolidated financial statements is presented, for comparison purposes, with the information relating to 2018.

f) Aggregation of items

Certain items in the statement of financial position, income statement, statement of changes in equity and statement of cash flows are grouped together in order to facilitate comprehension. However, whenever the amounts involved are material, the information is broken down in the related notes to the financial statements.

g) Correction of errors

No significant errors were detected in the preparation of the accompanying consolidated financial statements that would have made it necessary to restate the amounts included in the consolidated financial statements for 2018.

h) Functional currency

These financial statements are presented in the Company's functional currency, the euro, as this is the currency of the main economic area in which the Company operates.

i) Financial position

At 31 December 2019 the Company had negative working capital of 14,837 thousand euros. However, the Group has sufficient undrawn lines of financing to cover this amount (Note 15-b).

At 31 December 2018, the Company's working capital showed a positive balance of 16,877 thousand euros.

3. Distribution of result

The distribution of profit for 2019 proposed by the board of directors of the Company and that will be submitted for approval at the annual general meeting is as follows:

	Thousands of euros
Profit/loss for the year of the Company	**87.867**
To legal reserve	8.787
To dividends	79.080
Total distributed	**87.867**

The Company's board of directors will submit for approval at the annual general meeting a proposed distribution of dividends totalling 0.22 euros per share, which would give rise to a total maximum dividend of 111,785 thousand euros based on the current number of outstanding shares. The definitive amount of the dividend, as well as the nature of the reserves to be distributed, will be determined prior to its distribution based on the treasury shares held by the Company (Note 13).

In the past five years, the Company has distributed the following dividends:

Thousands of euros	2014	2015	2016	2017	2018
Dividends distributed	-	47.833	62.749	77.619	101.567

4. Accounting policies and measurement bases

The main accounting policies and measurement bases used by the Company to prepare the financial statements, in accordance with those set out in the chart of accounts, are as follows:

a) Intangible assets

As a general rule, intangible assets are initially measured at their acquisition or production cost. They are then measured at cost less the corresponding accumulated amortisation and, where applicable, less any impairment losses. These assets are amortised over their useful life. When the useful life of these assets cannot be estimated reliably, they are amortised over a maximum period of 10-years.

Goodwill -

Goodwill arises from the differences between the cost of the business combination and the net amount of the assets acquired and liabilities assumed (Note 23).

The Company allocates the goodwill resulting from the business combination to each of the cash generating units (CGU) expected to benefit from the synergies of the combination and determines the useful life of the goodwill separately for each CGU. After initial recognition, goodwill is measured at cost, less any amortisation and accumulated impairment losses. Goodwill is subsequently carried at the acquisition price less any accumulated amortisation and any accumulated impairment losses.

The Company amortizes goodwill on a straight-line basis at a rate of 10% per year.

In addition, at least annually, cash-generating units to which goodwill has been allocated shall be tested for impairment.

Goodwill impairment losses are not reversed in subsequent periods.

Computer software -

Computer software in the balance sheet reflects mainly the costs of acquiring and implementing an integrated computer system and subsequent extensions or improvements to this system, which are amortized on a straight-line basis at a rate of 25% per year.

b) Material immovable assets

Property for own use, in addition to other property, plant and equipment, are recognised at acquisition cost less any accumulated depreciation and any impairment.

Historical cost includes expenses directly attributable to the acquisition of the properties. Possible impairment losses on properties are recorded in accordance with the same valuation assumptions as those described in Note 4-c.

Subsequent costs are capitalised or recognised as a separate asset only when it is probable that the future benefits associated with ownership of the asset will flow to the Company and its cost can be determined reliably. Other maintenance and upkeep expenses are charged to the profit and loss account in the year incurred.

The Company depreciates its property, plant and equipment for own use and other items using the straight-line method, and distributes assets' costs throughout the estimated useful life, as follows:

	Years of estimated useful life
Property for own use	
Buildings	50
Facilities	10 to 15
Other property, plant and equipment	4 to 10

Impairment of plant, property and equipment -

At each reporting date, the Company assesses the carrying amounts of its property, plant and equipment to determine if there are indications that the assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of the fair value of the asset less costs to sell or otherwise dispose of the asset and value in use. Where the asset does not generate cash inflows that are independent of those from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount; however, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

c) *Investment property*

Investment property in the statement of financial position reflects the values of land, buildings and other constructions held to either earn rents or to obtain capital gain from their future sale due to increases in their respective market prices.

Investment property is recognised at cost of acquisition plus any gains allocated as a result of the mergers described in Note 1, less any related accumulated depreciation and impairment losses.

The costs of expansion, modernisation or improvement leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related assets, while upkeep and maintenance costs are expensed in profit and loss in the year incurred.

For projects in progress, only execution costs and finance costs are capitalised, provided that such expenses have been incurred before the asset is put into operation and that the duration of the work exceeds one year.

The Company includes any finance cost related to generic financing directly attributable to the acquisition within the cost of investment property that requires a period of more than one year to be in operating condition. The amount of interest to be capitalised corresponding to general non-trade financing is determined by applying a weighted average interest rate to the investment in progress, discounting the specifically financed portion, within the limit of the finance cost accrued in profit and loss.

Assets are transferred from investment property in progress to investment property when they are ready for use. The classification of an investment property to investment property in progress takes place only when the rehabilitation or renovation project will exceed one year in length.

The Company depreciates its investment property using the straight-line method, and distributes assets' costs throughout the estimated useful life, as follows:

	Years of estimated useful life
Properties:	
Buildings	50
Facilities	10 to 15
Other property, plant and equipment	4 to 10

The Company periodically compares the carrying amount of the various investment property items with the market value obtained through independent expert appraisals for each item, and the appropriate provisions are made for impairment of investment property when the market value of an item is lower than its carrying amount. The market value is determined on a half-yearly basis, i.e. at 30 June and 31 December of each year, taking as reference values the valuations performed by independent third-party experts (Jones Lang LaSalle and CB Richard Ellis Valuation in Spain for 2019 and 2018), so that at the end of each period the market value reflects the market conditions of the investment property at that date. The valuation reports prepared by independent experts contain only the standard warnings and/or disclaimers concerning the scope of the findings of the appraisals carried out, referring to the comprehensiveness and accuracy of the information provided by the Company.

The *Discounted Cash Flow* (hereinafter, “DCF”) method was primarily used to determine the market value of the Company’s investment property in 2019 and 2018.

The DCF method applied over a 10-year horizon is used, in accordance with current market practices, unless the specific characteristics of the investment suggest another course of action. The cash flow is considered throughout the period on a monthly basis to reflect increases in the CPI, the timetable for future rent reviews, the maturity of operating leases, etc.

With regard the increases in the CPI, the generally accepted forecasts are normally adopted.

Given that the appraiser does not know with certainty whether there will be periods of vacancy in the future, nor their duration, their forecasts are prepared based on the quality and location of the building, and they will generally adopt an average lease period if there is no information about the future intentions of each tenant. The assumptions determined in relation to the periods of vacancy and other factors are explained in each valuation.

The resulting profitability or *Terminal Capitalisation Rate* (hereinafter, "TCR") adopted in each case refers not only to the market conditions forecast at the end of each cash flow period, but also to the rental conditions that are expected to be maintained and the physical location of the property, taking into account any possible improvements planned for the property and included in the analysis.

With regard to acceptable discount rates, conversations are regularly held with various institutions to assess their attitude towards different investment rates. This general consensus, together with the data on any sales made and market forecasts relating to variations in the discount rates, serve as starting points for the appraisers to determine the appropriate discount rate in each case.

The properties were assessed individually, considering each of the lease agreements in force at the end of the reporting period. Buildings with unlet floor space were valued on the basis of future estimated rental income, net of an estimated letting period.

The most relevant key inputs of this method for the purposes of sensitivity analysis are the determination of net income and the rate of return, especially as it is a 10-year discounted cash flow model. The other variables considered, although they are taken into account for the determination of fair value, are not considered to be key and, therefore, no quantitative information is included, nor is their sensitivity measured.

The estimated yields are mainly determined by the type, age and location of the properties, by the technical quality of the asset, as well as the type of tenant and occupancy rate, etc.

The yields and other assumptions used in determining future cash flows in 2019 and 2018 are set out in the tables below:

	Gross	
Exit yields (%) – Offices	31 December 2019	31 December 2018
Barcelona – Prime Yield		
Leased out	4,35	4,75
Total portfolio	4,37	4,77
Madrid – Prime Yield		
Leased out	4,27	4,48
Total portfolio	4,30	4,44

Assumptions made at 31 December 2019					
Rent increases (%) – Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	3,00	3,00	3,00	3,00	2,25
Total portfolio	3,00	3,00	3,00	3,00	2,25
Madrid –					
Leased out	3,00	3,00	3,00	3,00	2,50
Total portfolio	3,00	3,00	3,00	3,00	2,50

Assumptions made at 31 December 2018					
Rent increases (%) – Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	3,00	3,00	3,00	3,00	2,25
Total portfolio	3,00	3,00	3,00	3,00	2,25
Madrid –					
Leased out	3,00	3,00	3,00	3,00	2,50
Total portfolio	3,00	3,00	3,00	3,00	2,50

Developments in progress were valued using the dynamic residual method as the best approximation. This method begins with an estimate of the income yielded by the developed and fully leased property; from this value, development, planning, construction and demolition costs, professional fees, permit and marketing costs, borrowing costs and development profit, among other items, are then deducted, in order to arrive at a price that a developer might pay for the asset under development.

A change of one-quarter of one point in yields would have the following impact on the valuations used by the Company to determine the value of its property, plant and equipment and investment property on the balance sheet:

Sensitivity of valuations to a change of one quarter of a point in yields	Thousands of euros		
	Assessment	Decrease of one quarter of a point	Increase of one quarter of a point
December 2019	5.035.239	252.547	(223.871)
December 2018	3.444.420	145.801	(163.407)

Although the sensitivity of other key variables was considered, such analysis was not carried out given that reasonable changes that could arise would not lead to a material change in the fair value of the assets.

The income earned in 2019 and 2018 from the lease of investment properties amounted to 153,193 thousand euros and 123,976 thousand euros, respectively and is recognised under “Revenue” in the profit and loss account (Note 18-a).

The gains or losses arising from the sale or retirement of an asset are determined as the difference between its sale price and its carrying amount and are recognised under "Impairment and gains/(losses) on disposals of property, plant and equipment - Impairment and losses" in the profit and loss account.

d) Leases

Finance lease -

Leases are classified as finance leases whenever their terms imply that substantially all the risks and rewards incidental to ownership of the leased asset have been transferred to the lessee Other leases are classified as operating leases. At 31 December 2019 and 2018, all of the Group’s leases qualified as operating leases.

Operating lease -

Income and expense of operating leases are taken to the profit and loss account in the year they accrue.

The acquisition cost of the leased assets is presented in the balance sheet based on the nature of the asset, increased by the directly recognised agreement costs which are recognised over the term of the lease by applying the same method used to recognise income from leases.

Any collection or payment that might be made when arranging an operating lease will be treated as a prepaid lease collection or payment, which will be allocated to profit or loss over the lease term in accordance with the time pattern in which the benefits of the leased asset are provided or received.

e) Financial instruments

Financial assets -

Initial measurement -

Financial assets are initially measured at the fair value of the consideration given plus directly attributable transaction costs.

For equity investments in Group companies that give control over the subsidiary, the fees paid to legal advisers or other professionals involved in the acquisition are recognised directly in profit or loss.

Classification -

The financial assets held by the Company are classified into the following categories:

- Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of the Company's business, or financial assets which, not having commercial substance, are not equity instruments or derivatives, have fixed or determinable payments and are not traded in an active market.

- Held-to-maturity investments: debt securities with fixed or determinable payments traded in an active market which the Company intends and is able to hold to maturity.

- Equity investments in group companies, associates and jointly controlled entities: Group companies are deemed to be those related to the Company as a result of a control relationship and associates are companies over which the Company exercises significant influence. In addition, the category of joint control includes companies over which joint control is exercised with one or more partners by virtue of an agreement.

- Available-for-sale financial assets: these include debt securities and equity instruments of other companies that are not classified in any of the preceding categories.

Subsequent measurement -

Loans and receivables and held-to-maturity investments are measured at amortised cost.

Investments in Group companies, associates and jointly controlled entities are measured at cost less any accumulated impairment losses. These losses are calculated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. In estimating impairment on these investments, the investee's equity is taken into consideration, corrected for any unrealised gains at the measurement date, unless better evidence of the recoverable amount of the investment is available. The valuation adjustment and any reversals thereof are recognised in the income statement for the period in which they occur.

Available-for-sale financial assets are measured at fair value, with any fair value changes recognised in equity until the asset is derecognised or determined to be impaired (permanently), at which time the cumulative gain or loss recognised in equity is recognised in the income statement. In this regard, there is a presumption that there is impairment (permanent) if there has been a fall of more than 40% in the value of the asset or if there has been a prolonged decline in value over a period of one and a half years without a recovery in value.

Unless there is better evidence of the amount recoverable from the investees, the EPRA Triple Net Asset Value (EPRA NNNAV) is used.

The Company tests its financial assets not measured at fair value for impairment at least at each balance sheet date. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount, in which case it is recorded in profit and loss.

The Company calculates any impairment losses on trade and other receivables based on an individual assessment of the debtor's solvency.

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

However, the Company does not derecognise financial assets, and recognises a financial liability for an amount equal to the consideration received, in transfers of financial assets in which it retains substantially all the risks and rewards of ownership.

Financial liabilities -

Financial liabilities include loans and payables by the Company that have arisen from the purchase of goods or services in the normal course of the Company's business and those which, while not having commercial substance, cannot be classed as derivative financial instruments.

Debts and payables are initially measured at the fair value of the consideration received, adjusted for directly attributable transaction costs. These liabilities are subsequently carried at amortised cost.

Derivative financial liability instruments are measured at fair value, using the same criteria as those for financial assets held for trading described in the previous section.

The Company derecognises financial liabilities when the obligations that generated them have been extinguished. When the Company exchanges debt instruments with a third party for which the conditions are substantially different, it derecognises the original financial liability and recognises the new financial liability. The difference between the carrying amount of the original liability and the payment received, including any attributable transaction costs, is recognised in profit and loss of the year.

In exchanges of debt instruments that do not have substantially different terms, the original financial liability is not derecognised by recording the amount of fees paid as an adjustment to its carrying amount. The amortised cost of the financial liability is determined by applying the effective interest rate, which is the rate that equals the carrying amount of the financial liability at the date of modification with the cash flows payable under the new conditions.

The Company considers the terms and conditions of financial liabilities to differ substantially whenever the present value of the discounted cash flows, under the new terms and conditions, including any fees and commissions paid, net of any fees and commissions received and using the original effective interest rate in discounting, differs by at least 10% from the discounted present value of the cash flows still remaining from the original financial liability.

Own equity instruments (Note 13) -

An equity instrument represents a residual interest in the assets of the Company after deducting all of its liabilities.

Equity instruments issued by the Company are recognised in equity at the proceeds received, net of direct issue costs.

Any treasury shares of the Company acquired during the year are recognised as a deduction from equity at the value of the consideration paid. Any gains or losses on the acquisition, sale, issue or retirement of own equity instruments are recognised directly in equity and not in profit and loss.

Derivative financial instruments (Note 10) -

The Company uses financial derivatives to manage its exposure to variations in interest rates. All derivative financial instruments, whether or not they are designated as hedging instruments, are carried at fair value, market value in the case of listed securities, or using option valuation methods or discounted cash flow analysis for non-listed securities. The following measurement base was used to recognise each of the following:

- Derivative financial instruments that meet the criteria for hedge accounting are initially recognised at fair value plus, where appropriate, any transaction costs that are directly attributable to arranging them or less, where appropriate, any transaction costs that are directly attributable to their issue. However, transaction costs are subsequently recognised in profit or loss, to the extent that they do not form part of the actual change in the hedge.

- Treatment of financial instruments that are not allocated to a specific liability and do not qualify for hedge accounting: gains or losses arising from the restatement at fair value of these financial instruments are recognised directly in profit and loss.

Hedge accounting is discontinued when a hedging instrument expires or is sold or exercised, or when the hedge no longer qualifies for hedge accounting. Accumulated gains or losses on hedging instruments recognised in equity remain under this heading until the transaction is performed. At that time, any cumulative gain or loss recognised in the Company's equity is transferred to profit and loss for the year.

Prospective and retrospective testing for hedge instrument effectiveness is carried out on a monthly basis:

- Retrospective tests measure how effectively the derivative instrument would have hedged the liability over its life, using historical interest rates to date.

- Prospective tests measure the instrument's expected effectiveness on the basis of forward interest rates as published by Bloomberg at the measurement date. This is adjusted monthly from the inception of the hedge on the basis of the historical interest rates already established.

The method used to determine the effectiveness of hedging instruments consists of calculating the statistical correlation between the benchmark interest rates at each measurement date for the derivative and the related hedged liability. This applies to the hedged percentage of the derivative on its liabilities.

A hedging instrument is considered effective if this statistical correlation is between 0.80 and 1.

The Company's directors estimated the credit risk for the derivative portfolio. No significant effect arose as a result at 31 December 2019 and 2018.

The Company's use of financial derivatives is governed by a set of approved risk management policies and hedges.

f) Non-current assets and disposable groups held for sale

Non-current assets held for sale are measured at the lower of cost or fair value less costs to sell.

Non-current assets are classified as held for sale if it is estimated that their carrying amounts will be recovered through a sale rather than through continuing use. This condition is met when the sale of the asset is considered highly probable, the asset is in condition to be sold immediately and the sale is expected to be fully realised within a period of no more than twelve months from its classification as a held-for-sale asset.

The Company classifies non-current assets as held for sale when the Board of Directors or Executive Committee has officially approved the disposal and the sale is considered highly probable within a period of twelve months

g) Receivables

Trade receivables are measured at their recoverable amount, i.e. net, where applicable, of the allowances recognised to cover past-due balances where circumstances reasonably warrant their consideration as doubtful debts At 31 December 2019 and 2018, all receivable balances with risk of default were provisioned.

h) Statement of cash flows (indirect method)

The following terms are used in the statement of cash flows with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to insignificant risk of changes in value.

- Operating activities: the principal ordinary revenue-producing activities and other activities that are not investing or financing activities.

- Investing activities: the acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents

- Financing activities: non-operating activities that result in changes in the size and composition of equity and liabilities.

i) Cash and cash equivalents

This heading includes bank deposits, carried at the lower of cost or market value.

Financial investments that are readily convertible into a known amount of cash and that are not subject to any significant risk of changes in value are deemed to be cash equivalents.

Bank overdrafts are not considered to be cash and cash equivalents.

j) Current/non-current

The ordinary operating cycle is defined as the period from the acquisition of the assets used to carry on the Company's lines of business to the date that they are turned into cash or cash equivalents.

The Company's core business is property, for which the normal cycle of operations is considered to correspond to the calendar year. Therefore, assets and liabilities maturing in one year or less are classified as current, and those maturing at over one year as non-current, except for accounts receivable arising from the recognition of income linked to incentives or grace periods (Notes 4-n and 12), which are straight-line items over the term of the lease and are considered to be current assets.

Bank borrowings are classified as non-current if the Company has the irrevocable right to make payments after twelve months from the end of the reporting period.

k) *Provisions and contingent liabilities*

When preparing the financial statements, the Company's directors make a distinction between:

- Provisions: creditor balances covering present obligations arising from past events with respect to which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, which is uncertain as to its amount and/or timing;

- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Company.

The financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised.

Provisions are stated at the present value of the best estimate of the amount required to settle the obligation or transfer it, taking into account the information available regarding the event and its consequences. Adjustments arising from the discounting of provisions are recognised as a finance expenses when accrued.

The reimbursement from third parties required to settle the obligation is recognised as a separate asset, provided that there are no doubts that the reimbursement will be received, unless there is a legal relationship whereby a portion of the risk has been externalised, transferring liability from the Company. In this situation, the reimbursement will be taken into account for the purpose of estimating the amount of the related provision that should be recognised.

l) *Employee benefits*

Termination benefits -

Under current Spanish legislation, the Company is required to pay termination benefits to employees terminated under certain conditions. Severance payments which can be reasonably quantified are recorded as an expense in the year in which the decision to terminate the contract is taken and a valid expectation regarding termination is transmitted to third parties. At 31 December 2019 and 2018, the Company has not recorded any provision for this item.

Pension obligations (Note 18) -

In 2019 and 2018 the Company assumed a commitment with executive directors and one member of senior management to make a defined contribution to an external pension plan that meets the requirements established by Royal Decree 1588/1999, of 15 October.

Share-based payments (Note 20) -

The Company recognises the goods and services received as an asset or an expense, depending on their nature, when they are received, along with an increase in equity if the transaction is settled using equity instruments or the corresponding liability if the transaction is settled at an amount based on the value of the equity instruments.

In the case of transactions settled with equity instruments, both the services rendered and the increase in equity are measured at the fair value of the equity instruments granted, by reference to the grant date. If, on the other hand, they are settled in cash, the goods and services received and the corresponding liability are recognised at the fair value of the goods and services received as of the date on which the recognition requirements are met.

m) Corporate income tax (Note 17)

Income tax expense is the sum of the income or expense for current tax and the income or expense for deferred tax.

Current tax is the amount of taxes payable by the Company as a result of income tax settlements for a period. Deductions and other tax relief, excluding withholdings and payments on account, and tax loss carryforwards applied in the current reporting period are accounted for as a reduction in current tax.

Deferred tax expense or income relates to the recognition and settlement of deferred tax assets and liabilities. These include temporary differences measured at the amount expected to be payable or recoverable arising from differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss carryforwards and unused tax credits. These amounts are measured at the tax rates expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, unless the differences 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. Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognised in equity.

In accordance with current legislation, when measuring deferred tax liabilities the Company reflects the tax consequences that would arise from the manner in which the carrying amount of its assets is expected to be recovered or settled. In this regard, for deferred tax liabilities that arise from investment properties, there is a refutable presumption that their carrying amount will be recovered through their sale. Therefore, in determining the deferred tax attributable to the gains allocated to the business combination described in Note 1, for which a portion of the cost was not deductible for tax purposes, a tax rate of 25% was calculated, reduced by the 25% offset of tax loss carryforwards in accordance with the limitation on the offset in force at 31 December 2019. This means that the effective rate has been set at 18.75%, following the legislative amendment of December 2016, which established this, among other new limitations on the offsetting of tax losses.

The balance sheet includes the tax credits whose recovery is considered probable within a reasonable period of time, either due to the performance of the real estate market itself or to the taxable income generated by the results of the operations managed by the Company's management.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that they will be recovered through future taxable profits.

REIT regime -

Effective as of 1 January 2017 (Note 1), the tax regime of the Company and the majority of its Spanish subsidiaries is governed by Law 11/2009, of 26 October, as amended by Law 16/2012, of 27 December, governing listed real estate investment companies (REITs). Article 3 establishes the investment requirements of this type of company, namely:

- REITs must have invested at least 80% of the value of their assets in urban properties earmarked for lease, in land to develop properties to be earmarked for that purpose, provided that development begins within three years following their acquisition, and in equity investments in other companies referred to in Article 2.1 of the aforementioned Law.

  The value of the asset is calculated based on the average of the quarterly individual balance sheets of the year. To calculate this value, the REIT may opt to substitute the carrying amount for the fair value of the items contained in these balance sheets, which will apply to all the balance sheets of the year. Any money or collection rights arising from the transfer of the aforementioned properties or investments made in the year or in prior years will not be included in the calculation unless, in the latter case, the reinvestment period referred to in Article 6 of the aforementioned Law has expired.

This percentage must be calculated on the average of the consolidated balances if the company is the parent of a group, in accordance with the criteria established in Article 42 of the Spanish Commercial Code, regardless of its place of residence and of the obligation to formally prepare consolidated financial statements. Such a group must be composed exclusively of the REITs and the other entities referred to in Article 2.1 of the aforementioned Law.

- Similarly, at least 80% of the rental income from the tax period corresponding to each year, excluding the rental income arising from the transfer of the ownership interests and the properties used by the company to achieve its main corporate purpose, once the holding period referred to below has elapsed, should be obtained from the lease of properties and dividends or shares of profits arising from the aforementioned investments.

  This percentage must be calculated based on the consolidated balances if the company is the parent of a group, in accordance with the criteria established in Article 42 of the Spanish Commercial Code, regardless of its place of residence and of the obligation to formally prepare consolidated financial statements. Such a group must be composed exclusively of the REITs and the other entities referred to in Article 2.1 of the aforementioned Law.

The properties included in the REIT's assets should remain leased for at least three years. The time during which the properties have been made available for lease will be included in calculating this term, with a maximum of one year.

The term will be calculated:

- For properties that are included in the REIT's assets before the company avails itself of the regime, from the beginning of the first tax period in which the special tax regime set forth in this Law is applied, provided that the property is leased or offered for lease at that date.

- For properties developed or acquired subsequently by the REIT, from the date on which they were leased or made available for lease for the first time.

- In the case of shares or ownership interests in the companies referred to in Article 2.1 of this Law, they should be retained on the asset side of the REIT'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 is applied.

As established in transitional provision one of Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December, governing listed real estate investment companies, these companies may opt to apply the special tax regime under the terms and conditions established in Article 8 of this Law, even if it does not meet the requirements established therein, provided that such requirements are met within two years after the date of the option to apply that regime.

Failure to meet this condition will require the REIT to file income tax returns under the general tax regime from the tax period in which the aforementioned condition is not met. The REIT will 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.

The corporate income tax rate for REITs is set at 0% However, where the dividends that the REIT distributes to its shareholders holding an ownership interest equal to or exceeding 5% are exempt from tax or are subject to a tax rate lower than 10%, at the main office of this shareholder, the REIT shall be subject to a special charge of 19%, which shall be considered to be the income tax charge, on the amount of the dividend distributed to these shareholders. If applicable, this special charge must be paid by the REIT within two months after the dividend distribution date.

n) *Income and expense*

General criterion -

Income and expense are recorded on an accruals basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received, net of any discounts and taxes.

Revenue from sales is recognised when the significant risks and rewards of ownership of the asset sold have been transferred to the buyer, but the current management of the asset is not maintained and effective control is not retained.

Property leases -

Leases are classified as finance leases whenever their terms imply that substantially all the risks and rewards incidental to ownership of the leased asset have been transferred to the lessee Other leases are classified as operating leases. At 31 December 2019 and 2018, all of the Company's leases qualified as operating leases (Note 4-d).

Revenue from operating leases is recognised as income on a straight-line basis over the term of the lease, and the initial direct costs incurred in arranging these operating leases are taken to the consolidated statement of comprehensive income on a straight-line basis over the minimum term of the lease agreement.

The minimum term of a lease is considered to be the time elapsed from the start of the lease to the first option for renewing the lease.

Specific lease terms and conditions: lease incentives -

Lease agreements include certain specific conditions linked to incentives or rent-free periods offered by the Group to its customers (Note 4-j). The Group recognises the aggregate cost of incentives it has granted as a reduction in rental income of the lease agreement on a straight-line basis. The effects of the rent-free periods are recognised during the minimum term of the lease agreement.

The indemnity payments made by lessees to cancel their lease agreements prior to their minimum termination date are also recognised as income in profit and loss on the date on which they are claimable.

Interest and dividends received -

Interest received on financial assets is recognised using the effective interest method, while dividends are recognised when the shareholder's right to receive payment has been established. In any event, interest and dividends on financial assets accruing after the date of acquisition are recognised as revenue in the income statement.

In accordance with the consultation of BOICAC 79, which relates to the accounting of certain income (dividends, income from loans to related companies, etc.) for companies whose corporate purpose is to hold financial investments, the Company records the income from dividends from investments in companies it controls as an increase in revenue in profit and loss (Note 19).

o) *Related-party transactions (Note 19)*

All the Company's transactions with related parties are at arm's length. Transfer prices are adequately supported, and consequently the Company's directors consider that no significant risks exist in this respect from which significant liabilities could arise in the future.

p) *Costs passed on to lessees*

The bulk of repair and maintenance expenses incurred by the Company in connection with the operation of its investment properties is passed on to the respective lessees. The Company does not consider as income the costs passed on to the lessees of its investment property, which are presented as a reduction of the corresponding costs in profit and loss. The amount for these items in 2019 and 2018 was 29,359 thousand euros and 27,320 thousand euros, respectively.

Direct operating expenses associated with investment properties which net of passed on expenses in 2019 and 2018, included under "Operating profit" in profit and loss, amounted to 15,472 thousand and 11,025 thousand euros, respectively. Expenses incurred in connection with investment properties that did not generate rental income were not material.

q) *Business combinations*

Business combinations arising from the acquisition of all the assets of a company or of a party constituting one or more businesses are recorded in accordance with the method of acquisition.

In the case of business combinations originated as a consequence of the acquisition of shares or participations in the capital of a company, the Company recognises the investment in accordance with the provisions for investments in the equity of group, jointly-controlled entities and associates (Note 23).

5. <u>Intangible assets</u>

The movement in this item of the balance sheet in 2019 and 2018, and the most significant information affecting this item, were as follows:

	Thousands of euros			
	Goodwill	Industrial Property	Computer software	**Total**
Balance at 31 December 2017	**-**	**676**	**1.008**	**1.684**
Acquisition cost	***-***	***806***	***3.483***	***4.289***
Accumulated amortisation	***-***	***(130)***	***(2.475)***	***(2.605)***
Additions	-	1.156	1.095	**2.251**
Business combinations (Note 23)	176.529	-	1.298	**177.827**
Provision for amortisation	(16.182)	(381)	(752)	**(17.315)**
DIsposals (Note 18-e)	-	-	(1.260)	**(1.260)**
Balance at 31 December 2018	**160.347**	**1.451**	**1.389**	**163.187**
Acquisition cost	***176.529***	***1.962***	***4.477***	***182.968***
Accumulated amortisation	***(16.182)***	***(511)***	***(3.088)***	***(19.781)***
Additions	-	2.542	1.387	**3.929**
Business combinations (Note 23)	-	132	-	**132**
Provision for amortisation	(17.653)	(1.786)	(840)	**(20.279)**
Disposals	-	(336)	1	**(335)**
Write-offs	-	336	(1)	**335**
Balance at 31 December 2019	**142.694**	**2.339**	**1.936**	**146.969**
Acquisition cost	***176.529***	***4.300***	***5.865***	***186.694***
Accumulated amortisation	***(33.835)***	***(1.961)***	***(3.929)***	***(39.725)***

In 2018, as a result of the business combination described in Note 1, the Company recognised goodwill amounting to 176,529 thousand euros (Note 23).

At the end of 2019 and 2018, the Company had fully amortised intangible assets still in use amounting to 2,978 thousand and 1,916 thousand euros, respectively.

6. Material immovable assets

The movement in this item of the balance sheet in 2019 and 2018, and the most significant information affecting this item, were as follows:

	Thousands of euros		
	Land and buildings	Other property, plant and equipment	Total
Balance at 31 December 2017	**13.260**	**4.185**	**17.445**
Acquisition cost	***19.680***	***7.912***	***27.592***
Accumulated amortisation	***(1.492)***	***(3.727)***	***(5.219)***
Accumulated impairment	***(4.928)***	***-***	***(4.928)***
Additions	-	494	**494**
Business combinations (Note 23)	-	577	**577**
Provision for amortisation	(57)	(786)	**(843)**
Disposals (Note 18-e)	-	(520)	**(520)**
Application of impairment (Note 18-d)	1.630	-	**1.630**
Balance at 31 December 2018	**14.833**	**3.950**	**18.783**
Acquisition cost	***19.680***	***7.136***	***26.816***
Accumulated amortisation	***(1.549)***	***(3.186)***	***(4.735)***
Accumulated impairment	***(3.298)***	***-***	***(3.298)***
Additions	-	1.847	**1.847**
Business combinations (Note 23)	-	5	**5**
Provision for amortisation	(57)	(656)	**(713)**
Disposals (Note 18-e)	-	(133)	**(133)**
Write-offs (Note 18-e)	-	35	**35**
Application of impairment (Note 18-d)	1.208	-	**1.208**
Balance at 31 December 2019	**15.984**	**5.048**	**21.032**
Acquisition cost	***19.680***	***8.855***	***28.535***
Accumulated amortisation	***(1.606)***	***(3.807)***	***(5.413)***
Accumulated impairment	***(2.090)***	***-***	***(2.090)***

The Company has two floors of the building located at Avenida Diagonal, 532 in the city of Barcelona and one floor of the building located at Paseo de la Castellana, 52 in the city of Madrid for its own use.

Based on the valuations of the Company's assets carried out y an independent expert at 31 December 2019 and 2018 (Note 4-b), it became apparent that an impairment of 1,208 thousand euros (31 December 2018: 1,630 thousand euros) in the value of property for own use had to be reversed, which was recognised under "Impairment and gains/(losses) on disposals of property, plant and equipment - Impairment and losses" in profit and loss (Note 18-d).

Also, in 2019 the Company recognised the disposal of certain assets included under "Property, plant and equipment", which were sold for their carrying amount, which amounted to 13 thousand euros at the time of sale.

Additionally, the Company derecognised certain assets included under "Property, plant and equipment", the carrying amount of which was 85 thousand euros (31 December 2018: 520 thousand euros), which were recognised under "Impairment and gains/(losses) on disposals of property, plant and equipment - Impairment and losses" in profit and loss (Note 18-e).

At the end of 2019 and 2018, the Company had fully depreciated property, plant and equipment amounting to 2,656 thousand and 2,006 thousand euros, respectively.

The Company has no property, plant and equipment outside Spain, nor are there any purchase commitments.

Company policy is to arrange insurance policies to cover any risks to which its property, plant and equipment may be exposed. At 31 December 2019 and 2018, these were fully insured.

7. Investment property

The movement in this item of the balance sheet in 2019 and 2018, and the most significant information affecting this item, were as follows:

	Thousands of euros			
	Land	Constructions and installations	Investment property in progress	**Total**
Balance at 31 December 2017	**1.080.926**	**373.685**	**76.726**	**1.531.337**
Acquisition cost	***1.160.562***	***720.983***	***76.726***	***1.958.271***
Accumulated amortisation	***-***	***(347.298)***	***-***	***(347.298)***
Accumulated impairment	***(79.636)***	***-***	***-***	***(79.636)***
Additions	17.811	50.957	75.954	**144.722**
Business combinations (Note 23)	625.832	736.287	131.580	**1.493.699**
Provision for amortisation	-	(40.850)	-	**(40.850)**
Disposals (Note 18-e)	(171.457)	(182.366)	(43.859)	**(397.682)**
Write-offs (Note 18-e)	-	21.897	10.515	**32.412**
Disposals (Note 18-e)	2.165	-	-	**2.165**
Transfers (Note 11)	21.284	61.643	(84.759)	**(1.832)**
Transfers of depreciation (Note 11)	-	(19.495)	(11.364)	**(30.859)**
Transfers of impairment (Note 11)	6.601	-	-	**6.601**
Application of impairment (Note 18-d)	23.010	-	-	**23.010**
Impairment (Note 18-d)	(20.587)	-	-	**(20.587)**
Balance at 31 December 2018	**1.585.585**	**1.001.758**	**154.793**	**2.742.136**
Acquisition cost	***1.654.032***	***1.387.504***	***155.642***	***3.197.178***
Accumulated amortisation	***-***	***(385.746)***	***(849)***	***(386.595)***
Accumulated impairment	***(68.447)***	***-***	***-***	***(68.447)***
Additions	70.186	79.504	37.229	**186.919**
Business combinations (Note 23)	282.977	430.731	256.022	**969.730**
Provision for amortisation	-	(59.476)	-	**(59.476)**
Disposals (Note 18-e)	(202)	(2.088)	(39.017)	**(41.307)**
Write-offs (Note 18-e)	-	514	-	**514**
Disposals (Note 18-e)	22.908	-	-	**22.908**
Transfers (Note 11)	(161.282)	(292.391)	114.854	**(338.819)**
Transfers of depreciation (Note 11)	-	29.953	(11.661)	**18.292**
Transfers of impairment (Note 11)	569			**569**
Application of impairment (Note 18-d)	15.068	-	-	**15.068**
Impairment (Note 18-d)	(36.165)	-	-	**(36.165)**
Balance at 31 December 2019	**1.779.644**	**1.188.505**	**512.220**	**3.480.369**
Acquisition cost	***1.845.711***	***1.603.260***	***524.730***	***3.973.701***
Accumulated amortisation	***-***	***(414.755)***	***(12.510)***	***(427.265)***
Accumulated impairment	***(66.067)***	***-***	***-***	***(66.067)***

Movements in 2019 -

In 2019 the Company acquired a property in Barcelona and a floor of a building in Madrid for a total of 108,868 thousand euros. It also signed two purchase options for two floors on the same building in Madrid, which has resulted in a prepayment of 1,000 thousand euros.

The remaining additions in 2019 relate to investments in property assets, both under development and in operation, amounting to 77,051 thousand euros.

The Company capitalised no finance costs in 2019.

Disposals in 2019 amounted to 17,885 thousand euros, including indirect selling costs (Note 18-e). The main operations were sale of premises in Madrid, premises in Tenerife and land in Barcelona.

In 2019, 19 properties were reclassified from "Investment property" to "Assets held for sale" in the statement of financial position, for a total of 319,958 thousand euros (Note 11).

Movements in 2018 -

In 2018 the Company acquired property assets in Barcelona and Madrid for a total of 73,230 thousand euros.

The other additions in 2018 related to investments in property assets, both in development and in operation, amounting to 71,492 thousand euros, including 755 thousand euros of capitalised finance costs.

Disposals in 2018 amounted to 358,003 thousand euros, including indirect selling costs (Note 18-e). The main operations were various properties located in Madrid, including a shopping centre, as well as a flat in Tenerife.

In 2018, the Company recorded disposals due to replacement amounting to 5,102 thousand euros.

Impairment -

Based on the valuations of the Company's assets by independent experts at 31 December 2019, it became apparent that it was necessary to recognise a impairment loss on investment property amounting to 21,097 thousand euros (2,423 thousand euros reversal of impairment at 31 December 2018). These movements were recorded in "Impairment and gains/(losses) on disposals of property, plant and equipment - Impairment and losses" of profit and loss (Note 18-d).

Other information -

The total surface area per location (above and under-ground) of investment property and projects in operation and under development at 31 December 2019 and 2018 is as follows:

Location	Total surface area (m2)					
	Investment property in operation		Investment property under development		Total	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Barcelona	407.916	284.828	6.373	41.414	414.289	326.242
Madrid	554.978	386.275	166.557	21.560	721.535	407.835
Rest of Spain	199.159	492.324	24.741	83.399	223.900	575.723
	1.162.053	**1.163.427**	**197.671**	**146.373**	**1.359.724**	**1.309.800**

At 31 December 2019, the Company had properties included under "Investment property" in the balance sheet delivered as security for mortgage loans (see Note 15-c) with a carrying amount of 142,025 thousand euros (31 December 2018: 533,868 thousand euros).

At the end of 2019 and 2018, the Company had fully amortised investment properties still in use amounting to 195,106 thousand and 159,269 thousand euros, respectively.

The Company has no property, plant and equipment outside Spain, nor are there any purchase commitments.

Company policy is to arrange insurance policies to cover any risks to which its investment property may be exposed. At 31 December 2019 and 2018, these were fully insured.

8. Operating leases as lessor

At the end of 2019 and 2018, the Company had agreed the following non-cancellable minimum lease payments with the lessees, based on the leases in force, without taking into account the charging of expenses, future increases in the CPI or other lease payment revisions.

Minimum operating lease payments	Thousands of euros	
	Nominal Value	
	31 December 2019	31 December 2018
Less than one year	140.255	103.620
Between one and five years	264.305	160.825
More than five years	45.478	68.163
Total	**450.038**	**332.608**

9. Non-current investments in group companies and associates and non-current investments

a) Non-current equity instruments in group companies

The breakdown by subsidiary at 31 December 2019 and 2018 is as follows:

31 December 2019

	Thousands of euros			
	Beginning balance	Additions	Business combinations (Note 23)	Ending balance
Cost:				
Société Foncière Lyonnaise, S.A.	2.260.013	-	-	2.260.013
Torre Marenostrum, S.L.	24.790	28.525	(53.315)	-
Colonial Tramit, S.L.U.	23	-	-	23
Colonial Invest, S.L.U.	13	-	(13)	-
Danieltown Spain, S.L.U.	30.038	-	(30.038)	-
Moorage Inversiones 2014, S.L.U.	49.355	-	(49.355)	-
Hofinac Real Estate, S.L.U.	202.000	-	(202.000)	-
Fincas y Representaciones, S.A.U.	46.681	-	(46.681)	-
Inmocol Torre Europa, S.A.	10.080	2.000	-	12.080
Colonial Arturo Soria, S.L.U.	20.624	-	(20.624)	-
Almacenes Generales Internacionales, S.A.U.	101.304	-	(101.304)	-
Soller, S.A.U.	79.016	-	(79.016)	-
Peñalvento, S.L.U.	20.755	-	-	20.755
Axiare Investments, S.L.U.	18.067	-	(18.067)	-
Axiare Properties, S.L.U.	2	-	(2)	-
Axiare I+D+i, S.L.U.	149	-	(149)	-
Venusaur, S.L.U.	63.001	-	(63.001)	-
Chameleon (Cedro), S.L.U.	24.056	-	(24.056)	-
LE Offices Egeo, S.A.U.	51.222	-	(51.222)	-
Utopicus Innovación Cultural, S.L.	7.634	20.999	-	28.633
Total cost	**3.008.823**	**51.524**	**(738.843)**	**2.321.504**
Impairment:				
Colonial Tramit, S.L.U.	(10)	(3)	-	(13)
Colonial Invest, S.L.U.	(9)	-	9	-
Axiare Investments, S.L.U.	(3.197)	-	3.197	-
Axiare Properties, S.L.U.	(2)	-	2	-
Axiare I+D+i, S.L.U.	(149)	-	149	-
Utopicus Innovación Cultural, S.L.	(5.994)	(7.133)	-	(13.127)
Total impairment	**(9.361)**	**(7.136)**	**3.357**	**(13.140)**
Net total	**2.999.462**	**44.388**	**(735.486)**	**2.308.364**

31 December 2018

	Thousands of euros			
	Beginning balance	Additions	Business combinations	Ending balance
Cost:				
Société Foncière Lyonnaise, S.A.	1.511.370	748.643	-	2.260.013
Torre Marenostrum, S.L.	24.790	-	-	24.790
Colonial Tramit, S.L.U.	13	10	-	23
Colonial Invest, S.L.U.	13	-	-	13
Danieltown Spain, S.L.U.	30.038	-	-	30.038
Moorage Inversiones 2014, S.L.U.	49.355	-	-	49.355
Hofinac Real Estate, S.L.U.	202.000	-	-	202.000
Fincas y Representaciones, S.A.U.	46.681	-	-	46.681
Inmocol Torre Europa, S.A.	10.080	-	-	10.080
Colonial Arturo Soria, S.L.U.	19.747	877	-	20.624
Almacenes Generales Internacionales, S.A.U.	100.124	1.180	-	101.304
Soller, S.A.U.	78.096	920	-	79.016
Peñalvento, S.L.U.	-	20.755	-	20.755
Axiare Investments, S.L.U.	-	-	18.067	18.067
Axiare Properties, S.L.U.	-	-	2	2
Axiare I+D+i, S.L.U.	-	-	149	149
Venusaur, S.L.U.	-	-	63.001	63.001
Chameleon (Cedro), S.L.U.	-	-	24.056	24.056
LE Offices Egeo, S.A.U.	-	51.222	-	51.222
Utopicus Innovación Cultural, S.L.	3.634	4.000	-	7.634
Total cost	**2.075.941**	**827.607**	**105.275**	**3.008.823**
Impairment:				
Colonial Tramit, S.L.U.	(8)	(2)	-	(10)
Colonial Invest, S.L.U.	(7)	(2)	-	(9)
Axiare Investments, S.L.U.	-	(3.197)	-	(3.197)
Axiare Properties, S.L.U.	-	(2)	-	(2)
Axiare I+D+i, S.L.U.	-	(149)	-	(149)
Utopicus Innovación Cultural, S.L.	(2.937)	(3.057)	-	(5.994)
Total impairment	**(2.952)**	**(6.409)**	**-**	**(9.361)**
Net total	**2.072.989**	**821.198**	**105.275**	**2.999.462**

The information relating to Group companies at 31 December 2019 and 2018 is detailed in Appendix I to these notes to the financial statements.

Movements in 2019 -

On 20 February 2019, the subsidiary Utopicus Innovación Cultural, S.L. increased capital by offsetting the loan signed on 8 October 2018 with the Company through the issue of 4,547 shares of 1 euro par value each, plus a share premium of 4,995 thousand euros. The capital increase was fully subscribed by the Company for an amount of 4,999 thousand euros. As a result of the operation, the Company now holds 89.48% of the capital of Utopicus.

On 30 April 2019, the Company acquired 45% of the share capital of Torre Marenostrum, S.L. (Torre), owner of an office building located in Barcelona. Prior to this acquisition, the Company held 55% of Torre's shares and with this operation it became the sole shareholder of Torre. The acquisition cost amounted to 28,525 thousand euros.

On 29 July 2019, the subsidiary Utopicus Innovación Cultural, S.L. carried out two capital increases, (i) the first by offsetting the loan signed on 29 July 2019 through the issue of 8,986 shares of 1 euro par value each plus a share premium of 4,991 thousand euros and (ii) a second capital increase through the issue of 19,770 shares of 1 euro par value each plus a share premium of 10,980 thousand euros. Both capital increases were fully subscribed by the Company for 5,000 thousand euros and 11,000 thousand euros, respectively. As a result of these operations, the Company has acquired 96.81% of the share capital.

Movements in 2018 -

On 16 January 2018, the Company acquired 100% of the share capital of the Spanish company LE Offices Egeo, S.A.U. (Egeo), owner of an office building located in Madrid. The acquisition cost amounted to 49,098 thousand euros. Additionally, on 30 November 2018, an earn-out payment was made in the amount of 2,124 thousand euros. On the same date, the ear-out associated with the acquisition of the shares of Colonial Arturo Soria, S.L. was paid in the amount of 877 thousand euros.

On 20 March 2018, the subsidiary Utopicus Innovación Cultural, S.L. increased capital by issuing 3,368 shares of 1 euro par value each, plus a share premium of 3,996 thousand euros. The capital increase was fully subscribed and paid out by the Company for an amount of 4,000 thousand euros.

On 7 May 2018, the Company acquired all the shares of Peñalvento, S.L. for 20,755 thousand euros from its subsidiary Agisa.

On November 16, 2018, the Company acquired 10,323,982 shares of the subsidiary SFL from Qatar Holding, LLC and DIC Holding, LLC by (i) contributing 7,136,507 shares of the subsidiary to the Company in consideration for the subscription of 53,523,803 new shares of the Company, amounting to 487,602 thousand euros (see Note 13-a); (ii) the exchange of 400,000 shares of the subsidiary for 3,000,000 shares of the company held as treasury stock (see Note 13-d), for the amount of 27,330 thousand euros, and (iii) the sale to he Company of 2,787,475 shares of the subsidiary SFL for 203,486 thousand euros.

On 29 November 2018, the company acquired 281,022 shares in the subsidiary SFL for 18,969 thousand euros.

In addition, during December 2018, the Company acquired 441,000 shares of the subsidiary SFL, through the exchange of 315,000 shares of the Company held as treasury stock (Note 13-d), for 2,814 thousand euros, and the delivery of cash for 8,442 thousand euros.

As a result of the above-mentioned acquisitions, the percentage held by the Company in the share capital of the subsidiary SFL increased from 58.56% to 81.71%.

Impairment -

In 2019 and 2018, no impairment losses were recognised for the financial interest in SFL since the fair value of this interest, determined on the basis of SFL's EPRA *Triple Net Asset Value* (EPRA NNNAV) at the end of those years, amounted to 95.88 and 86.32 euros per share, respectively, which was higher than the acquisition cost of the interest (see Note 4-e).

The closing price of SFL shares in 2019 and 2018 was 73.80 and 60.80 euros per share, respectively.

Other information -

On 3 October 2018, the Company signed a purchase agreement, subject to conditions precedent, for 100% of the shares in Peñalvento. The contract provides for the sale to be completed between May 2022 and February 2023, provided that the conditions precedent laid down in the contract have been met. At 31 December 2019, the Company had received 21,215 thousand euros on account of the price of the shares (14,142 thousand euros at 31 December 2018), which are recognised under "long-term accruals" in the balance sheet.

b) Non-current loans to group companies and associates

The detail of "loans to companies" in the balance sheet is as follows

	Thousands of euros	
	31 December 2019	31 December 2018
Danieltown Spain, S.L.U.	-	12.916
Moorage Inversiones 2014, S.L.U.	-	13.605
Hofinac Real Estate, S.L.U.	-	426
Colonial Arturo Soria, S.L.U.	-	12.159
LE Offices Egeo, S.A.U.	-	28.182
Peñalvento, S.L.U.	21.766	20.711
Axiare Investments, S.L.U.	-	25.102
Axiare I+D+i, S.L.U.	-	500
Venusaur, S.L.U.	-	13.962
Chameleon (Cedro), S.L.U.	-	25.157
Utopicus Innovación Cultural, S.L.	-	3.296
Total	**21.766**	**156.016**

Loans granted to group companies bear a market interest rate.

c) Other non-current financial assets -

This item includes the non-current deposits and guarantees relating mainly to deposits made in accordance with current legislation at official agencies, i.e. deposits received from lessees. The amount at 31 December 2019 was 27,979 thousand euros (31 December 2018: 18,191 thousand euros).

10. Derivative financial instruments

The derivative financial instruments held by the Company at 31 December 2019 and 2018 are presented below:

31 December 2019

				Thousands of euros		
Financial instrument	Counterparty	Interest rate	Maturity	Nominal	Fair value - Assets	Fair value - Liabilities
Swap interest rate	Deutsche Bank (*)	0,43%	2023	57.000	-	(1.793)
Swap interest rate	Credit Agricole	0,10%	2032	40.000	1.622	-
Swap interest rate	Natwest	0,09%	2032	110.000	4.243	-
Swap interest rate	Natwest	0,04%	2032	350.000	13.818	-
Total				**557.000**	**19.683**	**(1.793)**

(*) Derivative from the business combinations of 14 March 2019.

31 December 2018

Financial instrument	Counterparty	Interest rate	Maturity	Thousands of euros	
				Nominal	Fair value - Liabilities
Swap interest rate	ING	0,95%	2022	18.650	(824)
Swap interest rate	Deutsche Bank	0,27%	2022	18.650	(230)
Swap interest rate	Banco Santander	0,25%	2022	18.000	(204)
Total				**55.300**	**(1.258)**

At 31 December 2019 and 2018, the impact on profit and loss of accounting for derivative financial instruments amounted to 1,625 thousand and 4,329 thousand euros of finance costs, respectively (see Note 18-f). This impact is recognised under "Changes in fair value of financial instruments - trading portfolio and other" in profit and loss.

The fair value of the derivatives was calculated by discounting estimated future cash flows based on forward interest and exchange rates and on assigned volatility at each calculation date.

A change of one-quarter of one point in yields has the following impact on the valuations used by the Company to determine the value of its derivatives:

Sensitivity of valuations to a change of one quarter of a point in yields	Thousands of euros		
	Fair value	Decrease of one quarter of a point	Increase of one quarter of a point
31 December 2019	19.683	12.780	(12.780)

11. Non-current assets held for sale

The movement in this item of the balance sheet in 2019 and 2018, and the most significant information affecting this item, were as follows:

	Thousands of euros
Balance at 31 December 2017	
Transfers (Note 7)	26.091
Balance at 31 December 2018	**26.091**
Disposals (Note 18-e)	(217.075)
Additions	4.030
Transfers (Note 7)	319.958
Balance at 31 December 2019	**133.004**

Movements in 2019 -

Of the total transferred property, the Parent Company has disposed of a hotel in Madrid and 11 logistics assets for a total sale amount of 271,910 thousand euros, including indirect costs of the sale. Payment of 13,750 thousand euros was deferred until 30 March 2020 and is recorded under "Trade receivables for sales and services" in the balance sheet.

Of the rest of the transferred properties, two purchase options were signed on 7 August 2019, for seven logistic properties, amounting to 18,259 thousand euros, which are registered under the heading of advances of customers of the balance sheet and for whose amount guarantees have been constituted in favour of the applicant (Note 15-e). The execution date of these options will be at most on 31 March and 31 December 2020.

On 31 July 2019, the Company signed a private sales contract for the "La Constancia" country estate located in Navalagamella Madrid, and received 400 thousand euros as an option premium. The transfer must take place before 30 April 2020 provided that all the conditions set out in the contract are met (Note 24).

12. Current financial investments and other receivables

a) *Current financial investments*

The detail of the balances recorded under "Current financial investments" in the balance sheets at 31 December 2019 and 2018 is as follows

	Thousands of euros	
	31 December 2019	31 December 2018
Cost:		
Current equity instruments	9	9
Other current financial assets	81	1.291
Total current financial investments	**90**	**1.300**

Other current financial assets -

It basically relates to deposits made by the Company to secure compliance with its obligations.

b) *Other receivables*

The detail of the balances recorded under "Other receivables" in the balance sheets at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	31 December 2019	31 December 2018
Cost:		
Nozar, S.A.	85.473	85.473
Lease incentives (Note 4-n)	23.939	13.616
Other	5.050	12
Total cost	**114.462**	**99.101**
Impairment:		
Nozar, S.A.	(85.473)	(85.473)
Total impairment	**(85.473)**	**(85.473)**
Total other receivables	**28.989**	**13.628**

At 31 December 2019 and 2018, "Other receivables" includes mainly the amounts owed by Nozar, S.A. as a result of the termination of the purchase contracts entered into in July 2007 owing to failure to comply with the conditions precedent.

Nozar, S.A. is currently in insolvency proceedings. Consequently, at 31 December 2019 and 2018, the accompanying balance sheet of financial position includes the impairment loss for the entire amount of the company's trade receivables.

Lease incentives -

Lease incentives contains the amount of the incentives in included in the operating lease agreements (grace periods, etc.) that the Company offers its customers, which are recognised in profit and loss during the minimum operating lease term (Note 4-n). Of this amount, 18,242 thousand euros mature in more than one year (10,474 thousand euros at 31 December 2018).

13. Equity

a) Share capital

The Company's share capital at 31 December 2017 comprised 435,317,356 fully subscribed and paid up shares with a par value of 2.5 euros each.

During 2018 there were two increases in the Company's share capital, both of which were charged to monetary contributions and the exclusion of pre-emptive rights corresponding to the *accelerated bookbuild offering* process among qualified investors:

- On 2 July 2018, the extension was registered at the mercantile registry, the purpose of which was to secure and optimise the financing of the public offer for all the shares of Axiare Patrimonio SOCIMI, S.A. not held by Colonial after the takeover bid was executed (Note 23). The result of the placement process was the issue of 19,273,622 new shares with a par value of 2.5 euros, for a total of 157,909 thousand euros, resulting in an increase in share capital and share premium of 48,184 thousand euros and 109,725 thousand euros, respectively. The new shares were admitted to trading on 9 July 2018 on the Barcelona and Madrid stock exchanges.

- On 16 November 2018, the issue of 53,523,803 new shares of 2.5 euros par value each, totalling 487,602 thousand euros, was registered at the mercantile registry, resulting in a share capital increase of 133,810 thousand euros plus a share premium of 353,792 thousand euros.

The Company's share capital underwent no changes in 2019.

Consequently, the Company's share capital at 31 December 2019 and 2018 comprised 508,114,781 fully subscribed and paid up shares with a par value of 2.5 euros each.

Based on the reports on the number of corporate investments to the Spanish National Securities Markets Commission, the Company's indirect and direct significant shareholders at 31 December 2019 and 2018 are as follows:

	31 December 2019		31 December 2018	
	Number of shares*	% ownership	Number of shares*	% ownership
Name or corporate name of the shareholder:				
Qatar Investment Authority (**)	102.675.757	20,21%	102.675.757	20,21%
Finaccess Group	80.028.647	15,75%	80.028.647	15,75%
Inmo S.L.	29.002.980	5,71%	20.011.190	3,94%
Aguila Ltd.	28.880.815	5,68%	28.800.183	5,67%
PGGM Vermongensbeheer B.V.	25.438.346	5,01%	-	-
BlackRock Inc	15.343.358	3,02%	15.256.886	3,00%

* Does not include certain financial instruments linked to shares of the Company.

** Qatar Investment Authority is responsible for managing 21,782,588 shares of the Company owned by DIC Holding, LLC.

At 31 December 2019, Aguila Ltd. and Blackrock Inc. had formally obtained financial instruments associated with the Company's shares that, in the event the instruments are exercised, could give rise to an additional interest in the share capital of Colonial. At 31 December 2018 Blackrock Inc. had formally obtained financial instruments associated with the Company's shares that, in the event the instruments are exercised, could give rise to an additional interest in the share capital of Colonial. These financial instruments do not and cannot involve the issue of new shares of the Company.

The shareholders at the Annual General Meeting held on 24 May 2018 resolved to authorise the Board of Directors to issue, on behalf of the Company and on one or more occasions and for a maximum period of 5 years, bonds convertible into new shares of the Company or other similar securities that may give the right, directly or indirectly, to subscribe the Company's shares, with the express power to exclude the pre-emption right of the shareholders up to a maximum of 20% of the share capital, and to increase share capital by the amount necessary to meet the conversion. The total maximum amount of the issue or issues of the securities that may be performed under this authorisation may not exceed a combined amount of 500,000 thousand euros or its equivalent in another currency.

Additionally, on 14 June 2019, the shareholders at the Company's Annual General Meeting resolved to authorise the Board of Directors, in accordance with Article 297.1 b) of the Spanish Limited Liability Companies Law, to increase the share capital through monetary contributions by up to half the amount of the share capital, within a maximum period of five years, on one or more occasions and at the time and by the amount it deems appropriate. Within the maximum amount indicated, the Board of Directors is empowered to exclude the pre-emption right up to a maximum of 20% of the share capital.

b) Share premium

In 2018, as a result of the two aforementioned capital increases, the share premium increased by 463,517 thousand euros.

On 24 May 2018, dividends charged to the share premium were distributed in the amount of 11,326 thousand euros.

On 14 June 2019, the Annual General Meeting agreed to and distributed dividends charged to the share premium in the amount of 64,690 thousand euros.

c) Reserve

Legal reserve -

Under the Consolidated Spanish Limited Liability Companies Law, 10% of profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

The legal reserve may be used to increase capital in an amount equal to the portion of the balance that exceeds 10% of capital after the increase. Otherwise, until it exceeds 20% of share capital and provided there are no sufficient available reserves, this reserve may only be used to set off losses and provided no other sufficient reserves are available for this purpose.

At 31 December 2017, the legal reserve amounted to 39,099 thousand euros, taking into account the allocation to the legal reserve included in the distribution of the Company's profit for 2017 approved by the shareholders at the Annual General Meeting held on 29 June 2018, the legal reserve amounted to 42,349 thousand euros.

At 31 December 2019, taking into account the allocation to the legal reserve included in the distribution of the Company's profit for 2018 approved by the shareholders at the Annual General Meeting held on 14 June 2019, the legal reserve amounted to 45,980 thousand euros, although at the date of authorisation for issue of these financial statements it had not yet been fully funded.

Other reserves –

The shareholders at the Annual General Meeting held on 24 May 2018 approved, among other resolutions, the distribution of a dividend of 37,046 thousand euros with a charge to reserves as part of the distribution of profit for 2017.

The shareholders at the Annual General Meeting held on 14 June 2019 approved and distributed, among other resolutions, the distribution of a dividend of 4,200 thousand euros with a charge to reserves as part of the distribution of profit for 2018.

As a result of the capital increases described in Note 13-a, costs of 1,149 thousand euros were reported in 2018 under "Reserves" in equity.

In 2018, the Company carried out transactions involving treasury shares, which gave rise to a gain of 7,332 thousand euros, and which were registered directly in the Company's equity.

The income generated from the delivery of treasury shares to the beneficiaries of the long-term incentives plan (Note 20-d), calculated as the difference between the carrying amount of the shares delivered and the amount of the obligation assumed by the Company, which amounted to a loss of 1,131 thousand euros in 2019 (1,514 thousand euros in 2018) was also recognised in the Company's reserves.

As a result of the merger transactions carried out in 2019, the Company recorded negative merger reserves of 27,469 thousand euros (Note 23).

At 31 December 2019 and 2018 the Company had voluntary reserves amounting to 169,439 thousand euros classified as restricted.

d) Treasury shares

At 31 December 2019 and 2018, the number of the Company's treasury shares and their acquisition cost were as follows:

	31 December 2019		31 December 2018	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Beginning balance	**543.260**	**3.748**	**4.279.940**	**29.421**
Buyback plan 16 October 2017	-	-	-	41
Buyback plan 2019	300.000	3.375	-	-
Delivery of incentives plan shares (Note 20-d)	(493.894)	(2.822)	(421.813)	(2.902)
Other acquisitions	-	-	133	-
Other disposals	-	-	(3.315.000)	(22.812)
Ending balance	**349.366**	**4.301**	**543.260**	**3.748**

Share buyback plan of the Company -

On 10 December 2019, the Company agreed to carry out a treasury share buyback programme. A maximum of 300,000 shares could be acquired, equivalent to 0.659% of the Company's share capital as of that date On 18 December 2019 the Company terminated the share buyback plan early.

Deliveries of Company shares deriving from the long-term incentives plan (Note 20-d) -

Every year, the Company settles the obligations to comply with the previous year's plan through the delivery of shares to the beneficiaries of the Remuneration Plan, once it has assessed the degree of attainment of the indicators included therein.

Other disposals -

On 16 November 2018, the Company exchanged 3,000,000 treasury shares for 400,000 shares of the subsidiary SFL (Note 9-a). In December 2018 a total of 315,000 shares of the Company were exchanged for 42,000 additional shares of the subsidiary SFL.

e) *Liquidity contracts*

The Parent enters into liquidity contracts to enhance the liquidity of its transactions and the regularity of its listed share price.

At 31 December 2019 and 2018, the number of the Company's treasury shares included in the liquidity contract and their acquisition cost were as follows:

	31 December 2019		31 December 2018	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Beginning balance	**229.500**	**1.858**	**229.500**	**1.841**
Liquidity contract dated 11 July 2017	-	20	-	17
Ending balance	**229.500**	**1.878**	**229.500**	**1.858**

Liquidity contract dated 11 July 2017 -

On 11 July 2017, the Company entered into a new liquidity contract to enhance the liquidity of its transactions and the regularity of its listed share price as provided for under CNMV Circular 1/2017, of 26 April. The contract is valid for 12 months. The contract has been suspended.

f) *Value change adjustments – Hedging operations*

The changes in 2019 and 2018 in this balance sheet item were as follows:

	Thousands of euros	
	31 December 2019	31 December 2018
Beginning balance	(492)	-
Changes in the fair value of hedges in the year	18.698	(2.791)
Business combinations (Note 23)	(1.530)	-
Transfer to profit and loss	2.115	2.299
Ending balance	**18.791**	**(492)**

In 2019, as a result of the business combinations described in Note 23, the Company incorporated the derivative financial instruments of the absorbed companies Venusaur, S.L.U. and Torre Marenostrum, S.L. "Changes in the fair value of hedges during the year" includes the impact of changes in the value of these instruments from the date on which control is taken.

In 2019 the Company cancelled the derivative financial instruments from the absorbed company Venusaur, S.L.U. and Torre Marenostrum, S.L., which resulted in a transfer to profit and loss of 2,115 thousand euros.

In 2018, as a result of the business combinations described in Note 23, the Company incorporated the derivative financial instruments of the company Axiare Patrimonio SOCIMI, S.A. "Changes in the fair value of hedges during the year" included the impact of changes in the value of these instruments from the date on which control is taken.

In 2018 the Company cancelled the several derivative financial instruments from the absorbed company Axiare Patrimonio SOCIMI, S.A., which suspended a transfer to profit and loss of 2,299 thousand euros.

14. Provisions and contingencies

The detail of current and non-current provisions in the balance sheets at 2019 and 2018 and of the main changes in 2019 is as follows:

	Thousands of euros			
	Current	Non-Current		
	Provision for contingencies and expenses	Provisions with personnel	Provision for contingencies and expenses	Total non-current
Balance at 31 December 2018	**16.311**	**71**	**89**	**160**
Provisions (Note 18-c)	-	-	11	11
Reversal (Note 18-c)	(7.552)	-	-	-
Applications	(2.294)	(13)	(73)	(86)
Balance at 31 December 2019	**6.465**	**58**	**27**	**85**

Provisions for contingencies and expenses - Current

Current provisions relate to an estimate of various risks inherent to the Company's business.

15. Bank borrowings and debentures and other marketable securities

The breakdown by type of debt and maturity at 31 December 2019 and 2018 is as follows:

31 December 2019

	Thousands of euros							
	Current	Non-current						
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Older than 5 years	Total non-current	Total
Bank borrowings:								
Mortgage loans	-	-	-	75.700	-	-	75.700	75.700
Other loans	-	-	-	-	125.000	-	125.000	125.000
Fees and interest	356	-	-	-	-	-	-	356
Arrangement costs	(1.229)	(1.225)	(862)	(723)	(44)	-	(2.854)	(4.083)
Total bank borrowings	**(873)**	**(1.225)**	**(862)**	**74.977**	**124.956**	**-**	**197.846**	**196.973**
Debentures and other marketable securities:								
Issues of debentures	-	-	-	500.000	600.000	1.500.000	2.600.000	2.600.000
Issue of promissory notes	239.500	-	-	-	-	-	-	239.500
Fees and interest	20.203	-	-	-	-	-	-	20.203
Arrangement costs	(3.103)	(3.095)	(3.095)	(2.822)	(2.542)	(2.377)	(13.931)	(17.034)
Total debentures and other marketable securities	**256.600**	**-3.095**	**-3.095**	**497.178**	**597.458**	**1.497.623**	**2.586.069**	**2.842.669**
Total	**255.727**	**-4.320**	**-3.957**	**572.155**	**722.414**	**1.497.623**	**2.783.915**	**3.039.642**

31 December 2018

	Thousands of euros							
	Current	Non-current						
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Older than 5 years	Total non-current	Total
Bank borrowings:								
Syndicated loans	-	-	-	20.000	50.000	-	70.000	70.000
Mortgage loans	3.343	6.504	7.906	71.049	12.295	104.857	202.611	205.954
Other loans	-	-	-	-	-	50.000	50.000	50.000
Fees and interest	639	-	-	-	-	-	-	639
Arrangement costs	(1.536)	(1.546)	(1.539)	(1.048)	(791)	(1.482)	(6.406)	(7.942)
Total bank borrowings	**2.446**	**4.958**	**6.367**	**90.001**	**61.504**	**153.375**	**316.205**	**318.651**
Debentures and other marketable securities:								
Issues of debentures	-	-	-	-	500.000	2.100.000	2.600.000	2.600.000
Fees and interest	20.211	-	-	-	-	-	-	20.211
Arrangement costs	(3.095)	(3.103)	(3.095)	(3.095)	(2.822)	(4.919)	(17.034)	(20.129)
Total debentures and other marketable securities	**17.116**	**(3.103)**	**(3.095)**	**(3.095)**	**497.178**	**2.095.081**	**2.582.966**	**2.600.082**
Total	**19.562**	**1.855**	**3.272**	**86.906**	**558.682**	**2.248.456**	**2.899.171**	**2.918.733**

a) Issues of standard debentures by the Company

The detail of the issues of standard debentures made by the Company at 31 December 2019 and 2018 is as follows:

				Thousands of euros		
Issue	Duration	Maturity	Fixed coupon payable annually	Issue amount	31 December 2019	31 December 2018
5/06/2015	8 years	5/06/2023	2,73%	500.000	500.000	500.000
28/10/2016	8 years	28/10/2024	1,45%	600.000	600.000	600.000
10/11/2016	10 years	10/11/2026	1,88%	50.000	50.000	50.000
28/11/2017	8 years	28/11/2025	1,68%	500.000	500.000	500.000
28/11/2017	12 years	28/11/2029	2,50%	300.000	300.000	300.000
17/04/2018	8 years	17/04/2026	2,00%	650.000	650.000	650.000
Total issues of debentures					**2.600.000**	**2.600.000**

Debentures have been admitted for trading in the Main Securities Market of the Irish Stock Exchange.

As of 31 December 2019 and 2018, the fair value of the bonds issued by the Company is 2,784,774 and 2,557,454 thousand euros, respectively.

European Medium Term Note Programme -

On 5 October 2016, the Company registered an EMTN (European Medium Term Note) programme on the Irish Stock Exchange amounting to 3,000,000 thousand euros, extendable to 5,000,000 thousand euros, with a validity of 12 months. On 19 December 2019 the CNMV approved the renewal and extension of the programme.

European Commercial Papers Programme-

On 13 December 2018, the Company registered a *European Commercial Papers* (ECP) programme with the Irish Stock Exchange for a maximum amount of 500,000 thousand euros. On 12 December 2019, the program was renewed.

Compliance with financial ratios -

The standard debentures currently in force establish the need for compliance, at 30 June and 31 December of each year, of a financial ratio by virtue of which the value of the Colonial Group's unsecured assets in the balance on each of the dates will have to be at least equal to the unsecured financial debt. At 31 December 2019 and 2018, the aforementioned ratios have been met.

b) *Syndicated financing*

The detail of the Company's syndicated financing at 31 December 2019 and 2018 is shown in the following table:

		31 December 2019		31 December 2018	
Thousands of euros	Maturity	Limit	Nominal Drawn	Limit	Nominal Drawn
Credit policy	March 2022	375.000	-	375.000	20.000
Credit policy	December 2023	500.000	-	500.000	50.000
Total syndicated financing		**875.000**	**-**	**875.000**	**70.000**

The fixed interest rate is variable with a margin referenced to the EURIBOR.

At 31 December 2019 and 2018 the loans comply with the financial ratios to which they are subject.

c) *Mortgage loans*

The detail at 31 December 2019 and 2018 of loans secured by mortgages on certain of the Company's assets are shown in the following table:

	Thousands of euros			
	31 December 2019		31 December 2018	
	Mortgage debt	Asset market value	Mortgage debt	Asset market value
Investment property (Note 7)	75.700	163.500	205.954	592.235
Total mortgage loans	**75.700**	**163.500**	**205.954**	**592.235**

In the first half of 2019, the Company settled 205,782 thousand euros of mortgage debt resulting from the business combination with Axiare.

Following these settlements, only a bilateral loan in the amount of 75,700 thousand euros from the business combination with Axiare remains. It is a loan at a rate tied to the Euribor plus an additional margin. The loan is sustainable because its margin will vary according to the rating the Company obtains in ESG (environmental, social and corporate governance) from the sustainability agency GRESB. A derivative financial instrument has been arranged to cover 75% of the outstanding nominal amount of this loan at 31 December 2019.

At 31 December 2019 and 2018 the loan complies with the financial ratios to which it is subject.

d) *Other loans*

At 31 December 2019, there were two loans, one of 50,000 thousand euros and the other of 75,000 thousand euros. The latter loan is sustainable because its margin will vary according to the rating the Company obtains in ESG (environmental, social and corporate governance) from the sustainability agency GRESB.

Both loans mature in 2024 and are subject to compliance with various financial ratios.

At 31 December 2019 and 2018 the loans comply with the financial ratios to which they are subject.

e) *Other guarantees delivered*

At 31 December 2019, the Company had provided guarantees to official bodies, customers and suppliers in the amount of 55,271 thousand euros (31 December 2018: 24,155 thousand euros). Of this amount, a guarantee of 30,300 thousand euros was provided to cover deferred payment arising from an investment property transaction.

Additionally, various guarantees have been set up for 18,259 thousand euros in guarantee of various commitments acquired by the Company for the disposal of various non-current assets held for sale (Note 11).

Of the remaining amount, the main guarantee granted is 4,946 thousand euros, corresponding to commitments acquired by the company Asentia. In this regard, the Company and the aforementioned company have signed an agreement whereby, if any of the guarantees are executed, Asentia must compensate the Company for any loss incurred within a maximum period of 15 days.

During 2019, two bank guarantees have been cancelled for a total amount of 14,250 thousand euros, relating to deferred payments deriving from investment property purchases.

f) *Interest*

The average interest rate of the Company in 2019 was 2.04% (2.23% in 2018) or 2.14% incorporating the accrual of commissions (2.35% in 2018). The average interest rate of the Company's debt in effect at 31 December 2019 (spot) is 1.80% (1.98% at 31 December 2018).

The amount of accrued interest pending payment recorded in the balance sheet at 31 December 2019 and 2018 amounts to:

	Thousands of euros	
Issue	31 December 2019	31 December 2018
Debentures and other marketable securities	20.203	20.211
Bank borrowings	356	639
Total	**20.559**	**20.850**

g) *Debt arrangement costs*

In 2019 and 2018, the Company recognised 3,042 thousand and 3,727 thousand euros in profit and loss (Note 18-f), respectively, relating to costs amortised during the year.

h) *Cash and cash equivalents*

At 31 December 2019 and 2018, said heading includes cash and cash equivalents amounting to 152,386 and 33,236 thousand euros, respectively, 1,777 thousand euros of which are restricted or were pledged.

16. Other non-current financial liabilities

At 31 December 2019 and 2018, it includes 30,916 thousand and 20,349 thousand euros, respectively, relating to deposits received from lessees.

17. Tax matters

Until 31 December 2016, the Company had been the head of a group of companies under the tax consolidation regime since 1 January 2008. This regime included only companies in Spain, directly or indirectly, in at least 75% of its capital, or 70% in the case of listed companies and those with the majority of voting rights.

On 30 June 2017, the Company opted for the SOCIMI tax regime (Note 1). The adoption of this tax regime resulted in the break up of the tax group in force at 31 December 2016 with effect from 1 January 2017.

The detail of balances with public administrations at 31 December 2019 and 2018 is as follows:

	Thousands of euros			
	Receivable balance		Payable balance	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Tax	-	-	4.468	1.196
Value-added tax	12	9.471	-	-
Current tax	832	696	-	-
Other deferred taxes	-	-	187	187
Social Security tax payable	-	-	138	115
Total current balances	**844**	**10.167**	**4.793**	**1.498**
Deferred tax on merger (Note 1)	-	-	86.972	33.192
Other deferred taxes	-	-	5.257	5.444
Total non-current balances	**-**	**-**	**92.229**	**38.636**

Current tax -

At 31 December 2019, the Company had a balance in its favour of 832 thousand euros relating to income tax for 2018 for the companies merged during 2019 and the withholdings made by Colonial during the year which may be refunded in the 2019 income tax settlement.

The reconciliation between accounting profit and taxable income at 31 December 2019 and 2018 is as follows:

31 December 2019

	Thousands of euros		
	General regime	REIT regime	Total
Pre-tax profit/(loss) for year	**9.207**	**79.653**	**88.860**
Permanent differences:			
SFL dividends (Note 19)	-	(100.749)	(100.749)
Plan contribution (Note 20)	-	244	244
Other non-deductible expenses	(10)	1.717	1.707
Temporary differences:			
Originating in prior years-			
Deferral for reinvestment	750	-	750
Non-deductible provisions	(4.931)	(4.915)	(9.846)
Non-deductible amortisation	(1.879)	(6)	(1.885)
Originating in current year-			
Portfolio impairment (Note 9)	-	7.136	7.136
Amortisation of SFL financial goodwill	-	(283)	(283)
Amortisation of Axiare financial goodwill (Note 5)	-	17.653	17.653
Non-deductible provisions	(74)	10.810	10.736
Deferred write-off from asset gains	(4.524)	103.375	98.851
Non-deductible finance costs	(699)	3.186	2.487
Taxable profit (tax profit)	**(2.160)**	**117.821**	**115.661**

31 December 2018

	Thousands of euros		
	General regime	REIT regime	Total
Pre-tax profit/(loss) for year	**44.649**	**(9.068)**	**35.581**
Permanent differences:			
SFL dividends (Note 19)	-	(62.664)	(62.664)
Other dividends from subsidiaries (Note 19)	-	(4.395)	(4.395)
Plan contribution (Note 20)	-	242	242
Capital increase costs (Note 13)	-	(1.149)	(1.149)
Other	(321)	7.905	7.584
Temporary differences:			
Originating in prior years-			
Deferral for reinvestment	750	-	750
Non-deductible provisions	(85.793)	(2.202)	(87.995)
Non-deductible amortisation	(1.339)	-	(1.339)
Originating in current year-			
Portfolio impairment (Note 9)	-	6.409	6.409
Amortisation of SFL financial goodwill	-	(282)	(282)
Amortisation of Axiare financial goodwill (Note 5)	-	16.182	16.182
Non-deductible provisions	-	5.661	5.661
Deferred write-off from asset gains	9.338	75.351	84.689
Non-deductible finance costs	28	36.431	36.459
Taxable profit (tax profit)	**(32.688)**	**68.421**	**35.733**

Of the accounting profit for 2019, a distinction has been made between the part of the profit that is taxed under the general income tax regime and the part that is taxed under the SOCIMI regime. The main differences between the accounting result and the taxable income for 2019 are explained below:

General regime -

- In accordance with Law 16/2012, of 27 December, it was established that the accounting depreciation of property, plant and equipment, intangible assets and investment property for tax periods starting in 2013 and 2014 would be deductible from the tax base by up to 70 per cent of that which would have been previously deductible for tax purposes. In this regard, the Company proceeded to make the corresponding adjustments to its tax base. In 2019, in accordance with the law, the Company recovered one-tenth of the depreciation charges for 2013 and 2014 that were considered non-deductible.

- Other provisions that were not tax deductible in previous years.

- Inclusion in the tax base of differences between carrying amounts and tax values arising from corporate operations recorded in prior years (Note 1).

REIT regime -

- Exemption for dividends from subsidiaries

- Property impairment that is not tax deductible.

- Impairment of financial investments considered not to be tax deductible.

- In accordance with article 16 of the Corporate Income Tax Law 27/2014 of 27 November, financial expense exceeding 30% of the profit for the year has been adjusted on a temporary basis.

- Inclusion in the tax base of differences between carrying amounts and tax values arising from corporate operations recorded in prior years (Note 1).

- Non-deductible provisions.

The reconciliation between the accounting profit and the expense for tax profit recognised in profit and loss for 2019 and 2018 is as follows:

	Thousands of euros	
	2019 (*)	2018 (**)
Pre-tax profit/(loss)	88.860	35.581
Permanent differences (**)	(98.798)	(60.382)
Adjusted accounting profit/(loss)	**(9.938)**	**(24.801)**
- REIT regime	(19.135)	(69.129)
- General regime	9.197	44.328
Accounting profit/(loss) adjusted to general regime	**9.197**	**44.328**
- Unrecorded deferred assets offset in the year	(7.583)	(87.104)
Tax profit/(loss) to general regime	**1.614**	**(42.776)**
Tax expense at 25% rate	-	-
Capitalisation	(212)	305
Other adjustments	1.205	(1.032)
Total income expense recognised in the profit and loss account	**993**	**(727)**
- Current tax	-	-
- Deferred tax	993	(727)

(*) A corporate income tax expense is calculated for accounting profit that is taxed under the general tax regime. The rest of the accounting profit/(loss) that is taxed under the special REIT regime will be taxed at 0% and does not generate any tax expense.

(**) 1,149 thousand euros of capital increase expenses directly recorded in the company's equity in 2018 are not included.

Deferred tax assets -

The detail of the balance of deferred tax assets at 31 December 2019 and 2018 is shown in the following table:

	Thousands of euros			
	2019 (*)		2018 (*)	
Deferred tax assets (taxable profit)	General regime base	REIT base	General regime base	REIT base
Tax loss carryforwards	5.414.083	-	5.412.050	-
Non-deductible impairment	-	16.459	-	5.661
Non-deductible portfolio impairment	8	16.486	8	9.048
Non-deductible finance costs	397.108	62.289	397.807	59.102
Non-deductible amortisation	9.399	31	8.036	-
Non-deductible provisions	66.988	20.547	66.716	14.170
Other	26	21	100	10
Total tax credits and deferred tax assets	**5.887.612**	**115.833**	**5.884.717**	**87.991**
Balance recognised in accounting (*)	-	-	-	-

(*) As described below, in determining the deferred tax liability at 31 December 2019 and 2018, the Company used the application of tax credits amounting to 30,935 thousand and 10,939 thousand euros, respectively, since they were calculated on the basis of the estimated effective tax rate of 18.75% (Note 4-m).

Deferred tax asset on tax loss carryforwards -

The Corporate Income Tax Act in force as from 1 January 2015 establishes that the tax losses of prior years may be carried forward to future years without any time limitation.

Unused tax loss carryforwards generated by the Company as at 31 December 2019 amount to 5,414,083 thousand euros.

Deferred tax liabilities -

The detail of the balance of deferred tax liabilities at 31 December 2019 and 2018 is shown in the following table:

31 December 2019

	Thousands of euros
Deferred tax liabilities	Taxable profit
Deferral for pending reinvestment	18.156
Deferral on financial goodwill	2.753
Deferral on gains allocated to investment property and financial assets	555.899
Capitalised tax credits	(208.015)
Total	**368.793**
Deferred tax liabilities (*)	**92.416**

(*) Of the deferred tax liabilities, 92,229 thousand euros are recorded under "Non-current deferred tax liabilities" and 187 thousand euros are recorded under "Other taxes payable" under current liabilities.

31 December 2018

Deferred tax liabilities	Thousands of euros Taxable profit
Deferral for pending reinvestment	18.906
Deferral on financial goodwill	2.470
Deferral on gains allocated to investment property and financial assets	261.004
Capitalised tax credits	(128.238)
Total	**154.142**
Deferred tax liabilities (*)	**38.823**

(*) Of the deferred tax liabilities, 38,636 thousand euros are recorded under "Non-current deferred tax liabilities" and 187 thousand euros are recorded under "Other taxes payable" under current liabilities.

Deferral on gains allocated to investment property and financial assets -

Deferrals on gains allocated to investment property and financial assets includes, as described in Note 4-m, the amount of deferred taxes associated with the Company's real estate investments, which would be accrued if said assets are transmitted, using the effective rate that would apply taking into account the applicable regulations and the existence of unregistered tax credits. In this regard, the deferred taxes associated with the Company's investment property were recorded at an effective rate of 18.75% (tax rate of 25% with a limit of 25% on use of tax loss carryforwards).

Unused deductions –

The detail of the deductions pending application owing to insufficient payable tax at 31 December 2019 and 2018 is shown, by item, in the following table:

	Thousands of euros	
	2019	2018
Tax credits through deductions of dividends pending	7.685	7.685
Tax credits from deductions on donations	55	55
Tax credits from deductions on pending training	3	3
Tax credits from deductions on pending reinvestment	11.311	15.683
Total unused deductions	**19.054**	**23.426**
Balance recognised in accounting	**-**	**-**

The nature and amount of unused tax credits at 31 December 2019 by the Group due to insufficient taxable profit in prior years, and the last years for offset are set out below:

	Thousands of euros		
Type	Year incurred	Not recorded in accounting	Last year for use
Double taxation tax credit		7.685	N/A
Tax credit for donations	2010	4	2020
	2011	4	2021
	2012	4	2022
	2013	6	2023
	2014	6	2024
	2015	9	2025
	2016	22	2026
Tax credit for training	2008	1	2023
	2009	1	2024
	2010	1	2025
		7.743	

The nature and amount of the unused tax credit for reinvestment at 31 December 2019 due to insufficient taxable profit in prior years and the last years for offset are set out below:

	Thousands of euros	
Year incurred	Amount	Last year for use
2005	92	2020
2006	1.314	2021
2007	7.275	2022
2008	1.185	2023
2009	434	2024
2010	713	2025
2011	39	2026
2012	123	2027
2013	112	2028
2014	24	2029
Total	**11.311**	

Tax years pending verification and inspection actions -

The Company has the last four years open for review for all applicable taxes. In 2017, the Company made complementary settlements of the corporation tax for 2014 to 2015, which were outside the statute of limitations for these years.

It is not expected that additional liabilities will be accrued for the Company as a result of a possible inspection.

Adherence to the code of good tax practices –

On 10 December 2015, the Board of Directors of the Company agreed to adhere to the code of good tax practices. Said agreement was communicated to the Spanish tax agency on 8 January 2016.

Disclosure requirements arising from REIT status, Law 11/2009 -

a) Reserves from years prior to the application of the tax regime established in this Law.

	Thousands of euros
Legal and statutory reserves	39.099
Other reserves:	
Restricted reserve	169.439
Total reserves at 31 December 2019	**208.538**

b) Reserves from years in which the tax regime established in this Law has been applied, differentiating the part that comes from income subject to the tax rate of zero percent, or 19 percent, from those that, as the case may be, have been taxed at the general tax rate.

	Thousands of euros		
	General regime	REIT regime	**Total**
Reserves from 2017:			
To legal reserve	-	3.250	**3.250**
Gain/(loss) on treasury shares and capital increase costs	-	(466)	**(466)**
Reserves from 2018:			
To legal reserve	-	3.631	**3.631**
Gain/(loss) on treasury shares and capital increase costs	-	(662)	**(662)**
Reserves from 2019:			
To legal reserve	-	-	-
Gain/(loss) on treasury shares and capital increase costs	-	(1.131)	**(1.131)**
Merger reserves	-	(12.972)	**(12.972)**
Total	**-**	**(8.350)**	**(8.350)**

c) Dividends distributed against the profits of each year in which the tax regime established in this Law has been applied, differentiating the part that comes from income subject to the tax rate of zero percent, or 19 percent, from those that, as the case may be, have been taxed at the general tax rate.

	Thousands of euros		
	General regime	REIT regime	**Total**
2017 dividend	-	29.247	**29.247**
2018 dividend	-	32.677	**32.677**
Total	**-**	**61.924**	**61.924**

d) In the case of distribution of dividends from reserves, designation of the year from which the reserve was applied and whether the dividends were taxed at zero percent, 19 percent or at the general rate.

	Thousands of euros		
	General regime	REIT regime	**Total**
2017 dividend	34.186	2.860	**37.046**
2018 dividend	-	4.200	**4.200**
Total	**34.186**	**7.060**	**41.246**

e) Date of the agreement to distribute the dividends referred to in (c) and (d) above.

The resolution to distribute the dividends for the year 2017 was adopted by the Annual General Meeting on 24 May 2018.

The resolution to distribute the dividends for the year 2018 was adopted by the Annual General Meeting on 14 June 2019.

f) Date of acquisition of property intended for rental and of holdings in the capital of entities referred to in Article 2(1) of this Law.

Property	**City**	**Acquisition date**	**Maintenance start date**
Pedralbes Centre	Barcelona	29-Dec-92	1-Jan-17
Avda. Diagonal, 530	Barcelona	29-Dec-92	1-Jan-17
Sant Antoni Mª Claret, 436	Barcelona	29-Dec-92	1-Jan-17
Amigó, 11-17	Barcelona	28-Dec-94	1-Jan-17
Berlin-Numancia	Barcelona	15-Apr-97	1-Jan-17
Avda. Diagonal, 682	Barcelona	30-Dec-97	1-Jan-17
Pº de la Castellana, 52	Madrid	28-Jul-98	1-Jan-17
Vía Augusta, 21-23	Barcelona	26-Oct-98	1-Jan-17
Francisco Silvela, 42	Madrid	25-Oct-04	1-Jan-17
Alfons XII	Madrid	28-Mar-00	1-Jan-17
Ramírez de Arellano, 37	Madrid	30-Nov-99	1-Jan-17
Sant Cugat - Sant Joan	Sant Cugat del Vallès	24-Dec-99	1-Jan-17
Les Glòries - Diagonal	Barcelona	9-Jun-00	1-Jan-17
Jose Ortega Y Gasset, 100	Madrid	5-Jul-00	1-Jan-17
Pg. dels Til·lers, 2-6	Barcelona	15-Sept-00	1-Jan-17
Poeta Joan Maragall	Madrid	18-Apr-01	1-Jan-17
Avda. Diagonal, 409	Barcelona	9-Oct-01	1-Jan-17
Recoletos, 37-41	Madrid	21-Oct-05	1-Jan-17
Pº de la Castellana, 43	Madrid	21-Oct-05	1-Jan-17
Miguel Ángel, 11	Madrid	21-Oct-05	1-Jan-17
José Abascal, 56	Madrid	21-Oct-05	1-Jan-17
López Hoyos, 35	Madrid	21-Oct-05	1-Jan-17
Martinez Villergas, 49	Madrid	24-Mar-06	1-Jan-17
Botánico, 8	Puerto de La Cruz	17-Jun-02	1-Jan-17
Hotel Mojacar	Mojacar	3-Jul-06	1-Jan-17
Párraco Ramón Glez Guedes, 15	Las Palmas de Gran Canaria	17-Jun-02	1-Jan-17
Plaza Europa, 42-44	L'Hospitalet Llobregat	30-Dec-14	1-Jan-17
Príncipe de Vergara, 112-114	Madrid	14-Jul-15	1-Jan-17
Génova, 17	Madrid	28-Jul-15	1-Jan-17
Santa Engracia	Madrid	17-Dec-15	1-Jan-17
José Abascal, 45	Madrid	21-Jun-16	1-Jan-17
Travessera de Gràcia, 47-49	Barcelona	28-Dec-16	1-Jan-17
Avda. Diagonal, 609	Barcelona	29-Dec-92	1-Jan-17

Property	City	Acquisition date	Maintenance start date
Torre Bcn	Barcelona	31-Oct-01	1-Jan-17
Travessera de Gràcia, 11	Barcelona	28-Dec-94	1-Jan-17
Illacuna	Barcelona	6-May-14	1-Jan-17
Ricard Roca, 1	Palma de Mallorca	29-Dec-92	1-Jan-17
Diagonal, 197	Barcelona	4-Dec-14	4-Dec-14
Park Cugat	Sant Cugat	16-Mar-17	16-Mar-17
Virto	Alcobendas	28-Jul-14	28-Jul-14
Manuel de Falla, 7	Madrid	24-May-16	24-May-16
Ribera de Loira, 28	Madrid	4-Dec-14	4-Dec-14
Tucumán	Madrid	30-Mar-15	30-Mar-15
Velázquez, 80 bis	Madrid	22-May-15	22-May-15
Ramírez de Arellano, 15	Madrid	21-Jul-15	21-Jul-15
Avda. Bruselas, 38	Alcobendas	23-Sept-15	23-Sept-15
Alcalá, 506	Madrid	23-Sept-15	23-Sept-15
Las Mercedes Open Park	Madrid	23-Sept-15	23-Sept-15
Don Ramón de la Cruz, 82	Madrid	8-Oct-15	1-May-16
Josefa Valcárcel, 24	Madrid	26-Jan-16	26-Jan-16
San Fernando Logistics Park I	San Fernando de Henares	24-Oct-18	24-Oct-18
Sagasta, 31-33	Madrid	17-Nov-16	17-Nov-16
Alcalá de Henares I	Alcalá de Henares	25-Nov-16	25-Nov-16
Azuqueca II	Azuqueca de Henares	25-Nov-16	25-Nov-16
J.I. Luca de Tena, 7	Madrid	23-Dec-16	23-Dec-16
Miguel Ángel, 23	Madrid	16-Jan-17	16-Jan-17
Puerto de Somport, 8	Madrid	20-Jan-17	2-Jan-16
Sagasta, 27	Madrid	4-Apr-17	4-Apr-17
Josefa Valcárcel, 40 bis	Madrid	16-Nov-17	30-Sept-18
Les Gavarres	Tarragona	4-Dec-14	4-Dec-14
Viapark	Vicar (Almería)	14-Apr-16	14-Apr-16
Torre Marenostrum	Barcelona	30-Apr-19	1-Jan-19
Serrano, 73	Madrid	30-Jun-16	1-Jan-17
Santa Hortensia	Madrid	30-Jun-16	1-Jan-17
Arturo Soria, 336	Madrid	27-Sept-17	22-Sept-15
Egeo-Parteon	Madrid	16-Jan-18	1-Jan-15
Castellana, 163	Madrid	29-Dec-16	1-Jan-17
Finca a Constancia	Madrid	29-Dec-16	1-Jan-17
Cedro	Alcobendas	31-Jan-17	3-Oct-14
Almagro, 9	Madrid	2-Dec-16	1-Oct-18
Lagasca	Madrid	2-Dec-16	1-Oct-18
Estébanez Calderón, 3-5	Madrid	25-May-15	1-Jan-17
Parc Glorias	Barcelona	25-May-16	1-Jan-17
Autovia de Toledo	Madrid	20-Dec-17	1-Jan-18
Piso O'Donell	Madrid	20-Dec-17	1-Jan-18
Local Alicante	Alicante	20-Dec-17	1-Jan-18
Mendez Álvaro R-RTC-1	Madrid	20-Dec-17	1-Jan-18
Puerto de Somport, 10-18	Madrid	6-Jul-18	1-Jan-18
Recoletos, 27	Madrid	25-Jul-19	25-Jul-19
Méndez Álvaro Residencial	Madrid	20-Dec-17	1-Jan-18
Sancho de Ávila	Barcelona	31-Oct-19	31-Oct-19

Financial investment	Acquisition date	Maintenance start date
Société Foncière Lyonnaise, S.A.	9-Jun-04	1-Jan-17
Peñalvento, S.L.U.	31-May-18	31-May-18

g) Identification of the asset that counts within the 80 percent referred to in Article 3.1 of this Law.

All the properties in the above list count towards the 80% as well as the indicated ownership interests.

The consolidated balance sheet of the Colonial Group company complies with the minimum 80% investment requirement.

h) Reserves arising from the years in which the special tax regime established in this Law was applicable that were set aside in the tax period, other than for distribution or to offset losses, identifying the year from which these reserves arise.

Not applicable.

18. Income and expense

a) *Revenue -*

Revenue from the Company's ordinary activities is concentrated mainly in Barcelona, Madrid and Paris. The detail of revenue, by business, is as follows:

Activities	Thousands of euros	
	2019	2018
Leasing of buildings (Note 4-c)	153.193	123.976
Service provision	579	1.587
Income from equity investments in group companies (Note 4-n)	100.749	72.859
Total	**254.521**	**198.422**

Geographical markets	Thousands of euros	
	2019	2018
Barcelona	51.158	39.475
Madrid	95.731	81.733
Paris (*)	100.749	62.664
Other (**)	6.883	14.550
Total	**254.521**	**198.422**

(*) The full amount relates to financial income from dividends from SFL (Note 19).
(**) Includes 10,195 thousand euros in 2018 relating to dividends from the various Spanish subsidiaries (Note 19).

Revenue for 2019 and 2018 includes the effect of the rental incentives over the minimum term of the contract (Note 4-n), which increased revenue by 5,293 thousand and 2,653 thousand euros, respectively.

b) *Staff costs -*

The breakdown of “Staff costs” in the profit and loss account is as follows:

	Thousands of euros	
	2019	2018
Wages and salaries	9.927	12.645
Social Security expenses borne by the company	1.362	1.154
Other welfare expenses	3.641	1.846
Contributions to defined benefit pension plans	244	242
Internal reallocation	(1.043)	(740)
Total	**14.131**	**15.147**

At 31 December 2019 and 2018, "Other welfare expenses" includes 2,978 thousand and 1,454 thousand euros, respectively, relating to the amount accrued during the year under the long-term remuneration plan described in Note 20-d.

c) Losses, impairment and change in trade provisions -

The detail of "Losses, impairment and change in trade provisions" in the profit and loss account is as follows:

	Thousands of euros	
	2019	2018
Provisions for insolvencies	297	8
Reversal of provisions for insolvencies	(531)	(191)
Provisions for contingencies and expenses	-	7.422
Reversal of provisions for contingencies and expenses (Note 14)	(7.552)	(11.025)
Provisioning of other trade balances	11	10
Total impairment/amounts used	**(7.775)**	**(3.776)**

d) Impairment of property assets

The changes in the impairment losses on property assets under the various headings in the balance sheet at 31 December 2019 and 2018 are as follows:

	Thousands of euros			
	Property, plant and equipment (Note 6)	Investment property (Note 7)	Non-current assets held for sale	Total
Balance at 31 December 2017	**(4.928)**	**(79.636)**	**-**	**(84.564)**
Provision	-	(20.587)	-	(20.587)
Reversal	1.630	23.010	-	24.640
Disposals	-	2.165	-	2.165
Transfers	-	6.601	(6.601)	-
Balance at 31 December 2018	**(3.298)**	**(68.447)**	**(6.601)**	**(78.346)**
Provision	-	(36.165)	-	(36.165)
Reversal	1.208	15.068	-	16.276
Disposals	-	22.908	7.170	30.078
Transfers	-	569	(569)	-
Balance at 31 December 2019	**(2.090)**	**(66.067)**	**-**	**(68.157)**

The reconciliation with the profit and loss account is as follows:

	Thousands of euros	
	2019	2018
Provisions for property, plant and equipment	(36.165)	(20.587)
Amounts used for property, plant and equipment	16.276	24.640
Total impairment/amounts used	**(19.889)**	**4.053**

e) *Gains/(losses) on disposals and other*

"Impairment and gains/(losses) on disposals of property, plant and equipment - Gains/(losses) on disposals and other" of the profit and loss account breaks down as follows:

	Thousands of euros	
	2019	2018
Gains/(losses) on disposals:		
Investment property (Note 7)	48.175	20.705
Total gains/(losses) on asset disposals	**48.175**	**20.705**
Other (disposal due to replacement):		
Intangible assets (Note 5)	-	(1.260)
Property, plant and equipment (Note 6)	(85)	(520)
Investment property (Note 7)	-	(5.102)
Total other (replacement disposals)	**(85)**	**(6.882)**
Total	**48.090**	**13.823**

The gains/(losses) on the disposal of the Company's assets in 2019 and 2018 were as follows:

	Thousands of euros	
	2019	2018
Selling price (Notes 7 and 11)	294.860	388.930
Net asset value (Notes 7 and 11)	(234.960)	(358.003)
Indirect and other costs	(11.725)	(10.222)
Net result from asset sales	**48.175**	**20.705**

f) Income and financial expenses

The breakdown of the financial result of 2019 and 2018 broken down by type is as follows:

	Thousands of euros	
	2019	2018
Financial income and other	1.448	127
Capitalised financial costs	-	755
Financial income from group companies and associates (Note 19)	453	1.744
Total financial Income	**1.901**	**2.626**
Interest on debts and debentures	(59.028)	(64.913)
Arrangement costs of deferred debts (Note 15-g)	(3.042)	(3.727)
Interest on derivatives	(528)	(1.667)
Expenses associated with repurchase of debentures	-	(7.303)
Expenses associated with loan cancellation	(4.492)	(6.223)
Other financial costs	(281)	(141)
Financial expenses with group companies and associates (Note 19)	-	(422)
Total Financial Expenses	**(67.371)**	**(84.396)**
Change in available-for-sale financial assets	-	15.638
Change in derivative instruments (Note 10)	(1.625)	(4.329)
Change in fair value of derivative instruments	**(1.625)**	**11.309**
Impairment of equity investment in Utopicus Innovación Cultural, S.L. (Note 9)	(7.133)	(3.057)
Impairment of equity investment in Colonial Tramit, S.L.U. (Note 9)	(3)	(2)
Impairment of equity investment in Colonial Invest, S.L.U. (Note 9)	-	(2)
Impairment of equity investment in Axiare Investments, S.L. (Note 9)	-	(3.197)
Impairment of equity investment in Axiare Properties, S.L. (Note 9)	-	(2)
Impairment of equity investment in Axiare I+D+I, S.L.U. (Note 9)	-	(149)
Use of provisions for contingencies and expenses	-	10.127
Impairment of loans with DUE	-	(10.270)
Impairment and gains/(losses) on disposal of financial instruments	**(7.136)**	**(6.552)**
Total financial result	**(74.231)**	**(77.013)**

"Expenses associated with loan cancellation" includes the impact of 580 thousand euros for loans from the business combination (see Note 23) that were cancelled during the year.

19. Transactions and balances with related parties

a) *Related-party transactions -*

The following table details the transactions concluded with related parties in 2019 and 2018:

2019

	Thousands of euros			
	Services provided	Dividends received	Operating expenses	Interest income
Colonial Tramit, S.L.U.	2	-	-	-
Inmocol Torre Europa, S.A.	222	-	-	-
Peñalvento, S.L.U.	65	-	-	453
Utopicus Innovación Cultural, S.L.	2.281	-	(5)	-
Société Foncière Lyonnaise, S.A.	-	100.749	-	-
Total	**2.570**	**100.749**	**(5)**	**453**

2018

	Thousands of euros			
	Services provided	Dividends received	Interest income	Interest expense
Torre Marenostrum, S.L.	181	756	-	-
Colonial Tramit, S.L.U.	2	-	-	-
Colonial Invest, S.L.U.	2	-	-	-
Danieltown Spain, S.L.U.	72	-	367	-
Moorage Inversiones 2014, S.L.U.	62	9	319	-
Hofinac Real Estate, S.L.U.	151	4.406	-	(422)
Fincas y Representaciones, S.A.U.	101	919	-	-
Inmocol Torre Europa, S.A.	219	-	-	-
Colonial Arturo Soria, S.L.U.	67	425	-	-
LE Offices EGEO, S.A.U.	213	41	-	-
Almacenes Generales Internacionales, S.A.U.	61	-	-	-
Soller, S.A.U.	61	428	-	-
Peñalvento, S.L.U.	62	3.211	602	-
Axiare Investments, S.L.U.	30	-	-	-
Venusaur, S.L.U.	37	-	313	-
Chameleon (Cedro), S.L.U.	30	-	143	-
Utopicus Innovación Cultural, S.L.	63	-	-	-
Société Foncière Lyonnaise, S.A.	-	62.664	-	-
Total	**1.414**	**72.859**	**1.744**	**(422)**

b) Balances with related parties -

The amount of balances with related parties in the balance sheet at 31 December 2019 and 2018 is as follows:

2019

	Thousands of euros					
	Current accounts receivable	Non-current loans granted	Current loans granted	Deposits received	Non-current payables with Group companies	Current accounts payable
Colonial Tramit, S.L.U.	3	-	-	-	-	-
Inmocol Torre Europa, S.A.	-	-	-	-	(7.500)	-
Peñalvento, S.L.U.	2.741	21.766	30	-	-	(3)
Utopicus Innovación Cultural, S.L.	-	-	7	(1.045)	-	(99)
Total	**2.744**	**21.766**	**37**	**(1.045)**	**(7.500)**	**(102)**

2018

	Thousands of euros				
	Current accounts receivable	Non-current loans granted	Current loans granted	Non-current payables with Group companies	Current payables with Group companies
Torre Marenostrum, S.L.	17	-	30	-	-
Danieltown Spain, S.L.U.	624	13.524	43	-	-
Moorage Inversiones 2014, S.L.U.	17.742	13.424	-	-	(10)
Hofinac Real Estate, S.L.U.	31	-	82	(17.017)	-
Fincas y Representaciones, S.A.U.	2.706	-	-	-	(99)
Inmocol Torre Europa, S.A.	22	-	-	(7.500)	-
Colonial Arturo Soria, S.L.U.	6	12.159	11	-	-
LE Offices Egeo, S.A.U.	6	28.182	-	-	(1.499)
Almacenes Generales Internacionales, S.A.U.	6	-	-	(17.029)	(1.995)
Soller, S.A.U.	637	-	-	(3.296)	(2)
Peñalvento, S.L.U.	1.366	21.313	-	-	(1)
Axiare Investments, S.L.	6	24.500	-	-	-
Axiare Properties, S.L.	-	-	1	-	-
Axiare I+D+i, S.L.U.	-	500	500	-	-
Venasur, S.L.U.	6	14.152	-	-	-
Chameleon (Cedro), S.L.U.	6	25.062	3.523	-	(3.047)
Utopicus Innovación Cultural, S.L.	22	3.200	-	-	-
Total	**23.203**	**156.016**	**4.190**	**(44.842)**	**(6.653)**

20. Remuneration and other benefits to the Board of Directors and members of senior management

a) Composition of the Board of Directors of the Company

At 31 December 2019, the Board of Directors of the Company consists of 10 males and 3 females, while at December 31 2018, it was made up of 10 males and 1 female.

At 31 December 2019, the composition of the Board is as follows:

Director	Position	Director Type
Mr Juan José Brugera Clavero	Chairman	Executive
Mr Pedro Viñolas Serra	Vice-chairman	Executive
Mr Sheikh Ali Jassim M. J. Al-Thani	Director	Independent
Mr Adnane Mousannif	Director	Proprietary
Mr Carlos Fernández González	Director	Proprietary
Mr Javier López Casado	Director	Proprietary
Mr Juan Carlos García Cañizares	Director	Proprietary
Mr Carlos Fernández-Lerga Garralda	Director	Lead Independent
Ms. Silvia Mónica Alonso-Castrillo Allain	Director	Independent
Mr Javier Iglesias de Ussel Ordís	Director	Independent
Mr Luis Maluquer Trepat	Director	Independent
Ms. Ana Lucrecia Bolado Valle	Director	Independent
Ms. Ana Cristina Peralta Moreno	Director	Independent

On 14 May 2019, the Annual General Meeting appointed new independent directors Ms. Ana Lucrecia Bolado Valle and Ms. Ana Cristina Peralta Moreno.

On 24 January 2019, Ms. Ana Sainz de Vicuña left. On the same date, new Independent Director Ms. Silvia Mónica Alonso-Castrillo Allain was appointed.

On 24 May 2018, the Annual General Meeting appointed Mr Javier López Casado as a new proprietary director.

Pursuant to Article 229 of the Spanish Limited Liability Companies Law, the directors have reported that neither they nor any parties related thereto have any direct or indirect conflict with the interests of the Company at year-end 2019.

b) *Remuneration of the Board of Directors*

The remuneration accrued during 2019 and 2018 by the members of the Board of Directors of the Company classified by item have been the following:

	Thousands of euros	
	2019	2018
Remuneration accrued by executive directors (*):	**2.520**	**3.347**
Allowances:	**619**	**561**
Fixed remuneration:	**864**	**780**
Director remuneration.	580	505
Additional compensation of members of the audit and control committee	123	125
Additional compensation of members of the appointments and remuneration committee	161	0150
Total	**4.003**	**4.688**
Amount of compensation earned by executive directors (*):	**2.520**	**3.347**

(*) It does not include the amount corresponding to the accrued expense associated with the long-term incentive plan described below.

At year-end 2019 and 2018, the Company has taken out civil liability insurance that covers all the directors, members of senior management and employees of the Company in the amount of 270 and 369 thousand euros, respectively. The aforementioned amount includes, for both years, the civil liability insurance premium paid for damages caused by acts or omissions.

The shareholders at the Annual General Meeting held on 28 June 2016 approved the granting of a defined contribution scheme for executive directors covering retirement and, when applicable, disability and death, with total annual contributions of 182 thousand euros and 180 thousand euros in 2019 and 2018, respectively.

In addition to that stated in the previous paragraph, the Company has not been awarded loans or taken out other pension plans or life insurance for the previous and current members of the Board of Directors of the Company.

At 31 December 2019 and 2018, two members of the Board of Directors have signed guarantee or shield clauses for certain cases of dismissal or change of control, which have all been approved at the Annual General Meeting.

In addition, during 2019 and 2018, there have been no terminations, modifications or early terminations of contracts outside ordinary business activities between the Company and the members of the Board of Directors or any person acting on their behalf.

c) *Compensation to senior management*

The Company's senior management is made up of senior executives and other persons who, reporting to the CEO, are responsible for management of the Company, in accordance with the definition given in the code of good governance of listed companies. At 31 December 2019 and 2018, senior management of the Company consists of two males and two females.

The monetary remuneration received by senior management during 2019 amounts to 1,177 thousand euros. Additionally, they received 1,657 thousand euros corresponding to the long-term incentive plan (1,411 and 1,436 thousand euros, respectively, during 2018).

The Board of Directors held on 27 July 2016 approved awarding a member of senior management a defined contribution scheme that covers retirement contingencies and, where appropriate, disability and death. At 31 December 2019 and 2018, the Company recognised an annual contribution of 62 thousand and 62 thousand euros under "Staff costs" in the profit and loss accounts for both years.

At 31 December 2019 and 2018, a member of senior management had signed a guarantee or shield clause for certain cases of dismissal or change of control.

d) Long-term compensation plan linked to compliance with various management indicators

On 21 January 2014, the Annual General Meeting of the parent company established, for the Chairman and CEO of the Inmobiliaria Colonial, SOCIMI, S.A., as well as for the members of the Company's steering committee, a long-term compensation plan to be applicable from 2014 to 2018.

Between 1 and 15 April of each of the following tax years, the Board of Directors, at the proposal of the appointments and remuneration committee, will determine the number of shares that, depending on how the previous year indicators had been fulfilled, it has corresponding to each of the beneficiaries of the plan. The corresponding shares will be delivered to the beneficiaries between 15 and 30 April each year.

Shares received in execution of this plan may not be disposed of or transmitted by the beneficiaries thereof until three years have elapsed from the date of delivery, except those required to pay the taxes derived from their accrual.

The delivery of the resulting shares will include a final adjustment so that the equivalent of the monetary value of the delivered share is in no case higher than 150% of the average price of the Colonial share in November 2013.

The plan includes the usual clauses to adapt the number of shares to be received by the beneficiaries in cases of dilution.

During 2019 and 2018, under the "Staff costs" heading of the profit and loss account, 2,978 and 1,454 thousand euros (Note 18-b), respectively, has been recorded to cover said incentive plan.

On 30 April 2019, the Company settled the outstanding obligations corresponding to the fulfilment of the plan, once the Board of Directors determined the number of shares to be delivered to the plan beneficiaries according to the degree of compliance with the indicators for 2018, which stood at 493,894 shares (Note 13-d). On 30 April 2019, the shares were delivered to their beneficiaries. Of these, 219,767 shares were delivered to the members of the Board of Directors and 172,675 to members of senior management, at a market value at the time of delivery of 2,109 and 1,657 thousand euros, respectively.

On 25 April 2018, the Company settled the outstanding obligations corresponding to the fulfilment of the plan, once the Board of Directors determined the number of shares to be delivered to the plan beneficiaries according to the degree of compliance with the indicators for 2017, which stood at 421,813 shares (Note 13-d). On 26 May 2018, the shares were delivered to their beneficiaries. Of these, 195,100 shares were delivered to the members of the Board of Directors and 153,124 to members of senior management, at a market value at the time of delivery of 1,828 and 1,436 thousand euros, respectively.

e) Extension of the duration of the long-term compensation plan linked to compliance with various management indicators

On 29 June 2017, the Annual General Meeting approved extending the duration of the application of the share delivery plan approved by the annual general meeting dated 21 January 2014 for a period of two additional years under the same terms and conditions.

21. Other information

a) Staff

The Company headcount at 31 December 2019 and 2018, and the average headcount in 2019 and 2018, by job category and gender, is as follows:

	Headcount at 31 December				Average headcount			
	2019		2018		2019		2018	
Professional category	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	5	4	5	4	5	4	5	4
Qualified technicians and middle managers	14	6	14	7	15	6	13	8
Office clerks	25	48	22	43	20	48	18	38
Total	**44**	**58**	**41**	**54**	**40**	**58**	**36**	**50**

At 31 December 2019 and 2018, the Company employed one woman with a disability of 33% or more.

b) Audit fees

The fees accrued for account auditing services for the Company's financial years provided by the main auditor (PricewaterhouseCoopers Auditores, S.L.) have amounted to the following:

	Thousands of euros	
Description	2019	2018
Audit services	320	414
Other verification services	141	151
Total audit and related services	**461**	**565**
Other services	20	-
Total professional services	**20**	**-**

The fees for other verification services include 141 thousand euros corresponding to services provided to the Company for limited revisions, issuance of comfort letters and reports of agreed procedures on ratios linked to financing contracts and a report of agreed procedures on the net asset value (149 thousand euros in 2018). Additionally, the Company's auditor has performed services to subsidiaries on agreed procedures on ratios linked to financing contracts amounting to 2 thousand euros.

c) Capital management: Policy and objectives

As mentioned in Note 1, the Company is the parent company of Colonial Group.

Companies that operate in the real estate sector require a significant level of investment to guarantee the development of their projects and the growth of their business through the acquisition of real estate in equity and/or land.

The Company's financial structure requires its sources of financing to be diversified in entities as well as products and maturity, with the objective of ensuring its companies continue to be profitable businesses and being able to maximise shareholder return.

On 5 October 2016, the Company registered an EMTN (European Medium Term Note) programme on the Irish Stock Exchange amounting to 3,000,000 thousand euros, extendable to 5,000,000 thousand euros, with a validity of 12 months. On 27 November 2018, the CNMV approved the registration of the Company's fixed income base prospectus in the official registers.

On 23 December 2018, the Company arranged the issue of a *Euro Commercial Paper* programme to issue promissory notes up to a maximum of 300,000 thousand euros, extendable to 500,000 thousand euros, with a term of 12 months. At 31 December 2019, the Company had issued promissory notes amounting to 239,500 thousand euros.

The various bond issues launched in recent years have enabled the Company to finance its corporate transactions and real estate asset acquisitions carried out during these years, to reduce the finance costs of its borrowings, and to extend and diversify the maturity dates thereof. The Company’s financing is granted entirely over the long term and structured in such a manner that it allows the performance of the underlying business plan.

Financial risk management policy -

The Company efficiently manages financial risks with the objective of having an adequate financial structure that allows high levels of liquidity to be maintained as well as minimising financing costs, reducing volatility due to capital changes and ensuring compliance with its business plans.

- Interest-rate risk: The risk management policy has the objective of limiting and controlling the impact of variations in interest rates on the result and cash flows, maintaining the level of indebtedness and the overall cost of debt in line with the Company's credit rating.

  To achieve this objective, interest rate hedging instruments are contracted, if necessary, to cover possible financial cost fluctuations. The Company's policy is to contract instruments that comply with the provisions of the accounting regulations to be considered as efficient accounting coverage, and thus record its market value variations directly in the Company's profit and loss account. At 31 December 2019, the percentage of total debt covered or at a fixed rate over total debt, stands at 87% in Spain and 90% in France (90% and 93%, respectively, at 31 December 2018).

- Liquidity risk: In order to manage liquidity risk and meet the diverse needs for funds, based on the annual treasury budget, the Company monitors the treasury forecasts monthly.

  The Company considers the following mitigating factors for liquidity risk management: (i) the generation of recurring cash in the businesses on which the Company bases its activity; (ii) the ability to renegotiate and obtain new financing facilities based on long-term business plans and (iii) the quality of the Company's assets.

  Occasionally there may be excess cash making it possible to have undrawn credit facilities or highly-liquid deposits with no risk. At 31 December 2019, the Company has sufficient financing facilities to meet its short-term maturities. The Company does not arrange high-risk financial products as a method of investing cash surpluses.

- Counterparty risks: the Company mitigates this risk by using top-tier financial institutions.

- Credit risk: The Company periodically analyses the exposure of its accounts receivable to the risk of default, carrying out a follow-up of the credit settlement and, where appropriate, of the record of credit impairments for which it is estimated that there is a risk of default.

The Company holds a majority interest in the share capital of several companies (Note 9-a). The accompanying financial statements refer to the Company individually and, accordingly, do not reflect the changes that would occur in the various assets components if the aforementioned subsidiaries were consolidated. The Company prepares consolidated financial statements based on International Financial Reporting Standards (IFRS). According to the consolidated financial statements prepared, the equity attributable to the Company's shareholders at 31 December 2019 amounted to 5,558,598 thousand euros, the consolidated profit attributable to them amounted to 826,799 thousand euros and the assets and revenue amounted to 12,501,511 thousand and 354,514 thousand euros, respectively.

22. Average period of payment to suppliers

The information required by the second final provision of Law 31/2014, of 3 December, amending the Spanish Limited Liability Companies Law for the improvement of corporate governance, and modifying the third additional provision of Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, establishing measures to combat late payments in trade operations, all in accordance with the provisions of the resolution of 29 January 2016 of the Institute of Accounting and Audit of Accounts (ICAC) on the information to be incorporated in the notes to the financial statements in relation to the average period of payment to suppliers in trade operations.

	2019	2018
	Days	Days
Average period of payment to suppliers	23	29
Ratio of transactions paid	22	28
Ratio of outstanding transactions	41	50
	Amount (Thousands of euros)	Amount (Thousands of euros)
Total payments made	189.386	159.620
Total outstanding payments	6.579	6.202

The data included in the previous table on payments to suppliers refer to those that by their nature are accounts payable for debts with suppliers of goods and services, so that data related to "Trade payables" and "Other accounts payable" are included from the accompanying balance sheet.

On 26 July 2013, Law 11/2013 on measures to support entrepreneurs, stimulate growth and job creation, which modifies the Late Payment Law (Law 3/2004, of 29 December) entered into force. This modification establishes that the maximum period of payment to suppliers, from 29 July 2013, is 30 days, unless there is a contract between the parties that raises this to a maximum of 60 days.

In relation to payments made outside the maximum legal term set, these correspond mainly to payments related to contracting works and real estate renovation, which are paid within the term established in the corresponding contracts signed with the contractors.

23. Business combinations

a) Axiare Patrimonio SOCIMI, S.A. carried out in 2018

On 28 December 2017, the Spanish National Securities Market Commission authorised the friendly takeover bid to acquire shares of Axiare Patrimonio SOCIMI, S.A. submitted by the Company on 24 November 2017, as it considered that its terms were in line with applicable laws and that the contents of the explanatory prospectus were sufficient.

The offer was made for 100% of the share capital of Axiare Patrimonio SOCIMI, S.A. consisting of 79,062,486 shares, admitted for trading on the Barcelona, Bilbao, Madrid and Valencia Stock Exchanges and included in the Spanish Stock Market Interconnection System, not including 22,762,064 shares, representing 28.79% of the share capital, which were blocked by the offeror. Consequently, the offer was effectively extended to the acquisition of 56,300,422 shares of Axiare Patrimonio SOCIMI, S.A., which represent 71.21% of the share capital.

The price offered was 18.36 euros per share; this amount arises through deducting the amount of the dividend paid by Axiare after the takeover bid was announced, of 0.14 euros per share, from the price initially offered of 18.50 euros per share.

On 28 December 2017, the first of the announcements referred to in Article 22 of Royal Decree 1066/2007, of 27 July, for the takeover bid of Axiare Patrimonio SOCIMI, S.A. by Inmobiliaria Colonial, SOCIMI, S.A., was made. Consequently, in accordance with the terms set forth in the prospectus of the aforesaid offer, the acceptance period lasted from 29 December 2017 to 29 January 2018, both inclusive.

On 2 February 2018, the Spanish National Securities Market Commission published the result of the takeover bid, which was accepted for 45,912,569 shares, representing 81.55% of the shares targeted by the takeover bid and 58.07% of the share capital of Axiare Patrimonio SOCIMI, S.A. As a result, taking into account the shares already previously held by the Company, the latter now holds 68,674,633 shares, representing 86.86% of the share capital of Axiare Patrimonio SOCIMI, S.A.

On 24 May 2018 the Annual General Meeting of the Company and, on 25 May 2018, the Annual General Meeting of Axiare Patrimonio SOCIMI, S.A. approved the merger by absorption of Axiare by the Company and the dissolution without liquidation and transfer en bloc of all its assets to the Company with effect from 2 February 2018 for accounting purposes.

On 4 July 2018 the merger deed granted on 2 July 2018 by Inmobiliaria Colonial, SOCIMI, S.A. (absorbing company) and Axiare Patrimonio SOCIMI, S.A. (absorbed company) was registered at the Madrid Mercantile Registry . In this respect, to cover the exchange of the merger, the Company issued 19,273,622 new ordinary shares with a par value of 2.50 euros each of the same class and series as those currently in circulation, representing 4.43% of the share capital of Colonial prior to the merger, to be delivered to Axiare’s shareholders in accordance with the exchange rules and procedures established for this purpose. The total amount of the increase amounted to 157,909 thousand euros, of which 48,184 thousand euros are related to share capital and 109,725 thousand euros to share premium (Note 13). The new shares were admitted to trading on 9 July 2018.

The following is a summary of the assets and liabilities of Axiare Patrimonio SOCIMI, S.A. included in the merger, as shown in its balance sheet at 2 February 2018:

ASSETS	2 February 2018
Non-current assets:	
Intangible assets	1.298
Material immovable assets	656
Investment property	1.085.203
Non-current investments in group companies and associates	127.016
Non-current financial investments	21.326
Total non-current assets	**1.235.499**
Current assets:	
Trade and other receivables	13.983
Current investments in group companies and associates	3.586
Current financial investments	207
Current accruals	4.167
Cash and cash equivalents	149.941
Total current assets	**171.884**
TOTAL ASSETS	**1.407.383**

EQUITY AND LIABILITIES	2 February 2018
Equity:	
Shareholders' equity-	**754.747**
Value change adjustments-	**(4.562)**
Total equity	**750.185**
Non-current liabilities:	
Non-current payables	569.597
Total non-current liabilities	**569.597**
Current liabilities:	
Current payables	14.439
Trade and other payables	72.011
Current accruals	1.151
Total current liabilities	**87.601**
TOTAL EQUITY AND LIABILITIES	**1.407.383**

At 31 December 2107, Axiare Patrimonio SOCIMI, S.A.'s revenue and profit from operations amounted to 61,776 thousand and 17,615 thousand euros, respectively.

As a result of the merger between the Company and the absorbed company, and in accordance with the rules for the preparation of consolidated financial statements, the positive difference of the merger resulting from the difference between the acquisition cost of the absorbed company and its equity has been allocated to the various asset and liability headings as follows:

	Thousands of euros
Carrying amount of the equity investment prior to the merger:	1.207.645
Capital increase as a result of the merger:	157.909
Equity of absorbed company	(750.185)
Positive merger difference	**615.369**
DIfference allocated to:	
Material immovable assets	(79)
Investment property	408.496
Non-current investments in group companies and associates	21.235
Current financial investments	9.966
Current payables - Other current financial liabilities	(651)
Trade and other payables	(127)
Goodwill (Note 5)	**176.529**

The fair value of the net assets in the property portfolio of Axiare Patrimonio SOCIMI, S.A. and subsidiaries was estimated using valuations made by independent experts of the property assets acquired as of 31 December 2017.

b) Merger carried out on 14 March 2019

On 17 April 2019 the merger deed granted on 14 March 2019 by between Inmobiliaria Colonial, SOCIMI, S.A. (absorbing company) and Axiare Properties, S.L.U., Axiare Investigación, Desarrollo e Innovación S.L.U., Chamaleon (CEDRO) S.L.U., Venusaur, S.L.U., Colonial Invest, S.L.U., Hofinac Real Estate, S.L.U., Fincas y Representaciones, S.A.U., Colonial Arturo Soria, S.L.U. and LE Offices Egeo, S.A.U. (absorbed companies) was registered in the Madrid Mercantile Registry. A summary of the assets and liabilities of included in the merger, as shown in the balance sheet at 1 January 2019, is shown in Appendix II.

At 31 December 2018, the absorbed companies' revenue and profit from operations amounted to 23,641 thousand and 8,321 thousand euros, respectively.

As a result of the merger between the Company and the absorbed companies, and in accordance with the rules for the preparation of consolidated financial statements, the positive difference of the merger resulting from the difference between the acquisition cost of the absorbed company and its equity has been allocated to the various asset and liability headings as follows:

	Thousands of euros
Carrying amount of the equity investment prior to the merger:	407.588
Equity of absorbed companies	(290.948)
Positive merger difference	**116.640**
Difference allocated to:	
Merger reserves	2.959
Deferred tax liabilities	18.224
Recognised gains	**137.823**

c) *Merger carried out on 3 July 2019*

On 9 August 2019 the merger deed granted on 3 July 2019 by Inmobiliaria Colonial, SOCIMI, S.A. (absorbing company) and Danieltown Spain, S.L.U., Moorage Inversiones 2014, S.L.U., Almacenes Generales Internacionales, S.A.U., Soller, S.L.U. y Axiare Investments, S.L.U. (absorbed companies) was registered in the Madrid Mercantile Registry. A summary of the assets and liabilities of included in the merger, as shown in the balance sheet of the absorbed companies at 1 January 2019, is shown in Appendix II.

At 31 December 2018, the absorbed companies' revenue and profit from operations amounted to 16,089 thousand and 9,448 thousand euros, respectively.

As a result of the merger between the Company and the absorbed companies, and in accordance with the rules for the preparation of consolidated financial statements, the positive difference of the merger resulting from the difference between the acquisition cost of the absorbed company and its equity has been allocated to the various asset and liability headings as follows:

	Thousands of euros
Carrying amount of the equity investment prior to the merger:	274.583
Equity of absorbed companies	(99.569)
Positive merger difference	**175.014**
Difference allocated to:	
Merger reserves	(3.232)
Deferred tax liabilities	35.100
Recognised gains	**206.882**

d) *Merger carried out on 3 September 2019*

On 23 September 2019 the merger deed granted on 3 September 2019 by Inmobiliaria Colonial, SOCIMI, S.A. (absorbing company) and Torre Marenostrum, S.L.U. (absorbed company) was registered in the Madrid Mercantile Registry. The following is a summary of the assets and liabilities of included in the merger, as shown in the balance sheet at 1 January 2019:

ASSETS	1 January 2019
Non-current assets:	
Investment property	47.777
Non-current financial investments	850
Deferred tax assets	588
Total non-current assets	**49.215**
Current assets:	
Trade and other receivables	21
Cash and cash equivalents	626
Total current assets	**647**
TOTAL ASSETS	**49.862**

EQUITY AND LIABILITIES	1 January 2019
Equity:	
Shareholders' equity-	16.676
Value change adjustments-	(987)
Total equity	**15.689**
Non-current liabilities:	
Non-current payables	31.349
Total non-current liabilities	**31.349**
Current liabilities:	
Payables with group companies	2.303
Trade and other payables	521
Total current liabilities	**2.824**
TOTAL EQUITY AND LIABILITIES	**49.862**

At 31 December 2018, the absorbed company's revenue and profit from operations amounted to 5,300 thousand and 1,868 thousand euros, respectively.

As a result of the merger between the Company and the absorbed companies, and in accordance with the rules for the preparation of consolidated financial statements, the positive difference of the merger resulting from the difference between the acquisition cost of the absorbed company and its equity has been allocated to the various asset and liability headings as follows:

	Thousands of euros
Carrying amount of the equity investment prior to the merger:	53.315
Equity of absorbed company	(16.676)
Positive merger difference	**36.639**
DIfference allocated to:	
Merger reserves	(27.166)
Deferred tax liabilities	2.186
Recognised gains	**11.659**

The fair value of the net assets in the property portfolio of the absorbed companies was estimated using valuations made by independent experts of the property assets acquired as of 31 December 2018.

24. Events after the reporting date

No significant events occurred subsequent to the reporting date of 2019.

ANNEX I

INVESTMENTS IN GROUP COMPANIES

		Thousands of euros					Thousands of euros
2019	Address.	Capital	Reserves, share premium and interim dividend	Result	Dividend (Note 19)	% shareholding	Cost (Note 9)
Colonial Tramit, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	3	10	(3)	-	100,00%	23
Inmocol Torre Europa, S.A. (*)	Avda. Diagonal 532, Barcelona (Spain)	12.500	1.849	(90)	-	50,00%	12.080
Peñalvento, S.L.U.	Pº de la Castellana 52, Madrid (Spain)	2.400	438	(332)	-	100,00%	20.755
Utopicus Innovación Cultural, S.L.	c/ Principe vergara 112, Madrid (Spain)	41	21.995	(6.019)	-	96,81%	28.633
Société Foncière Lyonnaise, S.A. (**)	42, rue Washington, Paris (France)	93.058	3.802.389	589.758	100.749	81,71%	2.260.013

* Company audited by PricewaterhouseCoopers

** Company co-audited by PricewaterhouseCoopers and Deloitte & Associés

INVESTMENTS IN GROUP COMPANIES

2018	Address	Thousands of euros: Capital	Reserves, share premium and interim dividend	Result	Value change adjustments	Dividend (Note 19)	% shareholding	Thousands of euros: Cost (Note 9)
Torre Marenostrum, S.L. (*)	Avda. Diagonal 532, Barcelona (Spain)	5.334	9.474	1.868	(987)	756	55%	24.790
Colonial Tramit, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	3	12	(2)	-	-	100%	23
Colonial Invest, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	3	3	(2)	-	-	100%	13
Danieltown Spain, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	541	22.504	(678)	-	-	100%	30.038
Moorage Inversiones 2014, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	63	21.708	(79)	-	9	100%	49.355
Hofinac Real Estate, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	24.943	139.278	5.626	-	4.406	100%	202.000
Fincas y Representaciones, S.A.U.	Avda. Diagonal 532, Barcelona (Spain)	926	1.808	176	-	919	100%	46.681
Inmocol Torre Europa, S.A. (*)	Avda. Diagonal 532, Barcelona (Spain)	12.500	(61)	(90)	-	-	50%	10.080
Colonial Arturo Soria, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	3	12.026	1.482	-	425	100%	20.624
LE Offices Egeo, S.A.U.	Avda. Diagonal 532, Barcelona (Spain)	60	36.030	2.167	-	41	100%	51.222
Almacenes Generales Internac., S.A.U.	Pº de la Castellana 52, Madrid (Spain)	2.083	31.845	7.062	-	-	100%	101.304
Soller, S.A.U.	Pº de la Castellana 52, Madrid (Spain)	2.524	8.093	(30)	-	428	100%	79.016
Peñalvento, S.L.U.	Pº de la Castellana 52, Madrid (Spain)	2.400	615	(177)	-	3.211	100%	20.755
Axiare Investments, S.L.U.	Pº de la Castellana 52, Madrid (Spain)	1.503	2.507	(78)	-	-	100%	18.067
Axiare Properties, S.L.U.	Pº de la Castellana 52, Madrid (Spain)	3	(1)	(4)	-	-	100%	2
Axiare I+D+I, S.L.U.	Pº de la Castellana 52, Madrid (Spain)	3	146	(835)	-	-	100%	149
Venusaur, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	3	62.658	(1.767)	(899)	-	100%	63.001
Chameleon (Cedro), S.L.U.	C/ Rosario Pino, 14-16, Madrid (Spain)	453	4.277	1.479	-	-	100%	24.056
Utopicus Innovación Cultural, S.L.	C/ Duque de Rivas 5, Madrid (Spain)	8	4.876	(2.869)	-	-	83,47%	7.634
Société Foncière Lyonnaise, S.A. (**)	42, rue Washington, Paris (France)	93.058	3.565.161	351.636	-	62.664	81,71%	2.260.013

* Company audited by PricewaterhouseCoopers

** Company co-audited by PricewaterhouseCoopers and Deloitte & Associés

APPENDIX II - BALANCE SHEETS AT 1 JANUARY 2019 OF COMPANIES MERGED ON 14 MARCH 2019

Thousands of euros	Balance at 1 January 2019									
ASSETS	Colonial Invest	Hofinac	Finresa	Arturo Soria	Egeo	Axiare Properties	Axiare I+D+i	Venusaur	Chamaleon	**Total**
Intangible assets	-	-	132	-	-	-	-	-	-	**132**
Material immovable assets	-	-	5	-	-	-	-	-	-	**5**
Investment property	-	148.812	5.902	25.139	63.982	-	-	145.351	32.258	**421.444**
Non-current investments in group companies	-	17.017	-	-	-	-	-	-	-	**17.017**
Non-current financial investments	-	1.921	193	277	505	-	-	767	386	**4.049**
Total non-current assets	**-**	**167.750**	**6.232**	**25.416**	**64.487**	**-**	**-**	**146.118**	**32.644**	**442.647**
Trade and other receivables	-	4.621	(51)	79	2.825	-	76	502	3.102	**11.154**
Current investments in group companies	-	-	100	-	-	-	-	-	-	**100**
Cash and cash equivalents	6	-	94	789	104	1	239	4.140	25	**5.398**
Total current assets	6	4.621	143	868	2.929	1	315	4.642	3.127	**16.652**
TOTAL ASSETS	**6**	**172.371**	**6.375**	**26.284**	**67.416**	**1**	**315**	**150.760**	**35.771**	**459.299**

Thousands of euros	Balance at 1 January 2019									
EQUITY AND LIABILITIES	Colonial Invest	Hofinac	Finresa	Arturo Soria	Egeo	Axiare Properties	Axiare I+D+i	Venusaur	Chamaleon	**Total**
Equity:										
Shareholders' equity-	4	169.849	2.911	13.511	38.257	(2)	(686)	60.895	6.209	290.948
Value change adjustments-	-	-	-	-	-	-	-	(899)	-	(899)
Total equity	**4**	**169.849**	**2.911**	**13.511**	**38.257**	**(2)**	**(686)**	**59.996**	**6.209**	**290.049**
Non-current liabilities:										
Non-current payables	-	1.914	157	318	591	-	-	76.528	390	79.898
Payables with group companies	-	-	-	12.159	28.182	-	500	14.152	25.321	80.314
Total non-current liabilities	**-**	**1.914**	**157**	**12.477**	**28.773**	**-**	**500**	**90.680**	**25.711**	**160.212**
Current payables	-	-	-	-	-	-	-	(210)	-	(210)
Payables with group companies	-	101	2.697	11	-	2	500	-	3.523	6.834
Trade and other payables	2	507	610	285	386	1	1	294	328	2.414
Current accruals	-	-	-	-	-	-	-	-	-	-
Total current liabilities	**2**	**608**	**3.307**	**296**	**386**	**3**	**501**	**84**	**3.851**	**9.038**
TOTAL EQUITY AND LIABILITIES	**6**	**172.371**	**6.375**	**26.284**	**67.416**	**1**	**315**	**150.760**	**35.771**	**459.299**

APPENDIX III - BALANCE SHEETS AT 1 JANUARY 2019 OF COMPANIES MERGED ON 3 JULY 2019

Thousands of euros	Balance at 1 January 2019					
ASSETS	Danieltown	Moorage	Agisa	Soller	Investments	Total
Investment property	37.351	54.833	19.217	5.514	27.518	**144.433**
Non-current investments in group companies	-	-	17.029	3.296	-	**20.325**
Non-current financial investments	371	929	2.509	2.445	9	**6.263**
Total non-current assets	**37.722**	**55.762**	**38.755**	**11.255**	**27.527**	**171.021**
Trade and other receivables	524	430	2.053	139	341	**3.487**
Current investments in group companies	-	10	1	2	1	**14**
Cash and cash equivalents	-	50	192	-	582	**824**
Total current assets	**524**	**490**	**2.246**	**141**	**924**	**4.325**
TOTAL ASSETS	**38.246**	**56.252**	**41.001**	**11.396**	**28.451**	**175.346**

Thousands of euros	Balance at 1 January 2019					
EQUITY AND LIABILITIES	Danieltown	Moorage	Agisa	Soller	Investments	Total
Equity:						
Shareholders' equity-	22.367	21.692	40.990	10.587	3.933	**99.569**
Total equity	**22.367**	**21.692**	**40.990**	**10.587**	**3.933**	**99.569**
Non-current liabilities:						
Non-current payables	1.085	1.771	3	-	-	**2.859**
Payables with group companies	13.523	13.424	-	-	24.500	**51.447**
Total non-current liabilities	**14.608**	**15.195**	**3**	**-**	**24.500**	**54.306**
Payables with group companies	660	17.736	-	631	-	**19.027**
Trade and other payables	611	1.629	8	178	18	**2.444**
Total current liabilities	**1.271**	**19.365**	**8**	**809**	**18**	**21.471**
TOTAL EQUITY AND LIABILITIES	**38.246**	**56.252**	**41.001**	**11.396**	**28.451**	**175.346**

Inmobiliaria Colonial, S.A.

Management report
for the year ended
31 December 2019

1. Company situation

State of the rental market - Spain

Barcelona

The office market in Barcelona closed 2019 with a record cumulative take-up in the historical series of 410,000 sqm, +12% higher than the figure in 2018. The vacancy rate continued on a downward trend to stand at 5% for the entire market, at its lowest in the last decade. In the CBD, the vacancy rate continued to reduce to 1.7%. A lack of future supply together with the strong demand is driving up prime rents to €27.5/sqm/month, which represents an annual increase of +9%. Long-term forecasts continue with growth perspectives, based on the fact that currently 35% of the demand is for new occupancy and 30% of the future supply is already taken up.

Madrid

During 2019, more than 600,000 sqm were signed in the office market in Madrid. This figure is above the average over the last five years. This high demand positioned the vacancy rate at 8.5%, a 17% decrease compared to the previous year. In turn, the CBD in Madrid had the highest demand, with 35% of the total, resulting in a low vacancy rate of 6.5% in the CBD. A lack of quality product in the City Center continued to put upward pressure on rental prices, resulting in prime rents continuing to rise to a value of €36.50/sqm/month. Likewise, it is worth mentioning that Madrid remains a robust market with a stable net absorption, enabling it to be one of the cities with the greatest rent growth in Europe.

Paris

In the office market in Paris, take-up in 2019 reached a total of 2,317,000 sqm, a figure higher than the average over the last 10 years. Likewise, it is worth mentioning that 50% of the take up was in spaces in Paris City Centre. Vacancy in the entire market reached an all-time low over the last 10 years to stand at 5%. In the CBD, a lack of supply continued to decrease to reach 2,718,000 sqm, positioning the vacancy rate at 1.0%. As a consequence, prime rents continued to increase, reaching levels above €800/sqm/year.

Sources: Reports by Jones Lang Lasalle, Cushman & Wakefield, CBRE & Savills

Organisational structure and operation

Colonial is the benchmark SOCIMI in the quality office market in Europe and since the end of June 2017 it has been a member of the IBEX 35, which is the reference index of the Spanish stock market.

The company has a market capitalisation of approximately 5,800 million euros with a free float of around 60% and manages an asset volume of more than 12,000 million euros.

The company's strategy focuses on building industrial value through creating the highest quality prime product through real estate transformation and repositioning of the assets.

In particular, the strategy is based on the following pillars:

- A business model focused on transformation and creation of top quality offices in prime locations, mainly the CBD (Central Business District).

- Maximum commitment in creating offices that respond to the best demands in the market, with special emphasis on efficiency and sustainability.
- A diversified pan-European strategy in the Barcelona, Madrid and Paris office markets.
- An investment strategy that combines core acquisitions with prime factory acquisitions and value-added components.
- A clearly industrial real estate approach to capture above-market-average value creation.

Today Colonial is the European company with the greatest focus on city centre areas and leads the Spanish real estate market in terms of quality, sustainability and efficiency of its office portfolio.

Likewise, it has adopted a comprehensive approach to all areas of Corporate Social Responsibility, aiming at the highest standards of (1) sustainability and energy efficiency, (2) corporate governance and transparency, as well as (3) excellence in HR and social actions and making them an integral part of the Group's strategy.

In recent years Colonial has successfully implemented the objective of organic investment announced to the capital market: asset acquisitions prioritising off-market operations, identifying properties with added value potential in market segments with sound fundamentals. For this reason, there have been significant investments and divestitures in the Colonial Group since 2015.

At the end of 2019, the Colonial Group has a robust capital structure with a solid "Investment Grade" rating. The Group's LTV stands at 36% in December 2019.

The parent company's strategy is to consolidate itself as the leader of prime offices in Europe with special emphasis on the Barcelona, Madrid and Paris markets:

- A solid capital structure with a clear vocation to maintain the highest credit rating standards - investment grade
- An attractive return for the shareholder based on a recurring return combined with creating real estate value from value-added initiatives.

2. Development and result of business

Introduction

At 31 December 2019, the Group's turnover was 355 million euros.

The operating profit was 299 million euros.

The revaluation of real estate investments, in accordance with the independent appraisal carried out by Jones Lang Lasalle and CB Richard Ellis, in Spain, and Cushman & Wakefield and CB Richard Ellis, in France at year end, was 874 million euros. This adjustment, registered in both France and Spain, is the result of an increase in value in homogeneous terms of 9% compared to December 2018 (16% in Barcelona, 6% in Madrid and 9% in France).

The net financial cost amounted to 96 million euros.

Finally, after deducting the minority interest of 166 million euros, the profit attributable to the Group amounted to 827 million euros in profit.

The net financial cost amounted to 74 million euros.

Finally, taking into account the 89 million euros as a result, the profit after taxes amounts to 88 million euros profit.

Annual Results

Double-digit value creation for shareholders

Colonial closed 2019 with an EPRA Net Asset Value of €11.5/share, in a year-on-year increase of +14%, which, together with the dividend paid of €0.20 per share, led to a total shareholder return of +16%.

In absolute terms, the EPRA NAV amounts to 5,825 million euros.

The outstanding value creation for the shareholders relies on an industrial real estate strategy with a high Alpha returns component. The main aspects are the following:

- Successful management of the project portfolio: Projects completed as well as the signing of important pre-lettings in the project pipeline and in the renovation program.
- Capturing of important rental growth thanks to excellent fundamentals in the CBD, where Colonial has a unique exposure of 76%.
- A compression of prime office yields, due to an increased demand of the investment market on a framework of decreasing interest rates and scarce supply in CBD.

Significant increase in value of the real estate portfolio

The gross asset value of the Colonial Group at the close of 2019 amounted to 12,196 million euros (12,807 million euros including transfer costs), with a like-for-like increase of +9% compared to the previous year (+5% like-for-like in the second half 2019).

The offices portfolio in Barcelona, with an excellent positioning in the CBD and 22@, reached a like-for-like growth of +16% in 2019 (+7% in the second half) with important growth in all the assets due to a combination of increases in rental prices, the successful delivery of the Pedralbes Centre and Gala Placidia, as well as yield compression .

Madrid increased +6% like-for-like in 2019 (+3% in the second half), due to its strong positioning in the City Centre and the CBD in combination with the successful delivery and management of the Discovery, The Window and Avenida Bruselas projects in recent months, which have enabled the signing of rental contracts at prices at the high end of the market with top tier clients.

The Paris portfolio increased +9% like-for-like in 2019 (+5% like-for-like in the second half) which is underpinned by a high global appeal of the CBD market in Paris in combination with the successful pre-letting of the Louvre St. Honoré project and the Haussmann renovation program.

Significant increase in net recurring profit and net earnings per share

The Colonial Group closed 2019 with a net profit of 827 million euros, an increase of +302 million euros, up +58% compared to the previous year and with a net recurring profit of 139 million euros, an increase of +39 million euros, up +38% compared to the previous year.

Net recurring EPS amounted to €27.4cts per share, resulting in an increase of +23% versus the previous year.

The increase in the recurring net profit of +39 million euros (+38% vs. the previous year) was driven by:

- An increase in EBITDA of +11 million euros (+3 million euros, after the adjustment of the impact of the disposal on non-strategic assets)
- A reduction in financial costs of 13 million euros
- A higher attributable profit due to the increase in the SFL stake from 59% up to 82%, (acquired at the end of 2018) which is reflected in the line of minority interests

The disposals of non-strategic assets carried out in 2019 have resulted in an impact of lower rents on the recurring profit of 8 million euros. Consequently, the recurring profit per share, excluding the non-strategic asset sales, would have been €29cts/share, an increase of +30% in comparable terms.

Considering the significant growth in the value of the portfolio in 2019, as well as the capital gain on the disposals and deducting all of the non-recurring impacts, the net attributable results amounted to 827 million euros, up +58% compared to the previous year, equivalent to an increase of +302 million euros.

Solid revenue growth in Gross Rental Income

Colonial closed 2019 with 352 million euros of Gross Rental Income, up +1% compared to the previous year. The sale of the logistics portfolio and non-core assets reflects the reduction in rent for the disposals carried out.

In like-for-like terms, the rental income from Colonial's portfolio increased +4% compared to the previous year.

This growth in rental income is based on a significant like-for-like increase across the portfolio in all three markets in which the Colonial Group operates.

This strong like-for-like growth is among the highest in Europe and is mainly due to the capacity of the Colonial Group to capture rental price increases, thanks to its strong positioning in the city center (CBD). Of note is the Madrid market with an increase of +6% like-for-like.

In terms of the breakdown of the contribution of each of the three markets of the Group's portfolio, the main aspects to highlight are the following:

- Barcelona +2.4% like-for-like due to rental price increases across the entire portfolio. Worth highlighting is the increase in rents in the the Avinguda Diagonal 609, Torre BCN, Amigó 11-17, Illacuna and Vía Augusta assets, which are leading the growth in Barcelona.
- Madrid +6% like-for-like. This increase is mainly driven by the market rental review of current prices on the Martínez Villergas, Santa Engracia & Sagasta 31-33 assets, as well as a substantial improvement in occupancy such as in the Egeo & Jose Abascal 56 assets.
- Paris +3% like-for-like. Rental increases rose by 5 million euros. This was due to an increase in prices and new leases, mainly on Cézanne Saint Honoré, Edouard, VII, Washington Plaza and Louvre St. Honoré offices.

Colonial Group rental income was impacted by the disposal of non-strategic assets. These divestments have strengthened the quality of the Group portfolio and correspond to: 1) the of the secondary office portfolio at the end of 2018, 2) the sale of the Centro Norte Hotel and 3) the sale of the logistics portfolio in 2019.

In addition, the rotation of the project portfolio as well as the start of the renovation program in Madrid, resulted in a temporary decrease in rents, specifically due to the start of the projects on the 83 Marceau asset in Paris and the Velázquez and Miguel Ángel 23 assets in Madrid.

Solid operational fundamentals in all segments

The Colonial Group's business has performed excellently, with take-up levels moving at a strong pace, achieving levels close to full occupancy.

Capturing rental price increases

The Colonial Group's business has performed excellently, with take-up levels moving at a strong pace, achieving levels close to full occupancy. At the close of 2019, the Colonial Group had signed 135 rental contracts on the office portfolio corresponding to 263,301 sqm and annual rents of 93 million euros.

Double digit release spreads:

For the contracts renewed in 2019, the release spread (signed rents vs previous rents) was +14%. Of special mention is the high release spread in the Barcelona portfolio of +31%, as well as a solid increase in Madrid of +9% and in Paris of +7%.

Strong rental growth compared to the market:

Compared with the market rent (ERV) at December 2018, signed rents increased by +6% in 2019.

In Barcelona, rents were signed at +9% above market rent at December 2018, in the Paris portfolio, the increase in ERVs was +7%, and the Madrid portfolio was up +4%.

In the Madrid portfolio, it is important to highlight that the growth of the rental prices in the Madrid CBD was +6%, a percentage much higher than the +3% of the contracts signed outside the M30.

Colonial's total letting activity is spread across the three markets in which the Company operates.

In Spain, in 2019, 207,247sqm were signed across 94 contracts.

In the Madrid portfolio, 142,781 sqm were signed across 53 transactions. The largest transaction relates to the renewal of the entire surface area of Santa Hortensia (more than 40,000 sqm) with a multinational technology company. In addition, there are the renewals of 6,000 sqm on the Ramírez Arellano asset, 5,700 sqm on the Josefa Valcarcel 24 asset, José Abascal 56 and Tucumán, as well as 5,200 sqm on the Alfonso XII asset.

In terms of new contracts, noteworthy is the signing in April 2019 of 100% of the project delivered at Avenida Bruselas 38 for the headquarters of MasMovil, an IBEX35 technology company. In addition, there is the signing of 8,700 sqm on the Josefa Valcarcel 40 building with a leading communication group in Spain, a deal that will result in 100% occupancy of the asset. Also noteworthy are the signing of almost 9,000 sqm on the Francisca Delgado 11 building with various tenants, as well as the signing of more than 7,600 sqm on the new project in Castellana 163 (a surface area signed with various tenants).

In the Barcelona office portfolio, 64,466 sqm were signed across 41 transactions. Among the highlights is the pre-letting of the entire Diagonal 525 project, which will house the new headquarters of a prestigious company in the electric and gas industry. Also worth noting is the signing of 6,700 sqm on the Torre Marenostrum asset, as well as the signing of 4,300 sqm on the recently delivered Gala Placidia project.

In terms of renewals, worth mentioning is the renewal of 11,800 sqm on the Diagonal 197 asset and the 5,200 sqm on Paseo de los Tilos, both contracts with prestigious solvent clients. With respect to the signing of new contracts, highlighted are the 4,000 sqm on the Sant Cugat building, 2,400 sqm on the Diagonal 682 building and 2,400 sqm on the Berlín/Numancia building.

In the Paris portfolio, 56,054 sqm were signed across 41 transactions.

Of special mention is the renewal of 2,700 sqm of office space in the Louvre Saint Honoré building. In terms of new leases, worth noting is the signing of 20,000 sqm with the Cartier Foundation with a 20-year minimum fixed term. In addition, there is the signing of 3,500 sqm on the Edouard VII building, the signing of almost 12,000 sqm on the 106 Haussmann building, as well as signing of 4,800 sqm on 103 Grenelle, among others.

Solid occupancy levels

The total vacancy of the Colonial Group's portfolio (including all uses: offices, retail and logistics) stood at levels of 2.7% at the close 2019. Noteworthy is the office portfolio in Paris, with a vacancy rate of 1.6%.

The Barcelona office portfolio has a vacancy rate of 2%, a ratio that remains at very low levels, in line with the high quality of the portfolio. The variation compared to the previous quarter is mainly due to the rotation of tenants within the portfolio, freeing up top quality spaces and facilitating future income reversion.

The office portfolio in Madrid has a vacancy rate of 4.3%, improving by +619bps compared to December 2018 and by +307bps compared to the third quarter of 2019. The main new leases signed were on assets such as José Abascal 56, Ramírez Arellano 15, Alfonso XII, Avenida Bruselas 38 & Francisca Delgado 11, among others. The 4% vacancy rate is concentrated mainly on portfolio assets coming from Axiare. In particular, the recently delivered Ribera de Loira project, as well as the Francisca Delgado 11 and Josefa Valcárcel 40bis assets are highlighted.

Successful delivery of projects – "real estate transformation"

Project Pipeline

During 2019, the Colonial Group successfully delivered 3 large projects: Gala Placidia and Pedralbes Centre in Barcelona and Avenida de Bruselas 38 in Madrid, comprising the three benchmark buildings in their area.

Gala Placidia is an asset located in the Barcelona CBD, acquired under the framework of the Alpha III project at the beginning of 2018, which has been completely refurbished with the aim of maximizing coworking initiatives. The asset, which is managed by Utopicus, a company of the Colonial Group dedicated to the management of flexible spaces, has attracted different international companies looking for flexibility in spaces in a CBD location, as well as the community offering and Utopicus services.

Pedralbes Centre was the other large project delivered in Barcelona during 2019. This project has enabled 1) the active space to be reorganized, increasing the GLA (Gross Lettable Area) by +27%, 2) management costs to be optimized and 3) large commercial units to be chosen. This new approach attracted the interest of different top tier tenants, with UNIQLO, a global fashion company, deciding to pre-let the main space at a very attractive rental price.

In Madrid, the Avenida Bruselas 38 asset was delivered, which is a project initiated by Axiare and executed by Colonial. This is a unique, top quality office building, with one of the best micro-locations in the sub-market of Arroyo de la Vega, and has led to the signing of a 7-year contract of mandatory compliance for the headquarters of a top tier technology company, resulting in 100% occupancy.

The delivery of these projects has provided significant value creation for Colonial's shareholders.

Regarding the progress of the projects, a commercial space of 16,000 sqm is being developed in Louvre Saint Honoré. In 2019, two important milestones were reached for the project: 1) a pre-let agreement was signed with the Cartier Foundation with very favorable terms and 2) the work permit was received and the project is now in the execution phase, therefore work will commence during the first half of 2020.

Renovation Program

The Colonial Group counts on a renovation program accelerating client rotations in the spaces to reposition them in the market and capture the maximum rents. The current program has 3 assets in Spain and 2 in France, of which worth noting is the next delivery in France:

The Haussmann 106 building with 12,000 sqm of offices in the center of Paris is already let to WeWork with a turnkey contract for a 12-year period, in effect as of 6 January 2020. This renovation has enabled an increase in the density of the occupancy and an improvement in the image of the building, key factors that have allowed for the capture of maximum market rental prices.

Active portfolio management

Completion of the Axiare integration

In 2018, a quick and efficient takeover bid was carried out on Axiare, S.A, which completed with a merger in June 2018.

In 2019, Colonial finalized the integration of this Company: (i) in June 2019 the registered goodwill was fully absorbed just one year after the merger and (ii) in August 2019, Colonial signed an agreement for the sale of 18 logistics assets, managing to successfully dispose of these non-strategic assets.

With the sale of the logistics package, Colonial has completed the integration of Axiare, consolidating its leadership in prime offices in Spain and Europe through the creation of a strong growth platform with unique exposure to the CBD in Europe.

Disposals of non-strategic assets

During 2019, Colonial signed an agreement for the sale of 18 logistics assets with a total surface area of 473,000 sqm. At the close of the year, the disposals of 11 facilities materialized immediately, totaling 314,000 sqm. Regarding the rest of the logistics assets, Colonial expects the buyer to exercise the call option on them in the first half of 2020.

In addition, during the first quarter of 2019 the disposal of the Centro Norte Hotel with a GLA (Gross Lettable Area) of more than 8,000 sqm was executed, as well as the sale of the Parc Central plot in the last quarter of the year.

Consequently, Colonial closed the year with disposals for 477 million euros which has enabled 1) the optimization of the business mix, further increasing the focus on offices, which has reached 94% in terms of asset value, as well as 2) an improvement in the quality of returns with a concentration in prime offices.

Acquisition Program

In October 2019, Colonial announced that it was analysing a pipeline of acquisitions of 1,000 million euros , of which, at the date of this report, 115 million euros have been executed. These investments, together with the acquisition of the 45% of Torre Marenostrum in the first half of 2019, show that the Colonial Group continues executing its acquisition program, investing more than 160 million euros in prime assets in 2019.

- Torre Marenostrum – Barcelona 22@: At the beginning of 2019, an acquisition was carried out for the remaining 45% of Torre Marenostrum. Full ownership of this unique building located in the 22@ market in Barcelona, a few metres from the beach, has enabled the implementation of a renovation program, creating a “hybrid” complex which integrates an offer of traditional prime offices with more than 3,000 sqm of flexible spaces managed by Utopicus. This renovation and redistribution of space is enabling Colonial to capture important reversionary potential for reformed spaces which are already let (> 7,000 sqm).
- Parc Glories II – Barcelona 22@: In the fourth quarter of 2019, the Colonial Group acquired the Parc Glories II, for an acquisition price of 101 million euros. The building is located in Glories, the best area of the 22@ district in Barcelona, considered to be the new technological CBD of the city. The building has a surface area of 17,860 sqm of offices and stands out architecturally due to its very design-efficient floor plan with more than 2,500 sqm, highly sought after in the market. Parc Glories II is 100% let to a German multinational with a short-term contract and current prices 40% below market rents. This situation highlights the high value creation potential, considering a light capex investment, once the current rents revert to market prices.
- Recoletos 27 – CBD Madrid: In the fourth quarter of 2019 and during the start of 2020, 2,000 sqm of offices were acquired in Recoletos 27, a prime area of the CBD in Madrid. This acquisition corresponds to three floors of 700 sqm with great luminosity in a corner building close to Plaza Colón. The investment includes a partial renovation for a subsequent letting at maximum rental prices in the prime district of Madrid.

Leadership in ESG

Colonial pursues a clear leadership in ESG, being a fundamental element of its strategy, prioritizing a sustainable long-term returns, based on a business model of high-quality products.

Colonial’s Corporate Strategy is based on pursuing the maximum excellence in the fields of governance, social aspects and sustainable investment.

- The Colonial Group has increased its GRESB scoring by +26% with very high scores in the areas of Monitoring-EMS, Management & Risk-Opportunities.

Likewise, it is important to mention that the Colonial Group's French subsidiary has received the second best GRESB rating in the offices sector in all of Europe.

- MSCI, main benchmark for listed companies, has rated Colonial with AA on its ESG rating, one of the highest ratings internationally, in particular due to its very high standards in Corporate Governance.
- Colonial has obtained the EPRA Gold sBPR rating for the fourth consecutive year, which certifies the highest reporting standards in ESG.
- Worth highlighting is that Colonial has become part of the ESG Ethibel Sustainability Excellence Europe index, managed by Vigeo Eiris, a clear reference in the financial sector. This index is made up of a group of European companies that show the best performance in the area of corporate social responsibility.
- In relation to energy efficiency, BREAAM/GRESB recognized Colonial as the number one responsible investor in Europe for having an operational portfolio, where 91% of the assets have maximum energy certificates.

Currently 92% of the office portfolio has LEED and BREEAM energy certificates. In particular, €2,011m of the assets have LEED ratings and €9,008m of the assets have BREEAM ratings. This level of certification is above the sector average.

The Colonial Group is clearly committed with climate change and in proof of this, of special mention are the two new certificates that the BIOME building in Paris will receive: 1) The BiodiverCity Excellence stamp which highlights the significant effort that has been made in the revegetation of the place, and 2) The asset will be one of the first buildings in France to obtain the BBCA renovation label (Low Carbon Building) as a result of the efforts made in terms of greenhouse effect gas emissions.

Colonial's leadership in ESG has enabled Colonial to be the first real state company in Spain to sign sustainable loans, formalizing two ESG compliant loans for a total volume of 151 million euros, with ING and CaixaBank.

Digital Strategy and Co-working

At the end of 2017, Colonial acquired Utopicus, a startup founded in 2010, pioneer in the coworking sector in Spain. Since then, Colonial has driven the growth and launched different initiatives to convert Utopicus into one of the leading operators of the sector, with 14 centres under management and approximately 40,000 sqm of surface area.

During 2019, Utopicus focused its efforts in two large areas: firstly, in offering innovative content and services from the Colonial Group and secondly, in expanding its presence in Spain through the properties of the Colonial Group, offering a complementary service through accessible spaces to all corporate clients.

Accordingly, in 2018, a new concept for office buildings was launched, taking advantage of the delivery of the new offices project carried out by Colonial, "The Window". This property combines a center of Utopicus of 4,000 sqm with traditional office space. The result obtained was a success, increasing the occupancy of the building with rents higher than expected, and positioning Window as the benchmark for companies in the Fintech sector in the city of Madrid.

Throughout 2019, Colonial replicated this "hybrid" building concept in other properties of the Group and six buildings already had flexible office spaces. In particular, of special note is the center opened in the Parc Glories building, located in the best area of the 22@ district in Barcelona. The space provides a combination of flexible uses with traditional office space and has more than 2,000 sqm of surface area for 195 workstations.

Likewise, Colonial has developed an application that, together with the prior "sensorization" of the property, will lead to an improvement in the efficiency and energy consumption of the spaces. The application measures different aspects of a building, such as the heating, air quality, lighting intensity and energy consumption, among others, always looking to increase the comfort and well-being of the Colonial Group's clients. At the close of 2019, the system had already been implemented in six of Colonial's buildings in Madrid, with the future aim of implementing it in the rest of the portfolio

A solid capital structure

A strong balance sheet

At 31 December 2019, the Colonial Group had a solid balance sheet with a LTV of 36% (an improvement of 315 bps compared to the end of the previous year) with a Standard & Poor's rating of BBB+, the highest rating in the Spanish Real Estate sector.

The liquidity of the Group at the close of 2019 amounts to 2,082 million euros. In terms of debt maturity, it is particularly noteworthy that 79% of the Group's debt will mature from 2023 onwards.

2019 was marked by the completion of the restructuring of the pending debt coming from Axiare, cancelling various bilateral loans amounting to 162 million euros and refinancing two bilateral loans in the amount of €151m, improving margins and cancelling mortgage securities. The refinanced loans are sustainable loans as their margin will vary according to the rating that Colonial obtains with respect to ESG from the sustainability agency GRESB.

As for SFL, it has restructured a syndicate loan of 390 million euros that has resulted in an improvement both in terms of margins as well as maturity. SFL also carried out short-term note issues throughout the year with existing issuances at the end of the year amounting to 387 million euros.

Solid share price performance

At the end of 2019, Colonial's shares closed with a revaluation of +40%, outperforming the EPRA & IBEX35 benchmark indices.

The share price performance reflects the support of capital markets for the successful execution of the Colonial Group's growth strategy. Colonial's share price trading stands out compared to its peers as one of the securities that is trading the closest to its fundamental value.

At the beginning of 2020, key analysts in the real estate sector such as Goldman Sachs, Morgan Stanley, Bank of America and JP Morgan have updated their recommendation and target prices on Colonial, up to a range between €13 and €13.5 per share.

Growth drivers

The Colonial Group has an attractive growth profile, based on its strategy of industrial value creation with a high Alpha component in returns. In particular, the value creation is based on the following value drivers:

A. Clear leadership in prime offices
    - Colonial has a high-quality product with an unparalleled exposure to city center locations in Europe with 76% of the portfolio in CBD.
B. An attractive project pipeline: A portfolio of 10 projects corresponding to more than 200,000 sqm to create prime products that offer strong returns and therefore, future value creation with solid fundamentals.
    - At present, several projects (specifically Castellana 163, Diagonal 525 and Louvre SaintHonoré) already have pre-let agreements in favorable terms, significantly increasing the visibility of future cash flow and value creation.
C. A strong prime positioning with an asset portfolio to capitalize on the cycle
    - Once again, 2019 has shown the capacity of the Colonial Group's contract portfolio to capture maximum market rents and obtain significant rental price increases with double-digit release spreads. In the next 24 months, 66% of the contracts in Madrid and Barcelona and 25% of the contracts in Paris will mature, generating an attractive reversionary potential to capture rental price increases
    - Renovation Program:
    - The Colonial Group counts on a renovation program that is accelerating tenant rotation in the corresponding spaces to maximize growth in rental prices. This renovation program is mainly focused on the adaptation of common areas and updating facilities, with limited investment.

- The renovation program currently includes the Cedro and Ortega & Gasset buildings in Madrid, the Torre Marenostrum asset in the 22@ technological district in Barcelona and 176 Charles de Gaulle, located in the growing market of Neuilly in Paris.

D. Solid investment markets: the direct investment markets maintain high interest in prime products. In this respect, Colonial's portfolio offers interesting spreads compared to the benchmark reference rates.
E. Financial discipline in the acquisition and disposal program: Over recent years, Colonial has successfully delivered the organic acquisition targets announced to the capital markets: asset acquisitions, prioritising off-market transactions and identifying properties with value-added potential in market segments with solid fundamentals.

Since 2015, the Colonial Group has carried out significant investments and disposals. The acquisition program has identified and carried out investments for 160 million euros. At the same time, non-strategic product was disposed of for 477 million euros above valuation to optimize the quality of the portfolio returns.

In 2020, Colonial expects to continue with a selective rotation of non-strategic and/or mature assets and at the same time to carry out new acquisitions.

3. Liquidity and capital resources

See Note 21 of the financial statements for the year ended 31 December 2019.

The average payment period (APP) of the Company's to its suppliers for 2019 was 23 days. In relation to payments made outside the maximum legal term set, these correspond mainly to payments related to contracting works and real estate renovation, which are paid within the term established in the corresponding contracts signed with the contractors.

The Company has set two payment days per month to comply with the requirements established by Law 11/2013. In this regard, the dates of entry are on the 5th and 20th of each month and the corresponding payments are made on the 5th and 20th of the following month.

4. Objective and risk management policies

Colonial aims to create sustainable value through optimising the relationship between profitability and the risk of its business activity, which helps to reinforce its leadership in the sector and consolidate its long-term position. Risk management is a key aspect in Colonial's organisational culture, and for this reason, the Group has developed the Risk Control and Management System (hereinafter, RCMS), which establishes a basis for efficient and effective management of the risks throughout the organisation.

To meet these corporate objectives, the risks to which Colonial is exposed are identified, analysed, evaluated, managed, controlled and updated. With the objective of maintaining an effective and updated RCMS, Colonial has prepared a corporate risk map, which identifies the main risks that affect the Group, and evaluates them in terms of impact and probability of occurrence. This map is reviewed and updated periodically every year, with the aim of having an integrated and dynamic risk management tool, which evolves with changes in the environment in which the company operates and changes in the organisation itself.

The main responsibilities assigned in relation to the RCMS correspond to the Board of Directors, the Audit and Control Committee and the internal audit unit. The RCMS also explicitly determines the responsibilities of senior management, operational management and risk owners in relation to risk management.

The Board of Directors is assigned the function of determining the risk control and management policy, including tax policies, identifying the main risks of the Group and implementing and supervising the internal information and control systems, in order to ensure future viability. and competitiveness of the Group, adopting the most relevant decisions for its best development. For the management of this function, it has the support of the audit and control committee, which performs, among others, the following functions related to the field of control and risk management:

– Submit a report on risk policy and management to the Board for approval.

- Periodically review the control and risk management systems, so that the main risks are identified, managed and adequately disclosed.
- Oversee the process of preparing, the integrity and presentation of mandatory (financial and non-financial) public information.

Additionally, Colonial has the regulatory compliance unit and the internal audit unit as tools to reinforce said objective. The regulatory compliance unit is responsible for ensuring adequate compliance with the norms and laws that may affect it to undertake its activity, and the internal audit function is responsible for carrying out the necessary supervision activities, contemplated in its annual plans approved by the Audit and Control Committee, to evaluate the effectiveness of the risk management processes and the action plans and controls implemented by the corresponding management teams to mitigate said risks.

For better risk management, Colonial differentiates in two broad areas the different types of risks to which the Group is exposed based on their origin:

- External risks: risks related to the environment in which Colonial carries out its activity and that influence and condition the company's operations.
- Internal risks: risks originated from the company's own activity and its management team.

The main external risks that Colonial faces to achieve its objectives include:

- Economic risks, derived from the political and macroeconomic situation in the countries where it operates, and from changes in investors' own expectations.
- Market risks, derived from changes in the business model itself, the greater complexity to develop the investment strategy, and the fluctuation of the real estate market with an impact on the valuation of real estate assets.
- Financial risks, related to restrictions in capital markets, interest rate fluctuations, the impact of changes in tax regulations (mainly by the SOCIMI regime) and those of the counterparty of the main clients.
- Environmental risks derived from the most demanding demands in ESG, and mainly those related to the impact of climate change on the Group's activity.

The main internal risks that Colonial faces to achieve its objectives include:

- Strategic risks in relation to the internationalisation and dimension of the Group, the high concentration of activities for office rental in prime areas of Barcelona, Madrid and Paris, and the strategy in the co-working market.
- Various operational risks related to maintaining occupancy levels in the real estate and the levels of income contracted, undertaking the projects in term and cost, maintaining the real estate assets, managing the level of indebtedness and the current credit rating, cyber attacks or failures in the information systems, as well as those of managing the organisational structure and talent.
- Risks arising from compliance with all applicable regulations and contractual obligations, including tax risks related to the loss of the status of SOCIMI by Colonial and the loss of its French subsidiary Société Foncière Lyonnaise of its status as a Real Estate Investment Trust (REIT).

5. Events after the reporting date

No significant events occurred subsequent to the reporting date of 2019.

6. Outlook

The following are the perspectives of the office market in Madrid, Barcelona and Paris:

Barcelona and Madrid

In the Spanish economy, a positive direction have continued to be shown in recent months of certain aspects that have been drivers of Spanish economic growth in recent years, which are specifically: 1) a favourable evolution of the labour market; 2) foreign surplus and 3) low interest rates.

In the Barcelona market, it should be noted that due to the shortage of offer of large quality spaces, especially in the city centre, the predictions suggest that many projects will be delivered partially or completely pre-rented. Consequently, long-term forecasts of income levels remain bullish, placing Barcelona as one of the cities with the highest expected revenue growth in Europe. Meanwhile, Madrid is positioned as the second European city with the highest forecasted income growth in Europe.

Paris

The Paris market is one of the most important worldwide. Clear indications of improvement in demand have been observed during recent quarters, particularly for the CBD area, where there is a clear shortage of prime products. Today the availability of office space in this area is at a 10-year low.

Consequently, for prime properties in CBD areas, the main consultants foresee a consolidation of the positive trend that has started.

Regarding growth prospects, the French economy is expected to grow for the following years.

Future strategy

The investment market has registered record contracting volumes. In the current environment of low interest rates, high investment interest in the Paris market is expected to continue, as the most important office market in the Eurozone.

In this market context, the parent company is carrying out a selective investment policy in order to maximise shareholder value.

In particular, it focuses its efforts on finding quality products in market areas with potential and assets with the potential of being converted into prime products through repositioning.

7. Research and development activities

As a result of the Company's own characteristics, its activities and its structure, research and development activities are not usually carried out at Inmobiliaria Colonial, SOCIMI, S.A.

8. Treasury Shares

At 31 December 2019, the Company has 578,866 shares in treasury shares with a nominal value of 1,447 thousand euros and representing 0.11% of the Company's share capital.

9. Other significant information

On 10 December 2015, the Board of Directors of the Company agreed to adhere to the Code of Good Tax Practices. Said agreement was communicated to the Spanish tax agency on 8 January 2016.

10. Alternative Performance Measures (European Securities and Markets Authority)

An explanatory glossary of alternative performance measures is included below, including their definition and relevance for Inmobiliaria Colonial, S.A. in accordance with the recommendations of the European Securities and Markets Authority (ESMA) published in October 2015 (ESMA Guidelines on Alternative Performance Measures). These Alternative Performance Measures have not been audited or reviewed by the Company's auditor.

Alternative Performance Measure	**Form of calculation**	**Definition/Relevance**
EBIT **(Earnings before interest and taxes)**	*Calculated as the "Operating profit" plus "Changes in the value of property investments" and the "Profit/(loss) due to changes in the value of assets"*	Indicates the Group's capacity to generate profits, only taking into consideration its economic activity, less the effect of debt and taxes.

Alternative Performance Measure	Form of calculation	Definition/Relevance
EBITDA **(*Earnings Before Interest, Taxes, Depreciation and Amortisation*)**	*Calculated as the "Operating profit" adjusted by "Depreciation/Amortization" and "Net changes in provisions"*	Indicates the Group's capacity to generate profits only taking into account its economic activity, eliminating allocations to depreciation/amortization, and the effect of debt and taxes.
Gross Financial Debt (GFD)	*Calculated as the total of all items under "Bank borrowings and other and other financial liabilities" and "Issues of debentures and similar securities", excluding "Interest (accrued), "Origination fees" and "Other financial liabilities" from the consolidated statement of financial position.*	Relevant figure for analysing the financial situation.
EPRA[1] NAV **(*EPRA Net Asset Value*)**	*Calculated based on the Company's capital and reserves, adjusting certain items in accordance with EPRA recommendations.*	Standard analysis ratio in the real estate sector and recommended by EPRA.
EPRA[1] NNNAV **(triple net EPRA)**	*Calculated adjusting the following items in the EPRA NAV: the market value of financial instruments, the market value of financial debt, the taxes that would be accrued with the sale of the assets at their market value, applying the tax benefits for reinvestments and the tax credit recognized in the balance sheet, considering a going concern assumption*	Standard analysis ratio in the real estate sector recommended by EPRA
Market Value excluding transaction costs or *Gross Asset Value (GAV) excluding Transfer costs*	*Measurement of the totality of the Group's asset portfolio carried out by independent appraisers of the Group, less transaction or transfer costs.*	Standard analysis ratio in the real estate sector.
Market Value including transaction costs or *GAV including Transfer costs*	*Measurement of the totality of the Group's asset portfolio carried out by external appraisers of the Group, before deducting the transaction or transfer costs.*	Standard analysis ratio in the real estate sector.
***Like-for-like* Rental Income**	*Amount of the rental income included in the item "Revenues" comparable between two periods. To obtain the calculation, the income from investments or disposals carried out in both periods are excluded, as well as the income deriving from assets included in the projects and refurbishments portfolio and other atypical adjustments (for example, penalties for early termination of rental contracts).*	It enables a homogeneous comparison of the evolution of rental income of an asset or group of assets.

Alternative Performance Measure	Form of calculation	Definition/Relevance
Like-for-like **Valuation**	*Market measurement (valuation) amount, excluding transaction costs, or market valuation, including transaction costs, comparable between two periods. To obtain the calculation, the rental income coming from investments or disposals carried out between both periods is excluded.*	It enables a homogenous comparison of the evolution of the market valuation of the portfolio.
Loan to Value **Group or LtV Group**	*Calculated as the result of dividing the Net Financial Debt by the market valuation including the transaction costs of the Group's asset portfolio plus the treasury shares of the Parent Company at Nav value.*	It enables the analysis of the ratio between the net financial debt and the valuation of the Group's asset portfolio.
Holding Company LtV or Colonial LtV	*Calculated as the result of dividing the Gross Financial Debt less the amount in the item "Cash and cash equivalents" of the Parent Company and 100% owned subsidiary companies by the market valuation, including transaction costs, of the parent company's asset portfolio and the EPRA NAV of all financial stakes in subsidiary companies.*	It enables the analysis of the ratio between the net financial debt and the valuation of the parent company's asset portfolio.

[1] EPRA (European Public Real Estate Association) which recommends best practice standards to be followed in the real estate sector. The calculation of these APMs follows the instructions set by EPRA.

Alternative Performance Measures included in the previous table have their origin in items of the consolidated annual financial statements of Inmobiliaria Colonial or in the breakdowns of the items (sub-items) included in the corresponding explanatory notes of the report, except as indicated below.

The following is a reconciliation of those alternative performance measures whose origin does not derive, in their entirety, from items or sub-items of the consolidated annual financial statements of Inmobiliaria Colonial, as provided in paragraph 28 of the aforementioned recommendations.

- **EPRA NAV (EPRA *Net Asset Value*)**

EPRA NAV (EPRA *Net Asset Value*)	31/12/2019	31/12/2018
	Millions of euros	
"EQUITY ATTRIBUTABLE TO THE PARENT COMPANY'S SHAREHOLDERS"	**5.559**	**4.811**
Includes:		
(i.a) Revaluation of investment assets	21	24
(i.b) Revaluation of assets under development	N/A	N/A
(i.c) Revaluation of other investments	23	26
(ii) Revaluation of financial leases	N/A	N/A
(iii) Stock revaluation	3	7
Excludes:		
(iv) Market value of financial instruments	(21)	2
(v.a) Deferred taxes	240	228
(v.b) Goodwill as a result of deferred assets	N/A	N/A
Includes/excludes:		
Adjustments from (i) to (v) with respect to interests of strategic alliances	N/A	N/A
EPRA NAV	**5.825**	**5.098**

- **EPRA NNNAV (EPRA Triple Net Asset Value)**

EPRA NNNAV (EPRA Triple Net Asset Value)	31/12/2019	31/12/2018
	Millions of euros	
EPRA NAV	**5.825**	**5.098**
Includes:		
(i) Market value of financial instruments	21	(2)
(ii) Market value of the debt	(258)	(14)
(iii) Deferred taxes	(240)	(229)
EPRA NNNAV	**5.348**	**4.853**

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- **Market Value excluding transaction costs or GAV excluding Transfer costs**

Market Value excluding transaction costs or GAV *excluding Transfer costs*	31/12/2019	31/12/2018
	Millions of euros	
Barcelona	1.534	1.175
Madrid	2.543	2.511
Paris	6.502	6.256
Leased out	**10.578**	**9.942**
Projects	**1.338**	**925**
Other	**280**	**481**
Total Market Value excluding transaction costs	**12.196**	**11.348**
Spain	5.039	4.778
France	7.157	6.570

- **Market Value including transaction costs or GAV *including Transfer costs***

Market Value including transaction costs or GAV *including Transfer costs*	31/12/2019	31/12/2018
	(Millions of euros)	
Total Market Value excluding transaction costs	**12.196**	**11.348**
Plus: transaction costs	611	568
Total Market Value including transaction costs	**12.807**	**11.916**
Spain	5.175	4.911
France	7.632	7.005

***Like-for-like* Rental Income**

Like-for-like Rental Income	Barcelona	Madrid	Logistics	Paris	TOTAL
		(Millions of euros)			
2017 Rental Income	**35**	**52**	**-**	**196**	**283**
Like for like	1	2	-	9	12
Projects and inclusions	-	3	-	(1)	2
Investments and divestitures	1	4	-	(10)	(5)
Axiare	5	32	19	-	56
2018 Rental Income	**42**	**93**	**19**	**194**	**347**
Like for like	1	5	-	12	11
Projects and inclusions	4	-	-	2	1
Investments and divestitures	1	(9)	(3)	(10)	(10)
Other and compensation	-	-	-	**2**	**3**
2019 Rental Income	**49**	**89**	**16**	**199**	**352**

- ***Like-for-like* Valuation**

Like-for-like Valuation	31/12/2019	31/12/2018
	(Millions of euros)	
Valuation at 1 January	**11.348**	**9.282**
Like for like Spain	407	381
Like for like France	588	341
Acquisitions and divestitures	(147)	1.344
Valuation at 31 December	**12.196**	**11.348**

- ***Loan to Value* Group or LtV Group**

Loan to Value Group or LtV Group	31/12/2019	31/12/2018
	(Millions of euros)	
Gross financial debt	4.826	4.748
Commitments of deferrals for transactions selling real estate assets	17	-
Less: *"Cash and cash equivalents"*	(217)	(68)
(A) Net financial debt	**4.626**	**4.680**
Market Value including transaction costs	12.807	11.916
Plus: Shares in treasury shares of the Parent Company valued at EPRA NAV	7	8
(B) Market Value including transaction costs and Company treasury shares	12.814	**11.924**
***Loan to Value* Group (A)/(B)**	**36,1%**	**39,3%**

- **Holding Company LtV or Colonial LtV**

Holding Company LtV or Colonial LtV	**31/12/2019**	**31/12/2018**
Holding Company	*(Millions of euros)*	
Gross financial debt	3.040	3.002
Commitments of deferrals for transactions selling real estate assets	17	-
Less: "Cash and cash equivalents" of the Company and the fully-owned Spanish subsidiaries	(161)	(41)
(A) Net financial debt	**2.896**	**2.961**
(B) Market Value including transaction costs	**9.289**	**8.538**
***Loan to Value* Holding (A)/(B)**	**31,2%**	**34,7%**

11. Annual Corporate Governance Report

In accordance with the provisions of article 538 of the Spanish Limited Liability Companies Law, it is noted that the 2019 annual corporate governance report is included in this management report in its corresponding separate section.