Colonial

2018

Integrated Annual Report

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# Main Figures


Note: Logistics and other centres are not included.

19%
**Total Shareholder Return**

+17%
**EPRA NVA - €/share**

10,03€/share
**EPRA NAV**

€5,051M
**Market capitalization[1]**

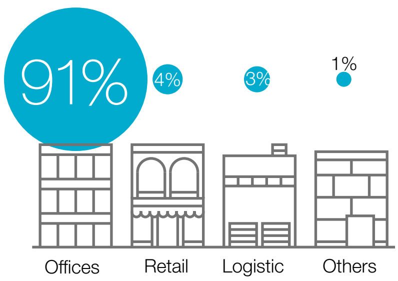
€11,348M
**GAV Group**

1,782,282sq m
**s/above ground**

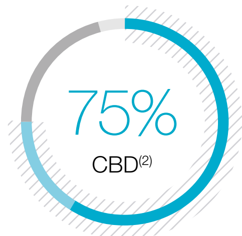
4%
**EPRA Vacancy**

+5%
**GRI var EPRA Like-for-Like**

**Specialists in prime offices**

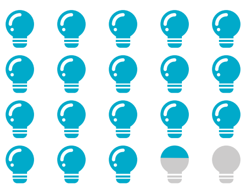



**A CBD portfolio**



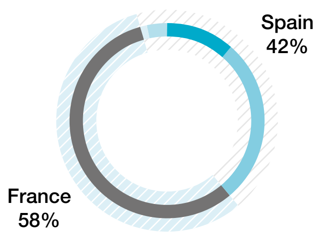

● Prime CBD ● CBD ● BD ● Others

**Maximum energy efficiency**



91%
with energy certification

**Good diversification[3]**




● Barcelona ● Madrid ● Paris ● Others ● Logistic

(1) On 16 May 2019.
(2) CBD Barcelona includes the assets of the 22@ market segment.
(3) France = SFL shares valued at NAV. Spain = GAV directly held assets + NAV participation SPV TMN + Value JV Plaza Europa 34.

# EPRA Performance Measures Summary Table

**As at 31 December**

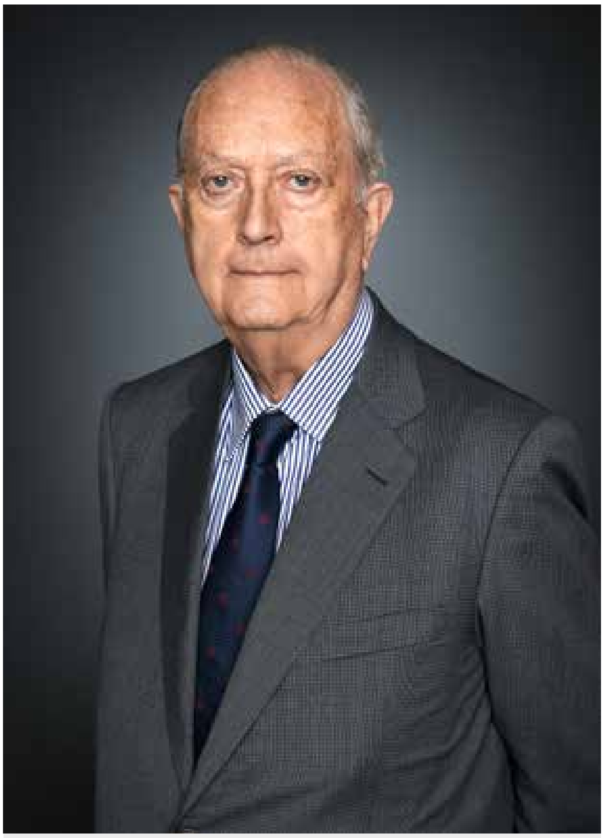
| | 12/2018 | | 12/2017 | |
|---|---|---|---|---|
| | **€m** | **€ per share** | **€m** | **€ per share** |
| EPRA Earnings | 90 | 0.20 | 62 | 0.16 |
| EPRA NAV | 5,098 | 10.03 | 3,744 | 8.60 |
| EPRA NNNAV | 4,853 | 9.55 | 3,428 | 7.88 |

| | 2018 | 2017 |
|---|---|---|
| EPRA Net Initial Yield | 3.0% | 3.0% |
| EPRA "topped-up" Net Initial Yield | 3.3% | 3.4% |
| EPRA vacancy rate | 4.1% | 3.9% |
| EPRA Cost ratio (including vacancy costs) | 19.5% | 18.4% |
| EPRA Cost ratio (excluding vacancy costs) | 17.9% | 17.1% |

EPRA: European Public Real Estate Association: Association of listed European property companies that sets best market practices for the sector (www.epra.com)

# Summary

# Interview with the Chairman and CEO



**Juan José Brugera**, Chairman

**Pere Viñolas Serra**, Chief Executive Officer

## Colonial has once again closed an extraordinary year. What were the most prominent main achievements in 2018?

**J.J. BRUGERA**

The year 2018 was one of transformation for the Colonial group. The year was a turning point for the company and an acceleration of our business plan.

In early 2018, Colonial acquired five assets under the Alpha III project with a total investment of €480 million. The investment mainly consists of developing over 110,000 sq m of office space in the south of the Central Business District (CBD) in Madrid.

During the first half of the year, the merger and integration of Axiare was completed in record time, consolidating Colonial's leadership in prime offices in Spain and Europe.

Capital was also rotated to maximise profitability for shareholders based on an active portfolio management. In this regard, the execution of Alpha IV increased the presence in the capital of our Paris-based subsidiary SFL to 82%. Non-strategic assets were also divested for 441 million, a figure representing a 12% premium on appraisal and a significant gain for our shareholders.

On a corporate level, I would like to highlight that all these transactions were executed together with an important active management of the balance sheet, enabling Standard & Poors to improve its rating to BBB+, the highest real estate rating in Spain and one of highest on the IBEX35.

To conclude, the remarkable 2018 profit of 525 million euros is one of the best results in the history of our company. A more solid, diversified and larger company emerged during this year with excellent growth prospects for the coming years.

**P. VIÑOLAS**

As the Chairman has mentioned, 2018 was an extraordinary year marked by a clear fulfilment of all the annual objectives, enabling us to position ourselves as one of the property management companies with the best results in Europe in all areas, both operational and financial.

In the operational area, we formalised 103 contracts corresponding to an above-ground surface area of over 175,000 sq m and 43 million annual rents with top-class customers. One of the main aspects to highlight is the increase in prices achieved with a year-on-year increase of +8%, prominently in Barcelona with +10% and Madrid with +8%. When comparing new and previous rents in lease renewals, the double-digit price increase is led by Madrid at +29%, followed by Barcelona at +23% and Paris at 14%.

These parameters let us maintain the real estate portfolio at full occupancy levels, reaching 96%, in which regard the Barcelona and Paris markets are particularly remarkable with 99% occupancy.

It is also worth highlighting the good reception of our successfully completed Discovery and Window projects in Madrid and Parc Glories in Barcelona. The three projects were handed over on schedule, rented virtually at 100% and with rents higher than the initially estimated figures at the start of the project.

In the financial area, there was substantial active balance sheet management, thus enabling us to increase average debt maturity to 5.9 years and reduce its average cost to 1.77%.

Consequently, Colonial closed out 2018 with an EPRA Net Asset Value of €10.03/share, thus representing a year-on-year value increase of +17%, which, together with a paid dividend of €0.18/share, resulted in a total return for the shareholder of 19% in 2018.

## Is there any non-financial aspect that you would like to highlight?

### J.J. BRUGERA

Colonial also strives to gain a clear leadership in Corporate Social Responsibility, an essential element in a growth strategy whose main characteristic is to offer the highest quality.

In this regard, Colonial reached substantial milestones during 2018 in terms of the corporate ratings that evaluate all non-financial aspects. For example, MSCI increased our rating from BBB to AA, with a particularly remarkable Corporate Governance score.

We also once again secured the GreenStar level from GRESB, a rating that evaluates over 800 companies worldwide, and our property portfolio in operation holds a 91% for maximum energy efficiency ratings from LEED and BREEAM.

### P. VIÑOLAS

In addition to being fully committed to all areas of CSR, we believe that it is also important to closely examine all the new trends that may arise in the sector to offer long-term sustainable returns for our shareholders.

For this reason, Colonial has accelerated initiatives in the Proptech area during 2018 so we can maximize the service to our clients and lead new trends in our sector.

For instance, we opened 3 new centres through our coworking subsidiary Utopicus: 2 in Madrid at Calle Orense and Calle Príncipe de Vergara, and another in Barcelona at Plaza Cataluña. We also began taking the steps in terms of procedures and construction to open 7 new centres in the coming months. Once completed, we will manage 13 centres with 35,000 sq m of surface area in Barcelona and Madrid.

Colonial has also counted on advice from Liquid, a benchmark company in the field of digital strategic consulting and also signed an agreement with the accelerator Metaprop in New York. These agreements are yet another step in Colonial's commitment to be at the forefront of the real estate sector and to deepen innovation as an engine for generating value for our shareholders.

## How would you gauge the climate of the markets in which Colonial operates? What are the prospects for the company in the coming years?

**J.J. BRUGERA**

The markets in which Colonial operates are reaping the benefits of robust Spanish and French economies with strong fundamental figures.

In Spain, GDP is growing at rates of over 2% per year, which enables vigorous job growth and, consequently, a solid demand for offices. This factor in combination with the shortage of quality offices in the central part of Barcelona and Madrid generates rental price hikes. The economic outlook of leading analysts places Spain's economic growth at approximately 2% in terms of GDP over the next two years. As a result, we trust that the office market in both cities will perform well.

The prospects for the city of Paris are still attractive with a slew of dynamic elements in the short and medium terms such as the "Grand Paris" project, possible positive impacts of Brexit, an accelerated growth of the economy based on reforms and the 2024 Olympics on the horizon.

**P. VIÑOLAS**

As I explained earlier, 2018 was a year of transformation for Colonial and laid the foundations for solid growth in the coming years.

Among the main milestones, I would like to highlight that during these months we managed to generate a pipeline of projects worth over 1,300 million euros. Once completed over the next 5 years, the projects will be able to generate annual rents of approximately 100 million euros.

Colonial's teams are also focused on harness the rent increases in the markets where we operate and occupying the Axiare projects completed in 2018.

Additionally, we will continue examining the possibility of recycling capital through divestment of real estate without further value travel and reinvestment in attractive investment opportunities in the office market. And we shall do this while maintaining the maximum financial discipline and ensuring a financial structure of "Investment Grade".

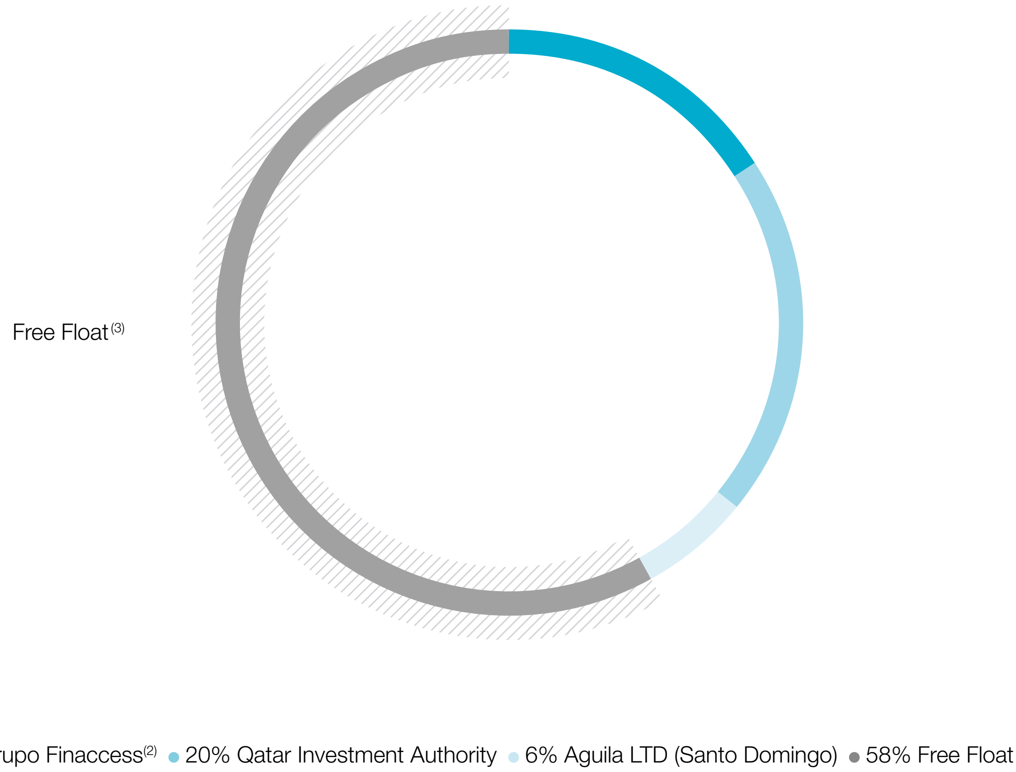
In short, 2018 has allowed us to build a more solid platform with excellent growth prospects for the future, based on a strategy of creating industrial value with a high "Alpha" component in the return for our shareholders.

# 01 Shareholders structure and Corporate Governance

# 1.1. Shareholder structure

Colonial's shareholder structure is as follows:

**▼ Shareholder structure at 28/01/2019 (1)**




(1) According to reports in the CNMV and notifications received by the company.
(2) Through Hofinac BV, Finaccess Capital, S.A. de C.V. and Finaccess Capital Inversores, S.L.
(3) Free float: shareholders with minority stakes and without representation on the Board of Directors.

# 1.2. Corporate Governance

The best Corporate Governance practices are the pillar central to the Colonial Group's strategy. The Corporate Governance Unit reports directly to the Appointments and Remuneration Committee of Colonial Group and provides advice and proposals to said Committee, on the actions required to maintain the suitability of the corporate governance of the Company according to national and international best practices and recommendations. Therefore, on 31 December 2018, of the total of 64 recommendations from the Code of Good Governance of Listed Companies, the Company complied with 59 recommendations; did not comply with 2 recommendations; and 3 recommendations were not applicable. The Unit is also committed to transparency in the areas of greatest relevance to the investors and shareholders of the Colonial Group.

The work of the Colonial Group in terms of Corporate Governance was recognised by the EPRA, FTSE4Good and MSCI sustainability indexes, obtaining the highest possible score in this area.

## Board of Directors

The **Board of Directors of Inmobiliaria Colonial**, in accordance with the Bylaws of the Company, is vested with the broadest powers in all aspects of the administration, representation and management of the Company, and the administration and disposition of its assets, being responsible for all the powers not attributed by the Law or Bylaws to the Annual General Meeting.

The Board performs its duties with unity of purpose and independent judgement, applying the same treatment to all shareholders in the same position and is guided at all times by the best interests of the Company, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value. Likewise, in pursuing the interests of the Company, as well as upholding laws and regulations and conducting itself in a manner based on good faith, ethics and respect for generally accepted customs and best practices, the Board of Directors shall seek to reconcile its interests, to an appropriate extent, with the legitimate interests of its employees, suppliers, customers and the remaining stakeholders that might be affected, as well as the impact of its activities on the community as a whole and on the environment.

In the Ordinary Annual General Meeting on 24 May 2018, shareholders were informed of the amendment made to the Regulations of the Board of Directors that affect article 1 of the aforementioned regulation, of which the only objective was the adaption to the new corporate name (Inmobiliaria Colonial, SOCIMI, S.A.).

### COMPOSITION OF THE BOARD OF DIRECTORS

Directors are appointed at the Annual General Meeting or, in the case of a vacancy, by the Board of Directors, exercising its power of co-option, in accordance with the stipulations of the Corporate Enterprises Act.

The procedure and the criteria to be followed for appointing and re-electing candidates to the Board are included in Legislative Royal Decree 1/2010, of 2 July, which approves the revised text of the Corporate Enterprises Act, in the Bylaws, in the Regulations of the Board of Directors, and in the Selection and Diversity Policy.

The Selection and Diversity Policy of Inmobiliaria Colonial, SOCIMI, S.A. is based on the principles of diversity and balance in the composition of the Board of Directors, with the general objective of providing effectiveness and professionalism to the operation of the Board of Directors and increasing the quality of corporate management. In this sense, when selecting or re-electing candidates to the Board, the Company is guided by the purpose of reaching an appropriate balance in the Board of Directors in the best interest of the Company.

The selection of candidates requires a prior analysis of the needs of the Company, which will be conducted by the Board of Directors, following a report from the Appointments and Remuneration Committee. In this process, they will search for people that have the necessary qualifications and professional and personal honourability requirements, as well as abilities and skills. Once these requirements are met, it will be ensured that the selection processes within the Board of Directors favour diversity in age, gender, disability and professional training and experience.

In terms of diversity, Colonial follows the international standards and following the international standards and recommendation 14 of the Code of Good Governance of Listed Companies (the **"CGG"**), the goal that in 2020 the number of female Directors will represent at least 30% of the total members of the Board of Directors.

Similarly, within the objectives of the Policy, when appointing Directors it is anticipated to follow the general criteria on the composition of the Board of Directors, especially as relates to the balance in the presence of Executive, Proprietary and Independent Directors, with respect to the principles and recommendations included in the CGG.

Colonial currently has two Executive Directors, who hold the positions of Chairman of the Board of Directors and Chief Executive Officer. All the delegable duties in accordance with the law are delegated to the Chief Executive Officer, and some duties of the Board of Directors are delegated to the Chairman. In accordance with the above and in compliance with applicable regulations, as long as the Chairman of the Board of Directors is appointed as an Executive Director, the Board of Directors has appointed a Director to coordinate between the Independent Directors (Mr. Carlos Fernández-Lerga Garralda), who has special powers (among others) to: request a meeting of the Board of Directors or the inclusion of new points on the agenda of an already convened Board meeting; to coordinate and gather the non-Executive Directors; and to lead, where appropriate, the periodic evaluation of the Chairman of the Board of Directors.

On 31 December 2018, the composition of the Board of Directors of Inmobiliaria Colonial, SOCIMI, S.A. was as follows:

**▼ Composition of the Board of Directors on 31/12/2018**

| Name | Position | | Nationality | Committee Role |
|---|---|---|---|---|
| Juan José Brugera Clavero | Chairman | Colonial | Spanish | Chairman |
| Pere Viñolas Serra | Chief Executive Officer | Colonial | Spanish | Member |
| Sheikh Ali Jassim M. J. Al-Thani | Proprietary Director | QIA | Qatari | |
| Adnane Moussanif | Proprietary Director | QIA | French | Member |
| Juan Carlos García Cañizares | Proprietary Director | Aguila LTD (Santo Domingo) | United States | Member |
| Carlos Fernández González | Proprietary Director | finaccess | Spanish | Member |
| Javier López Casado | Proprietary Director | finaccess | Spanish | |
| Ana Sainz de Vicuña | Independent Director | | Spanish | Chairwoman |
| Carlos Fernández-Lerga Garralda | Independent Coordinator Director | | Spanish | Member<br>Chairman |
| Javier Iglesias de Ussel Ordís | Independent Director | | Spanish | Member |
| Luis Maluquer Trepat | Independent Director | | Spanish | Member |
| Francisco Palá Laguna | Secretary - Non-Director | | Spanish | Secretary |
| Nuria Oferil Coll | Vice-Secretary - Non-Director | | Spanish | Vice-Secretary |

● Executive Committee ● Nominations and Remuneration Committee ● Audit and Control Committee

10%
**Women represent of the Board, with the goal of reaching at least 30% in 2020**

36.3%
**are Independent Directors and 45.4% are Proprietary Directors**

27.3%
**are Foreign Directors**

At the Ordinary Annual General Meeting held on 24 May 2018, the appointment of Mr. Javier López Casado as Proprietary Director was approved, increasing the number of Directors from ten to eleven. The seven Directors whose term of office expired in 2018 were also approved to be re-elected for a period of four years. Due to the maximum limit of twelve continuous years set by article 529 xii of Royal Decree 1/2010, of 2 July, which approves the revised text of the Corporate Enterprise Act, for a Director to hold the title of Independent Director, at the time of their re-election, Mr. Carlos Fernández-Lerga Garralda and Mr. Javier Iglesias de Ussel Ordís committed to make their position of Director available to the Company prior to the Ordinary Annual General Meeting in 2020, so that the Board of Directors can make appointment decisions in the best interest of the Company.

Additionally, on 24 January 2019, Mrs. Ana Sainz de Vicuña presented her resignation as Director of the Company and, as a result, also as a member of the Audit and Control Committee. The Board, exercising its power of co-option, agreed to appoint in her place Mrs. Silvia Mónica Alonso-Castrillo Allain as a new member of the Board of Directors of the Company as an Independent Director, at the proposal of the Appointments and Remuneration Committee, maintaining the same proportion of women and Independent Directors at the end of fiscal year 2018.

## BOARD COMMITTEES

The Board of Directors has three committees in accordance with the stipulations of Royal Decree 1/2010, of 2 July, which approves the revised text of the Corporate Enterprise Act: an Executive Committee, an Audit and Control Committee (ACC), and an Appointments and Remuneration Committee (ARC).

### Executive Committee

Under the powers conferred by the applicable regulations, the Board of Directors of Colonial has an Executive Committee which can permanently delegate all or part of its delegable powers. This committee has the following composition and is governed in accordance with the provisions of the Regulations of the Board of Directors.

**▼ Executive Committee**

| Name | Position |
|---|---|
| Mr. Juan José Brugera Clavero | Chairman |
| Mr. Pere Viñolas Serra | Member |
| Mr. Adnane Mousannif | Member |
| Mr. Juan Carlos García Cañizares | Member |
| Mr. Carlos Fernández González | Member |
| Mr. Carlos Fernández-Lerga Garralda | Member |

### Audit and Control Committee

The main function of the Audit and Control Committee is to support the Board of Directors in all its supervisory tasks by means of regular revisions of the economic and financial information preparation process; of the efficiency of internal controls of the Company, internal auditing and risk management systems; as well as discussing with the account auditor the weaknesses of the internal control system detected in the audit process, all without compromising its independence.

This includes proposing a report on the Control and Risk Management Policy to the Board of Directors that identifies, at least, the different types of risk: financial, non-financial, operational, technological, legal, social, environmental, political and reputational risks. The supervisory function of the rules of the Internal Codes of Conduct and the CSR Policy also includes the assessment of non-financial risks.

On 31 December 2018, the Audit and Control Committee (ACC) was comprised of the following Directors:

▼ **Audit and Control Committee**

| Name | Position |
|---|---|
| Ms. Ana Sainz de Vicuña[1] | Chairwoman |
| Mr. Javier Iglesias de Ussel Ordís | Member |
| Mr. Luis Maluquer Trepat | Member |
| Mr. Carlos Fernández-Lerga Garralda | Member |

(1) After the resignation of Ms. Ana Sainz de Vicuña as member of the Board, the position of Chairman of the Audit and Control Committee has been assumed by Mr. Javier Iglesias de Ussel Ordís, and its composition decreased by one person (3 members on 24 January 2019).

During 2018, the Audit and Control Committee has carried out a wide range of activities of which the main ones are listed below:

> Acted as a communication channel between the Board of Directors and the external auditor, assessing the findings of each audit.

> Evaluated its own operation.

> Supervised the efficiency and weaknesses of the internal control, internal auditing and risk management systems.

> Approved reports on the Control and Risk Management Policy, corporate governance and treasury shares.

> Supervised compliance with the internal codes of conduct.

> Analysed the performance of risks on the Company Risk Map.

> Reviewed the tax report of the Company.

> Reported to the Board of Directors on the corporate merger of Axiare Patrimonio with Colonial Group.

> Supervised the process of drawing up and presenting the required financial information.

> Reported on the ACGR.

> Issued an independence report of the auditors or auditing companies.

> Analysed and reported on treasury share transactions.

> Reported to the Board on the content of the actions of the ACC.

> Supervised the application of the measures of the Cybersecurity Action and Improvement Plan.

> Supervised the work of the Internal Audit Unit.

> Reported to the Board of Directors on the corporate acquisition of all the shares of Société Foncière Lyonnaise, owner of the companies belonging to the Qatar Investment Authority Group.

The Audit and Control Committee met on 10 occasions in 2018, always with the presence and participation of the Internal Auditor, who presented the results reports of seven projects carried out by the area, among others, updating the Risk Map, monitoring the implementation of the Cybersecurity Action Plan, analysing the concentration of suppliers, and the independence report of external auditors.

**Appointments and Remuneration Committee**

The Appointments and Remuneration Committee (ARC) is responsible for reporting to the Board of Directors regarding proposals for appointments of Proprietary and Executive Directors, and proposing the appointment of Independent Directors after the corresponding assessment of competencies, knowledge and experience required, always following the principles for diversity and balance in the composition of the Board. The committee is also responsible for proposing to the Board the Remuneration Policy for directors and people that perform Senior Management roles.

On 31 December 2018, the Appointments and Remuneration Committee was comprised of the following Directors:

**▼ Appointments and Remuneration Committee**

| Name | Position |
|---|---|
| Mr. Carlos Fernández-Lerga Garralda | Chairman |
| Mr. Javier Iglesias de Ussel Ordís | Member |
| Mr. Luis Maluquer Trepat | Member |
| Mr. Adnane Mousannif | Member |
| Mr. Juan Carlos García Cañizares | Member |

The Appointments and Remuneration Committee met a total of six times in 2018, in which the following duties were performed:

> Coordinated and presented to the Board the reports on the evaluation of the Board of Directors, its committees and the performance of its duties by the Directors.

> Analysed the objectives of variable remuneration of the Management Committee for fiscal year 2018.

> Analysed the qualification of the members of the Board of Directors.

> Proposed, based on compliance with certain indicators, the number of shares to be received by the beneficiaries of the share delivery plan, which was approved at the Annual General Meeting held on 21 January 2014.

> Proposed to the Board of Directors for the decision to set the number of members of the Board to 11 to be submitted to the General Meeting.

> Approved, for submission for the approval of the Board of Directors, a proposal of the succession plan for the Chairman of the Board of Directors and the Chief Executive Officer.

> Proposed the re-election of Independent Directors.

> Supervised the observance of the Remuneration Policy established by the Company and, in particular, proposed variable remuneration for the Chairman and Chief Executive Officer to the Board of Directors.

> Reported on the impact of digitalisation in business and the culture of the Company.

> Reported favourably on the Corporate Governance Policy.

> Reported favourably on and proposed to the Board of Directors the approval of the Annual Report on Remuneration of the Directors.

> Reported favourably to the Board of Directors on the appointments and re-elections of Directors.

> Reported to the members of the committee on the actions of the Corporate Governance Unit.

## COMMUNICATIONS AND UPDATE PLAN OF THE BOARD

The Directors of Colonial Group are vested with the broadest authority to obtain information on any aspect of the Company, to examine its books, records, documents and other logs of Company transactions, and to inspect all facilities. In this regard, they have at their disposal, among other resources, applications and software tools where they can access at any time all the information related to the Board of Directors, its committees, update plans, news bulletins, approved and signed minutes and legislative developments, among other content. Therefore, in 2018 the following documentation, among others, was made available to the Directors:

> Information on trends in corporate governance. Sustainable creation of long-term benefits.

> Memorandums regarding the main changes introduced by the General Regulations on Personal Data Protection.

> Reports of activities of the Corporate Governance Unit and the Regulatory Compliance Unit corresponding to fiscal year 2017.

> Guide of the European Commission related to the application of the General Regulations on Personal Data Protection.

> CNMV bulletins which approve the new models of corporate governance reporting and remuneration of the Directors of listed companies.

Also, with the purpose of developing and strengthening the collective knowledge of the highest governance body on economic, environmental and social issues, Colonial Group has an **Update Plan** for the Board developed by the Corporate Governance Unit, under the leadership of the Lead Independent Director, with the aim of reporting on the new technologies arising in the sector and that are causing disruptive effects in the real estate business. In 2018, the following meetings were held:

- Digitalisation. Impact on the business, on the organisation. Digital business, digital culture (first part).
- Analysis of the sector and competition.
- New demands, new markets. New businesses, Utopicu-Us.
- Payment systems, Cryptocurrencies. Blockchain. (second wave of digitalisation).

## PERFORMANCE EVALUATIONS OF THE BOARD

The Board is subject to an annual performance evaluation, a process for which the Company collaborates with an independent expert, who reviews and makes recommendations with respect to the matters comprising the evaluation. In 2018, this annual evaluation of the Board did not lead to any significant changes in the internal organisation or in the procedures applicable to Board activities, given that the self-evaluation was satisfactory.

The Board committees also perform annual evaluations of their operation. The results of 2018 show that its composition, internal organisation and the exercise of the powers attributed to it are in accordance with the provisions of the applicable regulations and of the various corporate texts of the Company.

The Internal Regulations of the Board provides for the possibility of adopting an action plan to correct possible deficiencies that could be detected with respect to the following: (i) the quality and efficiency of the operation of the Board of Directors; (ii) the operation and composition of its committees; (iii) the diversity of composition and responsibilities of the Board of Directors; (iv) the performance

of the Chairman of the Board of Directors and the Chief Executive of the Company; and (v) the performance and contribution of each Director, paying special attention to those responsible for the different committees of the Board.

## REMUNERATION

The Remuneration Policy of the Directors (the "Remuneration Policy") of Inmobiliaria Colonial, SOCIMI, S.A. (the "Company" or "Colonial") is aimed at promoting profitability for Colonial and its shareholders, and the long-term sustainability of the Company, as well as incorporating the necessary safeguards to avoid excessive risk-taking or rewards for poor performance. It also aims to remunerate the work of the Directors of the Company towards achieving this purpose, always maintaining a proportional relationship to their professional performance and not largely based on the general performance of markets or of Colonial's sector, or other similar circumstances. The Company also has the fundamental objective that the remuneration received by the Directors of Colonial shall maintain a reasonable proportion to the importance of the Company, to its economic situation all times, and to the market standards of comparable companies, both foreign and domestic. At least every 3 years and as a separate point on the agenda, the General Meeting approves the Remuneration Policy that is adapted to the remuneration system established in the Bylaws. The Ordinary Annual General Meeting on 28 June 2016 approved the Remuneration Policy, which will remain in effect until fiscal year 2019. The Remuneration Policy establishes the remuneration concepts that comprise the remuneration of the Directors in their capacity as such, within the remuneration system established in the Bylaws, and includes the maximum amount of the annual remuneration for all Directors in their capacity as such. Based on the above, the Board of Directors is responsible for determining the remuneration that corresponds to each Director. To do so, it takes into consideration the individually attributed duties and responsibilities, the Directors' membership in Board committees and other objective circumstances that may be relevant. The annual remuneration established in the Remuneration Policy takes into account the level of responsibility of the Directors (in particular, of the Executive Directors), ensuring that it is competitive with that applied in other comparable entities based on capital, size and international implementation, having studied and analysed these for the determination of Colonial's Remuneration Policy. To determine the annual remuneration, the proposal of the Remuneration Policy put before the Board by the Appointments and Remuneration Committee (the "ARC") takes into account the specific characteristics of each position and the level of responsibility and dedication required. The Executive Directors of Colonial, as opposed to the non-Executive Directors, do not receive any specific remuneration for being members of the Board of Directors of the Company or of its committees, these remuneration concepts being integrated into the fixed remuneration established for them in their respective contracts. Likewise, the remuneration of the Executive Directors established in their contracts is aligned with the Remuneration Policy, which includes (i) the amount of the fixed annual remuneration and its variation in the period to which the policy refers; (ii) the different parameters for fixing variable components (linked to short-, medium- and long-term performance criteria determined by the Board, such as dedication and professional excellence, degree of compliance with objectives of the annual budget, investment and/or occupancy rates of properties); and (iii) the main terms and conditions of their contracts, specifically including their duration, indemnity payments for early resignation or termination of the contract, and exclusivity, post-contractual non-competition, seniority or loyalty agreements. The Board of Directors is responsible for fixing the remuneration of the Directors for the performance of executive duties and the terms and conditions of their contracts with the Company in accordance with the Law and the Remuneration Policy. Moreover, on 21 January 2014, the General Meeting approved the establishment of a remuneration system that includes giving shares to Executive Directors and members of the Management Committee, subject to compliance with certain parameters, with this system being effective until 2021. Currently, only the Executive Directors receive variable remuneration that is dependant on the performance of their duties. The Regulations of the Board of Directors provides for the Directors, its committees and the members belonging to them, to request external advisory services on the matters they consider necessary. In this sense, for fiscal year 2018, advisory services from Spencer Stuart were used regarding the internal evaluation of the Board of Directors.

In accordance with the Remuneration Policy applicable to the current fiscal year, the maximum amount of the annual remuneration for all the Directors as a whole in their capacity as such is 1,900,000 euros. To this end, the Board of Directors of Colonial Group determined the following distribution, applicable to the current fiscal year:

> Directors are entitled to receive a fixed annual amount of 50,000 euros.

> The Deputy Chairman of the Board is entitled to receive a fixed annual amount of 100,000 euros.

> The Coordinating Director is entitled to receive an additional fixed annual amount of 75,000 euros.

> Directors are entitled to receive an amount of 3,000 euros for participation and attendance allowances for each meeting of the Board of Directors that they attend.

> The Deputy Chairman of the Board is entitled to receive an amount of 4,800 euros for participation and attendance allowances for each meeting of the Board of Directors that he/she attends.

> The Deputy Chairman of the Executive Committee is entitled to receive an amount of 4,800 euros for participation and attendance allowances for each meeting of the Executive Committee that he/she attends.

> The members of the Executive Committee are entitled to receive an amount of 3,000 euros for participation and attendance allowances for each meeting of the Executive Committee that they attend.

> The Chairman of the ACC and the Chairman of the ARC are entitled to receive an additional fixed annual amount of 50,000 euros each.

> The remaining members of the ACC and the ARC are entitled to receive an additional fixed annual amount of 25,000 euros each.

> The Chairman of the ACC and the Chairman of the ARC are entitled to receive an amount of 4,800 euros for participation and attendance allowances for each meeting of the ACC and the ARC that they attend, respectively.

> The remaining members of the ACC and the ARC are entitled to receive an amount of 3,000 euros for participation and attendance allowances for each meeting of the ACC and the ARC that they attend, respectively.

The Executive Directors do not receive remuneration for being members of the Board of Directors or of its committees, or a fixed annual amount, or remuneration for participation and attendance allowances for the Board of Directors.

## Risk Management

Colonial's main objective is to have continuous sustained growth, providing value to stakeholders and managing all risks that could arise in the course of its activities. In this regard, Colonial has a Control and Risk Management System (hereinafter "CRMS").

In accordance with the Regulations of the Board of Directors of Colonial, the Board of Directors is responsible for, and may not delegate, the duty of determining the Control and Risk Management Policy, including tax risks, by identifying the main risks of the Company. It is also responsible for implementing and supervising the internal information and control systems, with the aim of ensuring the future viability and competitiveness of the Company, adopting the most relevant decisions for its best performance. The Audit and Control Committee is responsible for the duties of managing and monitoring the risk management of the Company, by developing and supervising the CRMS. To fulfil these responsibilities, the committee has the following areas:

> Internal Audit Unit (IA), responsible for reviewing the Control and Risk Management System, which is carried out using the Risk Map and the ICFRS.

> Regulatory Compliance Unit (RCU), responsible for updating the regulatory risks that affect the Company, including criminal risks.

> Financial Operations Area, responsible for monitoring tax risks.

Regarding internal control measures, in accordance with Colonial's Control and Risk Management System, risk owners are responsible for monitoring and carrying out the effective control and management of their risks.

### MAIN RISKS AND INTERNAL CONTROL

After the approval of the Corporate Risk Map in 2017, in fiscal year 2018, the evolution of risks was reviewed, updating the degree of exposure of the Group to each of them in terms of impact and probability. To do so, the main changes that occurred in the socio-economic environment, in the office rental real estate sector, and in the situation of the Group were addressed. The main risks of the Company are currently grouped into the following categories:

| Type of risk | Main risks |
|---|---|
| **Strategic risks**<br>The risks related to the sector and the environment in which the Group carries out its business, the markets in which it operates and the strategies adopted in order to carry out its activities are analysed below. | > Risks associated with the situation of the sector<br>> Risks associated with a competitive sector<br>> Risks related to the value of their assets |
| **Corporate risks**<br>Risks related to the organisational structure, corporate culture, corporate policies and key decision-making processes of the governing bodies are analysed. | > Reputational risks and risks concerning social commitment<br>> Corporate governance risks<br>> Anticipation of new trends |
| **Operational risks**<br>Operational risks refer to the risks arising from losses due to failures or flawed management of operations. | > Financial risks<br>> Asset management risks<br>> Security risk of information systems |
| **Compliance risks**<br>Potential regulatory risks in relation to compliance with obligations arising from applicable legislation, agreements with third parties and obligations self-imposed by the Group, mainly through its Code of Ethics and Code of Conduct, are analysed. | > Regulatory compliance risks<br>> Tax risks |
| **Reporting risks**<br>In order to cover any reporting risks that may arise from errors or a failure to comply with requirements concerning the public information to be disclosed by the Group, and to ensure the reliability of this public information, Colonial has developed an Organisational and Monitoring Model of the Internal Control Financial Reporting Systems (ICFRS), with Internal Audit being responsible for performing the necessary examinations to verify compliance with the ICFRS policies, manuals and procedures, validating the effectiveness of the controls in place in these processes. | |

To identify and prioritise risks, the Internal Audit Unit holds meetings with the Area Executives, to whom it sends a questionnaire for the assessment of risks, in terms of impact and probability. In this way, the Unit guarantees that the executives have the opportunity to identify and assess new risks that have been detected and that could affect the Company. In the event that the areas indicate a new risk, it is reported to the rest of the Directors for assessment.

In 2018, Internal Audit drew up the revision of the risk development that makes up the Colonial Risk Map; and in 2019 it is expected to update, with each Area Executive, the assessment, controls implemented and action plan for each of the risks that they are responsible for.

In fiscal year 2018, no new emerging risks were identified as a result of the map assessment process, although given the new situation, which is a result of the growth of the Group, the prioritisation of risks has been updated. In this sense, two risks that could have the greatest impact on the activity of the Company are the following:

1. **Change in the real estate cycle:** Risk of the assets of the Group losing value due to changes in the cycle of the sector. To mitigate this risk, the Group analyses, as a part of its business plan, the portfolio of properties with the aim of analysing the maturity of each asset and maximising their profitability and, therefore, their value.

2. **Changes in the Socimi tax system:** In order to be prepared for any legislative change in this area, Colonial has a Tax Policy, with a tax strategy and a tax risk management system, that establishes the appropriate measures for controlling and monitoring risk management in this area, and specifically with respect to compliance with the requirements of the Socimi tax system.

In addition to updating the Risk Map, in fiscal year 2018 the following activities were undertaken in the risk management area:

> The Internal Audit Unit revised the asset evaluation process in order to evaluate the reliability of the controls implemented to guarantee the consistency of the process and the correct assessment of properties.

> The Internal Audit Unit monitored the complete implementation of the Cybersecurity Action and Improvement Plan by the Information Systems Department.

> The Internal Audit Unit reviewed the controls established in the Internal Control Financial Reporting System (ICFRS).

> The Internal Audit Unit reviewed the suppliers of Colonial to identify potential sustainability risks in the supply chain. To do so they analysed the different types of suppliers and identified those that could be more critical within each category. In accordance with the results obtained, certain suppliers will be monitored.

> The RCU undertook Colonial's adaptation to the General Regulations of Data Protection. It also provided specific training on this area across the different levels of the Company affected by this regulation.

> The RCU revised and updated the regulatory risk matrix, with advising from Deloitte.

> In order to reduce environmental risks, the Colonial Business Area developed maintenance and improvement actions for buildings, within the framework of the Sustainability Master Plan. In accordance with the established schedule, the objective is for the entirety of the buildings to obtain green building certificates, internationally known as BREEAM and LEED.

> In accordance with the tax risk analysis of the Company, the Finance Area has developed controls to guarantee compliance with the requirements arising from the Socimi tax system. It also drew up a report with the analysis of the Group's tax contributions, as well as the main figures in this regard.

> Finally, Colonial's Internal Audit Unit was strengthened by hiring a new person in the department.

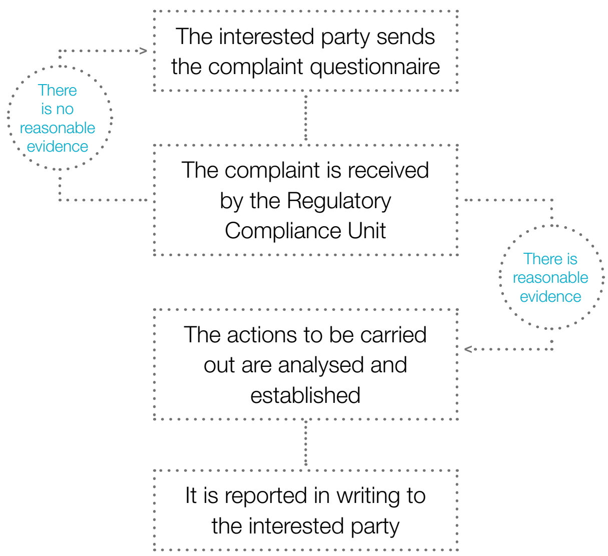
# Ethics and Compliance

## CODE OF ETHICS

In 2011, addressing the recommendations of good governance generally recognised in the international markets and the principles of social responsibility accepted by the Company, Colonial approved the **Code of Ethics** of the Company. This document lays down Colonial's commitment to the principles of corporate ethics and transparency, and establishes the basic values that should guide the activities of Colonial employees. The Code of Ethics is available to all employees on the Company Intranet, so that it can be seen at any time. In addition, with every new hire, the Code of Ethics is given to the new employee.

| **Principles of conduct** | **Relationship with and between the employees of the Group** | **Commitment to third parties and to the market** |
|---|---|---|
| > Respect for current legislation | > Non-discrimination, mutual respect and equal treatment | > Free competition |
| > Professional integrity | > Equal opportunities | > Integrity in management |
| > Respect for the environment | > Work/life balance | > Customer relations |
| | > Right to privacy | > Relations with contractors and suppliers |
| | > Occupational health and safety | > Relations with shareholders |
| | | > Privileged and confidential information |
| | | > Safeguarding corporate assets |
| | | > Conflicts of interest |
| | | > Neutrality |
| | | > Social commitment |
| | | > External activities |

Colonial also has an **Internal whistle-blowing channel** available to its employees through which they can make any query about the content of the Code of Ethics or, if necessary, communicate any suspicion of irregular behaviour. All communications are handled by the Regulatory Compliance Unit, satisfying the principles of confidentiality and non-retaliation, to promote and allow professionals of the organisation to bring forth issues that are important to Colonial. In fiscal year 2018, no complaints were received through the Internal whistle-blowing channel.



## PREVENTION OF REGULATORY RISKS

In addition to the Code of Ethics, Colonial has a system for preventing regulatory risk, which is managed through the Regulatory Compliance Unit. Within the scope of preventing the different regulatory risks, the Company has a Criminal Risk Prevention Manual, an Anti-Money Laundering and Counter Terrorism Financing Manual, and Internal Rules of Conduct on Matters related to the Securities Market, in addition to the Internal Audit Units and the Regulatory Compliance Unit. On a recurring basis, Colonial also reviews the applicable internal and external regulations, by means of the Regulatory Compliance Unit, advisors and external lawyers, to guarantee the Company's full and correct compliance with them.

Within the framework of the actions to prevent regulatory risks, the Regulatory Compliance Unit met formally on a total of six occasions, to discuss the following issues: the update of the regulatory risk matrix, the analysis and approval of corporate texts, communications related to Internal Rules of Conduct on Matters related to the Securities Market, and the communication to new employees of Colonial Group regarding the content of the Code of Ethics. However, there is constant contact between the members of the Regulatory Compliance Unit and they discuss various issues without the need for a formal meeting and the corresponding meeting minutes.

In 2018, special attention was given to adapting the Company's policies and procedures to the General Data Protection Regulation (GDPR) of the European Union, applicable as of 25 May 2018. Below is a summary of the main activities undertaken in this regard:

> Approved new security and privacy policies.

> Drew up an informative document on the rights conferred by the new regulations regarding data protection and communication of these to employees, suppliers and customers.

> Adapted the clause on contracts, information and documents regarding privacy and collection of personal data available at the reception desks of buildings and on video surveillance signs.

> Employee training: Gave in-person training sessions for Colonial employees in Madrid and Barcelona. Also, at the level of the Board of Directors, news bulletins were made available to the Directors and specific training was discussed in the Audit and Control Committee.

> Created the Treatment Activities Log (TAL).

> Drew up models of PIAs (Privacy Impact Assessments) and incident management.

## FIGHT AGAINST CORRUPTION AND BRIBERY

As a part of its commitment to integrity and professional excellence, Colonial has adopted policies and procedures with the purpose of preventing any type of corruption, bribery or money laundering in its activities. Therefore, in addition to the mechanisms mentioned above for the prevention of regulatory risks, the Company has a separation of duties model and a purchase authorisation system to increase control with respect to corruption and bribery. The main activities performed in 2018 are the following:

> The RCU interviewed all the members of the Management Committee and the head of IT Systems with the aim of identifying if any cases of corruption/fraud had been detected in their departments or if they were aware of any such case. None of the interviewees have detected any case of corruption/fraud.

> The tasks and reviews performed by the Internal Audit Unit always grant special attention to fraud/corruption.

> In 2018, the Internal Audit Unit analysed the concentration of suppliers from the last two and a half years, with the aim of monitoring the control of the suppliers with which the Company operates, the levels of revenue received by them and the routes of approval for this revenue. With this purpose, the software application (Qlikview), which was developed in 2017, was reviewed with the aim of optimising/improving the reporting of this application.

> The Internal Auditor participates in and is a part of the Contracting Work Group for all project bidding processes (for projects with an amount > €60,000). The work group met on 77 occasions in 2018, regarding 46 different bidding processes.

> With respect to preventing money laundering and terrorist financing, the measures established in the Anti-Money Laundering and Counter Terrorism Financing Manual approved by Colonial continued to be applied. The procedures and internal control bodies were also subject to examination by an external expert.

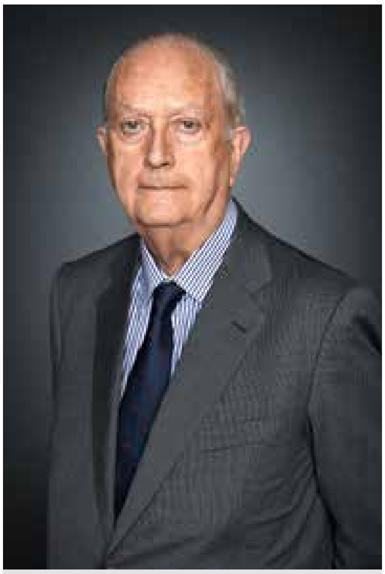
Following the trend of recent years, in 2018 no cases of corruption were identified in Spain or in France.

## CONFLICTS OF INTEREST

With respect to the management of possible conflicts of interest, the Regulations of the Board of Directors include the legal provisions of the duty of loyalty and the duty to avoid conflicts of interest, along with the imperatives and exemptions systems. In accordance with the foregoing and by virtue of these rules, the Directors must abstain from participating in deliberation and voting on resolutions or decisions in which such Directors or people related thereto have a direct or indirect conflict of interest. The Company also has internal procedures to identify and manage any conflicts of interest that may arise during its day-to-day business.

In this sense, in order for Colonial to acquire the shares of Société Foncière Lyonnaise owned by Qatar Holding LLC and DIC Holding LLC, for the purposes established in articles 229 and 230 of the Corporate Enterprise Act, the authorisation of the transaction between the Company and Qatar Holding LLC and DIC Holding LLC was submitted for the approval of the Extraordinary Annual General Meeting of Colonial, held on 8 November 2018.

# 1.3. Direction team



**Mr. Juan José Brugera Clavero**
Chairman

**Mr. Pere Viñolas Serra**
Chief Executive Officer

**Mr. Albert Alcober Teixido**
Chief Operating Officer

**Ms. Carmina Canyet i Cirera**
Corporate Managing Director

**Ms. Angels Arderiu Ibars**
Chief Financial Officer

**Mr. Carlos Krohmer**
Chief Corporate Development Officer

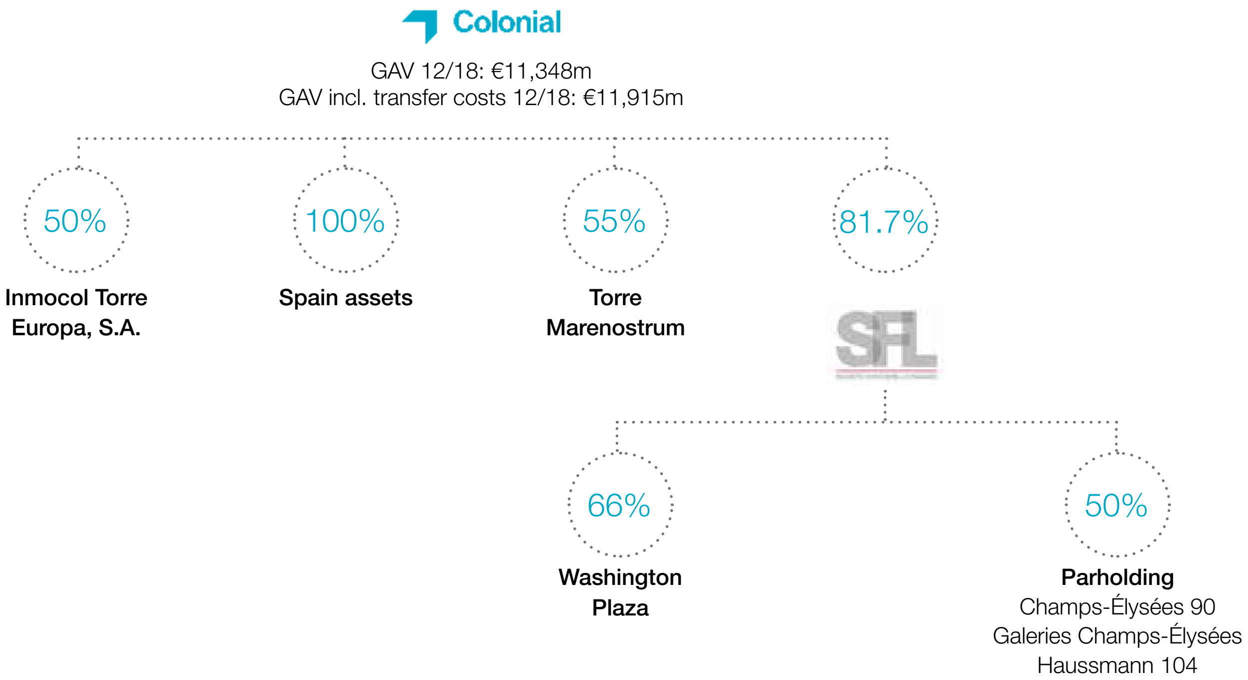
**Ms. Nuria Oferil Coll**
Chief Legal Officer

**Mr. Juan Manuel Ortega Moreno**
Chief Investment Officer

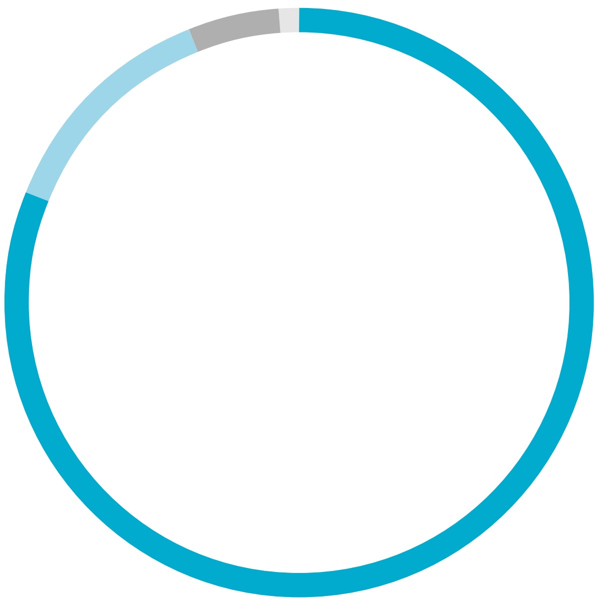
**Ms. Begoña Muñoz López**
Chief Human Resources

# 1.4. Colonial Group Structure

## ▼ Colonial Group




## ▼ SFL - Shareholder structure at 31/12/2018



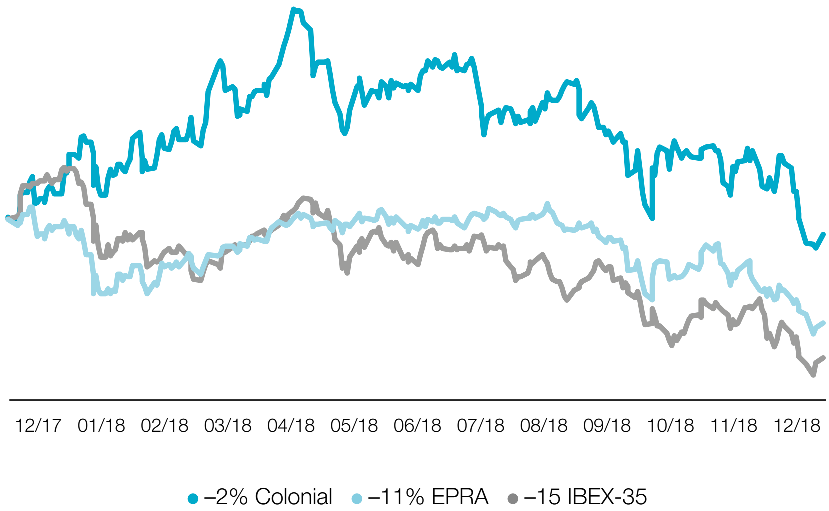
● 82% Colonial ● 13% Crédit Agricole Group ● 5% Free Float ● 1% Treasury Shares

# 1.5. Share price performance and investors relationship

## Evolution Colonial quotation

Colonial's shares closed 2018 at 8.15€ per share (–2%), in a framework of increased volatility in the capital markets during the second half of 2018.

As of the date of the presentation of annual results, 21 analysts, both national and international, covering the company. It is worth highlighting the reports issued by JP Morgan, with a target price of €11.2/share, as well as Renta4 and Barclays with a target price of €11.1/share and €10.6/share respectively.




| Institution | Analyst | Date | Recommendation | Target Price |
|---|---|---|---|---|
| **1** Green Street Advisors | Peter Papadakos | 03/12/2018 | Buy | Restricted |
| **2** JP Morgan | Neil Green | 15/11/2018 | Overweight | 11.2 |
| **3** Renta4Banco | Pablo Fernández | 05/07/2018 | Buy | 11.1 |
| **4** Banco Sabadell | Ignacio Romero | 16/11/2018 | Buy | 10.6 |
| **5** Barclays | Celine Huynh | 06/12/2018 | Overweight | 10.6 |
| **6** Bankinter | Jesús Amador | 03/12/2018 | Neutral | 10.6 |
| **7** Kempen & Co | Max Mimmo | 05/12/2018 | Buy | 10.5 |
| **8** ING | Jaap Kuin | 16/11/2018 | Buy | 10.4 |
| **9** Kepler Chevreux | Mariano Miguel | 16/11/2018 | Neutral | 10.4 |
| **10** Alpha Value | Laura Parisot | 16/11/2018 | Buy | 10.4 |
| **11** Goldman Sachs | Jonathan Kownator | 08/10/2018 | Buy | 10.3 |
| **12** Natixis | Pierre-Edouard Boudot | 27/03/2018 | Buy | 10.1 |
| **13** Morgan Stanley | Bart Gynses | 11/12/2018 | Overweight | 10.0 |
| **14** JB Capital | Daniel Gandoy | 16/10/2018 | Neutral | 10.0 |
| **15** Alantra Equities | Fernando Abril-Martorell García | 16/11/2018 | Buy | 10.0 |
| **16** BPI | Flora Trindade | 07/02/2019 | Neutral | 9.5 |
| **17** Intermoney Valores | Guillermo Barrio | 28/11/2018 | Neutral | 9.5 |
| **18** Citi | Aaron Guy | 17/12/2018 | Sell | 8.9 |
| **19** Societe Generale | Álvaro Soriano de Miguel | 04/02/2019 | Sell | 8.3 |
| **20** Mirabaud | Ignacio Méndez | 16/11/2018 | Sell | 8.1 |
| **21** Bankinter Securities | Juan Moreno Martínez de Lecea | 30/07/2018 | Sell | 7.8 |
| **Analist consensus with updated report** | | | | **9.9** |

## Shareholder and Investor Relations

Since it is aware of the importance of maintaining transparent and fluid communication with its Stakeholders, the Colonial Group has a series of two-way communication channels in different formats with the aim of creating a relationship of trust with its shareholders and investors.

To this end, Colonial offers the following Communication Channels:

### SHAREHOLDER OFFICE

E-mail: accionistas@inmocolonial.com
Phone: 93 404 79 10
Address: Av. Diagonal, 532
08006 Barcelona

### INVESTOR RELATIONS

In 2018, the Investor Relations team was strengthened with the incorporation of a new member, reaffirming the value that the Group grants to communication with shareholders, investors and analysts.

E-mail: inversores@inmocolonial.com
Phone: 93 404 78 98
Address: Av. Diagonal, 532
08006 Barcelona

### CORPORATE WEBSITE

The Colonial Group corporate website has dedicated one of its spaces to consistently offering the most relevant and up-to-date information for its shareholders and investors. Through this channel, stakeholders have access to all the documentation regarding the financial and non-financial information of the company (corporate governance, sustainability, etc.), the agenda with the upcoming results presentations, roadshows, conferences and other events of interest, monitoring Colonial's performance with regard to analyst recommendations, access to relevant facts, and the list of press releases published about Colonial.

https://www.inmocolonial.com/accionistas-inversores/home-accionistas-inversores

The Colonial Group also has a public-access Policy on Communication and Contact with Shareholders, Institutional Investors and Proxy Advisors on its corporate website. This Policy reflects the commitments and priorities of the Group in relation to communication and information.

https://www.inmocolonial.com/sites/default/files/col_politica_de_comunicacion_y_contactos_con_accionistas_inversores_inst.pdf

### WEBCASTS

In line with its aim of maintaining transparent and fluid communication with its stakeholders, Colonial has made a total of 5 open access webcasts. These webcasts are intended to present the quarterly results, performance of the business (4 webcasts), and developments in relation to the "Alpha" investment projects (1 webcast), as well as to resolve the doubts of investors and analysts.

### MEETINGS WITH INVESTORS

In recent years, a change has been observed in investor relations trends, which has resulted in a more proactive attitude on the part of companies when it comes to organising in-person meetings with investors and analysts throughout the year.

In 2018, Colonial held over 45 meetings with its investors, between Investor Day, Roadshows, Asset Tours and Conferences, holding meetings with over 400 investors.

**Investor Day**

In October 2018, the 4th edition of Colonial Investor Day took place in Madrid. This is an annual meeting in which the progress of the Group's Business Plan and the degree of achievement of strategic KPIs are presented. This year, the Colonial Group extended its duration from one to two days, to be able to communicate, in detail, all the relevant aspects on current performance and the creation of the future projected value. The event was attended by domestic and foreign investors and analysts. It is worth noting that, for the first time, advances in the ESG (Environmental, Social and Governance) corporate strategy and in the areas of innovation and Proptech were presented as one of the strategic pillars of the Group.

### Roadshows

With the aim of providing coverage to foreign investors, Colonial has attended a total of 34 conferences and events in 7 countries, including the United States, the United Kingdom and the Netherlands. In this type of meeting, the Colonial Group communicates the progress of the current Business Plan and the achievement of defined objectives to its shareholders and investors around the world, with the aim of developing a forward-looking attitude when organising Roadshows.

### Asset Tours

Investors also have the option to participate in the different Asset Tours that Colonial carries out on a recurring basis to display its assets. In 2018, a total of 10 tours were carried out in Barcelona, Madrid and Paris. The aim is for investors to become familiar with the assets and projects firsthand, as well as the industrial vocation of the Colonial Group in the transformation of prime office buildings, and to go beyond the results presented in documents or via telephone conferences.

### Conferences

As a reference real estate Group, the Colonial Group attends and organises various conferences in the industry. Over the past few years, there has been a growing concern for investors regarding environmental, social and governance issues (ESG), which is expected to increase in the coming years. In light of this reality, Colonial is focusing its efforts on responding to the concerns of its shareholders and investors on this subject, communicating the advances made in recent years and the objectives for the future, through the previously detailed communication channels, as well as in this Integrated Annual Report.

## ANALYST COVERAGE

There are currently 21 bank analysts, both domestic and foreign, that cover the company. It is noteworthy that an increase has been observed in analysts following the progress of Colonial in terms of ESG (Environmental, Social and Governance).

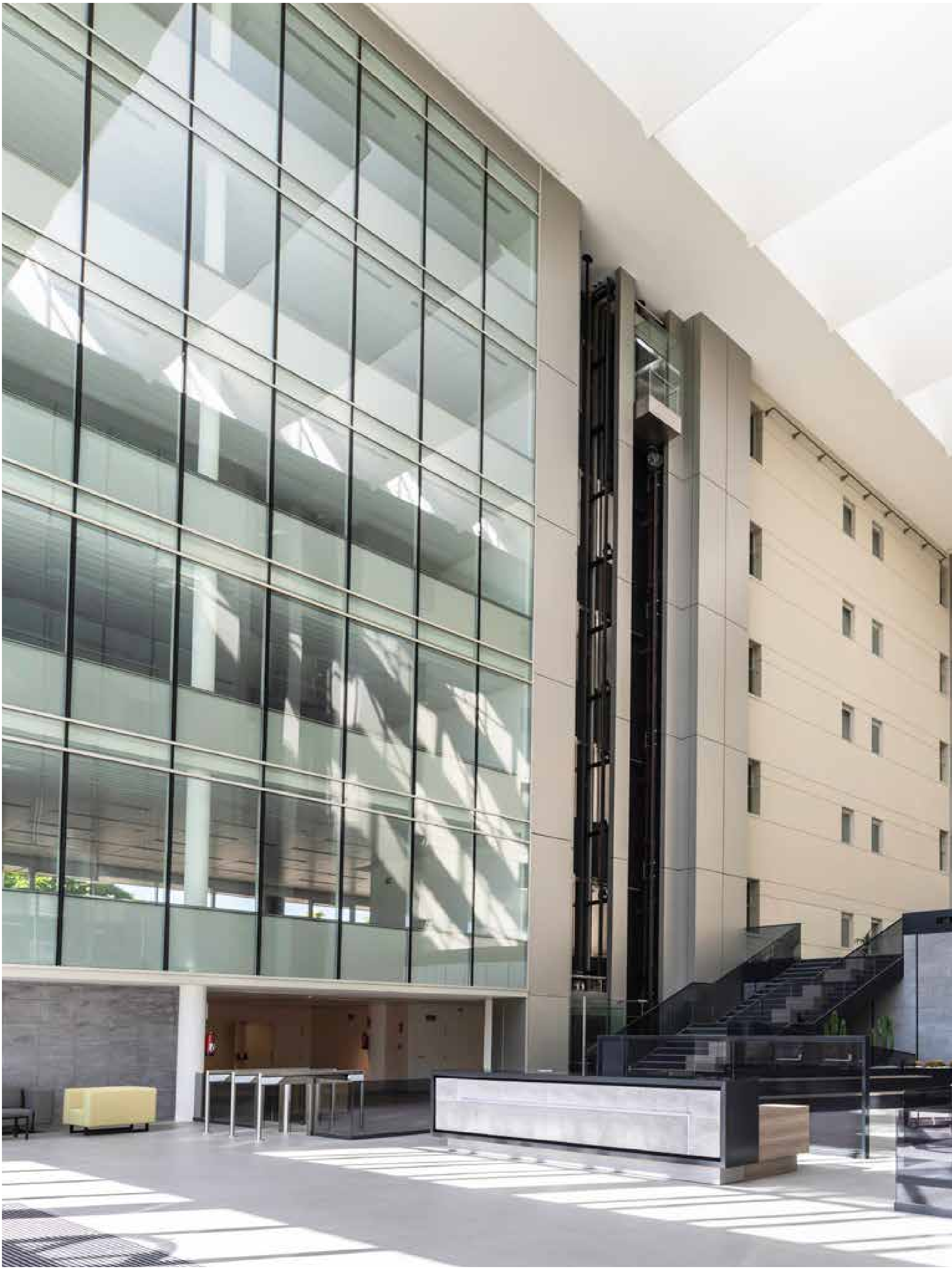
## PROXY ADVISORS

Regarding proxy advisors, there has also been an upward trend in the number of queries related to ESG issues, as well as more contact with them on the dates on which Shareholder Meetings are held.

5
**open access webcasts**

45
**meetings with its investors**

21
**bank analysts cover the company**



# 02 Highlights 2018

**2.1.** Year results

**2.2.** Solid fundamentals in all segments

**2.3.** Merger and integration of Axiare in record time

**2.4.** Active portfolio management

**2.5.** A strengthened balance sheet

**2.6.** Growth drivers

19%

**Total Annual Shareholder Return**

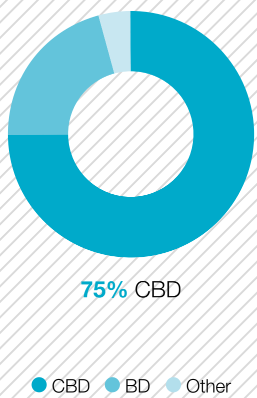
10.03
€/share

**Net Asset Value (+17%)**

| **Financial Highlights** | **2018** | **2017** | ***Var*** | ***LFL*** |
|---|---|---|---|---|
| EPRA NAV - €/share | 10.03 | 8.60 | *+17%* | |
| EPS recurring - €/share | 0.223 | 0.215 | *+4%* | |
| Gross Rental Income - €m | 347 | 283 | *+23%* | *+5%* |
| EBITDA recurring - €m | 280 | 229 | *+22%* | *+5%* |
| Recurring Net Profit - €m | 101 | 83 | *+22%* | |
| Attributable Net Profit - €m | 525 | 683 | *na* | |
| GAV Group €m | 11,348 | 9,282 | *+22%* | *+8%* |
| EPRA NAV €m | 5,098 | 3,744 | *+36%* | |

| **Operational Highlights** | |
|---|---|
| EPRA Vacancy | 4% |
| Rental Growth[1] | +8% |
| Barcelona | +10% |
| Madrid | +8% |
| Paris | +5% |
| Release Spread[2] | +26% |
| Barcelona | +23% |
| Madrid | +29% |
| Paris | +14% |

**Unique exposition to Prime**




(1) Signed rents *vs*. market prices at 12/2017 (ERV 12/17).
(2) Signed rents on renewals *vs*. previous rents.

## Double digit value creation

19% annual

**Total Shareholder Return**[(1)]

+17% *vs.* previous year

Net Asset Value of **€10,03** share

+22%

Gross asset value of **€11.348m** (+8% like-for-like)

## Bottom line results accelerating

€0.22 per share

**Recurring net profit per share**

+22%

Recurring net earnings of more of **€100m**

€1.16 per share

Net profit of **€525m**

## Strong income growth

23%

Gross rental income of **€347m**

+5%

Gross rental income like-for-like

## Solid operating results

> Capturing rental price increases

+8%

*vs.* 2017 ERVs[(2)]

+26%

release spreads[(3)]

> Solid occupancy levels of 96%
> Successful project delivery
> ESG[(4)] Leadership

## Active portfolio management

> Integration of Axiare in record time: **more than €5m** in annual synergies

> Execution of the Alpha III and Alpha IV projects with prime acquisitions of more than **€1,100m**

> Non-core disposals of **€441m** with a **+12%** premium over GAV[(5)]

## A strengthened balance sheet

> Upgrade on in S&P rating to BBB+ (highest real estate rating in Spain)

> LTV of **39%** with a liquidity of **€1,793m**

(1) Total return = NAV per share increase + dividend paid.
(2) Signed rents *vs*. market prices at 12/2017 (ERV 12/17).
(3) Signed rents on renewals *vs*. previous rents.
(4) ESG = Environmental, Social and Governance.
(5) GAV 06/18 operating assets & acquisition Price + future capex for the project.

# 2.1. Year results

## Double-digit value creation for shareholders

Colonial closed 2018 with an EPRA Net Asset Value of €10.03/share resulting in a year-on-year increase in value of +17%, which together with the paid dividend of €0.18 per share led to a Total Shareholder Return of 19% in 2018.

In absolute terms, the EPRA NAV amounts to more than €5,098m (+36% year-on-year).

This outstanding value creation for the shareholders was owe to a strategy of industrial value creation with a high Alpha component. The main aspects are the following:

1. **Successful project delivery**: Discovery, Window and Parc Glories completed and rented, in addition to other significant advances in current projects and refurbishments.

2. **The execution of Alpha IV**: acquisition of a 23% stake in SFL at a double digit discount over NAV combined with the sale of non-strategic assets with a premium on GAV.

3. **The capturing of important rental increases** thanks to excellent fundamentals in the CBD, where Colonial has a unique exposure of 75%.

## Significant increase in value of the real estate portfolio

The gross asset value at 31 December 2018 amounted to €11,348m (€11,915m including transfer costs), with an increase of +22% year-on-year after the integration of Axiare.

**In like-for-like terms**, the increase in **the value of the portfolio was +8% year-on-year**, with solid growth in all segments of the asset portfolio.

The office buildings in **Barcelona** are highlighted with an annual increase of **+19% like-for-like**, and those in **Madrid** up **+12% like-for-like**, both driven by significant growth in the rental prices achieved in 2018. The **Paris portfolio increased +5.5% like-for-like** in 2018, a much higher growth than the majority of competitors.

The value of the logistics portfolio has increased +13% year on year.

19%

**Total shareholder return based on real estate value creation**

## Acceleration in net profit

2018 was a transformational year for the Colonial Group, enabling an acceleration in the strategic plan.

It has specifically resulted in:

1. The consolidation of leadership in prime offices and an enhancement of the project portfolio.

2. The strengthening of its positioning in Madrid.

3. An increase of the CBD exposure of the office portfolio up to 75%.

The main milestones with impacts on the net profit were the following:

1. The merger and rapid integration of Axiare, incorporating a Grade A office portfolio with a strong presence in Madrid, taking advantage of business and cost synergies.

2. Alpha IV: disposal of €441m of assets in secondary areas and investment of €786m[1] in the prime CBD by increasing the stake in SFL up to 81.7%.

3. Active liability management sheet through various transactions, enhancing the capital structure of the Group, and resulting in an improvement in the S&P rating to BBB+.

All of the transactions were carried out during the whole year 2018 and consequently are only partially reflected in the 2018 results. Accordingly, it is important to highlight that this

(1) Includes the acquisition of 1% of SFL at the end of 2018.

will allow for a significant acceleration in the growth of the net profit in 2019.

Colonial closed 2018 with a **recurring net profit of over €100m, an increase of +22% year-on-year**. The recurring net profit per share amounts to €0.22, confirming the guidance communicated on the Investor Day in mid-October 2018.

The recurring net profit was boosted through the incorporation of Axiare and a very substantial like-for-like growth in rental income.The positive effects of the purchase of the 23% stake of SFL and the optimization of the financial structure is not significantly reflected in 2018, as the transactions were completed in the last weeks of the year.

Including the significant increase in asset value, the net profit of the Colonial Group **amounts to €525m, corresponding to €1.16/share**.

## Strong growth in income

Colonial closed 2018 with a **Gross Rental Income of €347m, up +23% compared to the previous year** and confirming the guidance given on the Investor Day in mid-October. This important growth is based on:

1. The incorporation of Axiare after its merger with Colonial.

2. Additional income from recent acquisitions and delivered projects.

3. A like-for-like increase of +5%.

This level of 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 positioning in the CBD.

The strong like-for-like growth of the rental income was obtained for all of the segments in which the Group operates:

1. **Paris +5.0%** due to rental price increases and new leases signed on Washington Plaza, Cézanne Saint Honoré, 103 Grenelle & Galerie Champs-Elysées.

2. **Madrid +4.2%** boosted by rental price increases and new leases signed on the Alfonso XII, Génova & José Abascal 45 properties.

3. **Barcelona +4.2%** due to rental price increases across the whole portfolio.

+5%
**Paris**

+4.2%
**Madrid**

+4.2%
**Barcelona**

# 2.2. Solid fundamentals in all segments

## Capturing rental price increases

The Colonial Group's business has performed very well with a robust pace in new leases and levels close to full occupancy.

In 2018, the Colonial Group signed 103 rental contracts, corresponding to more than 175,000 sq m and secured an annual rental income of €43m.

More than 117,000 sq m of the leases signed related to the office portfolio, achieving significant rental uplift.

Compared with the market rent (ERV) at December 2017, **signed rents in 2018 increased by +8% and the release spread was +26%**.

In **Barcelona**, rents were signed **+10% above market rents**, in the **Madrid portfolio it was +8%** and in the **Paris portfolio it was +5%. Release spreads** were in **double digits** in 2018: **Barcelona +23%, Madrid +29% and Paris +14%**.

Colonial's total letting activity is spread across the three markets in which the Company operates. In 2018, 96,176 sq m were signed in the Spanish portfolio across 73 contracts.

Particularly noteworthy in **Madrid** are the two recently delivered projects: on the one hand is the signed of the more than 10,000 sq m on Príncipe de Vergara (The Window) with various tenants, and on the other, the signing of more than 9,800 sq m on the Discovery building, also with various tenants. Of note is the renewal of 16,000 sq m with Iberia on the Martinez Villergas property.

In **Barcelona**, worth noting is the the new leases signed of more than 3,600 sq m in Parc Glories as well as new leases for more than 2,000 sq m signed in Amigó 11-17 and 1,000 sq m in Diagonal 609, among others.

In **Paris**, more than 21,000 sq m were signed across 27 leases. Of special interest are the renewals of over 1,300 sq m in the Washington Plaza building, as well as over 900 sq m in the Percier property. In terms of new leases, it is worth highlighting the over 7,000 sq m let in the Washington Plaza building and 5,500 sq m in the Cézanne Saint Honoré building.

## Solid occupancy levels

The **total vacancy of the Colonial Group's portfolio** (including all uses: offices, retail and logistics) **stood at 4%** at the end of 2018. Particularly noteworthy are the office portfolios of Barcelona and Paris, registering a **vacancy rate** of **1%**.

The Madrid office portfolio's vacancy rate stood at 11% at the close of 2018.

- 7% correspond to the Axiare portfolio, and especially noteworthy are the recent deliveries of the Ribera del Loira and Avenida de Bruselas projects. The latter unique building was completed in 4Q with more than 14,000 sq m of maximum quality.
- 1% of the vacancy corresponds to the recently delivered projects of The Discovery Building and The Window building with an occupancy of 85% and 89%, respectively, at the close of 2018. Both assets are generating a lot of interest and are expected to be soon fully let.
- The rest of the Madrid portfolio has a vacancy of 2%.

The current available GLA represents a supply of maximum quality in attractive market segments, where there is clearly a scarcity of Grade A products. Consequently, this offers significant potential for additional rental income to be captured in the coming quarters.

At the end of 2018, the logistics portfolio of the Colonial Group had a vacancy of 14%, mainly due to the entry into operation of the first phase of the project located in San Fernando de Henares.

## Successful project delivery – "real estate transformation"

In 2018, three projects were successfully delivered, two of them were acquired in 2015 (The Discovery Building and The Window) and one in 2016 (Parc Glories) under the framework of the Alpha I transaction. The three buildings are references in their markets and have obtained rents well above the initial underwriting.

Parc Glories in Barcelona has become a landmark building in the 22@ district, a market that has been transformed into a top-tier technological hub in Europe. The building has open-plan floors of 1,800 sq m and houses the headquarters of an American technology company "King" for Southern Europe and the head offices of Schibsted, a Norwegian technological company.

The Discovery Building has generated strong interest in the market and has enabled synergies to be generated with the projects from Axiare's portfolio. Almost 4,000 sq m of GLA has been occupied by tenants coming from the Miguel Angel and Velázquez buildings, on one hand accelerating the occupancy of the asset and on the other hand, accelerating the start of refurbishments works on both projects.

The Window is a state of the art office building in the Madrid market both for its uniqueness (a building with many terraces) as well as its hybrid nature. It combines traditional office space (7,500 sq m) with a coworking space through our subsidiary UtopicUs (3,850 sq m). This mixed offering has accelerated its leasing and attracted tenants at much higher prices than our initial expectations.

The yield on cost (rental yields over total cost[(1)]) is around 8%. The increase in value was more than +87% compared to the total cost[(1)]. Consequently, the total return (10 years ungeared IRR) of these investments has greatly exceeded the 10% originally indicated, contributing to significant value creation for Colonial's shareholders.

On the other hand, the market consolidation is accelerating in the south of the CBD in Madrid. The disposal of the Torre Mendez Álvaro turnkey project for the Catalana Occidente headquarters confirms the high interest in this area. As a consequence the 90,000 sq m Mendez Álvaro Campus project has seen a significant value acceleration by the favourable evolution of this submarket, located just a few minutes from the CBD and benefiting from excellent public transport infrastructure.

In Paris, the three flagship projects, Louvre des Commerces, Destination XV and Iéna are progressing very well in all urban and construction aspects. Noteworthy is the Louvre des Commerces which is generating a lot of interest in the market with the possibility of being pre-let before the start of the project.

## Leadership in ESG[(2)]

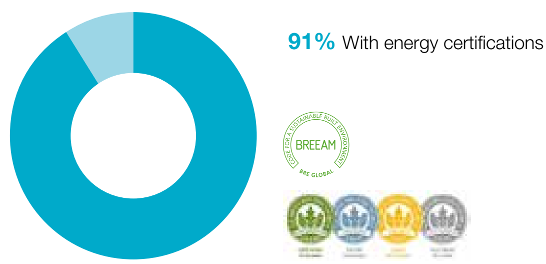
Colonial aspires to clear leadership in ESG, being a fundamental element in its growth strategy in which offering maximum quality constitutes a main characteristic.

This fact is reflected in the high level of certifications in the Colonial Group's property portfolio.

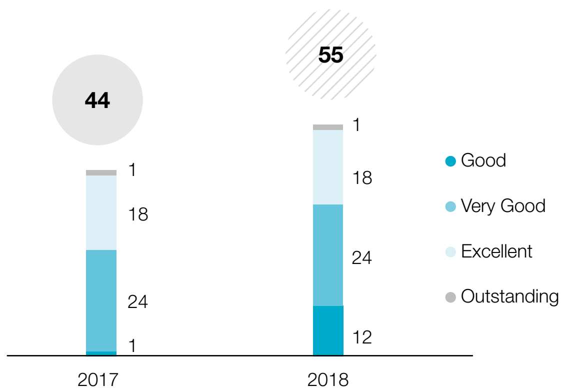
91% of the portfolio in operation has maximum BREEAM or LEED certifications. The quality of the BREEAM certificates has also improved with more than 55 certificates (+25%), and 43 of them with "very good" levels or higher.

This level of certification is clearly above the sector average. The strategic sustainability plan carries out improvements in energy efficiency, betting on continuous improvement asset by asset.

### ▼ Buildings with energy certification




### ▼ # BREEAM certifications




(1) Total cost = acquisition price + invested capex.
(2) ESG = Enviromental, Social and Governance.

In addition to the strategy on environmental sustainability, Colonial opts for the highest standards in Corporate Governance and a clear ambition in social aspects and talent attraction.

Accordingly, Colonial has achieved important advances in corporate ratings that evaluate all of the non-financial-ESG aspects:

MSCI

- > Increase **from BBB to AA** two years ago
- > One of the highest ESG Ratings on a European level
- > Very good scoring on Corporate Governance

GREEN STAR

- > GRESB member
- > **Green Star level** for second year in a row
- > Clear improvement on building certificates

EPRA sBPR GOLD

- > **EPRA Gold in sBPR** for the third year in a row
- > In 2016, Colonial was the first company in Spain to obtain EPRA Gold in ESG

FTSE Russell

- > **“Good Practise” rating**
- > Inclusion in 2018 in the **FTSE4Good index**
- > Strong scoring on Corporate Governance and Supply Chain

## BREEAM AWARDS 2019

The high quality of Colonial's portfolio is reflected in the high level of certification of its assets. In March 2019, BREEAM/GRESB recognized the Colonial Group as the leader, number one in Europe, in responsible investment through the prize "Award for Responsible Real Estate Investment" in the large portfolio category.

## THINK TANK

Colonial has been part of a European Think Tank since the end of 2017, which is made up of the 6 leading real estate companies operating in the office business: Coima, Alstria, Gecina, NSI, Great Portland Estates and Colonial.

The Think Tank was created with the purpose of developing the best practices in innovation and digitalisation, the "flexible office" and environmental sustainability.

Different meetings have been held throughout 2018, with the participation of the CEOs and senior executives of these companies. In particular, a survey was conducted in more than 6 countries with 140 participants, aimed at identifying the main future trends in the office business from the user's point of view. The main conclusions of the study were presented at the Mipim held in March 2019. The following main trends were identified: Sustainable office, Smart office, Flex-office 2.0, Serviced office and Sweet office.

## Digital Strategy and Coworking

In 2018, the Colonial Group accelerated initiatives in the Proptech area, which enable the maximization of services to clients and the leadership of new trends in the offices sector.

### UTOPICUS - COWORKING

Through its coworking subsidiary, Utopicus, Colonial has opened three new centres: two in Madrid in the Orense and Príncipe de Vergara streets, and another in Plaza Cataluña, Barcelona. In addition, license management and works have started for the opening of 7 new centres in the coming months.

Once completed, Utopicus will soon manage more than 34,900 sq m of flexible spaces with a maximum capacity of up to 4,220 users, enhancing the positioning of Utopicus as a benchmark brand in the segment of the management of flexible spaces and coworking contents in Spain.

It is worth noting the opening of a new centre in the new office building, The Window, developed by Colonial, in Príncipe de Vergara street in Madrid. The combination of flexible uses with traditional office space has allowed to achieve higher occupancy levels as well as higher rental income than expected.

### ACCELERATORS

In 2018, Colonial counted on the consulting services of Liquid, a reference company in the digital strategy consulting area. Liquid has vast experience accompanying large corporations in the digital transformations of their businesses.

**LiquiD**
**Flow to the digital age**

In addition, Colonial reached an agreement with the accelerator Metaprop in New York, which will allow Colonial to have access to all of the accelerator programs, with the possibility to collaborate with more than 25 startups in the USA and the rest of the world.

METAPROP NYC

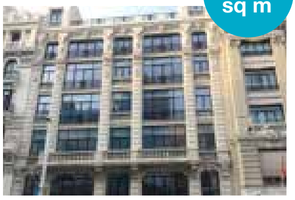
These collaborations will allow Colonial to be very close to all of the initiatives and innovation which is permanently being developed on a global level with an impact on the real estate sector. These agreements are one more step in Colonial's ambition to be at the forefront of the real estate sector and to delve into innovation as a motor of value generation.

Clementina

**600 sq m**

Gran Vía, 4

**4,990 sq m**



Parc Glòries

**2,000 sq m**

Gal·la Placídia

**4,312 sq m**

Castellana, 163

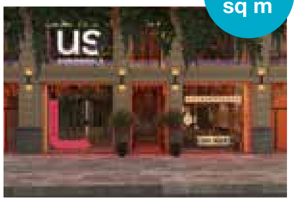
**3,600 sq m**

José Abascal, 56

**3,594 sq m**

Paseo de la Habana

**5,745 sq m**



# 2.3. Merger and integration of Axiare in record time

Colonial has successfully completed the merger and integration of Axiare in record time, consolidating its leadership in prime offices in Spain and Europe, through the creation of a strong growth platform with a unique exposure to CBD in Europe.

The integration of both companies has enabled the identification and implementation of important sources of value creation, which are only partially reflected in the 2018 figures and will fully crystalize in the coming quarters.

**1. Consolidation of prime office leadership**

> More than €347m of rental income with €154m in Spain.

> More than €11,300m in asset value with €4,779m in Spain.

> 75% of the offices GAV in the CBD.

**2. Integration of the processes in the Colonial Group's real estate value chain**

> Professionalization and internalization of the commercial circuit and supply chain.

> Optimization of the IT systems.

> Integration of 8 people from Axiare into the Colonial Group.

**3. Optimization of the resulting asset portfolio**

> Definition of a Business Plan reviewed asset by asset.

> Review and optimization of the project portfolio.

> Identification of non-strategic assets.

**4. Income synergies – strengthened competitive position in the Madrid market**

> Maximization of rental prices through leadership in Grade A product.

> Usage of the integrated portfolio for cross-selling strategies.

> Greater scope of product offering to retain and attract clients.

**5. Operational cost synergies**

Annual cost savings of more than €5m.

> Implementation of personnel cost synergies.

> Elimination of duplications in other costs.

**6. Optimization of the financial structure of the merged Group**

> Cancellation and/or refinancing of more than €500m in bilateral debt.

> Optimization of financial cost.

# 2.4. Active portfolio management

The Colonial Group maximizes the total shareholder return based on an active portfolio management, disposing of non-strategic assets with a premium over the GAV and reinvesting capital in opportunities for real estate value creation.

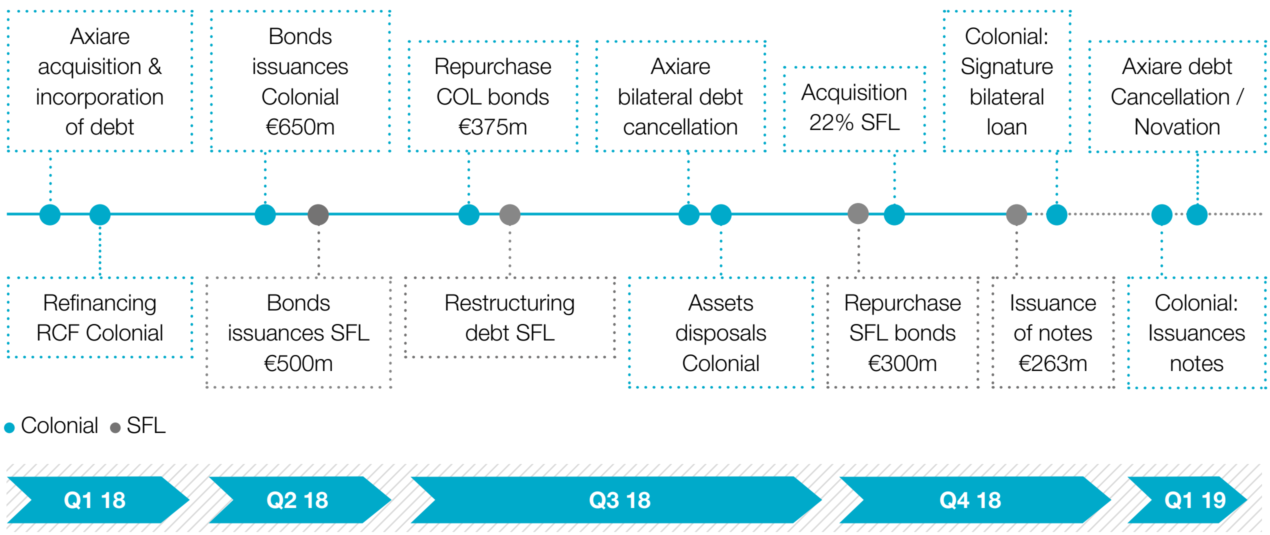
In this context, in 2018, disposals of mature assets in secondary areas were carried out for €441m with a premium of +12% over the appraisal value[(1)]. Together with the sale of the In-Out Paris complex in 2017 for €445m (a premium of +26% over GAV), €900m in capital was released in the last two years.

The funds obtained were reinvested in CBD products with an important value creation potential in the framework of the **Alpha III and Alpha IV projects** executed at the beginning and end of 2018, respectively.

(1) GAV 06/18 for operating assets and acquisition Price + future capex for the project.

# 2.5. A strengthened balance sheet

In 2018, a year marked by the acquisitions of Axiare and a 23% stake of SFL, an important active liability management has been carried out, that has allowed for an upgrade on the Standard & Poors rating up to BBB+, highest rating in Spanish real estate. The main transactions are shown in the following graph:




> Issuance of Colonial bond, under the EMTN programme, for a total amount of €650m maturing in April 2026, with an annual coupon of 2%.

> Bond buyback with maturity in 2019: In July, Colonial made an early repayment of the outstanding balance (€375m) from the bond issue maturing in June 2019 and that yielded an annual coupon of 1.863%.

> Refinancing of Colonial's syndicate loan for €350m, increasing the amount to €500m, extending maturity to December 2023 and reducing the financing spread.

> Cancellation of €396m in debt from Axiare, all of it secured by mortgage guarantees. Additionally, in the first quarter of 2019, €131m in Axiare debt has already been cancelled, and the rest of the pending debt has been refinanced for the remaining amount of €151m, improving margins and cancelling mortgage guarantees.

> The main transactions carried out by SFL were the following:

– A bond issue for SFL for the nominal amount of €500m, maturing in May 2025, with an annual coupon of 1.5%.

– The limit and maturity of its credits were adjusted, cancelling and/or reducing the limit of its undrawn facilities for €300m, extending the maturity of another credit limit of €150m from 2020 to 2023, and obtaining a new facilities with an available balance of €100m.

– In October, it bought back €300m of its bonds maturing in November 2021 (€150m) and November 2022 (€150m).

– Also in October, SFL started a short-term Euro Commercial Paper program, for the maximum amount of €300m, with the current issues of €263m at 31 December 2018.

# 2.6. 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, and relying on the following value creation drivers:

## A. An attractive project pipeline

Colonial has a project pipeline of more than €1,290m (total cost of completed product) corresponding to more than 210,000 sq m to create prime products that offer strong returns and therefore, future value creation with solid fundamentals.

## B. A strong prime positioning with a contract portfolio to capitalize on the cycle

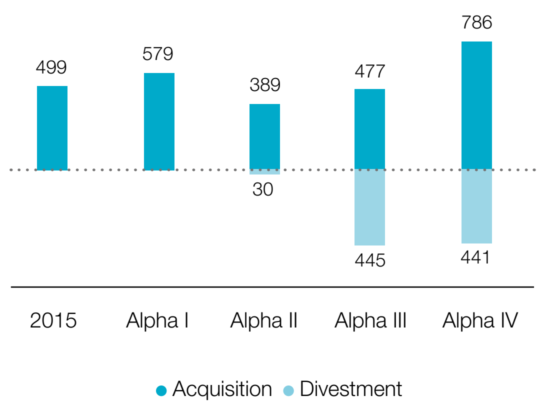
1. **A clear consolidation of prime office leadership in Spain and Europe** with a high quality office portfolio of more than 1.5 million sq m of GLA.
2. **An attractive lease term profile** to continue to capture significant rental price increases, as delivered in the last quarters.
3. **An enhanced competitive positioning in the Madrid market**: Colonial is closing letting negotiations that leverage the synergies of Colonial's new portfolio to optimise prices and maximise real estate value creation.

## C. Acquisition and Disposal Program

During the past years, Colonial has successfully delivered the organic investment targets announced to capital markets: asset acquisitions, prioritising off-market deals and identifying properties with value-added potential in market segments with solid fundamentals

Since 2015, the Colonial Group has carried out the following investments and disposals:

▼ **Net investments since 2015 - €m**




**Acquisition targets**

1. Prioritize value-added opportunities
2. Create high quality offices
3. Maintain investment discipline

**Investment parameters: Organic growth**

> **€250m per annum**

> **Ungeared 10 year IRR target**

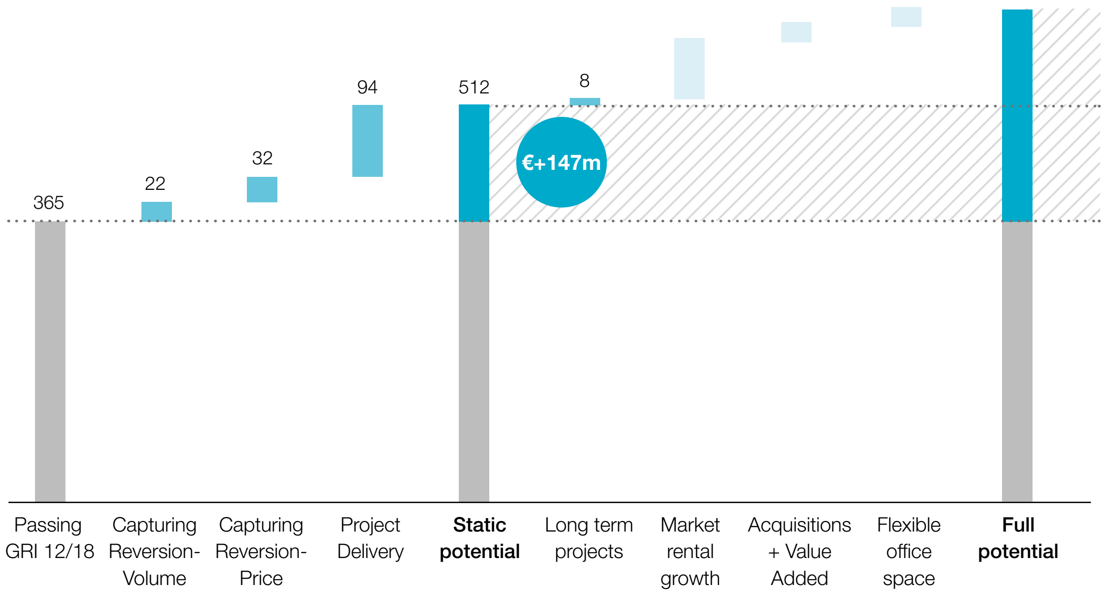
| | |
|---|---|
| Value Add Spain | 7-8% |
| Value Add France | 6-8% |
| Core Investments | 5-6% |

On 17 October 2018, MSCI has awarded Colonial for being the specialist fund with the highest real estate return in Spain during the past 3 years (return measured as capital value increase + income return). This MSCI ranking includes listed real estate investors, as well as private investors. This once again demonstrates Colonial Group's value creation capacity based on an industrial business model, with a significant Alpha component that allows the company to outperform the market.

MSCI European Property Investment Awards WINNER 2018

## Future cash flow potential

The asset portfolio of the Colonial Group has the potential to reach an annual income (passing rents) of €512m, resulting in an increase of +40% (€147m) with respect to the current cash flow.




Note: Topped-up passing rental income: annualized cash GRI adjusted for the expiration of rent free periods as per EPRA BPR.

# 03 Business evolution

# 3.1. Management of the portfolio

## Signed leases

During 2018, the Colonial Group signed leases for **a total of 117,249 sq m of offices**. 82% (96,176 sq m) were signed in Barcelona and Madrid and the rest (21,072 sq m) were signed in Paris.

**New lettings**: Out of the total office letting activity, 55% (64,416 sq m) related to new leases, spread over the three markets in which the group operates.

**Renewals**: Lease renewals relating to 52,833 sq m were completed, of which almost 40,000 sq m were renewed in Madrid.

**Release spreads stood at +26%** particularly in Barcelona +23% and Madrid +29%. In Paris, the prices signed in renewals increased by +14% compared to the previous rents.

Three lease agreements for more than 57,000 sq m were also signed within the logistics portfolio.



**▼ Letting Performance**

| December cumulative - sq m | 2018 | Average maturity | % New rents *vs.* previous |
|---|---|---|---|
| Renewals & revisions - Barcelona | 9,358 | 1 | 23% |
| Renewals & revisions - Madrid | 40,864 | 2 | 29% |
| Renewals & revisions - Paris | 2,610 | 9 | 14% |
| **Total renewals & revisions** | **52,833** | **3** | **26%** |
| New lettings - Barcelona | 16,277 | 4 | |
| New lettings - Madrid | 29,677 | 4 | |
| New lettings - Paris | 18,462 | 8 | |
| **New lettings** | **64,416** | **5** | **na** |
| **Total commercial effort** | **117,249** | **4** | **na** |

Colonial's total letting activity is spread over the three markets in which the company operates, highlighting the following actions:

**Main actions**

| Building | Tenants | Surface (sq m) |
|---|---|---|
| **Barcelona** | | |
| Park Cugat | Cargill & Markem | 5,058 |
| Sant Cugat | Accenture & others | 2,557 |
| Avinguda Diagonal 530 | CaixaBank | 2,555 |
| Berlín 38-48/Numancia 46 | Servei Meteorológic de Catalunya, Vilynx Spain & others | 2,383 |
| **Madrid** | | |
| Martínez Villergas, 49 | Iberia & others | 17,235 |
| Príncipe de Vergara, 112-114 | Utopic_us, Novo Banco, TMF Group, Fibonad & Coverwallet innovation | 10,129 |
| Discovery Building | Nuclear industry, Jewelry company, Habitat Inmobiliaria & others | 9,866 |
| Sagasta, 31-33 | Mckinsey | 6,036 |
| Poeta Joan Maragall, 53 | Public institution | 3,945 |
| Francisca Delgado, 11 | Neinver | 2,786 |
| **Paris** | | |
| Washington Plaza | Louis Capital Markets, Candriam, Liberty & others | 8,702 |
| Cezanne Saint-Honoré | Wells Fargo, leader in manufacturing & performance eyewear & others | 5,791 |
| Louvre Saint Honoré | Swiss Life Reim & others | 3,613 |
| **Logistic** | | |
| Miralcampo | Kühne + Nagel | 35,780 |
| Rivas Vaciamadrid | Grupo Severiano Servicio Movil | 9,612 |

In 2018 in Spain 96,176 sq m were signed, across 73 leases.

In **Barcelona**, more than 25,000 sq m were signed, across 30 leases. It is worth mentioning the signing of more than 5,000 sq m on the Park Cugat building, as well as the renewal of 2,000 sq m on Sant Cugat by Accenture and 2,500 sq m renewed by Caixabank, among others, on the Diagonal 530 building.

In the **Madrid** office market, more than 70,000 sq m were signed, across 43 leases. Noteworthy are the signings on the two recently delivered projects, including the signing of more than 10,000 sq m on the Príncipe de Vergara (The Window) building with various tenants, as well as the signing of more than 9,800 sq m on the Discovery Building, also with various tenants. Likewise, it is worth highlighting the renewal of 16,000 sq m with Iberia on the Martínez Villergas building, the renewal of more than 6,000 sq m with Mckinsey on the Sagasta 31-33 building and the renewal of almost 4,000 sq m with a public entity on Poeta Joan Maragall 53.

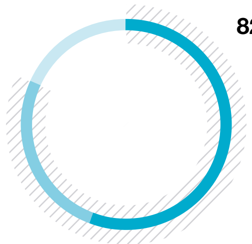
In **Paris**, more than 21,000 sq m were signed across 27 leases. Of special interest are the renewals of over 1,300 sq m in the Washington Plaza building, as well as over 900 sq m on the Percier property. In terms of new leases, it is worth highlighting the over 7,000 sq m let in the Washington Plaza building and 5,500 sq m in the Cézanne Saint Honoré building.

The transactions described above were closed with rental prices at the high end of the market.

## Tenant Portfolio analisys

Regarding the volume of rental renewals in the contract portfolio, 50,222 sq m of renewals were signed in Spain and 2,610 sq m in France.

This high volume of renewals shows the capacity of the Colonial Group to retain tenants. This fact is also reflected in the length of time the tenants stay, as 82% of the main tenants have been clients of the Group for more than 5 years.



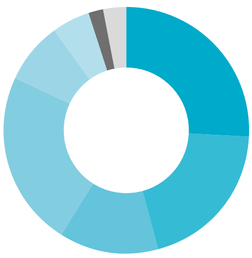

**Ranking of the 20 main tenants (42% total rent)**

| RK | Tenant | City | % s/total rents | % cum. | Antiquity - Years |
|---|---|---|---|---|---|
| 1 | Natixis Immo Exploitation | Paris | 3% | 3% | 14 |
| 2 | GRDF | Paris | 3% | 7% | 150 |
| 3 | International Business Machines | Madrid | 3% | 10% | 7 |
| 4 | La Mondiale Groupe | Paris | 3% | 13% | 11 |
| 5 | Exane | Paris | 2% | 15% | 3 |
| 6 | Hennes & Mauritz / H & M | Paris | 2% | 17% | 9 |
| 7 | Freshfields Bruckhaus Deringer | Paris | 2% | 19% | 14 |
| 8 | Grupo Caixa | Barcelona / Madrid | 2% | 21% | 26 |
| 9 | Zara France | Paris | 2% | 23% | 8 |
| 10 | Gas Natural | Barcelona | 2% | 25% | 13 |
| 11 | Cuatrecases Gonçalvez Pereira, S. L. | Madrid | 2% | 26% | 9 |
| 12 | Comuto | Paris | 2% | 28% | 4 |
| 13 | Klepierre Management | Paris | 1% | 29% | 5 |
| 14 | Facebook France | Paris | 1% | 31% | 3 |
| 15 | Grupo Comunidad de Madrid | Madrid | 1% | 32% | 22 |
| 16 | Werkhaus | Barcelona / Madrid | 1% | 33% | 14 |
| 17 | Sociedad Estatal Loterias y Apuestas del Estado | Madrid | 1% | 34% | 13 |
| 18 | PSAG Automóviles Comercial España | Madrid | 1% | 35% | 10 |
| 19 | Ingeniería y Econ. del Transporte | Madrid | 1% | 36% | 17 |
| 20 | Sellbytel Group, S. L. | Madrid | 1% | 37% | 7 |
| **Average** | | | | | **18** |

It is important to point out that Colonial has a solvent and diversified client base.

The sectors that stand out are those which, due to their type of business, require quality offices located in central business areas.

### ▼ Top Tenants - Breakdown by economic sector[1]



- **26%** Profesional Services
- **20%** Financial / Insurance
- **13%** Telecoms / Information Technology
- **23%** Consumer Goods & Industry
- **8%** Government Bodies
- **4%** Media and communication
- **2%** Logistics & Distribution
- **0.4%** Others
- **3%** Leisure / Restoration

(1) Calculated based on the entire portfolio.

11 SUSTAINABLE CITIES AND COMMUNITIES

The Colonial Group, alongside its clients, is working to obtain the Sustainable Development Goal (SDG) Number 11: **Sustainable cities and communities.**

## Customer Management

The year 2018 has been characterised as an exercise in transition for the Colonial Group in terms of the management of real estate and customers. The correct integration of assets, people and customers from the acquisition of Utopicus and the merger with Axiare Patrimonio, SOCIMI, SA, have focused a large part of the efforts made in this area throughout 2018.

With the aim of coordinating, standardising and promoting the actions of the ESG (Environmental, Social and Governance) Strategic Plan, the Customer Working Group was created in November. This group comprises representatives from the Corporate Development, Technical, Property Management, Utopicus and SFL departments and was conceived to "develop the Customer Loyalty and Satisfaction Master Plan, implement actions contemplated in the ESG Strategic Plan in this regard and propose new initiatives to develop further in consideration of the best market practices".

> Creation of the Customer Working Group (E2).

> Communication with local communities as part of the remodelling and renovation of buildings.

> Involvement of customers for developing environmental, social and good governance initiatives in real estate.

> Special attention to the accessibility of buildings and the promotion of sustainable means of transport.

| Priorities in customer satisfaction and loyalty | Main advances during 2018 |
| --- | --- |
| > Customer loyalty through proactive, personalised and trust-based relationships. | > A working group was set up to draw up the Customer Loyalty and Satisfaction Master Plan for the Colonial Group. |
| > Foster innovation by offering new services and activities in the assets. | > The acquisition of Utopicus also brings new services and activities into our assets. |
| > Promote two-way, transparent and real-time communications and relationships. | > The "Triennial Satisfaction and Quality Survey" (Spain) has been launched. SFL has drawn up the "Paris Workplace 2018" study in collaboration with Ifop. |
| > Implement online tools to manage and monitor communication channels with customers, their satisfaction and protection. | > An application was developed so that sales and marketing agents can have real-time access to the characteristics and other relevant data of all the buildings in the company's portfolio.<br>Utopicus also has the Salesforce tool to anticipate the needs of customers. |
| > Ensure the quality and technical safety of the real estate assets in the portfolio of the Colonial Group. | > Work has continued on the actions initiated in 2017, implementing the corresponding best practices. |
| > Guarantee the accessibility of real estate assets in terms of location and people (properties enabled for people with disabilities, reduced mobility, etc.). | > We have begun developing an Action Plan to adapt properties from the merger with Axiare and the acquisition of Utopicus to the standards of the Colonial Group. |
| > Promote good environmental and social practices through assets and relationships with customers. | > ESG-related questions were included in the Satisfaction and Quality Survey launched in Spain. |
| > Provide a wide range of spaces adapted to customer needs. | > With the incorporation of Utopicus (2017) and the merger with Axiare (2018), Colonial has expanded its portfolio of offices, logistics centres and coworking spaces. |
| > Promote social activities and volunteering with customers. | > Social and volunteer activities were developed in both Spain and France as described in chapter 7 "Community Relations". |

## GENERATION OF VALUE THROUGH A DIVERSIFIED PORTFOLIO

### A space for every customer

The incorporation of Utopicus to the Colonial Group at the end of 2017 and the merger with Axiare in 2018 allowed the Colonial Group to diversify its offer of properties situated at the best locations in Barcelona, Madrid and Paris to meet the needs of the different customer segments.

Colonial is currently immersed in improving its property and customer management processes. An application was developed so that the Sales Department can have real-time access to the characteristics and other relevant data of all the buildings in the company's portfolio. Implemented in 2019, it is expected to streamline and simplify the department's work of finding the property that best fits the needs of potential customers, and with it, their satisfaction.

One of the keys to guarantee correct customer management is the ability to anticipate commercial needs at all times. In this regard, Utopicus currently has a customer relations management tool.

**Office buildings**

Offices for rentals in the prime zones in Paris, Barcelona and Madrid

**Logistic Centres**

Located in the most important distribution corridors in Spain

**Coworking spaces**

Different environments, integrated in the city's landscape, fitting the needs of their users

### Location and accessibility

The location of the workplace and the connections to reach it are the characteristics most valued by employees when their expectations are analysed in terms of satisfaction and concerns for their well-being[1].

The Colonial Group is committed to office buildings and coworking spaces located in prime areas of Madrid, Barcelona and Paris, with excellent connections and access to both public transport and major interurban roads for those who choose to commute in private vehicles. Meanwhile, the Logistics Centres prioritise their location in the most important distribution corridors in Spain. This translates into an optimal use of travel time and the promotion of sustainable means of transport, thus reducing the environmental impact on asset exploitation.

Colonial also works to guarantee the physical accessibility of all properties in the company's asset portfolio, preventing any situation of discrimination towards people with reduced mobility or disabilities. At present, most assets at the existing level is accessible to wheelchair users. The percentage of adapted properties reaches 100% in Spain and 80% in France. In France, the Group has set the goal of 100% in 2020. Colonial Group considers the main standards in this regard in all renovation projects and new constructions carried out.

**Adapted properties**

100% Spain

80% France

(1) According to the 2018 Paris Workplace study developed by SFL, in association with Ifop.

## PORTFOLIO OF INNOVATIVE SERVICES

Customers are constantly adapting their organisations to the new challenges that are presented to them, and space cannot be an impediment in this process. For this reason, the Colonial Group works to design and offer spaces that stimulate creativity, motivation and collaborative work, helping its customers be more efficient and, therefore, more productive.

The acquisition back in October 2017 of Utopicus, a pioneering company in Spain for the creation of coworking spaces, is a faithful reflection of this commitment. Its integration has enabled us to respond to the needs for organisation and distribution of spaces that Colonial customers conveyed in the “Community” survey conducted in Spain this past year. It showed that companies are clearly trending towards teleworking and mobility, and a greater need for work rooms, collaborative spaces and services for working people such as gyms, changing rooms, bicycle parking or rest and relaxation areas.

Synergies between property management, corporate and Utopicus teams were fostered in 2018. This enabled the standardisation of services provided to customers of the Group’s portfolio and to communicate to customers the variety of spaces and opportunities offered by the Group.

SFL created a Design Committee that integrates the expectations of customers in renovation programs, aiming to offer a design of spaces where comfort, high flexibility and operational efficiency prevail; and an offer of services adjusted to the needs of each customer.

In its commitment to innovation and the contribution of value to customers, Colonial constantly incorporates new services and initiatives in its portfolio of buildings and spaces, which allow it to respond to the needs of organisation, ways of working and mobility of customers in each moment. This commitment has resulted in the development of the following actions in 2018:

> Installation of an external lounge in the Discovery Building.

> Installation of a cold catering service in the lounge at Recoletos 37.

> Expansion of the multi-service ticket office network of the Citibox company in the property located at C/ Martínez Villergas 49 (Madrid).

> Extension of the network of parking spaces by means of a meter (We Smart Park) at the Illacuna Building (Barcelona).

> Promotion of environmental initiatives aimed at customers such as the celebration of Sustainable Week, Green Mentor (to mentor companies and coworkers in the environmental field), World Clean Up, the opening of ECO restaurants, the preparation of a manual of good green practices in workspaces, and the organisation of other events and awareness activities at Utopicus facilities.

> Promotion of activities and social and solidarity events, including toy drives, entrepreneurship promotions, transfer of space to NGOs and Zinkers Scholarships to promote projects that help imagine new professions, ways of working and management models and disruptive working relations.

> Training in soft-skills (mindfulness, self-knowledge, stress management, corporate balance, etc.) for coworkers through the Utopic School.

> Creation of parking spaces for bicycles in the building at J. Abascal 56 in Madrid and 96 Iéna in Paris.

> Installation of car parks for electric scooters and cabinets for storing folding bicycles in the building at Avenida Diagonal 530, adapting to the new forms of mobility that are emerging in large cities.

> Creation of a gym, wellness area, meeting rooms and “Coffee Lounge” in the Washington Plaza building in Paris. The role of Community Builder was also created.

Looking ahead to 2019, we expect to continue extending the offered services to the rest of the buildings in the portfolio, specifically:

> The installation of a cafeteria and vending service in the lobby of the Illacuna Building.

> The expansion of the multiservice ticket office network of the Citibox company in buildings in Barcelona (Ciutat de Granada) and Madrid (J. Abascal 56 and Alfonso XII 62).

> Creation of an external lounge in the buildings at Santa Engracia 120 and Arturo Soria 336 (Madrid).

> Additionally, the possibility of incorporating chargers for bicycles and electric cars in their buildings is being studied, thus contributing to new forms of sustainable transport.

The actions already planned will be complemented with the ones resulting from the Action Plan derived from the three-year Satisfaction and Quality Survey launched in Spain in 2018, and the initiatives proposed by the Customer Working Group.

### PROPERTY HEALTH AND SAFETY

The Colonial Group has continued working to implement the best market practices in order to guarantee that its properties are in perfect conditions from the point of view of health and safety.

In this regard, the Group has held several meetings with the different building providers and within the Business Activity Coordination framework to ensure compliance with the standards contemplated in the pertinent Spanish health and safety legislation.

Likewise, in order to reduce the health and safety risks for occupants, the Group has continued implementing actions aimed at making assets healthier and contribute to the reduction of pollution:

> Disposal of materials and products containing asbestos whenever possible.

> Elimination of all equipment operating with refrigerants containing HCFCs (mainly R22).

> Replacing traditional air filters with SIPAP® active polarisation filters to reduce their energy consumption and continue taking care of the air quality of the buildings. They are being installed in all Colonial Group buildings in Spain.

> Abolition of fuel boilers that cause significant emissions of sulphur dioxide and nitrogen oxides.

> Study the replacement of open cooling towers as soon as possible to prevent any risk of legionella.

For this purpose, SFL implemented an Environmental Charter and a Procedures Guide in 2018 to manage health and safety risks, applicable to all the properties in its portfolio. In addition, 93% of the assets under the Group's operating management in France in 2018 were monitored in terms of health and safety risks.

### SATISFACTION MANAGEMENT

In order to understand the needs and expectations of customers at all times and thus adapt the actions to improve their satisfaction and ensure their loyalty, the Colonial Group develops satisfaction surveys adapted to each customer and location.

#### Satisfaction Surveys - Spain

Colonial conducted the triennial **Customer Satisfaction and Quality Survey** in 2018 (the last one was carried out in 2015).

This survey launched by the Property Management Department contained more questions on environmental and social issues. This has allowed us to ascertain the importance that customers give to issues such as sustainable construction, communication on the environmental and social management of buildings, accessibility, and their availability to provide Colonial with data on consumption, waste and mobility habits to calculate the corresponding carbon footprint. The questions in the survey were grouped into the following four categories:

> Corporate image
> Real estate market trends
> Colonial properties and services
> ESG and Environmental Policy

The survey covers 217 customers of Colonial's assets in Spain, except for customers in buildings who were added to the group's portfolio in 2018. Upon conclusion of the survey, 76% of the customers in the Colonial's portfolio, which in turn equals 87% of the turnover and 67% of the leased area, completed the survey, thus surpassing the target set before the survey was launched.

*Surveys with a greater emphasis on environmental and social issues*

### ▼ Main data from the 2018 Satisfaction and Quality Survey

100%

Coverage
> Entire customer portfolio[1]
> 2015: 100%

76%

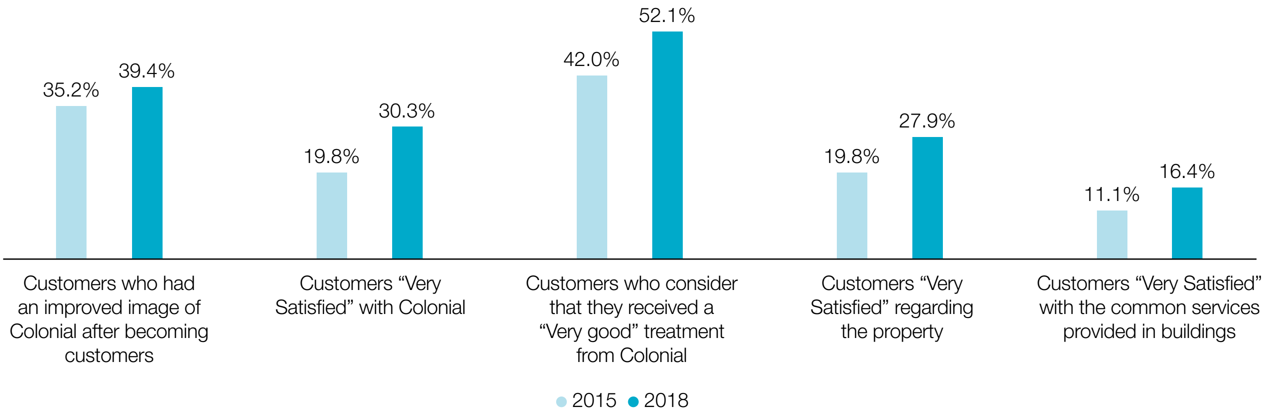
Responses
> 76% of portfolio, 217 customers
> 2015: 57.4%

70%

Objective
> 70% of portfolio, 217 customers

(1) Excluding customers located in the assets incorporated via the merger with Axiare Patrimonio, SOCIMI, SA.

A preliminary analysis of the results reflected an increase in customers who are "very satisfied" with the treatment received as customers, the property and services provided by Colonial.




### ▼ Main ESG survey results

> 99.31% of the surveyed customers consider that Colonial's consistent application of environmental policies to its properties to be important or very important.

> 90.30% positively assessed Colonial's publication of social and environmental information
> on corporate management and its properties.

> 50% of the surveyed customers are willing to collaborate with Colonial to monitor consumption, generated waste and the mobility of their employees.

With a view to maintaining a fluid and constant channel open with customers, the Customer Working Group is studying the possibility of implementing annual satisfaction surveys in addition to the triennial survey. These surveys would focus on one or several topics or target a specific % of the customer portfolio. The possibility of automating the system to conduct the survey is also being addressed.

According to customer profiles and services offered through Utopicus, a satisfaction survey was launched in 2018 for coworkers who use the workspaces and collaborative rooms that the Colonial Group places at their disposal in Madrid and Barcelona. The survey was run to ascertain their satisfaction with the workspaces offered, relationship with other coworkers and their interest in future initiatives that Utopicus will develop as events, new workspaces, slack groups for hobbies, etc.

**France satisfaction survey**

Satisfaction surveys are conducted biannually in France with the most recent one conducted in 2017. The results reflected a very high level of general satisfaction, where 92% of customers were satisfied or very satisfied with the premises provided by SFL, a figure that reached 100% in some of the buildings such as Grenelle 103 or #cloud. paris.

The location of the buildings (proximity of transport, urban environment and visibility for the company), architectural quality (state, beauty and design of the buildings), and the quality and efficiency of the workspaces (lighting, comfort and coexistence), are the areas that most people surveyed highlighted.

Beyond the surveys, the MEX (Maîtrise de l'EXploitation) web platform lets SFL continuously monitor customer satisfaction and building performance indicators over time. As of 31 December 2018, the tool was already monitoring 14 of the 20 assets.

## MANAGEMENT AND COMMUNICATION CHANNELS

In recent years, the Colonial Group has opted to implement tools that allow it to communicate more directly with its customers and involve them in the management of buildings, particularly concerning ESG.

**▼ Main co-worker survey results**

> 88% said that they connect and/or socialise with other co-workers

> 91% of the co-workers positively value the work climate and environment at Utopicus spaces

**Property manager and Community builders**

Closeness and immediacy in responses are critical in the resolution of issues that may arise in the exploitation and daily management of the property. For this reason, the Colonial Group provides its customers in Spain and France with a manager at each property with the following assignments:

> **Customer support** as the direct liaison between customers and the Colonial Group.

> **Control of operating activities**, analysing the profitability and economic viability of the property.

> As part of the Colonial Group's commitment to sustainability and the environment, managers must promote measures to reduce energy consumption and report periodically on progress made. In this regard, property managers are trained in sustainability, specifically in relation to BREEAM certification requirements.

> **Building maintenance and conservation**, keeping customers informed about any relevant action or work carried out on their properties.

The coworking spaces that the Colonial Group makes available to its customers through Utopicus have a **Community Builder** and information screens at the entrance of the buildings to offer them more specialised help about the services offered.

**Green Committees**

SFL presents the main environmental indicators at Customer Committees. This is an opportunity to exchange opinions on the performance of the buildings and planned improvements.

**Customer intranet**

Additionally, the Colonial Group offers its customers an intranet where they can remotely and agilely consult and manage all aspects related to the use of the property.

In Spain, the intranet can be accessed through Colonial's corporate website (https://www.inmocolonial.com), where the following services are offered:

- > Creation of notices for breakdowns in buildings
- > Newsletters
- > Correspondence with the concierge service
- > Surveys
- > Suggestions and Complaints Channel
- > Documentation and building manuals
- > Property Services
- > Accessibility and transport information
- > Reservations of common spaces


**Coffee with the manager" (Spain)**

With the aim of promoting a closer relationship with its customers in a relaxed atmosphere that would encourage more direct suggestions, comments and expectations, Colonial launched the "Coffee with the manager" programme in 2012.

The programme has been developing annually since then, seeking to ascertain customers' opinions about the level of comfort in the buildings, attending to the services and facilities that Colonial places at their disposal. The increase in the degree of customer satisfaction regarding the treatment received by Colonial in the 2018 Satisfaction and Quality Survey is a reflection on how well this programme is working and Colonial's commitment to fostering a close relationship with customers using its properties.

**Barometer ParisWorkPlace (France)**

Like every year, SFL conducted its annual ParisWorkPlace study in 2018, focusing on the theme of mobility, one of the most material aspects for the Group. This barometer allows us to receive high value inputs to adapt our business to the needs of users. One particularly salient piece of information is that employees with a commuting time of less than 40 minutes better evaluated their degree of well-being. The ParisWorkPlace results show that the importance that the Group gives to the accessibility and location of the properties is aligned with the expectations of the customers.

**Biannual newspaper in Washington Plaza (France)**

SFL in turn provides its customers in Washington Plaza with newspaper that is published twice a year to inform them about developments in the building.

**Welcome brochures**

Colonial Group has welcome guides for building occupants in Spain and France, in which the user can find all the information related to the building and its operation: historical presentation, schedules, accessibility (pedestrians, people with reduced mobility, vehicles, public transport, etc.), security, technical management (energy, water management, waste, etc.), catering services or other services implemented in the building.

### The Colonial Blog

Colonial's Blog (inmocolonial.com/blog) was created in 2013 with the aim of going beyond merely reporting developments at Colonial, bringing the latest trends in the real estate sector and the field of sustainability and well-being closer to customers and other corporate website visitors.

Available in Spanish, Catalan and English, the blog brings its readers weekly issues that address topics such as the importance of creating working environments where well-being prevails (lighting, air quality, advice to face a sedentary lifestyle, bad postures, etc.) to approach and retain the best talent; sustainable buildings as a tool to contribute to the fight against climate change or innovations that will mark the future of the sector.

Likewise, to promote connections with and among its coworkers, Utopicus has newsletters, discussion forums, web and an app.

### Social networks

Colonial is also active on the following social networks:

@inmocolonial

@ColonialOficina

Inmobiliaria Colonial

Colonial

To guarantee the quality of the services and facilities provided through the properties and to enhance customer satisfaction, Colonial has a Suggestions and Complaints Channel where customers can report any dissatisfaction or discrepancy. These communications can also be made personally to the Property Managers.

In 2018, a total of three complaints were received from customers. They were managed through the managers of the affected properties, fulfilling the response commitments set by the Group:

**▼ Response commitments**

> Always send a return e-mail as acknowledgement of receipt.

> Contact the affected customer during the same business day in which the shipment was made.

> Regularly analyse the set of received e-mails, looking to ensure that the events that caused them do not repeat.

## AWARDS AND RECOGNITIONS

The efforts of Colonial to develop tools that allow it to manage and monitor properties in its portfolio in real time and intelligently were recognised in December 2018 with the Netexplo Change award for the best corporate digital innovation initiative for its Smart Building System software.

The application, developed entirely by Colonial, lets managers and users quickly and intelligently manage aspects such as heating, clean air, lights or consumption of the property. It is expected to be implemented throughout the entire Colonial portfolio in 2019.

Netexplo is a World Observatory that has been analysing trends in the digital world since 2007 and studies their impact on society and companies.

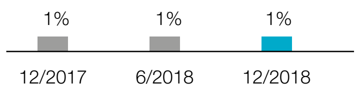
## Portfolio with solid occupancy levels

At the end of 2018, the Colonial Group's total EPRA vacancy[1] stood at 4%.

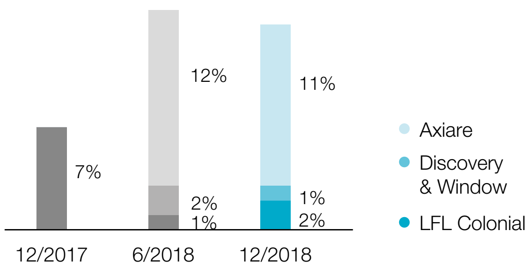
### ▼ EPRA Vacancy[2]

Office & Total Vacancy - Evolution of Colonial's Portfolio

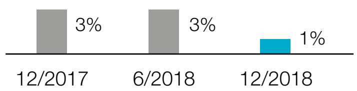
**Barcelona**



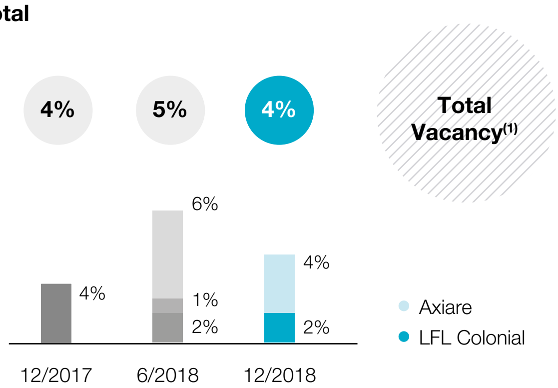

**Madrid**




**Paris**




**Total**




(1) Total portfolio including all uses: offices, retail and logistics.
(2) **Financial vacancy**: financial vacancy according to the calculation recommended by EPRA (vacant surfaces multiplied by the market prices/surfaces in operation at market prices).

Particularly noteworthy are the office portfolios of **Barcelona** and **Paris** with vacancy rates of 1%.

At the end of 2018, the office portfolio in Madrid had a vacancy rate of 11%:

> 7% correspond to the Axiare portfolio; especially noteworthy are the recent deliveries of the Ribera de Loira and Avenida Bruselas projects. The latter unique building was completed in 4Q with more than 14,000 sq m of maximum quality space.

> 1% of the vacancy corresponds to the recently delivered projects of the Discovery Building and The Window with an occupancy of 85% and 89%, respectively, at the close of 2018.

> The rest of the Madrid portfolio has a vacancy of 2%.

At the end of 2018, the logistics portfolio of the Colonial Group had a vacancy of 14%, mainly due to the entry into operation of the first phase of the project located in San Fernando de Henares.

The available GLA offers a maximum quality office space in attractive market segments, where there is a clear scarcity of Grade A products.

Consequently, they offer significant potential for additional rental income to be captured in the coming quarters.

### ▼ Vacancy surface of office

| Surface above ground (sq m) | Entries into operation[1] | BD area and others | CBD area | 2018 | EPRA Vacancy Offices |
|---|---|---|---|---|---|
| Barcelona | 1,253 | 509 | 285 | 2,047 | 1% |
| Madrid | 30,373 | 14,635 | 7,071 | 52,080 | 11% |
| Paris | 0 | 6,026 | 235 | 6,260 | 1% |
| **Total** | **31,626** | **21,170** | **7,591** | **60,387** | **4%** |

(1) Projects and refurbishments that have entered into operation.

P. Castellana, 163

Alfonso XII

López de Hoyos, 35

José Abascal, 56

Ribera de Loira, 28

Av. de Bruselas

## Commercial lease expiry and reversionary potential

### COMMERCIAL LEASE EXPIRY

The following graphs show the contractual rent roll for the coming years in the office portfolios in Spain and France.

The **first graph** shows the commercial lease expiry dates if the tenants choose to end the contract at the first possible date (break option or end of contract).

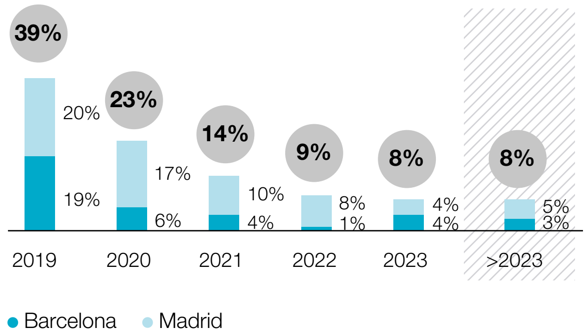
In this context, in the **Spanish** portfolio, approximately 62% of office contracts could be renewed in the next 2 years, which will enable the company to capture the rental growth cycle with one of the best products available in the market.

In **France**, the contract structure is longer term, in line with the behavior of the players in that market.

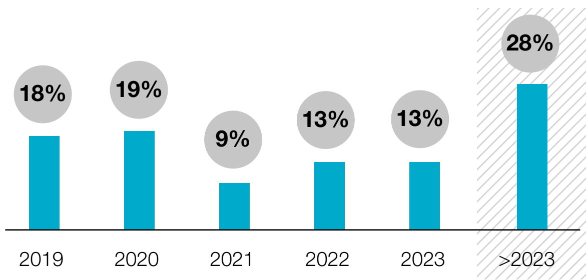
The **second graph** shows the rent roll of the portfolio if the tenants remain until the contract expires. The contract structure in Spain is more short-term than in France.

**▼ Commercial lease expiry dates in economic terms[(1)] - First Potential Exit[(2)]**
(% passing rent of surfaces to be leased)

**Spain**



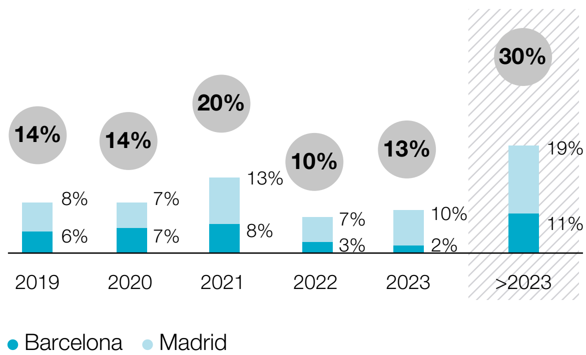

**France**



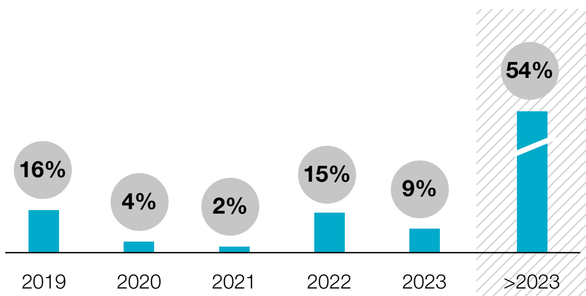

(1) % = surface to rent x current rents / current rental revenues.
(2) Renewal dates based on first potential exit of the current contracts.

**▼ Commercial lease expiry dates in economic terms[(1)] - Expiry date[(2)]**
(% passing rent of surfaces to be leased)

**Spain**




**France**




(1) % = surface to rent x current rents / current rental revenues.
(2) Renewal dates based on the expiry date of the current contracts.

### Reversionary Potential of the rental portfolio

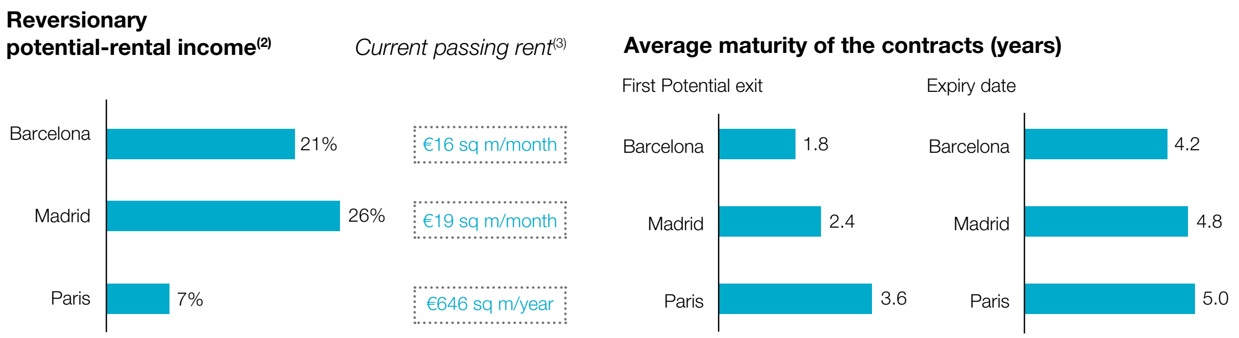
The Colonial Group's contract portfolio has a significant reversionary potential. This reversionary potential is the result of comparing the rental prices of the current contracts (contracts with current occupancy and current rents) with the rental price that would result from letting the total surface at the market prices estimated by independent appraisers at 31 December 2018 (not including the potential rents from the substantial projects and refurbishments underway).

At the close of 2018, the static reversionary potential[1] of the rental revenues of the offices portfolio (considering current rental prices without future impacts from a recovery in the cycle) in operation stood at +21% in Barcelona, +26% in Madrid and +7% in Paris.

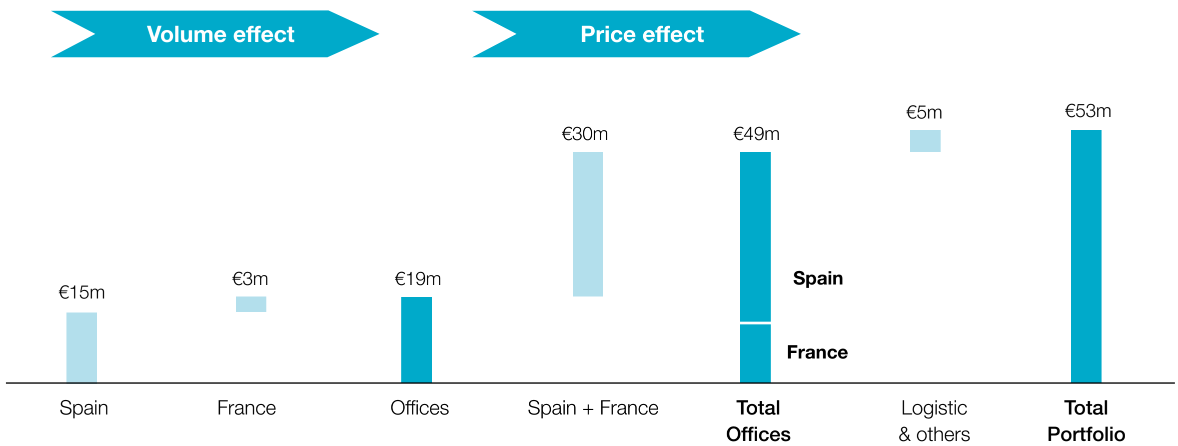
The maturity of the logistics portfolio is 3 years until the first risk and 5 years until the end of the contracts.

Specifically, the static reversionary potential[1] in the current portfolio would result in approximately €53m of additional annual rental income.

### ▼ Figures at December 2018




### ▼ Reversionary potential-rental income



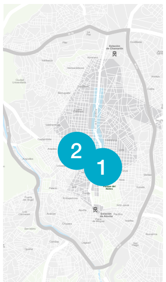
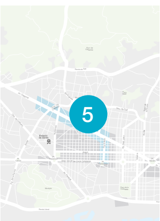

(1) Without including the positive impacts of the recovery cycle in rents.
(2) Reversionary potential: maximum portfolio potential of surface in operation.
(3) Current office rent of occupied surfaces.

# 3.2. Investments & disposals

## Acquisitions

### ALPHA III ACQUISITIONS

Colonial started 2018 with the execution of the Alpha III project. This project includes the acquisition of five assets, four in Madrid and one in Barcelona, with a total expected investment volume of €480m. With Alpha III, the Colonial Group has already achieved its investment objective for 2018.

| | | | | | |
|---|---|---|---|---|---|
| Madrid - City Center |  | 1 **Méndez Álvaro Campus** *Madrid - Inside M-30* |  | Value Added – Prime factory GLA: 89,871 sq m | Total investment[1]: €272m – €287m Yield on Cost[2]: 7%-8% |
| | | 2 **Méndez Álvaro office Scheme** *Madrid - Inside M-30* |  | Value Added – Prime factory GLA: 20,275 sq m | Total investment[1]: €68m Yield on Cost[2]: 7%-8% |
| Madrid |  | 3 **EGEO** *Madrid - Campo de las Naciones* |  | Core with value added potential GLA: 18,254 sq m | Total investment[1]: €79m Yield on Costt[2]: 5% |
| | | 4 **Arturo Soria** *Madrid - New Business Area* |  | Core with value added potential GLA: 8,663 sq m | Total investment[1]: €33m Yield on Cost[2]: 6% |
| Barcelona |  | 5 **Gal·la Placídia** *Barcelona CBD* |  | Value Added – Prime factory GLA: 4,312 sq m | Total investment[1]: €17m Yield on Cost[2]: ≥7% |

(1) Last GAV reported: GAV 06/18 for operating assets and acquisition cost + capex in the future project.
(2) Potential running yields on cost for the next years.

Under the framework of Alpha III, four assets were acquired in Madrid: the two plots of land in Méndez Álvaro located in the south of the CBD where the development of more than 110,000 sq m of offices, distributed across several office complexes, will be carried out, as well as the acquisition of two top quality assets in new business areas in the capital: Arturo Soria and EGEO -Campo de las Naciones. In addition, Colonial acquired an asset in Gal·la Placídia, located in the CBD of Barcelona, where a complete refurbishment will be carried out with the objective of strengthening coworking initiatives.

The Arturo Soria and Méndez Álvaro properties were purchased in 2017, while the EGEO and Gal·la Placídia assets were purchased in 2018.

The main characteristics of the **Alpha III** acquisitions are as follows:

> **Méndez Álvaro**. Colonial has bet on the south of the CBD in Madrid with the acquisition of more than 110,000 sq m of office space above ground. The two acquired plots of land are located in the Méndez Álvaro market, just south of the Madrid CBD, very close to Atocha station. The area counts on excellent communication links for public as well as private transport, with easy access on foot from the centre of Madrid. There are also various train and bus lines as well as quick access from the M-30. The Méndez Álvaro market has grown exponentially in the last years, with the establishment of various multinationals such as Repsol, Amazon, Ericsson and Mahou, among others.

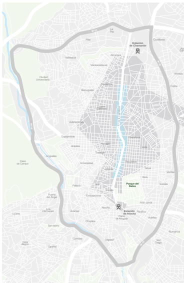
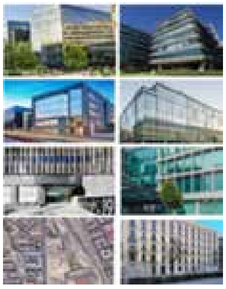
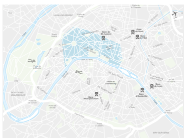
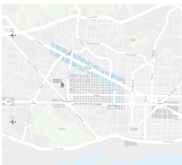
> **EGEO**. Building of 18,254 sq m above ground placed in phase 1 of Campo de las Naciones, Madrid. The asset has an unbeatable location, with easy access to public transport to the CBD and airport. The acquisition enables Colonial to incorporate a high quality building to its portfolio, with floors of 3,000 sq m divisible into up to 8 modules, allowing for higher flexibility for renting. Currently, it is 98% occupied by various tenants and has high reversionary potential. The acquisition cost is €4,300/sq m.

> **Arturo Soria**. High quality 8,663 sq m asset located in the Arturo Soria area in the North of Madrid. The asset stands out due to its location with excellent communication links, positioning the building in an optimum location to capture tenants who want to be located in the North of Madrid. It also counts on easy accesses of public transport to the city centre and airport. It is currently 100% occupied by various tenants and it has high reversionary potential. The acquisition cost is €3,300/sq m, a very attractive entry price that enables high potential for value generation for the Company's shareholders.

> **Gal·la Placídia**. This building has an unbeatable location in the Barcelona CBD, just in front of the Gracia metro station and a few metres away from Colonial's headquarters. The asset has 4,312 sq m of surface area above ground with floors of up to 1,600 sq m and large terraces, a unique characteristic in the centre of Barcelona. Colonial will carry out a complete refurbishment of the building with the objective to boost co-working initiatives and increase the cash flow generation as well as the value creation potential. Accordingly, the building will be fully rented to Utopic_US, a leader in the management of flexible spaces and co-working contents in Spain, recently acquired by Colonial. The total price of the project once completed will be below €4,000/sq m.

## ALPHA IV ACQUISITIONS

In mid-November 2018, the Colonial Group completed the Alpha IV project, which involved the disposal of non-core assets and mature products outside of the CBD for €441m, and the acquisition of prime assets for a total of €756m.

| | | | | | | |
|---|---|---|---|---|---|---|
| Disposals: €441m | Disposals | 1 **Disposals** MADRID |  |  | **Non Core & mature assets:**<br>– GLA - 106,574 sq m<br>– 7 operating office assets<br>– 1 project in Madrid | **Total disposals: €441m**<br>12% premium on GAV(1) |
| Investments: €756m | Acquisitions & project pipeline | 2 **22% of SFL** PARIS |  |  | **Opportunistic acquisition**<br>– Paris Prime CBD<br>– Enhanced exposure flagship projects in Paris | **Total investment: €718m**<br>19% discount on NAV |
| | | 3 **Acquisition Diagonal 525** BCN |  |  | **Value added - Prime Factory**<br>– GLA - 5,710 sq m<br>– Redevelopment project<br>– Prime CBD - Diagonal | **Total investment: €37 sq m**<br>Yield on Cost > 6%<br>IRR 7-8%(2) |

1. **Disposals**: In the third quarter, Colonial sold 7 office buildings and a turnkey project in Madrid for a total of €441m.

   The sales were carried out under favourable conditions for the company, with a premium over valuation of 12%[3]. The assets sold were non-strategic and mature properties and/or located outside of the CBD, with a gross lettable area of more than 106,000 sq m.

2. **Acquisition of 22% of SFL**: In November, Colonial and Qatar Investment Authority (QIA) reached an agreement in which Colonial would control up to 81% of its French subsidiary SFL. The transaction took place through the transfer of 22.2% of SFL's shares owned by QIA (13.6% by Qatar Holding LLC and 8.6% by DIC Holding LLC) to Colonial.

Note: Acquisition price + future capex.
(1) Last reported GAV: GAV 6/18 for operating assets and Acquisition Price + Future capex in Project.
(2) 10-year ungeared IRR.
(3) GAV 6/18 for operating assets and acquisition price + future capex in the project.

The transaction was structured by:

- A non-cash capital increase of 53,523,803 Colonial shares, representing 10.5% of the Company's share capital post-transaction, for which QIA delivered 7,136,507 SFL shares to Colonial, representing 15.34% of the share capital of the French subsidiary.
- An exchange of shares between Colonial and QIA in which QIA exchanged a total of 400,000 SFL shares in its ownership, representing a total of 0.86% for 3,000,000 Colonial shares held by the Company as treasury shares.
- The acquisition of 2,787,475 SFL shares, representing 5.99% of the share capital, for which Colonial paid €203m to QIA.

The total investment volume amounts to €718m. A quarter of that amount corresponds to a cash payment by Colonial combined with the exchange of treasury shares, enhancing the economics of the deal. The main part of the transaction was structured through a non-cash capital increase of Colonial fully underwritten by QIA.

The transaction was completed on very favourable terms for Colonial, which acquired 10.3 million SFL shares, representing 22.2% of the share capital, at an average price of €69.6 per share, resulting in an average discount of 19% over the last reported NAV.

With this transaction, the Spanish Company will make a significant step forward in the strategy of simplifying the Group's shareholding structure and strengthening it with long-term investors.

3. **Acquisition of a prime asset in Barcelona – Diagonal 525**: Colonial has acquired a 5,710 sq m above-ground office building in Barcelona's prime Avenida Diagonal. Currently, the building is 100% let to one tenant, while the building is expected to undergo a full-scale refurbishment.

At the end of 2018, various shareholders approached Colonial to offer their SFL shares, allowing the Colonial Group to acquire around 1% of additional SFL capital, raising its current stake in its French subsidiary to 81.7%.

# Project portfolio

## DELIVERED PROJECTS

In 2018, three projects were successfully delivered which were acquired in 2015 (The Discovery Building and The Window) and in 2016 (Parc Glories), under the framework of the Alpha I transaction. The three buildings are references in their markets and have obtained rents well above the initial underwritting.

Parc Glories in Barcelona has become a landmark building in the 22@ district, a market that has been transformed into a top tier technological hub in Europe. The building has open-plan floors of 1,800 sq m and houses the headquarters of an American technology company "King" for Southern Europe and the head offices of Schibsted, a Norwegian technological company.

The Discovery Building has generated high interest in the market and enabled synergies to be generated with the projects from Axiare's portfolio. Almost 4,000 sq m of GLA has been occupied by tenants coming from the Miguel Angel and Velázquez buildings, on one hand accelerating the occupancy of the asset and on the other hand, accelerating the start of refurbishments on both projects.

The Window is a state of the art bilding in the Madrid office market both for its uniqueness (a building with many terraces) as well as its hybrid nature, as it combines traditional office space (7,500 sq m) with a coworking space through our subsidiary UtopicUs (3,850 sq m). This mixed offering has quickly attracted clients at much higher prices than those expected.

| | Discovery | Príncipe de Vergara | Parc Glòries |
|---|---|---|---|
| Average ERV signed | €26 sq m/m | €24 sq m/m | €20 sq m/m |
| *vs* underwriting | +24% | +22% | +30% |
| Yield on Cost(1) | 7.8% | 7.6% | 7.9% |
| Capital value growth | 77% | 76% | 99% |

(1) Acquisition price + invested capex.

## PROJECT AND REFURBISHMENT PORTFOLIO

At the release date of this report, Colonial has an office and commercial property portfolio of over 210,000 sq m to create top quality properties, offering high returns and a future value uplift with solid fundamentals.

| | Project | City | % Group | Delivery | GLA (sq m) | Total Cost €m(1) | Total Cost € / sq m(1) | Yield on Cost |
|---|---|---|---|---|---|---|---|---|
| 1 | Pedralbes Center (Price Commercial) | Barcelona CBD | 100% | 1H 19 | 6,917 | 38 | 5,502 | 6.3% |
| 2 | Gal·la Placídia / Utopic_us | Barcelona CBD | 100% | 1H 19 | 4,312 | 17 | 3,922 | 7.0% |
| 3 | Miguel Ángel, 23 | Madrid CBD | 100% | 2H 20 | 8,036 | 64 | 7,999 | 5.8% |
| 4 | Castellana, 163 | Madrid CBD | 100% | 2020 / 21 | 10,910 | 52 | 4,803 | 6.5% |
| 5 | Diagonal, 525 | Barcelona CBD | 100% | 1H 21 | 5,710 | 37 | 6,460 | 6.0% |
| 6 | Emile Zola / Destination XV | Paris City Center | 82% | 2H 21 | 24,500 | 280 | 11,428 | 5.0% |
| 7 | Iena, 96 | Paris CBD | 82% | 1H 21 | 9,300 | 147 | 15,801 | 5.0% |
| 8 | Velázquez / Padillla, 17 | Madrid CBD | 100% | 1H 21 | 17,239 | 113 | 6,532 | 6.5% |
| 9 | Plaza Europa, 34 | Barcelona | 50% | 2H 21 | 14,306 | 32 | 2,257 | 7.0% |
| 10 | Méndez Álvaro Campus(2) | Madrid CBD South | 100% | 2H 22 | 89,871 | 287 | 3,188 | 7.5% |
| 11 | Sagasta, 27 | Madrid CBD | 100% | 2H 22 | 4,481 | 23 | 5,044 | 6.5% |
| 12 | Louvre Saint Honoré (Price Commercial) | Paris CBD | 82% | 2023 | 16,000 | 205 | 12,831 | 7.3% |
| **Total Office Pipeline** | | | | | **211,582** | **1,295** | **6,119** | **6.3%** |

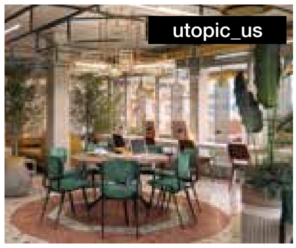
(1) Total Cost Finished Product = Acquisition Cost/Asset Value pre Project + future Capex.
(2) Upper part of the range: €3,032/sq m - €3,188/sq m and €273m - €287m.

The projects are progressing on schedule and are expected to be delivered gradually over the coming five years.

In **Barcelona**, it is worth highlighting the Pedralbes Centre, Gal·la Placidia, Diagonal 525 and Plaza Europa 34 projects. These initiatives will result in the creation of more than 31,000 sq m of office space with the highest market standards.

Of special note is the Pedralbes Centre, a commercial centre project which involves a reorganisation of the space, creating large retail units and increasing the available surface area to attract large bluechip tenants. The shopping centre had some inefficiencies in the use of space as well as in management costs and this refurbishment will be an opportunity to maximize rents and optimize value.


Pedralbes Centre



Gal·la Placídia


Diagonal, 525


Plaza Europa, 34

In **Madrid**, it is worth highlighting the project which will be carried out on the plot of land acquired in Méndez Álvaro, in the south of the Madrid CBD, as well as these other projects: Miguel Ángel 23, Castellana 163, Velázquez/Padilla 17 and Sagasta 27. All of these projects will add more than 130,000 sq m of offices to the portfolio, located in the best areas of the capital.

It is worth mentioning the plot of land acquired in Méndez Álvaro under the framework of the Alpha III project on which an emblematic campus of 90,000 sq m will be created south of the centre of Madrid. Work will commence in mid-2019 and will be completed at the end of 2021. It will be a macro project in which an innovative campus will be created for a mixed use of upmarket offices and residential buildings. The campus will include large communal green areas and services for tenants on campus. The project will obtain the top energy certificates.

In the **Paris** portfolio, it is important to mention three flagship projects: Destination XV, Louvre St. Honoré and Iéna. All of them are located in the best areas of the French capital and together make up more than 40,000 sq m of new spaces with enormous value creation potential in the coming years.

Of note is the new development of a retail project on the Louvre Saint Honoré building which will be close to 16,000 sq m. It involves the development of a retail space in the underground levels, the ground floor and the first floor of the building. This Prime Factory project will be carried out with top quality finishes and technical specifications and is expected to be finished in 2023 with the ability to attract top tier tenants.

Méndez de Álvaro

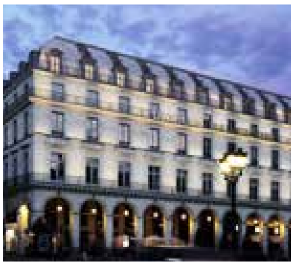
Miguel Ángel, 23

Paseo Castellana, 163

Velázquez-Padilla, 17

Sagasta, 27

Destination XV



Louvre Saint Honoré

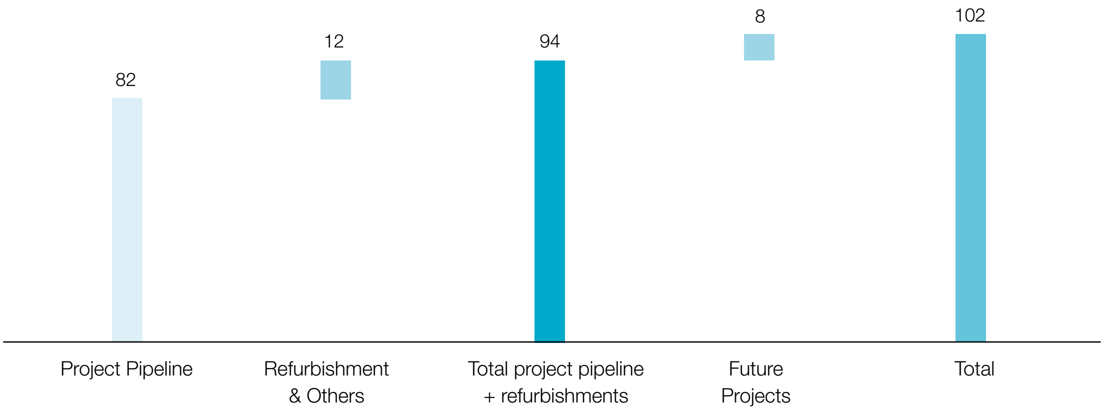
96 Iéna

Regarding the logistics portfolio, a 131,000 sq m project is being developed in San Fernando de Henares, the location closest to Madrid in the Corredor de Henares, one of the most important logistics hubs in Spain.

The projects portfolio as well as the new acquisitions will result in additional annual rents of approximately €102m.

In addition to these development projects, the Colonial Group is currently carrying out refurbishments on the operational portfolio, with the aim of optimising the positioning of these properties in the market. Colonial also owns a plot of land of more than 14,000 sq m in the 22@ submarket in Barcelona and a 22,000 sq m plot of land in Puerto de Somport (Las Tablas, Madrid).

▼ **Additional rental income from projects and significant refurbishments - €m**




# 3.3. Portfolio rental income and EBITDA

Rental income reached **€347m, a +23% year-on-year increase**.

In **like-for-like terms**, adjusting for investments, disposals and variations in the project and refurbishment pipeline and other extraordinary items, **Group rental income increased by +5%**.

In **Spain, like-for-like rental income increased by +4%**. Rental income from the **Barcelona** and **Madrid** portfolios both increased **+4%**, mainly due to rental price increases on signed leases.

In **Paris, like-for-like rental income rose by +5%**, mainly driven by signed leases on the Washington Plaza, Cézanne Saint Honoré, 103 Grenelle and Percier buildings.

In Paris, of note is the reduction in rental income due to the disposal of the In&Out property in 2017. This was offset by the additional rental income obtained from the new acquisitions carried out in Spain, as well as by the integration of the Axiare portfolio.

▼ **Variance in rents (2018 *vs.* 2017) - €m**

| | Barcelona | Madrid | Paris | Logistic & others | Total |
|---|---|---|---|---|---|
| **Rental revenues 2017R** | **34.9** | **52.4** | **195.8** | **0.0** | **283.1** |
| **EPRA like-for-like[1]** | **1.4** | **1.8** | **8.7** | **0.0** | **11.9** |
| Projects & refurbishments | (0.3) | 3.2 | (1.4) | 0.0 | **1.4** |
| Acquisitions & Disposals | 0.6 | 3.6 | (9.7) | 0.0 | **(5.5)** |
| Axiare | 4.8 | 32.7 | 0.0 | 18.6 | **56.1** |
| Indemnities & others | (0.0) | (0.2) | 0.2 | 0.0 | **0.0** |
| **Rental revenues 2018R** | **41.4** | **93.6** | **193.5** | **18.6** | **347.0** |
| ***Total variance (%)*** | ***19%*** | ***78%*** | ***(1%)*** | ***n.a.*** | ***23%*** |
| **Like-for-like variance (%)** | **4%** | **4%** | **5%** | **n.a.** | **5%** |

(1) EPRA like-for-like: Like-for-like calculated according to EPRA recommendations.

## Rental income breakdown

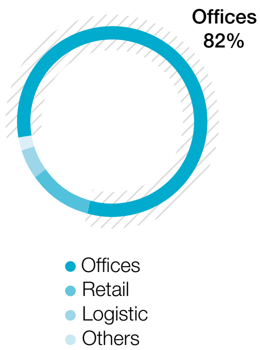
The majority of the Group's rental income 82% derives from the office portfolio. The Group also continues to focus heavily on CBD markets.

In consolidated terms, 56% of the rental income (€193.5m) came from the subsidiary in Paris and 44% was generated by properties in Spain. In attributable terms, 52% of the rents were generated in Spain and the rest in France.

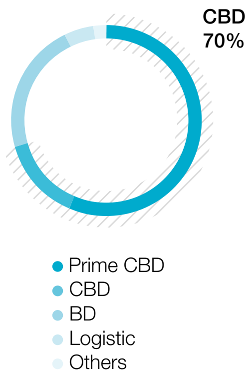
*At the end of 2018, EBITDA rents reached €322m, representing a +5% like-for-like increase*

### ▼ Consolidated Group

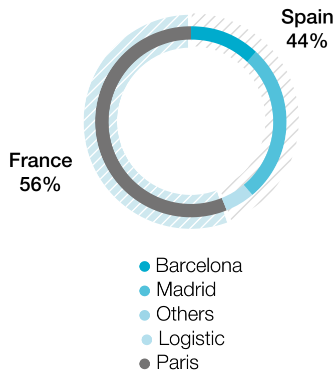
**Revenues - by use**




**Revenues - by area**

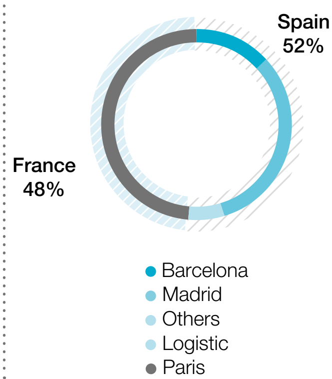



**Revenues - by market**




### ▼ Atributable

**Revenues - by market**




### ▼ Property portfolio

| | | | | EPRA Like-for-Like[1] | |
|---|---|---|---|---|---|
| **December cumulative - €m** | **2018** | **2017** | **Var. %** | **€m** | **%** |
| Rental revenues - Barcelona | 41 | 35 | 19% | 0.0 | 4% |
| Rental revenues - Madrid | 94 | 52 | 78% | 1.4 | 4% |
| Rental revenues - Paris | 194 | 196 | (1%) | 0.0 | 5% |
| Rental revenues - Logistic & others | 19 | 0 | n.a. | n.a. | n.a. |
| **Rental revenues** | **347** | **283** | **23%** | **8.7** | **5%** |
| EBITDA rents - Barcelona | 39 | 34 | 16% | 1.2 | 4% |
| EBITDA rents - Madrid | 83 | 46 | 79% | 1.8 | 5% |
| EBITDA rents - Paris | 183 | 185 | (1%) | 8.2 | 5% |
| EBITDA rents - Logistic & others | 17 | 0 | n.a. | n.a. | n.a. |
| **EBITDA rents** | **322** | **265** | **22%** | **11.2** | **5%** |
| EBITDA rents/Rental revenues - Barcelona | 94% | 96% | (1.8 pp) | | |
| EBITDA rents/Rental revenues - Madrid | 88% | 88% | 0.3 pp | | |
| EBITDA rents/Rental revenues - Paris | 94% | 94% | (0.0 pp) | | |
| EBITDA rents/Rental revenues - Logistic & others | 94% | n.a. | n.a. | | |

Pp: percentages points.
(1) EPRA like-for-like: like-for-like calculated with EPRA recomendation.

# 3.4. Analysis of the Profit and Loss Account

### ▼ Analysis of the Consolidated Profit and Loss Account

| **December cumulative - €m** | **2018** | **2017** | **Var.** | **Var. %[1]** |
|---|---|---|---|---|
| Rental revenues | 347 | 283 | 64 | 23% |
| Net operating expenses[2] | (25) | (18) | (7) | (37%) |
| Net Rental Income | 322 | 265 | 57 | 22% |
| Other income | 4 | 2 | 2 | 105% |
| Overheads | (46) | (37) | (8) | (22%) |
| **EBITDA recurring business** | **280** | **229** | **51** | **22%** |
| Exceptional items | (15) | (13) | (2) | (18%) |
| Change in fair value of assets | 714 | 934 | (220) | – |
| Amortizations & provisions | (132) | (13) | (119) | – |
| Financial results | (142) | (79) | (62) | (78%) |
| **Profit before taxes & minorities** | **704** | **1,057** | **(353)** | **(33%)** |
| Income tax | (26) | 23 | (49) | 213% |
| Minority interests | (153) | (398) | 245 | 61% |
| **Profit attributable to the Group** | **525** | **683** | **(158)** | **(23%)** |

| **Results analysis - €m** | **2018** | **2017** | **Var.** | **Var. %[1]** |
|---|---|---|---|---|
| Rental revenues | 347 | 283 | 64 | 23% |
| Net operating expenses[2] & other income | (21) | (16) | (5) | (28%) |
| Overheads | (46) | (37) | (8) | (22%) |
| Recurring EBITDA | 280 | 229 | 51 | 22% |
| Recurring financial result | (101) | (77) | (24) | (32%) |
| Income tax expense & others - recurring result | (19) | (10) | (9) | (87%) |
| Minority interest - recurring result | (59) | (59) | 0 | 1% |
| **Recurring net profit - post company-specific adjustments[3]** | **101** | **83** | **18** | **22%** |
| *NOSH (million)* | *451.7* | *383.8* | *68* | *18%* |
| EPS | 0.223 | 0.215 | 0.01 | 4% |

(1) Sign according to the profit impact.
(2) Invoiceable costs net of invoiced costs + non invoiceable operating costs.
(3) Recurring net profit = EPRA Earnings - post company-specific adjustments.

The Colonial Group's 2018 gross rental income amounted to €347m, +23% year-on-year. In like-for-like terms, the increase stood at +5%.

The Group's recurring EBITDA stood at €280m, a +22% year-on-year increase.

At 31 December 2018, the impact on the Consolidated Profit and Loss Account from the revaluation and sale of property investments rose to €714m. This revaluation was registered in France as well as in Spain, is a result of the increase in the appraisal value of the assets.

The net financial results amounted to €(142)m, higher than the same period in the previous year.

The recurring financial results of the Group amounted to €(101)m, an increase of +32% compared to the same period in the previous year. The increase in financial costs is mainly due to the debt increase related to the Axiare acquisition and the acquisition of the 23% stake in SFL.

Profit before taxes and minority interests at the end of 2018 amounted to €704m.

The corporate tax expense increased to €(26)m and is mostly due to the recording in France of deferred taxes associated with the revaluation of the assets of non-SIIC companies; in particular, the Parholding Group. It should be noted that this amount does not imply a cash outflow.

Finally, after deducting the minority interest of €(153)m, the net profit attributable to the Group amounted to €525m, €1.16/share.

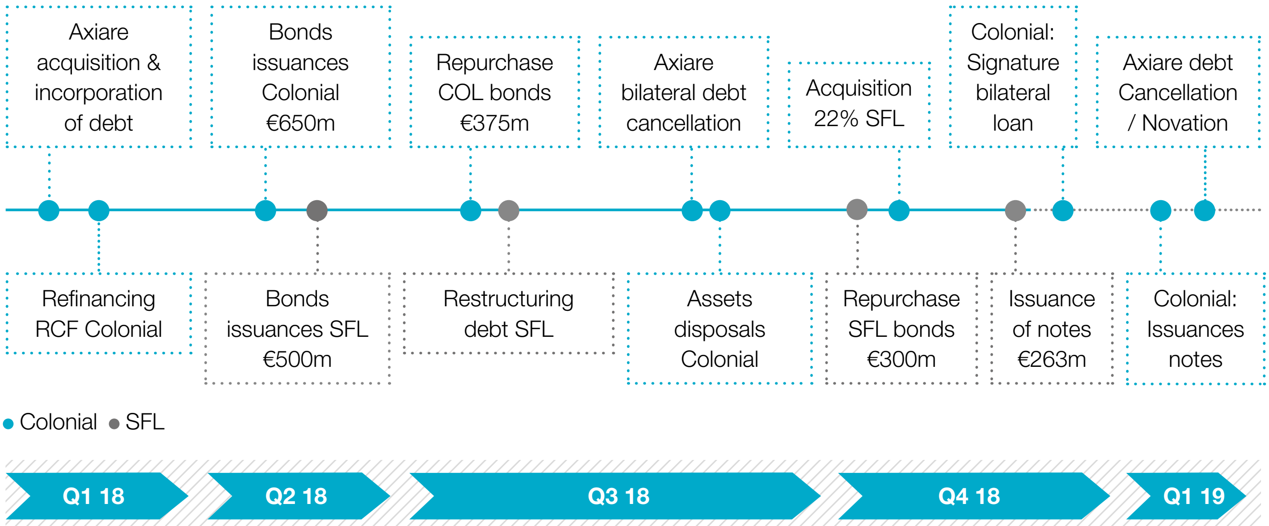
The goodwill for the acquisition of Axiare amounted to €62m at 31 December 2018, corresponding to €0.12/share.

# 3.5. Financial structure

The year 2018 was marked by the acquisitions of Axiare Patrimonio, SOCIMI, S.A. (€843m) and 23% of Societé Foncière Lyonnaise shares (€718m, of which €203m was piad in cash), resulting in a 53% increase in the net debt of the Group compared to year end 2017.

The active liability management carried out throughout the year, together with the acquisition of 23% of SFL and the high quality of its assets led to Standard & Poor's increasing its credit rating to BBB+ with a stable outlook.

The main transactions carried out by the Group in 2018 are as follows:




> A bond issue by Colonial, under the European Medium-Term Note (EMTN) program, for a total nominal amount of €650m, maturing in April 2026, with an annual coupon of 2%.

> Refinancing of Colonial's syndicate loan, signed in November 2015, for €350m and maturing in November 2021. The nominal amount was increased to €500m, prolonging the maturity to December 2023 and reducing the financing spread.

> Bond buyback with maturity in 2019: in July, Colonial made an early repayment of the outstanding balance (€375m) from the bond issue maturing in June 2019 and that yielded an annual coupon of 1.863%.

> Cancellation of €396m in debt from Axiare Patrimonio, SOCIMI, S.A, all of it secured by mortgage guarantees.

€650m

**of nominal amount under EMTN program bond issue**

€396m

**of cancellation of debt from Axiare Patrimonio, SOCIMI, S.A.**

> Disposal of assets for €441m completed, as well as the purchase of 22% of SFL.

> Bilateral loan with corporate guarantee formalized in the amount of €50m, maturing in July 2024.

> A Euro Commercial Paper program was registered for a maximum limit of €300m (€500m) to carry out issuances with a maturity of between 15 and 364 days from the date of issue. Greater diversity in financial sources were sought in the capital markets as well as how to access financing at negative rates in the shortest term. At the date of publication of this report, the issuances in force under this program were (€172m).

> In addition, in the first quarter of 2019 and up to the date of publication of this report, Colonial has already cancelled €131m of debt coming from Axiare and refinanced the rest of the pending debt of €151m, improving margins and cancelling mortgage securities.

> The main transactions carried out by SFL were the following:

– A bond issue for SFL for the nominal amount of €500m, maturing in May 2025, with an annual coupon of 1.5%.

– The limit and maturity of its credits were adjusted, cancelling and/or reducing the limit of its undrawn policies for €300m and extending the maturity of another €150m credit limit from 2020 to 2023, and obtaining a new policy with an available balance of €100m maturing in 2023.

– In October, it bought back €300m of its bonds maturing in November 2021 (€150m) and November 2022 (€150m).

– Also in October, SFL started a short-term Euro Commercial Paper program for the maximum amount of €300m, with the current issues at 31 December 2018 of €263m.

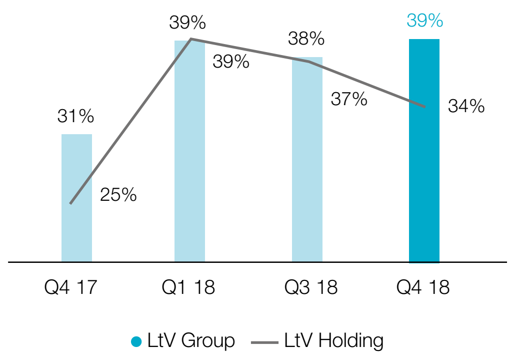
The main debt figures are:

▼ **Colonial Group**

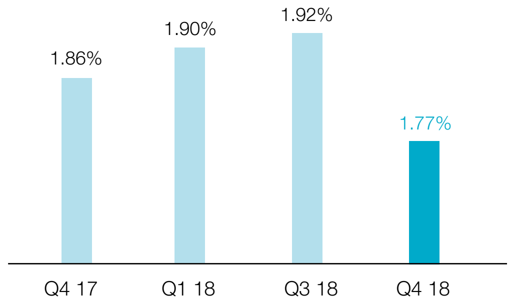
| | Q4 2017 | Q4 2018 |
|---|---|---|
| Gross financial debt | 4,170 | 4,748 |
| Net financial debt | 3,066 | 4,680 |
| Total liquidity [(1)] | 2,427 | 1,793 |
| % debt fixed or hedged | 90% | 97% |
| Average maturity of the debt (years) | 5.5 | 5.9 |
| Cost of current debt | 1.86% | 1.77% |
| Rating Colonial | BBB | BBB+ |
| Rating SFL | BBB+ | BBB+ |
| LtV Group (including transfer costs) | 31% | 39% |

(1) Cash & Undrawn balances.

▼ **LtV (including transfer costs)**




▼ **Spot financial cost**

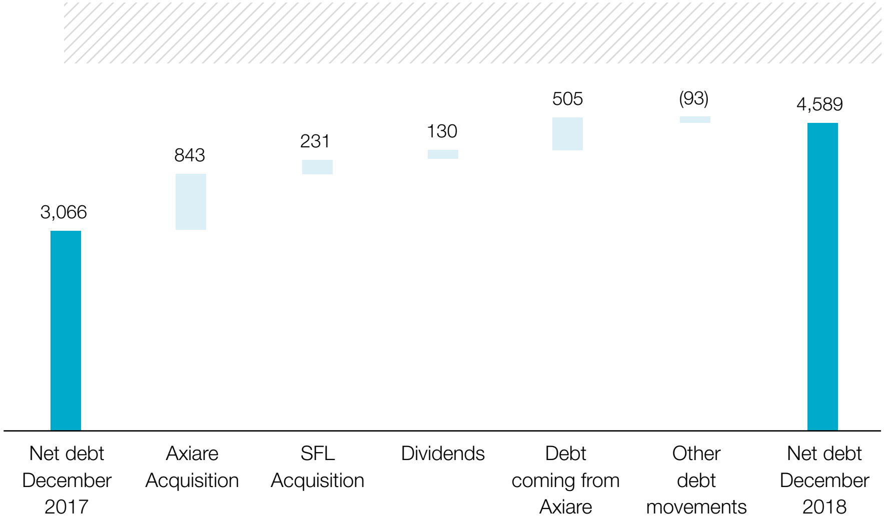


The net financial debt of the Group at 31 December 2018 stood at €4,680m, the breakdown of which is as follows:

| | December 2018 | | | | | December 2017 | | | Var |
|---|---|---|---|---|---|---|---|---|---|
| **€m** | **Colonial** | **SFL** | **Total** | **Cost** | **Average maturity** | **Colonial** | **SFL** | **Total** | **Total** |
| Syndicate loan | 70 | 0 | **70** | 1.30% | 4.5 | 163 | 0 | **163** | **(93)** |
| Mortatge debt | 314 | 201 | **515** | 1.54% | 5.7 | 35 | 203 | **238** | **277** |
| Bonds Colonial | 2,600 | – | **2,600** | 2.05% | 6.8 | 2,325 | | **2,325** | **275** |
| Bonds SFL | – | 1,200 | **1,200** | 1.83% | 4.6 | | 1,000 | **1,000** | **200** |
| Notes SFL | – | 263 | **263** | –0.20% | 0.1 | | 0 | **0** | **263** |
| Other debt | 50 | 50 | **100** | 0.98% | 3.9 | 0 | 443 | **444** | **(344)** |
| **Gross debt** | **3,034** | **1,714** | **4,748** | | 5.6 | **2,523** | **1,647** | **4,170** | **578** |
| Cash | (43) | (25) | **(68)** | | | (1,089) | (16) | **(1,105)** | **1,036** |
| **Net Debt** | **2,991** | **1,688** | **4,680** | | | **1,435** | **1,631** | **3,066** | **1,614** |
| Total liquidity (1) | 848 | 945 | **1,793** | | | 1,651 | 776 | **2,427** | **(634)** |
| Cost of debt - Spot (%) | 1.95% | 1.46% | **1.77%** | 1.77% | 5.6 | | | **1.86%** | **(0.09)** |

(1) Cash & Undrawn balances. In 2017 includes €1,034m pledged as part of the Axiare takeover bid.

The increase in net financial debt in 2018 is mainly concentrated in Colonial and is due to the acquisitions of Axiare and 23% of SFL.




## Main leverage ratios and liquidity

The LTV (Loan to Value) of the Group, calculated as the ratio of total net debt divided by the total GAV of the Group, stood at 39%. The LTV of the parent company, calculated as the net debt of the parent company and its 100% subsidiaries divided by the GAV of the parent company and the NAV of its 100% subsidiaries, plus the NAV of the rest of its subsidiaries and affiliated companies was 35%.

Cash & undrawn balances of the Colonial Group at 31 December 2018 amounted to €1,793m, distributed as shown in the graph below:

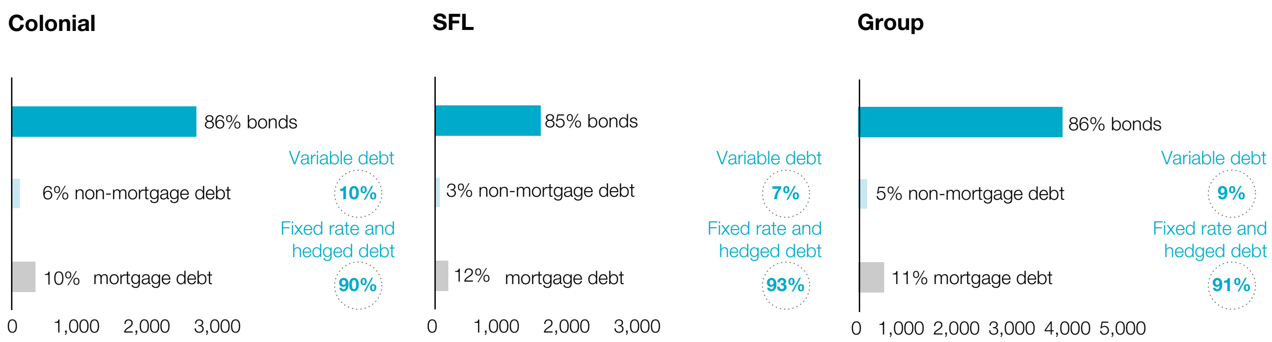
| **Available balances - €m** | **Colonial** | **SFL** | **Group** |
|---|---|---|---|
| Current accounts | 43 | 25 | 68 |
| Credit lines available | 805 | 920 | 1,725 |
| **Total** | 848 | 945 | 1,793 |

| **LTV 31/12/2018 - €m** | **Holding** | **Group** |
|---|---|---|
| Gross Asset Value(1) | 8,538 | 11,923 |
| Net Debt | 2,961 | 4,680 |
| **LTV** | 35% | 39% |

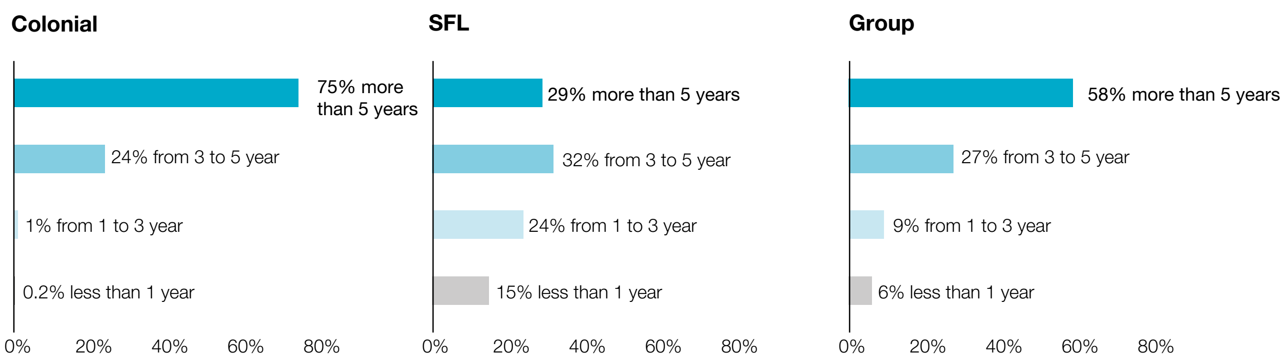
(1) **Holding**: GAV at 31/12/2018 including transfer costs of the parent company and the subsidiaries 100% + NAV SFL, TMN, Inmocol + Treasury Shares.
**Group**: GAV Group at 31/12/2018 including transfer costs + participation + Treasury Shares.

The main characteristics of the Group's debt are shown below:

### ▼ Type of drawn debt 31/12/2018




### ▼ Maturity of contracted debt 31/12/2018



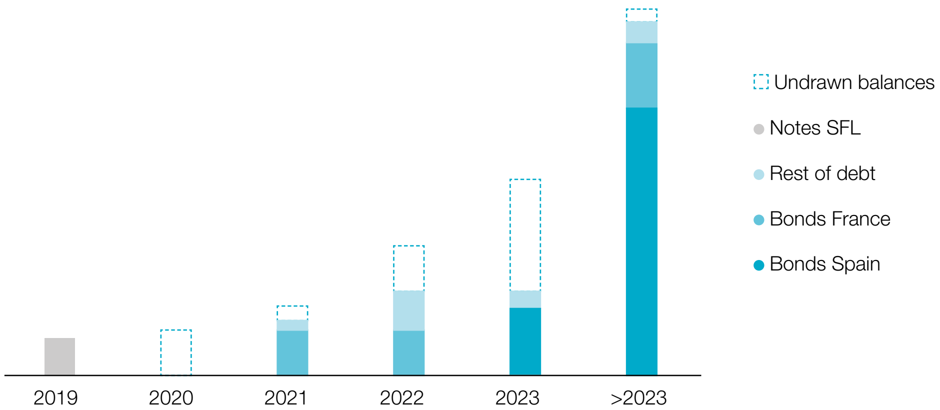

| **Colonial** | |
|---|---|
| Spread | 145 p.b. |
| Cost of debt | 195 p.b. |
| Average maturity of drawn down debt (years) | 6.6 |

| **SFL** | |
|---|---|
| Spread | 96 p.b. |
| Cost of debt | 146 p.b. |
| Average maturity of drawn down debt (years) | 4.4 |

| **Total** | |
|---|---|
| Spread | 127 p.b. |
| Cost of debt | 177 p.b. |
| Average maturity of drawn down debt (years) | 5.9 |

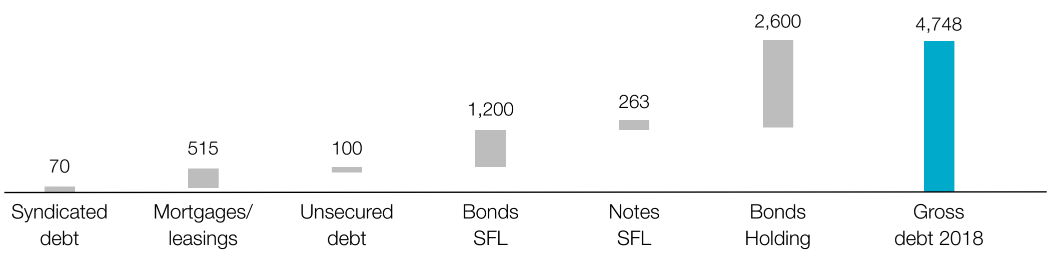
In terms of the maturity schedule it is particularly noteworthy that 72% of the Group's debt will mature as of 2023:

**▼ Maturity profile of drawn debt**




| | | | | | | | Total |
|---|---|---|---|---|---|---|---|
| Colonial | 5 | 9 | 10 | 93 | 640 | 2,277 | **3,034** |
| SFL | 265 | 2 | 402 | 545 | – | 500 | **1,714** |
| **Total** | **270** | **11** | **412** | **638** | **640** | **2,777** | **4,748** |

The composition of the Group's debt is as follows:




| | Syndicated debt | Mortgages/ leasings | Unsecured debt | Bonds SFL | Notes SFL | Bonds Holding |
|---|---|---|---|---|---|---|
| Cost of debt | 1.30% | 1.46% | 0.80% | 1.83% | –0.20% | 2.05% |
| Maturity (years) | 5.0 | 5.0 | 2.9 | 4.9 | 0.1 | 6.8 |

**Average cost of debt: 1.77% & 5.9 years**

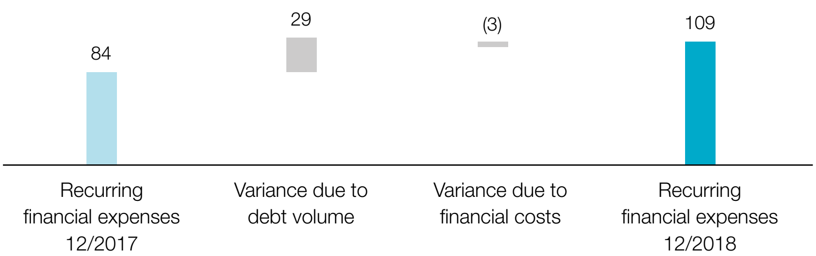
## Financial results

The following table details the Group's main financial results:

| December cumulative - €m | COL | SFL | 2018 | 2017 | Var. % |
|---|---|---|---|---|---|
| *Recurring financial expenses - Spain* | *(74)* | *0* | *(74)* | *(41)* | *(82%)* |
| *Recurring financial expenses - France* | *0* | *(35)* | *(35)* | *(43)* | *19%* |
| Recurring Financial Expenses | (74) | (35) | (109) | (84) | (31%) |
| Recurring Financial Income | 2 | 0 | 2 | 4 | (46%) |
| Capitalized interest expenses | 1 | 4 | 5 | 3 | 105% |
| **Recurring Financial Result** | **(71)** | **(31)** | **(101)** | **(77)** | **(32%)** |
| Non-recurring financial expenses | (14) | (20) | (34) | (3) | n.a. |
| Change in fair value of financial instruments | (5) | (2) | (6) | (0) | n.a. |
| **Financial Result** | **(90)** | **(52)** | **(142)** | **(80)** | **(78%)** |

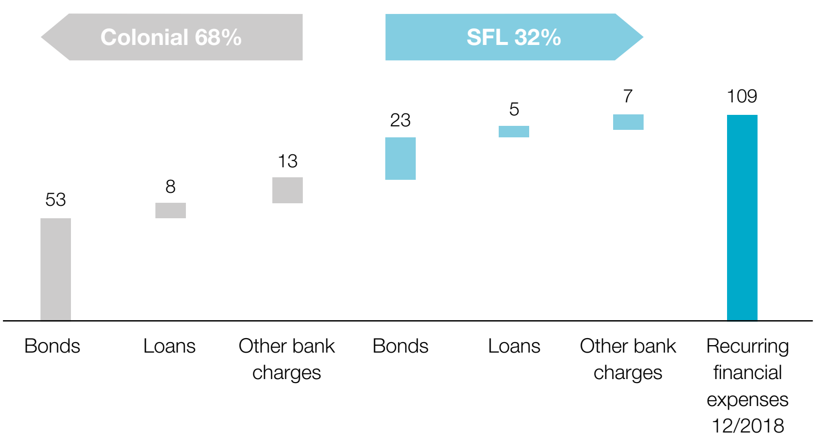
The recurring financial expenses of the Group were 32% higher compared to the same period of the previous year, mainly due to an increase in Colonial's gross debt due to the acquisition of Axiare and the integration of its debt into the Group, as well as the acquisition of 23% of SFL. In France, the recurring financial expense decreased by 19% due to the reduction in debt as well as better interest rates.

The average financial cost of the drawn debt during the quarter was 1.86% compared to 1.97% in the same period of the previous year, mainly due to the reduction of the average credit spread which amounted to 137 bps (versus 156 bps in the same period of the previous year). This improvement is mainly due to the maturity in November 2017 of an SFL bond (for €301m, with a spread of 275 bps) and the formalisation of new debt at spreads lower than those applied in 2017. After Colonial and SFL's bond buyback and Euro Commercial Paper programs, the spot financial cost of drawn debt amounted to 1.77%.




The breakdown of the recurring expense in 2018 is as follows:

**▼ Breakdown recurring financial expenses - December 2018**



The non-recurring expenses reported in the year correspond to the costs deriving from the bond buybacks (total amortization of Colonial's bond maturing in 2019 and partial buyback of SFL's bonds maturing in 2021 and 2022). Also allocated to the results are the costs incurred from the cancelled debt of Axiare and the associated derived instruments.

## Financial structure details

The main characteristics of the Colonial Group's debt are as follows:

1. Issuance of €500m, maturing in June 2023 with an annual fixed coupon of 2.728%

2. Four bond issuances for a total of €2,100m, carried out under the EMTN program:

   a) Issuance of €600m, maturing in October 2024, with a fixed annual coupon of 1.45%.

   b) Private bond issuance for €50m, maturing in November 2026, with an annual fixed coupon of 1.875%.

   c) Issuance of unsecured bonds of €800m structured in two tranches:

      I. One tranche of €500m, maturing on 28 November 2025 with a fixed annual coupon of 1.625%.

      II. One tranche of €300m, maturing on 28 November 2029, with a fixed coupon of 2.5%, payable annually in arrears.

   d) A bond issue for €650m, maturing on 17 April 2026, with an annual fixed coupon of 2%.

3. Three SFL bond issuances for €1,200m according to the following breakdown:

   a) Issuance in November 2014 for an outstanding amount of €350m, maturing in November 2021, with an annual fixed coupon of 1.875%.

b) Issuance in November 2015 for an outstanding amount of €350m with an annual fixed coupon of 2.25%, maturing in November 2022.

c) Issuance in May 2018 for a nominal amount of €500m, with an annual fixed coupon of 1.5%, maturing in May 2025.

These bonds are unsubordinated and non-preferential between them and have been accepted for listing on the regulated market of Euronext Paris.

4. Colonial's two syndicate loans:

   a) Syndicate loan for a nominal value of €500m, of which the agent bank is "Natixis S.A. Sucursal en España, S.A." maturing in December 2023, to cover Colonial's corporate needs. The interest rate of the loan has been fixed at Euribor plus the market spread and the only guarantees provided have been corporate. At 31 December, it was drawn down at €50m.

   b) Syndicate loan for a nominal value of €375m, of which the agent bank is "Credit Agricole Corporate and Investment Bank Sucursal en España, S.A." maturing in March 2022, the objective of which is to cover general corporate needs. The interest rate of the loan has been fixed at Euribor plus the market spread. The only guarantees provided have been corporate. At 31 December, it was drawn down at €20m.

   Both loans are subject to the fulfilment of certain financial ratios.

   A syndicate loan of SFL for a nominal amount of €250m, the agent bank of which is "BNP PARIBAS", maturing in July 2020 with an applicable spread, subject to the LTV level. At 30 June 2018, this loan was undrawn.

5. Bilateral loans with mortgage securities:

   a) At the close of the year, 7 loans with mortgage securities were in force coming from the former Axiare Patrimonio, SOCIMI, S.A. for a total pending amount of €282m, with an average maturity of 5.5 years and spread of 155 bps. Subsequent to the close of the year, 2 bilateral loans were cancelled for a joint amount of €80m.

   b) The Colonial Group in Spain, through one of its subsidiaries, holds €33m in a bilateral loan, with a mortgage security on a property asset. The average maturity of this loan is 7.1 years and the average financing spread is 150 bps.

   c) SFL, through various subsidiaries, holds a total of €201m in loans with various financial institutions, with mortgage securities on property assets. The average maturity of these loans is 3.4 years.

6. Bilateral loans without mortgage securities:

   a) Colonial has a bilateral loan of €50m granted and drawn down, at a variable interest rate and a maturity of 5.5 years.

   b) SFL has drawn down a loan for the amount of €50m, at a variable interest rate, with an average maturity of 2.3 years.

7. Euro Commercial Paper programs:

   Colonial and SFL have registered each Euro Commercial Paper program for €300m per program.

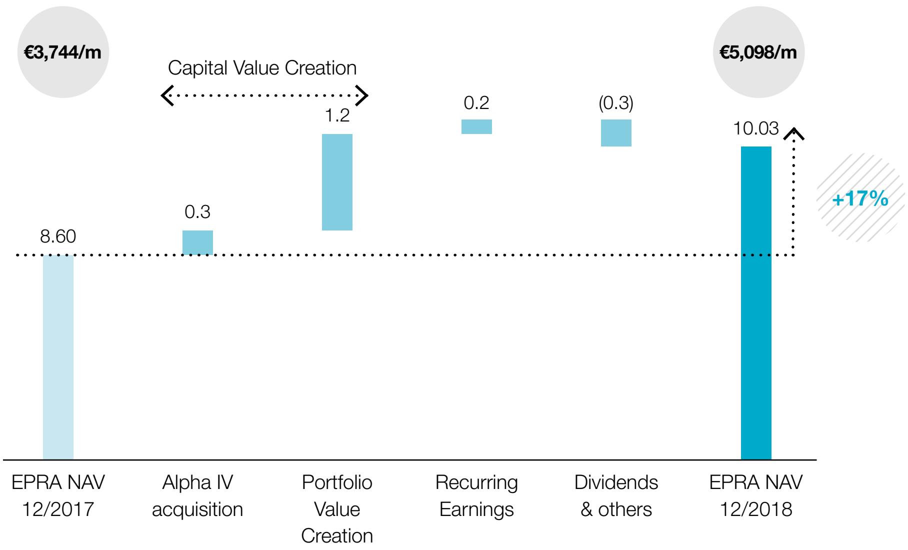
# 3.6. EPRA Net Asset Value

## EPRA Net Asset Value (NAV)

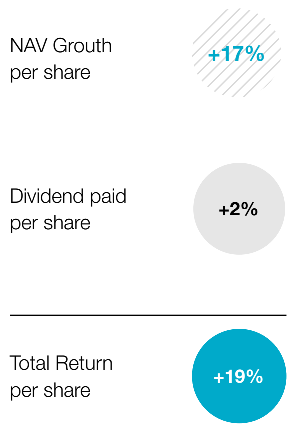
Colonial closed 2018 with an EPRA Net Asset Value of €10.03/share resulting in a year-on-year increase in value of +17%, which together with the paid dividend of €0.18/share led to a Total Shareholder Return of 19% in 2018.

In absolute terms, the EPRA NAV amounted to more than €5,098m (+36% year-on-year).

**▼ EPRA NAV €/share**




**▼ Total Shareholder Return[1]**




(1) Total return understood as growth in NAV per share + dividends paid.

The **EPRA Net Asset Value (EPRA NAV)** is calculated based on the Group's consolidated equity and adjustments of specific items following EPRA recommendations.

### ▼ EPRA Net Asset value - €m

| | 12/2018 | 12/2017 |
|---|---|---|
| **NAV per the Consolidated financial statements** | **4,811** | **3,592** |
| **Include:** | | |
| (i.a) Revaluation of investment properties (if IAS 40 cost option is used) | 31 | 13 |
| (i.b) Revaluation of investment property under construction (IPUC) (if IAS 40 cost option is used) | na | na |
| (i.c) Revaluation of other non-current investment | 19 | (58) |
| (ii) Revaluation of tenant leases held as finance leases | na | na |
| (iii) Revaluation of trading properties | 7 | na |
| **Exclude:** | | |
| (iv) Fair value of financial instruments | 2 | (1) |
| (v.a) Deferred tax | 228 | 198 |
| (v.b) Goodwill as a result of deferred tax | – | – |
| **Include/exclude:** | | |
| Adjustments (i) to (v) above in respect of joint ventures interests | na | na |
| **EPRA NAV - €m** | **5,098** | **3,744** |
| *Goodwill* | *(62)* | *na* |
| **Adjusted EPRA NAV - €m** | **5,036** | **na** |
| ***Nº of shares (m)*** | ***508.1*** | ***435.3*** |
| ***EPRA NAV - Euros per share*** | ***10.03*** | ***8.60*** |
| ***Adjusted EPRA NAV - Euros per share*** | ***9.91*** | ***na*** |

**Calculation of the EPRA NAV:** Following the EPRA recommendations and starting from the consolidated equity of €4,811m, the following adjustments were carried out:

1. Revaluation of investment assets: corresponding to latent capital gains (not accounted for on the balance sheet) of specific assets registered at acquisition cost, mainly own use assets.

2. Revaluation of other investments: register at fair value of several investments of the Group registered in the balance sheet at acquisition cost, mainly treasury shares.

3. Adjustment of deferred taxes: adjustment of the amount of deferred taxes associated with the revaluation of the property assets (+€228m), registered on the balance sheet.

4. Market value of financial instruments: adjustment of the market value (mark to market) of derivative instruments.

At 31 December 2018 EPRA NNNAV amounted to €4,853m, which corresponds to €9.55/share.

### ▼ EPRA Triple Net Asset value (NNNAV) - €m

| | 12/2018 | 12/2017 |
|---|---|---|
| **EPRA NAV** | **5,098** | **3,744** |
| **Include:** | | |
| (i) Fair value of financial instruments | (2) | 1 |
| (ii) Fair value of debt | (14) | (117) |
| (iii) Deferred tax | (229) | (200) |
| (iv) Tax credits on balance | na | na |
| **EPRA NNNAV - €m** | **4,853** | **3,428** |
| *Goodwill* | *(62)* | *na* |
| **Adjusted EPRA NNNAV - €m** | **4,791** | **na** |
| ***Nº of shares (m)*** | ***508.1*** | ***435.3*** |
| ***EPRA NNNAV - Euros per share*** | ***9.55*** | ***7.88*** |
| ***Adjusted EPRA NAV - Euros per share*** | ***9.43*** | ***na*** |

For its calculation, the following items have been adjusted in the EPRA NAV: the fair market value of the financial instruments, the fair market value of the debt, and the taxes that would be accrued in case of the disposal of the assets at their market value.

# 04 Responsible business

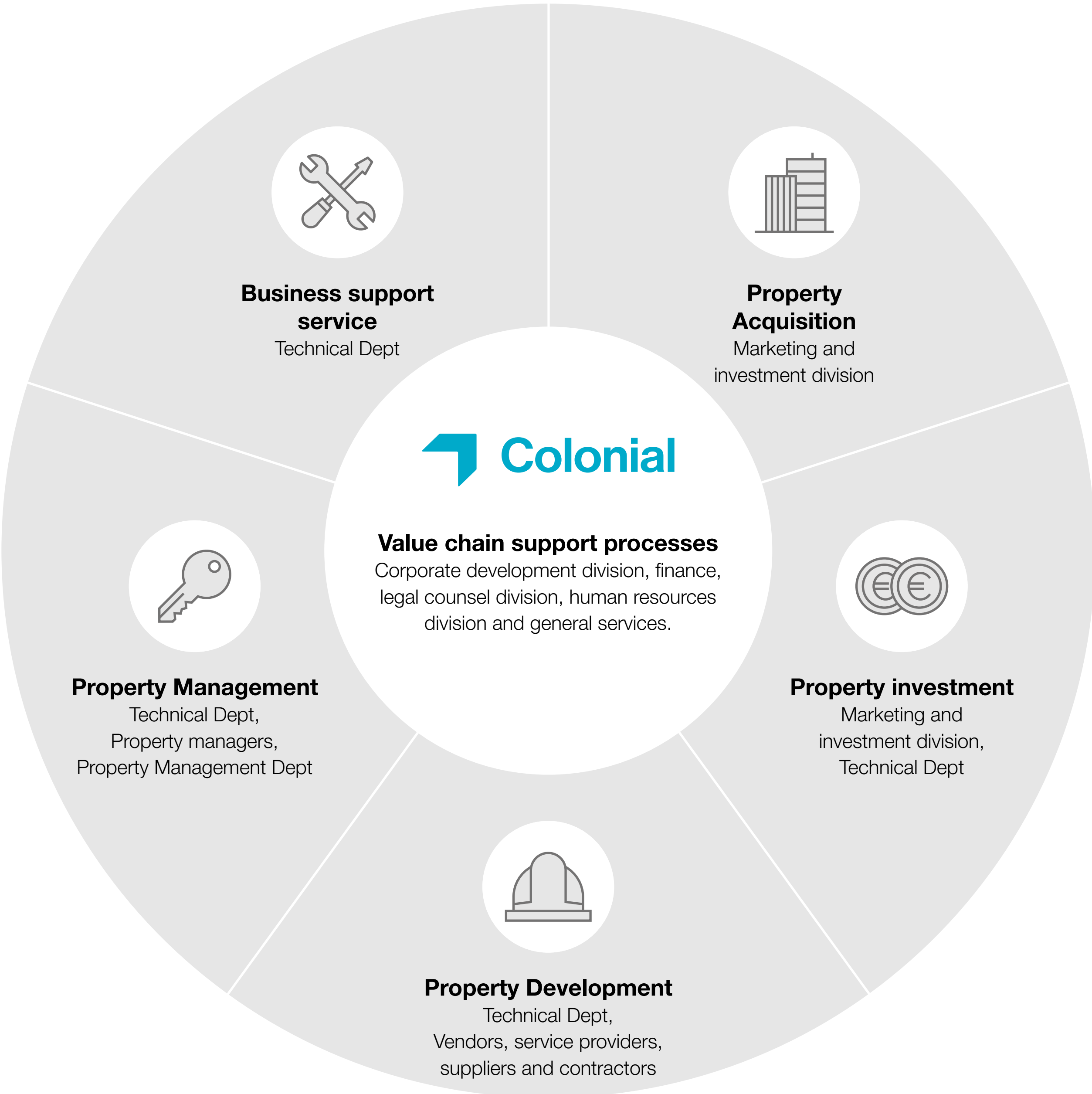
# 4.1. Creating value

Colonial has the mission to: “Create long-term value for shareholders, investors, employees and all stakeholders through investment and management of office buildings that enable our customers to reach their full potential.” Colonial works with a vision to: “Lead the European office space market, as recognised leaders for our experience and professionalism, solidness and performance, providing solidity and profitability, providing excellent and sustainable real estate solutions adapted to customer needs.” To achieve this goal, Colonial prioritises six values that must guide the conduct of all members of the Colonial team.

- Professionalism
- Rigour
- Commitment
- Transparency
- Excellence
- Leadership

# 4.2. Value generation chain

Value chain



## Materiality analysis

The Colonial Group believes that it is essential to know and respond to the expectations and concerns of its stakeholders regarding environmental, social and economic topics. The Colonial Group's **Materiality Analysis** was updated in 2018 for this purpose.

To determine the most relevant topics for the company, the group considered the relevance (internal and external) and impacts (on the company's operations and reputation) of a total of 68 relevant topics for the real estate sector and the main sustainability indices.

**Relevance**

**Internal:** Relevance of identified topics for Colonial, with particular attention given to the results of the Quality and Satisfaction (Spain) Paris Workplace (France) Surveys for customers and tenants conducted in 2018.

**External:** Analysis of the relevance of topics identified by the main competitors of the Colonial Group, internationally recognised ESG reporting frameworks (GRI and SASB) and sustainability indices (GRESB, EPRA, MSCI, FTSE4Good, DJSI and Vigeo).

**Impacts**

**Operations:** The potential impact level of the identified topic on Colonial operations, in consideration of interviews with the heads of several Group departments.

**Reputation:** The potential impact level of the identified topic on Colonial's reputation, in consideration of interviews with the heads of several Group departments.

With a view to centralising the analysis and reporting of the information, the 68 initially identified topics were structured into 8 blocks, comprising 18 scopes:

**Environment**
1. GHG Emissions
2. Reduced impacts
3. Waste
4. Energy efficiency
5. Management systems
6. Conservation

**Commitment to the Community**
7. Society
8. Human Rights
9. Sustainability

**Customer satisfaction and management**
10. Customers

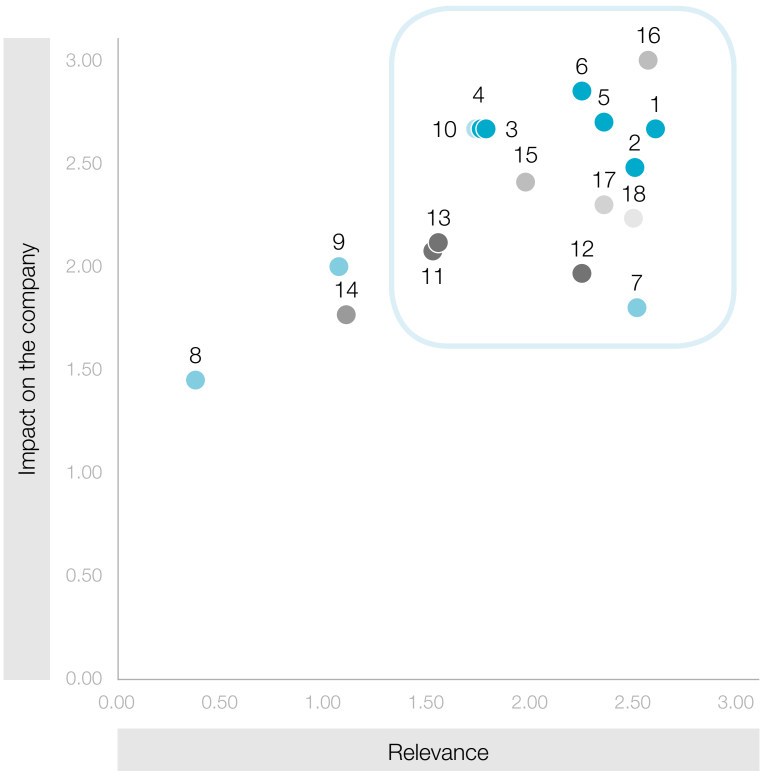
**Employees**
11. Occupational health and safety
12. Equality and diversity
13. Human resource management

**Supply Chain Management**
14. Supply Chain

**Corporate Governance**
15. Corporate Governance
16. Risk Management

**Stakeholder Relations**
17. Stakeholder Relations

**Investor relations**
18. Investors



# 4.3. Corporate Social Responsibility Policy

All Colonial Group employees, including directors and agents representing the Group must comply with the Policy and the duty of compliance will be passed onto business partners and collaborators in the applicable aspects to ensure that the goals of the Policy are attained. The policy is grouped into five major ESG engagement areas:

### E
**Environmental commitments**

**1.** Eco-efficient management

### S
**Social commitments**

**2.** Staff development

### G
**Governance commitments**

**3.** Ethics and Compliance

**4.** Customer satisfaction and loyalty

**5.** Sustainable value generation

The Internal Board of Directors Regulation states that the Audit and Control Committee shall supervise compliance with the Corporate Social Responsibility Policy, specifically: (i) ensuring orientation that aims to create value; (ii) tracking and monitoring the corporate social responsibility strategy and practices, and assessing the level of compliance in this regard; (iii) supervising and assessing the different stakeholder relations processes; (iv) assessing all matters related to the non-financial risks that the Company faces, including operating, technological, legal, social, environmental, political and reputational; and (v) coordinating the reporting process for non-financial information and diversity according to the pertinent legislation in force and the international standards of reference.

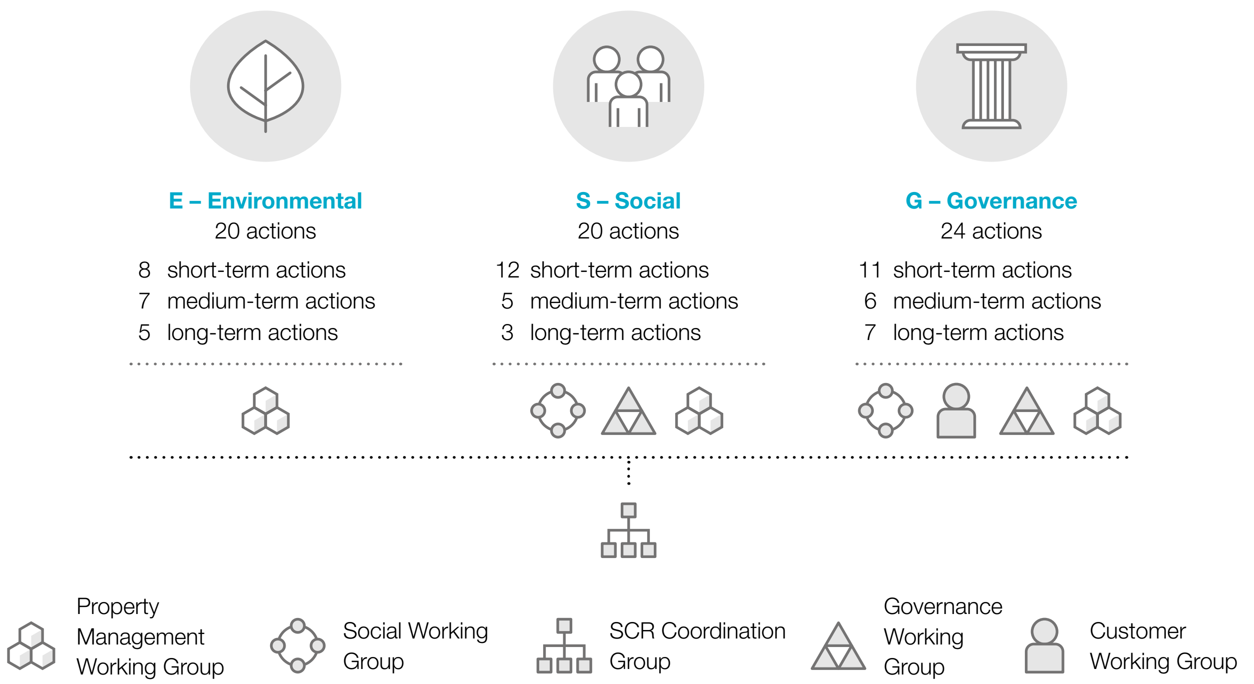
*Values of the Colonial Group: Excellence, Professionalism, Leadership, Commitment, Rigour, Transparency*

# 4.4. ESG Strategic Plan

With a view to further clarifying the commitments assumed by the organisation and establishing specific actions for implementation, in 2017 the Colonial Group developed the ESG Strategic Plan for the period 2018-2020.

In 2018, the Group focused its efforts on laying the foundation for developing and implementing the short-term actions contemplated in the Plan. Likewise, initially planned actions were reviewed and updated to standardise the ones already existing and incorporate new concerns expressed by stakeholders, primarily customers and market analysts. Consequently, the Strategic Plan now comprises 64 actions:

## ESG Strategic Plan




The year 2018 was also highlighted by the formalisation of the Colonial Group's Corporate Social Responsibility Governance Model, as Carlos Krohmer was appointed to lead CSR implementation throughout the organisation. The governance model is structured through Working Groups for each aspect deemed critical for the organisation:

> Property Management
> Customers
> Social
> Governance

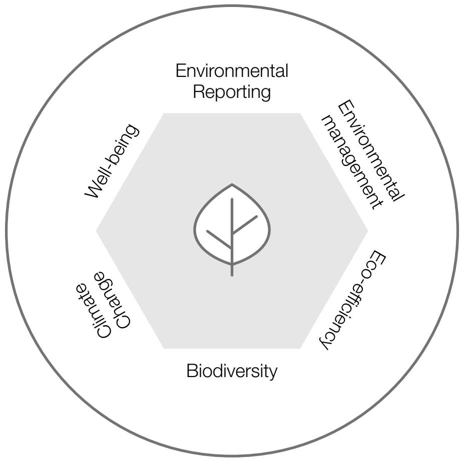
Each working group comprises department representatives from Colonial, Utopicus and SFL to handle implementation of Strategic Plan actions assigned to the corresponding group. The CSR Coordination Group coordinates and supervises progress and implementation of more cross-cutting actions. The more salient headway made in implementing ESG Strategic Plan actions in 2018 are detailed below:

## E - Environmental Pillar

With a view to structuring and scheduling the implementation of actions contemplated in the environmental pillar of the Strategic Plan, in 2017 the group approved the **2018-2020 Sustainability Master Plan**, comprising six scopes of engagement. The Property Management Working Group fosters and coordinates the corresponding actions.

As addressed further in Chapter 6 of the present Integrated Annual Report, all the actions contemplated by the Sustainability Master Plan for 2018 were carried out.

Colonial also opted to separately address all actions related to managing relations with customers and tenants by creating a Working Group and a Master Plan specifically for them. As part of the commitment to CSR, the three-year Satisfaction and Quality Survey conducted in 2018 with customers and tenants of the company incorporated questions on environmental, social and good governance issues for the first time ever.



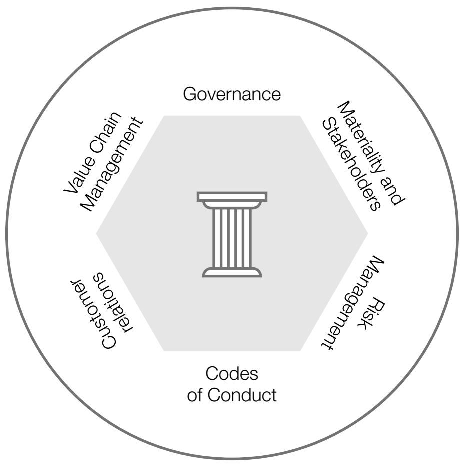

## S - Social Pillar

In 2018, the Colonial Group was working on building the governance model for this pillar with the incorporation of Begoña Muñoz as Chief Human Resources Officer back in June and the creation of the Social Working Group. The Human Resources Strategic Plan is expected to be approved in 2019 and will then act as the axis for developing Strategic Plan actions related to the management of Colonial Group professionals (refer to Chapter 5 for more information).

The CSR Coordination Group is responsible for cross-cutting actions with scopes corresponding to Social Integration, Human Rights and Philanthropy and Society (refer to Chapters 4 and 7 for further details).


## G - Governance Pillar

The formalisation of the CSR Governance Model and creation of the Governance Working Group have enabled Colonial to ramp up its efforts in Corporate Governance, commencing the work for drawing up and formalising a series of corporate governance-related policies.



## Commitment to Human Rights

As a benchmark in sustainable management, the Colonial Group is committed to guaranteeing respect for internationally recognised Human Rights. The Group works to safeguard respect in the countries where it operates and the different areas of its activity, including commercial relationships. In this regard, it is worth noting that the company carries out its activities in Spain and France. These activities are therefore subject to extensive social and economic regulations and controls set not only by local and European legislation but also the international treaties signed by both countries.

Group activities could mainly have economic, labour and social impacts on Human Rights. These include: the right to fair and decent working conditions, occupational health and safety, professional training, an adequate standard of living, consumer protection, etc.

To ensure respect for these rights, Colonial has taken specific human-rights related actions within the framework of the ESG Strategic Plan. These include adherence to the 10 principles of the UN Global Compact. In addition, the Colonial Group currently has several policies and procedures that guarantee, albeit not expressly, the protection and respect of the human rights of its stakeholders, including:

- Code of Ethics
- Corporate Social Responsibility Policy (Group)
- Environmental Management Policy (Group)
- Disabled Worker Employment Policy (SFL)
- Money Laundering and Terrorism Financing Prevention Manual (Group)
- Penal Risk Prevention Manuals (Group)
- And others

The Colonial Group has also set up a communications channels as a whistleblowing mechanism so that stakeholders can report any suspected signs or indications of a violation of their rights.

## Contribution to the Sustainable Development Goals

In September 2015, the United Nations (UN) adopted the 2030 Agenda for Sustainable Development, which established a total of 17 Sustainable Development Goals (SDGs) and 169 specific targets of universal application to be achieved in the next 12 years.

In keeping with its strategy focused on long-term sustainability, the Colonial Group is committed to the 2030 Agenda and has thus analysed its contribution to achieving the SDGs. All the actions included in the ESG Strategic Plan were analysed in detail. This analysis identified the three main goals on which the organisation can generate a greater positive impact, and other interrelated SDGs to which the Colonial Group also contributes.

# 4.5. Colonial Group Stakeholders

As part of the actions contemplated in the ESG Strategic Plan, the Colonial Group is developing a Stakeholder Engagement Policy. This policy is being drawn up to establish the basis for communication with Stakeholders and strengthen the Group's relationships with them. The Policy will therefore include a detailed explanation of the available communication channels. The document is expected to be approved during 2019.

With a view to understanding stakeholder expectations and inform them of the measures that the company has adopted to meet them, Colonial has made the following communication channels available for maintaining a constant, transparent and bidirectional dialogue:

| Stakeholder | Communications Channels |
|---|---|
| Employees and worker representatives | **Intranet**<br>**Points of contact**<br>Human Resources email, Channel Complaints<br>**Informal horizontal and vertical communications channels** |
| Vendors, service providers, suppliers and contractors | **Vendor management platform**<br>**Points of contact with purchasing managers**<br>proveedores@inmocolonial.com |
| Customers and tenants | **Property managers**<br>**Surveys and programmes**<br>> "Coffee with the Manager" Programme<br>> Satisfaction surveys<br>> Barometer ParisWorkPlace<br>**Customer Portals**<br>> Colonial Intranet: inmuebles.inmocolonial.com<br>**Customer management points of contacts**<br>+34 93 404 79 00<br>www.inmocolonial.com |
| Shareholders and investors | **Shareholder Relations Office**<br>accionistas@inmocolonial.com \| +34 93 404 79 10<br>**Investor Relations Office**<br>inversores@inmocolonial.com \| +34 93 404 78 98<br>**Homepage for Shareholders and Investors**<br>www.inmocolonial.com<br>**General Shareholders Meeting**<br>**Meetings and events with shareholders and investors**<br>**Additional communications channels**<br>Newsletters<br>**The National Securities Market Commission (CNMV)**<br>cnmv.es |
| Funders | **Management points of contact**<br>+34 93 404 79 00 |
| Society (non-profit organisations, civil society public agencies and other regulatory bodies) | **Points of contact**<br>+34 93 404 79 00 \| www.inmocolonial.com<br>**The National Securities Market Commission (CNMV)**<br>cnmv.es |

# 05 Team of professionals

# 5.1. Strategic Human Resources Plan

Aware of impact of efficient human resources management, the governing bodies of Colonial Group have shown their commitment to boosting this strategic pillar throughout 2018. The first initiative involved hiring a professional for Colonial's Management Committee, appointed as the Human Resources Manager.

One of the highlights of the different initiatives rolled out throughout the year include the development and approval of the **Group's Strategic Human Resources Plan for 2018-2020**, which provides coverage to social aspects of the ESG Strategic Plan. The purpose of the Plan is to ensure that all of Colonial's professionals become aware of their contribution, impact and added value in their day-to-day work.

The Plan is made up of seven "planets" of action, aimed at producing the results that gravitate around the well-being of the worker, the worker's contribution as a critical element in the creation of the corporate culture and, as a result, a way of adding on-going value to the corporation.

These seven "planets" are the specific methodologies and how-to's of the fields Colonial understands as key to generate a "circular work" environment, in which growth is shared, savoir-faire trickles down the corporate ladder and results are rewarded:

> *The Colonial Group is known for the **excellence and professionalism** of its people and one of the main pillars to achieve the optimum **business strategy**. During 2018, the Group has rolled out a series of initiatives that have not only boosted the efficiency of its human team but also guaranteed the creation of sustainable value throughout the organisation*

**Challenges for 2019**

Creation of a new system of incentives, in which these are defined in the company's strategy from the start. All challenges and ambitions are "discussed" between the manager and employee, ensuring there are no uncertainties about the expected degree of contribution.

**"Colonial Career Conversations"**

"Colonial Career Conversations": This tool is used to discuss about the contribution of all of Colonial' collaborators. This is an agile tool, which allows collaborators to share their challenges, ambitions, remuneration, training, career project, networking or how they interact with others. Sharing this helps us understand better the contribution to the organisation of each individual, as well as to detect the barriers and obstacles that might be hindering the achievement of excellence in challenges and personal and professional growth.

**R€T**

This tool is used by Colonial to manage employee contribution. R€T is used to analyse positions, the market and the latest remuneration trends, with the purpose of ensuring the employee's remuneration is different and motivating.

**“Knowledge & Learning”**

Both concepts are connected when we discuss the path of professional growth of Colonial Group’s people. Colonial believes that it is very important to develop personalised plans and/or to clearly establish the potential of each collaborator, as a joint task and with the necessary commitment. “Colonial Career Conversations” is the tool used to design a personalised training plan for each employee.

**“Colonial Counts on You”**

Colonial likes a fluid and transparent dialogue, promoting dialogue between different groups and Companies of the Group, encouraging a transversal approach and collaboration environments, the participation of Senior Management and its line managers. It is for this reason that Colonial designed the “Great Place to Work” survey and shared the survey results with its employees and in February 2019 shared profits with all its employees. This has been the starting point for the development of the Human Resources strategy.

**Organisation**

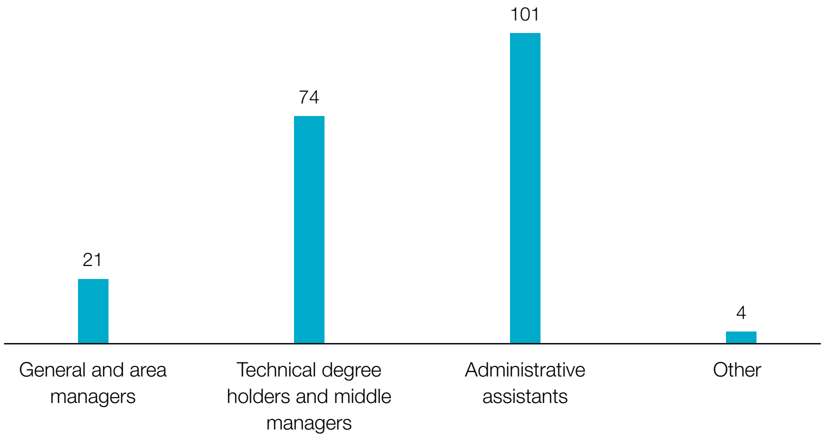
Colonial rolled out its “Activity” project, an on-going initiative used to reflect on the organisational design of its process, system, activity and task configurations, aimed at increasing the business value, focusing on customer value and encouraging performance to achieve extraordinary results.

**“Colonial looks after you”**

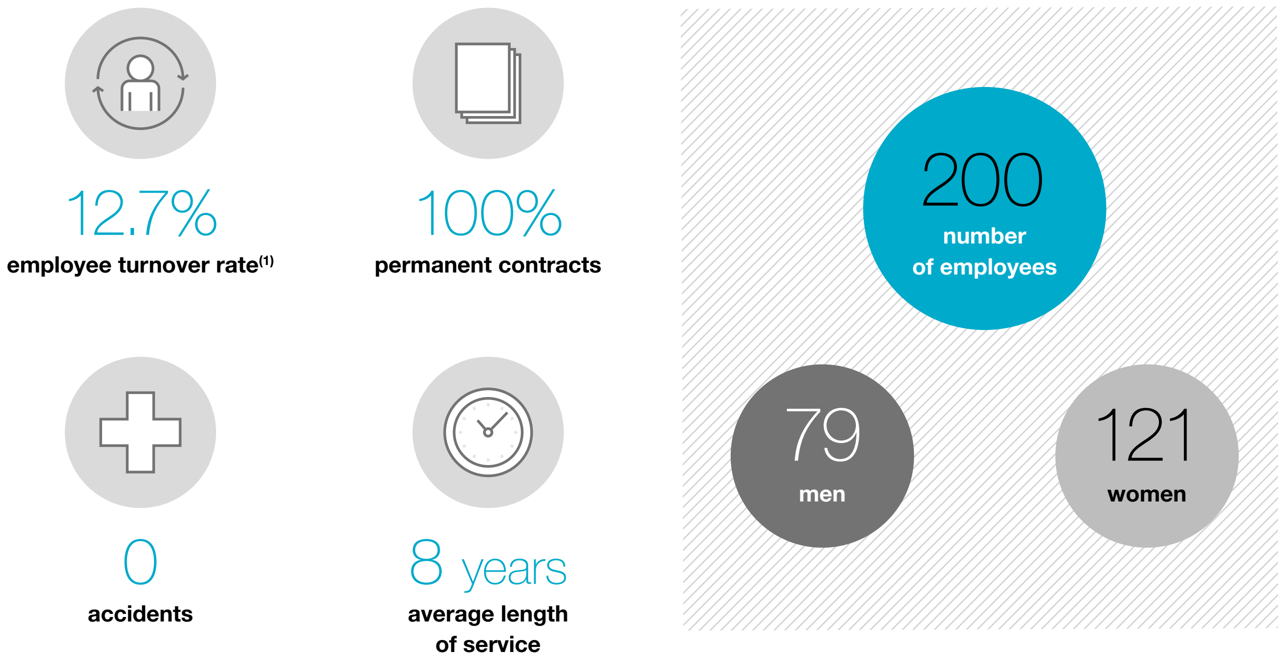
The Group’s social initiatives are the base of its culture. They help the Group take decisions. They establish a unified direction, fostering a sense of belonging.

# 5.2. The Colonial Group's human team

The Colonial Group has made a significant commitment to its collaborators and considers that guaranteeing their well-being is critical, offering them with a positive work atmosphere that allows them to guarantee the sound functioning of the company and its sustained growth. For this reason, the Group bases its workforce management policy on respect, on-going communication, flexibility, training, respect for equal opportunities, diversity and non-discrimination on the basis of gender, age or disability.




At year-end 2018, the Colonial Group's workforce comprised 200 employees, **65.5%** of which worked in Spain and **34.5%** in France.




(1) The dismissals of the entire Group and merger with Axiare have been taken into account in the calculation of the employee turnover rate and these have affected this rate.

### Number of employees

| | 2018 | | | | | 2017 | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Men | Women | % Men | % Women | Total | Men | Women |
| **Colonial's Management** | **8** | **4** | **4** | **50%** | **50%** | **7** | **4** | **3** |
| **Employment category** | | | | | | | | |
| General and area managers | **21** | 14 | 7 | 7.0% | 3.5% | **19** | 13 | 6 |
| Technical degree holders and middle managers | **74** | 34 | 40 | 17.0% | 20.0% | **69** | 33 | 36 |
| Administrative assistants | **101** | 28 | 73 | 14.0% | 36.5% | **71** | 16 | 55 |
| Others | **4** | 3 | 1 | 1.5% | 0.5% | **6** | 4 | 2 |
| **Total Group** | **200** | **79** | **121** | **40%** | **60%** | **165** | **66** | **99** |
| **Age (years)** | | | | | | | | |
| Under 30 | **24** | 7 | 17 | 3.5% | 8.5% | **12** | 4 | 8 |
| 30-50 | **122** | 52 | 70 | 26.0% | 35.0% | **104** | 46 | 58 |
| Over 50 | **54** | 20 | 34 | 10.0% | 17.0% | **49** | 16 | 33 |
| **Total Group** | **200** | **79** | **121** | **40%** | **60%** | **165** | **66** | **99** |

During 2018, the staff of Colonial Group increased by 21%, mainly as a consequence of the merger with Axiare and the incorporation of its staff to the Group.

The Colonial Group is committed to diversity and gender equality. As a result of this commitment during 2018:

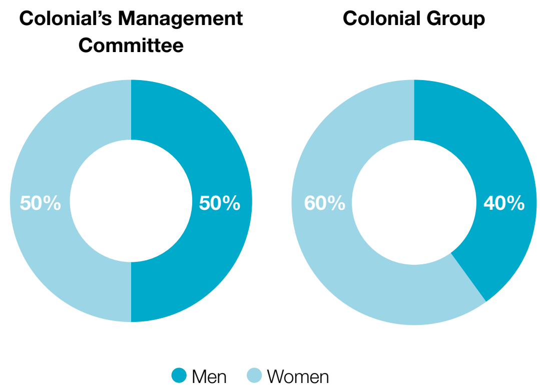
> 63.9% of the new hires were women, currently representing 60.3% of the total workforce.

> In addition, all people promoted in SFL were women.

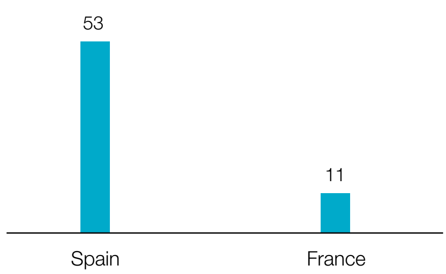
> Likewise, the incorporation of Utopicus and merger with Axiare have allowed us to incorporate young talent, multiplying the number of new hires younger than 30 two-fold when compared to the figures of 2017.

*Colonial is among the leaders of the IBEX 35 with gender equality within its Management Committee: 50% women and 50% men*

### Mix of men and women




### New hires[1]




(1) This information takes into account all new hires and people joining the staff of Colonial Group, including those arising from the incorporation of Utopicus and merger with Axiare.

# 5.3. Investment in human capital

The Colonial Group invests in the organisation's human capital to offer its professionals the resources on which the Group's strategy is based. The ESG Strategic Plan establishes specific actions in relation to the development of the organisation's human capital, aimed at ensuring on-going improvement.

## Training Plan

The Colonial Group's Training Plan focuses on:

1. "Colonial Career Conversations". - Raising the awareness on the areas that need improvement and on the strengths.

2. Preparation of a plan. "A plan that takes you where you want to be".

3. Commitment to the plan.

4. Analysis and measurement of the results obtained.

Learning requires skills. Unearning requires an attitude.

Training on attitudes is as important as training on skills. This is why we work on the two spheres: learning and unlearning.

Each collaborator must be aware of his/her skillset and how he/she uses it as the main reason for being one of the company's employees. Such knowledge and "know-how" will allow the employee to achieve extraordinary levels of performance, as well as personal and professional growth. On the contrary, poor levels will lead to obsolescence.

In a VUCA world, companies like Colonial understand that they have a very important job, which involves challenging knowledge and facilitating access to such knowledge to all of the Group's collaborators.

**Colonial's Training Plan** includes training programmes that are not only aimed at ensuring its professionals acquire and develop the skills required to be successful in their role on a daily basis, but also help them acquire other skills that contribute to their personal and professional development:

### TECHNICAL TRAINING

It is aimed at developing specific skills and helping employees acquire certain knowledge for their role.

### SOCIAL TRAINING

Training on skills that help the employee interact in and create a collaborative environment, in which going to the office every day is more stimulating than staying at home to work; because there are colleagues, experts, support staff, technology and the desire to share things.

### MOTIVATIONAL, PHYSICAL AND POSTURAL TRAINING

We are a body, emotions and knowledge.

It is not often that we see employees who work fully motivated, in top physical shape and with no physical discomfort.

Our previous generations did not teach us how to look after ourselves, lead a healthy diet, do stretching exercises and recover our postural mobility in our day-to-day work.

Colonial is aware of this and it is for this reason that it faces it directly and is concerned for ensuring that its employees learn how to look after themselves properly and make them stronger in all areas of their lives.

"Colonial Looks After You" is the main tool used to achieve this.

Colonial's offices have kitchens with cutting-edge appliances to ensure that its employees can enjoy their home meals at the office, as well as juicers and cold pressed juice machines to allow its employees to enjoy a freshly squeezed or pressed fruit and vegetable juice. In addition, Colonial has a multi-purpose room, which can be used for postural training, yoga or meditation sessions throughout the year.

## LANGUAGE TRAINING

Under the slogan "Speaking different languages is important for you!", Colonial promotes the need to develop language skills in its collaborators. Out of the endless number of existing reasons for learning a language, Colonial has chosen: enjoyment, listening to music, watching films in their original language, professional career, international communication, mind-opening, travelling, etc., and it has placed them in front of its professionals to raise their awareness and help them understand that language skills make them a better professional.

Colonial learns from experience and from experience it has discovered that private lessons are more effective than group lessons, that weekly lessons allow employees to learn quicker and consolidate what they have learnt better, that following a method is better than constant improvisation, that co-payment generates a commitment and achievement generates rewards, and that measuring results and progress in official examinations is the solution to two levers: motivation and commitment.

Therefore, 90% of its employees follow one of these three models: "Calm" one hour a week, "Dynamic/Dinamique" two hours a week and "Fast/Vite" three hours a week of private lessons in a co-payment system; professionals attending 80% of the lessons by June and passing the TOEIC (Test of English for International Communication) or TFI (Français International Test) with a score proportional to the classes subsidised will be reimbursed the amount they have paid.

**C**alm

- Private lesson
- 1 hour/week
- At the office
- Co-payment
- 80% Colonial
  20% employee
- Reimbursement if you achieve your "Goal"

**D**ynamic

- Private lesson
- 2 hour/week
- At the office
- Co-payment
- 80% Colonial
  20% employee
- Reimbursement if you achieve your "Goal"

**F**ast

- Private lesson
- 3 hour/week
- At the office
- Co-payment
- 80% Colonial
  20% employee
- Reimbursement if you achieve your "Goal"

**D**inamique

- Private lesson
- 1.5 hours/week
- At the office
- Co-payment
- 80% Colonial
  20% employee
- Reimbursement if you achieve your "*Objectif*"

**V**ite

- Private lesson
- 3 hours/week
  In 1:30 h sessions
- At the office
- Co-payment
- 80% Colonial
  20% employee
- Reimbursement if you achieve your "*Objectif*"

In addition, all training will be given at Colonial's offices, so the employee will not have to waste time and travel to other places. Likewise, the co-payments will have tax benefits, as they are included in Colonial's R€T flexible remuneration scheme.

Learning English and French is entirely voluntary, one or both at the same time! This is a commitment of the worker to his/her development. Helping its employees learn new skills is Colonial's commitment to its collaborators and society.

## TRAINING ON SUSTAINABILITY

In 2018, Colonial Spain has shown its commitment to the promotion of its employees' well-being and health, with mindfulness and stress management sessions and in collaboration with an external advisor.

In Francia, the Colonial Group has rolled out different initiatives aimed at raising the awareness of its employees on biodiversity and the environment. To this end, in 2018, SFL became a partner of the Graine Île-de-France association to raise the awareness of its employees on biodiversity, ecology and sustainable development. Likewise, different workshops were held, which addressed topics such as organic agriculture (with the Groupement des Agriculteurs Biologiques of the region of Île-de-France), the use and production of productions (with the association BIO Consom'Acteurs), and the diversified use of plants (with the association Aventure Nomade).

During 2018, the Colonial Group has trained 124 of its employees, investing € 304,860 on training. As regards the total number of external training hours, 2,051 hours of training were given in Spain and 1,307 in France. Therefore, the Group has given a total of 3,358 hours, which translates into an average of 16.79 hours of training per employee.

**▼ Total participation in training programmes during 2018**

| | Spain | France | Total |
|---|---|---|---|
| | | Hours | |
| **Employment category** | | | |
| General and area managers | 60 | 115 | 175 |
| Technical degree holders and middle managers | 398 | 909 | 1,307 |
| Administrative assistants | 1,593 | 284 | 1,877 |
| **Total** | **2,051** | **1,307** | **3,358** |
| **Gender** | | | |
| Men | 625 | 407 | 1,031 |
| Women | 1,426 | 901 | 2,327 |
| **Total** | **2,051** | **1,308** | **3,358** |

| | Area | Languages | Skills | Motivational | Sustainability |
|---|---|---|---|---|---|
| Hours | 68 | 2,173 | 822 | 187 | 109 |
| Expenditure (thousands of €) | 7,040 | 96,685 | 127,152 | 63,074 | 10,909 |

304,860
euros

**investment in training**

2,051
hours

**of training in Spain**

1,307
hours

**of training in France**

# 5.4. Diversity, equality and equal opportunities

In line with its Code of Ethics and the Sustainable Development Goals (SDGs), the Colonial Group is against any form of discrimination of its employees due to personal, physical or social reasons. Likewise, it promotes equal opportunities between men and women in relation to access to jobs, training, promotion and work conditions.

The relationship of Colonial Group with its employees and between its employees is based on mutual respect, equality and equal opportunities.

In 2018, we launched the “Great Place To Work” survey and the satisfaction scores associated with questions on impartiality at Colonial showed a very high degree of satisfaction (78% to 88%).

In 2018, the Colonial Group has continued to work on the implementation of different actions aimed at guaranteeing equal opportunities throughout all stages of the employee’s relationship with the company. The Colonial Group has defined the following commitments in relation to the framework of the ESG Strategic Plan:

> Make an effort to receive the same number of applications from male and female applicants in selection processes.

> Promote a greater diversity (gender, age, origin, etc.) of the workforce in all professional categories.

> Encourage the hiring of disabled persons as much as possible and collaborate with organisations that promote access to the labour market of the disabled.

> Guarantee equal access of men and women to training opportunities.

> Give equal rights to both parents, with the purpose of protecting the interest of newborns and children.

> Define the training actions required to help a parent who has been on parental leave to return to their job after this period.

> Guarantee that differences in salary are based on performance, contribution, knowledge and impact on the organisation.

In 2018, 9 of the company’s employees enjoyed a period of parental leave , i.e., 6 women and 3 men. In parallel, the Colonial Group has continued to work on the implementation of procedures and tools that allow its employees to achieve the correct work-life balance, as well as disconnect from work.

# 5.5. Health and safety

3 GOOD HEALTH AND WELL-BEING

The Colonial Group complies with the latest Health and Safety regulations and has implemented occupational risk prevention measures to prevent and minimise all potential incidents, with the purpose of providing a safe and stable environment to its professionals.

## Occupational health and safety

In Spain, Colonial has its own Health and Safety Committee, which is made up of four people (two representing the company's management and two representing the group's employees), representing 100% of the group's staff. This Committee oversees the correct implementation of safety measures and the prevention of occupational risks, while ensuring a healthy work environment. This committee has held a meeting once in 2018, after the merger with Axiare.

In France, SFL has adopted the commitment of the Colonial Group to the Health and Safety of its professionals as part of its human resources policy. To this end, after the global survey of the optimisation of qualify of life at the workplace conducted in 2017, the company has undertaken to renew the Qualify of Life at the Workplace (QLW) survey at least once every two years, with the purpose of identifying potential areas for improvement.

In 2018, the Colonial Group rolled out the following actions and initiatives to promote and preserve health and safety among employees:

> Training on Occupational Risk Prevention.

> Medical Examinations.

> Prevention of Psycho-social Risks.

> Rescue Worker Rescue (SST) training programme for six employees.

> Refresher fire prevention training.

> Recycling of certain existing electrical installations.

The Colonial Group monitors the main indicators in this area as part of its commitment to the safety of its employees. As a result, no accidents while travelling to or from work or at the workplace occurred during 2018. Likewise, the absenteeism rates dropped by 34% at Group level (0.77% compared to 1.16% in 2017).

## Commitment to well-being

Colonial is committed to the health and well-being of its employees. To this end, it rolls out different initiatives, aimed at improving productivity and quality of life:

> Flexible times to start and end the working day.

> Monitoring the ergonomics of the work desk, chair and equipment, as part of the Prevention Plan.

> Mindfulness and Stress management sessions.

> Fresh and bio fruit at offices.

> The **"Colonial Looks After You"** programme is an upgraded version of the previous programme, called "Active Life", a project rolled out in 2017. This programme addresses the concept of a healthy company, from a physical, mental and social health perspective. It uses an application for such purposes, which offers an annual schedule of activities and actions and which is updated every quarter. The aim is to raise the awareness on the importance a leading a healthy life and diet for its professionals.

0
accidents
**in 2018**

# 5.6. Compensation and remuneration

8 DECENT WORK AND ECONOMIC GROWTH

Colonial Group has designed a remuneration map and policy to guarantee fair remuneration practices for all.

The purpose of the **remuneration map** is to guarantee fair remuneration of all professionals and a competitive salary position in the market. This map is reviewed on an annual basis by the Human Resources department, taking the following into account:

> The contribution, value added and impact on the results of each employee.

> Principle of equal pay for men and women.

> Market salary data from national surveys or the industry itself.

Moreover, the Colonial Group's **remuneration policy** is structured on the following three pillars:

Remuneration is adapted to each work post. Colonial Group understands that remuneration must be established according to the employee's contribution. Different tools are used to assess the contribution (3C) and market studies support to operate with an objective approach.

Equal opportunities. Colonial ensures that all employees feel equally valued, regardless of their gender, age, disability or any other circumstance that makes them different.

The remuneration policy is designed according to the recommendations of external experts that provide advice to the Group about market practices on an on-going basis.

Competitiveness with respect to the market. The company is well aware of the fact that remuneration is an essential tool to attract and retain talent. This is why Colonial studies the latest market remuneration schemes and approaches and is aimed at ensuring that its job offers, development options, remuneration and personal and professional growth options are challenging and competitive in the market.

The Group's remuneration system is made up of the following elements:

- Fixed salary
- Variable salary
- Employee and training benefits

The fixed salary is analysed on an annual basis to guarantee that it is in line with the pillars of the Remuneration Policy and the market standards. In addition, it is one of the topics included in "Colonial Career Conversations".

In France, the Group prepared a report on the progress of negotiations to address the salary differences between men and women as part of the mandatory annual salary negotiations for 2018. In this report, both the company and the worker representatives certified the absence of any form of discrimination based on gender and showed their commitment to respect the principle of equal remuneration when assigning individual raises.

The third form of compensation is made up of social benefits. These will be made available to all staff. To this end, the Colonial Group offers general employee benefits and specific employee benefit plans in each country. In 2018, these benefits were provided in the form of financial aid worth over €846 thousand euros, distributed as follows:

**General employee benefits - thousands of euros**

| | **Cost of the programme** |
|---|---|
| Health insurance | 241 |
| Life and Accident insurance | 168 |
| Meal vouchers | 159 |

**Employee benefits Spain - thousands of euros**

| | **Cost of the programme** |
|---|---|
| Car Park | 2 |
| Christmas Hamper, Christmas Dinner, Hamper and others | 73,1 |

**Employee benefits France - thousands of euros**

| | **Cost of the programme** |
|---|---|
| Pension plan - PERCO | 204 |

# 5.7. Employee Representatives

## Worker Committee

Both Colonial Spain and SFL, its French subsidiary, have an employee representation body, in compliance with the corresponding law, which is available to cooperate on all matters needed and to provide a response to the concerns of employees in any company.

Colonial's Worker Committee has six members, five of whom are based in the Barcelona office and one in the Madrid office. During 2018, four ordinary work meetings and three meetings with the Human Resources Division were held. The main topics discussed, in addition to the ordinary running of the Company and the Committee, were based on human resource management (new human resource department managers, work schedules, remuneration, equal opportunities, etc.), as well as the progress of the mergers with Axiare and Utopicus.

As regards the Unified Delegation of Employees, SFL's representative body, it has a total of eight members, representing the different Company departments. The purpose of the Unified Delegation of Employees is to address workplace matters, such as promoting an optimum working environment, proposing changes in this area and giving formal notification of these so that they can be covered in the collective agreement.

▼ **% of employees covered by collective bargaining agreements**

98% **Spain**

100% **France**

98% **Total**

# 5.8. Collaborative management with suppliers

## Supply chain

The Group's suppliers are classified into two categories, based on the type of services and goods provided:

> Maintenance service providers.

> Construction service providers during remodelling and refurbishment projects and other improvements to buildings.

Colonial prioritises local suppliers to help generate value in the community in which they operate. To this end, of the 1,261 suppliers with which Colonial worked in Spain in 2017, 93.42% were local suppliers. As regards suppliers in France, 100% of the company's suppliers were local. In addition, in line with this pledge to contribute value to the community, 92% of all suppliers were located in Île-de-France, the region in which all buildings in the French portfolio are located.

In 2018, the average payment period for suppliers was thirty-two days, well within the legal maximum of 60 days established by Law 31/2014 of 3 December, which establishes the measures to fight against late payment in commercial transactions.

*Colonial Group fosters the responsible and sustainable character of its purchases, by including ESG criteria when selecting its suppliers*

## Social Responsibility in the supply chain

The Colonial Group is aware of the fact that its social responsibility goes beyond its business activities and, therefore, expects an exemplary attitude from its suppliers. It is for this reason that the company extends its commitments and the basic principles of its Code of Ethics to suppliers and ensures that they are applied in all stages of their activities. In particular, the organisation strives to ensure that both its employees and suppliers respect the agreements defined by the International Labour Organisation (ILO) in terms of:

> Freedom of association and collective bargaining.

> Elimination of all forms of discrimination in terms of access to work and employment.

> Elimination of forced and/or mandatory labour.

> Effectively eliminating child labour.

Likewise, the Colonial Group fosters the responsible and sustainable character of its purchases, by including ESG criteria when selecting its suppliers and ensuring its suppliers adhere to the Group's Corporate Social Responsibility Policy. Regarding this, the Colonial Group has developed the ESG Criteria Policy for the Selection of Suppliers (which is expected to be adopted in 2019) as part of the framework of the ESG Strategic Plan, and is working on the implementation of a global survey that includes greater requirements in relation to this.

Last, to avoid any illegal employment situation and comply with its documentation gathering obligations, as has been done in previous years, SFL outsourced this process using a partnership platform (E-attestation). This platform manages all administrative documents deposited by suppliers, verifies their integrity and, if necessary, issues reminders.

Technical proposals are prepared at the organisational level to promote responsible behaviour, especially in the following areas:

> Optimisation of energy and liquid consumption.

> Use of eco-friendly cleaning products.

> Reduction in the amount of packaging elements used and the volume of waste generated.

> Improvement of occupant comfort.

> Increased number of building operation assessment certificates (BREEAM in use).

Likewise, the Colonial Group has adopted special measures with construction service providers during building remodelling, upgrade and refurbishment projects with a two-fold purpose: to guarantee suitable progress throughout the works and the safety of the people participating in these processes. To this end, the health and safety procedure includes:

> Training/Information about the environment.

> Identification of staff with ID labels.

> Risk prevention.

> Presence of first aid teams at the site.

> Incident logbook.

> Instructions about PPE and breaks, in compliance with the regulations.

# 06 Eco-efficiency

# 06. Eco-efficiency

13 CLIMATE ACTION

The Colonial Group, through the relationship with its suppliers and other employees in its supply chain, is working to obtain the Sustainable Development Goal (SDG) Number 13: **Climate actions**.

> Creation of the Assets Working Group (E1).

> Creation of the Customer Working Group (E2).

> Drawing up the Climate Change Policy.

> Drawing up of the Renewable Energy Sources and Nearly Zero-Energy Buildings Policy.

> Drawing up the Biodiversity Policy.

> Environmental scorecard per building.

The Colonial Group is aware that the sustainability of its business depends on ensuring the efficient management of its property portfolio. There is now a clear trend towards transforming consolidated urban areas into resilient Smart Cities to meet the challenges that society faces now and in the future. The fight against climate change is one of the main challenges that these cities must address. To create a resilient city in this regard, it is essential to build eco-efficient buildings with a minimal environmental impact. In line with this trend, the Group has continued making progress in the environmental management of the Group's real estate portfolio.

As a leading organisation in the real estate sector, the Colonial Group works so that the characteristics of its property portfolio meet the expectations of its users and civil society in general. For this reason, the Group works in the field of eco-efficiency so that its properties contribute to achieving Sustainable Development Goal 13: Climate action.

To achieve the creation of value through the management of its properties, the Colonial Group has defined its property management strategy based on their level of eco-efficiency. In this regard, the group permanently dedicates its resources to monitoring and reducing the environmental impact of its portfolio, ensuring that all its activities contemplate the environmental dimension from the design of a new property to the daily management of facilities in the portfolio.

As a sign of the Group's commitment to promoting sustainability and transparency, the Colonial Group currently participates in a set of internationally recognised ESG indices and ratings. The content of these indices and ratings and the metrics they evaluate are regularly modified to ensure that they reflect the most innovative lines of action in sustainability. Therefore, the Colonial Group's proactive participation in these ESG indices and ratings, and the analysis of their results are the key tools for promoting the continuous improvement of the organisation's ESG-related performance.

**Key initiatives in 2018**

> Consolidation of the ESG (CSR) governance model in the Group:

  – Assets Working Group (E1), responsible for promoting and monitoring developments in the sustainability plan approved in 2017.

  – Customer Working Group (E2), responsible for developing initiatives and notifying users of the information and services necessary for them to maximise the environmental potential of all properties in the portfolio. The Customer Management Department works together with the Technical Department to ensure that these matters are covered.

> Holding presentations and sustainability meetings with employees, facility managers and general service maintenance teams with a view to involving different stakeholders in the improvement of the organisation's environmental performance through their daily actions.

## Sustainable Resource Management

### SUSTAINABILITY MASTER PLAN

The Sustainability Master Plan (SMP) encompasses all actions related to eco-efficient property management carried out throughout the year. By following the line of work approved in 2017 for implementing the Sustainability Master Plan, the Colonial Group has made significant progress in achieving the actions included in the environmental pillar of the ESG Strategic Plan. The Sustainability Master Plan contemplates general environmental management initiatives and building-specific actions.

The Sustainability Master Plan was successfully deployed in 2018, meeting virtually all the deadlines set for developing the different initiatives defined for the year. This performance is the result of the support and backing by the Group's governing bodies, which set a strategic priority to reducing the environmental impact of the Group's assets, therefore allocating the necessary resources for success.

While the original Master Plan's timeframe covers two years (2018 and 2019), the group has nevertheless studied initiatives that either recur or will require periodic updating. Additional planning has therefore been made, extending the timeframe to 2023 and including initiatives from the original Master Plan. This will provide already implemented actions with continuity and enable the Group to keep improving.

The year 2018 was full of significant changes in the Group, mainly the incorporation of Utopicus and Axiare into the portfolio, which raised the challenge level regarding implementation of the Sustainability Master Plan. Colonial's management teams have been aware of this since incorporation and have been working to ensure an efficient integration in all areas of the business, including the field of environmental management. To

| Engagement approach | 2018 SMP Action Fulfilment | Status |
|---|---|---|
| Environmental Reporting | 100% | ☺ |
| Environmental Management Plan | 100% | ☺ |
| Eco-efficiency | 100% | ☺ |
| Biodiversity | 100% | ☺ |
| Climate Change | 100% | ☺ |
| Wellness | 100% | ☺ |

ensure that Colonial Group assets and their corresponding services satisfy high environmental standards, the Technical Department is working on a specific Sustainability Master Plan for the new assets. This Plan ultimately aims to align the new properties with the rest of the portfolio within two years in terms of consumption efficiency, energy ratings, sustainable certifications and consumption monitoring systems, etc.

## DUE DILIGENCE PROCEDURE

Upon acquisition of a new property, the Colonial Group carries out due diligence on the asset. This enables a 360° analysis of the building to ascertain its regulatory and technical particulars and also commence designing the action plan to ensure that it is aligned with the Group's management and eco-efficiency standards. In 2018, the Colonial Group complemented this procedure with the formal inclusion of new environmental and technical aspects.

**1**

**External analysis**
- Background
- Urban development conditions
- Regulatory aspects
- Socio-economic aspects

**2**

**Analysis of the building's environmental impact**
- Materials
- Waste
- Discharge
- User risk
- Other pollution
- GHG emissions
- Energy efficiency
- Water efficiency

**3**

**Technical audit**
- Accessibility
- Access to means of transport
- Fire prevention
- Technical licences
- Assessment of procedures to be performed

**4**

**Conclusion**
- Final building assessment

## ENVIRONMENTAL POLICY AND GOOD ENVIRONMENTAL MANAGEMENT PRACTICES MANUAL

The Environmental Policy is one of the tools used by the Colonial Group for an eco-efficient management of its buildings. The policy's guidelines were formalised in 2018 and put into practice in the group's entire property portfolio. First, the Group's activities were divided into the following areas of action:

| | | |
|---|---|---|
| **Scope 1**<br>New construction works, major restorations, refurbishments, reforms or renovations<br>**(MEP[1] > €500,000)** | **Scope 2**<br>Minor reforms in existing buildings contemplated in the SMP<br>**(MEP[1] < €500,000)** | **Scope 3**<br>Maintenance tasks in existing buildings<br>**(general services)** |
| Responsible sourcing<br>+<br>Sustainable USW management<br>+<br>Carbon footprint control and reduction<br>↓<br>Control tool: Environmental tracking table | Responsible sourcing<br>+<br>Sustainable USW management<br>+<br>Energy efficiency improvements<br>+<br>BREEAM certification improvements<br>+<br>Inventory updates | Responsible sourcing<br>+<br>Sustainable USW management<br>+<br>Carbon footprint control and reduction<br>↓<br>Control tool: Environmental tracking table |
| **Contractor project manager** | **Industrial facility Manager** | **Maintenance teams** |

**ENVIRONMENTAL CONSULTANT**

(1) MEP= Material Execution Price.

A scope-based procedure was created to streamline deployment of the guidelines established in the Group's Environmental Policy.

**Scope 1: NC work, restorations and major works with MEP > €500,000**

To approve responsible sourcing compliance, the Contractor must now justify compliance for at least the products corresponding to 70% of the work's MEP.

Similarly for sustainable waste management, contractors must justify that at least 80% of Construction and Demolition Waste (CDW), including Hazardous and Non-Hazardous, will be managed for reuse and therefore no more than 20% will be diverted without reuse.

Project Managers will be responsible for supervising compliance with the Environmental Specifications (drawn up for this purpose) by architects and contractors, including controlling, for instance, quarterly records regarding the mass (kg) of materials with recycled content before or after consumption, recyclable materials, installed local materials, etc.

The contractor must have quarterly tracking during the construction phase insofar as the material and waste registration table during execution of all works and submit all hazardous and non-hazardous waste management documentation.

**Scope 2: Minor works with MEP < €500,000**

To approve responsible sourcing compliance for Scope 2 works, the Contractor must now justify compliance for at least the products corresponding to 70% of the work's MEP.

Similarly for sustainable waste management, contractors must justify that at least 80% of Construction and Demolition Waste (CDW), including Hazardous and Non-Hazardous, will be managed for reuse and therefore no more than 20% will be diverted without reuse.

Facility Managers must supervise compliance with the criteria for the responsible souring of materials, products and services. The Mace team will check the affected materials/products/equipment.

They will also be given a copy of the Product, Material and Equipment Procurement Guide, which must in turn be sent to the industrialists of each work with the responsible sourcing requirements for the elements to be used.

**Scope 3: Any action derived from the continuous maintenance of general services**

To approve responsible sourcing fulfilment in terms of General Service (GS) maintenance tasks, the maintenance team currently must justify compliance for at least 70% of the weight of the products used for maintenance in each reporting quarter.

Similarly for sustainable waste management, contractors must justify that at least 80% of Construction and Demolition Waste (CDW), including Hazardous and Non-Hazardous, will be managed for reuse and therefore no more than 20% will be diverted without reuse.

Maintenance teams must comply with the criteria for the responsible sourcing of materials, products and equipment contemplated in any action derived from continuous maintenance, keep quarterly records and control all the environmental aspects indicated in the maintenance action control table.

Maintenance workers must also appropriately follow-up the most relevant environmental issues listed in the control tables, which includes a guide for sourcing materials, products and equipment that defines the environmental requirements for each category.

In relation to consumption monitoring, the Colonial Group has also worked to expand the coverage of monitoring and tracking the consumption of assets in the portfolio. The data for 2017 and 2018 were obtained in most cases and therefore the number of assets in this year's Like-for-Like perimeter increased considerably compared to 2017. Additionally, work has been carried out to create a **global environmental scorecard** that includes a series of relevant environmental indicators per building. This management tool provides users with a simple way t o view a property's individual environmental performance and efficiency figures.

## Energy Efficiency and Emissions Reduction

The Group strives to continue working proactively and in anticipation of the future to guarantee compliance with the climate and energy objectives set by the European Union for 2020. The following lines of action are contemplated in the present management framework:

> Building demand reduction strategies.

> Equipment seasonal performance optimisation and improvement strategies.

> Onsite or local renewable energy increase strategies.

> Final and primary energy production emissions reduction strategies.

Turning to climate resilience, the Group is aware of the need to understand the effects of climate change on the portfolio to anticipate them and develop resilience plans adapted to the characteristics of each building.

In this regard and within the scope of the Sustainability Master Plan that addresses climate change, a Climate Change Policy was drawn up and contains the priorities and commitments of the Group in this regard. Additionally, an in-depth analysis of climate change risks and opportunities (floods, heat waves, etc.) was conducted for some of the properties in the portfolio at the Group level. The main purpose of these analyses was to assess the climate change resilience of the buildings in the portfolio. In addition, risks and opportunities to which the Colonial Group is exposed are identified by following the analysis and classification methodology of the Carbon Disclosure Project, a sustainability index in which the Group has been participating since 2017 (climate change programme). Each identified risk is described and classified in detail, indicating the key impacts (financial and non-financial) and the methods used to take advantage of the identified opportunities and, in the case of risks, manage or mitigate them.

### PARTICIPATION IN BENCHMARK EVENTS

Colonial Group has partnered with other listed companies at the cutting edge of sustainability to organise the event “Private Sector’s Role in working towards a Zero-Carbon Economy”, which presented the results of the report drawn up by ECODES for CDP 2018.

During the event, substantially large figures on private companies’ current contribution to the fight against climate change were reviewed, highlighting both positive advances and areas for improvement in which work should continue.

Next year, the Group is committed to developing and implementing specific Action Plans on a building-by-building basis to not only enhance their climate resilience (actions in the building envelope, energy efficiency initiatives, plumbing adaptation, etc.) but also create value by managing the opportunities arising in this regard.

**▼ Framework for analysing climate change risks and opportunities**

## ENERGY AND EMISSIONS

The Colonial Group's focal point for emissions reduction entails improving the energy efficiency of its portfolio buildings and implementing renewable energies as much as possible.

The starting point for implementing such improvements in buildings comprises an in-depth analysis of the characteristics of each asset so as to ascertain the options for improvement and their potential for incorporating renewable energies. With this objective, the Colonial Group conducted a specific eco-efficiency analysis for each building.

Additionally, one of the goals of the Colonial Group is to achieve NZEB (Nearly Zero-Energy Buildings). NZEB have an elevated environmental performance but a very low energy consumption that mainly comes from renewable energy sources. This objective was formalised through the Renewable Energy Sources and NZEB Policy in which the Group declares its intention to invest continuously in the property portfolio with the aim of making its buildings self-sufficient.

The Group has taken steps to achieve this objective by classifying all buildings in Spain based on their potential for implementing renewable energies. Based on this classification, a specific Action Plan will be developed per building to define the most efficient improvement strategies that can be adapted to the reality of each type of building in line with the established NZEB objectives.

Through the set of measures contemplated in the extended version of the 2019-2023 Sustainability Master Plan (including recurring initiatives), we expect to have a 20% reduction in energy consumption by 2022 in a total of 29 buildings.

Additionally, the Colonial Group maintained its green energy commitment by extending supply contracts for buildings included in the Group's old portfolio during 2019 and 2020. This initiative is expected to achieve a reduction of at least 75% in these buildings' carbon footprint. In France, the Group is also committed to the renewable energy supply, which currently represents 30% of total electricity consumption.

## LIKE-FOR-LIKE SUSTAINABILITY

The table below shows the general consumption and emissions generated by the properties included in the Sustainable Like-for-Like perimeter in line with the recommendations of the EPRA Best Practices on Sustainability Reporting. According to the Like-for-Like definition, this perimeter only includes buildings that have been part of the portfolio during the current and previous reporting years (2017 and 2018). Additionally, this only includes assets for which the Group has control over supply consumption (fully or partially, thus excluding single-user buildings). Because of this, the Group's Like-for-Like includes only landlord obtained consumptions. Lots have also been excluded, since they consume no supplies.

The Group calculated Scopes 1 and 2 emissions of its carbon footprint based on the energy consumption of properties and leaks and refills of coolant gases. Aware that most emissions from its activities are part of Scope 3, the Colonial Group has continued working on calculating new categories for this scope according to the calculation methodology for scope 3 emissions of the GHG Protocol. In this regard, a new commuting survey was sent to all Colonial employees in Spain regarding daily commuting and business trips. The main data resulting from the survey are given below:

### ▼ Employee Commuting survey results

- Seventy percent (70%) of employees in Spain participated in this survey.
- Twenty-seven percent (27%) of the kilometres commuted to the workplace was done via public transport.
- Three percent (3%) of commuted kilometres used zero-emissions means of transportation (walking or bicycle).

### Energy consumption and emissions at own-use offices

| Sustainability indicators | Measure. unit | Coverage | 2018 Consumption | 2018 Consumption | Var. | sq m (real) | sq m (adjusted) | 2017 sq m | 2017 sq m (adjusted) | 2018 intensity ($TeqCO_2$/$m^2$) | 2018 adjusted intensity ($TeqCO_2$/$m^2$) | 2017 intensity ($TeqCO_2$/$m^2$) | 2017 adjusted intensity ($TeqCO_2$/$m^2$) | Var. | Adjusted variation |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Electricity Consumption | Mwh | 3 of 3 | 799 | 802 | 0% | 4,575 | 4,471 | 4,575 | 4,436 | 0.17 | 0.18 | 0.18 | 0.18 | 0% | –1% |
| Fuel Consumption | Mwh | 3 of 3 | 172 | 116 | 48% | 2,775 | 2,775 | 2,775 | 2,775 | 0.06 | 0.0621 | 0.04 | 0.0419 | 48% | 48% |
| **Total Energy Consumption** | **Mwh** | **3 of 3** | **971** | **918** | **6%** | **4,575** | **4,471** | **4,575** | **4,436** | **0,21** | **0.22** | **0.20** | **0.21** | **6%** | **5%** |
| Direct $CO_2$ Emissions | $TeqCo_2$ | 3 of 3 | 318 | 319 | 0% | 2,775 | 2,775 | 2,775 | 2,775 | 0.11 | 0.11 | 0.12 | 0.12 | 0% | 0% |
| Indirect $CO_2$ Emissions | $TeqCo_2$ | 3 of 3 | 46 | 31 | 50% | 4,575 | 4,471 | 4,575 | 4,436 | 0.01 | 0.01 | 0.01 | 0.01 | 50% | 49% |
| **Total Emissions** | **$TeqCo_2$** | **3 of 3** | **364** | **350** | **4%** | **7,349** | **7,246** | **7,349** | **7,211** | **0.05** | **0.05** | **0.05** | **0.05** | **4%** | **4%** |

Notes: the heating and cooling-related energy in own-use offices are not recognised separately.
The increases in fuel consumption at own-use offices were due to a significant increase in heating needs.

### Energy consumption and emissions at leased properties with control over building consumption figures

| Sustainability indicators | Measure. unit | Coverage | 2018 Consumption | 2017 Consumption | Var. | sq m (real) | sq m (adjusted) | 2017 sq m | 2017 sq m (adjusted) | 2018 intensity ($TeqCO_2$/m²) | 2018 adjusted intensity ($TeqCO_2$/m²) | 2017 intensity ($TeqCO_2$/m²) | 2017 adjusted intensity ($TeqCO_2$/m²) | Var. | Adjusted variation |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Electricity Consumption | MWh | 37 of 37 | 111,593 | 111,266 | 0% | 629,543 | 682,860 | 632,995 | 690,012 | 0.18 | 0.16 | 0.18 | 0.16 | 1% | 1% |
| Fuel Consumption | MWh | 6 of 6 | 4,070 | 2,890 | 41% | 123,375 | 117,500 | 85,678 | 86,290 | 0.03 | 0.03 | 0.03 | 0.03 | –2% | 3% |
| Heating & Cooling Consumption - Like-for-Like (DH&C-LfL) | MWh | 13 of 13 | 27,655 | 25,337 | 9% | 238,354 | 212,792 | 238,354 | 211,688 | 0.12 | 0.13 | 0.11 | 0.12 | 9% | 9% |
| Green Energy Consumption (Solar Power) | MWh | 1 of 1 | 39 | 38 | 3% | 20,451 | 20,451 | 20,451 | 20,451 | 0.00 | 0.00 | 0.002 | 0.002 | 3% | 3% |
| **Total Energy Consumption** | **MWh** | **37 of 37** | **143,317** | **139,494** | **3%** | **629,543** | **682,860** | **632,995** | **690,012** | **0.23** | **0.21** | **0.22** | **0.20** | **3%** | **4%** |
| Direct $CO_2$ emissions (Scope 1) | $TeqCo_2$ | 9 of 9 | 1,057 | 758 | 40% | 123,375 | 117,500 | 67,162 | 67,812 | 0.01 | 0.01 | 0.01 | 0.01 | –24% | –19% |
| Indirect $CO_2$ emissions (Scope 2) | $TeqCo_2$ | 37 of 37 | 8,015 | 8,631 | –7% | 629,543 | 682,860 | 632,995 | 690,012 | 0.01 | 0.01 | 0.01 | 0.01 | –7% | –6% |
| Other indirect $CO_2$ emissions (Scope 3) | $TeqCo_2$ | 37 of 37 | 1,809 | 1,937 | –7% | 629,543 | 682,860 | 632,995 | 690,012 | 0.003 | 0.003 | 0.003 | 0.003 | –6% | –6% |
| **Total Emissions** | **$TeqCo_2$** | **37 of 37** | **10,882** | **11,325** | **–4%** | **629,543** | **682,860** | **632,995** | **690,012** | **0.02** | **0.02** | **0.02** | **0.02** | **–3%** | **–3%** |

Notes: Scope 1 emissions include leaks and reloading of coolant gases, and the consumption of building boilers for properties in Spain in 2018, without including the figures for Axiare and Utopicus. The increase in scope 1 emissions versus 2017 was caused specifically by the inclusion of leaks and reloading of coolants in 2018.
Scope 2 emissions include electricity consumed in the buildings' common areas.
Scope 3 emissions include the estimation made using the results of the survey regarding employee commuting (daily and business travel) for Colonial employees conducted only in Spain in 2018, travel of maintenance technicians, emissions from vendors (travel, scopes 1 and 2 emissions), electricity and fuels used privately, and water consumption of buildings.
The Colonial Group's Like-for-Like portfolio includes group of buildings for which both energy consumption and emissions are detailed. In some cases, the Group only has control of the consumption of the common areas and has therefore estimated the energy consumption of tenants based on the energy consumption per square metre of the building and the sq m that they use. This estimated electricity represents 62% of the total Like-for-Like electricity consumption. The Like-for-Like perimeter excludes buildings at Parc Glories, Estébanez Calderón 3-5 and Príncipe de Vergara 112-114, since they were acquired at the end of 2017. The 2017 and 2018 $CO_2$ emissions were calculated based on the emission factors of the Catalan Office for Climate Change in its most recent version (March 2018) for Spain and the emission factors provided by energy suppliers for France, following the calculation methodology of the French Environment and Energy Management Agency (ADEME). The unit of measurement is MWh/m² for intensity and $tCO_2e/m^2$ for emissions. Scope 2 emissions were calculated using location-based emission factors. In Spain, the above-ground surface was used for the five properties that the Colonial Group has equipped with network analysers in the garage, while the total building surface was used for the remaining buildings, since the controlled consumption figures are associated with the entire building. No other data has been estimated (fuels, DH&C, water, waste, etc.).

The results of the survey reflect the convenient location and accessibility of the properties. However, the Colonial Group continues true to its Master Plan by working proactively to install services that favour the use of more environmentally friendly transportation options. The installation of electric vehicle charging stations at most of the group's buildings is one example of these efforts. With the inclusion of this new Scope 3 category, emissions are being estimated for the following categories:

- Business Travel (6).
- Employee Commuting (7).
- Downstream Distribution and Transportation (9).
- Downstream Leased Assets (13).
- Water consumption in buildings.

The group is also studying a possible mobility survey for tenants in the buildings in its portfolio.

## IMPROVEMENTS ACTIONS IN SPAIN

Progress continued in 2018 for deploying specific initiatives to achieve greater energy efficiency, lower energy intensity and a decreased water consumption. These initiatives mainly entailed modernising lighting and air conditioning systems, replacing elevators and installing more efficient faucets.

Work has been carried out to quantify the savings achieved as a result of these initiatives. Based on consumption measurements and environmental performance information from the newly installed elements, this set of initiatives is expected to result in savings of 314,813 kWh and 123,407 tonnes of carbon dioxide equivalent ($tCO_2e$).

## IMPROVEMENT ACTIONS IN FRANCE

In France, the main improvement actions in 2018 included the deployment of Building Management Systems (BMS) and optimisation of air treatment systems. Work continued on achieving greater control over underground and common area energy consumption and a better breakdown of consumption by use type. The implementation of user awareness-raising initiatives has also been prominent.

## BIODIVERSITY-RELATED INITIATIVES

The Sustainability Master Plan includes actions aimed at protecting and improving biodiversity, some of which were developed in 2018. While its portfolio is mainly located in the central areas of large cities, the Colonial Group strives to reduce any negative impact on biodiversity to an absolute minimum. The Biodiversity Policy drawn up this year contains the Group's action framework, priorities and commitments in this regard. With this Policy, the Colonial Group communicates its commitment to:

- Preserving existing habitats at the sites of its buildings (urban and peri-urban environments).
- Creating new habitats and mitigating species reduction risks.
- Reducing the urban heat island effect.
- Reducing water consumption for irrigation by selecting local plant species with very low water requirements.

A Manual of Good Practices in Biodiversity was drawn up as a complementary tool to the Policy. It is a biodiversity design guide for planners in not only new construction, rehabilitation and renovation projects but also existing buildings.

The Manual includes specific measures to minimise the negative impact on biodiversity while protecting it and favouring new habitats.

In 2018, the Colonial Group worked on initiatives to protect birds for some buildings located in migratory streams and nesting areas. One of these initiatives is the new project at the Parc Glòries building in Barcelona. Work is underway at this building to install nests for swifts and sparrows, both migratory birds that nest under the cornices and eaves. Both species are declining in numbers in the city because of a lack of nesting spaces. To implement this initiative, a study was conducted to ensure the proper installation of nest boxes, thus guaranteeing the safety of building users and birds alike. As a result, a vertical garden was incorporated into a significant part of the building's façade by integrating planter modules on the different balconies and terraces. This incorporation will enhance the creation of its own population of insects as food for the swifts (insectivorous bird).

Additionally, nests for two pairs of hawks were set up in collaboration with the regional government of Catalonia to assist in containing the current gull plague in the city of Barcelona. With initiatives such as these, the new Parc Glòries project secured a LEED Platinum certification.

There is also remarkable work being done in France, where the Emile Zola 112/114 building is being redesigned and now goes by Biome. The term Biome refers to a natural community of flora and fauna occupying a large habitat. This building is being renovated according to biophilic design, an architectural trend that seeks to reconnect the humans with nature. It has been shown that incorporating natural elements in buildings promotes greater health and wellbeing of its users. This building has emerged as a clear benchmark in

### FURTHER SALIENT INITIATIVES IN BIODIVERSITY PROTECTION

- The building at Príncipe de Vergara 112 (Window Building) has integrated landscaped spaces into the building's broad terraces and a green wall was built in one of its interior patios.
- Installation of flowerpots with native plant species in the main halls of several buildings.
- Follow-up of initiatives that began in previous years such as the butterfly garden and nest boxes installed at Sant Cugat Nord.

this regard, not only in the Group's own portfolio but also at the sector level in general. The building is expected to receive an Excellent rating in the Biodiversity certification.
The outdoor spaces of the buildings Edouard VII and 9 Percier were redesigned to improve their green spaces and offer a better experience to tenants and users. Construction also started on two vertical gardens in the Cezanne Saint-Honoré building.

In keeping with the Sustainability Master Plan and set of actions scheduled for 2019, the Group's priorities include continuing work on achieving a higher percentage of green areas at buildings, with a particular focus on the design of vertical gardens. Another biodiversity-related objective entails ensuring that some of the buildings in the portfolio secure certifications in this regard.

## Material consumption reduction

The consumption of materials and consumables is one of the most relevant indicators for the Group, especially in scopes 1 and 2 (new construction projects, major reforms and Master Plan actions). Thanks to the implementation of the Integrated Environmental Management Policy, concerted efforts were made in 2018 to monitor this data in collaboration with the organisation's different business partners. Regional factors have taken precedence, with materials manufactured and installed at a distance of less than 800 kilometres. It should be noted that over 50% of the materials used are regional, enabling a significant reduction in the carbon footprint of the distribution process.

The following are the relevant indicators on material consumption for 2018. The columns with data expressed in percentage represent the degree of compliance with new responsible material consumption and circular economy criteria. This control was made by requesting documentation from industrialists or maintenance teams (depending on the scope of the actions). Materials with an insignificant consumption compared to the total were grouped in the 'Other' category.

The Colonial Group is set to progressively expand the number of buildings covered in the reporting system for materials consumed over the next 2 years, thus ensuring improved monitoring and control in this regard.

| | **Total Material Used** | **Responsible sourcing** | | **Recycled** | | **Recyclable** | | **Renewable** | |
|---|---|---|---|---|---|---|---|---|---|
| **Material Type** | **kg** | **kg** | **%** | **kg** | **%** | **kg** | **%** | **kg** | **%** |
| Stone and ceramic | 1,039,995 | 519,874 | 50% | 331,708 | 32% | 52,700 | 5% | 0 | 0% |
| Concrete and mortar | 245,993 | 154,545 | 63% | 11,512 | 5% | 0 | 0% | 0 | 0% |
| Glass | 499,572 | 499,572 | 100% | 172,036 | 34% | 62,990 | 13% | 0 | 0% |
| Metal | 100,882 | 94,722 | 94% | 32,466 | 32% | 63,862 | 63% | 0 | 0% |
| Wood | 398,911 | 397,161 | 100% | 76,161 | 19% | 57,890 | 15% | 398,911 | 100% |
| Gypsum | 86,767 | 86,767 | 100% | 42,559 | 49% | 81,970 | 94% | 0 | 0% |
| Insulation /proofing. | 76,576 | 69,586 | 91% | 31,946 | 42% | 61,950 | 81% | 0 | 0% |
| Paints and varnishes | 1,286 | 1,209 | 94% | 455 | 35% | 0 | 0% | 0 | 0% |
| Others | 330 | 80 | 55% | 0 | 0% | 0 | 0% | 0 | 0% |
| **Total** | **2,450,313** | **1,823,516** | **83%** | **698,843** | **28%** | **381,361** | **30%** | **398,911** | **11%** |

## Sustainable waste management

The Colonial Group recognises the importance of ensuring an appropriate sustainable management of the waste generated while carrying out its activity. Steps have been taken along these lines to improve storage, management and sustainable treatment of generated hazardous and non-hazardous waste. One of the implemented actions entailed the installation of at least 5 containers to collect the different types of recyclable waste generated in common areas.

As a result, Colonial requires that all its buildings have five containers to collect recyclable waste generated from common areas.

In parallel and aligned with the Environmental Policy, the group is working together construction companies and other involved parties to ensure sustainable waste management for the three scopes of activity. For this purpose, tracking tables were created to monitor waste generation and management, requesting that involved parties provide documentation substantiating not only the kg of each different type of waste collected by the authorised manager (pickup and delivery notes at treatment centres) but also the type of treatment received in each case (recycling, reuse or recovery certificates) at the different treatment plants.

The following table contains the main types of waste monitored during the year.

The first table clearly shows that nearly 80% of the waste generated is non-hazardous waste from construction and demolition. These initiatives have led to a considerable improvement in monitoring and managing generated waste in the portfolio, which explains the significant increase in waste generated with respect to last year. The Colonial is nevertheless aware that it must continue striving to improve in this regard to contribute to the transition towards a circular economy-based model as much as possible. One 2019 target is to have 80% of the

78%

**of the waste generated is non-hazardous waste from construction and demolition**

| | Weight | Amount Recycled |
|---|---:|---:|
| **Waste Type** | **kg** | **%** |
| Construction and Demolition | 2,381,027 | 78% |
| Wood | 432,558 | 98% |
| Metal | 53,644 | 32% |
| Concrete | 40,317 | 99% |
| Glass | 35,408 | 97% |
| Paper and cardboard | 29,428 | 64% |
| Organic and compost | 5,940 | 0.2% |
| Other non-hazardous waste | 6,347 | 36% |
| Other hazardous waste | 5,865 | 49% |
| Plastic | 3,290 | 55% |
| Fluorescents | 280 | 0% |
| Fuels and oils | 73 | 0% |
| Other hazardous waste | 57 | 0% |
| Batteries | 56 | 0% |
| Metal and plastic packaging | 16 | 0% |
| Refrigerants | 10 | 0% |
| **Total** | **2,994,316** | **80%** |

| Sustainability Indicators | Coverage | Disposal type | Generated waste 2018 (kg) | Disposal type | Generated waste 2017 (kg) | Disposal type |
|---|---|---|---|---|---|---|
| EPRA Waste-LfL | 30 of 37 | Landfill | 210,282 | 50% | 351,155 | 39.5% |
| | | Incineration with energy recovery | 129 | 0% | 93,345 | 10.5% |
| | | Incineration | 181 | 0% | 160,020 | 18.0% |
| | | Recycling | 210,802 | 50% | 204,470 | 23.0% |
| | | Other disposal method | 56 | 0% | 80,010 | 9.0% |
| | | **Total** | **421,449** | | **889,000** | **Total** |
| EPRA Waste-Abs | 38 of 67 | Landfill | 599,854 | 20% | 346,680 | 36% |
| | | Incineration with energy recovery | 129 | 0.004% | 163,710 | 17% |
| | | Incineration | 181 | 0.006% | 163,710 | 17% |
| | | Recycling | 2,394,097 | 80% | 202,230 | 21% |
| | | Other disposal method | 56 | 0.002% | 86,670 | 9% |
| | | **Total** | **2,994,316** | | **963,000** | |

total waste generated in these activities reused, recycled or recovered and therefore no more than 20% will be sent to a landfill. The target for subsequent years is set to be even more ambitious. Eighty percent (80%) of the monitored waste in the year were recycled while the remaining 20% were sent to a dumpsite, including waste produced by both the Group and the tenants of the group's properties.

## Responsible use of water

### ACTIONS TO REDUCE WATER CONSUMPTION

Fresh water is one of the planet's scarcest assets, since less than 1% of the planet's water is ready for human use. The remaining water is salty, in natural underground aquifers or in the form of ice at the poles. In this regard, the Colonial Group works so that its facilities provide building users

| Property | Total volume of water recycled and reused ($m^3$) | Comments |
|---|---|---|
| Avinguda Diagonal 409 | 242.72 | Grey water from service faucets reused for flushing toilets. Specific meters are set up for this purpose. |
| Sant Cugat Nord | 10,413 | Rainwater collection for watering green spaces. There are no separate rainwater and network water meters. |
| Martínez Villergas | 909.00 | Rainwater collection for watering green spaces. There is a specific rainwater consumption meter. |
| Travessera de Gràcia | 200.00 | Grey water from service faucets for flushing toilets and urinals. The total volume was estimated based on tank capacity. A proposal was made to install independent meters for quantifying consumption. |
| Amigó | 200.00 | Grey water from service faucets for flushing toilets and urinals. The total volume was estimated based on tank capacity. A proposal was made to install independent meters for quantifying consumption. |
| Washington Plaza | 338.00 | Collected and recycled rainwater. |

### ▼ Water consumption at offices for own use

| Sustainability indicators | Measure. unit | Coverage | 2018 Consumption | 2017 Consumption | Var. | sq m | sq m (adjusted) | 2018 Intens. ($m^3/m^2$) | 2017 Intens. ($m^3/m^2$) | Var. |
|---|---|---|---|---|---|---|---|---|---|---|
| Water consumption | $m^3$ | 3 of 3 | 2,436 | 2,156 | 13.0% | 4,575 | 4,575 | 0.53 | 0.47 | 13.0% |

### ▼ Water consumption at leased properties with control over building consumption figures

| Sustainability indicators | Measure. unit | Coverage | 2018 Cons. | 2017 Cons. | Var. | sq m | sq m (adjusted) | 2018 Intens. ($m^3/m^2$) | 2018 adjust. Intens. ($m^3/m^2$) | 2017 Intens. ($m^3/m^2$) | 2017 adjust. Intens. ($m^3/m^2$) | Var. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Water consumption | $m^3$ | 34 of 34 | 262,987 | 266,467 | –1.3% | 751,711 | 717,477 | 0.35 | 0.37 | 0.35 | 0.37 | –1% |

with an opportunity to responsibly consume this priceless asset. It should thus be noted that the Colonial Group only consumes water from local suppliers in the communities where its properties are located. The measures aiming to ensure a responsible consumption of water at Colonial Group buildings include the implementation of efficient sanitary appliances (taps, toilets, urinals and showers), rainwater collection tanks and even grey water recovery in some buildings.

Recycled and reused water represents 4% of the Group's total water consumption. Through the water efficiency initiatives included in the extended version of the Sustainability Master Plan (2019-2023), we expect to make a 10% reduction in water consumption by 2023.

## Green Building Certifications

The Colonial Group is firmly committed to securing sustainable certifications for its portfolio. In recent years, the Colonial Group has promoted certification of the buildings in its portfolio and managed to maintain a sustained increase in the qualifications that they have secured. Currently, 69% of the portfolio has sustainable certifications. The percentage of certified properties has decreased significantly after the portfolio incorporated Axiare buildings, new constructions and new acquisitions. When focusing solely on the buildings in the Colonial's old portfolio, however, the Group's coverage remains above 90%.

### BREEAM

The efforts made in this regard earned the Colonial Group the 2019 GRESB / BREEAM Prize for Responsible Real Estate Investment. This prize was awarded during the Best of BREEAM 2019 awards ceremony for the 'Large Portfolio > 1 billion Euro GAV (Gross Asset Value)' category.

The prize was a clear reward for Colonial's commitment to creating sustainable value in its portfolio, and also a further impetus to continue its efforts in this regard. During 2018, a total of 11 buildings in Spain were certified with Part 1 of BREEAM In-Use. At the end of 2018, the Colonial Group boasted 55 certified buildings in one of the two parts of the BREEAM certification. In this regard, the Group has established guidelines in France for applying design criteria aligned with BREEAM in all new reforms carried out.

For all certified buildings and in light of the renewals of these certifications, Colonial has worked with files analysing the necessary actions at each building to improve the classification levels in successive future renovations.

The content of these files is revised to incorporate new initiatives for BREEAM certifications and align them with the necessary actions of the SMP (Sustainability Master Plan).

BREEAM AWARDS 2019 WINNER

### LEED

Fourteen percent (14%) of properties in the portfolio are LEED certified. Two new buildings in Spain were certified LEED Building Design and Construction (BD+C) in 2018, securing a Gold rating while another asset was certified LEED Platinum (Core and Shell). Three buildings are pending qualification, two of which are pre-certified respectively LEED Platinum and LEED Gold. Another property secured the LEED Platinum certification in January 2019.

### HQE

The Haute Qualité Environnementale certification is a hallmark in the French real estate sector. This certification assesses properties based on their performance in terms of energy, environmental, health and user comfort. Twenty-six percent (26%) of the Group's assets in France bear this certification.

### WELL

The purpose of this line of action is to close open files for buildings of the former Axiare portfolio and incorporate Wellbeing measures in existing buildings. This is the underlying purpose behind the Wellbeing policy.

This Policy shall outline Colonial Group commitments and priorities in this area and seek to implement measures that allow future users to secure the WELL seal to certify their office spaces for being located in an environment already adapted to this certification's requirements, or streamline the corresponding implementation.

The Wellbeing Policy will also maximise the wellbeing and health of users by recognising the relationships between buildings and their occupants, since user wellbeing is directly related to factors including yet not restricted to natural light, green spaces or socialising areas.

In keeping with EPRA Best Practices, the following table indicates the percentage of certified surfaces versus the Group's total surfaces:

**▼ EPRA Cert-Tot**

| BREEAM In Use (Part 1) | % total floor value |
|---|---|
| Excellent | 8% |
| Very Good | 18% |
| Good | 26% |
| Pass | 1% |
| **BREEAM In Use (Part 2)** | |
| Excellent | 18% |
| Very Good | 12% |
| **BREEAM New Construction** | |
| Excellent | 2% |
| Good | 0.5% |
| **LEED BD+C** | |
| Gold | 10% |
| Platinum | 0.5% |
| **HQE** | |
| Exceptional | 2% |
| Certified | 2% |

## Energy certifications

In Spain, all properties must have an energy rating in compliance with Royal Decree 235/2013. In line with the requirements of national legislation, most buildings have energy efficiency labels.

| Certification | 2018 | 2017 |
|---|---|---|
| Category A | 5 | 3 |
| Category B | 24 | 23 |
| Category C | 18 | 17 |
| Category D | 11 | 11 |
| Category E | 3 | 3 |
| Category F | 4 | 3 |
| Category G | 1 | 1 |
| **Total** | **66** | **61** |

## Certifications per building

The following table lists all the environmental certifications secured by each Group property.

| Building name | HQE | BREEAM In-Use Part 1 | BREEAM In-Use Part 2 | ISO 50001 | ISO 14001 | LEED BD+C | BREEAM New Construction |
|---|---|---|---|---|---|---|---|
| **Barcelona** | | | | | | | |
| 1. Pedralbes Centre | | | | | | | |
| 2. Av. Diagonal, 530 | | Good | Very Good | ● | ● | | |
| 3. Av. Diagonal, 682 | | Good | Excellent | | | | |
| 4. Av. Diagonal, 409 | | Very Good | Very Good | | | Gold | |
| 5. Av. Diagonal, 609-615 (dau/prisma) | | Good | Very Good | | | | |
| 6. Av. Diagonal, 523-525 | | | | | | | |
| 7. Via Augusta, 21-23 | | Good | Very Good | | | | |
| 8. Paseo De Los Tilos, 2-6 | | | | | | Gold | |
| 9. Travessera, 11 | | Very Good | Very Good | | | Gold | |
| 10. Amigo 11-17 | | Very Good | Very Good | | | Gold | |
| 11. Travessera, 47-49 | | | | | | | |
| 12. Gala Placidia | | | | | | | |
| 13. Berlin, 38-48/numancia, 46 | | Good | Very Good | | | | |
| 14. Av. Diagonal 220-240, Glories | | Very Good | Very Good | | | | |
| 15. Av. Diagonal, 197 | | | | | | Gold | |
| 16. Torre Bcn | | Good | Very Good | | | | |
| 17. Illacuna | | Very Good | Excellent | | | | |
| 18. Torre Marenostrum | | | | | | | |
| 19. Plaza Europa, 42-44 | | | | | | | |
| 20. Parc Central | | | | | | | |
| 21. Parc Glories | | | | | | | |

| Building name | HQE | BREEAM In-Use Part 1 | BREEAM In-Use Part 2 | ISO 50001 | ISO 14001 | LEED BD+C | BREEAM New Construction |
|---|---|---|---|---|---|---|---|
| 22. Plaza Europa, 34 (2) | | | | | | | |
| 23. Sant Cugat Nord | | Very Good | Excellent | | | | |
| 24. Park Cugat | | | | | | | |
| 25. Av. Sant Antoni M.claret, 436 | | | | | | | |
| **Madrid** | | | | | | | |
| 26. P. Castellana, 52 | | Good | Excellent | | | | |
| 27. P. Castellana, 163 | | | | | | | |
| 28. P. Castellana, 43 | | Very Good | | | | Gold | |
| 29 Recoletos, 37-41 | | Very Good | Excellent | | | | |
| 30. Miguel Angel, 11 | | Good | Excellent | | | | |
| 31. Jose Abascal, 56 | | Good | Very Good | | | | |
| 32. Jose Abascal, 45 | | | | | | | |
| 33. Estébanez Calderón, 3-5 | | | | | | Gold | |
| 34. Génova, 17 | | Very Good | Very Good | | | | |
| 35. Serrano,73 | | Good | | | | | |
| 36. Santa Engracia, 120 | | Good | Very Good | | | | |
| 37. Príncipe De Vergara, 112-114 | | | | | | Gold | |
| 38. Alfonso XII, 62 | | Very Good | Excellent | | | | |
| 39. Poeta Joan Maragall, 53 | | Good | Excellent | | | | |
| 40. Lopez De Hoyos, 35 | | Very Good | Very Good | | | | |
| 41. Manuel De Falla, 7 | | | | | | Gold | |
| 42. Velazquez, 88 | | | | | | | |
| 43. Don Ramón De La Cruz, 82 | | | | | | Platinum | |
| 44. Sagasta, 31-33 | | | | | | | |
| 45. Almagro, 9 | | | | | | Gold | |
| 46. Miguel Ángel, 23 | | | | | | | |
| 47. Sagasta, 27 | | | | | | | |
| 48. Francisco Silvela, 42 | | Good | Very Good | | | | |
| 49. Ramirez De Arellano, 37 | | Good | | | | | |
| 50. Ortega Y Gasset, 100 | | | | | | | |
| 51. Martinez Villergas, 49 | | Very Good | Excellent | | | | |
| 52. Santa Hortensia, 26-28 | | | | | | | |
| 53 Arturo Soria, 336 | | | | | | | |
| 54. Campus Méndez Álvaro | | | | | | | |
| 55. Egeo | | | | | | | |

| Building name | HQE | BREEAM In-Use Part 1 | BREEAM In-Use Part 2 | ISO 50001 | ISO 14001 | LEED BD+C | BREEAM New Construction |
|---|---|---|---|---|---|---|---|
| 56. Hotel Centro Norte | | | | | | | |
| 57. Orense 46 - 48 | | | | | | | |
| 58. Virto | | | | | | | |
| 59. Ribera De Loira, 28 | | | | | | Gold | |
| 60. Tucumán | | | | | | | |
| 61. Ramírez De Arellano, 15 | | | | | | Gold | |
| 62. Avd. Bruselas, 38 | | | | | | | |
| 63. Alcalá, 506 | | | | | | Registered | |
| 64. Puerto De Somport, 10-18 | | | | | | | |
| 65. Josefa Valcárcel, 24 | | | | | | | |
| 66. J.i. Luca De Tena, 7 | | | | | | | |
| 67. Puerto De Somport, 8 | | | | | | | |
| 68. Cedro | | | | | | Gold | |
| 69. Josefa Valcárcel, 40 Bis | | | | | | | |
| 70. Perez Rozas, 25 | | | | | | | |
| 71. Agustín De Foxá, 29 | | Good | Very Good | | | | |
| 72. Parroco Ramon Gzlez.guedes, 15 | | | | | | | |
| 73. Arago-ricard Roca-pare Bayo | | | | | | | |
| 74. Autovía Toledo | | | | | | | |
| 75. Piso O'donell | | | | | | | |
| 76. Local Alicante | | | | | | | |
| 77. Padilla | | | | | | | |
| 78. Francisca Delgado, 11 | | | | | | | |
| **Paris** | | | | | | | |
| 79. 96 Iéna | Extraordinary | | | | | | |
| 80. 176 Charles de Gaulle | | | | | | | |
| 81. Washington Plaza | | Excellent | Excellent | | | | |
| 82. Edouard VII | | Very Good | Excellent | | | | |
| 83. Rives de Seine | | Very Good | Excellent | | | | |
| 84. Cézanne Saint-Honoré | | Excellent | Excellent | | | | |
| 85. Louvre Saint-Honoré | | Very Good | Very Good | | | | |
| 86. 103 Grenelle | ● | Excellent | Excellent | | | | |
| 87. 112 Wagram | ● | Excellent | Excellent | | | | |
| 88. 92 Champs-Elysées | ● | Excellent | Excellent | | | | |
| 89. Galerie des Champs-Elysées | | Very Good | Very Good | | | | |

| Building name | HQE | BREEAM In-Use Part 1 | BREEAM In-Use Part 2 | ISO 50001 | ISO 14001 | LEED BD+C | BREEAM New Construction |
|---|---|---|---|---|---|---|---|
| 90. 90 CE | | Very Good | Very Good | | | | Good |
| 91. #cloud.paris | Extraordinary | Excellent | | | | Gold | Excellent |
| 92. 131 Wagram | | Very Good | Very Good | | | | |
| 93. 9 Percier | | Very Good | | | | | |
| 94. 6 Hanovre | | Very Good | Excellent | | | | |
| 95. 104/110 Haussmann | | Very Good | | | | | |
| 96. Le Vaisseau | | Very Good | | | | | |
| 97. Condorcet | | Very Good | Excellent | | | | |
| **Logistic Centres and Others** | | | | | | | |
| 98. Valls Logistics | | Pass | | | | | |
| 99. Constantí | | Good | | | | | |
| 100. Cabanillas I | | Good | | | | | |
| 101. Azuqueca I | | Good | | | | | |
| 102. Rivas | | Good | | | | | |
| 103. Guadalix | | Good | | | | | |
| 104. Camarma I | | Good | | | | | |
| 105. San Fernando Logistics Park I | | | | | | | |
| 106. Alcalá De Henares I | | Good | | | | | |
| 107. Azuqueca Ii | | Good | | | | | |
| 108. San Fernando Logistics Park Ii | | | | | | | |
| 109. Dos Hermanas | | Good | | | | | |
| 110. Les Gavarres | | | | | | | |
| 111. Las Mercedes Open Park | | | | | | | |
| 112. Viapark | | | | | | | |

## Supply Management

The Colonial Group strives to ensure that the supply data it collects are reliable. It therefore periodically analyses the environmental performance of every building. Such analysis actions enable the group to monitor building-specific supply consumption patterns and, therefore, ensure that the measurement software works properly. A review was carried out in 2018 of all buildings where measurement system errors were detected, and the system was implemented in some buildings that were not previously equipped with one. The Group aims to ensure that all its buildings have this monitoring system, including the new Axiare and Utopicus assets integrated in 2018.

The Colonial Group's current portfolio presented below contains the following details of supplies controlled by the Group in 2018 and properties that are part of the Like-for-Like perimeter.

| Building name | Energy | Fuel | Water | $CO_2$ emissions | Like-for-Like |
|---|---|---|---|---|---|
| **Barcelona** | | | | | |
| 1. Pedralbes Centre | | | | | |
| 2. Av. Diagonal, 530 | ● | ● | ● | ● | ● |
| 3. Av. Diagonal, 682 | ● | NG | ● | | ● |
| 4. Av. Diagonal, 409 | ● | | ● | ● | ● |
| 5. Av. Diagonal, 609-615 (dau/prisma) | ● | | ● | | ● |
| 6. Av. Diagonal, 523-525 | | | | | |
| 7. Via Augusta, 21-23 | ● | | ● | ● | ● |
| 8. Paseo De Los Tilos, 2-6 | | | | | |
| 9. Travessera, 11 | ● | | ● | ● | ● |
| 10. Amigo 11-17 | | | | | |
| 11. Travessera, 47-49 | | | | | |
| 12. Gala Placidia | | | | | |
| 13. Berlin, 38-48/numancia, 46 | ● | | ● | ● | ● |
| 14. Av. Diagonal 220-240, Glories | | | | ● | |
| 15. Av. Diagonal, 197 | ● | | | | |
| 16. Torre Bcn 130 | ● | NG | ● | ● | ● |
| 17. Illacuna 56 | ● | | ● | ● | ● |
| 18. Torre Marenostrum | | | | | |
| 19. Plaza Europa, 42-44 | | | | | |
| 20. Parc Central | | | | | |
| 21. Parc Glories | | | | | |
| 22. Plaza Europa, 34 (2) | | | | | |
| 23. Sant Cugat Nord | ● | | ● | | ● |
| 24. Park Cugat | ● | | ● | | |
| 25. Av. Sant Antoni M.claret, 436 | | | | | ● |

| Building name | Energy | Fuel | Water | $CO_2$ emissions | Like-for-Like |
|---|---|---|---|---|---|
| **Madrid** | | | | | |
| 26. P. Castellana, 52 | ● | NG | ● | ● | ● |
| 27. P. Castellana, 163 | | | | | |
| 28. P. Castellana, 43 | ● | | ● | | |
| 29. Recoletos, 37-41 | ● | | ● | | ● |
| 30. Miguel Angel, 11 | ● | | ● | ● | ● |
| 31. Jose Abascal, 56 | ● | NG | ● | ● | ● |
| 32. Jose Abascal, 45 | ● | | ● | | ● |
| 33. Estébanez Calderón, 3-5 | | | | | |
| 34. Génova, 17 | ● | NG | ● | ● | ● |
| 35. Serrano,73 | | | | ● | |
| 36. Santa Engracia, 120 | ● | NG | ● | ● | ● |
| 37. Príncipe De Vergara, 112-114 | | | | | |
| 38. Alfonso XII, 62 | ● | | ● | ● | ● |
| 39. Poeta Joan Maragall, 53 | ● | | ● | | ● |
| 40. Lopez De Hoyos, 35 | ● | NG | ● | ● | ● |
| 41. Manuel De Falla, 7 | | | | | |
| 42. Velazquez, 80 Bis | | | | | |
| 43. Don Ramón De La Cruz, 82 | ● | | | | |
| 44. Sagasta, 31-33 | ● | | | | |
| 45. Almagro, 9 | ● | | ● | | |
| 46. Miguel Ángel, 23 | | | | | |
| 47. Sagasta, 27 | | | | | |
| 48. Francisco Silvela, 42 | ● | | ● | ● | ● |
| 49. Ramirez De Arellano, 37 | | | | | |
| 50. Ortega Y Gasset, 100 | | | | | |
| 51. Martinez Villergas, 49 | ● | | ● | | ● |
| 52. Santa Hortensia, 26-28 | | | | | ● |
| 53. Arturo Soria, 336 | | | | | ● |
| 54. Campus Méndez Álvaro | | | | | |
| 55. Egeo | | | | | |
| 56. Hotel Centro Norte | | | | | |
| 57. Orense 46 - 48 | | | | | ● |
| 58. Virto | | | | | |
| 59. Ribera De Loira, 28 | ● | NG | ● | | |
| 60. Tucumán | ● | | | | |

| Building name | Energy | Fuel | Water | $CO_2$ emissions | Like-for-Like |
|---|---|---|---|---|---|
| 61. Ramírez De Arellano, 15 | ● | | | | |
| 62. Avd. Bruselas, 38 | | | | | |
| 63. Alcalá, 506 | ● | NG | | | |
| 64. Puerto De Somport, 10-18 | | | | | |
| 65. Josefa Valcárcel, 24 | | | | | |
| 66. J.i. Luca De Tena, 7 | ● | | | | |
| 67. Puerto De Somport, 8 | | | | | |
| 68. Cedro | ● | | | | |
| 69. Josefa Valcárcel, 40 Bis | | | | | |
| 70. Perez Rozas, 25 | | | | | ● |
| 71. Agustín De Foxá, 29 | | | | | ● |
| 72. Parroco Ramon Gzlez.guedes, 15 | | | | | ● |
| 73. Arago-ricard Roca-pare Bayo | | | | | ● |
| 74. Autovía Toledo | | | | | |
| 75. Piso O'donell | | | | | |
| 76. Local Alicante | | | | | ● |
| 77. Padilla | ● | | | | |
| 78. Francisca Delgado, 11 | ● | NG | | | |
| **Paris** | | | | | |
| 79. 96 Iéna | ● | | ● | | |
| 80. 176 Charles de Gaulle | ● | ● | ● | | ● |
| 81. Washington Plaza | ● | | ● | | ● |
| 82. Edouard VII | ● | | ● | | ● |
| 83. Rives de Seine | ● | | ● | | ● |
| 84. Cézanne Saint-Honoré | ● | | ● | | ● |
| 85. Louvre Saint-Honoré | ● | | ● | | ● |
| 86. 103 Grenelle | ● | | ● | | ● |
| 87. 112 Wagram | ● | | ● | | ● |
| 88. 92 Champs-Elysées | ● | | ● | | ● |
| 89. Galerie des Champs-Elysées | ● | | ● | | ● |
| 90. 90 CE | ● | | ● | | ● |
| 91. #cloud.paris | ● | | ● | | ● |
| 92. 131 Wagram | ● | | ● | | ● |
| 93. 9 Percier | ● | | ● | | ● |
| 94. 6 Hanovre | ● | | | | |

| Building name | Energy | Fuel | Water | $CO_2$ emissions | Like-for-Like |
|---|---|---|---|---|---|
| 95. 104/110 Haussmann | | | ● | | |
| 96. Le Vaisseau | | | | | |
| 97. Condorcet | | | | | |
| **Logistic Centres and Others** | | | | | |
| 98. Valls Logistics | ● | | | | |
| 99. Constantí | | | | | |
| 100. Cabanillas I | | | | | |
| 101. Azuqueca I | ● | | | | |
| 102. Rivas | ● | | | | |
| 103. Guadalix | | | ● | | |
| 104. Camarma I | ● | | ● | | |
| 105. San Fernando Logistics Park I | | | | | |
| 106. Alcalá De Henares I | ● | | ● | | |
| 107. Azuqueca Ii | ● | | ● | | |
| 108. San Fernando Logistics Park Ii | | | | | |
| 109. Dos Hermanas | ● | | | | |
| 110. Les Gavarres | | | | | |
| 111. Las Mercedes Open Park | | | | | |
| 112. Viapark | | | | | |

NG: natural gas used at the building.

## PropTech innovation and initiatives

As a leading company in the sector, the Colonial Group strives to stay ahead and anticipate new trends. The Group is aware of the significant transformation and digitalisation that the sector is undergoing. Along these lines, the technical department has been taking steps in 2018 to develop an innovative property management tool so that all Group properties have the highest supply management technology. The Colonial Groups expects to be ready to communicate and deploy this tool to all its portfolio properties.

## Total 2018 supply consumption

The total water and energy consumption figures for all properties in 2018 are presented below.

**▾ 2018 Water Consumption by building type**

| Sustainability indicators | Measur. unit | Offices & retail | | | | | Logistics | | | | | Total 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Coverage | 2018 Cons. | sq m (real) | sq m (adjus.) | 2018 Intens. | Coverage | 2018 Cons. | sq m (real) | sq m (adjus.) | 2018 Intens. ($m^3/m^2$) | Coverage | 2018 Cons. | sq m (real) | sq m (adjus.) | 2018 Intens. ($m^3/m^2$) |
| Water consumption (Water-Abs) | $m^3$ | 54 of 54 | 318,669 | 372,642 | 368,249 | 0,86 | 13 of 13 | 12,060 | 522,669 | 437,698 | 0.02 | 67 of 67 | 330,729 | 895,311 | 805,946 | 0.37 |

### 2018 Energy consumption and emissions by property type

| | | Offices & retail | | | | | Logistics | | | | | Total 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Sustainability indicators** | **Measur. unit** | **Coverage** | **2018 Cons.** | **sq m (real)** | **sq m (adjus.)** | **2018 Intens.** | **Coverage** | **2018 Cons.** | **sq m (real)** | **sq m (adjus.)** | **2018 Intens. (MWh/ m²)** | **Coverage** | **2018 Cons.** | **sq m (real)** | **sq m (adjus.)** | **2018 Intens. (MWh/m²)** |
| Electricity Consumption (Elec-Abs) | MWh | 32 of 32 | 118,533 | 815,701 | 721,524 | 0.15 | 9 of 9 | 3,688 | 315,228 | 290,099 | 0.01 | 41 of 41 | 122,221 | 1,130,929 | 1,011,623 | 0.11 |
| Fuel Consumption (Fuels-Abs) | MWh | 12 of 12 | 6,411 | 194,280 | 157,990 | 0.03 | – | – | – | – | – | 12 of 12 | 6,411 | 194,280 | 157,990 | 0.03 |
| Heating & Cooling Consumption - Like-for-Like (DH&C-LfL) | MWh | 13 of 13 | 30,653 | 265,253 | 265,253 | 0.12 | – | – | – | – | – | 13 of 13 | 30,653 | 265,253 | 265,253 | 0.12 |
| Green Energy Consumption (Solar Power) | MWh | 1 of 1 | 39 | 20,451 | 20,451 | 0.002 | – | – | – | – | – | 1 of 1 | 39 | 20,451 | 20,451 | 0.002 |
| **Total Energy Consumption** | **MWh** | **32 of 32** | **155,635** | **815,701** | **721,524** | **0.19** | **9 of 9** | **3,688** | **315,228** | **290,099** | **0.01** | **41 of 41** | **159,324** | **1,130,929** | **1,011,623** | **0.14** |
| **Sustainability indicators** | **Measur. unit** | **Coverage** | **2018 Cons.** | **sq m (real)** | **sq m (adjus.)** | **2018 Intens.** | **Coverage** | **2018 Cons.** | **sq m (real)** | **sq m (adjus.)** | **Intens. 2018 (TeqCo₂/ m³)** | **Coverage** | **Cons. 2018** | **sq m (real)** | **sq m (adjus.)** | **2018 Intens. (TeqCo₂/ m³)** |
| Direct $CO_2$ emissions (Scope 1) | $TeqCo_2$ | 14 of 14 | 2,340 | 213,906 | 177,615 | 0.01 | – | – | – | – | – | 14 of 14 | 2,340 | 213,906 | 177,615 | 0.01 |
| Indirect $CO_2$ emissions (Scope 2) | $TeqCo_2$ | 32 of 32 | 8,586 | 815,701 | 721,524 | 0.01 | 9 of 9 | – | – | – | – | 41 of 41 | 8,586 | 1,130,929 | 1,011,623 | 0.01 |
| Other indirect $CO_2$ emissions (Scope 3) | $TeqCo_2$ | 32 of 32 | 22,833 | 815,701 | 721,524 | 0.03 | 9 of 9 | 2 | 315,228 | 290,099 | 0.00 | 41 of 41 | 22,835 | 1,130,929 | 1,011,623 | 0.02 |
| **Total Emissions** | **$TeqCo_2$** | **32 of 32** | **33,759** | **815,701** | **721,524** | **0.04** | **9 of 9** | **3,690** | **315,228** | **290,099** | **0.01** | **41 of 41** | **33,761** | **1,130,929** | **1,011,623** | **0.03** |

Notes: forty-one percent (41%) of total heating and cooling network consumption is from a renewable source, unlike fuel consumption, which is not from renewable sources. The consumption of photovoltaic electricity represents 0.03% of the total, in line with previous years. The consumption of green energy represents 9% of the total.
Scope 2 emissions were calculated using location-based emission factors.
Six percent (6%) of the total electricity consumption of common zones controlled directly by the Group (landlord-obtained consumption) was estimated. As part of the effort made to report all consumption figures, the Group estimated the consumption figures for tenants to whom it does not have access. The estimated figures for private tenant areas (tenant consumption) represent 52% of the total electricity consumption reported. This data differs from the data presented in the "Portfolio_Environment" EPRA Table due to the fact that said table only includes data from the portfolio environment following EPRA sBPR (excluding own offices) whereas the table above includes both own offices and portfolio assets.

The consumption types (Boundaries – reporting on landlord and tenant consumption) are distributed as indicated in the following table:

| **Sustainability indicators** | **Tenant (Mono)** | **Landlord (Multi)** |
|---|---|---|
| Electricity consumption (*Elec-Abs*) | 6,700 MWh | 115,521 MWh |
| Fuel consumption (*Fuels-Abs*) | 171 MWh | 6,240 MWh |
| Heating and Cooling Network *(DH&C-Abs)* | 0 MWh | 30,653 MWh |
| Scope 1 (GHG-Dir-Abs) | 189.87 $TeqCO_2$ | 2,150 $TeqCO_2$ |
| Scope 2 (GHG-Indir-Abs) | 320.17 $TeqCO_2$ | 8,265 $TeqCO_2$ |
| Water-Abs $m^3$ | 24,723 $m^3$ | 306,006 $m^3$ |
| Waste-Abs Kg | 72.97 Kg | 2,995,047.29 Kg |

Tenant consumption figures correspond to single-user buildings. In this case, while consumptions are not under the operational control of the Group (supplies are paid by the tenants), work is being done to collect them and thus monitor the real environmental impact of their activities. The consumption figures of single-user buildings were obtained through Green Leases in France and the collaboration of tenants in Spain. The table shows that most consumptions correspond to supplies purchased directly by the Group and thus correspond to multi-user buildings (landlord consumption).

# 07 Relationship with the Community

# 07. Relationship with the Community

11 SUSTAINABLE CITIES AND COMMUNITIES

The Colonial Group, in the communities in which it is present, is working to obtain the Sustainable Development Goal (SDG) Number **11: Sustainable cities and communities.**

## Contribution to sustainable cities

The assets of the Colonial Group, located in the centres of major cities in Spain and France, are facing recent challenges that have emerged in large cities regarding sustainability. As a part of its commitment to corporate social responsibility and sustainable development, the Company has been fostering the generation of shared value with the society by promoting sustainable cities and communities (Sustainable Development Goal 11).

Through the ESG Strategic Plan and the 2018-2020 Sustainability Master Plan, Colonial is working on implementing measures to reduce possible negative impacts towards the environment and the community that could arise as a consequence of its real estate activity.

## Impact management

The Colonial Group systematically collaborates with local authorities and the parties affected by the real estate environment (residents, retailers, etc.) to manage all the possible negative impacts that could arise from the renovation and refurbishment projects of the assets that make up the Colonial portfolio.

Before the start of refurbishment work, Colonial undertakes a precise assessment and dialogue with the interested parties to define the aims and benefits of the project. Property managers also communicate with and inform tenants and neighbours in the area of all the information regarding the measures that will be adopted during the implementation of projects to minimise the impacts on the environment, mobility and quality of life in the community.

Also, in France, the Group is collaborating with the Architectes des bâtiments (ABF), the state body of architects and city planners in charge of ensuring consistency and the highest standards of preservation and appreciation of heritage. In this way, systematic and in-depth historical studies are undertaken for all renovation projects, ensuring that the Group respects the urban quality of cities.

### LOCATION - ACCESSIBILITY

Location in prime areas of major cities, with excellent connections and access to public transport. The number of assets with parking for sustainable forms of transport such as bicycles and scooters is also increasing.

### ECO-EFFICIENT MANAGEMENT

Promotion of a circular economy by correctly separating waste into five containers, with the aim of reusing, recycling or extracting value from 80% of waste.

Using 100% renewable green energy and implementing renewable energy in the buildings, with the aim of reaching a net energy consumption of zero.

Initiatives in favour of biodiversity in buildings in the city of Granada and Biome, as well as the development of a Good Practice Manual for extending these actions to the rest of the portfolio.

As part of the Sustainability Master Plan, control systems for digital emission and material consumption will be installed in the communal areas of all the buildings.

### SUSTAINABLE CONSTRUCTION

Objective: Procure that all buildings obtain environmental certification in the short term (currently 69%[1] of the portfolio is certified) and then, reach the BREEAM Very Good or LEED Gold qualifications in the medium term.

Use of environmentally friendly construction materials.

(1) The percentage of certified buildings has decreased considerably due to the incorporation of the assets of Axiare into the Colonial Group portfolio.

**RENOVATION OF 114 EMILE ZOLA (PARIS)**

The Emilie Zola building renovation project is a clear reflection of the Group's commitment to the community.

Before receiving the pertinent administrative authorisations, along with the elected officials of district 15, the Municipality of Paris and the associations of local residents, SFL took the initiative to hold three meetings with the aim of involving neighbours in the project. At these face-to-face meetings, residents took the opportunity to directly express their concerns to the SFL architecture and development team, so that they would be taken into consideration during the implementation of the project. They were also given information and communication tools (website and physical spaces) with which they could continue to communicate.

Thanks to the participation and contributions of the community, the SFL team revised the project aims to incorporate the creation of housing, a co-working space open to the neighbourhood, a business centre equipped with an amphitheatre and meeting rooms, and a botanical garden. There was also an improved revision of the identified ambitions regarding the environment, making it the first low-carbon building (Bâtiment Bas Carbone - BBCA) under renovation in Paris.

## Commitment to the community

To supplement the real estate business, the Colonial Group seeks a social role in all its activities, using its assets to promote the creation of bonds and interactions, as well as the development of social and cultural actions in the communities in which it operates.

The framework of the Colonial ESG Strategic Plan projects specific actions to be undertaken to encourage social integration, philanthropic activities and greater participation of the Company.

### SOCIAL PROJECTS

**Inclusive fashion show.** This is a very special event where INTEGRA programme models walk the catwalk together with conventional models at the Pedralbes Centre that Colonial provided for the occasion. With this initiative, the Group collaborates to provide visibility for models with disabilities and thus demonstrate that they can belong in the world of fashion, showing their talent and capabilities to society.

**Edouard VII a du cœur.** In 2018, SFL joined forces with the “Edouard VII a du cœur” initiative to provide a meal for homeless people in the neighbourhood with the collaboration of the “Les Restos du Cœur” association, the representative of the ninth district of Paris, and the owner of the restaurant “Mon Paris”.

**Charity photocall to raise funds for the paediatric oncology ward of Vall d'Hebron.** The Pedralbes Centre provided a space and broadcasted the event in order to increase awareness and raise as much money as possible for this project.

**Le 42.** SFL has continued to work to support the relationships between the clients and users of the 42 Washington building, by creating and distributing 2000 copies of the local newspaper “Le 42”. With this publication, the Company gathers the major news of the neighbourhood, advertises local services and promotes social connections in the building.

**Blood donation campaign.** The Pedralbes Centre, alongside the General Hospital of Catalonia, organised a blood donation campaign in the shopping centre.

## ACTIVITIES IN SUPPORT OF NEW ENTREPRENEURS

**Annual student show at the ESDI Design School.** Historically (20 years), the Colonial Group has provided the ESDI Design School with the Pedralbes Centre, communication channels and other resources for holding the annual end-of-year show for 1st year students. In this way, the Company supports the designers of the future, allowing them to showcase their creations in an environment which is directly connected with their future sector.

**Catalan Junior Achievement Mini-Company Competition.** The Pedralbes Centre has supported students and future entrepreneurs for 6 years, providing facilities for the Junior Achievement Foundation, the organiser of the Catalan Mini-Company Competition. The students present their business projects and ideas at stands set up in the shopping centre, and are visited by the jury that scores their work.

## CULTURAL SUPPORT ACTIVITIES

**Maria Canals International Piano Competition.** Every March, the Pedralbes Centre collaborates with the Maria Canals International Piano Competition, accommodating several grand pianos, as well as musical and other performances, bringing music a little closer to the public and creating artistic content. The Pedralbes Centre has a piano for public use all the time, which is often visited by students of music conservatories and music schools, and musicians who want to practice in a “public” environment.

## URBAN CONSERVATION ACTIVITIES

**Pavillon de l’Arsenal.** Aware of the serious problems related to urbanisation and architecture in the city and concerned with contributing to the debate on the development of cities and territories, SFL sponsors the Pavillon de l’Arsenal association, which aims to promote mindfulness about architecture and the city.

**Palladio Foundation (Fondation de France).** SFL is also a sponsor of the Palladio Foundation, which gathers companies from the real estate industry to promote deliberation on urban planning and increased harmony in cities.

## SPONSORSHIPS, DONATIONS AND COLLABORATIONS

As well as providing spaces, the Colonial Group collaborated with various organisations and associations in 2018 to learn about the major innovations in the real estate industry and to understand the needs of the stakeholders of the Company.

**Industry associations**

The Colonial Group participates in national and international industry associations in the real estate industry, for example:

> The **European Public Real Estate Association (EPRA)**, is the main non-profit association responsible for promoting, developing and representing the European real estate industry, bringing together companies, investors and suppliers.

> **GRESB** is an organisation that specialises in assessing the performance as regards sustainability of the portfolios




and assets of the real estate industry and of infrastructures around the world.

> The **GRI Club** has promoted relationships between the leaders of the real estate and infrastructure industries for 20 years.

> The **Urban Land Institute (ULI)** is the oldest and largest network of experts in real estate and land use in the world.

**Sponsorship and collaborations**

The Colonial Group sponsored **Barcelona Meeting Point** for another year. This has been the main real estate fair in Spain since its creation in 1997, where Utopicus had a stand where it presented its co-working space network.

The **EMEA Charity Bike Ride 2018** took place from the 3rd to the 7th of June 2018. More than 100 clients, sponsors and staff rode their bikes a distance greater than 700 km from Bilbao to Santiago de Compostela. The money raised went to the initiatives developed by Plan International and the Safer Cities project that the organisation carries out in Nairobi (Kenya).

Utopicus sponsored and participated in the **South Summit 2018** held in Madrid, an event that aims to gather the main players of the entrepreneurial ecosystem, connecting the most promising start-ups with the most important investors and corporations that are interested in improving their competition through innovation.

The Colonial Group sponsored the **Annual Conference of the European Public Real Estate Association (EPRA)**, helping the organisation to fulfil its mission of promoting, developing and representing the listed real estate industry in Europe. The CEO of the Colonial Group is on the Board of EPRA, and the Company also participates in a CSR Best Practices panel in the framework of an EPRA workshop in Brussels.empresa también participa de un panel de Mejores Prácticas en RSC en el marco de un *workshop* de la EPRA en Bruselas.

As a platinum sponsor of the workshop, the Group provides a space in its Window Building property (112 Príncipe de Vergara) to hold the sector innovation session of the Proptech Unconference 2018.


**Donations**

Colonial contributes financially to various initiatives, primarily social initiatives and Catalan Associations and Foundations, such as:

> Fundació Princesa de Girona
> ESADE Foundation
> Fundació Hospital Sant Joan de Déu
> URL - Ramon Llull University
> World Nature Foundation
> Multiple Sclerosis Foundation

Furthermore, in order to promote subsidies, sponsorships and donations from the Group, and their conformity with current legislation, the ESG Strategic Plan envisions the development of a policy on the subject, as well as the development of other initiatives through the CSR Coordination Group.

# 08 EPRA Ratios

**8.1.** EPRA Earnings

**8.2.** EPRA NAV

**8.3.** EPRA NNNAV

**8.4.** EPRA Net Initial Yield and “Topped-Up” Net Initial Yield

**8.5.** EPRA Vacancy Rate

**8.6.** EPRA Cost Ratios

**8.7.** EPRA Capex disclosure

# 8.1. EPRA Earnings

**EPRA Earnings - €m**

| | 2018 | 2017 |
|---|---|---|
| **Earnings per IFRS Income statement** | **525** | **683** |
| ***Earnings per IFRS Income statement - €/share*** | ***1.16*** | ***1.78*** |
| **Adjustments to calculate EPRA Earnings, exclude:** | | |
| (i) Changes in value of investment properties, development properties held for investment and other interests | (687) | (931) |
| (ii) Profits or losses on disposal of investment, development properties held for investment and other interests | (12) | 2 |
| (iii) Profits or losses on sales of trading properties including impairment changes in respect of trading properties | 0 | 0 |
| (iv) Tax on profits or losses on disposals | 0 | 0 |
| (v) Negative goodwill / goodwill impairment | 114 | 3 |
| (vi) Changes in fair value of financial instruments and associated close-out costs | 40 | (0) |
| (vii) Acquisition costs on share deals and non controlling joint venture interests | 3 | 0 |
| (viii) Deferred tax in respect of EPRA adjustments | 10 | (33) |
| (ix) Adjustments (i) to (viii) above in respect of joint ventures (unless already included under proportional consolidation | 0 | 0 |
| (x) Minority interests in respect of the above | 96 | 338 |
| **EPRA Earnings** | **90** | **62** |
| **Company specific adjustments:** | | |
| (a) Extraordinary expenses | 5 | 18 |
| (b) Non recurring financial result | 0 | 2 |
| (c) Tax credits | 7 | 0 |
| (c) Minority interests in respect of the above | (2) | 0 |
| **Company specific adjusted EPRA Earnings** | **101** | **83** |
| *Average Nº of shares (m)* | *451.7* | *383.8* |
| *Company adjusted EPRA Earnings per Share (EPS) - €/share* | *0.223* | *0.215* |

# 8.2. EPRA NAV

▼ **EPRA Net Asset value - €m**

| | 12/2018 | 12/2017 |
|---|---|---|
| **NAV per the Consolidated financial statements** | **4,811** | **3,592** |
| **Include:** | | |
| (i.a) Revaluation of investment properties (if IAS 40 cost option is used) | 31 | 13 |
| (i.b) Revaluation of investment property under construction (IPUC) (if IAS 40 cost option is used) | na | na |
| (i.c) Revaluation of other non-current investment | 19 | (58) |
| (ii) Revaluation of tenant leases held as finance leases | na | na |
| (iii) Revaluation of trading properties | 7 | na |
| **Exclude:** | | |
| (iv) Fair value of financial instruments | 2 | (1) |
| (v.a) Deferred tax | 228 | 198 |
| (v.b) Goodwill as a result of deferred tax | – | – |
| **Include/exclude:** | | |
| Adjustments (i) to (v) above in respect of joint ventures interests | na | na |
| **EPRA NAV - €m** | **5,098** | **3,744** |
| *Goodwill* | *(62)* | *na* |
| **Adjusted EPRA NAV - €m** | **5,036** | **na** |
| *Nº of shares (m)* | *508.1* | *435.3* |
| *EPRA NAV - Euros per share* | *10.03* | *8.60* |
| ***Adjusted EPRA NAV - Euros per share*** | ***9.91*** | ***na*** |

# 8.3. EPRA NNNAV

▼ **EPRA Triple Net Asset value (NNNAV) - €m**

| | 12/2018 | 12/2017 |
|---|---|---|
| **EPRA NAV** | **5,098** | **3,744** |
| **Include:** | | |
| (i) Fair value of financial instruments | (2) | 1 |
| (ii) Fair value of debt | (14) | (117) |
| (iii) Deferred tax | (229) | (200) |
| (iv) Tax credits on balance | na | na |
| **EPRA NNNAV - €m** | **4,853** | **3,428** |
| *Goodwill* | *(62)* | *na* |
| **Adjusted EPRA NNNAV - €m** | **4,791** | **na** |
| *Nº of shares (m)* | *508.1* | *435.3* |
| *EPRA NNNAV - Euros per share* | *9.55* | *7.88* |
| ***Adjusted EPRA NAV - Euros per share*** | ***9.43*** | ***na*** |

# 8.4. EPRA Net Initial Yield and "Topped-Up" Net Initial Yield

**▼ D. EPRA Net Initial yield & "Topped-Up" Net Initial Yield - €m**

| | | Barcelona | Madrid | Paris | Logistic | Total 2018 | Total 2017 |
|---|---|---|---|---|---|---|---|
| Investment property - wholly owned | | 1,248 | 3,048 | 6,570 | 468 | 11,333 | 8,933 |
| Investment property - share of JVs/Funds | | 15 | na | na | na | 15 | 0 |
| Trading property (including share of JVs) | | na | na | na | na | na | na |
| Less: developments | | (88) | (543) | (664) | (59) | (1,354) | (793) |
| **Completed property portfolio** | **E** | **1,175** | **2,504** | **5,906** | **409** | **9,994** | **8,140** |
| Allowance for estimated purchasers' costs | | 36 | 63 | 405 | 14 | 518 | 428 |
| **Gross up completed property portfolio valuation** | **B** | **1,211** | **2,568** | **6,311** | **423** | **10,512** | **8,568** |
| Annualised cash passing rental income | | 42 | 87 | 183 | 19 | 331 | 269 |
| Property outgoings | | (2) | (9) | (3) | (1) | (15) | (11) |
| **Annualised net rents** | **A** | **41** | **78** | **180** | **18** | **316** | **258** |
| Add: notional rent expiration of rent free periods or other lease incentives | | 6 | 4 | 22 | 2 | 34 | 29 |
| **"Topped-up" net annualised rent** | **C** | **47** | **83** | **201** | **20** | **350** | **287** |
| **EPRA Net Initial Yield** | **A/B** | **3.3%** | **3.1%** | **2.8%** | **4.2%** | **3.0%** | **3.0%** |
| **EPRA "Topped-Up" Net Initial Yield** | **C/B** | **3.9%** | **3.2%** | **3.2%** | **4.7%** | **3.3%** | **3.4%** |
| Gross Rents 100% Occupancy | F | 51 | 107 | 209 | 24 | 390 | 315 |
| Property outgoings 100% Occupancy | | (1) | (7) | (3) | (0) | (12) | (10) |
| **Annualised net rents 100% Occupancy** | **D** | **50** | **100** | **206** | **23** | **378** | **305** |
| **Net Initial Yield 100% Occupancy** | **D/B** | **4.1%** | **3.9%** | **3.3%** | **5.5%** | **3.6%** | **3.6%** |
| **Gross Initial Yield 100% Occupancy** | **F/E** | **4.3%** | **4.3%** | **3.5%** | **5.8%** | **3.9%** | **3.9%** |

# 8.5. EPRA Vacancy Rate

**▼ EPRA Vacancy Rate - Offices Portfolio - €m**

| | 2018 | 2017 | Var. % |
|---|---|---|---|
| **Barcelona** | | | |
| Vacant space ERV | 0.5 | 0.3 | |
| Portfolio ERV | 53 | 36 | |
| **EPRA Vacancy Rate Barcelona** | **1%** | **1%** | **0 pp** |
| **Madrid** | | | |
| Vacant space ERV | 11 | 4 | |
| Portfolio ERV | 103 | 61 | |
| **EPRA Vacancy Rate Madrid** | **11%** | **7%** | **3 pp** |
| **Paris** | | | |
| Vacant space ERV | 3 | 6 | |
| Portfolio ERV | 179 | 179 | |
| **EPRA Vacancy Rate Paris** | **1%** | **3%** | **(2 pp)** |
| **Total portfolio** | | | |
| Vacant space ERV | 14 | 11 | |
| Portfolio ERV | 335 | 276 | |
| **EPRA Vacancy Rate Total Office Portfolio** | **4%** | **4%** | **0 pp** |

### ▼ EPRA Vacancy Rate - Total Portfolio - €m

| | 2018 | 2017 | Var. % |
|---|---|---|---|
| **Barcelona** | | | |
| Vacant space ERV | 0.5 | 0.4 | |
| Portfolio ERV | 54 | 37 | |
| **EPRA Vacancy Rate Barcelona** | **1%** | **1%** | **(0 pp)** |
| **Madrid** | | | |
| Vacant space ERV | 11 | 4 | |
| Portfolio ERV | 105 | 63 | |
| **EPRA Vacancy Rate Madrid** | **10%** | **7%** | **3 pp** |
| **Paris** | | | |
| Vacant space ERV | 3 | 7 | |
| Portfolio ERV | 219 | 219 | |
| **EPRA Vacancy Rate Paris** | **1%** | **3%** | **(2 pp)** |
| **Logistic & others** | | | |
| Vacant space ERV | 3 | – | |
| Portfolio ERV | 22 | – | |
| **EPRA Vacancy Rate Total Portfolio** | **14%** | **–** | **–** |
| **Total portfolio** | | | |
| Vacant space ERV | 18 | 12 | |
| Portfolio ERV | 400 | 319 | |
| **EPRA Vacancy Rate Total Portfolio** | **4%** | **4%** | **1 pp** |

# 8.6. EPRA Cost Ratios

### ▼ E. EPRA Cost Ratios - €m

| | | 12/2018 | 12/2017 |
|---|---|---|---|
| (i) Administrative/operating expense line per IFRS income statement[(1)] | | 47 | 41 |
| (ii) Net service charge costs/fees | | 25 | 18 |
| (iii) Management fees less actual/estimated profit element | | 0 | 0 |
| (iv) Other operating income/recharges intended to cover overhead expenses less any related profits | | 0 | (0) |
| (v) Share of Joint Ventures expenses | | 0 | 0 |
| ***Exclude (if part of the above):*** | | | |
| (vi) Investment Property depreciation | | na | na |
| (vii) Ground rent costs | | na | na |
| (viii) Service charge costs recovered through rents but not separately invoiced | | (7) | (9) |
| **EPRA Costs (including direct vacancy costs)** | **A** | **65** | **50** |
| (ix) Direct vacancy costs | | (5) | (4) |
| **EPRA Costs (excluding direct vacancy costs)** | **B** | **60** | **47** |
| (x) Gross Rental Income less ground rent costs - per IFRS | | 347 | 283 |
| (xi) Less: service fee and service charge costs components of Gross Rental Income (if relevant) | | (11) | (10) |
| (xii) Add: share of Joint Ventures (Gross Rental Income less ground rents) | | 0 | 0 |
| **Gross Rental Income** | **C** | **336** | **273** |
| **EPRA Cost Ratio (including direct vacancy costs) (A/C)** | **A/C** | **19.5%** | **18.4%** |
| **EPRA Cost Ratio (excluding direct vacancy costs) (B/C)** | **B/C** | **17.9%** | **17.1%** |
| **Additional Disclosure** | | | |
| Capitalized overhead costs[(2)] | | 0 | 0 |
| Commercialisation fees[(3)] | | 1 | 1 |

(1) 2018: 46.7€m refer to administrative expenses and 10€m refer to extraordinary operating expenses.
2017: 40.7€m refer to administrative expenses and 9.9€m refer to extraordinary operating expenses.
(2) Overheads which are directly and totally related to projects are capitalized.
(3) Commercialisation fees related to projects and refurbishments are capitalized.

# 8.7. EPRA Capex disclosure

**▼ Property-related CAPEX**

| | 12/2018 |
|---|---|
| Acquisitions [1] | 28 |
| Development (ground-up/green field/brown field) | 96 |
| Like-for-like portfolio | 12 |
| Other [2] | 8 |
| **Capital Expenditure** | **143** |

(1) Does not include contribution of assets in exchange of shares.
(2) Includes capitalised interest relating to projects, tenant incentives, letting fees and other capitalised expenses.

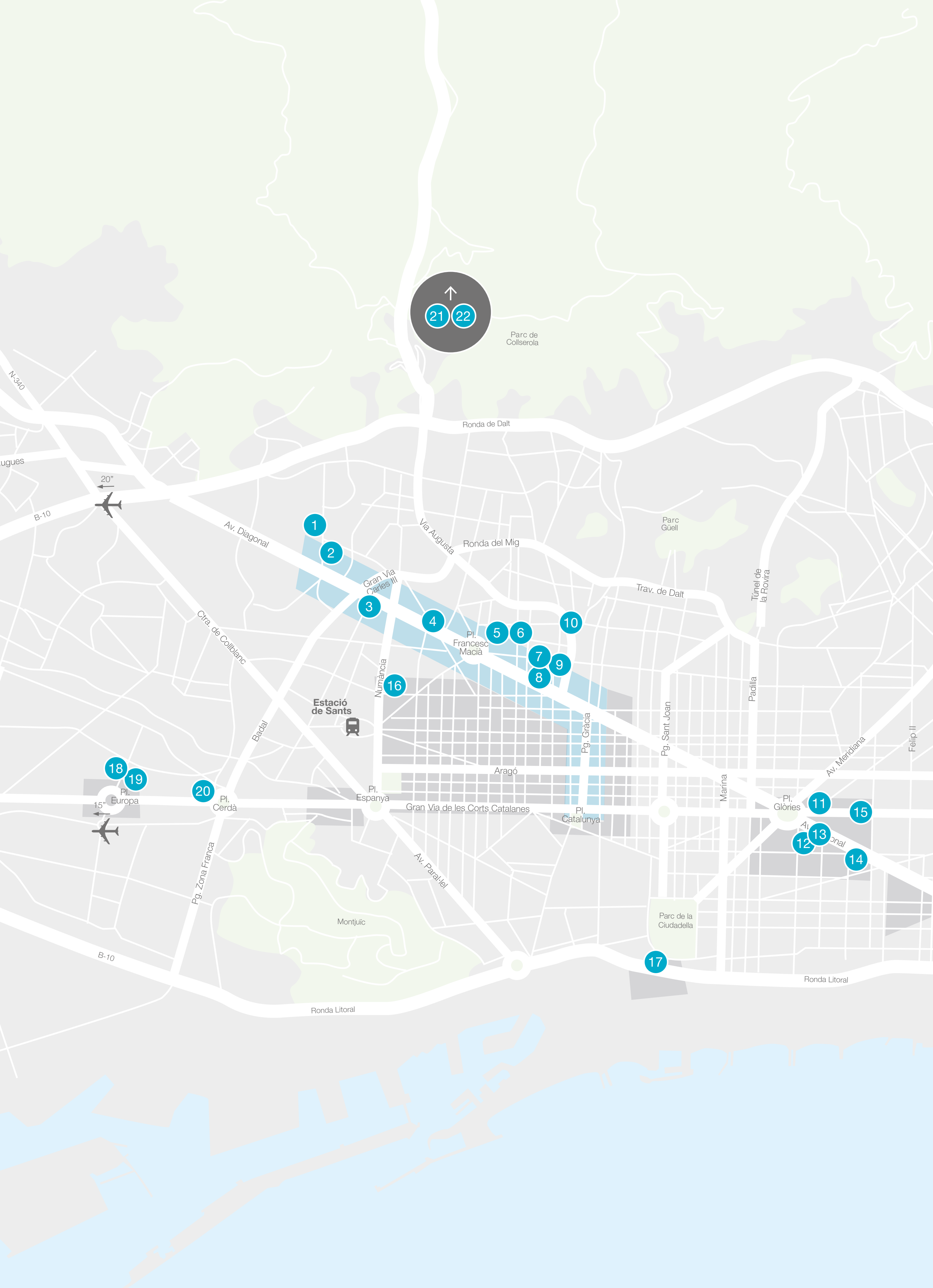
# 09 Our properties

# 9.1. Maps

# Barcelona

1 Pg. dels Til·lers 2-6
2 Diagonal 682
3 Diagonal 609-615
4 Diagonal 525
5 TGA Travessera de Gràcia Amigó
6 Travessera de Gràcia 47-49
7 Diagonal 530-532
8 Diagonal 409
9 Via Augusta 21-23
10 Gal·la Placidia
11 Diagonal - Glòries
12 Diagonal 197
13 Parc Glòries
14 Illacuna
15 Parc Central 22@
16 Berlín-Numància
17 Torre Marenostrum
18 Plaza Europa 34
19 Plaza Europa 40-42
20 Torre BCN
21 Parc Cugat
22 Sant Cugat Nord

Prime Central Business District
Business District



21
22
Parc de Collserola
N-340
Ronda de Dalt
20"
B-10
Av. Diagonal
Via Augusta
Ronda del Mig
Parc Güell
Trav. de Dalt
Túnel de la Rovira
Gran Via Carles III
Pl. Francesc Macià
1
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14
15
16
17
18
19
20
Numància
Ctra. de Collblanc
Estació de Sants
Badal
Pg. Gràcia
Pg. Sant Joan
Padilla
Marina
Av. Meridiana
Felip II
Aragó
Pl. Europa
15"
Pl. Cerdà
Pl. Espanya
Gran Via de les Corts Catalanes
Pl. Catalunya
Pl. Glòries
Pg. Zona Franca
Av. Paral·lel
Montjuïc
Parc de la Ciudadella
B-10
Ronda Litoral
Ronda Litoral

# Madrid

## CITY CENTRE & CBD

1. Discovery Building
2. Poeta Joan Maragall 53
3. Castellana 163
4. Hotel Tryp Chamartín
5. Manuel de Falla 7
6. Santa Engracia
7. José Abascal 45
8. José Abascal 56
9. Miguel Ángel 23
10. Miguel Ángel 11
11. Castellana 43
12. Castellana 52
13. Almagro 9
14. Sagasta 27
15. Sagasta 31-33
16. Génova 17
17. Recoletos 37
18. López de Hoyos 35
19. The Window Building
20. Serrano 73
21. Velázquez
22. Francisco Silvela 42
23. Ortega y Gasset 100
24. Don Ramón de la Cruz 82
25. Alfonso XII 62
26. Santa Hortensia 26-28
27. Campus Méndez Álvaro
28. Ramírez de Arellano 37
29. Ramírez de Arellano 15
30. MV49 Business Park
31. Arturo Soria 336

## EAST MADRID CAMPO DE LAS NACIONES & A2

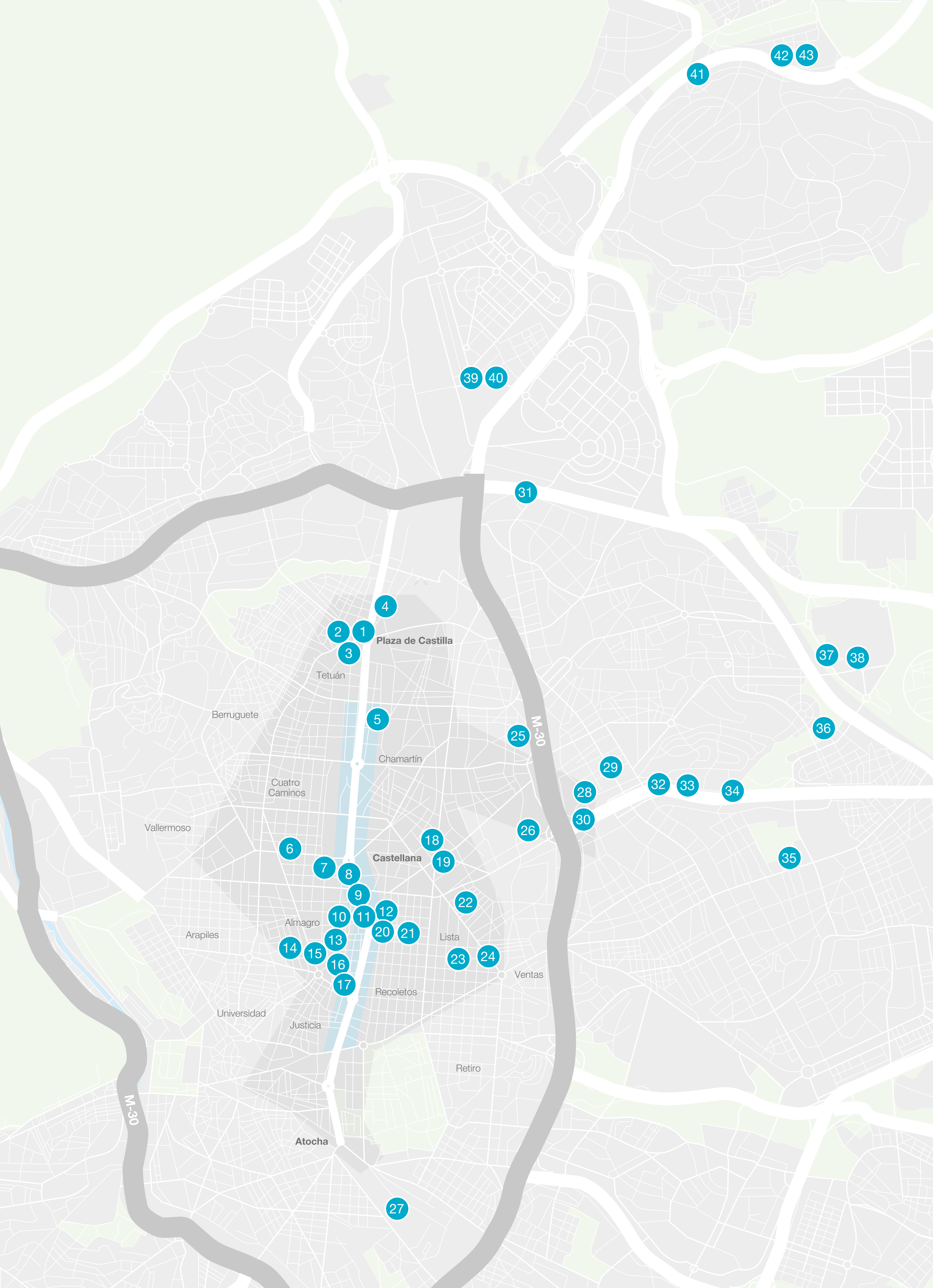
32. Josefa Valcárcel 24
33. Josefa Valcárcel 40 bis
34. JILT 7
35. Alcalá 506
36. Tucumán
37. Ribera del Loira 28
38. Egeo Building

## NORTH MADRID ARROYO DE LA VEGA & LAS TABLAS

39. Puerto de Somport 8
40. Puerto de Somport 10-18
41. Avenida de Bruselas 38
42. Francisca Delgado 11
43. Cedro

Prime Central Business District

Business District



Plaza de Castilla
Tetuán
Berruguete
Chamartín
Cuatro Caminos
Vallermoso
Castellana
Almagro
Arapiles
Lista
Ventas
Recoletos
Universidad
Justicia
Retiro
Atocha
M-30
M-30
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26
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28
29
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31
32
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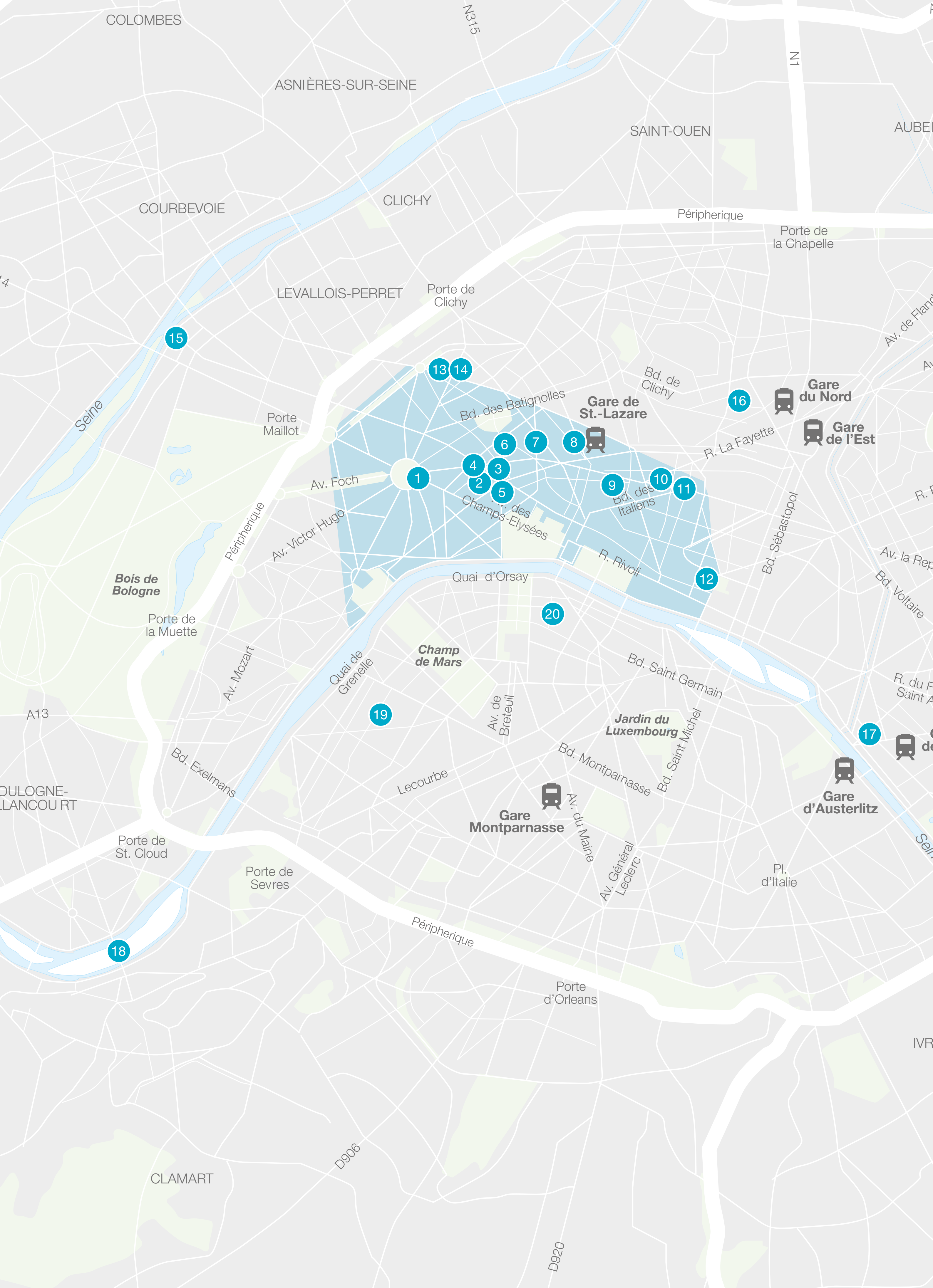
37
38
39
40
41
42
43

# Paris

1. 96 IÉNA
2. Galerie des Champs-Élysées
3. 90 Champs-Élysées
4. Washington Plaza
5. 92 Champs-Élysées Ozone
6. Cézanne Saint-Honoré
7. 9 Avenue Percier
8. 104-110 Haussmann Saint-Augustin
9. Edouard VII
10. 6 Hanovre
11. #Cloud
12. Louvre Saint-Honoré
13. 131 Wagram
14. 112 Wagram
15. 176 Charles De Gaulle
16. 4-8 Rue Condorcet
17. Rives de Seine
18. Le Vaisseau
19. 112-122 Av. Emile Zola
20. 103 Grenelle

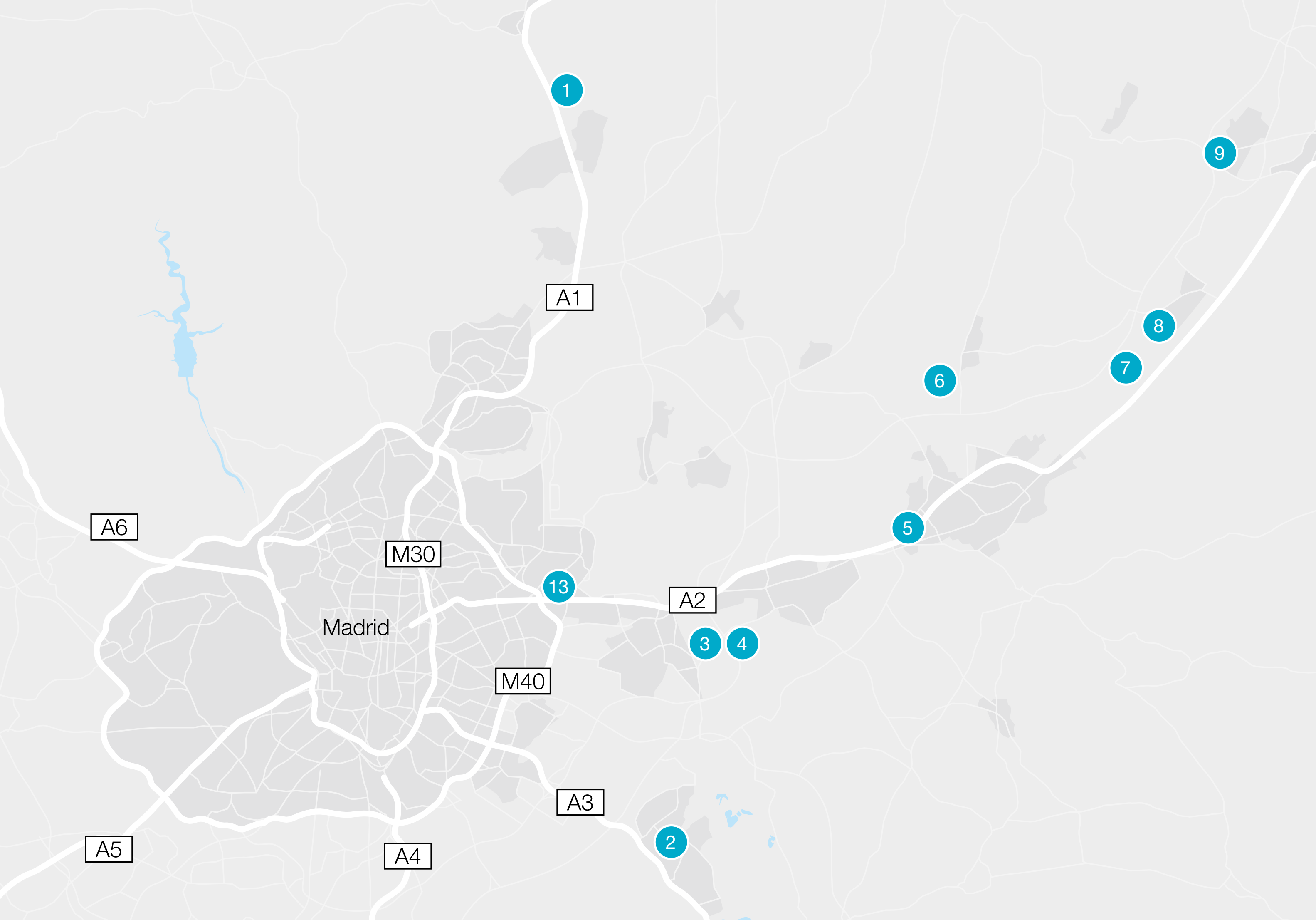
Prime Central Business District

Business District


COLOMBES
N315
ASNIÈRES-SUR-SEINE
SAINT-OUEN
N1
AUBE
COURBEVOIE
CLICHY
Périphérique
Porte de
la Chapelle
LEVALLOIS-PERRET
Porte de
Clichy
15
Seine
13
14
Gare
du Nord
Bd. de
Clichy
16
Gare de
St.-Lazare
Bd. des Batignolles
Porte
Maillot
Gare
de l'Est
6
7
8
R. La Fayette
Av. Foch
1
4
3
2
5
9
10
11
Bd. des
Italiens
Champs-Elysées
Av. Victor Hugo
Périphérique
Bd. Sébastopol
R. Rivoli
Av. la Rep
Bd. Voltaire
Quai d'Orsay
12
Bois de
Bologne
Porte de
la Muette
20
Champ
de Mars
Quai de
Grenelle
Av. Mozart
Bd. Saint Germain
Av. de
Breteuil
19
A13
Jardin du
Luxembourg
Bd. Saint Michel
17
Bd. Montparnasse
Bd. Exelmans
Lecourbe
Gare
d'Austerlitz
OULOGNE-
LANCOU RT
Gare
Montparnasse
Av. du Maine
Porte de
St. Cloud
Porte de
Sevres
Av. Général
Leclerc
Pl.
d'Italie
Périphérique
18
Porte
d'Orleans
IVR
D906
CLAMART
D920

# Logistic locations & others

1. San Agustín de Guadalix
2. Rivas Vaciamadrid
3. San Fernando I
4. San Fernando II
5. Alcalá de Henares
6. Camarma de Esteruelas
7. Azuqueca I
8. Azuqueca II
9. Cabanillas
10. Valls
11. Constantí
12. Dos Hermanas
13. Las Mercedes Open Park
14. Les Gavarres
15. Viapark


1
A1
A6
M30
13
A2
Madrid
3
4
M40
A3
2
A5
A4
5
6
7
8
9


La Coruña
Bilbao
10
11
14
Barcelona
A1
A6
A2
Madrid
A5
A3
A4
Valencia
Badajoz
12
Sevilla
Málaga
15
Almería
Cádiz

# 9.2. Portfolio valuation

At the end of 2018, the assets of the Colonial Group were appraised at €11,348m (€11,915m including transfer costs).

The assets in Spain and France have been appraised by Jones Lang LaSalle, Cushman & Wakefield and CB Richard Ellis. The appraisal figures are updated half-yearly, following the best market practices, in compliance with the Regulation Standards of the Royal Institution of Chartered Surveyors (RICS) comprised in the Red Book valuation manual.

The valuations of the market defined by the RICS are internationally recognized by advisors and accountants of investors and corporations that own real estate assets, as well as The European Group of Valuers (TEGoVA) and the International Valuation Standards Committee (IVSC). The appraisers' fees are determined by the volume for the specific workout of each assignment.

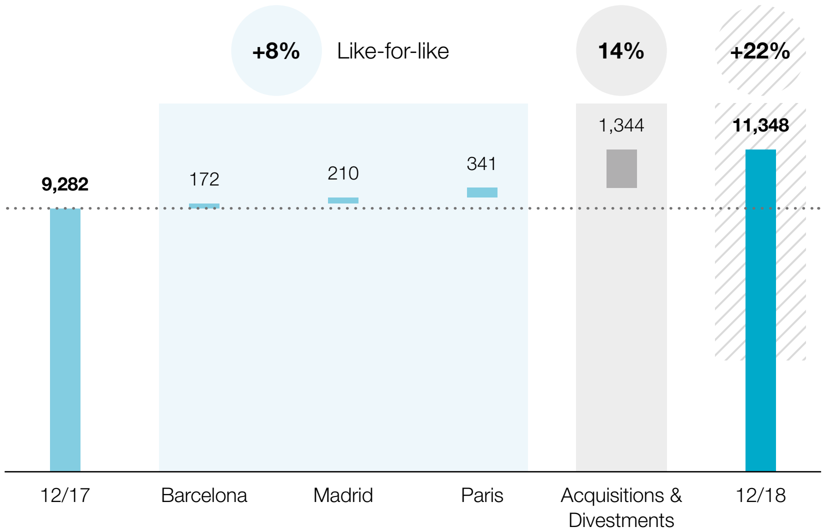
**▼ Gross Asset Values (€m)**

| | | | | Dec 18 *vs* Jun 18 | | Dec 18 *vs* Dec 17 | |
|---|---|---|---|---|---|---|---|
| | **31-Dec-18** | **30-Jun-18** | **31-Dec-17** | **Total** | **LfL[1]** | **Total** | **LfL[1]** |
| **Gross Asset Values - Excluding transfer costs** | | | | | | | |
| Barcelona | 1,175 | 973 | 836 | 21% | 6% | 40% | 8% |
| Madrid | 2,511 | 2,760 | 1,497 | (9%) | 5% | 68% | 10% |
| Paris | 6,256 | 6,242 | 6,064 | 0% | 2% | 3% | 5% |
| **Portfolio in operation[2]** | **9,942** | **9,974** | **8,398** | **(0%)** | **3%** | **18%** | **6%** |
| **Projects** | **925** | **762** | **519** | **21%** | **8%** | **78%** | **15%** |
| **Logistics & others** | **480** | **454** | **16** | **6%** | **6%** | **2903%** | **(2%)** |
| **Property business** | **11,348** | **11,190** | **8,933** | **1%** | **4%** | **27%** | **8%** |
| **Axiare stake** | **na** | **na** | **349** | | **na** | **(100%)** | **na** |
| **Colonial group** | **11,348** | **11,190** | **9,282** | **1%** | **4%** | **22%** | **8%** |
| Spain | 4,779 | 4,781 | 3,053 | (0%) | 7% | 57% | 15% |
| France | 6,570 | 6,409 | 6,229 | 3% | 3% | 5% | 5% |
| **Gross Asset Values - Including transfer costs** | | | | | | | |
| **Colonial group** | **11,915** | **11,730** | **9,741** | **2%** | **4%** | **22%** | **8%** |
| Spain | 4,910 | 4,919 | 3,121 | (0%) | 7% | 57% | 15% |
| France | 7,005 | 6,811 | 6,619 | 3% | 3% | 6% | 6% |

(1) Portfolio in comparable terms.
(2) Portfolio in operation: current rental portfolio as well as new entries into operation of completed projects.

The **Colonial Group's** Gross Asset Value at the close of 2018 **amounted to 11,348 €m**, an **increase of +22%** compared to the previous year, mainly due to the integration of Axiare's portfolio into its portfolio.

**▼ Variance analysis value 12 months - €m**




**▼ GAV variance**

| | 2H 2018 | Year 2018 |
|---|---|---|
| Barcelona | +9% | +19% |
| Madrid | +6% | +12% |
| Paris | +3% | +5% |
| Total LfL | +4% | +8% |
| Acquisitions & desinvestments | (3%) | +14% |
| Total Var | +1% | +22% |

**In like-for-like terms**, Colonial's portfolio has been revalued by **+8% vs. the previous year** (+4% corresponding to the first half of 2018). This increase in value is a consequence of the rental price increases throughout the portfolio, complemented by increases in value obtained through the successful execution of projects.

By segment, the **Barcelona and Madrid** portfolios reached a like-for-like year-on-year growth of **+19% and +12%**, respectively. It is important to specifically highlight the strong revaluation of **+9%** in the last 6 months in Barcelona.

The **Paris** portfolio increased **+5.5% like-for-like year-on-year** (+3% like-for-like in the last 6 months of 2018) clearly establishing a benchmark for growth in the Paris market.

The value of the logistics portfolio has increased +13% year on year.

In general terms, the increase in gross asset value is a consequence of three factors:

1. Rental price increases captured in recent quarters by the Colonial Group's portfolio in the three markets.

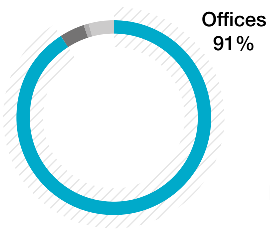
2. The Group's industrial approach that enables superior value creation through portfolio repositioning and Prime Factory projects.

3. A growing interest by investors in prime assets, driving down yields, especially in the Paris CBD market, which is one of the core markets that attracts more investors on a global level.

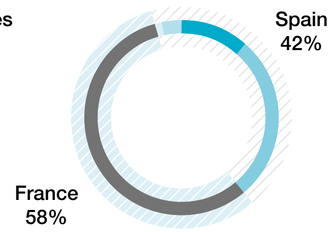
The breakdown of the valuation of the Group's rental portfolio by use, market and type of product is shown below:

### ▼ Consolidated Group

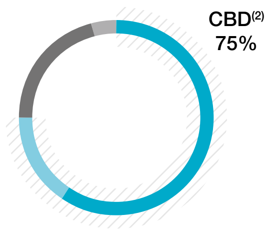
**Valuation - by use**




**Valuation - by market**

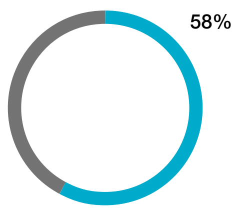



**Offices valuation - by area**




### ▼ Colonial Parent Company(1)

**Valuation - by market**




Regarding the valuation of the portfolio in operation, the main value parameters are as follows:

| Portfolio in operation | €m | sq m above ground(3) | €/sq m(3) | Valuation Yield | |
|---|---|---|---|---|---|
| Barcelona | 1,175 | 241,483 | 4,865 | 4.72% | Gross yields |
| Madrid | 2,511 | 423,685 | 5,927 | 4.53% | |
| Paris | 6,256 | 356,921 | 17,528 | 3.23% | Net yields |

When **comparing the valuation parameters of Colonial's appraisal values with market data**, the following must be taken into consideration:

1. **In Spain, consultants publish gross yields in their market reports**
   (Gross yield = gross rent/value excluding transfer costs).

2. **In France, consultants publish net yields in their market reports**
   (Net yield = net rent/value including transfer costs).

(1) France = SFL shares valuated in NAV. Spain = GAV assets held directly + NAV participation SPV TMN + Value JV Plaza Europa 34.
(2) CBD Barcelona, includes the 22@ segment market assets.
(3) In Barcelona the sq m for the calculation of the capital value correspond to the surface above ground of all the assets in Barcelona, excluding the Parc Central, Plaza Europa Gala Placídia and Pedralbes Centre projects and the surface area of non-core retail assets.
In Madrid, the sq m correspond to the surface above ground of all assets in Madrid, excluding the Méndez Álvaro complexes, the Puerto Somport 10-18, Sagasta 27, Miguel Ángel 23, Velázquez Padilla projects, as well as the surface area of non-core retail assets.
In France, the sq m correspond to the surface above ground of the entire portfolio, excluding the Emile Zola & Iéna project and including certain rentable surfaces below ground in the portfolio not corresponding to parking units.

The appraisal certificate is as follows:

**CONSEJO DE ADMINISTRACIÓN**
INMOBILIARIA COLONIAL, SOCIMI S.A.
Av. Diagonal 532
08006 Barcelona

Madrid, 14th February 2019

Dear Sirs,

In accordance with your instruction, JLL Valoraciones, S.A. and CBRE, as valuers of the Colonial portfolio in Spain, and Jones Lang LaSalle Expertise and Cushman & Wakefield, as SFL valuers in France; have carried out the valuation reports of the freehold interest of the portfolio of properties of Inmobiliaria Colonial (Spain and France) as at 31st of December 2018 for internal use of the company.

According to the aforementioned reports, the Net Market Value of the company's portfolio is:

**11,348,132,909 EUROS**

**(Eleven Thousand Three Hundred and Forty Eight Million One Hundred and Thirty Two Thousand Nine Hundred and Nine Euros)**

The breakdown is as follows:

| Unit | Market Value (excl. Transfer costs) | Gross Value (incl. Transfer costs) |
|---|---|---|
| Madrid | 3,359,870,295 € | 3,446,742,159 € |
| Barcelona | 1,263,097,534 € | 1,301,795,583 € |
| Rest of Spain | 155,556,080 € | 161,328,430 € |
| **Total Colonial (Spain)** | **4,778,523,909 €** | **4,909,866,172 €** |
| **Total SFL (Paris)** | **6,569,609,000 €** | **7,005,394,831 €** |
| **Total Colonial + SFL** | **11,348,132,909 €** | **11,915,261,003 €** |

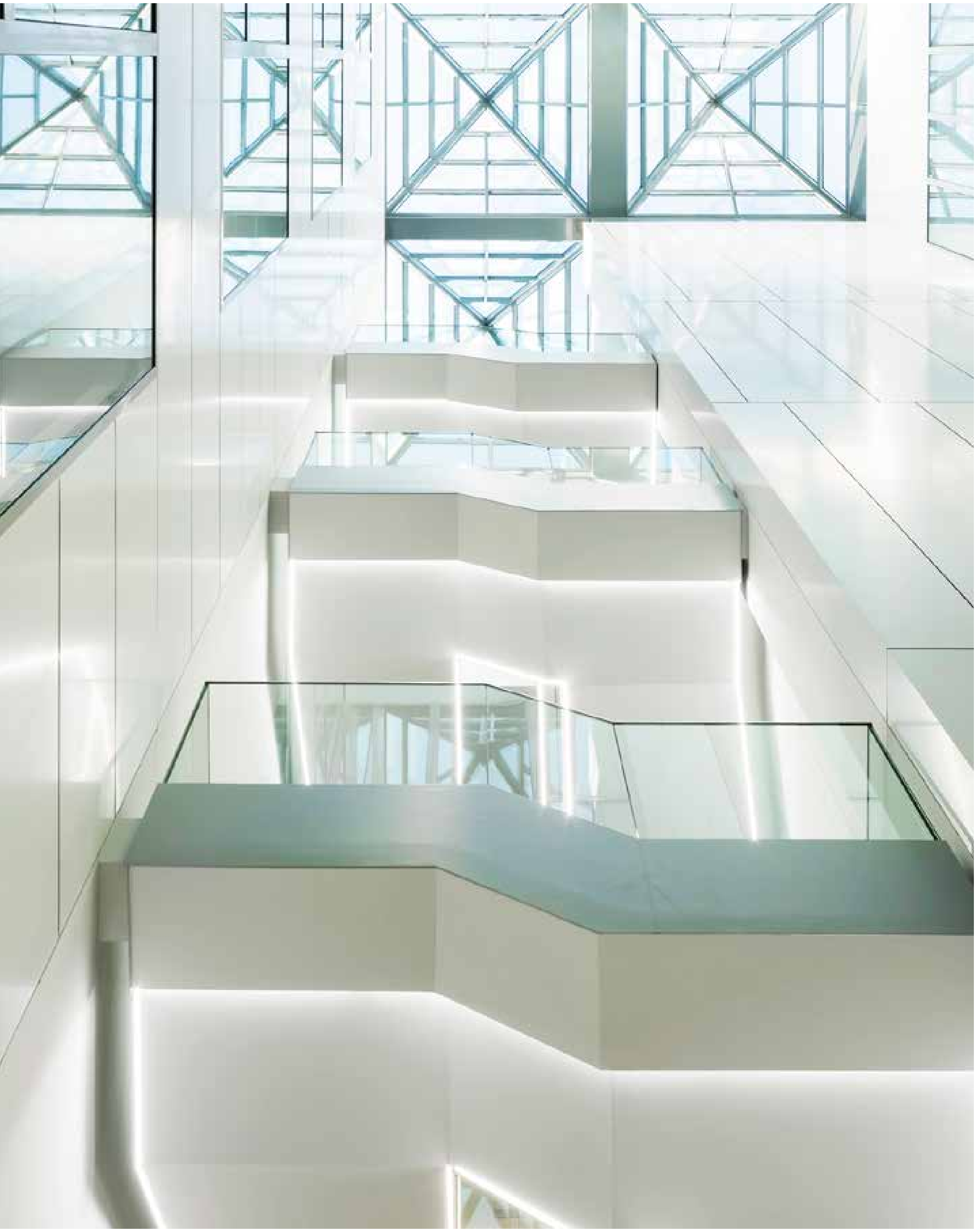
For the avoidance of doubt, each valuer only accepts responsibility for the assets that they have valued within the portfolio.

The valuation has been carried out in accordance with the Practice Statement and the relevant Guidance Notes in the RICS Appraisals and Valuations Manual prepared by the Royal Institution of Chartered Surveyors and with the General Principles adopted in the Preparation of Valuations and Reports.

JLL Valoraciones, S.A.

Jones Lang LaSalle Expertises
S.A.S. au capital de 37 000 Euros
Tél : 01 40 55 15 15 - 75008 PARIS

Cushman & Wakefield Valuation France SA
Tour Opus 12 - 77 Esplanade du Général de Gaulle
92081 Paris La Défense Cedex
Tél. : +33 (0)1 53 76 92 92
Société anonyme au capital de 5 616 304 €
RCS Siret 111 574 00049
N° TVA Intracommunautaire FR10 332 111 574



# 9.3. Asset portfolio - Details

**▼ Rental portfolio Barcelona (sq m)**

| | Acquis. year | Floor space above ground | | | | | Floor space above ground | Floor space below ground | Total surface | Parking units |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Offices | Retail | Resid. | Logistic | Hotel | | | | |
| Diagonal, 409 | 2001 | 3,680 | 851 | | | | 4,531 | 0 | 4,531 | |
| Diagonal, 530 | 1992 | 9,226 | 2,555 | | | | 11,781 | 4,708 | 16,489 | 99 |
| Diagonal, 609-615 - Dau/Prisma | 1997 | 21,996 | | | | | 21,996 | 18,839 | 40,835 | 438 |
| Av. Diagonal, 682 | 1997 | 7,406 | 250 | | | | 7,656 | 1,795 | 9,451 | 50 |
| Pedralbes Centre | 1997 | 0 | 1,832 | | | | 1,832 | 1,344 | 3,176 | |
| Av. Diagonal, 523-525 | 1997 | 5,706 | | | | | 5,706 | 686 | 6,392 | 10 |
| Berlín, 38-48/Numancia, 46 | 1997 | 9,644 | 3,173 | | | | 12,817 | 3,659 | 16,476 | 99 |
| Diagonal 220-240, Glories | 2000 | 11,672 | | | | | 11,672 | 536 | 12,208 | 40 |
| Illacuna | 2006 | 19,639 | 812 | | | | 20,451 | 13,606 | 34,057 | 481 |
| Pº Tilos, 2-6 | 2000 | 5,143 | | | | | 5,143 | 3,081 | 8,224 | 79 |
| Travessera, 47-49 | 2016 | 8,939 | | | | | 8,939 | 1,705 | 10,644 | 6 |
| Via Augusta, 21-23 | 1999 | 4,620 | 218 | | | | 4,838 | 0 | 4,838 | |
| Travessera, 11 | 1994 | 4,105 | 410 | | | | 4,515 | 1,994 | 6,509 | 61 |
| Amigó, 11-17 | 1994 | 2,960 | 608 | | | | 3,568 | 1,778 | 5,346 | 88 |
| Plz. Europa 42-44 | 2014 | 4,869 | | | | | 4,869 | 2,808 | 7,677 | 68 |
| Torre BCN | 2000 | 9,600 | 235 | | | | 9,835 | 3,355 | 13,190 | 88 |
| Torre Marenostrum | 2003 | 22,394 | | | | | 22,394 | 19,370 | 41,764 | 616 |
| Parc Glories | 2016 | 24,450 | | | | | 24,450 | 5,444 | 29,894 | 141 |
| Sant Cugat | 1999 | 27,579 | | | | | 27,579 | 20,555 | 48,134 | 690 |
| Gal·la Placídia | 2018 | 0 | | | | | 0 | 110 | 110 | 14 |
| Diagonal, 197 | 2014 | 14,772 | 385 | | | | 15,157 | 9,281 | 24,438 | 227 |
| Park Cugat | 2017 | 12,000 | | | | | 12,000 | 0 | 12,000 | 374 |
| Other small retail units | | | 103 | | | | 103 | 0 | 103 | |
| **Portfolio in operation** | | **230,399** | **11,433** | **0** | **0** | **0** | **241,832** | **114,654** | **356,486** | **3,669** |
| Parc Central 22@ | 2010 | 14,737 | | | | | 14,737 | 14,737 | 29,474 | 184 |
| Plaza Europa, 34 | 2017 | 14,306 | | | | | 14,306 | 4,500 | 18,806 | 151 |
| Gal·la Placídia | 2018 | 4,285 | | | | | 4,285 | 298 | 4,582 | |
| Pedralbes Centre | | 0 | 3,892 | | | | 3,892 | 18 | 3,909 | |
| Rest of assets | | 1,291 | | | | | 1,291 | 2,157 | 3,448 | |
| **Projects underway** | | **34,619** | **3,892** | **0** | **0** | **0** | **38,510** | **21,710** | **60,220** | **335** |
| **Total Barcelona** | | **265,018** | **15,324** | **0** | **0** | **0** | **280,343** | **136,364** | **416,707** | **4,004** |

Note: In order to facilitate the analysis of the portfolio, part of the office buildings have been specified to be dedicated to retail/commercial use (generally on the ground floors). The assets in the Barcelona rental portfolio are 100% owned by Colonial, with the exception of Torre Marenostrum of which Colonial has a 55% stake and the plot of land at Plaza Europa 34 which is held through a joint venture with Inmo, S.L.
The assets in the Madrid rental portfolio and the rest of Spain are 100% owned by Colonial.

### Rental portfolio Madrid (sq m)

| | Acquis. year | Floor space above ground: Offices | Retail | Resid. | Hotel | Floor space above ground | Floor space below ground | Total surface | Parking units |
|---|---|---|---|---|---|---|---|---|---|
| Castellana, 52 | 1998 | 5,568 | 1,027 | | | 6,595 | 2,615 | 9,210 | 49 |
| P. Castellana, 163 | 2016 | 4,475 | 377 | | | 4,852 | 1,855 | 6,707 | 52 |
| Recoletos, 37-41 | 2005 | 13,642 | 3,560 | | | 17,202 | 5,340 | 22,542 | 175 |
| Castellana, 43 | 2005 | 5,455 | 543 | | | 5,998 | 2,441 | 8,439 | 81 |
| Miguel Angel, 11 | 2005 | 5,370 | 930 | | | 6,300 | 2,200 | 8,500 | 81 |
| Jose Abascal, 56 | 2005 | 10,857 | 1,468 | | | 12,325 | 6,408 | 18,733 | 219 |
| Génova, 17 | 2015 | 3,638 | 1,038 | | | 4,676 | 2,601 | 7,277 | 70 |
| Jose Abascal, 45 | 2016 | 5,324 | | | | 5,324 | 1,929 | 7,253 | 54 |
| Serrano, 73 | 2016 | 4,242 | | | | 4,242 | 3,176 | 7,418 | 104 |
| Alfonso XII, 62 | 2002 | 13,135 | | | | 13,135 | 2,287 | 15,422 | 78 |
| Santa Engracia | 2015 | 13,444 | 220 | | | 13,664 | 5,562 | 19,226 | 180 |
| Francisco Silvela, 42 | 1999 | 5,393 | | | | 5,393 | 3,926 | 9,319 | 105 |
| José Ortega y Gasset 100 | 2000 | 6,870 | 922 | | | 7,792 | 2,563 | 10,355 | 96 |
| Poeta Joan Maragall, 53 | 2001 | 13,685 | 2,330 | | | 16,015 | 9,668 | 25,683 | 295 |
| Discovery Building | 2015 | 9,496 | 656 | | | 10,152 | 4,751 | 14,903 | 100 |
| López de Hoyos, 35 | 2005 | 7,140 | | | | 7,140 | 4,105 | 11,245 | 111 |
| Agustín de Foxá, 29 | 2003 | 0 | 227 | | | 227 | 0 | 227 | 158 |
| Hotel Centro Norte | 2003 | 0 | 385 | | 8,073 | 8,458 | 11,089 | 19,547 | |
| Arturo Soria, 336 | 2017 | 8,363 | 300 | | | 8,663 | 5,598 | 14,261 | 191 |
| Martínez Villergas, 49 | 2006 | 24,135 | | | | 24,135 | 14,746 | 38,881 | 437 |
| Ramirez de Arellano, 37 | 1999 | 5,988 | | | | 5,988 | 4,923 | 10,911 | 160 |
| Santa Hortensia, 26-28 | 2016 | 46,928 | | | | 46,928 | 25,668 | 72,596 | 946 |
| Egeo | 2018 | 18,255 | | | | 18,255 | 9,774 | 28,029 | |
| Príncipe de Vergara, 112-114 | 2015 | 11,367 | | | | 11,367 | 4,524 | 15,892 | 113 |
| Manuel Falla 7 | 2015 | 6,252 | | | | 6,252 | 1,640 | 7,892 | 41 |
| Sagasta 31-33 | 2016 | 7,054 | | | | 7,054 | 0 | 7,054 | 93 |
| Almagro 9 | 2016 | 15,094 | | | | 15,094 | 0 | 15,094 | 201 |
| Miguel Angel 23 | 2017 | 1,050 | 834 | | | 1,884 | 0 | 1,884 | 97 |
| Velázquez-Padilla 17 | 2015 | 4,083 | | | | 4,083 | 0 | 4,083 | 155 |
| Don Ramón de la Cruz 82 | 2015 | 9,339 | | | | 9,339 | 0 | 9,339 | 91 |
| Francisca Delgado 11 | 2014 | 14,883 | | | | 14,883 | 2,150 | 17,033 | 395 |
| Cedro - Anabel Segura 14 | 2017 | 17,138 | | | | 17,138 | 0 | 17,138 | 381 |
| Puerto de Somport 8 | 2017 | 9,280 | | | | 9,280 | 0 | 9,280 | 370 |
| Ribera de Loira 28 | 2014 | 12,822 | | | | 12,822 | 14,800 | 27,622 | 370 |
| Tucumán | 2015 | 5,086 | 1,241 | | | 6,327 | 0 | 6,327 | 170 |
| Avenida de Bruselas 38 | 2015 | 14,340 | | | | 14,340 | 0 | 14,340 | 112 |
| Ramírez de Arellano 15 | 2015 | 6,670 | | | | 6,670 | 4,640 | 11,310 | 112 |

## ▼ Rental portfolio Madrid (sq m)

| | Acquis. year | Floor space above ground | | | | Floor space above ground | Floor space below ground | Total surface | Parking units |
|---|---|---|---|---|---|---|---|---|---|
| | | Offices | Retail | Resid. | Hotel | | | | |
| Josefa Valcárcel 40 | 2017 | 8,652 | | | | 8,652 | 0 | 8,652 | 276 |
| Josefa Valcárcel 24 | 2016 | 5,652 | | | | 5,652 | 0 | 5,652 | 90 |
| Luca de Tena 7 | 2016 | 10,147 | | | | 10,147 | 0 | 10,147 | 260 |
| Alcalá 506 | 2015 | 5,664 | 596 | | | 6,260 | 0 | 6,260 | 205 |
| Other small retail units | | | 1,167 | | | 1,167 | 379 | 1,546 | |
| **Portfolio in operation** | | **395,976** | **17,821** | **0** | **8,073** | **421,870** | **161,358** | **583,228** | **7,274** |
| Campus Méndez Alvaro | 2017 | 89,871 | | | | 89,871 | 0 | 89,871 | |
| Méndez Alvaro II | 2017 | 20,276 | | | | 20,276 | 0 | 20,276 | |
| Puerto de Somport 10-18 | 2015 | 22,849 | | | | 22,849 | 0 | 22,849 | |
| Velázquez-Padilla 17 | 2015 | 9,150 | 3,583 | | | 12,733 | 0 | 12,733 | |
| Sagasta 27 | nd | 4,481 | | | | 4,481 | 0 | 4,481 | |
| Miguel Ángel, 23 | 2017 | 6,152 | | | | 6,152 | 0 | 6,152 | |
| P. Castellana, 163 | 2016 | 5,835 | 240 | | | 6,075 | 0 | 6,075 | |
| Rest of assets | | 940 | 246 | | | 1,186 | 1,590 | 2,776 | 13 |
| **Projects underway** | | **159,554** | **4,069** | **0** | **0** | **163,623** | **1,590** | **165,213** | **13** |
| **Total Madrid** | | **555,530** | **21,890** | **0** | **8,073** | **585,493** | **162,948** | **748,441** | **7,287** |

Note: In order to facilitate the analysis of the portfolio, part of the office buildings have been specified to be dedicated to retail/commercial use (generally on the ground floors). The assets in the Barcelona rental portfolio are 100% owned by Colonial, with the exception of Torre Marenostrum of which Colonial has a 55% stake and the plot of land at Plaza Europa 34 which is held through a joint venture with Inmo, S.L.
The assets in the Madrid rental portfolio and the rest of Spain are 100% owned by Colonial.

### ▼ Rental portfolio logistic & others (sq m)

| | Acquis. year | Floor space above ground | | | | | Floor space above ground | Floor space below ground | Total surface | Parking units |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **Offices** | **Retail** | **Resid.** | **Logistic** | **Hotel** | | | | |
| Hotel Mojacar | 2006 | | | | | 11,519 | 11,519 | | 11,519 | |
| Valls | 2014 | | | | 26,026 | | 26,026 | | 26,026 | |
| Constantí | 2015 | | | | 42,253 | | 42,253 | | 42,253 | |
| Cabanillas | 2014 | | | | 37,879 | | 37,879 | | 37,879 | |
| Miralcampo | 2014 | | | | 35,781 | | 35,781 | | 35,781 | |
| Rivas | 2014 | | | | 35,248 | | 35,248 | | 35,248 | 342 |
| Guadalix | 2014 | | | | 14,945 | | 14,945 | | 14,945 | |
| Camarma | 2014 | | | | 70,296 | | 70,296 | | 70,296 | |
| San Fernando (Phase I) | 2016 | | | | 69,947 | | 69,947 | | 69,947 | |
| Alcalá de Henares | 2016 | | | | 8,971 | | 8,971 | | 8,971 | |
| Azuqueca II | 2016 | | | | 19,064 | | 19,064 | | 19,064 | |
| Dos Hermanas | 2014 | | | | 51,666 | | 51,666 | | 51,666 | |
| Les Gavarres | 2014 | | 12,413 | | | | 12,413 | 14,080 | 26,493 | 352 |
| Las Mercedes Open Park | 2015 | | | | 24,649 | | 24,649 | | 24,649 | 1,500 |
| Viapark | 2016 | | 16,325 | | | | 16,325 | | 16,325 | |
| **Portfolio in operation** | | **0** | **28,738** | **0** | **436,725** | **11,519** | **476,983** | **14,080** | **491,063** | **2,194** |
| San Fernando (Phase I) | 2016 | | | | | | 0 | | 0 | |
| San Fernando (Phase II) | 2017 | | | | 59,842 | | 59,842 | | 59,842 | |
| Autovía de Toledo | 2017 | | | | 23,557 | | 23,557 | | 23,557 | |
| **Projects underway** | | **0** | **0** | **0** | **83,399** | **0** | **83,399** | **0** | **83,399** | **0** |
| **Total logistic & others** | | **0** | **28,738** | **0** | **520,124** | **11,519** | **560,382** | **14,080** | **574,462** | **2,194** |
| | | | | | | | | | | |
| **Total Spain** | | **820,548** | **65,953** | **0** | **520,124** | **19,592** | **1,426,217** | **313,392** | **1,739,609** | **13,485** |

Note: In order to facilitate the analysis of the portfolio, part of the office buildings have been specified to be dedicated to retail/commercial use (generally on the ground floors). The assets in the Barcelona rental portfolio are 100% owned by Colonial, with the exception of Torre Marenostrum of which Colonial has a 55% stake and the plot of land at Plaza Europa 34 which is held through a joint venture with Inmo, S.L.
The assets in the Madrid rental portfolio and the rest of Spain are 100% owned by Colonial.

### ▼ Rental portfolio France (sq m)

| | Acquis. year | Floor space above ground: Offices | Retail | Resid. | Logist. | Hotel & others | Floor space above ground | Floor space below ground | Total surface | Parking units |
|---|---|---|---|---|---|---|---|---|---|---|
| Louvre Saint-Honore | 1995 | 23,551 | 82 | | | 753 | 24,386 | 4,110 | 28,497 | 236 |
| Edouard VII | 1999 | 25,901 | 15,349 | 4,510 | | 4,202 | 49,962 | 10,145 | 60,106 | 523 |
| 6 Hanovre | 1958 | 3,325 | | | | | 3,325 | 1,246 | 4,571 | 0 |
| #Cloud.Paris | 2004 | 28,192 | | | | 1,860 | 30,051 | 3,164 | 33,216 | 99 |
| Condorcet | 2014 | 20,376 | | 1,562 | | 1,301 | 23,239 | 2,457 | 25,696 | 50 |
| Galerie Champs-Elysees | 2002 | 0 | 4,141 | | | | 4,141 | 3,849 | 7,990 | 125 |
| 90 Champs-Elysees | 2002/2009 | 7,912 | 932 | | | | 8,844 | 0 | 8,844 | |
| 92 Champs-Elysees | 2000 | 4,110 | 3,089 | | | | 7,199 | 0 | 7,199 | |
| Cezanne Saint-Honore | 2001/2007 | 24,437 | 1,849 | 0 | | | 26,287 | 3,337 | 29,624 | 128 |
| 131 Wagram | 1999 | 7,100 | | | | 449 | 7,549 | 3,119 | 10,668 | 124 |
| 96 IENA | 2001/2007 | 913 | | | | | 913 | 23 | 936 | 264 |
| 112 Wagram | 2008 | 4,470 | 892 | | | | 5,362 | 546 | 5,908 | 29 |
| Washington Plaza | 2000 | 39,122 | 416 | | | 2,342 | 41,879 | 13,151 | 55,031 | 662 |
| Haussmann Saint-Augustin | 2002/2004 | 11,683 | 608 | | | | 12,291 | 2,650 | 14,942 | 104 |
| 9 Percier | 2015 | 5,107 | | | | | 5,107 | 427 | 5,533 | 14 |
| 176 Charles De Gaulle | 1997 | 5,102 | 389 | | | | 5,491 | 2,739 | 8,230 | 145 |
| Le Vaisseau | 2006 | 6,026 | | | | | 6,026 | 2,321 | 8,347 | 124 |
| Rives de Seine | 2004 | 20,270 | | | | 1,760 | 22,030 | 6,589 | 28,619 | 366 |
| 103 Grenelle | 2006 | 15,585 | 258 | | | 1,011 | 16,854 | 1,932 | 18,786 | 100 |
| Saint Denis | | 0 | | | | | 0 | 0 | 0 | 1 |
| **Portfolio in operation** | | **253,181** | **28,006** | **6,072** | | **13,677** | **300,936** | **61,806** | **362,742** | **3,094** |
| Emile Zola | 2017 | 21,762 | | 719 | | 1,569 | 24,050 | 1,866 | 25,916 | |
| Louvre Saint-Honore | 1995 | 1,674 | 15,918 | | | 0 | 17,592 | 5,422 | 23,014 | |
| 96 IENA | 2001/2007 | 8,364 | | | | | 8,364 | 1,749 | 10,113 | |
| Edouard VII | 1999 | 2,511 | | | | | 2,511 | 0 | 2,511 | |
| Washington Plaza | 2000 | 377 | | | | | 377 | 2,342 | 2,719 | |
| Cezanne Saint-Honore | 2001/2007 | 0 | | | | | 0 | 1,504 | 1,504 | |
| 131 Wagram | 1999 | 0 | | | | | 0 | 532 | 532 | |
| 103 Grenelle | 2006 | 0 | | | | | 0 | 1,704 | 1,704 | |
| #Cloud.Paris | 2004 | 0 | | | | | 0 | 3,397 | 3,397 | |
| Rest of assets | | 1,485 | 760 | | | | 2,245 | 4,638 | 6,883 | |
| **Projects underway** | | **36,173** | **16,678** | **719** | **0** | **1,570** | **55,140** | **23,153** | **78,292** | **0** |
| **Total France** | | **289,354** | **44,684** | **6,791** | **0** | **15,246** | **356,075** | **84,959** | **441,034** | **3,094** |
| **Total Colonial Group** | | **1,109,902** | **110,636** | **6,791** | **520,124** | **34,838** | **1,782,292** | **398,350** | **2,180,643** | **16,579** |

Note: Colonial has 81.7% of the share capital of SFL. SFL has 100% ownership of the totality of its rental portfolio with the exception of Washington Plaza of which it owns 66%, as well as the assets of Champs Élysées 90, Galerie Champs Élysées 82-88 and Haussmann 104-110 of which it owns 50%.

# Barcelona

## 1 Pg. dels Til·lers, 2-6

A fully refurbished office building located in one of Barcelona's most exclusive residential neighborhoods. Due to its proximity and easy access to the Ronda de Dalt and the Diagonal business district it is has excellent transport links, it is close to Av. Diagonal and just 20 minutes from the airport. The building has five open-plan floors and a total leasable area of 5,143 sq m, in addition to two underground floors with its own parking garage. Floors with high-quality interiors and finishes, offering an average per-floor area above 1,000 sq m.

## 2 Diagonal 682

Diagonal 682 is a fully refurbished building which offers a modern and functional work environment. It has an open structure, completely street-facing and with well-lit areas and spectacular views of Barcelona. The building is located in one of the city's major business districts, making it an ideal base for company offices. The standard layout offers a leasable area of 644 sq m, divisible into two independent modules of 322 sq m each. The building has its own parking area and two commercial premises on the ground floor with direct street access.

## 3 Diagonal 609-615

The Diagonal 609-615 office building is in one of the most cosmopolitan parts of Avenida Diagonal, in an area that combines financial and commercial activity. Very good transport links both with the center of Barcelona and the train station and airport. Of particular note in this complex is the building popularly known as "El Dau", along with the "Prisma" building. Known as "El Dau" due to its straight architectural lines, it has nine completely street-facing floors, divided into eight modules with leasable areas of 217 sq m and up. The "Prisma" building has nine completely street-facing floors, divided into four modules with leasable areas of 124 sq m and up. These buildings are constructed and decorated with the highest quality materials. They have access control from the lobby with security services and their own parking area.

## 4 Diagonal 525

Office building located in Barcelona's prime CBD at Avenida Diagonal 525, where the road meets Avenida Sarriá. Its 5,800 sq m above ground and 1,200 sq m below ground are arranged over a ground floor and nine upper floors. There are plans to complete a full-scale refurbishment of the property, which would turn it into a landmark office building in the heart of Barcelona's business district. Located in an active hub for business and retail, it benefits from a wide range of services and public transport links with all areas of the city.

## 5 TGA Travessera de Gràcia Amigó

Located at the intersection of Travessera de Gràcia and Amigó, this building is in a busy commercial area, with excellent transport connections, being just a few meters away from Av. Diagonal and Plaza Francesc Macià. It holds a LEED GOLD environmental certification and consists of 2 buildings accessible from Travesera de Gràcia and Amigó. The two buildings share four underground floors of parking. The building's facade stands out for the special Geoda glass which changes color tone depending on the exterior light. The interior is characterized by spacious areas with steel-encased raised floors, metallic false ceilings and quality curtains installed in the facade. State-of-the-art elevators are in operation, which aim to reduce waiting time. The building is lit by LED lighting adjustable in relation to the amount of external light.

## 6 Travessera de Gràcia 47-49

An 8-story building above ground, located in the neighborhood of the Eixample in Barcelona, a few metres away from Avenida Diagonal and Vía Augusta, two of the main arteries of the city. It is a corner-shaped building with an interior patio, with great visibility and a privileged location. With an impressive façade to Travessera de Gràcia, the entire perimeter of the office area is external, guaranteeing natural light on all of the floors. Due to its privileged location, it benefits from proximity to all the basic services, public transportation, connections and infrastructures and commercial urban life.

## 7 Diagonal 530-532

The Diagonal 532 office block is located on Avenida Diagonal between Aribau and Tuset. It comprises nine completely street-facing and open-plan floors of up to 1,370 sq m, divisible into modules of 268 sq m and up; it also offers elegant and stylish communal areas. The building is BREEAM certified and has hi-tech installations, including a modular climate-control system and a vertical access core of three elevators and a freight elevator. The building also has its own parking area.

## 8 Diagonal 409

Architecturally-unique building with seven open-plan floors, which are completely street-facing, thanks to its design, providing office space from 505 sq m upwards. Recently renovated building, which has plenty of light and is conveniently located at the intersection of Av. Diagonal and Balmes. It has been awarded the LEED GOLD certificate and is an ideal option for companies wishing to combine classic elegance with the functionality of the most modern office building.

## 9 Vía Augusta 21-23

Located a few meters from the intersection of Vía Augusta and Av. Diagonal, in a busy commercial area, with excellent transport connections. High-quality facilities and finishes, with raised access floors. Open-plan floors with 215 to 670 sq m of leasable space, easily adaptable to the client's needs. Highly emblematic commercial premises with direct access from Vía Augusta. Concierge service. Parking in building annex.

## 10 Gal·la Placidia

This building has an unbeatable location in the Barcelona CBD, just in front of the Gracia metro station and a few metres away from Colonial's headquarters. The asset has 4,312 sq m of surface area above ground with floors of up to 1,600 sq m and large terraces, a unique characteristic in the centre of Barcelona. Colonial will carry out a complete refurbishment of the building with the objective to boost co-working initiatives and increase the cash flow generation as well as the value creation potential. Accordingly, the building will be fully rented to Utopic_US, a leader in the management of flexible spaces and co-working contents in Spain, recently acquired by Colonial. The total price of the project once completed will be below €4,000/sq m.

## 11 Diagonal-Glòries

Located in Avenida Diagonal, just a few meters from Plaza de las Glorias and right in the middle of the 22@ district. It consists of three separate buildings and has a total of 11,672 sq m of leasable office space. Distributed over four floors, the office spaces range from 324 sq m to 2,918 sq m per floor. The area is easily accessible, and in the immediate vicinity major urban projects are being carried out, further raising the area's profile within the city. The building has a large number of amenities, as it is located above the Glòries shopping mall. Parking area within the building.

## 12 Diagonal 197

Singular office tower located on Avenida Diagonal, the main artery of Barcelona. Located in the 22@ district, very close to the strategic Plaça de les Glòries and the Glòries commercial hub, it enjoys excellent transport connections and impressive views of the city of Barcelona and the Mediterranean Sea. This impressive 17-storey building was designed by David Chipperfield and has a 15,531 sq m GLA and 222 parking spaces distributed over three underground floors, as well as 29 motorcycle parking spaces.

## 13 Parc Glòries

A new project for an emblematic office building in the most sought-after location of the 22@ district, with highly sustainable and top grade finishes and technical specifications. Completion is planned for 2018. The Parc Glòries project is soon to become an important landmark in the city. It will offer 24,000 sq m distributed over 17 floors designed by Batlle and Roig. The building, located at the heart of Barcelona's newest and most modern business district, next to Plaza Glòries and adjacent to Avenida Diagonal, will feature open floors each measuring 1,800 sq m.

## 14 Illacuna

The Illacuna office complex is located in the heart of the 22@ district, in the Eix Llacuna neighborhood. With an area of 20,500 sq m, it comprises three buildings offering different standard layouts that house offices with an avant-garde design. The combination of different sizes in the split-level building gives a sensation of lightness and visual dynamism to this spacious building, which stands out for its originality and grandeur. The complex also has a special storage area for documents, which helps free up work space in the offices. The high ceilings give a sense of spaciousness and the decoration was done using quality, durable and elegant materials. The complex has its own parking area and a 24-hour concierge service.

## 15 Parc Central 22@

Plot of land located in the heart of the 22@ business district, which will allow for the development of an office complex of nearly 15,000 sq m, opposite Avenida Diagonal, one of the up- and-coming areas in the city of Barcelona. The project is not expected to commence in the shortterm. The materials and finishings will be top quality and the design philosophy is to perfectly integrate the complex into its surroundings. There will be 136 parking spaces, all located in the same building.

## 16 Berlín-Numància

The Berlín - Numància building, is located in the Les Corts neighborhood of Barcelona, close to Av. Diagonal, and has seven completely street-facing floors with open-plan spaces constructed around a central lightwell; helping provide the ideal work environment. The elegant and functional communal areas are decorated to a high standard. Access to the building is through two separate lobbies, one at 38, Berlín and the other at 46, Numància. The building also has its own parking area within the building, a 24-hour concierge service and CCTV security system. Its location, next to Sants station, enables easy access to the AVE high-speed train, as well as other local and long-distance rail services and the subway system.

## 17 Torre Marenostrum

Torre Marenostrum is one of the most unique and significant buildings erected in the city in the last few years. What makes this project so spectacular is its location, on the city's waterfront, along with its sinuous, modern architecture, and its rocky, crystal shape, inspired by the wind and water of the Mediterranean shore. All of these features make it a landmark of the Barcelona skyline. The 100-meter tower comprises two independent buildings with a total of 22,000 sq m of leasable space. The open-plan floors have up to 965 sq m with excellent facilities and decoration and a large parking area.

## 18 Plaza Europa 34

At the beginning of 2017, Colonial strengthened its position in Plaza Europa, one of the business areas with the most development in recent years in Barcelona, with a new project to build a 21-storey office building with 14,000 sq m above ground and 150 parking spaces. This project is being developed in a joint venture with the Inmo Company, a subsidiary of the Puig family, the land owner, whose current corporate headquarters is located in the adjacent plot. The building will obtain the LEED Gold energy certificate.

## 19 Plaza Europa 40-42

Unique building, rectangular in shape and completely street-facing, offering 4,869 sq m of office space. The building is located in the new business district in Plaza Europa, at the intersection of Amadeu Torner and Gran Via de les Corts Catalanes. The building has its own parking area. The area has excellent transport links to both the center of Barcelona and El Prat airport, with a subway station just 2 minutes away: the new Metro Line 9 (direct to El Prat in 15 minutes).

## 20 Torre BCN

Torre BCN is an office building situated in the Plaça Ildefons Cerdà immediately on the point of entry to Barcelona. Its spectacular four-sided facade, with a completely glass curtain wall, stands out on the urban skyline. It consists of twelve open-plan floors, which are spacious and light, and offer a total modulable area of 800 sq m along with its own parking area. Spaces upwards of 155 sq m can be leased. The refurbishment process enabled this emblematic building to be updated with the latest installations and to be redecorated in a simple and functional style.

## 21 Parc Cugat

Modern and versatile office building located a few minutes out of Barcelona with a GLA of 12,000 sq m and 408 parking spaces. The building has an area per floor of 2,500 sq m, not found in any other buildings in Sant Cugat, as well as an auditorium with a capacity for up to 200 people. The plants are diaphanous, highly efficient with facades looking out in all directions.

## 22 Sant Cugat Nord

The Sant Cugat Nord office complex is located within the Barcelona metropolitan area and comprises 3 modern buildings offering leasable office space, all with a BREEAM rating of Very Good. This complex, surrounded by an extensive garden area, stands out for its high-quality provision: over 27,000 sq m, with paddle tennis courts, fitness rooms, restaurant service and parking. Every floor has 3,000 sq m modulable according to the needs of each client and containing the latest technology. A simple and elegant design has been chosen for the communal areas, making it the perfect place to set up a corporate headquarters or office.

# Madrid

## 1 Discovery Building

New office building with characteristics of prime quality, created by the prestigious Estudio de Arquitectura Lamela. A unique space of more than 10,000 sq m, with open plan and flexible floors, located on the Castellana Norte thoroughfare, in the established heart of the Madrid business district. Estébanez Calderón, 3-5 is a building aimed at housing companies looking for the best location, maximum comfort for their employees and the best energy efficiency for their corporate headquarters. It boasts optimum brightness with 22 meters between its north and south façade, maximum flexibility in the creation of modules and an original roof top terrace with a garden area for common use. By perfectly balancing aesthetics and efficiency, it offers a floor of 1,000 sq m as well as completely open plan floors with a single line of central pillars. This new, exceptional property has also two ground floor commercial premises with direct access to the street as well as 101 parking spaces.

## 2 Poeta Joan Maragall 53

Exceptional office building located in the Madrid business district, next to Paseo de la Castellana. Rectangular building with breathtaking façades. Fully exterior open plan floors with spaces to let of 1,315 sq m. Attractive and quality facilities and finishes. Offers excellent infrastructures and communications, as well as parking spaces in the same building. There is also an independent annex building accessible from the main entrance hall. There are also two ground floor commercial premises with street access.


## 3 Castellana 163

Building in the CBD of Madrid, H-shaped floor plan with two access points; one on Castellana and the other on Capitán Haya. The building has an above-ground surface area of 11,000 sq m divided between 12 floors of open-plan offices and a ground floor with three commercial units. Located within the Castellana business hub, with excellent public transport links and connections to the main gateways of the city.

## 4 Hotel Tryp Chamartín

Building solely used as a hotel located in a very well-established area near to Plaza Castilla and opposite the Chamartín railway station. The building housing a three-star hotel consists of a ground floor and 12 aboveground floors boasting a total of 203 rooms. Directly accessible by public or private transport. The complex has its own parking lot.

## 5 Manuel de Falla 7

This independent office building, located in the Madrid central business district, very close to Paseo de la Castellana, has floor-ceiling windows that provide excellent natural light. The building was recently completely renovated. It has a GLA of 6,252 sq m distributed over four floors, as well as an underground area with 41 parking spaces. This singular building with 91 metres of facade, has been designed with the highest standards by architect Gabriel Allende and has obtained the LEED Gold certificate. It offers spacious, flexible and rectangular floors with an average surface area of 1,400 sq m.

## 6 Santa Engracia

Office building right in the heart of the Madrid business district, with an above grade surface area of more than 13,430 sq m and 180 parking spaces.
The floors of the building vary between 1,500 sq m and 2,000 sq m and its uniqueness and location make it a highly visible property in the Madrid business centre. Colonial has made a significant investment in the refurbishment of the building. It now commands a strong market positioning, with maximum energy efficiency and sustainability.

## 7 José Abascal 45

Located in the Chamberí district between calle Modesto Lafuente and calle Fernández de la Hoz, scarcely 350 metres from the Paseo de la Castellana and just 11 minutes from the airport by car, this office building has a surface area of 5,300 sq m divided up between eight floors above ground and two below. The classic, stately building has been fully refurbished. The original façade and stained glass windows have been maintained, providing the José Abascal 45 with a unique personality. There is an inside, 2-storey car park with 54 spaces with changing rooms and showers.

## 8 José Abascal 56

Office building located in the Madrid business district, a short distance from Paseo de la Castellana. The exterior image is marked by a façade formed of horizontal strips of granite alternating with the glass of its large windows, which allow a large amount of light to enter the interior. The open and versatile floors with spaces to let from 640 sq m to 937 sq m, make this building an ideal place to locate offices as it is characterised by intelligent and functional architecture. It has commercial premises of 1,450 sq m on the ground floor with independent access to the street and its own car park.

## 9 Miguel Ángel 23

Prime office building, under refurbishment, with a GLA of 8,036 sq m distributed over seven open floors and a standard surface area of 1,050 sq m. It has 100 underground parking spaces and a commercial premises of more than 800 sq m. It is located in the Madrid central business district, and its corner location gives it excellent visibility from Paseo de la Castellana.

## 10 Miguel Ángel 11

Located in the Madrid business district, at the junction of calle Miguel Ángel with Paseo del General Martínez Campos, a few metres from Paseo de la Castellana. With a magnificent double glazed façade, this corner property with seven floors is guaranteed natural light throughout the day. The offices are structured around a central core with three elevators, in a space to let of up to 800 sq m. A line of modern finishes was chosen for the lobby, stylishly and elegantly combining blacks and whites. The ground floor is divided into three commercial premises with direct street access and the car park is located in the below grade floors.

## 11 Castellana 43

Renovated office building, with LEED GOLD certification, located on the main business thoroughfare of the city, boasting excellent public and private transport links. Its excellent location on the chamfered corner of Paseo de la Castellana and General Martínez Campos, and its wide and elegant façade combining granite and glass, make this building a mandatory visual point of reference on the Glorieta de Emilio Castelar. The floors are open plan with spaces to let of up to 765 sq m, both flexible and functional, which, as a result of the high level of brightness, allow for a very efficient distribution on the spaces. It also has its own car park.

## 12 Castellana 52

Unique building at Paseo de la Castellana 52, one of Madrid's main financial and commercial thoroughfares. Its corner façade stands out for is large vertical windows, crowned by semi-circular arches, and are suggestive of an architectural line inspired by a combination of art deco and futurism. The spaces, wide, open and bright, can be divided into modules to adapt to the needs of each customer, with spaces to let ranging from 407 to 928 sq m.

## 13 Almagro 9

Prestigious office building located in Calle Almagro, in the heart of Madrid's CBD. It has been completely refurbished by the architect Antonio Ruíz Barbarín. With a GLA of 15,094 sq m distributed over eight floors and 201 underground parking spaces, excellent natural light and interesting open waiting areas as well as an auditorium for 140 people. The building has an outstanding architectural design and is bathed in natural light thanks to its three glazed façades and private interior courtyard.

## 14 Sagasta 27

Prime office building, located in one of the most exclusive areas of the CBD of Madrid, consists of three floors above ground with a GLA of 4,481 sq m. Excellent level of natural light thanks to its numerous windows and its location in the corner as well as its two large interior courtyards. It will be thoroughly renovated in 2018.

## 15 Sagasta 31-33

Prime office building, located in one of the most exclusive areas of Madrid's CBD, just 8 minutes from Plaza de Colón. It consists of two adjoining buildings, with independent accesses from the street and a total of five floors per building. It has a GLA of 7,054 sq m and two floors of underground parking with 93 parking spaces. It has plenty of natural light thanks to its corner location, its large number of windows and its three interior courtyards.

## 16 Génova 17

The office building at Génova 17 is located on one of the most central streets of Madrid, with excellent links, parking for cars and an area specifically for bicycles. It is an avant-garde building, recently fully renovated with the best quality materials and an internal design and functioning, bringing it more in line with what a latest generation office building would be. Génova 17 has utilities that can be monitored and accessible by the users, efficient and flexible spaces, an entrance with a height of over five metres and open plan offices, with no columns to make maximum use of the work spaces. The maple drop-ceiling comes with built-in low energy consumption light fittings, high efficiency and low-glare lighting. The flooring is raised to facilitate the laying of cables for workstations. The air conditioning system is of the latest generation VRV variety, which makes if possible to have different temperatures in different areas of the office.

## 17 Recoletos 37

This office building with more than 17,000 sq m distributed among the floors with spaces of up to 1,910 sq m, is located in one of the central points of Madrid. A unique setting characterised by its thriving economic activity and for the abundance of unique office buildings representing multinational companies, four and five star hotels and luxury residential buildings. The exquisite complete renovation of this building has converted it into an architectural benchmark along the Recoletos-Prado thoroughfare, as well as a privileged site to house offices of the highest quality.

## 18 López de Hoyos 35

The offices to let at López de Hoyos 35 are located in an area combining residential properties and offices of the most important companies. The building, with its six floors and surface area of 7,000 sq m, stands out for its impressive artificial stone façade and curtain walling profile. The building has a modern reception and an interior patio designed to offer flexible spaces and comfort to the users of the property. With no adjacent buildings, all the floors enjoy bright, natural light. There are large gardens next to the building. Equipped with the latest technology, the interior lines of the López de Hoyos, 35 building are simple, elegant and modern. The floors can be divided into modules ranging from 575 sq m to 1,383 sq m.

## 19 The Window Building

New office building under construction in Madrid's Zona Este business district, with prime quality characteristics, designed by the prestigious Estudio de Arquitectura Ortiz y León. This is a new property with a GLA of 11.300 sq m and 115 parking spaces. The project is due to be completed by the summer of 2018. Leed Gold certification in process. It will consist of completely open plan floors with a single line of central columns, with optimum brightness and façades facing all four directions. It will be a detached building, ideal for a single corporate headquarters, with large terraces for private use.

## 20 Serrano 73

The Serrano 73 building, located on one of the Spanish capital's most emblematic streets and in the heart of the Salamanca district, is renowned for its avant-garde design, with lights on three façades. Its strategic location affords panoramic views of the calle Serrano and the Paseo de la Castellana. Refurbished in 2014, the building is noted for its elegant and balanced designed, top-quality materials involving wood and natural stone. It has 4,242 sq m of surface area on six above-ground floors of offices and a ground-floor for commercial use. The building has a private underground car park with 89 spaces for cars and 11 for motorcycles.

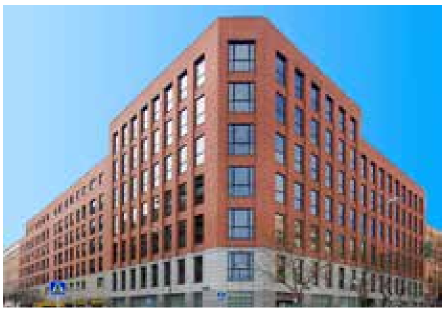
## 21 Velázquez

Prime office building located on a prominent corner in the heart of the exclusive Salamanca district of Madrid's CBD. Particularly strong points are its floors with more than 2,000 sq m, unusual in the area, as well as an underground car park with 155 spaces. Its interesting corner location gives the building an excellent level of natural light, very good visibility and great potential for corporate headquarters.

## 22 Francisco Silvela 42

Office building that stands out for its impressive glass curtain walling. The seven floors at Francisco Silvela, 42 have up to 981 sq m of floor space to let, distributed in open plan format with top of the range installations and finishes. Its façade on three streets results in an extraordinarily bright interior. The open and modern lobby is by itself the finest form of promotion for these excellently communicated offices. The building also has two large premises on the ground floor of up to 500 sq m, which have direct access to the street, as well as its own car park.

CODE FOR A SUSTAINABLE BUILT ENVIRONMENT BREEAM ES

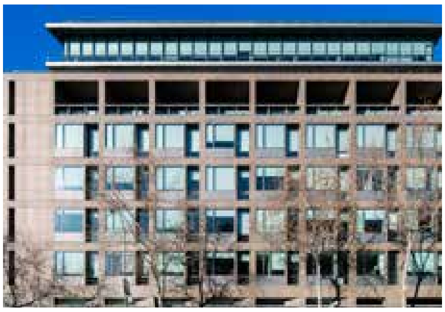


## 23 Ortega y Gasset 100

Office building located in the Madrid business district in the heart of the Salamanca district, the zone with the highest commercial prestige of the city, where the main blue chip companies of the moment can be found. This building, with its unique façade and perfect structure for offices, has seven floors designed for office space with a total surface area of 7,800 sq m with spaces larger than 1,000 sq m per floor. The building also has its own parking spaces. Perfectly connected by bus and metro and close access to the M-30.

## 24 Don Ramón de la Cruz 82

A large corner office building with high visibility, it has a GLA of 9,339 sq m, as well as an underground car park with 91 parking spaces. Large areas per floor of 2,100 sq m and 3.4 m free height per floor. Exceptional building in central Madrid, close to Serrano, Velázquez and Paseo de la Castellana. The building was completely restored in the first half of 2017 and is LEED Platinum environmentally certified. Its characteristic curtain wall façade provides floor-to-ceiling windows that provide abundant natural light.



## 25 Alfonso XII 62

This unique office building is located in the very heart of Madrid, opposite the Retiro park and scarcely a few metres from the Castellana thoroughfare. Its large windows, in addition to offering breathtaking views of Madrid, guarantee natural light in an open and versatile space, designed to create an optimum working environment. The eight floors at Alfonso XII 62 offer multiple and excellent possibilities: the first four can be subdivided into two modules, thus creating two independent office zones. It's structure allows the space to be distributed according to the current and future needs of each company. The common areas, crowned by a magnificent glass atrium, are attractively designed using materials of the highest quality. These offices to let also have a car park in the same building.

## 26 Santa Hortensia 26-28

Located in downtown Madrid in an area adjacent to Avenida de América, Santa Hortensia is one of Madrid's seven largest buildings. It is currently home to IBM's headquarters in Spain. Built in 1989, it has a surface area of 46,928 sq m divided up between 10 above-ground floors and nearly 950 parking spaces in three below-ground floors. The Santa Hortensia building is ideally located, just five minutes by car from the Paseo de la Castellana, Madrid's main artery, 10 minutes by car from the airport and 5km from the Atocha railway station. The building has 13 lifts, four of which are central lifts.

## 27 Campus Méndez Álvaro

The Méndez Álvaro Campus is a Colonial project that incorporates all of the latest real estate trends in terms of energy efficiency, layout, mix of uses and PropTech initiatives. Located in the south of Madrid's CBD and just a stone's throw from Atocha train station, the project comprises an above-ground area of 90,000 sq m. The area benefits from excellent public and private transport links – it is within walking distance of Madrid city centre, is served by several train lines and bus routes, and also boasts easy access to the M-30. Construction is due to commence in mid-2019.

## 28 Ramírez de Arellano 37

A perfectly located building at the junction of the M-30 with Avenida de América, a well established area just minutes away from the airport and city centre. Its configuration, architectural design and strategic location are, without a doubt, a point of reference of Madrid's urban landscape. It offers fully open plan spaces, which are functional and totally exterior, as well as its own car park, which makes it ideal as a corporate headquarters.

## 29 Ramírez de Arellano 15

Independent office building completely renovated in 2016, with high standards, and which has been awarded the LEED Gold certification. The building, located on Madrid's A-2 motorway, has 6,832 sq m of office space, distributed over a ground floor and six upper floors. The surface area of each floor is approximately 1,025 sq m, and can be divided into two modules. The building also has an underground car park with 112 parking spaces.

## 30 MV49 Business Park

At calle Martínez Villergas, 49, next to the junction of the M-30 with Avenida América, stands this property complex comprising two independent buildings, M and V, separated by an open air square. The breathtaking façades of this Business Park, exposed to the four winds, exalt the privileged position of this office complex in Ciudad Lineal. With gardens, world class sports facilities, its own parking spaces and a strategic location a few minutes from the airport. Furthermore, the offices to let at the Business Park at calle Martínez Villergas 49 have been constructed using material compliant with current regulations, with first class functionalities and open plan spaces that stand out from other architectural groups in the zone. As a result of the complete retrofit of building M and the construction of building V, a complex equipped with finishes and technical characteristics of the highest quality has been achieved.

## 31 Arturo Soria 336

Arturo Soria 336 has an excellent location in an iconic Street in Madrid, near transport links to the city centre and the main arteries in Madrid. It is surrounded by extensive green areas and a wide variety of services. The white exterior gives it visibility and representativeness. In addition, the spacious interior patio as well as the four glass facades bring great luminosity into the interior areas. The size and design of the floors, with a surface area of 1,045 sq m, enables the optimization of space.

## 32 Josefa Valcárcel 24

A seven-storey, independent office building with an average floor area of 700 sq m and an access level of almost 1,500 sq m. Located in the consolidated office area of the A2 motorway-M30 ring road, a strategic location thanks to its proximity to the central business district and the airport. With 90 parking spaces, it is highly visible from the A2 and is currently Honeywell's headquarters in Spain.

## 33 Josefa Valcárcel 40 bis

New seven-floor independent office building, with 8,824.70 sq m of total surface area above ground level. Located between the M-30 and M-40 ring roads, with a facade on the A-2 and access from Josefa Valcárcel and Telémaco streets. It is a consolidated strategic office environment, which stands out due to its visibility from the A-2 motorway. The building has a classical façade composition, and has floors which are stepped upwards. The plot has landscaped areas on both sides of the building, and a parking lot for visitors on the south side of the plot. It has prime finishes and LEED Platinum sustainability certification.

## 34 JILT 7

This exceptional building, which hosts the headquarters of Vocento, the Spanish communications group, has a GLA of 10,147 sq m. It is made up of three sections joined together; two of them with three floors and a basement and another one with a mezzanine floor (library), the connecting section between them is the main communication hub with the central staircase and the lifts. The building offers excellent visibility from the A2 motorway and a strategic location due to its proximity to the city centre and the airport.

## 35 Alcalá 506

Independent office building located on Calle Alcalá, one of the main arteries of Madrid. The building has a large area per floor of approximately 1,400 sq m, a commercial area on the ground floor and an underground car park with 185 parking spaces.

## 36 Tucumán

Independent office building built in 2006, located in the Campo de las Naciones area. It has five floors of offices of approximately 1,000 sq m each, as well as a large commercial area of 1,241 sq m and an underground car park with 170 parking spaces. The building enjoys excellent visibility and a good level of natural light due to its outstanding corner position.

## 37 Ribera del Loira 28

Modern office building built in 2002 and located in a prominent area off the M40 ring road in Madrid's Campo de las Naciones office area. The six-storey building has 12,822 sq m of U-shaped space distributed around a central atrium. It is equipped with 370 parking spaces distributed in two underground floors.

## 38 Egeo Building

The Egeo building has been recently refurbished and is located at 4-6 Partenón Avenue, an excellent location in the periphery of Madrid. It is also well-connected by public transport. It is distributed in two independent wings connected by an attractive central hall, which provides a lot of light to all of the common areas and the interior of the entire building, thanks to a large glass dome. In this luminous central hall where both wings come together, the elevator and escalator halls are located, which provide access to all the floors in the building. The fully glazed facade enables natural light to reach the interior of the offices, and the spaciousness and flexibility of the floors, divisible into up to 8 modules, make it possible to accommodate various users.

## 39 Puerto de Somport 8

A singular, independent building built in 2011. The offices are located on the first, second and third floors, while the ground floor hosts a car dealership. Located in the area of Las Tablas in Madrid, with an excellent location and surroundings with residential properties and business areas.

## 40 Puerto de Somport 10-18

New project under construction for a complete business campus located in the office area of Las Tablas in Madrid, very close to the A1 motorway. On a plot of 17,300 sq m, it has a surface area of over 23,200 sq m on four floors above ground level with an additional 22,200 sq m on two basement floors for two car parks with a total of 529 parking spaces. The campus is divided into two buildings joined by a portico, enabling the whole complex to be used in a very flexible way. The outdoor areas have meeting spaces, outdoor work areas, resting or exercise areas, a running track and each building also has exterior terraces that look on to the office areas. In terms of both habitability and functionality, the building has passed the Spanish Technical Building Code requirements for the WELL Gold and LEED Platinum certification.

## 41 Avenida de Bruselas 38

A large, independent, high-quality office building, offering flexible, bright office space with 2,827 sq m of floor space per storey, as well as 323 parking spaces on four underground floors and 41 outside parking spaces. Excellent visibility from the A1 motorway, and a possible ideal location for potential corporate headquarters. Located in the Arroyo de la Vega business area, the closest to the CBD of Madrid and the residential area of La Moraleja.

## 42 Francisca Delgado 11

Complex built in 2001 and designed by the architect Rafael de la Hoz, consisting of three interconnected buildings. It has five floors and provides flexible office space with modules from 300 to 3,000 sq m. The car park is distributed in two underground floors and has 334 parking spaces, with another 77 outside. The building has great visibility and is located in the Madrid office area of Arroyo de la Vega on the A1 motorway.

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## 43 Cedro

Singular office building, located in the Madrid office area of Arroyo de la Vega on the A1 motorway, and which currently hosts the headquarters of Capgemini in Spain. The building has four floors. It has wide and open spaces with an average surface area per floor of 2,310 sq m, and 381 parking spaces distributed in two levels.

# Paris

## 1 96 IÉNA

“An unparalleled view of the Arc de Triomphe”. This six-storey property in a prime location just off the Place de l’Etoile boasts an interior courtyard and terraces offering exceptional views of the Arc de Triomphe. The site’s uniqueness is augmented by three street-facing façades, affording it a rare degree of visibility. With its highly-functional, flexible units of around 1,200 sq m, the Iéna building has it all. The lease with Générale de Santé on 3,567 was renewed in 2009.

## 2 Galerie des Champs-Élysées

“A symbol for renovated space in Paris”. The Galerie des Champs-Elysées shopping arcade enjoys one of the most prestigious locations in Paris, on the sunny side of the Champs-Elysées in the most well-patronized section of the avenue. Redesigned by Jean Nouvel, the fully renovated property has been given a sleek new look based on a stripped back Haussmann style brought right up to date with modern black light fittings and escalators. It has been chosen by H&M for their 2,800 sq m international flagship store.

## 3 90 Champs-Élysées

“Strong value creation potential”. Located above the Galerie des Champs-Élysées shopping arcade, this contemporary building features a freestone façade over its original skin of the type used for the most stunning Haussmann-style buildings recently transformed by Jean Nouvel. Each floor offers 1,200 sq m of bright, spacious offices. Soon to be redeveloped, the finished building will feature an exterior lighting system designed by Yann Kersalé.

## 4 Washington Plaza

"In the heart of the Central Business District". Located just off the Champs-Elysées on an 8,000 sq m plot, Washington Plaza is one of the capital's finest office complexes, standing out for the quality of its amenities and the functionality of its units. Inside the complex, the Monceau and Artois buildings can be divided into open floor plates of 1,100 sq m, allowing a variety of possible layouts. Particular attention was paid to the services and amenities. In line with the current requirements of the Paris rental market, these include a staff restaurant, a cafeteria, reception and concierge services, an onsite property manager, a large parking garage and a building management system (BMS).

BREEAM ES

## 5 92 Champs-Élysées Ozone

"An emblematic building". Home to Thomas Jefferson during his 1785-1789 stay in Paris, this is one of the best-situated buildings on the Champs-Elysées, on the corner of rue de Berri. It comprises retail units on the ground floor and offices on the upper floors. Extensive renovation work began in May 2010 to restore the building to its former glory and create HQE®-certified, prime office space.

BREEAM ES NF HQE®

## 6 Cézanne Saint-Honoré

"A private street a stone's throw from Place de l'Etoile". This exceptional office, retail and residential complex is comprised of two separate buildings located across from one another on either side of a 100-metre long, 15-metre wide private street in the heart of the capital's historic business district. Delivered in March 2005 after exemplary restoration work, the 1930s building has the advantage of longer load bearing spans that obviate the need for internal structural walls and allow for large, functional units. The Cézanne Saint-Honoré complex was honoured by two awards in 2004 and 2005 and is one of SFL's finest assets.

BREEAM ES

## 7 9 Avenue Percier

Acquired in 2015, 9 Percier is an 6,700 sq m office building in the heart of the Paris Central Business District. Is a multi-tenant assets principally leased to the EDF Foundation (31%). It benefits from excellent intrinsic qualities (Art Deco building, historic courtyards, double lobby, 900 sq m floorplates, exceptionally high ceilings, abundant natural light, etc.) and offers potential to create value through the optimisation of the rental situation (leasing of three vacant floors, improvements to remaining lease terms).

BREEAM ES

## 8 104-110 Haussmann Saint-Augustin

"A very high quality office complex". Through a two-year redevelopment project completed in 2007, SFL transformed four separate buildings on boulevard Haussmann into a luxury office complex offering optimum working conditions. With a total surface area of around 13,000 sq m on seven floors, the complex is designed around a vast central entrance hall flooded with natural light from a glass roof. It also features an 82-metre long freestone façade.
The use of natural, noble materials creates warmth and architectural beauty, while the elegant interior decoration scheme blends classic and contemporary design.

## 9 Edouard VII

"One of the capital's business landmarks". Built on a 1.5-hectare plot, the Haussmann-style Édouard VII complex is located between Opéra Garnier and La Madeleine, just off the boulevard des Capucines. Its location in the heart of one of Paris's liveliest neighbourhoods and its impressive architectural style – the result of extensive remodelling – make this property a fabulous showcase. The complex features several independent buildings with a private reception area, staff restaurant and upscale restaurant and lounge bar.

## 10 6 Hanovre

"In the centre of the financial district". This very fine 1908 building by the architect Adolphe Bocage is registered in the Supplementary List of Historical Monuments. The vast lobby leads to a majestic horseshoe staircase, while the Art Deco facade features rectangular bays on the third floor and bow windows above. Alexandre Bigot did the sandstone veneer over concrete in the facade, in the lobby and the stairwell. The building is located in the financial district, near to Palais Garnier and Palais Brongniart, and is being painstakingly renovated to offer bright, well laid-out office space.

## 11 #Cloud

"Refurbishment project underway". "A unique three-building complex". #cloud. paris is a three-building complex within short walking distance of the Palais Brongniart and Palais Garnier in Paris's financial district. When the building's occupant, a major French bank, moved out in mid-2012, work began on a major redevelopment project to create a unique working environment based on modern, flexible office space and prestigious services and amenities such as a business centre, concierge, a restaurant and fitness rooms.

## 12 Louvre Saint-Honoré

“A prime location”. This building offers large, 5,400 sq m functional units in a prime location near the Louvre museum. Since extensive renovations were completed in late 2010, the property delivers a technical performance in line with the highest international standards along with premium amenities including a staff restaurant and round-the-clock security. SFL is part of the initiative of the process “The new Louvre des Antiquaires”, presented to antique dealers to reinvent the Louvre des Antiquaires in a more focused and prestigious way to make it an attractive place for life and trade.

## 13 131 Wagram

“A media centre”. The 131 Wagram building is located halfway between Parc Monceau and Place de l’Etoile on the corner of rue de Prony. The office floors consist of bright 800 sq m units with modular fixtures, and the building also comprises an auditorium and a staff restaurant. The whole of the building’s interior was fully renovated in 2004-2005.

## 14 112 Wagram

“Exceptional working conditions”. Located between Place de l’Etoile and Porte de Champerret, the building at 112 avenue du Wagram boasts elegant industrial architecture, contemporary interior design, noble materials and impressive volumes, with ceiling heights of nearly four metres on the first and second floors, three vast terraces, a courtyard and an atrium garden planted with trees. Behind a mixed façade of bricks and glass lies a completely new office building that offers bright, modular, high-performance units of more than 1,100 sq m.

## 15 176 Charles de Gaulle

“An outstanding site”. Located on the thoroughfare linking the Étoile to La Défense, this building has a courtyard-facing facade looking out over landscaped gardens. The building comprises office space and a large retail space on the ground floor.

## 16 4-8 Rue Condorcet

Located within the 9th district, the property is situated in Paris Centre West in close proximity to the Central Business District of Paris and important transport hubs. The property was constructed at the end of the XIXth century and comprises 7 buildings. It benefits from a visible location bordered by 4 streets: rue de Maubeuge, rue Condorcet, rue Pétrelle, and rue du Faubourg Poissonnière. The overall character of the property is still heavily influenced by these historical features. The interior of the buildings includes a large number of neoclassical features, such as sculpted columns, painted ceilings, marble coated walls and wood paneling. The quality of the buildings is enhanced by the historic staircase of central building and the large accessible inner courtyard. Constructed in 1863 under the architect Léon-Armand Darru, the building benefits from a rich architectural heritage and is the historical site of the GDF Group which has occupied it since its construction.

## 17 Rives de Seine

"Effortless access". Located on the banks of the Seine close to the Gare de Lyon train station and public transport hub, this property is emblematic of the revival of the Eastern Paris commercial property market.  Built in 1974, it features 16 floors rising above a vast lobby that overlooks the river. The building was extensively renovated in 2000 to create modern, well-lit and highly modular 1,200 sq m office units. The extension of the lease with Natixis in 2009 has secured future revenues from the investment.

## 18 Le Vaisseau

"An imaginative design concept". Located on Île Saint-Germain, Le Vaisseau owes its name (the Vessel) to its unusual shape. The façade was inspired by naval architecture, with a moveable roof that can open upwards along its entire length. Designed by the architect Jean Nouvel and completed in 1992, the 6,000 plus sq m structure features an imaginative design concept that evokes "A vessel moored to the island". Purchased in 2006, the entire site was recently renovated to seamlessly reintegrate the building into its surroundings by reinterpreting the original concept.

## 19 112-122 Av. Emile Zola

At the beginning of 2017, The Colonial Group completed a transaction for €165m, though its French subsidiary, to acquire the historical headquarters of the SMA Group. This building stands at a prime location at 112-122 Avenue Emile Zola, in the centre of district 15 in Paris. The building has a surface area of approximately 21,000 sq m. SMA will move to a new headquarters in the fourth quarter of 2017, at which time the Colonial Group will restructure the building to transform it into one of the largest office complexes in the South of the French capital. The project will have 1,400 sq m of office space with great luminosity and efficient functionality. There will be a double entrance, optimizing the divisibility and with a wooded garden surrounding the building.

## 20 103 Grenelle

"A new business centre on the Left Bank". Located in the Left Bank district that is home to many government offices, this historical complex is dominated by a tower that housed the first Chappe telegraph system in the 19th century and, until recently, the headquarters of the French Telephone and Telegraph Administration. Delivered in mid-2009 following its extensive two-year renovation, the building represents nearly 20,000 sq m of prime rental office space with HQE® certification. It offers a choice between more traditional partitioned areas and larger units of more than 1,500 sq m in the tower, suitable for an open plan or mixed layout. The complex also offers high-level amenities.

# Logistic & others

### 1 San Agustín de Guadalix

A logistics warehouse built in 2001, it is in excellent condition and has two adjacent modules with a total GLA of 14,945 sq m (including 445 sq m office space) and 24 loading bays.

### 2 Rivas Vaciamadrid

A modern strategically-located logistics platform that has been renovated recently and holds a BREEAM certification. The warehouse, one of the best quality logistics assets in this area of the A3, has a modern and flexible space, with a clear height of 10 meters, parking spaces, and 34 loading bays. The property is composed of two buildings, making the space more flexible.

### 3 San Fernando I

Grade A, state of the art logistics park. Currently under construction, due for completion in 2017 with LEED Gold CS certification. The complex comprises 130,000 sq m (built), and features two logistics warehouses with four modules in each, and one cross-docking warehouse with two modules. The platform totals 73,464 sq m of GLA, as well as 700 parking spaces.

## 4 San Fernando II

Located in the newly developed San Fernando Industrial Estate, the closest location to central Madrid in the Corredor del Henares, one of the most important logistics hubs in Spain. The complex is located at the intersection of the A2 motorway (Madrid-Barcelona) and the M45, just 18 km from the city centre and a 9 minute drive from the airport.

## 5 Alcalá de Henares

High specification and Class A logistics warehouse, located in one of the most important logistic enclaves in Madrid. It has a GLA of 8,972 sq m on an independent site located in an area that is characterised by a wide range of industrial and logistics areas. Built to the highest technical and safety standards, it offers 9 loading bays, large turning radius and office space. It has parking spaces, two independent entrances and fully equipped offices with separate entrances.

## 6 Camarma de Esteruelas

State-of-the-art logistics warehouse built in 2002 in one of the most modern industrial parks in the east of Madrid. The warehouse, which underwent further expansion in 2004, has a total GLA of 70,296 sq m (including 1,256 sq m of office space) and 106 loading bays. It is a logistics platform with high technical specifications, built under exacting standards in terms of construction quality, functionality and safety.

## 7 Azuqueca I

Prime logistics warehouse with a total GLA of 35,781 sq m and 28 loading bays. Built to the highest standards and in excellent condition. With 28 loading bays, it is located in a strategic enclave with the best road and rail connections with Spain's main cargo ports.

## 8 Azuqueca II

Extraordinary state-of-the-art warehouse located on a separate plot with private parking (144 spaces). It has a total GLA of 19,064 sq m and one of the logistics warehouses can be divided into two modules. The warehouse is 11.83 m high and has plenty of natural light. It has a total of 18 loading bays and two access ramps.

## 9 Cabanillas

Newly built, modern and efficient logistics facilities. With a GLA of 37,879 sq m and 30 loading bays, this is an attractive office space surrounded by a landscaped area and many parking spaces. Integrated in the Henares Corridor, the most important logistics centre in Spain, it has modern and efficient recently built logistics facilities that offer great visibility from the R-2 toll motorway.

## 10 Valls

High quality logistics warehouse built in 2003, located in a consolidated industrial estate. Built to exacting standards in terms of construction quality, functionality and security, it has two adjoining units with a total GLA of 26,026 sq m (including a special office space of 775 sq m) and 36 loading bays.

## 11 Constantí

Modern and efficient, state-of-the-art A-class logistics complex, built in 2008 to the highest standards in terms of materials, functionality, technical features and tenant security. It has two warehouses of approximately 21,000 sq m each, both of which can be divided into two independent modules, and 38 loading bays. The complex also has 230 parking spaces.

## 12 Dos Hermanas

Magnificent logistics platform, strategically located in one of the best logistics areas of Seville, with recently modernised facilities, and which meet the regulatory requirements of a high-performance operator. The warehouse boasts a total GLA of 42,466 sq m and 54 loading bays. The platform is Carrefour's distribution centre for Andalusia, the Canary Islands and Extremadura.

## 13 Las Mercedes Open Park

Complex of commercial warehouses, recently developed (2015), which has three independent units with a total of 21,111 sq m of GLA, in addition to 540 outdoor parking spaces. A unique retail business complex in Madrid, fully leased to major international operators, including Bauhaus and Aldi.


## 14 Les Gavarres

Commercial warehouse located in the Les Gavarres retail park in Tarragona (Catalonia). The asset is a single-storey building with a commercial GLA of 12,413 sq m and 352 parking spaces. It is a well established retail park with operators such as Carrefour, Leroy Merlin, Decathlon and Media Markt.


## 15 Viapark

Retail park, located in a high-traffic area between Almeria and Roquetas de Mar. The complex has a very solid construction and specifications and includes four units with large windows and a considerable height. It has 1,500 parking spaces and its main operators are Decathlon, Carrefour and Bricomart. The park includes a range of high quality services, including a BP service station and a Burger King restaurant.

# 10 Strategy for the future

# 10. Strategy for the future

Currently, Colonial is the benchmark REIT in the high-quality office market throughout Europe and has been listed in the IBEX 35, the Spanish benchmark stock market index, since the end of June 2017.

The company has a stock market value of approximately EUR 5,000 million, with a free float of around 60%, and manages assets worth in excess of EUR 11,000 million.

The company's strategy focuses on creating industrial value through the creation of top-quality prime products, through the repositioning and transformation of real estate assets.

In particular, its strategy is based on the following:

> A business model that focuses on the transformation and creation of high-quality offices in prime locations, mainly central business districts (CBD).

> Firm commitment to the creation of offices that meet the most demanding market requirements, with a special emphasis on efficiency and sustainability.

> A pan-European strategy, diversified in the Madrid, Barcelona and Paris office markets.

> An investment strategy combining core acquisitions and prime factory acquisitions with value added components.

> A clear industrial real estate approach to capture value that exceeds the market average.

Today, Colonial is a leading company in Europe that focuses on areas in city centres and leads the Spanish property market in terms of the quality, sustainability and efficiency of its office portfolio.

Moreover, it has adopted a comprehensive approach in all areas of corporate social responsibility and aspires to meet the highest standards of (1) sustainability and energy efficiency, (2) corporate governance and transparency, and (3) excellence in human resources and social actions, making them an integral part of the Group's strategy.

In the past four years, the Group has increased its capital rotation rate, maximising shareholder returns, based on active portfolio management practices. In addition, it has rolled out its acquisition programme with success, making investments worth over EUR 2,700 million (committed amounts including future CapEx) and has sold non-strategic assets for a value of over EUR 900 million. Likewise, with the acquisition of Axiare, it acquired an asset portfolio worth over EUR 1,700 million (value as of November 2017).

All acquisitions correspond to assets in excellent locations with good fundamentals, with a potential for additional returns through property repositioning and always in compliance with the applicable financial regulations.

It has a solid capital structure and one of the highest ratings in the Spanish sector.

The company's strategy is to consolidate itself as a leader in prime office rentals across Europe, with special emphasis on the Barcelona, Madrid and Paris markets:

> A solid capital structure with a firm commitment to maintaining the highest credit rating standards.

> Investment grade.

> Attractive returns for shareholders, based on recurring returns combined with the creation of real estate value based on value added initiatives.

# 11 About the Report

# 11. About the Report

Colonial's 2018 Integrated Annual Report incorporates the contents of the business strategy, corporate governance and current performance and future projections, and is the organisation's fifth publication in the area of Corporate Social Responsibility.

## Characteristics of the Report

### STANDARDS CONSIDERED WHEN DRAWING UP THE 2018 INTEGRATED ANNUAL REPORT

This 2018 Integrated Annual Report of the Colonial Group, has been produced on the basis of the methodology of the International Integrated Reporting Council (IIRC).

The Colonial Group recently adhered to the UN Global Compact and declares that this report constitutes its 2018 Global Compact Progress Report.

The 2018 Integrated Annual Report incorporates, in addition to the information contained in the annual reports in the context of previous years, all information on performance in Environmental, Social and Governmental Matters, as well as the comparison with 2017 in order to be able to see the progression of the company.

For this purpose, the company has used the standards of the Global Reporting Initiative (GRI), in its basic version, for the preparation of sustainability reports, a leading model in the preparation of CSR reports and the new version of the EPRA (European Public Real Estate Association) Sustainability Best Practices Recommendations Guidelines. Along these lines, Inmobiliaria Colonial has carried out a study in order to be able to adapt to the best market practices in terms of reporting.

For this purpose, first a new materiality study was conducted, covering all Environmental, Social and Governance (ESG) aspects that may affect the Company and, especially, its stakeholders, paying special attention to the Company's commitments to them.

The main objective of the Report is to inform all stakeholders of Colonial's involvement in CSR in 2018, along with its objectives for 2019.

| Material aspect | Stakeholder | GRI Indicators | EPRA sBPR | Boundary | Chapter |
|---|---|---|---|---|---|
| **Environment** | | | | | |
| 1. Emissions management and efficiency | Society<br>Customers | GRI 305-1<br>GRI 305-2<br>GRI 305-3<br>GRI 305-4<br>GRI 305-5 | GHG-Dir-Abs<br>GHG-Indir-Abs<br>GHG-Int | Internal and external | 6. Eco-efficiency |
| 2. Impaction reduction | Society | GRI 301-1<br>GRI 301-2<br>GRI 303-1<br>GRI 303-2<br>GRI 306-1<br>GRI 306-3 | Water-Abs<br>Water-LFL<br>Water-Int | Internal | 6. Eco-efficiency |
| 3. Waste management | Society<br>Customers<br>Vendors<br>Employees | GRI 306-2 | Waste-Abs<br>Waste-LFL | Internal | 6. Eco-efficiency |
| 4. Responsible energy consumption and efficiency | Society<br>Customers | GRI 302-1<br>GRI 302-2<br>GRI 302-3<br>GRI 302-4<br>GRI 302-5 | Elec-Abs<br>Elec-LFL<br>DH&C-Abs<br>DH&C-LFL<br>Fuels-Abs<br>Fuels-LFL<br>Energy-Int | Internal | 6. Eco-efficiency |
| 5. Environmental management systems | Society<br>Customers<br>Vendors<br>Employees | | Cert-Tot | Internal | 6. Eco-efficiency |
| 6. Biodiversity conservation | Society | GRI 304-1<br>GRI 304-2<br>GRI 304-3<br>GRI 304-4 | | Internal and external | 6. Eco-efficiency |
| **Commitment to the local Community** | | | | | |
| 7. Commitment to the local community | Society | GRI 102-12<br>GRI 102-13<br>GRI 413-1<br>GRI 413-2 | Comty-Eng | Internal and external | 7. Relationship with the Community |
| 8. Respect for Human Rights | Society | GRI 412-1<br>GRI 412-2<br>GRI 412-3 | | Internal and external | 4. Responsible Business |
| 9. Sustainability management | Society | GRI 102-29<br>GRI 102-30<br>GRI 102-31<br>GRI 102-32 | | Internal and external | 4. Responsible Business |
| **Customer relations** | | | | | |
| 10. Customer satisfaction and management | Customers | GRI 102-43<br>GRI 102-44<br>GRI 416-1<br>GRI 416-2<br>GRI 418-1 | H&S-Asset | Internal and external | 3. Customer Management |

| Material aspect | Stakeholder | GRI Indicators | EPRA sBPR | Boundary | Chapter |
|---|---|---|---|---|---|
| **Team of professionals** | | | | | |
| 11. Occupational health and safety | Employees | GRI 403-1<br>GRI 403-2<br>GRI 403-3<br>GRI 403-4 | H&S-Emp<br>H&S-Comp | Internal and external | 5. Team of Professionals |
| 12. Equality and diversity | Employees | GRI 405-1<br>GRI 405-2<br>GRI 406 | Diversity-Emp<br>Diversity-Pay | Internal | 5. Team of Professionals |
| 13. Human Resources Management | Employees | GRI 102-8<br>GRI 401-1<br>GRI 401-2<br>GRI 401-3<br>GRI 402-1<br>GRI 404-1<br>GRI 404-2<br>GRI 404-3 | Emp-Training<br>Emp-Dev<br>Emp-Turnover | Internal | 5. Team of Professionals |
| **Supply Chain** | | | | | |
| 14. Supply Chain Management | Vendors | GRI 102-9<br>GRI 204-1<br>GRI 308-1<br>GRI 308-2<br>GRI 414-1<br>GRI 414-2 | | Internal and external | 5. Team of Professionals |
| **Good Governance** | | | | | |
| 15. Corporate Governance | Society<br>Customers<br>Employees<br>Shareholders and Investors | GRI 102-16<br>GRI 102-17<br>GRI 102-22<br>GRI 205-1<br>GRI 205-2<br>GRI 205-3<br>GRI 307-1<br>GRI 415-1<br>GRI 419-1 | Gov-Board<br>Gov-Select<br>Gov-Col | Internal | 1. Shareholder structure and Corporate Governance |
| 16. Risk Management | Society<br>Customers<br>Employees<br>Shareholders and Investors | GRI 102-15<br>GRI 102-30 | | Internal | 1. Shareholder structure and Corporate Governance |
| **Stakeholder Engagement** | | | | | |
| 17. Stakeholder Relations | Society<br>Vendors<br>Customers<br>Employees<br>Shareholders and Investors | GRI 102-21<br>GRI 102-40<br>GRI 102-42<br>GRI 102-43<br>GRI 102-44 | Comty-Eng | Internal and external | 4. Responsible Business |
| **Investor Relations** | | | | | |
| 18. Generating value for shareholders | Shareholders and Investors | GRI 201-1<br>GRI 201-3 | | Internal and external | 1. Shareholder structure and Corporate Governance |

## Corporate Publications

This report forms part of the transparency exercise undertaken by the Colonial Group and is made available along with four other reports published by Colonial providing information on the initiatives undertaken in 2018.

**2018 Colonial Group Corporate Governance Report**

http://www.inmocolonial.com/

**2018 Annual Results**

http://www.inmocolonial.com/

**2018 Annual Results**

http://www.fonciere-lyonnaise.com/

**2018 Non-Financial Information SFL**

http://www.fonciere-lyonnaise.com/

### CALCULATION METHODOLOGIES

The references to calculate the Colonial Group's $CO_2$ emissions used the calculation methodology and the emission rates established by the International Energy Commission, the database of the French Environment & Energy Management Agency and the recommendations of the European Public Real Estate Association, version 2.0.

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# GRI content index & EPRA BPR'S

## Universal Standards

| General contents | Description | Page(s) | Boundary |
|---|---|---|---|
| **Organisational profile** | | | |
| GRI 102-1 | Name of the organisation | Inmobiliaria Colonial, SOCIMI, S.A. | Colonial Group |
| GRI 102-2 | Activities, brands, products and services | 56-59, 62-63, 74-81, 170-179 | Colonial Group |
| GRI 102-3 | Location of headquarters | Headquarters in: Paseo de la Castellana nº 52 (Madrid, Spain) | Colonial Group |
| GRI 102-4 | Location of operations | 4-5, 170-179 | Colonial Group |
| GRI 102-5 | Ownership and legal form | 32 | Colonial Group |
| GRI 102-6 | Markets served | 4-5, 58-59, 62, 170-179 | Colonial Group |
| GRI 102-7 | Scale of the organisation | 4-5, 112, Financial Statements | Colonial Group |
| GRI 102-8 | Information about employees and other workers | 112, 113 | Colonial Group |
| GRI 102-9 | Supply Chain | 100-101, 122-123 | Colonial Group |
| GRI 102-10 | Significant changes to the organisation and its supply chain | 14, 32, 74, 86 | Colonial Group |
| GRI 102-11 | Precautionary principle or approach | 126-128 | Colonial Group |
| GRI 102-12 | External initiatives | 106, 158-159 | Colonial Group |
| GRI 102-13 | Membership of associations | 158-159 | Colonial Group |
| **Strategy** | | | |
| GRI 102-14 | Statement from senior decision-maker | 8-11 | Colonial Group |
| GRI 102-15 | Key impacts, risks, and opportunities | 24-26, 220 | Colonial Group |
| **Ethics and integrity** | | | |
| GRI 102-16 | Values, principles, standards and norms of behaviour | 27 | Colonial Group |
| GRI 102-17 | Mechanisms for advice and concerns about ethics | 27 | Colonial Group |
| **Governance** | | | |
| GRI 102-18 | Governance structure | 15-20, 30-31 | Colonial Group |
| GRI 102-19 | Delegating authority | 18, 103-105 | Colonial Group |
| GRI 102-20 | Executive-level responsibility for economic, environmental and social topics | 15-26 | Colonial Group |
| GRI 102-21 | Consulting stakeholders on economic, environmental, and social topics | 107 | Colonial Group |
| GRI 102-22 / EPRA-Gov-Board | Composition of the highest governance body and its committees | 15-20, Chapter C IAGC 2018 | Colonial Group |
| GRI 102-23 | Chair of the highest governance body | 16, Chapter C IAGC 2018 | Colonial Group |
| GRI 102-24/ EPRA-Gov-Selec | Nominating and selecting the highest governance body | 15-16, Chapter C IAGC 2018 | Colonial Group |
| GRI 102-25/ EPRA-Gov-Col | Conflicts of interest | 29, Chapter D.6. IAGC 2018 | Colonial Group |

### ▼ Universal Standards

| General contents | Description | Page(s) | Boundary |
|---|---|---|---|
| GRI 102-26 | Role of highest governance body in setting purpose, values and strategy | 15-20, 103 | Colonial Group |
| GRI 102-27 | Collective knowledge of highest governance body | Chapter C.1.3. IAGC 2018 | Colonial Group |
| GRI 102-28 | Evaluating the highest governance body's performance | 21-22, Chapter C.1.17 IAGC 2018 | Colonial Group |
| GRI 102-29 | Identifying and managing economic, environmental and social impacts | 24-26, 102-105 | Colonial Group |
| GRI 102-30 | Effectiveness of risk management processes | 24-26 | Colonial Group |
| GRI 102-31 | Review of economic, environmental and social topics | 24-26, 102-105 | Colonial Group |
| GRI 102-32 | Highest governance body's role in sustainability reporting | Colonial Group Board of Directors | Colonial Group |
| GRI 102-33 | Communicating critical concerns | 107 | Colonial Group |
| GRI 102-34 | Nature and total number of critical concerns | No communications received about critical concerns in 2018 | Colonial Group |
| GRI 102-35 | Remuneration policies | 22-23 | Colonial Group |
| GRI 102-36 | Process for determining remuneration | 22-23 | Colonial Group |
| GRI 102-37 | Stakeholders' involvement in remuneration | 22-23, Chapter C IAGC 2018 | Colonial Group |
| GRI 102-38 | Annual total compensation ratio | There are no reporting processes available for this information | Colonial Group |
| GRI 102-39 | Percentage increase in annual total compensation ratio | There are no reporting processes available for this information | Colonial Group |
| **Stakeholder engagement** | | | |
| GRI 102-40 | List of stakeholder groups | 107 | Colonial Group |
| GRI 102-41 | Collective bargaining agreements | 121 | Colonial Group |
| GRI 102-42 | Identifying and selecting stakeholders | 102, 107, 225 | Colonial Group |
| GRI 102-43 | Approach to stakeholder engagement | 102, 107 | Colonial Group |
| GRI 102-44 | Key topics and concerns raised | 102, 225 | Colonial Group |
| **Reporting practices** | | | |
| GRI 102-45 | Entities included in the consolidated financial statements | 32, Financial Statements | Colonial Group |
| GRI 102-46 | Defining report content and topic boundaries | 102, 224-225 | Colonial Group |
| GRI 102-47 | List of material topics | 102, 225-226 | Colonial Group |
| GRI 102-48 | Restatements of information | Each case has been identified through direct notes | Colonial Group |
| GRI 102-49 | Changes in reporting | 102 | Colonial Group |

### ▼ Universal Standards

| General contents | Description | Page(s) | Boundary |
|---|---|---|---|
| **Report profile** | | | |
| GRI 102-50 | Reporting period | Natural year 2018 | Colonial Group |
| GRI 102-51 | Date of most recent report | Natural year 2017 | Colonial Group |
| GRI 102-52 | Reporting cycle | Annual | Colonial Group |
| GRI 102-53 | Contact point for questions regarding the report | 227 | Colonial Group |
| GRI 102-54 | Claims of reporting in accordance with the GRI Standards | 224 | Colonial Group |
| GRI 102-55 | GRI content index | 230-242 | Colonial Group |
| GRI 102-56 | External assurance | Only the environmental information from France was verified by an independent third party. This verification included the following topics:<br>1. Occupation of surfaces and density of occupation.<br>2. Number of certifications in use of BREEAM and percentage with a Very Good or higher rating level.<br>3. Number of assets with BREEAM certifications in use and percentage of portfolio in square meters by type and level of certification.<br>4. Waste generated in tonnes (non-hazardous industrial waste, paper and cardboard).<br>5. Water consumption and intensity (common areas and combined tenants).<br>6. Energy consumption by type and energy intensity.<br>7. GHG emissions by use and energy intensity.<br>8. Planted and landscaped areas in properties in use.<br>9. Description of the environmental policy.<br>The remaining non-financial information was not verified.<br>"SFL's 2018 Non Financial Information" (p.38) | Colonial Group in France |
| **Management approach** | | | |
| GRI 103-1 | Explanation of the material topic and its Boundary | 102, 225-226 | Colonial Group |
| GRI 103-2 | The management approach and its components | See management approach for each of the thematic standards (p. 233-242) | Colonial Group |
| GRI 103-3 | Evaluation of the management approach | 102, 225-226 | Colonial Group |

### ▼ Thematic standards

| Material aspects identified by the materiality matrix | Indicator | Description | Page(s) | Boundary |
|---|---|---|---|---|
| **CATEGORY - ECONOMIC** | | | | |
| **Economic performance** | | | | |
| Generating value for shareholders | Management Approach | | 34-35 | Colonial Group |
| | GRI 201-1 | Direct economic value generated and distributed | 38-41. It should also be noted that Colonial has made contributions, sponsorships and donations worth €259,930. | Colonial Group |
| | GRI 201-2 | Financial implications and other risks and opportunities due to climate change | 131 | Colonial Group |
| | GRI 201-3 | Defined benefit plan obligations and other retirement plans | Chapter A IAR 2018 | Colonial Group |
| | GRI 201-4 | Financial assistance received from government | There has not been any significant subsidies of this nature | Colonial Group |
| **Market presence** | | | | |
| | GRI 202-1 | Ratios of standard entry-level wage by gender compared to local minimum wage | Colonial Group guarantees that all its employees are paid the legal minimum wage stipulated by the legislation of each country. However, for reasons of confidentiality, the Group does not break down this information | Colonial Group |
| | GRI 202-2 | Proportion of senior management hired from the local community | 27.3% of directors are foreigners | Colonial Group |
| **Indirect economic impacts** | | | | |
| Commitment to the local community | Management Approach | | | Colonial Group |
| | GRI 203-1 | Infrastructure investments and services supported | 8-11, 38-41, 74-77 | Colonial Group |
| | GRI 203-2 | Significant indirect economic impacts | No significant indirect economic impacts have been identified | Colonial Group |
| **Procurement practices** | | | | |
| Supply Chain Management | Management Approach | | 122-123 | Colonial Group |
| | GRI 204-1 | Proportion of spending on local suppliers | 122-123 | Colonial Group |

## ▼ Thematic standards

| Material aspects identified by the materiality matrix | Indicator | Description | Page(s) | Boundary |
|---|---|---|---|---|
| **Anti-corruption** | | | | |
| Corporate Governance | Management Approach | | 28-29 | Colonial Group |
| | GRI 205-1 | Operations assessed for risks related to corruption | While no assessment were made to identify potential corruption-related risks, the Colonial Group is working on the matter, with the recent approval of the Anticorruption and Bribery Policy | Colonial Group |
| | GRI 205-2 | Communication and training about anti-corruption policies and procedures | The Anti-Corruption and Anti-Bribery Policy of the Colonial Group has recently been approved, which provides for its communication and related training to Group employees | Colonial Group |
| | GRI 205-3 | Confirmed incidents of corruption and actions taken | There is no record of incidents of corruption | Colonial Group |
| **Anti-competitive behaviour** | | | | |
| Corporate Governance | Management Approach | | 27-28 | Colonial Group |
| | GRI-206-1 | Legal actions for anti-competitive behaviour, anti-trust and monopoly practices | There are no legal actions for anti-competitive behaviour | Colonial Group |
| **CATEGORY - ENVIRONMENT** | | | | |
| **Materials** | | | | |
| Impaction reduction | Management Approach | | 137 | Colonial Group |
| | GRI 301-1 | Materials used by weight or volume | 137 | Colonial Group |
| | GRI 301-2 | Recycled input materials used | 137 | Colonial Group |
| | GRI 301-3 | Reclaimed products and their packaging materials | Not applicable to the Colonial business | |
| **Energy** | | | | |
| Responsible energy consumption and efficiency | Management Approach | | 132-135 | Colonial Group |
| | GRI 302-1 | Energy consumption within the organisation | 133-134, 151-152 | Group's own offices |

## ▼ Thematic standards

| Material aspects identified by the materiality matrix | Indicator | Description | Page(s) | Boundary |
|---|---|---|---|---|
| Responsible energy consumption and efficiency | EPRA - Elec-Abs | Total energy consumption | 151-152, 243-246 | Own offices and leased offices in which there is control over consumption management |
| | EPRA - Elec-LfL | Like-for-like energy consumption | 134, 243, 246 | Properties considered Like-for-Like Sustainable |
| | EPRA - DH&C-Abs | Total district heating & cooling consumption | 151-152, 243, 246 | Own offices and leased offices in which there is control over consumption management |
| | EPRA - DH&C-LfL | Like-for-like total district heating & cooling consumption | 134, 243, 246 | Properties considered Like-for-Like Sustainable |
| | EPRA - Fuels-Abs | Total fuel consumption | 151-152, 243, 246 | Own offices and leased offices in which there is control over consumption management |
| | EPRA - Fuels-LfL | Like-for-like total fuel consumption | 134, 243, 246 | Properties considered Like-for-Like Sustainable |
| | GRI 302-2 | Energy consumption outside the organisation | 135 | Leased offices in which there is control over consumption management |
| | GRI 302-3 | Energy intensity | 134-135, 151-152 243, 246 | Own offices and leased offices in which there is control over consumption management and properties considered like-for-like |
| | GRI 302-4 | Reduction of energy consumption | 132 | Colonial Group |
| | GRI 302-5 | Reductions in energy requirements of products and services | 126-152 | Colonial Group |

### ▼ Thematic standards

| Material aspects identified by the materiality matrix | Indicator | Description | Page(s) | Boundary |
|---|---|---|---|---|
| Responsible energy consumption and efficiency | CRE1 / EPRA - Energy-Int | Building energy intensity | 243, 246 | Own offices and leased offices in which there is control over consumption management |
| **Water** | | | | |
| Impaction reduction | Management Approach | | 139-140 | Colonial Group |
| | GRI 303-1 / EPRA - Water-Abs | Water withdrawal by source | 150, 152, 244, 246 | Own offices and leased offices in which there is control over consumption management |
| | EPRA - Water-LfL | Like-for-like water consumption | 244, 246 | Properties considered Like-for-Like Sustainable |
| | CRE2 / EPRA - Water-Int | Building water intensity | 244, 246 | Own offices and leased offices in which there is control over consumption management |
| | GRI 303-2 | Water sources significantly affected by withdrawal of water | Not applicable to the Colonial business | |
| | GRI 303-3 | Water recycled and reused | Not reported | |
| **Biodiversity** | | | | |
| Biodiversity conservation | Management Approach | | 136-137 | Colonial Group |
| | GRI 304-1 | Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas | Despite not being a material aspect for Colonial, due to the location of its assets in consolidated urban areas, the Group understands biophilic design as an opportunity to reconnect to nature thanks to the architecture of buildings, thus promoting the protection of the biodiversity | Colonial Group |
| | GRI 304-2 | Significant impacts of activities, products, and services on biodiversity | 136-137 | Colonial Group |

▼ **Thematic standards**

| Material aspects identified by the materiality matrix | Indicator | Description | Page(s) | Boundary |
|---|---|---|---|---|
| Biodiversity conservation | GRI 304-3 | Habitats protected or restored | 136-137 | Colonial Group |
| | GRI 304-4 | IUCN Red List species and national conservation list species with habitats in areas affected by operations | 136-137 | Colonial Group |
| **Emissions** | | | | |
| Emissions management and efficiency | Management Approach | | 132-135 | Colonial Group |
| | GRI 305-1/ EPRA - GHG - Dir - Abs | Direct (Scope 1) GHG emissions | 134, 151, 243, 246 | Own offices and leased offices in which there is control over consumption management |
| | GRI 305-2/ EPRA - GHG-Indir-Abs | Energy indirect (Scope 2) GHG emissions | 134, 152, 243, 246 | Own offices and leased offices in which there is control over consumption management |
| | CRE3 / EPRA - GHG - Int | GHG emissions intensity | 134, 244, 246 | Properties considered Like-for-Like Sustainable |
| | GRI 305-3 | Other indirect (Scope 3) GHG emissions | 134, 151 | Own offices and leased offices in which there is control over consumption management |
| | GRI 305-4 | GHG emissions intensity | 134, 244, 246 | Own offices and leased offices in which there is control over consumption management |
| | GRI 305-5 | Reduction of GHG emissions | 134, 151, 243, 246 | Colonial Group |
| | GRI 305-6 | Emissions of ozone-depleting substances (ODS) | Not applicable to the Colonial business | |
| | GRI 305-7 | Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions | Not applicable to the Colonial business | |
| **Effluents and waste** | | | | |
| Waste management | Management Approach | | 138-139 | Colonial Group |
| | GRI 306-1 | Water discharge by quality and destination | Not applicable to the Colonial business | |

### ▼ Thematic standards

| Material aspects identified by the materiality matrix | Indicator | Description | Page(s) | Boundary |
|---|---|---|---|---|
| Waste management | GRI 306-2/ EPRA Waste-Abs | Waste by type and disposal method | 139, 152, 244, 246 | Own offices in which there is control over consumption management |
| | EPRA Waste-LfL | Like-for-like of waste by type | 139, 244, 246 | Properties considered Like-for-Like Sustainable |
| | GRI 306-3 | Significant spills | None | |
| | GRI 306-4 | Transport of hazardous waste | Not applicable to the Colonial business | |
| | GRI 306-5 | Water bodies affected by water discharges and/or runoff | No body of water was affected by the activity of Colonial, since the Group carries out its activities in consolidated urban areas and only consumes water from the supplying companies. | |
| **Environmental compliance** | | | | |
| Corporate Governance | Management Approach | | 27-28 | Colonial Group |
| | GRI 307-1 | Non-compliance with environmental laws and regulations | No significant fines or penalties were received | Colonial Group |
| **Supplier environmental assessment** | | | | |
| Supply Chain Management | Management Approach | | 122-123 | Colonial Group |
| | GRI 308-1 | New suppliers that were screened using environmental criteria | Data unavailable | Colonial Group |
| | GRI 308-2 | Negative environmental impacts in the supply chain and actions taken | Colonial is working on mechanisms to analyse the environmental impacts generated by its supply chain | Colonial Group |
| **CATEGORY - SOCIAL** | | | | |
| **Employment** | | | | |
| Human Resources Management | Management Approach | | 110-113 | Colonial Group |
| | GRI 401-1/ EPRA-Emp-Turnover | New employee hires and employee turnover | 112-113 | Colonial Group |
| | GRI 401-2 | Benefits provided to full-time employees that are not provided to temporary or part-time employees | 120 | Colonial Group |
| | GRI 401-3 | Parental leave | 117 | Colonial Group |

## ▼ Thematic standards

| Material aspects identified by the materiality matrix | Indicator | Description | Page(s) | Boundary |
|---|---|---|---|---|
| **Labour-management relations** | | | | |
| Equality and diversity | Management Approach | | 121 | Colonial Group |
| | GRI 402-1 | Minimum notice periods regarding operational changes | Colonial adheres to the notice periods established in labour legislation or those included, where applicable, in the agreements applicable to each business, and no minimum notice periods have been defined at corporate level | Colonial Group |
| **Occupational health and safety** | | | | |
| Occupational health and safety | Management Approach | | 118 | Colonial Group |
| | GRI 403-1 | Workers representation in formal joint management–worker health and safety committees | 118 | Colonial Group |
| | GRI 403-2/ EPRA-H&S-Emp | Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities | 118. There have been no occupational accidents or diseases in 2018 | Colonial Group |
| | GRI 403-3 | Workers with high incidence or high risk of diseases related to their occupation | No risks have been identified in this area | Colonial Group |
| | GRI 403-4 | Health and safety topics covered in formal agreements with trade unions | 118 | Colonial Group |
| **Training and education** | | | | |
| Human Resources Management | Management Approach | | 114-116 | Colonial Group |
| | GRI 404-1/ EPRA-Emp-Training | Average hours of training per year per employee | 116 | Colonial Group |
| | GRI 404-2 | Programmes for upgrading employee skills and transition assistance programmes | 114-116 | Colonial Group |
| | GRI 404-3/ EPRA-Emp-Dev | Percentage of employees receiving regular performance and career development reviews | 32% of Group employees receive performance evaluations | Colonial Group |

### Thematic standards

| Material aspects identified by the materiality matrix | Indicator | Description | Page(s) | Boundary |
|---|---|---|---|---|
| **Diversity and equal opportunity** | | | | |
| Equality and diversity | Management Approach | | 117 | Colonial Group |
| | GRI 405-1/ EPRA-Diversity-Emp | Diversity of governance bodies and employees | 15-16, 113, 117 | Colonial Group |
| | GRI 405-2/EPRA-Diversity-Pay | Ratio of basic salary and remuneration of women to men | Not reported for reasons of confidentiality | |
| **Non-discrimination** | | | | |
| Equality and diversity | Management Approach | | 117 | Colonial Group |
| | GRI 406-1 | Incidents of discrimination and corrective actions taken | There have been no incidents of discrimination in the Colonial Group | |
| **Freedom of association and collective bargaining** | | | | |
| Human Resources Management | Management Approach | | 119 | Colonial Group |
| | GRI 407-1 | Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk | Not applicable to the Colonial business | |
| **Child labour** | | | | |
| | Management Approach | | Not applicable to the Colonial business | |
| | GRI 408-1 | Operations and suppliers at significant risk for incidents of child labour | Not applicable to the Colonial business | |
| **Forced or compulsory labour** | | | | |
| | Management Approach | | Not applicable to the Colonial business | |
| | GRI 409-1 | Operations and suppliers at significant risk for incidents of forced or compulsory labour | Not applicable to the Colonial business | |
| **Security practices** | | | | |
| | Management Approach | | Not applicable to the Colonial business | |
| | GRI 410-1 | Security personnel trained in human rights policies or procedures | Not applicable to the Colonial business | |
| **Rights of indigenous peoples** | | | | |
| | Management Approach | | Not applicable to the Colonial business | |
| | GRI 411-1 | Incidents of violations involving rights of indigenous peoples | Not applicable to the Colonial business | |

### ▼ Thematic standards

| Material aspects identified by the materiality matrix | Indicator | Description | Page(s) | Boundary |
|---|---|---|---|---|
| **Human rights assessment** | | | | |
| Respect for Human Rights | Management Approach | | 105-106 | Colonial Group |
| | GRI 412-1 | Operations that have been subject to human rights reviews or impact assessments | The group is working on new procedures in this regard based on the recently approved Human Rights Policy | |
| | GRI 412-2 | Employee training on human rights policies or procedures | The group is working on new procedures in this regard based on the recently approved Human Rights Policy | |
| | GRI 412-3 | Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening | The group is working on new procedures in this regard based on the recently approved Human Rights Policy | |
| **Local communities** | | | | |
| Commitment to the local Community | Management Approach | | 156-159 | Colonial Group |
| | GRI 413-1 EPRA-Comty-Eng | Operations with local community engagement, impact assessments, and development programs | 1.8% of buildings | Colonial Group |
| | GRI 413-2 | Operations with significant actual and potential negative impacts on local communities | 156-157 | Colonial Group |
| **Supplier social assessment** | | | | |
| Supply Chain Management | Management Approach | | 122-123 | Colonial Group |
| | GRI 414-1 | New suppliers that were screened using social criteria | Data unavailable | Colonial Group |
| | GRI 414-2 | Negative social impacts in the supply chain and actions taken | Colonial is working on mechanisms to analyse the environmental impacts generated by its supply chain | Colonial Group |
| **Public policy** | | | | |
| Corporate Governance | Management Approach | | 27-28 | Colonial Group |
| | GRI 415-1 | Political contributions | No contributions have been made to political parties | |

### ▼ Thematic standards

| Material aspects identified by the materiality matrix | Indicator | Description | Page(s) | Boundary |
|---|---|---|---|---|
| **Customer health and safety** | | | | |
| Customer satisfaction and management | Management Approach | | 64 | Colonial Group |
| | GRI 416-1 EPRA-H&S-Asset | Assessment of the health and safety impacts of product and service categories | Not applicable to the Colonial business | |
| | GRI 416-2 EPRA-H&S-Comp | Incidents of non-compliance concerning the health and safety impacts of products and services | There have been no incidents of non-compliance | Colonial Group |
| **Marketing and labelling** | | | | |
| | Management Approach | | Not applicable to the Colonial business | |
| | GRI 417-1 | Requirements for product and service information and labelling | Not applicable to the Colonial business | |
| | GRI 417-2 | Incidents of non-compliance concerning product and service information and labelling | Not applicable to the Colonial business | |
| | GRI 417-3 | Incidents of non-compliance concerning marketing communications | Not applicable to the Colonial business | |
| | CRE8 / EPRA-Cert-Tot | Type and number of schemes for certification of sustainability, classification and labelling of new construction, management and occupation | 141-145 | Colonial Group |
| **Customer privacy** | | | | |
| Customer satisfaction and management | Management Approach | | Not applicable to the Colonial business | |
| | GRI 418-1 | Substantiated complaints regarding concerning breaches of customer privacy and losses of customer data | No complaints were received | Colonial Group |
| **Socioeconomic compliance** | | | | |
| Corporate Governance | Management Approach | | 27-28 | Colonial Group |
| | GRI 419-1 | Non-compliance with laws and regulations in the social and economic area | No significant fines or penalties were received | Colonial Group |

### EPRA Tables Portfolio Environment

| Indicator | EPRA code | Unit of measure | Offices & Retail Portfolio 2017 | Coverage | 2018 | Coverage | Change | Logistics Portfolio 2017 | Coverage | 2018 | Coverage | Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total electricity consumption | Elec-Abs | kWh | 113,029,058 | 100% | 117,733,708 | 100% | 4% | N/A | N/A | 3,688 | 100% | N/A |
| | | % from renewable sources | N/A | | 22% | | N/A | N/A | | 0 | | N/A |
| Like-for-like electricity consumption | Elec-LFL | kWh | 111,266,440 | 100% | 111,592,689 | 100% | 0% | N/A | N/A | N/A | N/A | N/A |
| Total energy consumption from district heating and cooling | DH&C-Abs | kWh | 29,141,810 | 100% | 30,652,682 | 100% | 5% | N/A | N/A | 0 | 100% | N/A |
| | | % from renewable sources | N/A | | 41% | | N/A | N/A | | 0 | | N/A |
| Like-for-like consumption from district heating and cooling | DH&C-LFL | kWh | 25,336,970 | 100% | 27,654,922 | 100% | 9% | N/A | N/A | N/A | N/A | N/A |
| Total energy consumption from fuel | Fuels-Abs | kWh | 2,890,226 | 100% | 6,238,506 | 100% | 116% | N/A | N/A | 0 | 100% | N/A |
| | | % from renewable sources | 0% | | 0% | | 0% | N/A | | 0 | | N/A |
| Like-for-like consumption from fuel | Fuels-LFL | kWh | 2,890,226 | 100% | 4,069,758 | 100% | 41% | N/A | N/A | N/A | N/A | N/A |
| Building energy intensity | Energy-Int | kWh/m² | 0.24 | 100% | 0.22 | 100% | –9% | N/A | N/A | 0.01 | 100% | N/A |
| Direct GHG emissions (total) Scope 1 | GHG-Dir-Abs | $tCO_2$ | 438 | 24% | 2,022 | 100% | 361% | N/A | N/A | N/A | N/A | N/A |
| Indirect GHG emissions (total) Scope 2 | GHG-Indir-Abs | $tCO_2$ (market based) | N/A | 100% | N/A | 100% | N/A | N/A | N/A | N/A | N/A | N/A |
| | | $tCO_2$ (location based) | 9,027 | | 8,540 | | –5% | N/A | | N/A | | N/A |
| Building GHG emissions intensity | GHG-Int | $tCO_2/m^2$ | 0.02 | 100% | 0.05 | 100% | 192% | N/A | N/A | N/A | N/A | N/A |

## ▼ EPRA Tables Portfolio Environment

| Indicator | EPRA code | Unit of measure | Offices & Retail Portfolio | | | | | Logistics Portfolio | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 2017 | Coverage | 2018 | Coverage | Change | 2017 | Coverage | 2018 | Coverage | Change |
| Total water consumption | Water-Abs | Total $m^3$ | 288,933 | 100% | 316,233 | 100% | 9% | N/A | N/A | 12,060 | 100% | N/A |
| Like-for-like water consumption | Water-LFL | $m^3$ | 277,386 | 100% | 283,190 | 100% | 2% | N/A | N/A | N/A | N/A | N/A |
| Building water consumption intensity | Water-Int | $m^3/m^2$ | 0.473 | 100% | 0.41 | 100% | –13% | N/A | N/A | 0.028 | 100% | N/A |
| Weight of waste by disposal route (total) | Waste-Abs | tonnes | 963 | 45% | 2,994 | 57% | 211% | N/A | N/A | N/A | N/A | N/A |
| | | % recycled | 21% | | 80% | | 281% | N/A | | N/A | | N/A |
| | | % composted | 0% | | 0% | | 0% | N/A | | N/A | | N/A |
| | | % sent to incineration | 17% | | 0.0006% | | –100% | N/A | | N/A | | N/A |
| | | % other - Incineration with energy recovery | 17% | | 0.0004% | | –100% | N/A | | N/A | | N/A |
| | | % other - landfill | 36% | | 20% | | –44% | N/A | | N/A | | N/A |
| | | % other | 9% | | 0.0002% | | –100% | N/A | | N/A | | N/A |
| Weight of waste by disposal route (Like-for-like) | Waste-LFL | tonnes | 889 | 42% | 421 | 81% | –53% | N/A | N/A | N/A | N/A | N/A |
| | | % recycled | 39.5% | | 50% | | 27% | N/A | | N/A | | N/A |
| | | % composted | 0% | | 0% | | 0% | N/A | | N/A | | N/A |
| | | % sent to incineration | 18% | | 0% | | –100% | N/A | | N/A | | N/A |
| | | % other - Incineration with energy recovery | 10.5% | | 0% | | –100% | N/A | | N/A | | N/A |
| | | % other - landfill | 23% | | 50% | | 117% | N/A | | N/A | | N/A |
| | | % other | 9% | | 0% | | –100% | N/A | | N/A | | N/A |

## EPRA Tables Portfolio Environment

| Indicator | EPRA code | Unit of measure | Offices & Retail Portfolio 2017 | Coverage | 2018 | Coverage | Change | Logistics Portfolio 2017 | Coverage | 2018 | Coverage | Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Type and number of assets certified | Cert-LfL | % of LfL certified OR number of certified assets | 97% | | 97% | | 0% | N/A | N/A | N/A | N/A | N/A |
| Type and number of assets certified | Cert-Tot | % of portfolio certified OR number of certified assets | 93% | | 58% | | –38% | N/A | N/A | 67% | | N/A |

Building water intensity is calculated $m^3/m^2$.
In 2018 the Group has incorporated a large number of assets into its portoflio, which explains the significant decrease in the % of total assets certified. As the integration of the new assets was carried out, the Group designed and implemented a new strategic plan in order to raise the environmental standards of these buildings to those of the Group.
Only the environmental data from France has been assured by an eternal third party which includes the following:
- Occupation surgace areas and occupation density.
- Number of BREEAM In-Use certifications and percentage with a Very Good or higher level.
- Number of assets with BREEAM In-Use certifications and percentage of portfolio in square meters by type and level of certification.
- Waste generated in tons (non-hazadous industrial waste, paper and cardboard).
- Water use and water use intensity (common and tenant areas combined).
- Energy use by type of energy and energy use intensity (adjusted and not adjusted for the climate).
- Greenhouse gas emissions from energy use and intensity (adjusted and not adjusted for the climate).
- Planted and landscaped areas in properties in-use.
- Description of the environmental policy.

The rest of the ESG data has not been assured.
6% of the electricity consumption of common zones (landlord-obtained consumption) was estimated.
The estimated figures for electricity consumption in private tenant areas (tenant consumption) represent 52% of the total electricity consumption reported.
62% of the electricity consumption for the LfL portfolio has been estimated.
The data for alll other performance metrics (Fuels, DH&C, water and waste, etc) have not been estimated.
LfL data only includes landlord obtained consumptions.
The data presented in the table above differs from the data presented in the section "Total 2018 supply consumption" due to the fact that it includes performance metrics from the own office environment. However, this table has been prepared to only include portfolio environment performance metrics following EPRA sBPRs.
The data presented for waste includes both tenant and landlord-produced waste.
In addition to the narrative on performance provided throughout the Eco-Efficiency chapter of the report, Grupo Colonial deemed appropriate to provide the following comments on a series of performance metrics:
- Energy-Int: This has decreased thanks to the energy efficiency measures deployed by the Group.
- GHG-Int: It has increased because of the inclusion of new scope 3 categories, not included in scope 3 emissions for 2017. Employee commuting and transportation of suppliers. For 2018, we have also included refrigerant gases in the calculation of scope 1.
- Water-Int: This has decreased thanks to the water consumption efficiency measures deployed by the Group (mainly the installation of new, more efficient water fixtures).
- Waste-LfL: The waste consumption figures have increased significantly due to general improvements in the recollection of waste data, striving to cover as many aspects of its activity as possible.

## ▼ EPRA Tables Own Office Environment

| Indicator | EPRA code | Unit of measure | 2017 | Coverage | 2018 | Coverage | Change |
|---|---|---|---|---|---|---|---|
| Total electricity consumption | Elec-Abs | kWh | 801,829 | 100% | 799,170 | 100% | 0% |
| | | % from renewable sources | 0% | | 0% | | 0% |
| Like-for-like electricity consumption | Elec-LFL | kWh | 801,829 | 100% | 799,170 | 100% | 0% |
| Total energy consumption from district heating and cooling | DH&C-Abs | kWh | N/A | N/A | N/A | 100% | N/A |
| | | % from renewable sources | N/A | | N/A | | N/A |
| Like-for-like consumption from district heating and cooling | DH&C-LFL | kWh | N/A | N/A | N/A | 100% | N/A |
| Total energy consumption from fuel | Fuels-Abs | kWh | 116,254 | 100% | 172,269 | 100% | 48% |
| | | % from renewable sources | 0 | | 0 | | 0% |
| Like-for-like consumption from fuel | Fuels-LFL | kWh | 116,254 | 100% | 172,269 | 100% | 48% |
| Building energy intensity | Energy-Int | $kWh/m^2$ | 0.21 | 100% | 0.22 | 100% | 5% |
| Direct GHG emissions (total) Scope 1 | GHG-Dir-Abs | $tCO_2$ | 319 | 100% | 318 | 100% | 0% |
| Indirect GHG emissions (total) Scope 2 | GHG-Indir-Abs | $tCO_2$ (location based) | 31 | 100% | 46 | 100% | 50% |
| | | $tCO_2$ (market based) | N/A | | N/A | | N/A |
| Building GHG emissions intensity | GHG-Int | $tCO_2/m^2$ | 0.05 | 100% | 0.05 | 100% | –3% |
| Total water consumption | Water-Abs | $m^3$ | 2,156 | 100% | 2,436 | 100% | 13% |
| Like-for-like water consumption | Water-LFL | $m^3$ | 2,156 | 100% | 2,436 | 100% | 13% |
| Building water consumption intensity | Water-Int | $m^3/m^2$ | 0.49 | 100% | 0.54 | 100% | 12% |
| Weight of waste by disposal route (total) | Waste-Abs | tonnes | 2.31 | 33% | 2.22 | 33% | –4% |
| | | % recycled | 100% | | 100% | | 0% |
| | | % sent to incineration | 0% | | 0% | | 0% |
| | | % other | 0% | | 0% | | 0% |
| Weight of waste by disposal route (Like-for-like) | Waste-LFL | tonnes | 2.31 | 33% | 2.22 | 33% | –4% |
| | | % recycled | 100% | | 100% | | 0% |
| | | % sent to incineration | 0% | | 0% | | 0% |
| | | % other | 0% | | 0% | | 0% |
| Type and number of assets certified | Cert-Tot | % of portfolio certified OR number of certified assets | 100% | 100% | 100% | 100% | 0% |

### ▼ EPRA Tables Social & Governance

| Indicator | EPRA code | Scope | Units of measure | 2017 | 2018 |
|---|---|---|---|---|---|
| Gender diversity | Diversity-Emp | Corporate operations | % of employees | 40% men | 39.5% |
| | | | | 60% women | 60.5% |
| Gender pay | Diversity-Pay | Corporate operations | Ratio | N/A | N/A |
| | | | | N/A | N/A |
| | | | | N/A | N/A |
| Training and development | Emp-Training | Corporate operations | Average hours | 36 | 16.8 |
| Performance appraisals | Emp-Dev | Corporate operations | % of total workforce | N/A | 32% |
| New hires | Emp-Turnover | Corporate operations | Total number | 27 | 64 |
| | | Corporate operations | Rate | 7.3% | 32% |
| Turnover | | Corporate operations | Total number | 12 | 14 |
| | | Corporate operations | Rate | 5.4% | 12.7% |
| Injury rate | H&S-Emp | Corporate operations | per x hours worked | | |
| Lost day rate | | Corporate operations | per x hours worked | | |
| Absentee rate | | Corporate operations | Rate | 1.16% | 0.77% |
| Fatalities | | Corporate operations | Total number | 0 | 0 |
| H&S Impact Assessments | H&S-Asset | Office portfolio | % of assets | N/A | N/A |
| | | Residential portfolio | | N/A | N/A |
| Number of incidents | H&S-Comp | Office portfolio | Total number | N/A | N/A |
| | | Residential portfolio | | N/A | N/A |
| Community Programmes | Comty-Eng | Office portfolio | % of assets | 0 | 1.80% |
| | | Residential portfolio | | 0 | 0 |
| Board composition | Gov-Board | Corporate operations | Total number of Exectuive members | 2 | 2 |
| | | | Total number of Independent members | 4 | 4 |
| | | | Average tenure | 5.7 | 6.95 |
| | | | Total number with competencies relating to environmental and social topics | 1 | 1 |
| Independent / Non-executive board members with competencies relating to environmental and social topics | Gov-Select | Corporate operations | Description | 0 | 0 |
| Conflicts of interest | Gov-Col | Corporate operations | Description | 0 | 0 |

The Group's CEO is a member of EPRA's Board and therefore stays up-to-date on industry-related environmental and social topics.

# Additional information in electronic format

# Appendix 1.1. Consolidated Balance Sheet

**Consolidated Balance Sheet - €m**

| **Assets** | **2018** | **2017** |
|---|---|---|
| Consolidated goodwill | 62 | 0 |
| Property investments | 11,083 | 8,792 |
| Other non-current assets | 80 | 487 |
| **Non-current assets** | **11,225** | **9,280** |
| Inventory | 47 | 0 |
| Debtors and other receivables | 100 | 103 |
| Other current assets | 89 | 1,125 |
| Assets available for sale | 26 | 0 |
| **Current assets** | **262** | **1,228** |
| **Total assets** | **11,487** | **10,508** |

| **Liabilities** | **2018** | **2017** |
|---|---|---|
| Equity | 4,811 | 3,592 |
| Minority interests | 1,290 | 2,088 |
| **Net equity** | **6,102** | **5,680** |
| Bond issues and other non-current issues | 3,777 | 3,308 |
| Non-current financial debt | 724 | 857 |
| Deferred tax | 362 | 350 |
| Other non-current liabilities | 81 | 77 |
| **Non-current liabilities** | **4,943** | **4,592** |
| Bond issues and other current issues | 284 | 14 |
| Current financial debt | 9 | 39 |
| Creditors and other payables | 107 | 128 |
| Other current liabilities | 42 | 55 |
| **Current liabilities** | **442** | **236** |
| **Total equity & liabilities** | **11,487** | **10,508** |

### Market Value Reconciliation - €m

| | 2018/12 |
|---|---|
| Tangible fixed assets - own use[(1)] | 38 |
| Real estate investment (w/o advances on fixed assets)[(2)] | 11,083 |
| Non-current assets held for sale - Investment properties | 26 |
| Inventories | 47 |
| **Value accounted on balance** | **11,193** |
| Unrealised capital gains - own use | 30 |
| Not appraised & other[(3)] | 35 |
| Tangible fixed assets | 1 |
| Rent free periods | 88 |
| **Adjustments** | **155** |
| **Appraisal value according to external appraisers** | **11,348** |

(1) Included in the line of "Other non-current assets".
(2) Included in the line of "Property Investments".
(3) Included in the line of "Assets available for sale".

# Appendix 1.2. Offices historical series breakdown

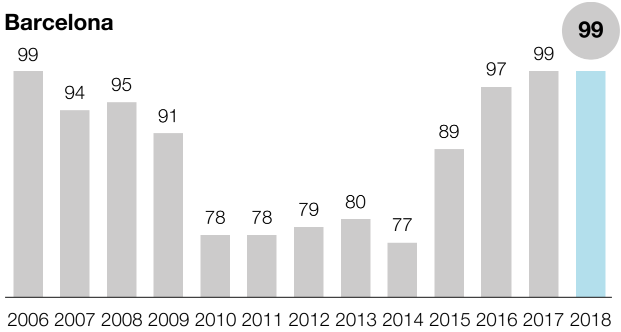
**Offices historical series breakdown**

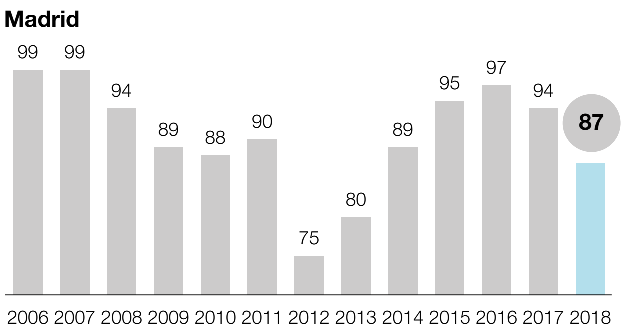
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Barcelona** | | | | | | | | | | | | | | | |
| Physical Offices Occupancy (%) | 97% | 100% | 99% | 94% | 95% | 91% | 78% | 78% | 79% | 80% | 77% | 89% | 97% | 99% | 99% |
| Rental revenues (€m) | 55 | 53 | 56 | 60 | 51 | 49 | 39 | 32 | 31 | 28 | 28 | 27 | 30 | 35 | 41 |
| Net Rental Income (€m) | 53 | 51 | 55 | 58 | 49 | 47 | 37 | 28 | 27 | 25 | 23 | 23 | 28 | 34 | 39 |
| NRI / Rental revenues (%) | 95% | 96% | 97% | 97% | 96% | 97% | 93% | 88% | 89% | 89% | 85% | 85% | 92% | 96% | 94% |
| **Madrid** | | | | | | | | | | | | | | | |
| Physical Offices Occupancy (%) | 93% | 98% | 99% | 99% | 94% | 89% | 88% | 90% | 75% | 80% | 89% | 95% | 97% | 94% | 87% |
| Rental revenues (€m) | 37 | 44 | 68 | 70 | 56 | 50 | 47 | 45 | 44 | 35 | 32 | 35 | 43 | 52 | 94 |
| Net Rental Income (€m) | 34 | 42 | 66 | 66 | 52 | 46 | 42 | 41 | 40 | 30 | 28 | 31 | 38 | 46 | 83 |
| NRI / Rental revenues (%) | 93% | 94% | 96% | 95% | 92% | 92% | 90% | 90% | 90% | 86% | 85% | 88% | 88% | 88% | 88% |
| **Paris** | | | | | | | | | | | | | | | |
| Physical Offices Occupancy (%) | 97% | 96% | 98% | 99% | 98% | 94% | 87% | 92% | 94% | 80% | 85% | 95% | 97% | 96% | 98% |
| Rental revenues (€m) | 157 | 153 | 162 | 170 | 182 | 183 | 175 | 152 | 150 | 149 | 152 | 169 | 198 | 196 | 194 |
| Net Rental Income (€m) | 147 | 145 | 153 | 162 | 171 | 173 | 162 | 141 | 138 | 137 | 139 | 155 | 188 | 185 | 183 |
| NRI / Rental revenues (%) | 94% | 95% | 95% | 95% | 94% | 94% | 93% | 93% | 92% | 92% | 92% | 92% | 95% | 94% | 94% |

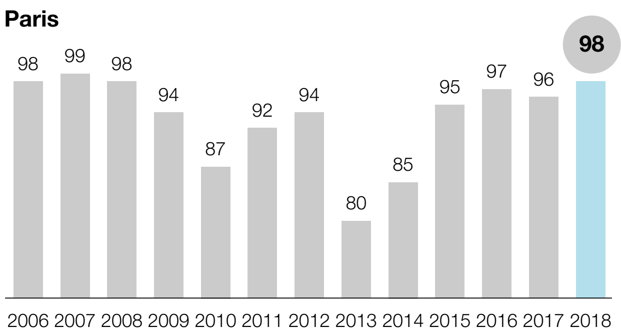
Note: Does not includes logistics and others.

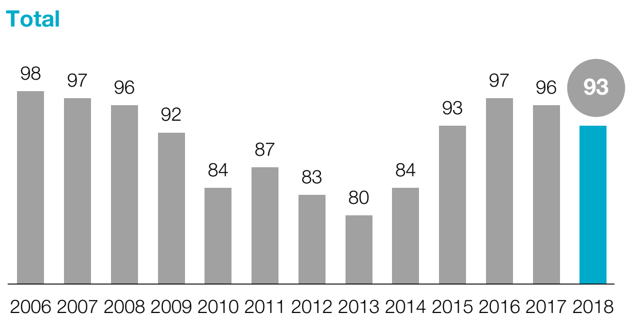
**▼ Evolution of physical office occupancy - Percentage**

*Office Occupancy[1] - Evolution of Colonial's Portfolio*




(1) Occupied surfaces / Surfaces in operation.

# 02. Consolidated Financial Statements 2018

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2018,
prepared in accordance with International Financial Reporting Standards
and Consolidated Management Report

*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 consolidated financial statements originally Issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group In Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.*

***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 consolidated annual accounts*

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

## *Report on the consolidated annual accounts*

### *Opinion*

We have audited the consolidated annual accounts of Inmobiliaria Colonial, SOCIMI, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2018, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at 31 December 2018, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

### *Basis for opinion*

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

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

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

### *Key audit matters*

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

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Valuation of Investment Property*<br><br>Colonial Group has real estate assets which are recognised in Investment property amounting to Euro 11,083,133 thousand at 31 December 2018 under the fair value model in accordance with NIC 40, that represent 96% of total assets. Also, the variation in value in investment property in 2018 amounts to Euro 701,952 thousand, representing 99% of the consolidated profit before taxes for the year. Notes 4.c), 9 and 18.f) to the accompanying consolidated annual accounts contains information on the assets included in this heading.<br><br>In order to obtain the fair value of these assets, the Group commissions valuations that are carried out by independent third party experts. Fair value is determined using the discounted cash flow methodology, in accordance with standard market practice. Such valuations are based on a series of significant judgements and estimates.<br><br>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 judgment required on the part of Management. Changes in these assumptions could lead to a significant variation in the fair value of such assets and their impact on the consolidated comprehensive income statement and consolidated statement of financial position. | 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.<br><br>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 calculations used, 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 using the purchase deeds.<br><br>Lastly, we assessed the relevant disclosures in Notes 4.c), 9 and 18.f) to the accompanying consolidated annual accounts.<br><br>We consider that we have obtained sufficient audit evidence in the course of our work to corroborate the reasonableness of the valuation of investment property. |

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Acquisition and merger of Axiare Patrimonio SOCIMI, S.A.* | |
| As indicated in Note 2.f of the accompanying Notes to the consolidated annual accounts, the public offer of the shares of Axiare Patrimonio SOCIMI, S.A. (Axiare) was confirmed on 2 February 2018. As a result, the Parent company acquired 86.86% of Axiare's share capital with a net cost value of Euro 1,207,645 thousand at this date.<br><br>On 24 May 2018 and 25 May 2018, the General Shareholders' Meetings of the Parent company and Axiare, respectively, approved the merger of Axiare into the Parent company, which was registered with the Company Registry of Madrid on 4 July 2018.<br><br>The merger operation was the merger of Axiare into Inmobiliaria Colonial, SOCIMI, S.A. and, as a result, its dissolution without liquidation and block transfer of its total rights and obligations with accounting effects from 2 February 2018. As a result of the business combination, the Parent company recorded a "Goodwill" whose net carrying amount at 31 December 2018 to Euro 62,225 thousand (Note 7 of the accompanying Notes to the consolidated annual accounts).<br><br>Business combinations are complex processes that require Management's involvement to determine the accounting impacts in both the balance sheet and income statement of current and future financial years, as the acquired assets and assumed liabilities and commitments need to be identified, valued and recognised and the goodwill determined, whose future valuation will require estimates that will have a significant impact on the Group.<br><br>Different valuation methodologies must be used to recognise acquired assets and assumed liabilities at fair value, which require complex judgments and estimates that cannot always be compared with external market sources and with the collaboration, if the case, of the Group's external experts. | We have verified the acceptance of the public offer of Axiare's shares on 2 February 2018, by the announcement of the National Securities Market Commission, thereby confirming the number of shares and percentage of capital obtained.<br><br>The business combination carried out has required an analysis by us of the acquired assets and assumed liabilities identified and valued.<br><br>For this analysis, we have reviewed the business combination, obtaining a full knowledge of the operation's terms and conditions, including the consideration transferred, and of the accounting statements related to the acquisition, and we have reviewed the values and valuations given to the acquired assets and recorded obligations, including the final process for determining goodwill.<br><br>In our analysis, with the collaboration of our specialists in valuations, we have carried out the following tests on:<br><br>• Adequacy of the methodology used to value the assets.<br>• The estimates and projections of flows, as well as the discount rates applied.<br>• The valuations of real estate assets, verifying the external independent appraisers' reports.<br>• The liabilities recorded, analysing their valuation and the estimate of the provisions considered based on the information available at the moment of the operation.<br>• Adequate disclosure of the information in the accompanying annual accounts.<br><br>As a result of our analysis, we have been able to verify the consistency of the criteria applied by the Group and the amounts recorded in the accounts for the business combination, as well as the suitability of the information disclosed in the accompanying consolidated annual accounts. |

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Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

## *Other information: Consolidated management report*

Other information comprises only the consolidated management report for the 2018 financial year, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility regarding the consolidated management report 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 consolidated management report, which consists of evaluating and reporting on the concordance of the aforementioned information with the consolidated annual accounts, based on the Group'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 consolidated 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 consolidated management report and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2018 financial year, and its content and presentation are in accordance with the applicable regulations.

## *Responsibility of the directors and the audit committee for the consolidated annual accounts*

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

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

The Parent company´s audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

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Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

## *Auditor's responsibilities for the audit of the consolidated annual accounts*

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

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

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

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

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

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

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

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

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Parent company´s audit 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 Parent company´s audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

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

## *Report on other legal and regulatory requirements*

### *Report to the Parent company´s audit committee*

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated 25 February 2019.

### *Appointment period*

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

### *Services provided*

Services provided to the Group for services other than the audit of the accounts, are indicated in the Note 23 to the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
José M Solé Farre (05565)

February 26, 2019

# Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries (Colonial Group)

**Consolidated statement of financial position at 31 December 2018 – Thousands of euros**

| **Assets** | **Note** | **31 December 2018** | **31 December 2017** |
|---|---|---|---|
| Goodwill | | 62,225 | – |
| Intangible assets | | 3,759 | 3,037 |
| Property, plant and equipment | 8 | 43,332 | 39,369 |
| Investment property | 9 | 11,083,133 | 8,792,396 |
| Non-current financial assets | 10 | 32,454 | 444,350 |
| Non-current deferred tax assets | 17 | 411 | 407 |
| **Non-current assets** | | **11,225,314** | **9,279,559** |
| Inventories | 9 | 46,587 | – |
| Trade and other receivables | 11 | 99,972 | 103,232 |
| Current financial assets | | 1,300 | 12 |
| Tax assets | 17 | 19,757 | 20,115 |
| Cash and cash equivalents | 13 | 68,293 | 1,104,601 |
| **Current assets** | | **235,909** | **1,227,960** |
| **Assets classified as held for sale** | **22** | **26,091** | **–** |
| **Total assets** | | **11,487,314** | **10,507,519** |

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of financial position for the year ended 31 December 2018.

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries
(Colonial Group)

**▼ Consolidated statement of financial position at 31 December 2018 – Thousands of euros**

| Liabilities and equity | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| Share capital | | 1,270,287 | 1,088,293 |
| Share premium | | 1,578,439 | 1,126,248 |
| Reserves of the Parent | | 215,990 | 245,118 |
| Reserves at consolidated companies | | 1,223,497 | 406,366 |
| Valuation adjustments recognised in equity - financial instruments | | (2,078) | (559) |
| Valuation adjustments on available-for-sale financial assets | | – | 70,415 |
| Other equity instruments | | 6,017 | 4,686 |
| Treasury shares | | (5,606) | (31,262) |
| Profit for the year | | 524,763 | 682,523 |
| **Equity attributable to shareholders of the Parent** | | **4,811,309** | **3,591,828** |
| **Non-controlling interests** | | **1,290,486** | **2,087,870** |
| **Equity** | **12** | **6,101,795** | **5,679,698** |
| Bank borrowings and other financial liabilities | 13 and 14 | 723,928 | 857,237 |
| Bonds and similar securities issued | 13 | 3,776,866 | 3,307,633 |
| Non-current deferred tax liabilities | 17 | 374,882 | 371,233 |
| Non-current provisions | 16 | 1,380 | 11,450 |
| Other non-current liabilities | 15 | 66,333 | 44,362 |
| **Non-current liabilities** | | **4,943,389** | **4,591,915** |
| Bank borrowings and other financial liabilities | 13 and 14 | 9,100 | 39,350 |
| Bonds and similar securities issued | 13 | 284,242 | 13,574 |
| Trade payables | 15 | 114,779 | 143,880 |
| Tax liabilities | 17 | 16,349 | 18,819 |
| Current provisions | 16 | 17,660 | 20,283 |
| **Current liabilities** | | **442,130** | **235,906** |
| **Total liabilities and equity** | | **11,487,314** | **10,507,519** |

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of financial position for the year ended 31 December 2018.

# Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries (Colonial Group)

**▼ Consolidated income statement and statement of comprehensive income for the year ended 31 December 2018 – Thousands of euros**

| Income statement | Note | 2018 | 2017 |
|---|---|---|---|
| Revenue | 18-a | 348,273 | 283,287 |
| Other income | 18-b | 5,677 | 2,714 |
| Staff costs | 18-c | (29,138) | (28,936) |
| Other operating expenses | 18-d | (60,094) | (40,921) |
| Depreciation and amortisation | 8 | (3,353) | (2,445) |
| Net change in provisions | 18-e | 2,436 | (5,704) |
| Net gains/(losses) on sales of assets | 18-g | 11,721 | 527 |
| **Operating profit** | | **275,522** | **208,522** |
| Changes in fair value of investment property | 18-f | 701,952 | 933,435 |
| Gains/(losses) on changes in value of assets and impairment | 18-f | (131,390) | (5,220) |
| Finance income | 18-h | 7,831 | 7,802 |
| Finance costs | 18-h | (149,433) | (86,846) |
| Impairment of financial assets | 18-h | (143) | (401) |
| **Profit before tax** | | **704,339** | **1,057,292** |
| Income tax expense | 17 | (26,230) | 23,159 |
| **Consolidated net profit** | | **678,109** | **1,080,451** |
| Net profit for the year attributable to the Parent | | 524,763 | 682,523 |
| Net profit attributable to non-controlling interests | 12 | 153,346 | 397,928 |
| Basic earnings per share (euros) | 5 | 1.17 | 1.83 |
| Diluted earnings per share (euros) | 5 | 1.17 | 1.83 |

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2018.

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries
(Colonial Group)

**▼ Consolidated income statement and statement of comprehensive income for the year ended 31 December 2018 – Thousands of euros**

| Statement of comprehensive income | Note | 2018 | 2017 |
|---|---|---|---|
| **Consolidated net profit** | | **678,109** | **1,080,451** |
| **Other components of comprehensive income recognised directly in equity** | | **(53,854)** | **69,028** |
| Gains/(losses) on hedging instruments | 12 and 14 | 956 | (94) |
| Gains/(losses) on available-for-sale financial assets | 10 | (54,777) | 69,098 |
| Tax effect on prior years' profit or loss | 12 and 14 | (33) | 24 |
| **Transfers to comprehensive income** | | **(2,429)** | **91** |
| Gains/(losses) on hedging instruments | 12 and 14 | (2,472) | 122 |
| Tax effect on prior years' profit or loss | 12 and 14 | 43 | (31) |
| **Consolidated comprehensive income** | | **621,826** | **1,149,570** |
| Comprehensive income for the year attributable to the Parent | | 468,467 | 751,633 |
| Comprehensive income attributable to non-controlling interests | | 153,359 | 397,937 |
| Comprehensive basic earnings per share (euros) | | 1.05 | 2.01 |
| Comprehensive diluted earnings per share (euros) | | 1.05 | 2.01 |

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2018.

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries
(Colonial Group)

**Consolidated statement of changes in equity for the year ended 31 December 2018 – Thousands of euros**

| | Note | Share capital | Share premium | Reserves of the Parent | Reserves at consolidated companies | Valuation adjustments recognised in equity - financial instruments |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2016** | | **892,058** | **731,326** | **250,634** | **199,417** | **(571)** |
| **Total income and expense recognised in the year** | | **–** | **–** | **–** | **–** | **12** |
| Transactions with shareholders: | | | | | | |
| Capital increases | | 196,235 | 394,922 | (6,691) | – | – |
| Treasury share portfolio | | – | – | 10,371 | – | – |
| Distribution of 2016 profit | | – | – | (7,910) | 218,808 | – |
| Share-based payment transactions | | – | – | (1,286) | – | – |
| Changes in the scope of consolidation | | – | – | – | 79 | – |
| Other changes | | – | – | – | (11,938) | – |
| **Balance at 31 December 2017** | **12** | **1,088,293** | **1,126,248** | **245,118** | **406,366** | **(559)** |
| **Total income and expense recognised in the year** | | **–** | **–** | **–** | **–** | **(1,519)** |
| Transactions with shareholders: | | | | | | |
| Capital increases | | 181,994 | 463,517 | (1,149) | – | – |
| Treasury share portfolio | | – | – | 7,332 | – | – |
| Distribution of 2017 profit | | – | (11,326) | (33,798) | 650,026 | – |
| Share-based payment transactions | | – | – | (1,513) | – | – |
| Changes in the scope of consolidation | | – | – | – | 151,426 | – |
| Other changes | | – | – | – | 15,679 | – |
| **Balance at 31 December 2018** | **12** | **1,270,287** | **1,578,439** | **215,990** | **1,223,497** | **(2,078)** |

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2018.

| Valuation adjustments on available-for-sale financial assets | Other equity instruments | Treasury shares | Profit/(loss) | Equity attributable to shareholders of the Parent | Non-controlling interests | Equity |
|---|---|---|---|---|---|---|
| **1,317** | **3,697** | **(49,811)** | **273,647** | **2,301,714** | **1,706,205** | **4,007,919** |
| **69,098** | **–** | **–** | **682,523** | **751,633** | **397,937** | **1,149,570** |
| – | – | – | – | 584,466 | – | 584,466 |
| – | – | 2,956 | – | 13,327 | – | 13,327 |
| – | – | – | (273,647) | (62,749) | (27,000) | (89,749) |
| – | 989 | 2,537 | – | 2,240 | 641 | 2,881 |
| – | – | (2) | – | 77 | 9,737 | 9,814 |
| – | – | 13,058 | – | 1,120 | 350 | 1,470 |
| **70,415** | **4,686** | **(31,262)** | **682,523** | **3,591,828** | **2,087,870** | **5,679,698** |
| **(54,777)** | **–** | **–** | **524,763** | **468,467** | **153,359** | **621,826** |
| – | – | – | – | 644,362 | – | 644,362 |
| – | – | 22,754 | – | 30,086 | – | 30,086 |
| – | – | – | (682,523) | (77,621) | (52,273) | (129,894) |
| – | 1,667 | 2,902 | – | 3,056 | 358 | 3,414 |
| – | – | – | – | 151,426 | (899,425) | (747,999) |
| (15,638) | (336) | – | – | (295) | 597 | 302 |
| **–** | **6,017** | **(5,606)** | **524,763** | **4,811,309** | **1,290,486** | **6,101,795** |

# Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries (Colonial Group)

**▼ Consolidated statement of cash flows for the year ended 31 December 2018 – Thousand of euros**

| **Cash flows in operations** | **Note** | **2018** | **2017** |
|---|---|---|---|
| **1. Cash flows from/(used in) operating activities** | | | |
| Profit from operations | | 275,522 | 208,522 |
| Adjustments to profit | | | |
| Depreciation and amortisation (+) | | 3,353 | 2,445 |
| Net change in provisions (+/–) | 18-e | (2,436) | 5,704 |
| Other | 18-a | 3,489 | (11,079) |
| Gains/(losses) on sale of investment property (+/–) | 18-g | (11,721) | (527) |
| **Adjusted profit** | | **268,207** | **205,065** |
| Taxes recovered (paid) (+/–) | | (11,834) | 29,434 |
| Interest received (+) | | 2,460 | – |
| Increase/(decrease) in current assets and liabilities | | | |
| Increase/(decrease) in receivables (+/–) | | 15,279 | 929 |
| Increase/(decrease) in payables (+/–) | | (107,866) | 9,845 |
| Increase/(decrease) in other assets and liabilities (+/–) | | 11,107 | 4,866 |
| **Total net cash flows in operating activities** | | **177,353** | **250,139** |
| **2. Cash flows from/(used in) investing activities** | | | |
| Investments in (–) | | | |
| Intangible assets | | (2,973) | (1,318) |
| Property, plant and equipment | 8 | (4,063) | (2,867) |
| Investment property | 9 | (307,661) | (128,862) |
| Non-current financial assets and others | | (216,776) | (211,886) |
| Business combinations | 2-f | (843,149) | (316,540) |
| Cash and cash equivalents acquired in a business combination | 10 | 160,157 | 16,223 |
| | | **(1,214,465)** | **(645,250)** |
| Disposals of (+) | | | |
| Investment property | 9 | 378,959 | 450,671 |
| | | **378,959** | **450,671** |
| **Total net cash flows in investing activities** | | **(835,506)** | **(194,579)** |

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of cash flows at 31 December 2018.

**Consolidated statement of cash flows for the year ended 31 December 2018 – Thousand of euros**

| Cash flows in operations | Note | 2018 | 2017 |
|---|---|---|---|
| **3. Cash flows from/(used in) financing activities** | | | |
| Dividends paid (–) | 12 | (129,894) | (89,749) |
| Repayment of bank borrowings (–) | 13 | (955,744) | (572,925) |
| Repayment of debts with bondholders (–) | 13 | (675,000) | (300,700) |
| Interest paid (+/–) | 18 | (142,723) | (94,406) |
| Post-control transactions (+/–) | 21 | – | (266) |
| Treasury share transactions (+/–) | 12 | (58) | 13,327 |
| | | **(1,903,419)** | **(1,044,719)** |
| New bank borrowings obtained (+) | 13 | 120,440 | 609,968 |
| New bondholder borrowings obtained (+) | 13 | 1,412,500 | 800,000 |
| Capital increases (+) | 12 | – | 591,157 |
| Expenses associated with capital increases | 12 | (1,149) | (6,691) |
| Other proceeds/(payments) for current financial investments and other (+/–) | | (6,527) | (5,874) |
| | | **1,525,264** | **1,988,560** |
| **Total net cash flows in financing activities** | | **(378,155)** | **943,841** |
| **4. Net increase/decrease in cash and cash equivalents** | | | |
| **Cash flow for the year** | | **(1,036,308)** | **999,401** |
| **Cash and cash equivalents at beginning of year** | **13** | **1,104,601** | **105,200** |
| **Cash and cash equivalents at end of year** | **13** | **68,293** | **1,104,601** |

# Inmobiliaria Colonial, SOCIMI, S.A and Subsidiaries

# Notes to the consolidated financial statement for the year ended 31 December 2018

## 1. COLONIAL GROUP BUSINESS ACTIVITY

### Group 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 Parent'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 Parent submitted a request to the tax authorities to be included in the REIT Tax Regime, applicable as of 1 January 2017.

The Parent's corporate 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 Parent.

The Parent 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. and Subsidiaries ("the Group") carry out their 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, the "SFL subgroup" or "SFL" for the subsidiary).

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 2018, the Parent improved the credit rating obtained from Standard & Poor's Rating Credit Market Services Europe Limited, which is now a "BBB+" long-term credit rating and an "A-2" short-term credit rating, both with a stable outlook. In addition, the Parent maintained the "Baa2" credit rating with a negative outlook from Moody's. In 2018, the subsidiary SFL maintained its credit rating of "BBB+" with a stable outlook, and the "A-2" short-term credit rating.

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 a proactive environmental policy in relation to urban development, construction, maintenance and the preservation of its property portfolio.

## 2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

### a) Basis of presentation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (EU-IFRSs) as adopted by the European Union, taking into account all mandatory accounting policies and rules and measurement bases, the Spanish Code of Commerce, the Spanish Limited Liability Companies Law, the Spanish Securities Markets Law and other applicable company law, as well as regulations laid down by the Spanish National Securities Market Commission (CNMV), to present a true and fair view of the Colonial Group's consolidated equity and financial position at 31 December 2018 and of the comprehensive income from its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended.

The consolidated financial statements of Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries for the year ended 31 December 2018 were prepared on the basis of the accounting records kept by the Parent and by the other companies comprising the Colonial Group, and were authorised for issue by the Parent's directors at the Board of Directors meeting held on 26 February 2019.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements at 31 December 2018 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify the policies and bases used and to make them compliant with EU-IFRSs.

In order to present on a consistent basis the various items that make up the consolidated financial statements, the accounting principles and measurement bases used by the Parent were applied to all the companies included in the scope of consolidation.

The Group's consolidated financial statements for the year ended 31 December 2017 were approved by the shareholders at the Parent's Annual General Meeting held on 24 May 2018.

### b) Adoption of International Financial Reporting Standards

The Colonial Group's consolidated financial statements are presented in accordance with EU-IFRSs, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002. In Spain, the obligation to present consolidated financial statements under European IFRSs is also regulated in final provision eleven of Law 62/2003, of 30 December, on tax, administrative and social measures.

The main accounting principles and measurement bases adopted by the Colonial Group are detailed in Note 4.

*Standards and interpretations effective this year*

New accounting standards came into force in 2018 and were accordingly taken into account when preparing these consolidated financial statements. These new standards are as follows:

– IFRS 4 (Amendment) "Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts'"- Amendments to IFRS 4".

– IFRS 9, "Financial instruments".

– IFRS 15 "Revenue from contracts with customers".

In relation to the entry into force of IFRS 15, the Colonial Group considers that, based on the nature of the business, it will not have a significant impact on the Group's consolidated financial statements.

– IFRS 15 (Amendment) “Clarifications to IFRS 15 ’Revenue from contracts with customers’”

– Annual improvements to IFRSs. 2014-2016 Cycle: The amendments affect IFRS 1 and IAS 28 and apply to annual periods beginning on or after 1 January 2018. The main amendments refer to:

  - IFRS 1 “First-time adoption of International Financial Reporting Standards”.

  - IAS 28 “Investments in associates and joint ventures”.

– IFRS 2 (Amendment) “Classification and measurement of share-based payment transactions”.

– IAS 40 (Amendment) “Transfers of investment property”.

– IFRIC 22 “Foreign currency transactions and advance consideration”.

The impact of the interpretation of these amendments has not been significant.

*Standards and interpretations issued but not yet effective*

At the date of authorisation for issue of these consolidated financial statements, the following standards, amendments or interpretations were published by the IASB but had not yet come into force, and although early application is permitted, the Group opted not to apply them early:

– IFRS 16, “Leases”.

  - The application of IFRS 16 entered into force on 1 January 2019. At this date, the Group had commitments for non-cancellable operating leases amounting to 15,664 thousand euros (Note 18-d).

    The Group expects to recognise right-of-use assets for approximately 27,192 thousand euros on 1 January 2019, lease liabilities for 30,576 thousand euros and negative consolidated reserves amounting to 3,384 thousand euros.

    The Group expects net profit after tax to decrease by approximately 723 thousand euros in 2019 as a result of adopting the new standards. Operating profit is expected to increase by approximately 720 thousand euros, given that the operating lease payments are included in operating profit, as is the case with the amortisation of the right-of-use assets. However, the interest on the lease liabilities is excluded.

    Cash flows from operating activities will increase and cash flows from financing activities will decrease by approximately 3,676 thousand euros, since the reimbursement of part of the principal of the lease liabilities will be classified as cash flows from financing activities.

    The Group’s activities as a lessor are not material and, therefore, are not expected to have a significant impact on the Group’s financial statements. However, additional information will have to be disclosed as of next year.

– IFRS 9 (Amendment) “Prepayment component with negative compensation”.

– IFRIC 23 “Uncertainty over income tax treatments”.

Accordingly, at the date of authorisation for issue of these consolidated financial statements, the following standards, amendments or interpretations were published by the IASB but had not yet come into force, and are subject to approval by the European Union:

– IFRS 10 (Amendment) and IAS 28 (Amendment) “Sale or contribution of assets between an investor and its associate or joint venture”.

– IFRS 17 “Insurance contracts”.

– IAS 28 (Amendment) “Long-term interests in associates and joint ventures”.

– Annual improvements to IFRSs. 2015-2017 Cycle: The amendments affect IFRS 3, IFRS 11, IAS 12 and IAS 23 and shall apply to annual periods beginning on or after 1 January 2019, all of which are subject to adoption by the EU. The main amendments refer to:

- IFRS 3 “Business combinations”.
- IFRS 11 “Joint arrangements”.
- IAS 12 “Income taxes”.
- IAS 23 “Borrowing costs”.

– IAS 19 (Amendment) “Plan amendment, curtailment or settlement”.

– IFRS 3 (Amendment) “Definition of a business”.

– IAS 1 (Amendment) and IAS 8 (Amendment) “Definition of material”.

The application of new standards, amendments and interpretations will be considered by the Group once they have been ratified and adopted, where appropriate, by the European Union.

The Parent’s directors have reviewed the potential impacts of the future application of these standards and consider that their entry into force will not have a significant effect on the consolidated financial statements.

**c) Functional currency**

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

**d) Responsibility for the information provided and estimates and judgements made**

The information in these consolidated financial statements is the responsibility of the Parent’s directors. Management of the Parent has made estimates based on objective data in order to quantify certain assets, liabilities, income, expenses and commitments reported herein. These estimates and criteria relate to the following:

– The market value of properties for own use, investment properties and inventories (Notes 8 and 9).

  The market value was obtained from the appraisals periodically made by independent experts. Such appraisals were made on 31 December 2018 and 2017 in accordance with the methods described in Notes 4-b and 4-c.

– Classification, measurement and impairment of financial investments (Note 4-e).

– Estimate of the appropriate allowances for doubtful debts (Note 11).

– Measurement of deferred tax liabilities recognised in the consolidated statement of financial position (Notes 4-m and 17).

– Measurement of assets classified as held for sale (Notes 4-s and 22).

– Goodwill impairment testing (Note 7).

– The market value of certain financial assets (Note 10), including derivative financial instruments (Note 14).

– Evaluation of lawsuits, obligations, and contingent assets and liabilities at year-end (Note 16).

Although these estimates were made on the basis of the best available information at the date of authorising these consolidated financial statements for issue, events that take place in the future might make it necessary to change these estimates (upwards or downwards). Changes in accounting estimates would be applied prospectively and would be recognised in the consolidated statement of comprehensive income.

**e) Basis of consolidation**

The main consolidation principles applied by the Parent's directors in preparing these consolidated financial statements were as follows:

1. The accompanying consolidated financial statements were prepared from the accounting records of Inmobiliaria Colonial, SOCIMI, S.A. and of the companies controlled thereby, whose financial statements were prepared by each Group company's management. The Parent is considered to have effective control in the circumstances outlined in point 6 below.

2. The results of the subsidiaries acquired or sold during the year are included in consolidated income from the effective date of acquisition and are no longer included from the date of disposal, as appropriate.

3. All accounts receivable and payable and other transactions between the consolidated companies have been eliminated on consolidation.

4. Where necessary, the financial statements of the subsidiaries are adjusted to ensure uniformity with the accounting policies applied by the Parent. All subsidiaries have the same reporting date as the Parent, i.e., 31 December.

5. The interest of non-controlling shareholders is established in proportion to the fair values of the identifiable assets and liabilities recognised. Non-controlling interest in:

   a. Investees' equity: recognised in equity under "Non-controlling interests" in the consolidated statement of financial position.

   b. Profit or loss for the year: recognised under "Net profit attributable to non-controlling interests" in the consolidated statement of comprehensive income.

6. The Group used the following criteria to determine the consolidation method applicable to the various companies comprising the Group:

   Full consolidation:

   – Subsidiaries are fully consolidated and are considered to be all entities in which the Group directly or indirectly controls the financial and operating policies such that power is exercised over the investee. This is generally accompanied by an ownership interest of more than half of an entity's voting rights. In addition, to evaluate whether the Group controls another entity, it considers the power over the investee; the exposure or rights to variable returns of the investment; and the ability to use this power over the investee to affect the amount of the investor's returns. When evaluating whether the Group exercises control over an entity, the existence and the effect of any potential voting rights, both those held by the Parent and by third parties, are taken into consideration, provided they are of a substantive nature.

   – Subsidiaries are accounted for using the acquisition method. The acquisition cost is the fair value of the assets delivered, the equity instruments issued and the liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and identifiable liabilities and contingencies incurred in a business combination are measured initially at fair value at the acquisition date, regardless of the effect of non-controlling interests. When the acquisition cost is higher than the fair value of the Group's interest in the identifiable net assets acquired, the difference is recognised as goodwill. If the acquisition cost is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income (details of the companies consolidated at 31 December 2018 and 2017 are included in the Appendix).

7. The accompanying consolidated financial statements do not include the tax effect, if any, of transferring the reserves of the consolidated companies to the Parent's equity, since it is considered that these reserves will be used to finance the operations of each company and any potential distributions will not represent a significant additional tax cost.

**f) Changes in the scope of consolidation**

The following changes occurred in the scope of consolidation in 2018:

– On 16 January 2018, the Parent acquired 100% of the share capital of the Spanish company LE Offices Egeo, S.A.U. (hereinafter, "Egeo"), the owner of an office building located in Madrid (Note 9). The acquisition price was 49,098 thousand euros, plus associated acquisition costs. In addition, in 2018 the loan held by Egeo with a financial institution for 30,182 thousand euros, including interest, was paid off early.

– Voluntary takeover bid to acquire shares of Axiare Patrimonio SOCIMI, S.A.

On 28 December 2017, the Spanish National Securities Market Commission authorised the voluntary takeover bid to acquire shares of Axiare Patrimonio SOCIMI, S.A. submitted by the Parent 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., entailing the payment of 842,955 thousand euros.

With this expenditure, the value of the ownership interest in Axiare Patrimonio SOCIMI, S.A. amounted to 1,207,647 thousand euros, including the value of the ownership interest held by the Parent prior to the date of the takeover (Note 10-b). As a result, taking into account the shares already previously held by the Parent, the latter now holds 68,674,633 shares, representing 86.86% of the share capital of Axiare Patrimonio SOCIMI, S.A.

*Reason for the business combination*

As explained in the prospectus of the takeover bid, with the acquisition of Axiare, the Colonial Group consolidated its position as the European platform in the prime office market of Paris, Madrid and Barcelona. Axiare's asset portfolio at 30 September 2017, with 74% relating to offices, of which 93% are located in Madrid, clearly complements the Colonial Group's strategy, which consists of investing in the office markets of Madrid, Barcelona and Paris, with a focus on high-quality buildings. The acquisition of Axiare will allow Colonial to increase the value of its current portfolio and increase the Group's exposure in Spain. Furthermore, the synergies with the acquisition of Axiare may represent a savings in operating costs. Accordingly, it will potentially enable Axiare's financing structure to be optimised as a result of its integration into the Group with a credit rating of BBB by Standard & Poor's and Baa2 by Moody's.

*Net assets acquired and cost of business combination*

The Parent's directors made an initial allocation of the cost of the business combination, provisionally estimating that the difference between the cost of the business combination and the fair value of the net assets acquired is as shown in the following table:

**Thousands of euros**

| | Carrying amount | Value adjustment | Fair value |
|---|---|---|---|
| Investment property | 1,734,566 | (3,193) | 1,731,373 |
| Other non-current assets | 32,662 | – | 32,662 |
| Current assets | 180,414 | 9,969 | 190,383 |
| Non-current liabilities | (645,213) | – | (645,213) |
| Current liabilities | (116,181) | (3,999) | (120,180) |
| **Total net assets** | **1,186,248** | **2,777** | **1,189,025** |
| **Consideration paid on the investment (*)** | | | **1,207,645** |
| **Capital increase as a result of the merger** | | | **157,909** |
| **Positive combination difference (Goodwill)** | | | **176,529** |

(*) The consideration paid was calculated as the total acquisition price plus the revaluation of the investment acquired prior to the acquisition of control.

These initial estimates are provisional and the Group has a one-year period to adjust them on the basis of any subsequent more significant or complete information that it may receive.

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.

"Other operating expenses" in the consolidated statement of comprehensive income for 2018 includes 8,021 thousand euros in transaction costs associated with the transaction.

The fair value of the accounts receivable acquired, mainly of a commercial nature, amounted to 15,886 thousand euros and did not differ from their gross contractual amounts. The Parent's directors do not consider that, at the acquisition date, there were signs that such accounts would not be collected in full.

The operating income of the Axiare subgroup in January 2018 amounted to losses of 57,234 thousand euros, including 47,842 thousand euros relating to incentive and indemnity plans and 12,579 thousand euros relating to the takeover bid launched by Inmobiliaria Colonial, SOCIMI, S.A.

*Allocation to the cash-generating unit and impairment of goodwill*

In accordance with IAS 36, Management identifies the different cash-generating units by looking at the smallest identifiable group of assets that generates cash inflows for the entity that are largely independent of the cash inflows from other assets or groups of assets.

In this context, the Group has considered, when defining its cash-generating units, how the management of the different real estate assets that make up the Group is organised, and also how to frame them within the business segment.

The Parent's directors consider that the change in value recorded by the structured portfolio acquired through the business combination with Axiare after the date of the acquisition of control represents the materialisation of the expectations existing at the date of this business combination.

*Merger by absorption between Inmobiliaria Colonial, SOCIMI, S.A. (absorbing company) and Axiare Patrimonio SOCIMI, S.A. (absorbed company)*

On 4 July 2018, the merger deed executed on 2 July 2018 between Inmobiliaria Colonial, SOCIMI, S.A. and Axiare Patrimonio SOCIMI, S.A. was registered with the Madrid Mercantile Registry. In this respect, to meet the exchange of the merger, the Parent 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. The new shares were admitted to trading on 9 July 2018.

- On 20 March 2018, Utopicus increased its share capital by 4 thousand euros, corresponding to 3,638 shares with a par value of 1 euro each, plus a share premium, which was subscribed and paid in full by the Parent.

- On 7 May 2018, the Parent acquired 100% of Peñalvento from the subsidiary Agisa for 20,755 thousand euros.

- On 16 November 2018, the Parent acquired 10,323,982 shares of the subsidiary SFL from Qatar Holding, LLC and DIC Holding, LLC through (i) the Parent's contribution of 7,136,507 shares of the subsidiary as consideration for the subscription of the 53,523,803 new shares of the Company (Note 12-a), (ii) the exchange of 400,000 shares of the subsidiary SFL for 3,000,000 shares of the Parent that it held as treasury shares (Note 12-f), and (iii) the sale to the Parent of 2,787,475 shares of the subsidiary SFL for 203,486 thousand euros.

- On 29 November, the Parent acquired 281,022 shares of the subsidiary SFL for 18,969 thousand euros.

- In addition, the Parent acquired 441,000 shares of the subsidiary SFL through the exchange of 315,000 shares of the Parent held as treasury shares (Note 12-f) and 8,442 thousand euros.

The following changes arose in the scope of consolidation in 2017:

- On 18 May 2017, the subsidiary Inmocol Torre Europa, S.A. (hereinafter, "Inmocol") was incorporated. The initial share capital of 20,000 thousand euros was fully subscribed by the Parent and its shareholder as follows:

  - The shareholder subscribed 50% of the share capital through a non-monetary contribution of land located at Hospitalet del Llobregat, valued at 10,000 thousand euros, on which Inmocol will construct an office building.

  - The remaining 50% of the share capital was subscribed by the Parent, having only paid 25% of the capital subscribed, i.e., 2,500 thousand euros. The unpaid share capital subscribed will be paid by the Parent when agreed upon by the Board of Directors of Inmocol.

- During the first half of 2017, the Parent also acquired 4,700 shares in its subsidiary SFL, for a total of 265 thousand euros, thus increasing its interest in the share capital from 58.55% to 58.56%.

- On 27 September 2017, the Parent acquired all the shares of the Spanish company LE Offices Arturo Soria, S.L. (currently Colonial Arturo Soria, S.L., and hereinafter, "Arturo"), the owner of an office building located in Madrid (Note 9). The acquisition price was 19,747 thousand euros, plus associated acquisition costs. Of this amount, 4,200 thousand euros were deferred until 31 January 2018 at the latest (Note 15), and were paid in 2018. In addition, the loan held by Arturo Soria with a financial institution for 13,159 thousand euros, including interest, was paid off early, which was registered with the Property Registry on 26 November 2017.

- On 27 October 2017, the Parent acquired 61.51% of the share capital of the Spanish company Utopicus Innovación Cultural, S.L. (hereinafter, "Utopicus"), the head of the Utopicus co-working platform. The acquisition price amounted to 2,633 thousand euros, including associated acquisition costs, and 205 thousand euros were deferred, which were recognised under "Trade payables" in the consolidated statement of financial position (Note 15). On this same date, Utopicus increased its share capital by 1,001 thousand euros, corresponding to 910 shares of one euro par value each, plus a share premium, which was subscribed and paid in full by the Parent, thus increasing its interest in the share capital of Utopicus to 69.60%.

- On 30 November 2017, after the previous tenant left, the subsidiary SFL acquired the Emile Zola property (Note 9) through (i) the acquisition of all share capital of the French company SAS Société Immobilière Victoria, which owns the land and a portion of the buildings of this property, directly from the subsidiary SFL, and (ii) the subsidiary SFL acquired the rest of the property that was not owned by SAS Société Immobilière Victoria. The acquisition cost totalled 165,000 thousand euros.

- On 20 December 2017, the Parent acquired all the share capital of the Spanish companies Almacenes Generales Internacionales, S.A. (hereinafter, "Agisa") and Soller, S.A., which own several plots of land located in Madrid (Note 9). The acquisition price was 178,220 thousand euros, including associated acquisition costs. Of this amount, 41,335 thousand euros were deferred until 31 December 2018 at the latest (Note 15). Several guarantees were extended as collateral for the deferred amount (Note 13-i). On 31 December 2018, the deferred amounts were paid and the guarantees extended were cancelled.

- On 20 and 27 December 2017, Agisa acquired 64.60% of the share capital of the Spanish company Peñalvento, S.L. (hereinafter, "Peñalvento"), which owns a plot of land in Madrid (Note 9). The acquisition price was 12,127 thousand euros, including associated acquisition costs. Of this amount, 632 thousand euros were deferred until 31 December 2018 (Note 15). Several guarantees were extended as collateral for the deferred amounts (Note 13-i). In addition, in a single deed, the loan held by Peñalvento with a financial institution for 20,192 thousand euros, including interest, was paid off early, which is expected to be registered in the property registry on 30 January 2018. With the acquisition of the aforementioned ownership interest, together with the 35.40% interest in the share capital of Peñalvento owned by Agisa, the Parent now owns all share capital of Peñalvento.

At 31 December 2018 and 2017, Colonial Invest, S.L.U., Colonial Tramit, S.L.U., Axiare Properties, S.L.U., SB2 SAS, SB3 SAS and SCI SB3 were inactive subsidiaries.

#### g) Comparison of information

The information relating to 2018 included in these notes to the consolidated financial statements is presented, for comparison purposes, with the information relating to 2017.

#### h) Aggregation of items

Certain items in the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 consolidated financial statements.

#### i) 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 2017.

#### j) Negative working capital

At 31 December 2018, the Group had a negative working capital of 176,230 thousand euros, however, the Group hassufficient undrawn lines of financing to cover this amount (Note 13).

### 3. DISTRIBUTION OF THE PARENT'S PROFIT

The distribution of profit for 2018 proposed by the Board of Directors of the Parent and that will be submitted for approval at the Annual General Meeting is as follows:

▼ **Thousands of euros**

| **Profit for the year of the Parent** | **36,308** |
|---|---|
| To legal reserve | 3,631 |
| To dividends | 32,677 |
| **Total distributed** | **36,308** |

The Parent's Board of Directors will submit for approval at the Annual General Meeting a proposed distribution of dividends totalling 0.20 euros per share, which would give rise to a total maximum dividend of 101,623 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 Parent (Note 12-f).

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

▼ **Thousands of euros**

| | **2013** | **2014** | **2015** | **2016** | **2017** |
|---|---|---|---|---|---|
| Dividends distributed | – | – | 47,833 | 62,749 | 77,219 |

## 4. ACCOUNTING POLICIES AND MEASUREMENT BASES

The main accounting policies and measurement bases used to prepare the consolidated financial statements, in accordance with EU-IFRSs and the interpretations in force when these consolidated financial statements were prepared, are as follows:

### a) Business combinations and intangible assets

*Business combinations*

Business combinations are accounted for by applying the acquisition method (Note 2-e).

The cost of the business combination is allocated at the acquisition date by recognising, at fair value, all assets, liabilities and contingent liabilities of the acquired entity that meet the criteria for recognition established in IFRS 3. The excess of the cost of a business combination over the acquiree's allocated assets, liabilities and contingent liabilities is recognised as goodwill, which, accordingly, represents advance payments made by the Colonial Group for future economic benefits generated by the assets of the acquiree that are not individually and separately identifiable and recognisable.

The negative different, if any, between the cost of the business combination and the allocation to assets, liabilities and contingent liabilities of the acquired entity, is recognised as profit or loss in the year in which it is incurred.

If a business combination is achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at fair value at the acquisition date and recognises any resulting gain or loss in the consolidated statement of comprehensive income or under other consolidated comprehensive income, where appropriate.

*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.

### b) Property, plant and equipment (Note 8)

Properties for own use, including 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. Any potential impairment losses on the properties are recognised in accordance with the same valuation assumptions described in Note 4-d.

Subsequent costs are capitalised or recognised as a separate asset only when it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be determined reliably. Maintenance and upkeep expenses are charged to the consolidated statement of comprehensive income in the year incurred.

Group companies depreciate their property, plant and equipment for own use and other items of property, plant and equipment using the straight-line method, distributing the cost of the assets over the years of estimated useful life. The breakdown of the useful life of property for own use located in Spain and France is as follows:

**Years of estimated useful life**

| | Spain | France |
|---|---|---|
| Property for own use | | |
| Buildings | 50 | 50 |
| Fixtures | 10 to 15 | 10 to 50 |
| Other property, plant and equipment | 4 to 10 | 5 to 50 |

Gains or losses arising on the disposal (Note 18-g) or derecognition of an asset (Note 18-f) from this heading are determined as the difference between the sale price and its carrying amount and are recognised in the consolidated statement of comprehensive income.

**c) Investment property (Note 9)**

"Investment property" in the consolidated 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 stated at its fair value at the end of the reporting period and is not subject to annual depreciation.

Profit or loss arising from changes in the fair value of investment property is included in income in the same period in which it occurs and recognised under "Changes in fair value of investment property" in the consolidated statement of comprehensive income. These gains or losses are not included in operating profit as the changes in value are not directly within the control of the Group's management.

Assets are transferred from investment property in progress to investment property when they are ready for use. The classification of an investment property to the investment property in progress heading takes place only when the rehabilitation or renovation project will exceed 1 year in length.

When the Group recognises as an increase in fair value of an investment property the cost of an asset that replaces another already included in such amount, the Group reduces the value of the property by the fair value of the asset replaced, recognising the impact under "Gains/(losses) on changes in value of assets and impairment" in the consolidated statement of comprehensive income (Note 18-f). If the fair value of the assets replaced cannot be reliably determined, the cost of the replacement is included in the carrying amount of the property, whose fair value is later reassessed periodically on the basis of appraisals performed by independent experts.

In accordance with IAS 40, the Group calculates the fair value of its investment property on a regular basis. Fair value is determined based on the valuations made by independent experts (Jones Lang LaSalle and CB Richard Ellis Valuation in Spain, and Jones Lang La Salle and Cushman & Wakefield in France, in both 2018 and 2017) at the date of preparing the consolidated statement of financial position, so that the year-end fair values for investment property items reflect prevailing market conditions. 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 basically to the comprehensiveness and accuracy of the information provided by the Group.

The Discounted Cash Flow (hereinafter, "DCF") method was primarily used to determine the market value of the Group's investment property in 2018 and 2017.

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 key inputs in this valuation method are the determination of net income, the period of time over which they are discounted, the estimated realisable value at the end of each period and the target internal rate of return used to discount the cash flows.

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 2018 and 2017 are set out in the tables below:

▼ **Gross**

| **Yields (%) – Offices** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| **Barcelona – Prime Yield** | | |
| Leased out | 4.72 | 4.92 |
| Total portfolio | 4.75 | 5.00 |
| **Madrid – Prime Yield** | | |
| Leased out | 4.53 | 4.56 |
| Total portfolio | 4.51 | 4.57 |
| **Paris – Prime Yield** | | |
| Leased out | 3.23 | 3.25 |
| Total portfolio | 3.24 | 3.26 |

### Assumptions made at 31 December 2018

| Rent increases (%) – Offices | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 and thereafter |
|---|---|---|---|---|---|
| **Barcelona** | | | | | |
| Leased out | 3.0 | 3.0 | 3.0 | 3.0 | 2.25 |
| Total portfolio | 3.0 | 3.0 | 3.0 | 3.0 | 2.25 |
| **Madrid** | | | | | |
| Leased out | 3.0 | 3.0 | 3.0 | 3.0 | 2.5 |
| Total portfolio | 3.0 | 3.0 | 3.0 | 3.0 | 2.5 |
| **Paris** | | | | | |
| Leased out | 0.5 | 1.0 | 1.5 | 1.5 | 1.5 |
| Total portfolio | 0.5 | 1.0 | 1.5 | 1.5 | 1.5 |

### Assumptions made at 31 December 2017

| Rent increases (%) – Offices | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 and thereafter |
|---|---|---|---|---|---|
| **Barcelona** | | | | | |
| Leased out | 3.0 | 3.0 | 3.0 | 3.0 | 2.25 |
| Total portfolio | 3.0 | 3.0 | 3.0 | 3.0 | 2.25 |
| **Madrid** | | | | | |
| Leased out | 3.0 | 3.0 | 3.0 | 3.0 | 2.5 |
| Total portfolio | 3.0 | 3.0 | 3.0 | 3.0 | 2.5 |
| **Paris** | | | | | |
| Leased out | 1.0 | 1.50 | 2.0 | 2.0 | 2.0 |
| Total portfolio | 1.0 | 1.50 | 2.0 | 2.0 | 2.0 |

In addition, developments in progress were valued using the dynamic residual method, which was deemed the best approach. 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 Group at 31 December 2018 and 2017 to determine the value of its investment property: property, plant and equipment for own use, investment property, inventories and assets classified as held for sale.

### Thousands of euros

| Sensitivity of valuations to a change of one quarter of a point in yields | Valuation | Decrease of one quarter of a point | Increase of one quarter of a point |
|---|---|---|---|
| December 2018 | 11,348,133 | 776,117 | (671,522) |
| December 2017 | 8,933,035 | 639,037 | (551,470) |

A reconciliation between the valuations used by the Group and the carrying amounts of the headings of the consolidated statement of financial position where the valued assets are recognised, is as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Headings of the consolidated statement of financial position** | | |
| Property, plant and equipment | 34,734 | 33,781 |
| Investment property (Note 9) | 11,083,133 | 8,792,396 |
| Inventories (Note 9) | 46,587 | – |
| Assets classified as held for sale (Note 22) | 26,091 | – |
| Trade and other receivables – Lease incentives (Note 11) | 88,061 | 78,746 |
| **Total headings of the consolidated statement of financial position** | **11,278,606** | **8,904,923** |
| Unrealised gains on assets recognised under IAS 16 | 31,614 | 28,292 |
| Unrealised gains on other assets | 11,913 | – |
| Payments outstanding | 26,000 | – |
| Assets not valued | – | (180) |
| **Valuation** | **11,348,133** | **8,933,035** |

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 2018 and 2017 from the lease of investment properties amounted to 348,273 thousand euros and 283,287 thousand euros, respectively (Note 18-a) and is recognised under "Revenue" in the accompanying consolidated statement of comprehensive income.

In addition, the bulk of repair and maintenance expenses incurred by the Colonial Group in connection with the operation of its investment properties is passed on to the respective tenants (Note 4-q).

**d) Impairment of property, plant and equipment**

At each reporting date, the Colonial Group 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 Group 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.

**e) Financial instruments (excluding derivative financial instruments)**

***Financial assets (Note 10)***

*Initial recognition*

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

*Classification and subsequent measurement*

The financial assets held by the Group are classified in the following categories:

– Loans and receivables: this heading includes loans granted to third parties and associates. They are measured at face value and classified according to maturity. This heading also includes non-current deposits and guarantees granted, primarily in relation to deposits placed with official entities in connection with guarantees collected from lessees, in accordance with prevailing legislation.

– Investments held to maturity: this heading includes non-derivative financial assets, such as current and non-current fixed-income securities that are generally held until maturity and measured at amortised cost. Current fixed-income securities are recognised under "Current financial assets" in the consolidated statement of financial position. Interest income is calculated in the year in which it accrues, in accordance with financial criteria.

– Available-for-sale financial assets: this heading includes investments where the Group does not exercise significant influence or control. They are measured at fair value and the profit or loss on changes in this fair value is recognised under other consolidated comprehensive income.

***Financial liabilities (Note 13)***

Financial liabilities consist primarily of bank borrowings and bond issues and are recognised at amortised cost.

Accounts payable are initially measured at the fair value of the consideration received, adjusted for directly attributable transaction costs, and are subsequently measured at amortised cost.

Financial liabilities are derecognised when the obligations giving rise to them cease to exist. When debt instruments are exchanged between the Group and a third party, as long as these instruments have substantially different conditions, the Group derecognises the original financial liability and recognises the new financial liability. The difference between the carrying amount of the original liability and the consideration paid, including any attributable transaction costs, is recognised in the consolidated statement of comprehensive income.

The Group 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.

**f) Receivables (Note 11)**

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.

**g) Cash and cash equivalents (Note 13-l)**

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.

**h) Own equity instruments (Note 12)**

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

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

Any treasury shares of the Parent 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 the consolidated statement of comprehensive income.

**i) Provisions and contingent liabilities (Note 16)**

In preparing the consolidated financial statements, the Parent's directors distinguish between:

– Provisions: credit balances covering obligations arising as a consequence of past events which could give rise to liabilities at the Group companies, the nature of which is certain but the amount and timing of which cannot be determined, and

– Contingent liabilities: possible obligations arising from past events, the materialisation of which will be confirmed only by the occurrence or non-occurrence of one or more future events not within the control of the consolidated companies.

The consolidated 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, but are disclosed in Note 16.

The provisions, which are quantified taking into consideration the best information available concerning the consequences of the events on which they are based, and which are revised at each reporting close, are recognised in order to cover the specific and likely risks for which they were originally recognised, and are fully or partially reversed if and when said risks cease to exist or are reduced.

**j) Employee benefits**

*Termination benefits*

Under current legislation, the Group is required to pay severance to employees terminated under certain conditions. Severance payments that can be reasonably quantified are recorded as a 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 2018, the Parent did not record any provisions in this connection.

*Pension obligations*

In 2018 and 2017 the Parent 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.

At 31 December 2018 and 2017, the SFL subgroup had several defined benefit pension plans. Defined benefit obligations are calculated on a regular basis by independent actuarial experts. The actuarial assumptions used to calculate these liabilities are adapted to the situation and to applicable French legislation, in accordance with IAS 19. The actuarial cost recorded in the consolidated statement of comprehensive income in relation to these plans is the sum of the service costs for the period, the interest expense and actuarial gains and losses. At 31 December 2018, net liabilities for defined benefits amounted to 902 thousand euros (872 thousand euros at 31 December 2017).

*Share-based payments (Note 19)*

The Group 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.

**k) Derivative financial instruments (Note 14)**

The Group 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 fair value of the derivative financial instruments is determined based on the valuations made by independent experts (Solventis A.V., S.A., in 2018 and 2017).

The following valuation criteria have been applied:

– Cash-flow hedges: fair value gains or losses arising on transactions which classify for hedge accounting are recognised, net of taxes, directly in other consolidated comprehensive income, under “Gains/(losses) on hedging instruments”, until the underlying or expected transaction occurs, at which point they are reclassified, where appropriate, to “Finance costs” or “Finance income” in the consolidated statement of comprehensive income. Any valuation gains and losses on the ineffective portion of the hedge are recognised directly as financial profit or loss in the consolidated statement of comprehensive income.

– 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 as financial profit or loss in the consolidated statement of comprehensive income.

In accordance with IFRS 13, the Group estimated its own credit risk and that of the counterparty in the measurement of its derivative portfolio.

Hedge accounting is discontinued when a hedging instrument expires or is sold or exercised, or when the hedge no longer qualifies for hedge accounting. Gains or losses on hedging instruments recognised in other consolidated comprehensive income remain under this heading until the related transaction is performed. Once the related cash flow occurs, any cumulative gain or loss recognised in other consolidated comprehensive income is transferred to consolidated net profit or loss for the year. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other consolidated comprehensive income is transferred to consolidated net profit or loss for the year.

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

– Retrospective tests measure how effectively the 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, taking into consideration that the hedging instrument is considered effective if this statistical correlation is between 0.80 and 1.

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

**l) Current / non-current**

The normal operating cycle is understood to be the period of time between the acquisition of the assets that form part of the Group’s various business activities and the realisation of the finished assets in the form of cash or cash equivalents.

The Group’s primary business is the lease of assets and its normal business cycle is the calendar year. Therefore, assets and liabilities maturing in one year or less are classified as current assets and those maturing in more than one year are classified as non-current assets, except for receivables arising from the recognition of lease incentives (Notes 4-n and 11-b), which are applied on a straight-line basis over at least the term of the lease agreement and are considered to be current assets.

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

**m) Income tax (Note 17)**

*General regime*

The expense for Spanish corporate income tax and similar taxes applicable to consolidated foreign operations is recognised in the consolidated statement of comprehensive income, except when the tax expense is generated by a transaction whose gains or losses are taken directly to equity, in which case the corresponding tax is also recognised in equity.

Income tax expense is the sum of the tax payable on profit for the year and the variation in recognised deferred tax assets and liabilities.

Corporate income tax expense for the year is calculated based on taxable profit for the year, which differs from the net profit or loss presented in the consolidated statement of comprehensive income because it excludes certain taxable profit and deductible expenses from prior years, as well as other exempt items. The Group's current tax liabilities are calculated using tax rates that have been enacted or substantively enacted by the reporting date.

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, deferred tax assets not recorded in the consolidated statement of financial position are reassessed at the end of each reporting period and are recorded to the extent that it has become probable that they will be recovered through future taxable profits. In accordance with IAS 12, changes in deferred tax assets and liabilities caused by changes in tax rates or tax laws are recognised in the consolidated statement of comprehensive income for the year in which these changes are approved.

In accordance with that established in IAS 12, the measurement of the Group's deferred tax liabilities reflects the tax consequences that would follow 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 that are measured using the IAS 40 fair value model, there is a refutable presumption that their carrying amount will be recovered through their sale. Consequently, the deferred tax liabilities arising from the Group's investment properties located in Spain were calculated by applying a tax rate of 25%, less any existing tax credits not recognised at 31 December 2018. The effective settlement rate was therefore 18.75%.

Until 31 December 2016, the Parent was the head of a group of companies filing consolidated tax returns under tax group no. 6/08.

*REIT Regime*

Effective as of 1 January 2017 (Note 1), the tax regime of the Parent and the majority of its 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:

1. 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.

2. 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 on the basis of consolidated profit 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.

3. 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:

   a) 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. Otherwise the following shall apply.

   b) 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.

   c) 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 was 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.

*SIIC regime – SFL subgroup*

Since 1 January 2003, the SFL subgroup companies have filed tax returns under the French tax regime applicable to listed real estate investment companies ("the SIIC regime"). This regime enabled the assets allocated to the rental business to be recognised at market value at the date on which it availed itself of this tax regime, currently subject to a tax rate of 19% (hereinafter, "exit tax"), payable within a period of four years, on the capital gains recognised.

This regime affects only real estate activities, and is not applicable to companies engaged in sales and services, such as Segpim, S.A. and Locaparis SAS in the SFL subgroup, to properties under finance leases (unless the lease is cancelled early) or to the subgroups and investees in conjunction with third parties.

This regime affords the SFL subgroup an exemption from taxes on earnings generated from its rental business and on capital gains obtained from the sale of properties, provided that 95% of profit from that activity and 60% of the capital gains obtained from property sales of companies under this regime are distributed each year in the form of dividends.

On 30 December 2006, a new amendment to the SIIC regime ("SIIC 4") was approved, which established, among other provisions, that dividends paid annually to shareholders that directly or indirectly hold more than 10% of the share capital of an SIIC and that are exempt from tax or subject to a tax rate that is less than two-thirds of the standard French income tax rate would be subject to a 20% levy, payable by the SIIC. This provision applies to the dividends distributed from 1 July 2007 onwards. At 31 December 2007, the Parent notified SFL that dividends distributed from 1 July 2007 would be taxed in Spain at a rate of over 11.11% as a result of the partial waiver of the exemption for these dividends. As a result, the 20% tax withheld at source described above was not applicable.

After the Parent adhered to the REIT regime, the 20% tax withheld at source was no longer applicable, provided the significant shareholders comply with their minimum tax obligations in accordance with SIIC regulations.

**n) Revenue and expenses (Note 18)**

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

However, in accordance with the accounting principles established in the EU-IFRS conceptual framework, the Group recognises revenue when it is earned together with all the necessary associated expenses. The sale of goods is recognised when the goods have been delivered and ownership transferred.

Interest income is accrued on a time proportion basis, according to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the future cash receipts estimated over the expected life of the financial asset from the asset's carrying amount.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established, i.e. when shareholders at the Annual General Meetings of the subsidiaries approve the distribution of the corresponding dividend.

*Property leases*

In accordance with IFRS 16, 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 2018 and 2017, all of the Group's leases qualified as operating leases.

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. The Group recognises the aggregate cost of incentives granted as a reduction in rental income of the lease agreement. The effects of the rent-free periods are recognised during the minimum term of the lease agreement on a straight-line basis.

The indemnity payments made by lessees to cancel their lease agreements prior to their minimum termination date are also recognised as income in the consolidated statement of comprehensive income on the date on which they are claimable by the Group.

**o) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of investment property (Note 9), which require preparation during a significant period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

**p) Consolidated statement of cash flows (indirect method)**

The terms used in the consolidated statement of cash flows are defined as follows:

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

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

– Investing activities: the acquisition, sale or disposal by other means of non-current assets and other investments not included in cash and cash equivalents.

– Financing activities: activities that result in changes in the size and composition of equity and borrowings that are not operating activities.

#### q) Costs passed on to lessees

In accordance with EU-IFRSs, the Group does not consider the costs incurred by lessees from its investment properties as income and they are recognised, less the corresponding costs, in the consolidated income statement. In 2018 and 2017, a total of 65,341 thousand euros and 46,935 thousand euros, respectively, were invoiced in this regard.

Direct operating expenses associated with investment properties that generated rental income in 2018 and 2017, included under “Operating profit” in the consolidated income statement, amounted to 82,681 thousand euros and 65,841 thousand euros, respectively, prior to deducting the costs passed on to the lessees. The expenses incurred in connection with investment properties that did not generate rental income were not significant.

#### r) Related party transactions

The Group’s transactions with related parties are all carried out at market prices. Furthermore, the transfer prices applied are fully documented and supported and the Parent’s directors therefore do not consider that transfer prices pose a significant risk that could give rise to a material liability in the future.

#### s) Assets classified as held for sale (Note 22)

Assets classified as held for sale are measured at the lower of their carrying amount in accordance with applicable measurement rules and 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 principally 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 ready for immediate sale in its current state and the sale is expected to be fully complete within a period of no more than twelve months from the classification of the asset as held for sale.

The Colonial Group classifies 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.

#### t) Inventories

Inventories, consisting of land, developments under construction and finished developments, are measured at acquisition cost or execution cost.

Execution cost includes direct and indirect construction costs in addition to the expenses incurred in financing the construction work while in progress, as long as the construction work takes longer than one year.

Prepayments made in connection with call options on properties are recognised as inventory prepayments and it is assumed that expectations regarding the conditions enabling their exercise will be met.

The Group records inventory impairment provisions, as appropriate, when market value is lower than carrying amount.

The corresponding valuation was carried out based on appraisals performed by independent experts (Jones Lang LaSalle) in accordance with the Appraisal and Valuation Standards issued by the Royal Institute of Chartered Surveyors (RICS) of the United Kingdom, and the International Valuation Standards (IVS) issued by the International Valuation Standards Committee (IVSC).

The land portfolio was valued using the residual method, which was deemed the best approach. This approach was complemented by the use of the comparable sales method in order to verify the consistency of the resulting unit valuations.

Developments in progress were valued using the dynamic residual method, which was deemed the best approach. 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.

In 2018 no capitalised borrowing costs associated with inventories were recognised.

**u) Fair value hierarchy**

Financial assets and liabilities measured at fair value are classified according to the following hierarchy established in IFRS 7 and IFRS 13:

– Level 1: Inputs are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

– Level 2: Inputs are based on quoted prices for similar assets or liabilities in active markets (not included in level 1), prices quoted for identical or similar assets or liabilities in markets that are not active, techniques based on valuation models for which all relevant inputs are observable in the market or can be corroborated by observable market data.

– Level 3: In general, inputs are unobservable and reflect estimates based on market assumptions to determine the price of the asset or liability. Unobservable data used in the valuation models are significant in the fair values of the assets and liabilities.

In accordance with IFRS 13, the Group estimated the bilateral credit risk in order to reflect both its own risk, as well as counterparty risk in the fair value of its derivatives (Note 4-k). Credit risk at 31 December 2018 and 2017 was not considered to be material.

The detail of the Group's financial assets and liabilities measured at fair value according to the aforementioned levels is as follows:

**▼ 31 December 2018 – Thousands of euros**

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Assets** | | | |
| Non-current financial assets available for sale | – | – | – |
| Derivative financial instruments: | | | |
| Not classified as hedges | – | 591 | – |
| **Total assets (Note 10)** | **–** | **591** | **–** |
| **Liabilities** | | | |
| Derivative financial instruments: | | | |
| Classified as hedges | – | 2,650 | – |
| Not classified as hedges | – | 1,041 | – |
| **Total liabilities (Note 14)** | **–** | **3,691** | **–** |

**▼ 31 December de 2017 – Thousands of euros**

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Assets** | | | |
| Non-current financial assets available for sale | 419,277 | – | – |
| Derivative financial instruments: | | | |
| Not classified as hedges | – | 1,484 | – |
| **Total assets (Note 10)** | **419,277** | **1,484** | **–** |
| **Liabilities** | | | |
| Derivative financial instruments: | | | |
| Classified as hedges | – | 348 | – |
| Not classified as hedges | – | 153 | – |
| **Total liabilities (Note 14)** | **–** | **501** | **–** |

## 5. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing earnings for the year attributable to shareholders of the Parent (after tax and non-controlling interests) by the weighted average number of shares outstanding during that year.

At 31 December 2018 and 2017, there were no instruments that may have had a diluting effect on the Parent's average number of ordinary shares.

▼ **Thousands of euros**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Consolidated profit for the year attributable to shareholders of the Parent:** | **524,763** | **682,523** |
| | **No, of shares** | **No, of shares** |
| Weighted average number of ordinary shares (in thousands) | 448,214 | 373,312 |
| | **Euro** | **Euro** |
| **Basic earnings per share:** | 1.17 | 1.83 |
| **Diluted earnings per share:** | 1.17 | 1.83 |

## 6. SEGMENT REPORTING

### a) Segmentation criteria

Segment reporting is organised, firstly, on the basis of the Group's business segments, and, secondly, by geographical segment.

The business lines described below have been defined in line with the Colonial Group's organisational structure at 31 December 2018 and 2017, which has been used by the Group's management to analyse the financial performance of the various operating segments.

### b) Basis and methodology for business segment reporting

The segment information below is based on monthly reports prepared by Group management, generated using the same computer application that prepares all of the Group's accounting data.

Segment revenue comprises revenue directly attributable to each segment, as well as gains from the sale of investment properties. Segment revenue excludes both interest and dividend income.

Segment expenses comprise operating expenses directly attributable to each segment and losses on the sale of investment properties. Allocated expenses do not include interest, the income tax expense or general administrative expenses incurred in the provision of general services that are not directly allocated to any business segment.

Segment assets and liabilities are those directly related to the segment's operating activities. The Group has no set criteria for allocating borrowings or equity by business segment. Borrowings are attributed in full to the "Corporate Unit".

Segment information for these businesses is as follows:

**2018 segment reporting – Thousands of euros**

| | Equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | Barcelona | Madrid | Paris | Other | Total equity | Corporate Unit | Total Group |
| **Income** | | | | | | | |
| Revenue (Note 18-a) | 41,629 | 106,144 | 193,509 | 6,757 | 348,039 | 234 | **348,273** |
| Other income (Note 18-b) | 20 | 281 | 3,943 | – | 4,244 | 1,433 | **5,677** |
| Net gains/(losses) on sales of assets (Note 18-g) | – | 11,745 | 21 | (45) | 11,721 | – | **11,721** |
| Operating profit/(loss) | 38,802 | 105,522 | 185,577 | 6,466 | 336,367 | (60,845) | **275,522** |
| Changes in fair value of investment property (Note 18-f) | 180,263 | 237,583 | 289,014 | (4,908) | 701,952 | – | **701,952** |
| Gains/(losses) on changes in value of assets and impairment (Note 18-f) | (15,610) | (10) | – | – | (15,620) | (115,770) | **(131,390)** |
| Financial profit/(loss) (Note 18-h) | – | – | – | – | – | (141,745) | **(141,745)** |
| Profit before tax | – | – | – | – | – | 704,339 | **704,339** |
| Consolidated net profit | – | – | – | – | – | 678,109 | **678,109** |
| Net profit/(loss) attributable to non-controlling interests (Note 18-j) | – | – | – | – | – | (153,346) | **(153,346)** |
| Net profit/(loss) attributable to shareholders of the Parent (Note 5) | – | – | – | – | – | 524,763 | **524,763** |

There were no significant inter-segment transactions in 2018.

None of the Group's customers represented more than 10% of the income from ordinary activities.

**Thousands of euros**

| | Equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Barcelona** | **Madrid** | **Paris** | **Other** | **Total equity** | **Corporate Unit** | **Total Group** |
| **Assets** | | | | | | | |
| Goodwill | – | – | – | – | 62,225 | – | **62,225** |
| Intangible assets, property, plant and equipment, investment property, assets classified as held for sale and inventories (Notes 8, 9 and 22) | 1,246,581 | 3,344,285 | 6,459,341 | 111,540 | 11,161,747 | 41,155 | **11,202,902** |
| Financial assets | 2,468 | 3,714 | 820 | 2 | 7,004 | 95,043 | **102,047** |
| Other non-current assets | – | – | – | – | – | 411 | **411** |
| Trade receivables and other current assets | – | – | – | – | – | 119,729 | **119,729** |
| **Total assets** | **1,249,049** | **3,347,999** | **6,460,161** | **111,542** | **11,230,976** | **256,338** | **11,487,314** |

**Thousands of euros**

| | Equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Barcelona** | **Madrid** | **Paris** | **Other** | **Total equity** | **Corporate Unit** | **Total Group** |
| **Liabilities** | | | | | | | |
| Bank borrowings and other financial liabilities (Note 13) | – | – | – | – | – | 733,028 | **733,028** |
| Bonds and similar securities issued (Note 13) | – | – | – | – | – | 4,061,108 | **4,061,108** |
| Operating liabilities (suppliers and payables) | – | – | – | – | – | 114,779 | **114,779** |
| Other liabilities | – | – | – | – | – | 476,604 | **476,604** |
| **Total liabilities** | **–** | **–** | **–** | **–** | **–** | **5,385,519** | **5,385,519** |

**Thousands of euros**

| | Equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Barcelona** | **Madrid** | **Paris** | **Other** | **Total equity** | **Corporate Unit** | **Total Group** |
| **Other information** | | | | | | | |
| Investments in intangible assets, property, plant and equipment and investment property | 82,105 | 104,899 | 50,667 | 871 | 238,542 | 1,918 | **240,460** |
| Depreciation and amortisation | (62) | (302) | (468) | – | (832) | (2,521) | **(3,353)** |
| Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year: | | | | | | | |
| – Changes in provisions (Note 18-e) | (95) | 266 | (660) | – | (489) | 2,925 | **2,436** |
| – Changes in fair value of investment property (Note 18-f) | 180,263 | 237,583 | 289,014 | (4,908) | 701,952 | – | **701,952** |
| – Gains/(losses) on changes in value of assets and impairment (Note 18-f) | (15,610) | (10) | – | – | (15,620) | (115,770) | **(131,390)** |

### ▼ 2017 segment reporting – Thousands of euros

| | Equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | Barcelona | Madrid | Paris | Other | Total equity | Corporate Unit | Total Group |
| **Income** | | | | | | | |
| Revenue (Note 18-a) | 34,871 | 52,270 | 195,780 | 366 | 283,287 | – | **283,287** |
| Other income (Note 18-b) | 7 | 69 | 2,145 | – | 2,221 | 493 | **2,714** |
| Net gains/(losses) on sales of assets (Note 18-g) | 8 | 519 | – | – | 527 | – | **527** |
| Operating profit/(loss) | 33,497 | 46,300 | 188,513 | 260 | 268,570 | (60,048) | **208,522** |
| Changes in fair value of investment property (Note 18-f) | 78,155 | 139,404 | 715,421 | 455 | 933,435 | – | **933,435** |
| Gains/(losses) on changes in value of assets and impairment (Note 18-f) | (287) | (2,129) | – | – | (2,416) | (2,804) | **(5,220)** |
| Financial profit/(loss) (Note 18-h) | – | – | – | – | – | (79,445) | **(79,445)** |
| Profit before tax | – | – | – | – | – | 1,057,292 | **1,057,292** |
| Consolidated net profit | – | – | – | – | – | 1,080,451 | **1,080,451** |
| Net profit/(loss) attributable to non-controlling interests (Note 18-j) | – | – | – | – | – | (397,928) | **(397,928)** |
| Net profit/(loss) attributable to shareholders of the Parent (Note 5) | – | – | – | – | – | 682,523 | **682,523** |

There were no significant inter-segment transactions in 2017.

None of the Group's customers represented more than 10% of the income from ordinary activities.

### ▼ Thousands of euros

| | Equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | Barcelona | Madrid | Paris | Other | Total equity | Corporate Unit | Total Group |
| **Assets** | | | | | | | |
| Intangible assets, property, plant and equipment and investment property (Notes 8 and 9) | 906,338 | 1,759,960 | 6,119,969 | 7,691 | 8,793,958 | 40,844 | **8,834,802** |
| Financial assets | 1,659 | 3,899 | 2,181 | – | 7,739 | 1,541,224 | **1,548,963** |
| Other non-current assets | – | – | – | – | – | 407 | **407** |
| Trade receivables and other current assets | – | – | – | – | – | 123,347 | **123,347** |
| **Total assets** | **907,997** | **1,763,859** | **6,122,150** | **7,691** | **8,801,697** | **1,705,822** | **10,507,519** |

▼ **Thousands of euros**

| | Equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Barcelona** | **Madrid** | **Paris** | **Other** | **Total equity** | **Corporate Unit** | **Total Group** |
| **Liabilities** | | | | | | | |
| Bank borrowings and other financial liabilities (Note 13) | – | – | – | – | – | 896,587 | **896,587** |
| Bonds and similar securities issued (Note 13) | – | – | – | – | – | 3,321,207 | **3,321,207** |
| Operating liabilities (suppliers and payables) | – | – | – | – | – | 143,880 | **143,880** |
| Other liabilities | – | – | – | – | – | 466,147 | **466,147** |
| **Total liabilities** | **–** | **–** | **–** | **–** | **–** | **4,827,821** | **4,827,821** |

▼ **Thousands of euros**

| | Equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Barcelona** | **Madrid** | **Paris** | **Other** | **Total equity** | **Corporate Unit** | **Total Group** |
| **Other information** | | | | | | | |
| Investments in intangible assets, property, plant and equipment and investment property | 10,447 | 25,236 | 96,452 | 66 | 132,201 | 3,648 | **135,849** |
| Depreciation and amortisation | (1) | (118) | (485) | – | (604) | (1,841) | **(2,445)** |
| Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year: | | | | | | | |
| – Changes in provisions (Note 18-e) | (61) | (24) | 1,915 | – | 1,830 | (7,534) | **(5,704)** |
| – Changes in fair value of investment property (Note 18-f) | 78,155 | 139,404 | 715,421 | 455 | 933,435 | – | **933,435** |
| – Gains/(losses) on changes in value of assets and impairment (Note 18-f) | (287) | (2,129) | – | – | (2,416) | (2,804) | **(5,220)** |

## 7. GOODWILL

The changes in this heading in 2018 were as follows:

**Thousands of euros**

| | Goodwill |
|---|---|
| **Balance at 31 December 2017** | **–** |
| Business combinations (Note 2-a) | 176,529 |
| Impairment of goodwill (Note 18) | (114,304) |
| **Balance at 31 December 2018** | **62,225** |

The goodwill recognised at 31 December 2018 relates to the business combination with Axiare Patrimonio SOCIMI, S.A. and subsidiaries (Note 2-a).

At 31 December 2018, the amount of goodwill was reduced in line with the revaluation of investment property arising from the business combination (Note 2-a).

The recoverable amount was estimated on the basis of its value in use, which was based on assumptions of cash flows, growth rates and discount rates consistent with those applied in the calculation of the market values of investment property.

The value in use has been calculated as the present value of the cash flows resulting from the financial projections discounted at rates that take into account specific risks of the assets and the implementation of a strategic plan based on a long-term approach. The projections are made for a time horizon of 10 years.

The projections are prepared based on the evolution and historical experience in the market of similar assets under the management of the Colonial Group.

The main variables that influence the calculations of these projections are:

– A discount rate of 4.60%, taking into account the exit yields used by independent experts in the valuations of the assets of the Axiare subgroup.

– Income flows, in line with expected market rents, and new expected rents derived from current portfolio investment projects.

## 8. PROPERTY, PLANT AND EQUIPMENT

The changes in this heading of the consolidated statement of financial position in 2018 and 2017 were as follows:

**Thousands of euros**

| | Properties for own use | Other property, plant and equipment | Total |
|---|---|---|---|
| **Balance at 31 December 2016** | **32,328** | **11,733** | **44,061** |
| **Acquisition cost** | **44,783** | **19,570** | **64,353** |
| **Accumulated depreciation** | **(7,814)** | **(7,837)** | **(15,651)** |
| **Accumulated impairment** | **(4,641)** | **–** | **(4,641)** |
| Additions | 2,077 | 982 | 3,059 |
| Additions to the scope of consolidation (Note 2-f) | 195 | 130 | 325 |
| Depreciation charge | (434) | (1,033) | (1,467) |
| Disposals | (97) | (197) | (294) |
| Transfers | (13) | (3,886) | (3,899) |
| Impairment (Note 18-f) | (287) | (2,129) | (2,416) |
| **Balance at 31 December 2017** | **33,769** | **5,600** | **39,369** |
| **Acquisition cost** | **42,697** | **12,814** | **55,511** |
| **Accumulated depreciation** | **(4,000)** | **(7,214)** | **(11,214)** |
| **Accumulated impairment** | **(4,928)** | **–** | **(4,928)** |
| Additions | 2,947 | 977 | 3,924 |
| Additions to the scope of consolidation (Note 2-f) | 131 | 505 | 636 |
| Depreciation charge | (575) | (1,063) | (1,638) |
| Disposals | (270) | (330) | (600) |
| Transfers | – | 11 | 11 |
| Impairment (Note 18-f) | 1,630 | – | 1,630 |
| **Balance at 31 December 2018** | **37,632** | **5,700** | **43,332** |
| **Acquisition cost** | **44,789** | **13,553** | **58,342** |
| **Accumulated depreciation** | **(3,859)** | **(7,853)** | **(11,712)** |
| **Accumulated impairment** | **(3,298)** | **–** | **(3,298)** |

At 31 December 2018 and 2017, the Group used two floors of the building located at Avenida Diagonal, 530, in Barcelona, one floor of the building located at Paseo de la Castellana, 52, in Madrid and one floor of the building located at 42 rue Washington in Paris for its own use, while the rest of these buildings are rented out. The cost of buildings earmarked for the Group's own use is recognised under "Properties for own use".

On 5 September 2017, the subsidiary Finresa sold an asset for 425 thousand euros, resulting in the disposal of 193 thousand euros and a profit of 190 thousand euros.

In 2017 certain assets amounting to 3,899 thousand euros were reclassified to "Investment property" in the consolidated statement of financial position (Note 9), given that the Group expects to earn rental income or obtain a gain from its sale as a result of future increases in their market prices.

At 31 December 2018, it became evident that an impairment loss in the amount of 1,630 thousand euros had to be reversed, evidenced by the appraisals performed by independent experts (Note 18-f). In 2017, an impairment loss on the value of the assets in the amount of 2,416 thousand euros was recognised (Note 18-f).

Lastly, assets amounting to 538 thousand euros and 101 thousand euros were derecognised due to being replaced in 2018 and 2017, respectively (Note 18-f).

## 9. INVESTMENT PROPERTY

The changes in this heading of the consolidated statement of financial position in 2018 and 2017 were as follows:

**▼ Thousands of euros**

| | Investment property | Investment property in progress | Total |
|---|---|---|---|
| **Balance at 31 December 2016** | **7,462,928** | **299,699** | **7,762,627** |
| Additions | 74,277 | 57,175 | **131,452** |
| Additions to the scope of consolidation (Note 2-f) | 359,678 | 11,033 | **370,711** |
| Disposals (Note 18-g) | (5,049) | – | **(5,049)** |
| Transfers (Notes 8 and 22) | (271,528) | (132,925) | **(404,453)** |
| Changes in fair value (Note 18-f) | 925,082 | 12,026 | **937,108** |
| **Balance at 31 December 2017** | **8,545,388** | **247,008** | **8,792,396** |
| Additions | 106,450 | 127,148 | **233,598** |
| Additions to the scope of consolidation (Note 2-f) | 1,700,094 | 110,616 | **1,810,710** |
| Disposals (Note 18-g) | (358,466) | (24,368) | **(382,834)** |
| Transfers (Notes 8, 9 and 22) | (147,292) | (74,603) | **(72,689)** |
| Changes in fair value (Note 18-f) | 651,382 | 50,570 | **701,952** |
| **Balance at 31 December 2018** | **10,497,556** | **585,577** | **11,083,133** |

***Movements in 2018***

The additions for the year relate to the following transactions:

- On 18 January 2018, Colonial acquired an asset located in Plaza Gal·la Placidia, Barcelona, for 13,744 thousand euros, including acquisition costs.

- On 2 July 2018, the Parent acquired a property located at Avenida Diagonal 525, Barcelona, for 29,285 thousand euros, including purchase costs, and provided the seller with guarantees to secure payment of the deferred amounts.

- In September 2018, the Parent acquired a property located at Josefa Valcárcel, 40bis, for 30,201 thousand euros, including acquisition costs.

- In 2018, the Parent finalised the acquisition of three logistics warehouses in San Fernando de Henares, making payments for a total amount of 17,842 thousand euros, including acquisition costs, established in the turnkey contract.

- The other additions in 2018 relate to the investments made in various properties, both under development and in operation, for a total amount of 142,526 thousand euros, including 5,307 thousand euros in capitalised borrowing costs.

In addition, as indicated in Note 2-f, the following additions were made to the scope of consolidation:

– In January 2018, the Parent acquired all the shares of the subsidiary Egeo, which resulted in an addition of 79,337 thousand euros to the scope of consolidation of the office building owned by the subsidiary.

– In February 2018, the business combination between the Parent and Axiare Patrimonio, SOCIMI, S.A. was recognised (Note 2-a), which led to the addition of 1,731,373 thousand euros to the scope of consolidation.

The derecognitions in 2018 relate to the following transactions (Notes 4-c and 18-g):

– On 11 January and 12 June 2018, the Parent disposed of premises located on calle Orense in Madrid and a flat in Tenerife for a total joint sale of 1,930 thousand euros, giving rise to a net profit of 713 thousand euros, taking into account the indirect costs of the sale.

– On 9 March 2018, the Parent sold a shopping centre in Collado Villalba (Madrid) for 19,700 thousand euros. The transfer did not generate any margin.

– On 21 May 2018, the Parent sold a hotel in Madrid for 15,500 thousand euros. The transfer did not generate any margin.

– On 26 September 2018, the Parent sold six properties located in Madrid for a total of 281,500 thousand euros.

– On 27 December 2018, the Parent sold an asset located in Madrid for 5,300 thousand euros.

– Lastly, assets amounting to 15,618 thousand euros were derecognised due to being replaced in 2018 (Note 18-f).

On 3 October 2018, the Parent entered into a sale and purchase agreement, subject to conditions precedent, for an assets to be built on land that it owns, which will be executed between May 2022 and February 2023, provided the conditions precedent envisaged in the agreement have been met. In this regard, the Parent's directors considered that there was a change in use of this asset, whereby it was reclassified to "Inventories" in the consolidated statement of financial position in the amount of 46,587 thousand euros. As of the date on which the agreement was signed, the Parent received 14,142 thousand euros on the price.

At 31 December 2018, a property was reclassified from "Investment property" to "Assets classified as held for sale" in the statement of financial position in the amount of 26,091 thousand euros (Notes 22 and 24).

***Movements in 2017***

The additions in 2017 related to the following transactions:

– On 30 November 2017, the subsidiary SFL acquired the Emile Zola property through (i) the acquisition of all share capital of the French company SAS Société Immobilière Victoria, which owns the land and a portion of the buildings of this property, resulting in an addition to the scope of consolidation of 107,721 thousand euros, and (ii) the rest of the property that was not owned by SAS Société Immobilière Victoria directly from the subsidiary SFL, resulting in an addition of 62,289 thousand euros.

– The remaining additions related to development and renovation projects, mainly on properties of the SFL subgroup, in the amount of 33,961 thousand euros, and at properties of other Group companies, in the amount of 35,202 thousand euros. The above amounts included 2,591 thousand euros in capitalised borrowing costs.

In addition, as indicated in Note 2-f, the following additions were made to the scope of consolidation:

– On 18 May 2017, the subsidiary Inmocol Torre Europa, S.A. was included in the scope of consolidation, resulting in the addition to the scope of consolidation of land contributed by the shareholder of this company in the amount of 10,000 thousand euros, plus 80 thousand euros in associated acquisition costs.

– On 27 September 2017, the Parent acquired all shares in Colonial Arturo Soria, S.L.U., resulting in the addition to the scope of consolidation of the office building owned by the subsidiary, for 32,579 thousand euros.

– As set forth above in the changes due to additions, on 30 November 2017, the subsidiary SFL acquired the Emile Zola property through the acquisition of all share capital of the French company SAS Société Immobilière Victoria, which owns the land and a portion of the buildings of this property, representing an addition to the scope of consolidation of 107,721 thousand euros.

– On 20 and 27 December 2017, the Parent acquired all shares in Agisa, Soller and Peñalvento, resulting in the addition to the scope of consolidation of the land owned by these companies for 220,331 thousand euros.

The derecognitions in 2017 related to the following transactions (Notes 4-c and 18-g):

– On 12 January 2017, the Parent disposed of several of its properties located on calle Orense in Madrid, for a total of 5,600 thousand euros, resulting in the disposal of 4,650 thousand euros and a profit of 290 thousand euros.

– On 31 October 2017, the subsidiary Finresa sold an asset for 410 thousand euros, resulting in the disposal of 399 thousand euros and a profit of 11 thousand euros.

Transfers in 2017 related to the following transactions:

– In the first half of the year, the subsidiary reclassified the In&Out property under “Assets classified held for sale” in the consolidated statement of financial position (Note 22), once the subsidiary’s Board of Directors passed the resolution to sell this asset. The amount transferred totalled 408,352 thousand euros.

– Furthermore, several assets amounting to a total of 3,899 thousand euros were reclassified from “Property, plant and equipment” in the consolidated statement of financial position, given that the Group expected to earn rental income or obtain a gain from their sale as a result of future increases in their market prices.

**a) Changes in fair value of investment property**

“Changes in fair value of investment property” in the consolidated income statement includes the profit from the revaluation of the investment property for 2018 and 2017, in the amount of 701,952 thousand euros and 937,108 thousand euros (Note 18-f), respectively, in accordance with the appraisals of independent experts at 31 December 2018 and 2017 (Note 4-c).

**b) Capitalised borrowing costs**

The table below details the borrowing costs capitalised in 2018 and 2017 (Note 18-h):

▼ **Thousands of euros**

| | Amount capitalised during the period | Average interest rate |
|---|---|---|
| **2018:** | | |
| Inmobiliaria Colonial, SOCIMI, S.A. | 755 | 2.44% |
| Moorage inversions 2014, S.L.U. | 297 | 2.44% |
| SFL subgroup | 4,255 | 1.72% |
| **Total 2018** | **5,307** | **–** |
| **2017:** | | |
| Inmobiliaria Colonial, SOCIMI, S.A. | 857 | 2.53% |
| Danieltown Spain, S.L.U. | 141 | 2.52% |
| Moorage inversions 2014, S.L.U. | 84 | 2.53% |
| SFL subgroup | 1,509 | 1.90% |
| **Total 2017** | **2,591** | **–** |

**c) Other information**

The total surface area (above and under-ground) of investment property and projects under development at 31 December 2018 and 2017 is as follows:

**▼ Total surface area (m²) of investment property**

| | Investment property | | Investment property in progress | | Total | |
|---|---|---|---|---|---|---|
| **Minimum** | **31 December 2018** | **31 December 2017** | **31 December 2018** | **31 December 2017** | **31 December 2018** | **31 December 2017** |
| Barcelona (*) | 356,486 | 286,655 | 60,220 | 81,838 | 416,706 | 368,493 |
| Madrid | 562,419 | 385,461 | 55,066 | 153,165 | 617,485 | 538,626 |
| Rest of Spain | 492,324 | 13,048 | 83,399 | – | 575,723 | 13,048 |
| Paris (*) | 362,742 | 377,426 | 78,292 | 64,867 | 441,034 | 442,293 |
| | **1,773,971** | **1,062,590** | **276,977** | **299,870** | **2,050,948** | **1,362,460** |

(*) Including 100% of the floor space of Washington Plaza (a property owned by the Group company SCI Washington, 66%-owned by SFL), the Haussmann, Champs Élysées, 82-88 and Champs Élysées, 90 buildings (owned by the Parholding subgroup, a company 50%-owned by SFL), the Torre del Gas property (owned by Torre Marenostrum, S.L., a company 55%-owned by the Parent) and the Torre Europa, 46-48 building (owned by Inmocol Torre Europa, S.A., a company 50%-owned by the Parent).

At 31 December 2018, the Group has pledged assets as collateral for mortgage loans with a carrying amount of 1,826,491 thousand euros to secure debts amounting to 515,642 thousand euros (Note 13-g). At 31 December 2017, the corresponding balances were 1,048,232 thousand euros and 237,980 thousand euros, respectively.

## 10. NON-CURRENT FINANCIAL ASSETS

The changes in this heading of the consolidated statement of financial position in 2018 and 2017 were as follows:

**▼ Thousands of euros**

| | 31 December 2017 | Additions to the scope of consolidation (Note 2-f) | Disposals | 31 December 2018 |
|---|---|---|---|---|
| Deposits and guarantees given | 23,589 | 12,886 | (612) | 31,863 |
| Derivative financial instruments | 1,484 | 660 | (1,553) | 591 |
| Available-for-sale financial assets | 419,277 | – | (419,277) | – |
| **Total** | **444,350** | **13,546** | **421,442** | **32,454** |

**▼ Thousands of euros**

| | 31 December 2016 | Acquisitions or provisions | Additions to the scope of consolidation (Note 2-f) | 31 December 2017 |
|---|---|---|---|---|
| Deposits and guarantees given | 12,383 | 4,616 | 6,590 | 23,589 |
| Derivative financial instruments | – | 1,484 | – | 1,484 |
| Available-for-sale financial assets | 138,293 | 280,984 | – | 419,277 |
| **Total** | **150,676** | **287,084** | **6,590** | **444,350** |

**a) Deposits and guarantees given**

Long-term deposits and guarantees basically comprise deposits made with the official bodies in each country for deposits collected from lessees, in accordance with prevailing legislation.

**b) Available-for-sale financial assets – Interest in Axiare Patrimonio SOCIMI, S.A.**

In 2016, the Parent acquired 10,846,541 shares of Axiare Patrimonio SOCIMI, S.A. (hereinafter, "Axiare"), representing 15.09% of its share capital.

In March 2017, the Parent acquired 1,404,000 shares of Axiare, representing 1.78% of the company's current share capital, for 18,801 thousand euros, obtaining an interest of 15.49% in Axiare.

In November 2017, the Parent acquired 10,511,523 shares of Axiare, representing 13.30% of Axiare's share capital at this date, for a total amount of 193,085 thousand euros, equivalent to 18.36 euros per share, obtaining an interest of 28.79% in Axiare.

In 2017, the Parent received 3,681 thousand euros in dividends from its interest in Axiare, which were recognised under "Finance income" in the consolidated statement of comprehensive income (Note 18-h).

At 31 December 2017, the Parent recognised its shareholding in Axiare Patrimonio SOCIMI, S.A. at the year-end share price of 18.42 euros per share, which represented a cumulative impact on the Parent's equity of 70,415 thousand euros (1,317 thousand euros at 31 December 2016).

The Parent's directors considered that the Parent did not exercise, nor could it exercise, significant influence over Axiare at 31 December 2017, and thus it was considered to be a financial investment.

During 2018, and until the date on which control of Axiare Patrimonio SOCIMI, S.A. was obtained, the Parent continued to recognise changes in the fair value of the investment directly against the item "Valuation adjustments of available-for-sale financial assets" in consolidated equity.

Following the acquisition of control of the investee, the cost of the investment became part of the cost of the business combination in stages described in Note 2.

## 11. TRADE AND OTHER RECEIVABLES

The breakdown of this current asset heading in the accompanying consolidated statement of financial position at 31 December 2018 and 2017 is as follows:

**▼ Thousands of euros**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade receivables for sales and services | 15,027 | 27,049 |
| Accrual of lease incentives | 88,061 | 78,746 |
| Other receivables | 85,704 | 86,564 |
| Other current assets | 1,277 | 386 |
| *Impairment of receivables* | | |
| Trade receivables for sales and services | (4,624) | (4,040) |
| Other receivables | (85,473) | (85,473) |
| **Total trade and other receivables** | **99,972** | **103,232** |

### a) Trade receivables from sales and services

This mainly includes the amounts receivable from customers, fundamentally from the Group's rentals business in France, that are billed monthly, quarterly or yearly. At 31 December 2018 and 2017, no material amounts were past due.

### b) Accrual of lease incentives (Note 4-n)

This includes the amount of the incentives in the operating lease agreements (rent-free periods, etc.) that the Group offers its customers, which are recognised in the consolidated statement of comprehensive income during the minimum operating lease term. Of that amount, 68,014 thousand euros have a maturity of more than 1 year (61,300 thousand euros at 31 December 2017).

### c) Other receivables

At 31 December 2018 and 2017, the amounts owed by Nozar, S.A., resulting from the cancellation of the purchase agreements entered into in July 2007 as a result of failing to comply with the conditions precedent, were recognised under "Other receivables", and totalled 85,473 thousand euros, including accrued interest.

Nozar, S.A. is currently involved in bankruptcy proceedings; consequently, at 31 December 2018 and 2017, the accompanying consolidated statement of financial position included an impairment loss for the entire amount of this company's trade receivables.

## 12. EQUITY

### a) Share capital

At 31 December 2016, the Parent's share capital was represented by 356,823,399 shares with a par value of 2.50 euros each, which had been fully subscribed and paid.

In 2017, the Parent carried out two capital increases, both with a charge to monetary contributions and the disapplication of pre-emption rights, through the accelerated bookbuild offering for qualified investors:

- The increase was registered with the Mercantile Registry on 5 May 2017. Its purpose is to reinforce the Parent's equity in order to take full advantage of investment opportunities which are currently available, carry out repositioning and improvement investments to maximise the quality, occupancy and value of the assets that already formed part of its portfolio, as well as consolidate its credit rating and possible improve it. As a result of the placement, 35,646,657 new shares were issued each with a par value of 2.50 euros, for a total amount of 253,092 thousand euros, prompting an increase in share capital and the share premium of 89,117 thousand euros and 163,975 thousand euros, respectively. The new shares were admitted to trading on 8 May 2017 on the Barcelona and Madrid Stock Exchanges.

- The increase aimed at ensuring and optimising the funding for the takeover bid for the shares of Axiare Patrimonio SOCIMI, S.A. (Note 9-c) not owned by Colonial was registered with the Mercantile Registry on 29 November 2017. As a result of the placement, 42,847,300 new shares were issued each with a par value of 2.50 euros, for a total amount of 338,065 thousand euros, prompting an increase in share capital and the share premium of 107,118 thousand euros and 230,947 thousand euros, respectively. The new shares were admitted to trading on 4 December 2017 on the Barcelona and Madrid stock exchanges.

As a result, the Company's share capital at 31 December 2017 was represented by 435,317,356 fully subscribed and paid up shares with a par value of 2.50 euros each.

The following capital increases took place in 2018:

- On 4 July 2018, the merger deed executed on 2 July 2018 between Inmobiliaria Colonial, SOCIMI, S.A. and Axiare Patrimonio SOCIMI, S.A. was registered with the Madrid Mercantile Registry. In this respect, to meet the exchange of the merger, the Parent 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. The new shares were admitted to trading on 9 July 2018.

– On 16 November 2018, the issuance of 53,523,803 new shares with a par value of 2.50 euros each for 487,602 thousand euros, resulting in a capital increase of 133,810 thousand euros, plus a share premium of 353,792 thousand euros, was registered with the Mercantile Registry.

As a result, the Parent's share capital at 31 December 2018 was represented by 508,114,781 fully subscribed and paid up shares with a par value of 2.50 euros each.

Based on the pertinent notifications regarding the number of company shares to the Spanish National Securities Market Commission (CNMV), the shareholders owning significant direct or indirect interests in the Parent at 31 December 2018 and 2017 were as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | Number of shares (*) | % ownership | Number of shares (*) | % ownership |
| **Name or corporate name of the shareholder:** | | | | |
| Qatar Investment Authority | 80,892,169 | 15.92% | 41,610,141 | 9.56% |
| Finaccess Group | 80,028,647 | 15.75% | 79,378,647 | 18.23% |
| Aguila Ltd. | 28,800,183 | 5.67% | 28,800,183 | 6.62% |
| DIC Holding, LLC | 21,782,588 | 4.29% | – | – |
| Inmo S.L. | 20,011,190 | 3.94% | 20,011,190 | 4.60% |
| BlackRock Inc | 15,256,886 | 3.00% | 10,955,962 | 2.52% |
| Deutsche Bank A.G. | 8,135,390 | 1.60% | 8,135,390 | 1.87% |

(*) Does not include certain financial instruments linked to shares of the Parent.

At 31 December 2018 and 31 December 2017, Blackrock Inc. and Deutsche Bank AG formally obtained financial instruments associated with the Parent's shares that, in the event the instruments are exercised, could give rise to an additional interest in the share capital of Colonial. The Parent has no knowledge of other significant equity interests.

The Parent has no knowledge of other significant equity interests.

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 Parent and on one or more occasions and for a maximum period of 5 years, bonds convertible into new shares of the Parent or other similar securities that may give the right, directly or indirectly, to subscribe the Parent'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 24 May 2018, the shareholders at the Parent'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.

In 2018, the amount of the share premium was also reduced by 11,326 thousand euros as a result of the resolution for the distribution of dividends approved by the shareholders at the Annual General Meeting on 24 May 2018.

The two accelerated bookbuild offerings carried out in 2017 gave rise to an increase in the share premium of 394,922 thousand euros.

**c) 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, the legal reserve may only be used to set off losses.

At 31 December 2016, the legal reserve amounted to 33,615 thousand euros. In 2017, taking into account the allocation to the legal reserve included in the distribution of the Parent's profit for 2016 approved by the shareholders at the Annual General Meeting held on 29 June 2017, the legal reserve amounted to 39,099 thousand euros. At 31 December 2018, taking into account the allocation to the legal reserve included in the distribution of the Parent's profit for 2017 approved by the shareholders at the Annual General Meeting held on 24 May 2018, the legal reserve amounted to 42,349 thousand euros, although it had not yet reached the stipulated level at the date of authorisation for issue of these consolidated financial statements.

**d) Other reserves of the Parent**

The shareholders at the Annual General Meeting held on 29 June 2017 approved, among other resolutions, the distribution of a dividend of 13,394 thousand euros with a charge to reserves as part of the distribution of profit for 2016.

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.

As a result of the capital increases described in Note 11-a, costs of 1,149 thousand euros were reported in 2018 (6,691 thousand euros in 2017) under "Reserves of the Parent" in consolidated equity.

In 2018, the Parent carried out transactions involving treasury shares, which gave rise to a gain of 7,332 thousand euros (profit of 10,371 thousand euros in 2017), and which were registered directly in the Parent's equity.

The income generated from the delivery of treasury shares to the beneficiaries of the long-term incentives plan (Note 19-a), calculated as the difference between the carrying amount of the shares delivered and the amount of the obligation assumed by the Parent (Note 4-j), which amounted to 1,513 thousand euros in 2018 (1,286 thousand euros in 2017) was also recognised in the Parent's reserves.

At 31 December 2018, the Parent held 169,439 thousand euros in restricted reserves.

**e) Valuation adjustments recognised in other consolidated comprehensive income – financial instruments**

This heading of the consolidated statement of financial position includes the sum of gains and losses arising from changes in the fair value of efficient financial derivatives classified as cash flow hedges (Note 14).

The changes in this heading are as follows:

**▼ Thousands of euros**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Beginning balance** | **(559)** | **(571)** |
| Changes in the fair value of hedges in the year | (3,890) | (39) |
| Transfers to consolidated net profit | 2,371 | 51 |
| **Ending balance** | **(2,078)** | **(559)** |

In 2018, and as a result of the business combination described in Note 2, the Group included the financial instruments arising from Axiare Patrimonio SOCIMI, S.A. and its subsidiaries described in Note 14. "Changes in the fair value of hedges in the year" includes the impact of the changes in value of these instruments from the date of the takeover. Subsequent to this date, the Parent cancelled the various derivative financial instruments arising from the absorbed company Axiare Patrimonio SOCIMI, S.A., which entailed the transferred to consolidated net profit of 2,299 thousand euros.

During 2017, the subsidiary Torre Marenostrum cancelled the derivative financial instrument it held with a financial institution. This instrument was assigned as a hedge to the subsidiary's mortgage loan with this financial institution, which was novated, though the conditions are not substantially different. Consequently, the subsidiary transferred the amount of the hedging derivative financial instrument recognised directly in equity to the statement of comprehensive income at the time of novation on a straight-line basis over the initial outstanding term of the cancelled derivative. The amount recycled in 2018 amounted to 72 thousand euros (51 thousand euros in 2017). The subsidiary Torre Marenostrum contracted a new derivative financial instrument in 2017 that was assigned as a hedge of the new mortgage loan mentioned above.

#### f) Treasury shares of the Parent

At 31 December 2018 and 2017, the number of the Parent's treasury shares and their acquisition cost were as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | No. of shares | Thousands of euros | No. of shares | Thousands of euros |
| **Beginning balance** | **4,279,940** | **29,421** | **5,469,985** | **35,426** |
| Buyback plan 14 November 2016 | – | – | 6,837,328 | 46,787 |
| Buyback plan 16 October 2017 | – | 41 | 2,260,000 | 17,797 |
| Delivery of incentives plan shares (Note 19) | (421,813) | (2,902) | (380,116) | (2,537) |
| Other acquisitions | 133 | – | – | – |
| Other disposals | (3,315,000) | (22,812) | (9,907,257) | (68,052) |
| **Ending balance** | **543,260** | **3,748** | **4,279,940** | **29,421** |

*Share buyback plans of the Parent*

On 14 November 2016, the Parent's Board of Directors agreed to carry out a treasury share buyback programme. The purposes of the plan are to complete the coverage of the share plan approved at the General Shareholders Meeting on 21 January 2014 and additional initiatives that the Board of Directors may consider advisable in the Company's business interest. The maximum monetary amount assigned to the programme amounted to 68,000 thousand euros and a maximum of 10,000,000 shares may be acquired, equivalent to 2.8% of the Parent's share capital as of that date. The maximum duration of the programme was six months, i.e., up to 15 May 2017. However, it would be ended early if the maximum number of shares or the maximum monetary amount was reached before said date. The buyback programme was completed in 2017.

On 16 October 2017, the Parent's Board of Directors agreed to implement a new programme involving the repurchase of treasury shares in accordance with the authorisation granted by the shareholders at the Annual General Meeting held on 30 June 2014. The maximum monetary amount assigned to the programme amounted to 100,000 thousand euros and the maximum number of shares to be acquired is 12,000,000 shares, equivalent to 3% of the Parent's share capital as of that date. The maximum duration of the programme was six months, i.e., up to 17 April 2018. However, it would be ended early if the maximum number of shares or the maximum monetary amount is reached before said date. On 3 November 2017, the Parent ended the share buyback programme early.

*Deliveries of Parent shares deriving from the long-term incentives plan (Note 19)*

Every year, the Parent 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 29 November 2017, the Parent sold 9,907,257 shares at a price equivalent to the issue price of the new shares issued in the framework of the accelerated bookbuild offering carried out on the same date (Note 12-a), i.e., at 7.89 euros per share.

On 16 November 2018, the Company exchanged 3,000,000 treasury shares for 400,000 shares of the subsidiary SFL (Note 4-f). In December 2018 a total of 315,000 shares of the Parent were exchanged for 42,000 additional shares of the subsidiary SFL.

**g) Liquidity contracts**

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

At 31 December 2018 and 2017, the Parent's treasury shares included in the liquidity contracts and their acquisition cost were as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | No. of shares | Thousands of euros | No. of shares | Thousands of euros |
| **Beginning balance** | **229,500** | **1,841** | **209,603** | **1,329** |
| Liquidity contract dated 22 June 2015 | – | – | 30,480 | 482 |
| Liquidity contract dated 11 July 2017 | – | 17 | (10,583) | 30 |
| **Ending balance** | **229,500** | **1,858** | **229,500** | **1,841** |

*Liquidity contract dated 22 June 2015*

On 22 June 2015, the Parent entered into a liquidity contract to enhance the liquidity of its transactions and the regularity of its quoted share price as provided for under CNMV Circular 3/2007, of 19 December.

Upon issue of CNMV Circular 1/2017, of 26 April 2017, the Parent terminated the liquidity contract on 10 July 2017, effective as of 10 July 2017.

*Liquidity contract dated 11 July 2017*

On 11 July 2017, the Parent entered into a new liquidity contract to enhance the liquidity of its transactions and the regularity of its quoted 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.

**h) Treasury shares of SFL**

In 2017 the treasury shares of SFL, amounting to 13,056 thousand euros, were reclassified from “Treasury shares” to “Consolidated reserves” in the consolidated statement of financial position.

### i) Non-controlling interests

The changes in this heading of the consolidated statement of financial position are as follows:

**Thousands of euros**

| | Torre Marenostrum, S.L. | Inmocol Torre Europa, S.A. | Utopicus subgroup | SFL subgroup | Axiare subgroup (*) | Total |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2016** | **23,962** | **–** | **–** | **1,682,243** | **–** | **1,706,205** |
| Profit/(loss) for the year | 1,954 | 1,037 | (65) | 395,002 | – | **397,928** |
| Dividends and other | (1,574) | – | 11 | (24,446) | – | **(26,009)** |
| Changes in the scope of consolidation (Note 2-f) | – | 10,000 | 80 | (343) | – | **9,737** |
| Financial instruments | 9 | – | – | – | – | **9** |
| **Balance at 31 December 2017** | **24,351** | **11,037** | **26** | **2,052,456** | **–** | **2,087,870** |
| Profit/(loss) for the year | 2,831 | 563 | (478) | 147,971 | 2,459 | **153,346** |
| Dividends and other | (619) | – | 12 | (50,711) | – | **(51,318)** |
| Changes in the scope of consolidation (Note 2-f) | – | – | 645 | (897,611) | (2,459) | **(899,425)** |
| Financial instruments | 13 | – | – | – | – | **13** |
| **Balance at 31 December 2018** | **26,576** | **11,600** | **205** | **1,252,105** | **–** | **1,290,486** |

(*) Non-controlling interests of the Axiare subgroup generated from the date of the takeover until the date of the merger (Note 2-f).

The breakdown of the items included in "Dividends and other" at 31 December 2018 and 2017 is as follows:

**Thousands of euros**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Dividend paid by the SFL subgroup to non-controlling interests | (44,089) | (19,909) |
| Dividend paid by Washington Plaza to non-controlling interests | (6,921) | (5,516) |
| Dividend paid by Torre Marenostrum to non-controlling interests | (618) | (1,575) |
| Other | 310 | 991 |
| **Total** | **(51,318)** | **(26,009)** |

The SFL subgroup has the following shareholders agreements with Prédica:

– Agreement in SCI Washington, in which SFL holds 66%. In the event of a change of control of SFL, Prédica may consent to the change of control, or acquire or sell all of the shares and current accounts held by SFL in the common subsidiary, at a price agreed between the parties or at market value.

– Agreement in Parholding, in which SFL holds 50%. In the event of a change of control of SFL, Prédica may consent to the change of control, or acquire or sell all of the shares and current accounts held by SFL in the common subsidiary, at a price agreed between the parties or at market value.

## 13. BANK BORROWINGS, OTHER FINANCIAL LIABILITIES AND BONDS AND SIMILAR SECURITIES ISSUED

The detail of these headings of the consolidated statement of financial position, by type of debt and maturity, at 31 December 2018 and 2017 is as follows:

### 31 December 2018 – Thousands of euros

| | Current | Non-current | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Less than 1 year** | **1 to 2 years** | **2 to 3 years** | **3 to 4 years** | **4 to 5 years** | **More than 5 years** | **Total non-current** | **Total** |
| **Bank borrowings:** | | | | | | | | |
| Lines of credit | – | – | – | – | – | – | – | **–** |
| Loans | 7,494 | 10,721 | 62,186 | 268,265 | 90,282 | 176,955 | 608,409 | **615,903** |
| Syndicated loans | – | – | – | 20,000 | 50,000 | – | 70,000 | **70,000** |
| Interest | 1,313 | – | – | – | – | – | – | **1,313** |
| Debt arrangement expenses | (2,711) | (2,645) | (2,472) | (1,761) | (1,237) | (1,830) | (9,945) | **(12,656)** |
| **Total bank borrowings** | **6,096** | **8,076** | **59,714** | **286,504** | **139,045** | **175,125** | **668,464** | **674,560** |
| **Other financial liabilities:** | | | | | | | | |
| Current accounts | – | 52,246 | – | – | – | – | 52,246 | **52,246** |
| Interest on current accounts | 40 | – | – | – | – | – | – | **40** |
| Derivative financial instruments (Note 14) | 473 | – | – | 2,098 | 899 | 221 | 3,218 | **3,691** |
| Other financial liabilities | 2,491 | – | – | – | – | – | – | **2,491** |
| **Total other financial liabilities** | **3,004** | **52,246** | **–** | **2,098** | **899** | **221** | **55,464** | **58,468** |
| **Total bank borrowings and other financial liabilities** | **9,100** | **60,322** | **59,714** | **288,602** | **139,944** | **175,346** | **723,928** | **733,028** |
| **Bonds and similar securities issued:** | | | | | | | | |
| Bond issues | 262,500 | – | 350,000 | 350,000 | 500,000 | 2,600,000 | 3,800,000 | **4,062,500** |
| Interest | 26,310 | – | – | – | – | – | – | **26,310** |
| Arrangement expenses | (4,568) | (4,576) | (4,542) | (4,220) | (3,672) | (6,124) | (23,134) | **(27,702)** |
| **Total bonds and similar securities issued** | **284,242** | **(4,576)** | **345,458** | **345,780** | **496,328** | **2,593,876** | **3,776,866** | **4,061,108** |
| **Total at 31 December 2018** | **293,342** | **55,746** | **405,172** | **634,382** | **636,272** | **2,769,222** | **4,500,794** | **4,794,136** |

**Total at 31 December 2018 – Thousands of euros**

| | Current | Non-current | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Bank borrowings:** | **Less than 1 year** | **1 to 2 years** | **2 to 3 years** | **3 to 4 years** | **4 to 5 years** | **More than 5 years** | **Total non-current** | **Total** |
| Lines of credit | 33,459 | – | – | – | – | – | – | **33,459** |
| Loans | 4,087 | 154,151 | 14,218 | 79,280 | 197,217 | 199,383 | 644,249 | **648,336** |
| Syndicated loans | – | – | – | 150,000 | 13,400 | – | 163,400 | **163,400** |
| Interest | 1,180 | – | – | – | – | – | – | **1,180** |
| Debt arrangement expenses | (2,276) | (2,085) | (1,742) | (1,458) | (441) | (469) | (6,195) | **(8,471)** |
| **Total bank borrowings** | **36,450** | **152,066** | **12,476** | **227,822** | **210,176** | **198,914** | **801,454** | **837,904** |
| **Other financial liabilities:** | | | | | | | | |
| Current accounts | – | 55,645 | – | – | – | – | 55,645 | **55,645** |
| Interest on current accounts | 56 | – | – | – | – | – | – | **56** |
| Derivative financial instruments (Note 14) | 363 | – | – | – | – | 138 | 138 | **501** |
| Other financial liabilities | 2,481 | – | – | – | – | – | – | **2,481** |
| **Total other financial liabilities** | **2,900** | **55,645** | **–** | **–** | **–** | **138** | **55,783** | **58,683** |
| **Total bank borrowings and other financial liabilities** | **39,350** | **207,711** | **12,476** | **227,822** | **210,176** | **199,052** | **857,237** | **896,587** |
| **Bonds and similar securities issued:** | | | | | | | | |
| Bond issues | – | 375,000 | – | 500,000 | 500,000 | 1,950,000 | 3,325,000 | **3,325,000** |
| Interest | 17,348 | – | – | – | – | – | – | **17,348** |
| Arrangement expenses | (3,774) | (3,404) | (3,148) | (3,105) | (2,702) | (5,008) | (17,367) | **(21,141)** |
| **Total bonds and similar securities issued** | **13,574** | **371,596** | **(3,148)** | **496,895** | **497,298** | **1,944,992** | **3,307,633** | **3,321,207** |
| **Total at 31 December 2017** | **52,924** | **579,307** | **9,328** | **724,717** | **707,474** | **2,144,044** | **4,164,870** | **4,217,794** |

The changes in net financial debt in 2018, which arose from cash flows and other, are detailed in the table below:

**Thousands of euros**

| | 31 December 2017 | Cash flows | Changes in control of subsidiaries | 31 December 2018 |
|---|---|---|---|---|
| Lines of credit | 33,459 | (33,459) | – | – |
| Loans | 648,336 | (708,445) | 676,012 | 615,903 |
| Syndicated loans | 163,400 | (93,400) | – | 70,000 |
| Bond issues | 3,325,000 | 737,500 | – | 4,062,500 |
| **Gross financial debt (gross nominal debt)** | **4,170,195** | **(97,804)** | **676,012** | **4,748,403** |
| **Cash and cash equivalents** | **(1,104,601)** | **1,196,819** | **(160,511)** | **(68,293)** |
| **Net financial debt** | **3,065,594** | **1,099,015** | **515,501** | **4,680,110** |

**a) Issues of the Parent's straight bonds**

In April 2018, the Parent issued new straight bonds under the EMTN programme for a nominal amount of 650,000 thousand euros maturing in April 2026, with an annual coupon of 2% and an issue price of 99,481% of their nominal value.

In July 2018, the Parent paid off early the outstanding balance of 375,000 thousand euros for the issue of non-convertible bonds maturing in June 2019.

The breakdown of the issues of straight bonds made by the Parent at 31 December 2018 and 2017 is as follows:

**Thousands of euros**

| Issue | Term | Maturity | Fixed-rate coupon payable annually | Amount of the issue | 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|---|---|
| 05/06/2015 | 5 years | 05/06/2019 | 1.863% | 750,000 | – | 375,000 |
| 05/06/2015 | 8 years | 05/06/2023 | 2.728% | 500,000 | 500,000 | 500,000 |
| 28/10/2016 | 8 years | 28/10/2024 | 1.450% | 600,000 | 600,000 | 600,000 |
| 10/11/2016 | 10 years | 10/11/2026 | 1.875% | 50,000 | 50,000 | 50,000 |
| 28/11/2017 | 8 years | 28/11/2025 | 1.625% | 500,000 | 500,000 | 500,000 |
| 28/11/2017 | 12 years | 28/11/2029 | 2.500% | 300,000 | 300,000 | 300,000 |
| 17/04/2018 | 8 years | 17/04/2026 | 2.000% | 650,000 | 650,000 | – |
| **Total issues** | | | | | **2,600,000** | **2,325,000** |

The bonds were admitted for trading on the Irish Stock Exchange's main securities market.

At 31 December 2018 and 2017, the fair value of the bonds issued by the Parent was 2,557,454 thousand euros and 2,378,881 thousand euros, respectively.

*European Medium Term Note Programme*

On 5 October 2016, the Parent registered a 12-month European Medium Term Note programme for 3,000,000 thousand euros, which can be extended to 5,000,000 thousand euros, on the Irish Stock Exchange. On 27 November 2018, the Spanish National Securities Market Commission (CNMV) approved the registration of the Company's Euro Medium Term Note Programme in the official registers.

*Compliance with financial ratios*

These straight bonds establish the obligation, at 30 June and 31 December of each year, to meet a financial ratio, whereby the value of the non-guaranteed asset of the Colonial Group in the consolidated statement of financial position at each of these dates must at least be equal to the financial debt not guaranteed. This ratio had been met at 31 December 2018 and 2017.

**b) Issue of SFL straight bonds**

In May 2018, SFL issued new straight bonds for a nominal amount of 500,000 thousand euros and maturing in May 2025, with an annual coupon of 1.50% and an issue price of 99,199% of their nominal value.

In September 2018, the subsidiary SFL paid off early the 300,000 thousand euros corresponding to the issue of non-convertible bonds maturing in November 2021 and November 2022.

The breakdown of issues of non-convertible bonds by SFL is as follows:

▼ **Thousands of euros**

| Issue | Term | Maturity | Fixed-rate coupon payable annually | Amount of the issue | 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|---|---|
| 20/11/2014 | 7 years | 26/11/2021 | 1.875% | 500,000 | 350,000 | 500,000 |
| 16/11/2015 | 7 years | 16/11/2022 | 2.250% | 500,000 | 350,000 | 500,000 |
| 29/05/2018 | 7 years | 29/05/2025 | 1.500% | 500,000 | 500,000 | – |
| **Total issues** | | | | | **1,200,000** | **1,000,000** |

The bonds are unsubordinated obligations, all of which rank pari passu. They are traded on the Euronext Paris exchange.

At 31 December 2018 and 2017, the fair value of the bonds issued by SFL was 1,222,330 thousand euros and 1,062,635 thousand euros, respectively.

In November 2017, the subsidiary SFL settled the bonds maturing from the 2012 issue, with an outstanding nominal amount of 300,700 thousand euros.

**c) Issuance of promissory notes of the Parent**

In December 2018, the Parent registered a European Commercial Paper Programme for maximum limit of 300,000 thousand euros and maturing in the short term. At 31 December 2018, no promissory notes had been issued (Note 24).

**d) Issuance of promissory notes of SFL**

In September 2018, the subsidiary SFL registered a short-term promissory note issuance programme (NEU CP) for a maximum of 300,000 thousand euros, with issuances in force as at 31 December 2018 of 262,500 thousand euros (Note 24).

### e) Syndicated financing of the Parent

The breakdown of the Parent's syndicated financing at 31 December 2018 and 2017 is detailed in the table below:

**Thousands of euros**

| | | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|---|
| | **Maturity** | **Limit** | **Nominal amount drawn down** | **Limit** | **Nominal amount drawn down** |
| Credit facility | December 2023 | 500,000 | 50,000 | 350,000 | 150,000 |
| Credit facility | March 2022 | 375,000 | 20,000 | 375,000 | 13,400 |
| **Total syndicated financing of the Parent** | | **875,000** | **70,000** | **725,000** | **163,400** |

The variable interest rate is tied to the EURIBOR plus a spread.

In May 2018, the Parent refinanced the syndicated loan signed in November 2015, amounting to 350,000 thousand euros and maturing in November 2021, increasing the nominal amount to 500,000 thousand euros, extending its maturity until December 2023 and reducing the financing spread. This line of credit is aimed at covering its general corporate needs. A total of 13 banks took part in the process, with Natixis acting as agent bank. This refinancing was not considered to be a substantial modification to the liability. At 31 December 2018, the amount of the loan drawn down stood at 50,000 thousand euros.

In March 2017, the Parent signed a new syndicated line of credit for 375,000 thousand euros, maturing at five years. This line of credit was intended to cover the Parent's general corporate needs. A total of 10 banks took part in the process, with Crédit Agricole acting as lead bank.

*Compliance with financial ratios*

The loans are subject to compliance with the following financial ratios on a quarterly basis:

**Ratios**

Loan-to-value ratio <= 55%

Interest coverage ratio >= 2x

Secured mortgage debt / Value of property assets <=15% (*25% for the new syndicated loan*)

Secured non-mortgage debt / Value of non-property assets <=15% (*25% for the new syndicated loan*)

Value of the consolidated assets >= 4.5 billion euros

At 31 December 2018 and 2017, the Parent complied with all financial ratios.

### f) Syndicated financing of SFL

The breakdown of SFL's syndicated financing at 31 December 2018 and 2017 is as follows:

▼ **Thousands of euros**

| | | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|---|
| | **Maturity** | **Limit** | **Nominal amount drawn down** | **Limit** | **Nominal amount drawn down** |
| Credit facility | October 2019 | – | – | 150,000 | – |
| Credit facility | July 2020 | 250,000 | – | 400,000 | – |
| **Total SFL syndicated loan** | | **250,000** | **–** | **550,000** | **–** |

The credit facility maturing in October 2019 was paid off in June 2018 and the limit of the credit facility maturing in July 2020 was reduced to 150,000 thousand euros.

The variable interest rate is tied to the EURIBOR plus a spread.

*Compliance with financial ratios*

SFL syndicated loans must meet the following financial ratios every six months:

▼ **Ratios**

| |
|---|
| Loan-to-value ratio <= 50% |
| Interest coverage ratio >= 2 |
| Secured debt / Equity value <= 20% |
| Appraisal value of unmortgaged properties >= 2 billion euros |
| Gross financial debt of subsidiaries / Gross consolidated financial debt < 25% |

At 31 December 2018 and 2017, SFL complied with the financial ratios stipulated in the respective financing agreements.

### g) *Mortgage-backed loans*

At 31 December 2018 and 2017, the Group held the following mortgage-backed loans for certain investment properties:

▼ **Thousands of euros**

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | **Mortgage debt** | **Market value of collateral** | **Mortgage debt** | **Market value of collateral** |
| Investment property (Note 9) | 515,642 | 1,828,786 | 237,980 | 1,054,197 |
| **Total** | **515,642** | **1,828,786** | **237,980** | **1,054,197** |

At 31 December 2018, 55% of the mortgage debt (281,656 thousand euros) relates to bilateral loans arranged by companies of the former Axiare subgroup. These are floating rate loans tied to EURIBOR plus an additional spread, although a number of derivative financial instruments have been arranged to cover 40% of the outstanding nominal amount at 31 December 2018 (Note 14).

The remainder relates to the SFL subgroup (201,240 thousand euros at a fixed rate) and to the subsidiary Torre Marenostrum, S.L. (32,746 thousand euros tied to EURIBOR plus an additional spread).

In the second half of 2018, the Parent paid off early 334,136 thousand euros on various loans from Axiare Patrimonio SOCIMI, S.A.

*Compliance with financial ratios*

The Group's mortgage-backed loans are subject to compliance with various financial ratios (LTV and Debt Service Coverage Ratio, whose thresholds vary according to the assets financed). At 31 December 2018 and 2017, the Group complied with the financial ratios required in its mortgage loan agreements.

### h) Other loans

At 31 December 2018, the Group had seven bilateral loans not secured by a mortgage guarantee, that were subject to compliance with various ratios. The total limits and balances drawn down are as follows:

**Thousands of euros**

| | | | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|---|---|
| | **Company** | **Maturity** | **Limit** | **Nominal amount drawn down** | **Limit** | **Nominal amount drawn down** |
| **Other loans:** | | | | | | |
| BECM | SFL | April 2019 | – | – | 150,000 | 150,000 |
| BECM | SFL | July 2023 | 150,000 | – | – | – |
| Banco Sabadell | SFL | June 2020 | 70,000 | – | 70,000 | 10,000 |
| BNP Paribas | SFL | May 2021 | 150,000 | 50,000 | 150,000 | 75,000 |
| CADIF | SFL | June 2023 | 175,000 | – | 175,000 | 175,000 |
| Banque Postale | SFL | June 2024 | 75,000 | – | 75,000 | – |
| Société Générale | SFL | October 2023 | 100,000 | – | 75,000 | – |
| Bankinter | Colonial | July 2024 | 50,000 | 50,000 | – | – |
| **Total other loans** | | | **770,000** | **50,000** | **620,000** | **410,000** |

In 2018, the subsidiary SFL paid off early the BECM loan maturing in April 2019.

In July and October 2018, the subsidiary SFL took out two new revolving lines of credit with BECM and Sociéte Générale, maturing in five years, for 150,000 thousand euros and 100,000 thousand euros, respectively.

In November 2018, the Parent took out a bilateral loan with Bankinter for 50,000 thousand euros maturing in six years.

In 2017, the subsidiary SFL signed two new lines of credit with CADIF and Banque Postale for a total of 175,000 thousand euros and 75,000 thousand euros, maturing in 6 and 7 years, respectively. Furthermore, SFL increased the limit of the bilateral loan that it had taken out with Banco Sabadell by 20,000 thousand euros, which was set at 70,000 thousand euros.

*Compliance with financial ratios*

The loan corresponding to the Parent is subject to compliance with the following financial ratios on a quarterly basis:

| ▼ **Ratios** |
|---|
| Loan-to-value ratio <= 55% |
| Interest coverage ratio >= 2x |
| Secured mortgage debt / Value of property assets <= 15% (*25% for the new syndicated loan*) |
| Secured non-mortgage debt / Value of non-property assets <= 15% (*25% for the new syndicated loan*) |
| Value of the consolidated assets >= 4.5 billion euros |

The loans corresponding to the subsidiary SFL are subject to compliance with the following financial ratios on a half-yearly basis:

| ▼ **Ratios** |
|---|
| Loan-to-value ratio <= 50% |
| Interest coverage ratio >= 2 |
| Secured debt / Equity value ≤ 20% |
| Appraisal value of unmortgaged properties >= 2 million euros |
| Gross financial debt subsidiaries / Gross consolidated financial debt < 25% |

At 31 December 2018 and 2017, the Parent and SFL complied with the financial ratios stipulated in the respective financing agreements.

Lastly, at 31 December 2018, the companies of the Utopicus subgroup had four loans drawn down for a total of 261 thousand euros (356 thousand euros at 31 December 2017). These loans are not subject to compliance with any ratio.

**i) Credit facilities**

At 31 December 2018, the Group did not have any credit facilities drawn down. At 31 December 2017, the balance drawn down was 33,459 thousand euros.

**j) Other financial liabilities – Current accounts**

At 31 December 2018, the Group had a current account in the amount of 52,246 thousand euros extended to the Group company SCI Washington (55,645 thousand euros at 31 December 2017). This current account accrues an additional spread on the three-month Euribor.

**k) Guarantees given**

At 31 December 2018, the Parent had granted guarantees to government bodies, customers and suppliers in the amount of 24,155 thousand euros (1,102,474 thousand euros at 31 December 2017). These include the following guarantees granted to cover deferred payments deriving from acquisition transactions:

Of the amount remaining, the main guarantee provided amounted to 4,946 thousand euros to secure the obligations acquired by Asentia Accordingly, the Parent and this subsidiary have an agreement in place whereby if any of the guarantees are enforced, Asentia must compensate the Parent for any damages sustained within 15 days.

The following guarantees at 31 December 2017 had been cancelled in 2018:

- In February 2018, the bank guarantee presented to the CNMV as security for the voluntary takeover bid for shares of Axiare Patrimonio SOCIMI, S.A., issued by Caixabank for an amount of 1,033,676 thousand euros, and guaranteed with a cash deposit, was cancelled.

- In May 2018, the bank guarantee deposited as security for the deferred payment on the acquisition of 100% of the shares in the subsidiary Moorage, amounting to 15,680 thousand euros, was cancelled.

- Lastly, in December 2018 the bank guarantees provided to purchase Agisa, Soller and Peñalvento (Note 2-f), for the sum of 41,767 thousand euros, were cancelled. The amount payable was recognised under "Trade payables" in the consolidated statement of financial position (Note 15).

**l) Cash and cash equivalents**

At 31 December 2018 and 2017, amounts of 68,293 thousand euros and 1,104,601 thousand euros, respectively, were recognised under "Cash and cash equivalents", of which 1,777 thousand euros and 1,045,668 thousand euros, respectively, were either restricted or pledged.

The balance at 31 December 2017 included 1,033,676 thousand euros relating to the cash required to meet the voluntary takeover bid for the shares of Axiare Patrimonio, SOCIMI, S.A., which was secured by the aforementioned bank guarantee and which has already been cancelled.

**m) Debt arrangement expenses**

At 31 December 2018 and 2017, the debt arrangement expenses assumed by the Group and not yet accrued amounted to 40,358 thousand euros and 29,612 thousand euros, respectively. These expenses are taken to the consolidated income statement during the term of the debt in accordance with financial criteria. In this regard, in 2018 and 2017 the Group recognised 6,384 thousand euros and 5,191 thousand euros, respectively, in the consolidated income statement corresponding to the costs paid during the year.

**n) Interest rate on borrowings**

The interest rate on the Group's borrowings, the Group's average credit spread, with and without accrual of the financing fees for 2018 and 2017, is shown in the table below:

▼ **Thousands of euros**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **Issue** | **Without accrual of fees** | **With accrual of fees** | **Without accrual of fees** | **With accrual of fees** |
| Average interest rate of the Group | 2.00% | 2.28% | 2.35% | 2.49% |
| Average credit spread of the Group | 1.37% | 1.65% | 1.56% | 1.87% |

The interest rate of the Group's outstanding debt at 31 December 2018 is 1.77% (1.86% at 31 December 2017).

The accrued interest outstanding recognised in the consolidated statement of financial position at 31 December 2018 and 2017 amounted to:

**Thousands of euros**

| Issue | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Parent bonds | 20,211 | 15,006 |
| SFL bonds | 6,099 | 2,342 |
| Bank borrowings | 1,313 | 1,180 |
| Other financial liabilities - Current accounts | 40 | 56 |
| **Total** | **27,663** | **18,584** |

**o) Capital management and risk management policy**

Companies operating in the real estate sector need to make heavy upfront investments to ensure development of their projects and growth of their businesses through the purchase of rental properties and/or land.

The Group's financial structure requires its sources of financing to be diversified In terms of entities, products and maturity dates, in order to ensure the continuity of its companies as profitable businesses and to be able to maximise returns for shareholders.

On 5 October 2016, the Parent registered a 12-month European Medium Term Note programme for 3,000,000 thousand euros, which can be extended to 5,000,000 thousand euros, on the Irish Stock Exchange. On 27 November 2018, the Spanish National Securities Market Commission (CNMV) approved the registration of the Company's Euro Medium Term Note Programme in the official registers.

In December 2018, the Parent registered a European Commercial Paper Programme for maximum limit of 300,000 thousand euros and maturing in the short term. At 31 December 2018, no promissory notes had been issued (Note 24).

The various bond issues launched from 2015 to 2018 have enabled the Parent 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 Parent'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.

**p) Financial risk management policy**

The Group efficiently manages its financial risks with the aim of having an adequate financial structure that allows it to maintain high levels of liquidity, minimise borrowing costs, reduce volatility due to changes in capital and ensure compliance with its business plans.

- Interest rate risk: The risk management policy is designed to limit and control the impact of interest rate fluctuations on profit and cash flows, to maintain the level of debt, and to keep overall borrowing costs at reasonable levels in accordance with the Group's credit rating.

  In order to attain these objectives, the Group enters into interest rate hedges to hedge against potential fluctuations in finance costs if necessary. The Group's policy is to arrange instruments that comply with accounting rules to be considered effective hedges and, therefore, to recognise changes in market value directly in the Group's other consolidated comprehensive income. At 31 December 2018, 90% of total debt in Spain and 93% in France was hedged or at fixed rates (93% and 85%, respectively, at 31 December 2017).

- Liquidity risk: Based on the annual cash budget, the Colonial Group draws up the monthly follow-up report on its cash forecasts to manage its liquidity risk and meet its various financing needs.

  The Group considers the following mitigating factors in managing liquidity risk: (i) recurring cash flow generation by the Group's core activities, (ii) its ability to renegotiate and obtain new financing on the basis of long-term business plans, and (iii) the quality of the Group's assets.

Cash surpluses may eventually arise that enable the Group to have lines of credit available but not yet drawn down or highly-liquid deposits with no risk. At 31 December 2018, the Group had sufficient lines of credit available to meet its short-term maturities. The Group does not use high-risk financial products as a method for investing cash surpluses.

– Counterparty risk: the Group mitigates this risk by using top-tier financial institutions to arrange its financing and by accessing the debt market through bond issues.

– Credit risk: the Parent analyses the exposure implied by at-risk accounts receivable on an ongoing basis, monitoring their settlements and recognising charges whenever its receivables are deemed impaired.

## 14. DERIVATIVE FINANCIAL INSTRUMENTS

The following table details the financial instruments and their fair values at 31 December 2018 and 2017:

| Derivative financial instrument | Company | Counterparty | Interest rate | Maturity | Notional value (thousands of euros) | Fair value – Asset / (Liability) |
|---|---|---|---|---|---|---|
| Swap | SFL | CA-CIB | 0.23% | 2022 | 100,000 | (1,041) |
| CAP | SFL | CADIF | 0.25% | 2022 | 100,000 | 591 |
| Swap | Colonia I (*) | Santander | 0.25% | 2022 | 18,000 | (205) |
| Swap | Colonial (*) | ING | 0.95% | 2022 | 18,650 | (823) |
| Swap | Colonial (*) | DB | 0.27% | 2022 | 18,650 | (230) |
| Swap | Venusaur (*) | DB | 0.43% | 2023 | 57,000 | (899) |
| Vanilla swap | Torre Marenostrum | Caixabank | 0.94% | 2032 | 26,197 | (493) |
| **Total at 31 December 2018** | | | | | **338,497** | **(3,100)** |

(*) Arising from the business combination with Axiare described in Note 2-a.

| Derivative financial instrument | Company | Counterparty | Interest rate | Maturity | Notional value (thousands of euros) | Fair value – Asset / (Liability) |
|---|---|---|---|---|---|---|
| Swap | SFL | CA-CIB | 0.23% | 2022 | 100,000 | (103) |
| Cap | SFL | CADIF | 0.25% | 2022 | 100,000 | 1,484 |
| Swap (redeemed step-up) | Colonial | BBVA | 4.40% | 2018 | 4,212 | (50) |
| Cap | Colonial | ING | 1.25% | 2018 | 300,000 | – |
| Cap | Colonial | Morgan Stanley | 1.25% | 2018 | 130,000 | – |
| Vanilla swap | Torre Marenostrum | Caixabank | 0.94% | 2032 | 27,728 | (348) |
| **Total at 31 December 2017** | | | | | **661,940** | **983** |

With the business combination between the Parent and Axiare Patrimonio SOCIMI, S.A., the Parent has integrated the derivative financial instrument contracts of the subsidiary for a nominal amount of 394,249 thousand euros. After the date of the business combination, various financial instruments were cancelled, generating a finance cost of 3,267 thousand euros, which was recognised under "Finance costs" in the consolidated statement of comprehensive income.

The impact for 2018 and 2017 of accounting for derivatives qualifying for hedge accounting on the consolidated income statement was a net finance cost of 6,345 thousand euros and 322 thousand euros, respectively (Note 18-h).

**a) Hedge accounting**

At 31 December 2018, the Parent and Torre Marenostrum applied hedge accounting to all derivative financial instruments. At 31 December 2017, hedge accounting was only applied to Torre Marenostrum.

At 31 December 2018, a balance receivable of 2,078 thousand euros was recognised in the consolidated statement of comprehensive income as a result of hedge accounting, net of the tax effect and consolidation adjustments. At 31 December 2017, a balance receivable of 559 thousand euros was recognised in the consolidated statement of comprehensive income (Note 12).

**b) Fair value of derivative financial instruments**

The fair value of the derivatives was calculated by discounting estimated future cash flows based on an interest rate curve and on assigned volatility at 31 December 2018, using the appropriate discount rates established by an independent expert.

## 15. TRADE PAYABLES AND OTHER NON-CURRENT LIABILITIES

The breakdown of these headings in the consolidated statement of financial position, by item and maturity, is as follows:

**▼ Thousands of euros**

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | **Current** | **Non-current** | **Current** | **Non-current** |
| Trade and other payables | 45,219 | – | 26,487 | – |
| Payables for the purchase of properties | 32,676 | – | 72,636 | 4,600 |
| Advances | 22,748 | 14,142 | 17,047 | – |
| Guarantees and deposits received | 2,207 | 51,710 | 4,628 | 39,497 |
| Payable to Social Security | 1,782 | – | 2,292 | – |
| Unearned income | 564 | – | 4,657 | – |
| Other payables and liabilities | 9,583 | 481 | 16,133 | 265 |
| **Total** | **114,779** | **66,333** | **143,880** | **44,362** |

**a) Trade and other payables**

This heading includes primarily the amounts payable by the Group for business-related purchases and associated costs.

**b) Payables for the purchase of properties**

This heading includes the amounts payable arising from acquisitions of ownership interest and/or properties. At 31 December 2017, the amount included under this line item relates mainly to the refurbishment or renovation work on various properties carried out by SFL, mainly the Louvre Saint-Honoré building, in the amount of 19,996 thousand euros (10,218 thousand euros at 1 December 2017).

In 2018 the deferred amounts were paid for the acquisitions of the ownership interest (Note 2-f) in Moorage (20,280 thousand euros, including the contingent price classified as non-current), in Agisa, Soller and Peñavento (41,967 thousand euros), and in Colonial Arturo Soria, S.L.U. (4,200 thousand euros).

The effect of the updated deferred payments was not material.

### c) Advances

Current advances relate mainly to the amounts paid upfront by lessees for bi-monthly or quarterly rent.

Non-current advances include 14,142 thousand euros on the price of the investments, in accordance with the sale and purchase agreement subject to conditions precedent signed by the Parent (Note 9).

### d) Guarantees and deposits received

This heading includes mainly security deposits paid by lessees.

### e) Unearned income

This heading includes the amounts received by SFL for rights of entry, which relate to the amounts invoiced by lessees to reserve a unique space, and that were recognised as income on a straight-line basis over the minimum term of the related lease agreement.

### f) Average period of payment to suppliers and trade creditors

The table below sets forth the information on the various Spanish Group companies required by final provision two of Law 31/2014, of 3 December, amending the Spanish Limited Liability Companies Law to improve corporate governance, and amending additional provision three of Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, which establishes measures to combat late payment in commercial transactions, all in accordance with that established in the resolution of 29 January 2016 issued by the Spanish Accounting and Audit Institute (ICAC) on disclosures to be included in the notes to the consolidated financial statements with regard to the average period of payment to suppliers in commercial transactions involving the various Spanish companies pertaining to the Group.

| | 2018 | 2017 |
|---|---|---|
| | **Days** | **Days** |
| Average supplier payment period | 32 | 31 |
| Ratio of transactions settled | 32 | 31 |
| Ratio of transactions pending payment | 48 | 31 |
| | **Amount (in thousands of euros)** | **Amount (in thousands of euros)** |
| Total payments made | 221,716 | 93,540 |
| Total payments pending | 8,205 | 5,212 |

The figures shown in the foregoing table in relation to payments to suppliers relate to suppliers that because of their nature are trade creditors for the supply of goods and services and, therefore, they include the figures relating to certain line items of “Trade payables” in the accompanying consolidated statement of financial position.

Law 11/2013 on measures to support entrepreneurs, stimulate growth and create employment, which amended the Law on late payments (Law 3/2004, of 29 December), entered into force on 26 July 2013. The new law stipulates that the maximum payment period to suppliers as of 29 July 2013 is 30 days, unless there is an agreement between the parties which increases the maximum period to 60 days.

With regard payments made after the legally established period, note that these are primarily payments relating to works contracted and property refurbishment, which are paid within the payment terms stipulated in the contracts signed with the various contractors.

## 16. PROVISIONS AND CONTINGENT ASSETS AND LIABILITIES

Changes in “Current provisions” and "Non-current provisions" in the consolidated statement of financial position for 2018 are as follows:

**Thousands of euros**

| | Non-current provisions | | Current provisions |
|---|---|---|---|
| | Provisions for employee benefits | Provisions for contingencies and other provisions | Provisions for contingencies and other provisions |
| **Balance at 31 December 2017** | **1,244** | **10,206** | **20,283** |
| Provisions | 59 | 10 | 8,402 |
| Disposals/Amounts used (Note 18-e) | (12) | – | (11,025) |
| Disposals/Amounts used (Note 18-h) | – | (10,127) | – |
| **Balance at 31 December 2018** | **1,291** | **89** | **17,660** |

### a) Non-current provisions

*Provisions for the outstanding urban development costs of UE-1*

As a result of restructuring the financial debt of Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. (hereinafter, “DUE”), a former subsidiary, the Company granted a loan for a maximum of 85,000 thousand euros, the purpose of which, among others, is to finance the development of the project implemented by DUE and to cover the costs of the work yet to be carried out on the UE-1, up to an amount of no more than 20,000 thousand euros. The Parent recognised the appropriate provisions (Note 16).

The Parent had a restricted cash line of credit with BBVA to cover the outstanding execution costs of the UE-1, which was drawn down when DUE showed that the development work had been carried out. At 31 December 2017, 9,876 thousand euros had been drawn down.

In 2018 the Parent sold the loan granted to DUE to a third party for 1 euro, thus being released from all its obligations.

*Provisions for employee benefits*

This line item includes the retirement benefits and seniority bonuses of employees of SFL (Note 4-j).

### b) Current provisions

Current provisions include an estimate of the Parent’s various future risks.

### c) Contingent assets

In 2010, the Parent filed certain lawsuits against former directors for transactions carried out between June 2006 and December 2007 regarding the following corporate actions for liability, with the following currently in process:

- A corporate action for liability against certain former directors in relation to the purchase of assets by the Parent for reinvestment of the proceeds by the sellers in shares of the Company, as part of the 29 June 2006 capital increase or otherwise.

- A corporate action for liability against certain former directors in connection with the losses caused to the Company by the acquisition of shares of Riofisa in 2007.

Given that the aforementioned lawsuits relate to claims filed against third parties in favour of Colonial, the only contingency that may arise is the payment of legal costs in the event that both cases are lost. At 31 December 2018, the appropriate provision had been recognised to meet any potential costs.

## 17. TAX MATTERS

### a) Adherence to the REIT Tax Regime and dissolution of the tax group, both effective as of 1 January 2017

Up until 31 December 2016, the Parent was the head of a group of companies filing consolidated tax returns since 1 January 2008. This consolidated tax group included only subsidiaries incorporated in Spain, in which the Parent either directly or indirectly owns at least 75% of their share capital (this threshold falls to 70% in the case of listed subsidiaries) and has the majority of the voting rights.

In addition to the Parent, the consolidated tax group for 2016 included Danieltown Spain, S.L.U., Colonial Invest, S.L.U. and Colonial Tramit, S.L.U.

On 30 June 2017, the Parent chose to operate within the REIT Tax Regime (Note 1-a). Adherence to this tax regime entailed the dissolution of the Parent's tax group at 31 December 2016, effective as of 1 January 2017, and the outstanding adjustments to be recovered from the tax group.

In addition to the Parent, in 2017 the following subsidiaries also chose to operate under the REIT Tax Regime: Danieltown Spain, S.L.U., Moorage Inversions 2014, S.L.U., Hofinac Real Estate, S.L.U. and Fincas y Representaciones, S.A.U. Likewise, in 2017 the subsidiary Colonial Arturo Soria, S.L.U. was acquired, which had already chosen to operate under the REIT Tax Regime prior to 1 January 2017. In 2018 the subsidiaries Agisa, Soller, Peñalvento, Axiare Investments and Venusaur chose to operate under the REIT Tax Regime, and LE Offices Egeo, a subsidiary acquired in January 2018, had already chosen to operate under the REIT Tax Regime.

### b) Tax receivables and tax payables

The breakdown of “Tax assets” in the accompanying consolidated statement of financial position is as follows:

**Thousands of euros**

| | Current | | Non-current | |
|---|---|---|---|---|
| | **31 December 2018** | **31 December 2017** | **31 December 2018** | **31 December 2017** |
| Tax refunds receivable | 19 | 2 | – | – |
| Income tax refunds receivable | 1,555 | 13,294 | – | – |
| VAT recoverable | 18,183 | 6,819 | – | – |
| Deferred tax assets | – | – | 411 | 407 |
| **Total tax receivables** | **19,757** | **20,115** | **411** | **407** |

At 31 December 2017, "Income tax refunds receivable" included a balance in favour of the Parent of 12,113 thousand euros arising from minimum income tax prepayments made in 2016. The amount of those prepayments related to the minimum payment of 23% and of the accounting profit/(loss) at the date of the prepayment, in accordance with the temporary measures in force for 2016. In January 2018, the tax authorities refunded the remaining 12,113 thousand euros.

The breakdown of "Tax liabilities" in the accompanying consolidated statement of financial position is as follows:

**Thousands of euros**

| | Current | | Non-current | |
|---|---|---|---|---|
| | **31 December 2018** | **31 December 2017** | **31 December 2018** | **31 December 2017** |
| Income tax payable | 422 | 2,349 | – | – |
| Other taxes payable | 3,428 | 2,827 | – | – |
| Exit tax payable (SFL Group) | 9,242 | 8,437 | 13,368 | 21,390 |
| VAT payable | 3,257 | 5,206 | – | – |
| Deferred tax liabilities | – | – | 361,514 | 349,843 |
| **Total tax payables** | **16,349** | **18,819** | **374,882** | **371,233** |

*Exit tax SFL (Note 4-m)*

In 2017, the subsidiary SFL acquired the Emile Zola property, which qualified for the SIIC regime in December 2017, thus generating exit tax in the amount of 21,138 thousand euros, which must be paid in four equal annual payments between 2018 and 2021.

In 2016, the subsidiary SFL executed the purchase option in the finance lease agreement that it held with respect to the property Wagram 131. This asset was subject to the SIIC regime, giving rise to the corresponding obligation to pay the exit tax, totalling 13,012 thousand euros, which must be paid to the French tax authorities in four equal annual payments between 2017 and 2020.

### c) Reconciliation of the accounting profit/(loss) to the taxable profit/(tax loss)

The reconciliation of the accounting profit/(loss) before tax to the taxable profit/(tax loss) after temporary differences is shown in the following table:

**Thousands of euros**

| | **2018** | **2017** |
|---|---|---|
| Accounting profit before tax (aggregate of individual expenses) | 453,371 | 882,811 |
| SFL profit/(loss) subject to the SIIC regime (Note 4-m) | (377,025) | (812,025) |
| REIT profit/(loss) (Note 4-m) | (88,524) | (8,715) |
| Permanent differences | (38,364) | (17,532) |
| Temporary differences | 37,535 | (20,512) |
| **Aggregate taxable profit/(tax loss) before use of unused tax losses** | **(13,007)** | **24,027** |
| Offset of tax losses | (2,496) | – |
| **Aggregate taxable profit/(tax loss)** | **(15,503)** | **24,027** |
| Taxable profit recognised for accounting purposes | 22,046 | 28,846 |
| Taxable loss not recognised for accounting purposes | (37,549) | (4,819) |

### d) Reconciliation of income tax expense

*Income tax*

Article 29 of Corporate Income Tax Law 27/2014, of 27 November, which entered into force on 1 January 2015, established a standard tax rate of 25% for taxpayers liable for this tax.

The above-mentioned Royal Decree Law also established the limit for tax loss carryforwards at 25% of the tax base, prior to their offset, for companies whose revenue is equal to or greater than 60 million euros.

On 30 June 2017, the Parent chose to operate within the REIT Tax Regime, which is applicable effective as of 1 January 2017 (Note 1). After adhering to the REIT regime, the profit arising from REIT activities will be taxed at a rate of 0%, provided that the stipulated requirements are met (Note 4-m).

The breakdown of "Income tax expense" in the consolidated statement of comprehensive income for 2018 and 2017 is as follows:

**▼ Thousands of euros**

| | 2018 | 2017 |
|---|---|---|
| Corporate income tax expense | (7,397) | (9,842) |
| Deferred tax on the restatement of assets at their fair value (IAS 40) | (10,488) | (56,990) |
| Reduction in deferred liabilities due to the drop in the tax rate – France | – | 13,779 |
| Reduction in deferred liabilities due to reversal liability SIIC-4 | – | 72,159 |
| Other non-primary components | (8,345) | 4,053 |
| **Income tax expense** | **(26,230)** | **23,159** |

**e) Deferred tax assets**

The breakdown of the deferred tax assets recognised by the Group is as follows:

**▼ Thousands of euros**

| | Recognised for accounting purposes | | | |
|---|---|---|---|---|
| **Deferred tax assets** | **31 December 2017** | **Increase** | **Decrease** | **31 December 2018** |
| Valuation of financial instruments | 339 | – | (10) | 329 |
| Other | 68 | 14 | – | 82 |
| | **407** | **14** | **(10)** | **411** |

*Prior years' tax loss carryforwards*

The corporate income tax in force as of 1 January 2016 stipulates that prior years' tax loss carryforwards may be offset in future years without any time limit, although it generally establishes an offset limit of 70% of taxable profit, with a minimum of 1 million. In the event that the revenue recognised by the Company or the tax group falls between 20 million euros and 60 million euros, the offset is limited to 50% of taxable profit, while if revenue is equal to or exceeds 60 million euros the offset limit is reduced to 25% of taxable profit.

As indicated above, some of the Group companies formed part of consolidated tax group 6/08, which means that certain transactions among companies included in the tax group were eliminated from the aggregate sum of the individual tax loss balances; they are not included in consolidated taxable profit until the gain or loss on the respective transaction is realised with third parties. In addition, the consolidated tax regime allowed companies with taxable profit to make use of the tax losses generated by other companies within the same consolidated tax group.

Following the dissolution of the Parent's tax group at 31 December 2016, effective as of 1 January 2017, the outstanding adjustments for transactions among the companies of the extinguished consolidated tax group were recovered, and the resulting tax losses were assigned to each of the companies of the group based on how they contributed to incurring these losses.

The following table shows the aggregate tax loss carryforwards to be offset by Spanish companies:

**▼ Thousands of euros**

| Year | Companies forming part of the Group |
|---|---:|
| 2000 | 12,979 |
| 2001 | 5,468 |
| 2003 | 140 |
| 2004 | 38,516 |
| 2005 | 36 |
| 2006 | 25,053 |
| 2007 | 321,571 |
| 2008 | 1,200,383 |
| 2009 | 865,940 |
| 2010 | 530,185 |
| 2011 | 117,894 |
| 2012 | 111,873 |
| 2013 | 85,767 |
| 2014 | 16,317 |
| 2015 | 2,075,745 |
| 2016 | 1,012 |
| 2017 | 4,010 |
| 2018 | 38,292 |
| **Total** | **5,451,181** |

*Deferred tax asset for tax credit carryforwards*

The nature and amount of unused tax credits at 31 December 2018 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 | Amount | Last year for use |
|---|---|---|---|
| **Double taxation tax credit** | 2008 | 6,553 | n.a. |
| | 2009 | 238 | n.a. |
| | 2010 | 227 | n.a. |
| | 2011 | 295 | n.a. |
| | 2012 | 168 | n.a. |
| | 2013 | 69 | n.a. |
| | 2014 | 135 | 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 |
| **Tax credit for reinvestment** | 2003 | 3,316 | 2018 |
| | 2004 | 1,056 | 2019 |
| | 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 |
| | | **23,426** | |

*Tax credit for reinvestment*

As set forth in prevailing legislation, for the tax credit for reinvestment of extraordinary gains to be applicable, the assets acquired with the proceeds must be held for a five-year period (three years, in the case of financial investments), unless the assets failing to comply with the deadline are reinvested within the prevailing timeframe. The terms for holding the amounts reinvested by the Parent are as follows:

**▼ Thousands of euros**

| | 2019 |
|---|---|
| Reinvested by the Parent | 18,701 |
| Associated profit | 188 |

The Parent's directors consider that the Parent will comply with the stipulated timeframes.

**f) Deferred tax liabilities**

The breakdown of deferred tax liabilities and the changes therein are provided below:

**▼ Thousands of euros**

| Deferred tax liabilities | 31 December 2017 | Increase | Decrease | 31 December 2018 |
|---|---|---|---|---|
| Asset revaluations | 344,089 | 16,025 | (4,045) | 356,069 |
| Asset revaluations (Spain) | 146,113 | 8,939 | (4,045) | 151,007 |
| Asset revaluations (France) | 197,976 | 7,086 | – | 205,062 |
| Deferral for reinvestment | 5,158 | – | (188) | 4,970 |
| Other | 596 | – | (121) | 475 |
| | **349,843** | **16,025** | **(4,354)** | **361,514** |

*Deferred tax liability for asset revaluations*

This deferred tax liability relates mainly to the difference between the accounting cost of investment properties measured at fair value (under IFRS) and their tax cost (acquisition cost less depreciation and any impairment that may be deductible).

*Asset revaluations (Spain)*

This line item includes the deferred taxes associated with the Group's investment property located in Spain that would be accrued if these assets were transferred at the fair value at which they are recognised, using the effective rate that would be applicable to each of the companies taking into account applicable legislation and any unrecognised tax credits.

Following the adoption of the REIT Tax Regime, the changes in the deferred taxes recognised in 2017 relate mainly to the properties owned by the companies that did not choose to operate under this regime, i.e., Torre Marenostrum, S.L. and Inmocol Torre Europa, S.A., and to certain adjustments arising from corporate transactions. Accordingly, the deferred taxes associated with the investment property of Colonial Group companies, wholly owned by the Parent, were recognised at an effective rate of 18.75% (tax rate of 25% with a limit on tax loss carryforwards of 25%). Consequently, in calculating its deferred tax liabilities, the Group considers applying the deferred tax asset of 44,385 thousand euros arising from the tax losses (the difference between the 25% tax rate and the effective settlement rate applied of 18.75%).

*Asset revaluations (France)*

"Asset revaluations (France)" records the amount of the deferred taxes associated with the Group's investment property located in France, which would accrue if those assets are sold. It should be noted that practically all of the assets in France are subject to the SIIC regime (Note 4-m), and therefore no additional tax would arise at the time of their sale. Only the assets of the companies forming part of the Parholding subgroup would fall outside of that tax regime at 31 December 2018 and 2017.

The Colonial Group also recognised deferred tax under this heading in connection with the asset revaluations under the SIIC regime (the SIIC-4 liability), calculated as the minimum stipulated dividend under the regime, in the event that all capital gains on the investment properties recognised by the SFL Group are realised, taking into account an effective tax rate for the calculation of the deferred tax of 11.15% Following the adoption of the REIT Tax Regime, and given that the dividend distributed by the subsidiary SFL to the Parent will no longer be subject to this taxation, the deferred tax recognised in this connection amounting to 72,159 thousand euros was reversed.

In 2017 the subsidiary SFL recognised the impact of the gradual reduction in the French tax rate, which dropped from 33.33% to 25%, and which entailed a decrease in the deferred tax liabilities due to the adjustment made to assets of 13,779 thousand euros.

### g) Years open for review and tax audits

The Group has the last four years open for review by the tax inspection authorities for all applicable taxes in Spain and France, except income tax of Spanish companies with tax loss carryforwards or unused tax credits, in which case the period under review for this tax is extended to ten years. In 2016 the Parent filed supplementary income tax returns for 2011 to 2014, breaking the statute of limitations for these years.

No additional material liability for the Group is expected to arise in the event of a new tax audit.

### h) Disclosure requirements arising from REIT status, Law 11/2009, amended by Law 16/2012

The disclosure requirements arising from the status of the Parent and certain subsidiaries as REITs (Note 17-a) are included in the related notes to the individual financial statements.

### i) Adherence to the Code of Best Tax Practices

On 10 December 2015, the Company's Board of Directors agreed to adhere to the Code of Best Tax Practices. This resolution was reported to the tax authorities on 8 January 2016.

## 18. REVENUE AND EXPENSES

### a) Revenue

Revenue comprises basically rental income from contracts with customers arising from the Group's rental properties, which are concentrated in the cities of Barcelona, Madrid and Paris. The breakdown of revenue, by geographical segment, in 2018 and 2017 is shown in the table below:

▼ **Thousands of euros**

| Rental segment | 2018 | 2017 |
|---|---:|---:|
| Barcelona | 41,629 | 34,871 |
| Madrid | 106,144 | 52,270 |
| Rest of Spain | 6,991 | 366 |
| Paris | 193,509 | 195,780 |
| | **348,273** | **283,287** |

Revenue for 2018 and 2017 includes the effect of the lease incentives throughout the minimum term of the lease agreement (Note 4-n). Revenue also includes the accrued amounts received in connection to rights of entry (Note 15-e). At 31 December 2018 and 2017, these accruals increased revenue by 536 thousand euros and 13,061 thousand euros, respectively.

At 31 December 2018 and 2017, the total minimum future lease payments receivable corresponding to the Group's non-cancellable operating leases, based on the leases currently in force at each date, without taking into account the impact of common expenses, future increases in the CPI or future contractual lease payment revisions based on market parameters, were as follows:

**Thousands of euros**

| | Nominal amount | |
|---|---|---|
| **Minimum operating lease payments** | **31 December 2018** | **31 December 2017** |
| Less than one year | 313,327 | 268,060 |
| Spain | 131,841 | 83,567 |
| France | 181,486 | 184,493 |
| Between one and five years | 639,112 | 562,568 |
| Spain | 206,842 | 124,389 |
| France | 432,270 | 438,179 |
| Over five years | 151,105 | 141,118 |
| Spain | 68,163 | 16,492 |
| France | 82,942 | 124,626 |
| **Total** | **1,103,544** | **971,746** |
| **Spain** | **406,846** | **224,448** |
| **France** | **696,698** | **747,298** |

**b) Other operating income**

This heading relates mainly to property services rendered, and amounted to 5,677 thousand euros and 2,714 thousand euros at 31 December 2018 and 2017, respectively.

**c) Staff costs**

The breakdown of "Staff costs" in the accompanying consolidated statement of comprehensive income is as follows:

**Thousands of euros**

| | 2018 | 2017 |
|---|---|---|
| Wages and salaries | 19,688 | 18,092 |
| Social security costs | 6,935 | 6,580 |
| Other employee benefit costs | 3,014 | 4,710 |
| Contributions to defined benefit plans | 241 | 239 |
| Internal reallocation | (740) | (686) |
| **Total staff costs** | **29,138** | **28,936** |
| **Spain** | **16,350** | **13,527** |
| **France** | **12,788** | **15,409** |

"Other employee benefit costs" includes amounts corresponding to costs accrued in 2018 under the Parent's long-term remuneration plan (Note 19-a) and SFL's share option plan detailed in Note 19-c, totalling 3,406 thousand euros (2,880 thousand euros in 2017).

The contributions made by the Parent in 2018 and 2017 to defined benefit plans amounted to 241 thousand euros and 239 thousand euros, respectively, and are recognised under "Staff costs" in the consolidated statement of comprehensive income. At year-end 2017 and 2016, there were no contributions payable to this pension plan.

The Group headcount at 31 December 2018 and 2017, and the average headcount in 2018 and 2017, by job category and gender, is as follows:

**▼ Number of employees**

| | 2018 | | 2017 | | Average headcount, 2018 | | Average headcount, 2017 | |
|---|---|---|---|---|---|---|---|---|
| | Men | Women | Men | Women | Men | Women | Men | Women |
| General and area managers | 14 | 7 | 14 | 6 | 16 | 7 | 13 | 5 |
| Technical graduates and middle managers | 34 | 40 | 32 | 37 | 36 | 41 | 33 | 32 |
| Administrative staff | 26 | 73 | 16 | 53 | 21 | 64 | 16 | 52 |
| Other | 5 | 1 | 5 | 3 | 5 | 2 | 4 | 2 |
| **Total employees** | **79** | **121** | **67** | **99** | **78** | **114** | **66** | **91** |

### d) Other operating expenses

The breakdown of "Other operating expenses" in the consolidated statement of comprehensive income is as follows:

**▼ Thousands of euros**

| | 2018 | 2017 |
|---|---|---|
| External and other expenses | 30,726 | 17,979 |
| Taxes other than income tax | 29,368 | 22,942 |
| **Total other operating expenses** | **60,094** | **40,921** |

*Operating leases as lessee*

At the end of 2018 and 2017, the subsidiary Utopicus had agreed the following minimum lease payments with the lessors, based on the leases in force, taking into account the charging of expenses, future increases in the CPI or other lease payment revisions:

**▼ Thousands of euros**

| | 2018 | 2017 |
|---|---|---|
| Less than 12 months | 3,514 | 282 |
| Between 1 and 5 years | 11,884 | 832 |
| More than 5 years | 266 | 348 |
| **Total minimum operating lease payments as lessee** | **15,664** | **1,461** |

These amounts relate to the lease agreements signed by Utopicus for the premises at which it offers its co-working services.

### e) Net change in provisions

The changes in “Net change in provisions” in the consolidated statement of comprehensive income during the year are as follows:

▼ **Thousands of euros**

| | 2018 | 2017 |
|---|---|---|
| Net charge to operating provisions (Note 16) | 5,289 | (5,592) |
| Net charge to provisions for doubtful debts and other | (953) | (112) |
| **Total net change in provisions** | **4,336** | **(5,704)** |

### f) Changes in the fair value of investment property and Gains/(losses) on changes in value of assets and impairment

The breakdown of “Changes in fair value of investment property” in the consolidated statement of comprehensive income for 2018 and 2017, by type, is as follows:

▼ **Thousands of euros**

| | 2018 | 2017 |
|---|---|---|
| Investment property (Note 9) | 701,952 | 937,108 |
| Assets classified as held for sale – Investment property (Note 22) | – | (3,673) |
| **Changes in fair value of investment property** | **701,952** | **933,435** |
| **Spain** | **412,938** | **218,014** |
| **France** | **289,014** | **715,421** |

The breakdown, by nature, of the impairment charges recognised under “Gains/(losses) on changes in value of assets and impairment” in the consolidated statement of comprehensive income is as follows:

▼ **Thousands of euros**

| | 2018 | 2017 |
|---|---|---|
| Impairment of goodwill | (114,304) | – |
| Impairment/(Reversal of impairment) of properties for own use (Note 8) | 1,630 | (287) |
| Impairment of other property, plant and equipment (Note 8) | – | (2,129) |
| Other impairment | (447) | (2,703) |
| Derecognitions of replaced assets (Notes 8 and 9) | (18,269) | (101) |
| **Gains/(losses) on changes in value of assets and impairment** | **(131,390)** | **(5,220)** |

### g) Net gains/(losses) on sales of assets

The breakdown of the Group's net gains/(losses) on sales of assets (Notes 8, 9 and 22), and their geographical distribution, is detailed as follows:

**Thousands of euros**

| | Spain | | France | | Total | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Sale price | 388,930 | 6,435 | 260 | 445,000 | 389,190 | 451,435 |
| Asset derecognition | (366,986) | (5,242) | (230) | (404,679) | (367,216) | (409,921) |
| Derecognition grace periods | – | – | – | (40,321) | – | (40,321) |
| Indirect costs and other | (10,244) | (666) | (9) | – | (10,244) | (666) |
| **Net gains/(losses) on sales of assets** | **11,700** | **527** | **21** | **–** | **11,721** | **527** |

### h) Finance income and costs

The breakdown of finance income and costs in 2018 and 2017 is as follows:

**Thousands of euros**

| | 2018 | 2017 |
|---|---|---|
| **Finance income:** | | |
| Revenue from equity investments (Note 10-b) | 71 | 3,681 |
| Interest and similar income | 2,389 | 1,435 |
| Income from derivative financial instruments (Note 14) | 64 | 95 |
| Capitalised borrowing costs (Note 9) | 5,307 | 2,591 |
| **Total finance income** | **7,831** | **7,802** |
| **Finance costs:** | | |
| Finance and similar costs | (105,235) | (78,996) |
| Finance costs associated with loan repayment | (6,946) | (2,242) |
| Finance costs associated with the repurchase of bonds | (24,459) | – |
| Finance costs associated with arrangement expenses (Note 13-m) | (6,384) | (5,191) |
| Expense on derivative financial instruments (Note 14) | (6,409) | (417) |
| **Total finance costs** | **(149,433)** | **(86,846)** |
| **Impairment of financial assets (Note 16)** | **(143)** | **(401)** |
| **Total financial loss** | **(141,745)** | **(79,445)** |

### i) Related party transactions

The main related party transactions undertaken in 2018 and 2017 were as follows:

**▼ Thousands of euros**

| | 2018 | 2017 |
|---|---|---|
| | **Building leases** | **Building leases** |
| Gas Natural, SDG, S.A. (*) | 5,300 | 5,227 |
| **Total** | **5,300** | **5,227** |

(*) Gas Natural, SDG, S.A. is the shareholder of the Parent in the subsidiary Torre Marenostrum, S.L.

On 16 November 2018, the Parent acquired 10,323,982 shares of the subsidiary SFL from Qatar Holding, LLC and DIC Holding, LLC through (i) the Parent's contribution of 7,136,507 shares of the subsidiary as consideration for the subscription of the 53,523,803 new shares of the Company (Note 12-a), (ii) the exchange of 400,000 shares of the subsidiary SFL for 3,000,000 shares of the Parent that it held as treasury shares (Note 12-f), and (iii) the sale to the Parent of 2,787,475 shares of the subsidiary SFL for 203,486 thousand euros.

### j) Profit/(loss) by company

The contribution of the consolidated companies to profit/(loss) for the year was as follows:

**▼ Thousands of euros**

| | Consolidated net profit/(loss) | | Net profit/(loss) attributable to non-controlling interests | | Net profit/(loss) for the year attributable to the Parent | |
|---|---|---|---|---|---|---|
| **Company** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Inmobiliaria Colonial, SOCIMI, S.A. | 120,534 | 154,306 | (2,699) | – | 117,835 | 154,306 |
| Subgrupo SFL | 384,646 | 868,431 | (147,971) | (395,002) | 236,675 | 473,429 |
| Torre Marenostrum, S.L. | 6,291 | 4,505 | (2,831) | (1,954) | 3,460 | 2,551 |
| Danieltown Spain, S.L.U. | 15,424 | 3,311 | – | – | 15,424 | 3,311 |
| Moorage Inversiones 2014, S.L.U. | 70,351 | 5,194 | – | – | 70,351 | 5,194 |
| Hofinac Real Estate, S.L.U. | 31,152 | 32,494 | – | – | 31,152 | 32,494 |
| Fincas y representaciones, S.A.U. | 10,879 | 3,345 | – | – | 10,879 | 3,345 |
| Inmocol Torre Europa, S.A. | 1,125 | 1,993 | (563) | (1,037) | 562 | 956 |
| Colonial Arturo Soria, S.L.U. | 2,589 | 3,511 | – | – | 2,589 | 3,511 |
| LE Offices Egeo, S.A.U. | 6,071 | – | | – | 6,071 | – |
| Agisa, S.A.U. | 6,731 | 1,842 | – | – | 6,731 | 1,842 |
| Soller, S.A.U. | 5,628 | 2,421 | – | – | 5,628 | 2,421 |
| Peñalvento, S.L.U. | 10,243 | 2,019 | – | – | 10,243 | 2,019 |
| Subgrupo Utopic_US | (2,780) | (2,917) | 478 | 65 | (2,302) | (2,852) |
| Axiare Investments, S.A. | (3,197) | – | 206 | – | (2,991) | – |
| Axiare Properties, S.A. | (4) | – | – | – | (4) | – |
| Axiare I+D+i, S.A. | (835) | – | 10 | – | (825) | – |

**Thousands of euros**

| | Consolidated net profit/(loss) | | Net profit/(loss) attributable to non-controlling interests | | Net profit/(loss) for the year attributable to the Parent | |
|---|---|---|---|---|---|---|
| **Company** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Venusaur, S.A. | 10,370 | – | 94 | – | 10,464 | – |
| Chameleon (Cedro) | 2,895 | – | (70) | – | 2,825 | – |
| Colonial Invest, S.L.U. | (2) | (2) | – | – | (2) | (2) |
| Colonial Tramit, S.L.U. | (2) | (2) | – | – | (2) | (2) |
| **Total** | **678,109** | **1,080,451** | **(153,346)** | **(397,928)** | **524,763** | **682,523** |

## 19. STOCK OPTION PLANS

### a) Long-term remuneration plan linked to fulfilment of several management indicators

On 21 January 2014, the shareholders at the Parent's Annual General Meeting set up a long-term remuneration plan for the Chairman and the Managing Director of the Parent and for members of the Group's Management Committee, applicable from 2014 to 2018.

Between 1 and 15 April of each of the following periods, at the proposal of the Nomination and Remuneration Committee, the Board of Directors must determine the number of shares that correspond to each beneficiary of the plan based on fulfilment of the indicators the previous year. The shares will be delivered to the beneficiaries between 15 and 30 April each year.

Shares received under this plan may not be sold or transferred by beneficiaries within the first three years of receiving them, except as required to pay any taxes chargeable in this regard.

The determination of shares to be allocated will be subject to a final adjustment to ensure that the cash value of the shares does not exceed the average Colonial share price for November 2013 by more than 150%.

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

In 2018 and 2017, the Parent recognised 1,454 thousand euros and 1,334 thousand euros, respectively, under "Staff costs - Other employee benefit costs" in the consolidated income statement to cover the incentive plan (Note 18-c).

On 25 April 2018, the Parent settled the outstanding obligations relating to compliance with the plan once the Board determined the number of shares to be delivered to the beneficiaries of the Plan in accordance with the level of fulfilment of indicators for 2017, which was 348,394 shares (Note 12). The shares were delivered to the beneficiaries on this date. Of these shares, 195,100 shares were delivered to members of the Board of Directors and 153,294 shares to members of senior management, with a market value upon delivery of 1,828 thousand euros and 1,436 thousand euros, respectively.

On 26 April 2017, the Board determined the number of shares to be delivered to beneficiaries of the Plan in accordance with the level of fulfilment of indicators for 2016 was 313,954 shares (Note 12). The shares were delivered to the beneficiaries on the same date. Of these shares, 175,814 shares were delivered to members of the Board of Directors and 138,140 shares to members of senior management, with a market value upon delivery of 1,257 thousand euros and 988 thousand euros, respectively.

### b) Extension of the term of the long-term remuneration plan linked to fulfilment of several management indicators

On 29 June 2017, the shareholders at the Annual General Meeting agreed to extend the term for applying the share delivery plan approved at the General Shareholders Meeting held on 21 January 2014 for an additional two years, in accordance with the terms and conditions thereof.

**c) Share option plans on SFL shares**

The subsidiary SFL had two bonus share plans at 31 December 2018, the breakdown of which is as follows:

| | Plan 4 | Plan 4 | Plan 5 |
|---|---|---|---|
| Meeting date | 13/11/2015 | 13/11/2015 | 20/04/2018 |
| Board of Directors date | 26/04/2016 | 03/03/2017 | 20/04/2018 |
| Initial target number | 32,036 | 33,376 | 33,592 |
| Initial expected % | 70.83% | 70.83% | 100% |
| Initial expected number | 22,691 | 23,640 | 33,592 |
| Amount per share (euros) | 41.49 | 42.61 | 48.64 |
| Options cancelled/disposals | (1,168) | (2,268) | (1,456) |
| Expected % at year-end | 150% | 100% | 100% |
| Estimated number at year-end | 46,302 | 31,108 | 32,136 |

Each allocation plan has been calculated based on the expected number of shares multiplied by the unit fair value of those shares. The expected number of shares is the total number of shares multiplied by the expected percentage of take-up in the grant, The resulting amount is charged on a straight-line basis over the grant period.

The fair value of the shares allocated is determined by the quoted price at the grant date, adjusted by the discounted value of future dividends paid during the acquisition period applying the Capital Asset Pricing Model (CAPM).

In the first half of 2018, a total of 37,896 bonus shares were delivered in accordance with Plan 3 for 2015.

At 31 December 2018 and 2017, a total of 1,952 thousand euros and 1,546 thousand euros relating to these bonus share plans were recognised in the consolidated income statement (Note 18-c).

## 20. BALANCES WITH RELATED PARTIES AND ASSOCIATES

At 31 December 2018 and 2017, the Group did not have any balances outstanding with related parties and associates.

## 21. DIRECTOR AND SENIOR MANAGEMENT REMUNERATION AND OTHER BENEFITS

**a) Composition of the Parent's Board of Directors**

The Parent's Board of Directors was made up of ten men and one woman at 31 December 2018 and nine men and one woman at 31 December 2017.

At 31 December 2018, the composition of the Parent's Board of Directors is as follows:

| **Director** | **Position** | **Type of director** |
|---|---|---|
| Juan José Brugera Clavero | Chairman | Executive |
| Pedro Viñolas Serra | Chief Executive Officer | Executive |
| Carlos Fernández González | Director | Proprietary |
| Javier López Casado | Director | Proprietary |
| Sheikh Ali Jassim M. J. Al-Thani | Director | Proprietary |
| Adnane Mousannif | Director | Proprietary |
| Juan Carlos García Cañizares | Director | Proprietary |
| Carlos Fernández-Lerga Garralda | Lead Director | Independent |
| Ms Ana Sainz de Vicuña | Director | Independent |
| Javier Iglesias de Ussel Ordís | Director | Independent |
| Luis Maluquer Trepat | Director | Independent |

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

On 24 January 2019, Ana Sainz de Vicuña tendered her resignation as an independent director . On this same date, Silvia-Mónica Alonso-Castrillo Allain was appointed as an independent director.

In 2017, Juan Villar-Mir de Fuentes resigned from his position as 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 Parent.

### b) Remuneration of Board members

The breakdown of the remuneration received in 2018 and 2017 by the members of the Board of Directors of the Parent, by item, is as follows:

**▼ 31 December 2018 – Thousands of euros**

| | Parent | Other Group companies | Total |
|---|---|---|---|
| **Remuneration earned by executive directors (*):** | **3,347** | **150** | **3,497** |
| **Attendance fees for non-executive directors:** | **561** | **80** | **641** |
| Directors' attendance fees | 537 | 80 | 617 |
| Additional attendance fees for the Chairman | 24 | – | 24 |
| **Dietas consejeros ejecutivos:** | **–** | **45** | **45** |
| **Attendance fees for executive directors** | **780** | **100** | **880** |
| Directors' remuneration | 505 | 60 | 565 |
| Additional remuneration for the Audit and Control Committee | 125 | 40 | 165 |
| Additional remuneration for the Nomination and Remuneration Committee | 150 | – | 150 |
| **Executive directors' remuneration:** | **–** | **70** | **70** |
| **Total 2018** | **4,688** | **445** | **5,133** |
| Remuneration for executive directors (*): | 3,347 | 265 | 3,612 |

(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan described in Note 18.

**▼ 31 December 2017 – Thousands of euros**

| | Parent | Other Group companies | Total |
|---|---|---|---|
| **Remuneration earned by executive directors (*):** | **4,866** | **150** | **5,016** |
| **Attendance fees for non-executive directors:** | **580** | **95** | **575** |
| Directors' attendance fees | 557 | 95 | 652 |
| Additional attendance fees for the Chairman | 23 | – | 23 |
| **Attendance fees for executive directors:** | **–** | **50** | **50** |
| **Fixed remuneration of non-executive directors:** | **780** | **100** | **880** |
| Directors' remuneration | 495 | 60 | 555 |
| Additional remuneration for the Audit and Control Committee | 135 | 40 | 175 |
| Additional remuneration for the Nomination and Remuneration Committee | 150 | – | 150 |
| **Executive directors' remuneration:** | **–** | **70** | **70** |
| **Total 2017** | **6,226** | **465** | **6,691** |
| Remuneration for executive director (*): | 4,866 | 270 | 5,136 |

(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan described in Note 18.

At 31 December 2018 and 2017, the Parent had taken out a civil liability insurance policy covering all of its directors, executives and employees, for a premium of 369 thousand euros and 393 thousand euros, respectively. The aforementioned amount includes the insurance premium paid for both periods for civil liability insurance to cover 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. At 31 December 2018 and 2017, the Parent recognised 180 thousand euros and 178 thousand euros, respectively, in this connection under “Staff costs” in the consolidated income statement.

In addition to the matters indicated in the preceding paragraph, the Group has not granted any loans or taken out any pension plans or life insurance for former or serving members of the Parent’s Board of Directors.

At 31 December 2018 and 2017, two members of the Board of Directors had signed golden parachute clauses in the event of certain cases of termination or change of control, all of which were approved at the General Shareholders Meeting.

In 2018 and 2017, there were no finalisations, modifications or early terminations of contracts outside of the normal business activities between the Parent and the members of the Board of Directors or any other person acting on their behalf.

**c) Remuneration of senior management**

The Parent’s senior management team is formed by senior executives and other persons responsible for the management of the Company, reporting to the CEO. The Company’s senior management team was made up of two men and two women at 31 December 2018 and 2017.

Monetary compensation earned by senior management in 2018 amounted to 1,505 thousand euros. Furthermore, they received 1,436 thousand euros corresponding to the long-term incentives plan (1,918 thousand euros and 988 thousand euros, respectively, in 2017).

At its meeting held on 27 July 2016, the Board of Directors approved the granting of a defined contribution scheme for a member of senior management covering retirement and, when applicable, disability and death. At 31 December 2018 and 2017, the Parent recognised 62 thousand euros and 61 thousand euros, respectively, in this connection under “Staff costs” in the consolidated statement of comprehensive income.

At 31 December 2018 and 2017, one member of senior management had signed a golden parachute clause, in the event of termination under certain circumstances or a change of control.

## 22. ASSETS CLASSIFIED AS HELD FOR SALE

The changes in this heading in 2018 and 2017 were as follows:

▼ **Thousands of euros**

| | **Investment property** |
|---|---:|
| **Balance at 31 December 2016** | **–** |
| Transfers (Note 9) | 408,352 |
| Disposals (Note 18-g) | (404,679) |
| Changes in value (Note 18-f) | (3,673) |
| **Balance at 31 December 2017** | **–** |
| Transfers (Note 9) | 26,091 |
| **Balance at 31 December 2018** | **26,091** |

**Investment property (Note 9)**

*Movements in 2018*

In 2018, the Parent transferred a property from "Investment property" in the consolidated statement of financial position amounting to 26,091 thousand euros (Note 24).

*Movements in 2017*

In the first half of 2017, the subsidiary SFL transferred the In&Out building from "Investment property" in the consolidated statement of financial position amounting to 408,352 thousand euros. The value of the property at 30 June 2017 took into consideration the price of the sale commitment signed by the subsidiary SFL on 25 July 2017, which amounted to 445,000 thousand euros, less transaction costs. In September 2017, the sale commitment was executed for the aforementioned amount (Note 18-g).

"Changes in fair value of investment property" in the consolidated statement of comprehensive income includes the loss of 3,673 thousand euros from the revaluation of the assets classified as held for sale for 2017 (Note 17-f), in accordance with the appraisals of independent experts at 31 December 2017 (Note 4-c).

## 23. AUDITORS' FEES

Fees incurred for auditing services in 2018 and 2017 provided to the various companies composing the Colonial Group by the principal auditor and other auditors are set forth below:

**▼ Thousands of euros**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **Description** | **Principle auditor** | **Other auditors** | **Principle auditor** | **Other auditors** |
| Audit services | 756 | 237 | 569 | 239 |
| Other attest services | 176 | 25 | 91 | 3 |
| **Total audit and related services** | **932** | **262** | **660** | **242** |
| Tax advisory services | – | 18 | – | – |
| Other services | 47 | 717 | 135 | 542 |
| **Total professional services** | **47** | **735** | **135** | **542** |

The principal auditor of the Colonial Group for 2018 and 2017 was PricewaterhouseCoopers Auditores, S.L.

The fees for other attest services include 149 thousand euros relating to services provided to the Company for issuing comfort letters and agreed-upon procedure reports on ratios linked to financing agreements and an agreed-upon procedure report on the net asset value (88 thousand euros for 2017). In addition, the Company provided services to subsidiaries on agreed-upon procedures on ratios linked to financing agreements for 2 thousand euros. The principal auditor's fees represent less than 1% of its revenue in Spain.

## 24. EVENTS AFTER THE REPORTING PERIOD

From 31 December 2018 to the date on which these consolidated financial statements were authorised for issue, the following significant events took place:

- From 1 January to 25 February 2019, the Parent carried out various short-term promissory note issuances amounting to a total of 172 million euros. The subsidiary SFL also carried out various short-term promissory note issuances amounting to a total of 244 million euros.

- On 31 January 2019, and once the parties had met all of their obligations, the Hotel Centro Norte was sold for a price of 27,500 thousand euros (Note 22), of which 2,750 thousand euros had been received by the Parent as a prepayment.

- In January and February 2019, the Parent repaid 206 million euros of the debt from Axiare and refinanced the outstanding debt amounting to 76 million euros, thus improving its margin, which was tied to the company's ESG rating. In addition, a sustainable loan was taken out for 75 million euros, the margin of which is tied to the ESG assessment.

## APPENDIX

### Companies included in the scope of consolidation

At 31 December 2018 and 2017, fully consolidated subsidiaries and related information were as follows:

| | % ownership | | | | | |
|---|---|---|---|---|---|---|
| | Direct | | Indirect | | | |
| | 2018 | 2017 | 2018 | 2017 | Shareholder | Business |
| **Torre Marenostrum, S.L. (*)**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | 55% | 55% | – | – | | Real estate |
| **Colonial Invest, S.L.U.**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | 100% | 100% | – | – | | Real estate |
| **Colonial Tramit, S.L.U.**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | 100% | 100% | – | – | | Real estate |
| **Danieltown Spain, S.L.U.**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | 100% | 100% | – | – | | Real estate |
| **Moorage Inversiones 2014, S.L.U.**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | 100% | 100% | – | – | | Real estate |
| **Hofinac Real Estate, S.L.U.**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | 100% | 100% (*) | – | – | | Real estate |
| **Fincas y representaciones, S.A.U.**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | 100% | 100% | – | – | | Real estate |
| **Inmocol Torre Europa, S.A. (*)**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | 50% | 50% | – | – | | Real estate |
| **Colonial Arturo Soria, S.L.U.**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | 100% | 100% | – | – | | Real estate |
| **LE Offices Egeo, S.A.U.**<br>Pº de la Castellana, 52<br>28046 Madrid (Spain) | 100% | – | – | – | | Real estate |
| **Chameleon (Cedro), S.L.U.**<br>Avda. Diagonal, 532<br>08006 Barcelona (Spain) | 100% | 100% | – | – | | Real estate |
| **Venusaur, S.L.U.**<br>Avda. Diagonal, 532<br>08006 Barcelona (Spain) | 100% | 100% | – | – | | Real estate |
| **Axiare Invesments, S.L.U.**<br>Pº de la Castellana, 52<br>28046 Madrid (Spain) | 100% | 100% | – | – | | Real estate |
| **Axiare Properties, S.L.U.**<br>Pº de la Castellana, 52<br>28046 Madrid (Spain) | 100% | 100% | – | – | | Real estate |
| **Axiare Investigación, Desarrollo e Innovación, S.L.U.**<br>Pº de la Castellana, 52<br>28046 Madrid (Spain) | 100% | 100% | – | – | | Real estate |

| | % ownership | | | | | |
|---|---|---|---|---|---|---|
| | Direct | | Indirect | | | |
| | 2018 | 2017 | 2018 | 2017 | Shareholder | Business |
| **Almacenes Generales Internacionales, S.A.U.**<br>Pº de la Castellana, 52<br>28046 Madrid (Spain) | 100% | 100% | – | – | | Real estate |
| **Soller, S.A.U.**<br>Pº de la Castellana, 52<br>28046 Madrid (Spain) | 100% | 100% | – | – | | Real estate |
| **Peñalvento, S.L.U.**<br>Pº de la Castellana, 52<br>28046 Madrid (Spain) | 100% | – | – | 100% | Almacenes Generales Internacionales, S.A.U. | Real estate |
| **Utopicus Innovación Cultural, S.L.**<br>Duque de Rivas, 5<br>28012 Madrid (Spain) | 83.47% | 69.60% | – | – | | Coworking |
| **Zincshower, S.L.U.**<br>Colegiata, 9<br>28012 Madrid (Spain) | – | – | 100% | 100% | Utopicus Innovación Cultural, S.L. | Coworking |
| **Colaboración e Innovación Virtual, S.L.U.**<br>Duque de Rivas, 5<br>28012 Madrid (Spain) | – | – | 100% | 100% | Utopicus Innovación Cultural, S.L. | Coworking |
| **Société Foncière Lyonnaise, S.A. (SFL)**<br>42, *rue* Washington<br>75008 Paris (France) | 81.71% | 58.55% | – | – | | Real estate |
| **Condorcet Holding SNC (**)**<br>42, *rue* Washington<br>75008 Paris (France) | – | – | 100% | 100% | SFL | Real estate |
| **Condorcet PROPCO SNC (**)**<br>42, *rue* Washington<br>75008 Paris (France) | – | – | 100% | 100% | Condorcet Holding SNC | Real estate |
| **SCI Washington (*)**<br>42, *rue* Washington<br>75008 Paris (France) | – | – | 66% | 66% | SFL | Real estate |
| **SCI 103 Grenelle (*)**<br>42, *rue* Washington<br>75008 Paris (France) | – | – | 100% | 100% | SFL | Real estate |
| **SCI Paul Cézanne (*)**<br>42, *rue* Washington<br>75008 Paris (France) | – | – | 100% | 100% | SFL | Real estate |
| **Segpim, S.A. (*)**<br>42, *rue* Washington<br>75008 Paris (France) | – | – | 100% | 100% | SFL | Sale of real estate and provision of services |
| **Locaparis, SAS (*)**<br>42, *rue* Washington<br>75008 Paris (France) | – | – | 100% | 100% | Segpim | Sale of real estate and provision of services |
| **Maud, SAS (*)**<br>42, *rue* Washington<br>75008 Paris (France) | – | – | 100% | 100% | SFL | Real estate |

| | % ownership | | | | | |
|---|---|---|---|---|---|---|
| | Direct | | Indirect | | | |
| | 2018 | 2017 | 2018 | 2017 | Shareholder | Business |
| **SAS Société Immobilière Victoria (*)**<br>42, *rue* Washington<br>75008 Paris (France) | – | – | 100% | – | SFL | Real estate |
| **SB2, SAS (*)**<br>42, *rue* Washington<br>75008 Paris (France) | – | – | 100% | 100% | SFL | Real estate |
| **SB3, SAS (*)**<br>42, *rue* Washington<br>75008 Paris (France) | – | – | 100% | 100% | SFL | Real estate |
| **SCI SB3**<br>42, *rue* Washington<br>75008 Paris (France) | – | – | 100% | 100% | SFL | Real estate |
| **SAS Parholding (*)**<br>42, *rue* Washington<br>75008 Paris (France) | – | – | 50% | 50% | SFL | Real estate |
| **SCI Parchamps (*)**<br>42, *rue* Washington<br>75008 Paris (France) | – | – | 100% | 100% | SAS Parholding | Real estate |
| **SCI Pargal (*)**<br>42, *rue* Washington<br>75008 Paris (France) | – | – | 100% | 100% | SAS Parholding | Real estate |
| **SCI Parhaus (*)**<br>42, *rue* Washington<br>75008 Paris (France) | – | – | 100% | 100% | SAS Parholding | Real estate |

(*) Company audited in 2018 by PricewaterhouseCoopers.
(**) Company audited in 2018 by Deloitte & Associés.

At 31 December 2018 and 2017, the Colonial Group companies were audited by PricewaterhouseCoopers Auditores, S.L., with the exception of the SFL Group, which was audited jointly by Deloitte and PricewaterhouseCoopers.

# Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries

# Consolidated Management Report
for the year ended 31 December 2018

## 1. COMPANY SITUATION

### State of the rental market

*Barcelona*

During the fourth quarter of 2018, 65,000 sqm of offices were signed in the offices market in Barcelona, a figure +40% above the average over the last five years. Barcelona closed 2018 with a take-up volume of 366,000 sqm, a figure above the previous year, confirming the positive trend of the rental market. The vacancy rate continued a downward trend, thanks to good domestic demand, a key factor for the growth of the offices market. Currently the vacancy rate stands at 5.7%, positioning it at an all-time low in the last decade. In the CBD area, this has dropped further to 2.1%. A lack of future supply and the solid demand experienced in some areas of the city is driving up rents. Consequently, prime rents reached €25.25/sqm/month, which represents a year-on-year growth of +8.6%. Long-term forecasts remain bullish, positioning Barcelona as one of the cities with the greatest expected rental growth in Europe.

*Madrid*

During the fourth quarter of 2018, the take-up in the offices market in Madrid was 122,000 sqm, substantially higher than the average over the last five years. In total, Madrid had a take-up volume of close to 486,000 sqm in 2018. The vacancy rate stood at 10.5%, in line with the previous year, due to the entry into operation of new projects. In the CBD, the vacancy rate decreased to reach 6.7%. This decrease makes it increasingly more difficult to find quality spaces in the city centre and puts pressure on demand while increasing prime rents which continue to rise, resulting in a price of €34.50/sqm/month. It is worth mentioning that Madrid is positioned as one of the cities with the greatest expected rental growth in Europe.

*Paris*

In the offices market in Paris, the take-up in 2018 reached 2,540,000 sqm, a figure which continues to exceed the average over the last ten years. Available office space was reduced to below 3 million sqm, 10% lower than the vacancy rate the previous year. This decrease in available office space reached levels below those of 2009. In the CBD, the vacancy rate stood at 1.4%. As a consequence, prime rents continue to increase, reaching levels above €810/sqm/year.

*Source: Reports by Jones Lang Lasalle, Cushman & Wakefield, CBRE and Savills.*

*Organisational structure and functioning*

Colonial is a benchmark REIT in the high-quality office market in Europe and has been a member of the IBEX 35, the benchmark Spanish stock market index, since the end of June 2017.

The company has a stock market capitalisation of approximately 4,500 million euros with a free float of around 60%, and manages an asset volume of more than 11,000 million euros.

The Company's strategy focuses on creating an industrial value through the creation of prime high-quality products, through the repositioning and transformation of real estate assets.

In particular, its strategy is based on the following:

– A business model focused on the transformation and creation of high-quality offices in prime locations, mainly central business districts (CBD).

– Maximum commitment to the creation of offices that meet the most demanding market requirements, with particular emphasis on efficiency and sustainability.

– A pan-European strategy, diversified in the Madrid, Barcelona and Paris office markets.

– An investment strategy combining core acquisitions and prime factory acquisitions with value added components.

– A clear industrial real estate approach to capture value creation that exceeds the market average.

Today Colonial is a leading European company that specifically focuses on areas in city centres and leads the Spanish property market in terms of quality, sustainability and efficiency in its portfolio of offices.

It has also adopted a comprehensive approach in all areas of corporate social responsibility and aspires to maximum standards of (1) sustainability and energy efficiency, (2) corporate governance and transparency, and (3) excellence in human resources and social actions, making them an integral part of the Group's strategy.

Over the last three years, the Group has successfully executed its acquisition programme, making investments of more than 2,200 million euros (committed amounts including future capex). All acquisitions relate to assets in excellent locations with good fundamentals, the potential for additional return through property repositioning and always maintaining maximum financial discipline.

At the close of 2018, the Colonial Group had a robust capital structure with a solid investment grade rating. The Group's LTV stood at 39.3% in December 2018.

The Company's strategy is to consolidate itself as a leader in prime office rentals in Europe, with special emphasis on the Barcelona, Madrid and Paris markets:

– A solid capital structure with a clear commitment to maintaining the highest credit rating standards – investment grade.

– Attractive returns for shareholders based on recurring return combined with the creation of real estate value based on value added initiatives.

## 2. BUSINESS PERFORMANCE AND RESULTS

### Introduction

At 31 December 2018, the Group's revenue amounted to 348 million euros.

Profit from operations amounted to 276 million euros.

According to the independent appraisals carried out by Jones Lang Lasalle and CB Richard Ellis Valuation in Spain and Jones Lang LaSalle and Cushman & Walkfield in France at year-end, the investment property was valued at 702 million euros. This revaluation, reported both in France and in Spain, reflects a 8% increase in value in like-for-like terms on rental assets in operation with respect to December 2017 (15% in Spain and 5% in France).

The net finance cost was 142 million euros.

After taking into account the profit attributable to non-controlling interests (153 million euros), the profit after tax attributable to the Parent amounted to 525 million euros.

### Profit for the year

The highlights of the rental business are as follows:

2018 was an excellent year for the Colonial Group, with a total return for shareholders of 19%, due to the increase in the EPRA NAV per share of 17% in combination with a dividend yield of 2%.

This return is a result of the strategy to specialise in prime offices in the Barcelona, Madrid and Paris markets, with a focus on creating real estate value –"Prime Factory"– that awards the quality of return while maintaining maximum financial discipline.

On 9 July 2018, the merger of Inmobiliaria Colonial, SOCIMI, S.A. with Axiare Patrimonio SOCIMI, S.A. was undertaken, an operation that has allowed the leadership of the Colonial Group in prime offices to be consolidated by offering our clients more than 1.2 million above grade square metres in office buildings, through 73 assets in the best locations in Madrid, Barcelona and Paris.

The merger of both companies constitutes a transformational event in the strategic plan, accelerating the Group's growth with the incorporation of a portfolio of top quality offices in Spain.

The Group's successful strategy is reflected in all sections of the financial and operating results for 2018:

– Total Shareholder Return of 19%.

– Net Asset Value of €10.03/share, +17% *vs*. previous year.

– Gross asset value of 11,348 million euros, + 22% (+8% like-for-like).

– Income from the rental business of 347 million euros, +23%.

– Net profit of 525 million euros, €1.17/share.

– Recurring net earnings of 101 million euros, +22%.

The Group resulting from the merger has obtained very sound operating results, capturing strong rental increases in all markets.

– Attracting growth in rent signed +8% *vs* market rent in December 2017, +26% in "release spread" .

– Sound occupancy levels of 96%.

*Increase in recurring profit*

Recurring net profit attributable to the Parent amounted to 101 million euros, an increase of +22% year-on-year., which is explained mainly by three elements:

1. A solid year-on-year increase in rental income of 5%.

2. An improvement in financial loss.

3. Less corporate income tax expense.

*Growth in rental income*

The Colonial Group posted 5% growth in rental income on a like-for-like basis with regard to the end of the previous year, which is one of the highest increases in the sector.

Rental income increased in Spain by 4% on a like-for-like basis, thanks to the strong result of the portfolio. The Paris portfolio increased by 5% on a like-for-like basis, underpinned by the contracts signed for the Washington Plaza, Cézanne Saint Honoré, 103 Grenelle & Percier buildings.

*Creation of real estate value*

The gross asset value at 31 December 2018 amounted to 11,348 million euros (11,915 million euros including transfer costs), with an increase of +22% year-on-year after the integration of Axiare.

In like-for-like terms, the increase in the value of the portfolio was +8% year-on-year, with solid growth in all segments of the asset portfolio.

The office buildings in Barcelona are highlighted with an annual increase of +19% like-for-like, and those in Madrid up +12% like-for-like, both driven by significant growth in the rental prices achieved in 2018.

The Paris portfolio increased +5.5% like-for-like in 2018, a much higher growth than the majority of competitors.

**Solid fundamentals in all segments**

The Colonial Group's business showed excellent performance with an upward trend in lease agreements, maintaining close to full occupancy levels.

*Lease agreements with significant increases in rent*

The Colonial Group's business has performed very well with a robust pace in new leases and levels close to full occupancy.

In 2018, the Colonial Group signed 103 rental contracts, corresponding to more than 175,000 sqm and secured an annual rental income of 43 million euros.

In Barcelona, rents were signed +10% above market rents, in the Madrid portfolio it was +8% and in the Paris portfolio it was +5%. Release spreads were in double digits in 2018: Barcelona +23%, Madrid +29% and Paris +14%.

*Solid occupancy levels*

The total vacancy of the Colonial Group's portfolio (including all uses: offices, retail and logistics) stood at 4% at the end of 2018. Particularly noteworthy are the office portfolios of Barcelona and Paris, registering a vacancy rate of 1%.

The Madrid office portfolio's vacancy rate stood at 11% at the close of 2018, 7% correspond to the Axiare portfolio, 1% of the vacancy corresponds to the recently delivered projects of The Discovery Building and The Window building, and the rest of the Madrid portfolio has a vacancy of 2%. The vacancy rate of the Madrid portfolio reached 7%, due mainly to new surface areas available as a result of the delivery of the Discovery project. Not including this new product, the rest of the Madrid portfolio has a vacancy rate of 2%.

At the end of 2018, the logistics portfolio of the Colonial Group had a vacancy of 14%, mainly due to the entry into operation of the first phase of the project located in San Fernando de Henares.

**Active portfolio management and growth vectors**

The Colonial Group has an attractive growth profile based on the following vectors:

*A. Colonial-Axiare merger & integration*

Colonial has successfully completed the merger and integration of Axiare in record time, consolidating its leadership in prime offices in Spain and Europe, through the creation of a strong growth platform with a unique exposure to CBD in Europe.

The integration of both companies has enabled the identification and implementation of important sources of value creation, which are only partially reflected in the 2018 figures and will fully crystalize in the coming quarters.

*1. Consolidation of prime office leadership*

– More thab 347 millon euros in rental income corresponding to recurring business, with 154 million euros in Spain.

– More than 11,300 million euros in asset value with 4,779 million euros in Spain.

– 75% of the offices GAV in the CBD.

*2. Integration of the processes in the Colonial Group's real estate value chain*

– Professionalization and internalization of the commercial circuit and supply chain.

– Optimization of the IT systems.

– Integration of 8 people from Axiare into the Colonial Group.

*3. Optimization of the resulting asset portfolio*

– Definition of a Business Plan reviewed asset by asset.

– Review and optimization of the project portfolio.

– Identification of non-strategic assets.

*4. Income synergies – strengthened competitive position in the Madrid market*

– Maximization of rental prices through leadership in Grade A product.

– Usage of the integrated portfolio for cross-selling strategies.

– Greater scope of product offering to retain and attract clients.

*5. Operational cost synergies*

Annual cost savings of more than 5 million euros.

– Implementation of personnel cost synergies.

– Elimination of duplications in other costs.

*6. Optimization of the financial structure of the merged Group*

– Cancellation and/or refinancing of more than 500 million euros in bilateral debt.

***B. A portfolio of contracts to obtain the cycle:*** an attractive contract maturity profile to continue to obtain significant rental price increases, as shown by the results of the second half of 2018.

*C. An attractive project pipeline:* Colonial has a project pipeline of more than 1,280 million euros (total cost of completed product) corresponding to more than 210,000 sqm to create prime products that offer strong returns and therefore, future value creation with solid fundamentals.

| | Project | | City | % Group | Delivery | GLA (sq m) | Total Cost €m(1) | Total Cost € / sq m(1) | Yield on Cost |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Pedralbes Center | Price Commercial | Barcelona CBD | 100% | 1H 19 | 6,917 | 38 | 5,502 | 6.3% |
| 2 | Gal·la Placídia / Utopic_us | | Barcelona CBD | 100% | 1H 19 | 4,312 | 17 | 3,922 | 7.0% |
| 3 | Miguel Ángel, 23 | | Madrid CBD | 100% | 2H 20 | 8,036 | 64 | 7,999 | 5.8% |
| 4 | Castellana, 163 | | Madrid CBD | 100% | 2020 / 21 | 10,910 | 52 | 4,803 | 6.5% |
| 5 | Diagonal, 525 | | Barcelona CBD | 100% | 1H 21 | 5,710 | 37 | 6,460 | 6.0% |
| 6 | Emile Zola / Destination XV | | Paris City Center | 82% | 2H 21 | 24,500 | 280 | 11,428 | 5.0% |
| 7 | Iena, 96 | | Paris CBD | 82% | 1H 21 | 9,300 | 147 | 15,801 | 5.0% |
| 8 | Velázquez / Padillla, 17 | | Madrid CBD | 100% | 1H 21 | 17,239 | 113 | 6,532 | 6.5% |
| 9 | Plaza Europa, 34 | | Barcelona | 50% | 2H 21 | 14,306 | 32 | 2,257 | 7.0% |
| 10 | Méndez Álvaro Campus(2) | | Madrid CBD South | 100% | 2H 22 | 89,871 | 287 | 3,188 | 7.5% |
| 11 | Sagasta, 27 | | Madrid CBD | 100% | 2H 22 | 4,481 | 23 | 5,044 | 6.5% |
| 12 | Louvre Saint Honoré | Price Commercial | Paris CBD | 82% | 2023 | 16,000 | 205 | 12,831 | 7.3% |
| **Total Office Pipeline** | | | | | | **211,582** | **1,295** | **6,119** | **6.3%** |

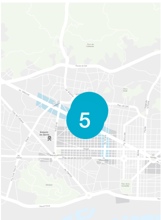
(1) Total Cost Finished Product = Acquisition Cost/Asset Value pre Project + future Capex.
(2) Upper part of the range: €3,032/sq m - €3,188/sq m and €273m - €287m.

*D. Acquisition programme:* In recent years Colonial has implemented the organic investment objective announced to the capital market: asset acquisitions by prioritising off-market operations, identifying properties with value-added potential in market segments with strong fundamentals.

***Alpha III Acquisitions***

At the beginning of 2018, Colonial acquired five assets with a total investment of 480 million euros. The investment consists of the development of more than 110,000 sqm of offices in the south of the Madrid CBD.

In addition, two high quality assets were acquired in new business areas in Madrid and an asset located in the CBD of Barcelona, where a total refurbishment will be carried out in order to develop coworking initiatives.

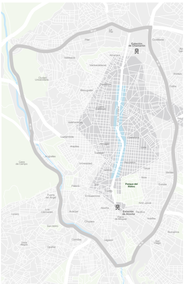
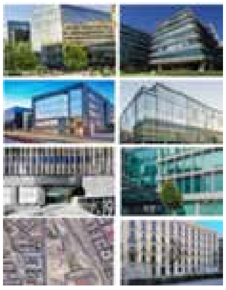
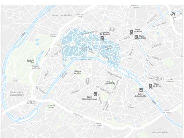
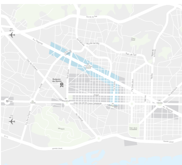
| | | | | | |
|---|---|---|---|---|---|
| Madrid - City Center |   | 1 **Méndez Álvaro Campus** *Madrid - Inside M-30* |  | Value Added – Prime factory GLA: 89,871 sq m | Total investment[1]: €272m – €287m Yield on Cost[2]: 7%-8% |
| | | 2 **Méndez Álvaro office Scheme** *Madrid - Inside M-30* |  | Value Added – Prime factory GLA: 20,275 sq m | Total investment[1]: €68m Yield on Cost[2]: 7%-8% |
| Madrid |   | 3 **EGEO** *Madrid - Campo de las Naciones* |   | Core with value added potential GLA: 18,254 sq m | Total investment[1]: €79m Yield on Costt[2]: 5% |
| | | 4 **Arturo Soria** *Madrid - New Business Area* |  | Core with value added potential GLA: 8,663 sq m | Total investment[1]: €33m Yield on Cost[2]: 6% |
| Barcelona |   | 5 **Gal·la Placídia** *Barcelona CBD* |  | Value Added – Prime factory GLA: 4,312 sq m | Total investment[1]: €17m Yield on Cost[2]: ≥7% |

(1) Last GAV reported: GAV 06/18 for operating assets and acquisition cost + capex in the future project.
(2) Potential running yields on cost for the next years.

***Alpha IV Acquisitions***

In mid-November 2018, the Colonial Group completed the Alpha IV project, which involved the disposal of non-core assets and mature products and/or assets outside CBD for 441 million euros, and the acquisition of prime assets for a total of 756 million euros.

The main characteristics of the Alpha IV acquisitions are the following:

| | | | | | | |
|---|---|---|---|---|---|---|
| **Disposals: €441m** | **Disposals** | 1<br>**Disposals**<br>MADRID |  |  | **Non Core & mature assets:**<br>– GLA - 106,574 sq m<br>– 7 operating office assets<br>– 1 project in Madrid | **Total disposals: €441m**<br>12% premium on GAV[(1)] |
| **Investments: €756m** | **Acquisitions & project pipeline** | 2<br>**22% of SFL**<br>PARIS |  |  | **Opportunistic acquisition**<br>– Paris Prime CBD<br>– Enhanced exposure flagship projects in Paris | **Total investment: €718m**<br>19% discount on NAV |
| | | 3<br>**Acquisition Diagonal 525**<br>BCN |  |  | **Value added - Prime Factory**<br>– GLA - 5,710 sq m<br>– Redevelopment project<br>– Prime CBD - Diagonal | **Total investment: €37 sq m**<br>Yield on Cost > 6%<br>IRR 7-8%[(2)] |

Note: Acquisition price + future capex.
(1) Last reported GAV: GAV 6/18 for operating assets and Acquisition Price + Future capex in Project.
(2) 10-year ungeared IRR.

1. Disposals: In the third quarter, Colonial sold 7 office buildings and a turnkey project in Madrid for a total of 441 million euros. The disposals were closed on very favourable terms for the Company, achieving a premium of +12% on the previous valuation1. The assets sold were non-strategic and mature properties and/or located outside of the CBD, with a gross lettable area of more than 106,000 sqm.

2. Acquisition of 22% of SFL: In November, Colonial and Qatar Investment Authority (QIA) reached an agreement in which Colonial would control up to 81% of its French subsidiary SFL. The transaction was on very advantageous terms for Colonial which had access to 10.3 million SFL shares, representing 22.2% of the share capital, at an average price of €69.6 per share, resulting in an average discount of 19% over the last reported NAV.

3. Acquisition of a prime asset in Barcelona - Diagonal 525: Colonial has acquired a 5,710 sqm above-ground office building on Barcelona's prime Avenida Diagonal. It is expected to undergo a full-scale refurbishment in 2019 and become an iconic office building in the area.

**Capital structure and value of the share**

*Active management of the balance sheet*

In 2018, a year marked by the acquisitions of Axiare and a 23% stake of SFL, an important active liability management has been carried out, that has allowed for an upgrade on the Standard & Poors rating up to BBB+, highest rating in Spanish real estate. The main actions taken are presented below:

- Issuance of Colonial bond, under the EMTN programme, for a total amount of 650 million euros maturing in April 2026, with an annual coupon of 2%.

- Bond buyback with maturity in 2019: In July, Colonial made an early repayment of the outstanding balance (375 million euros) from the bond issue maturing in June 2019 and that yielded an annual coupon of 1.863%.

- Refinancing of Colonial's syndicate loan for 350 million euros, increasing the amount to 500 million euros, extending maturity to December 2023 and reducing the financing spread.

- Repayment of the debt from Axiare amounting to 396 million euros, all of which is secured by a mortgage guarantee. In the first quarter of 2019 and up until the date of issue of this report, the Parent repaid 206 million euros of the debt from Axiare and refinanced the outstanding debt amounting to 76 million euros, thus improving its margin, which was tied to the company's ESG rating. In addition, a sustainable loan was taken out for 75 million euros, the margin of which is tied to the ESG assessment.

- The main transactions carried out by SFL were the following:

  – A bond issue for SFL for the nominal amount of 500 million euros, maturing in May 2025, with an annual coupon of 1.5%.

  – The limit and maturity of its credits were adjusted, cancelling and/or reducing the limit of its undrawn facilities for 300 million euros, extending the maturity of another credit limit of 150 million euros from 2020 to 2023, and obtaining a new facilities with an available balance of 100 million euros.

  – In Septembrer, it bought back 300 million euros of its bonds maturing in November 2021 (150 million euros) and November 2022 (150 million euros).

  – Also in September, SFL started a short-term Euro Commercial Paper program, for the maximum amount of 300 million euros, with the current issues of 263 million euros at 31 December 2018.

*Solid evolution on the stock market*

At 2018 year-end, Colonial's shares closed with an annual decrease of 2%, a negative figure that nonetheless outperformed its peers in Spain and France as well as the EPRA & IBEX35 benchmark indices.

There are currently 25 analysts, both national and international, covering the company. It is worth highlighting the reports issued by JP Morgan, with a target price of €11.2/share, as well as Renta4 and Barclays with a target price of €11.1/share and €10.6/share respectively.

## 3. LIQUIDITY AND CAPITAL RESOURCES

See "Capital management and risk management policy" under Note 13-o to the consolidated financial statements for the year ended 31 December 2018.

The average payment period of the Group's Spanish companies to its suppliers was around 48 days in 2018. With regard payments made after the legally established period, note that these are primarily payments relating to works contracted and property refurbishment, which are paid within the payment terms stipulated in the contracts signed with the various contractors.

The Group has established two payment days per month to comply with the requirements set forth in Law 11/2013, of 26 July. Accordingly, invoices received are entered on the 5th and the 20th of each month and the related payments are made on the 5th and the 20th of the following month.

## 4. RISK MANAGEMENT POLICIES AND OBJECTIVES

Colonial is exposed to a variety of risk factors arising from the countries in which it operates and from the very nature of its activities. Colonial's Board of Directors is responsible for determining the risk management and control policy, identifying the Group's main risks, and implementing and supervising the Control and Risk Management System that Colonial has developed and which is the foundation for the efficient and effective management of risks throughout the organisation.

Section E of the Annual Corporate Governance Report sets out the main risks that arose during the year and the circumstances that prompted them. The risks associated with the Group's activities are described below.

*Strategic risks:*

The risks related to the sector and environment in which the Group carries on its business, the markets in which it operates and strategies adopted to carry out its activities are analysed.

– *Risks associated with the situation of the sector:* The Colonial Group pays special attention to the economic, political, legal and social risks related to the countries in which it operates (Spain and France). The European real estate sector has maintained the dynamism of the previous year in spite of the political uncertainty and economic policies of the last year, characterised by reaching very significant investment levels. The maturity of the French real estate sector and the high level of investment in the Spanish real estate sector in recent years have enabled the Group to have a more optimistic outlook over the coming years in terms of increased returns from its investments and sustainable growth.

– *Risks associated with a competitive sector:* The real estate sector is characterised as being highly competitive, reaching high levels of investment in recent years, and was driven by specialised international investment funds and by listed real estate investment companies (REITs). The high quality of the Colonial Group's assets, the value of these assets and its strategy of focusing mainly on its office rental activities in prime central business district (CBD) areas have positioned the Group as a key benchmark in the real estate sector in Europe. The successful investment and growth strategy implemented by the Colonial Group in recent years, and the acquisition and merger of Axiare Patrimonio SOCIMI, S.A. in 2018, have strengthened the Group's position in the sector.

– *Risks related to the value of assets:* Every six months the Group carries out appraisals, through independent experts and by applying objective market criteria, on all of its property assets. Colonial allocates a significant portion of its resources to investing in and maintaining its property assets in order to enhance their value and position on the market, and to optimise income and returns.

*Corporate risks:*

Risks relating to the organisational structure, corporate culture, corporate policies and key decision-making processes of the governing bodies are analysed.

– *Reputational risk and risks concerning social commitment:* The Colonial Group's corporate social responsibility policy sets out the principles and bases of the Group's voluntary commitment to its stakeholders. Management of these expectations forms part of the Group's objectives in terms of sustainability and creating value for these stakeholders.

– *Corporate governance risk:* The Group's management of corporate governance focuses on maintaining its commitment to continue making progress on a model based on the principles of efficiency, regulatory compliance and transparency, that are in line with the main international regulations and standards.

– *Anticipation of new trends:* As is the case with other sectors, the real estate sector requires continuous adaptation to emerging trends. The growing implementation of digitalisation in all sectors, the new technology supplied in the real estate sector, and the increase in co-working spaces result in constant changes that specifically affect the real estate sector. In 2018 the Colonial Group continued to assign specific resources and activities for the purpose of implementing these trends by boosting the growth of its co-working platform by opening new centres and the development of digitalisation and new technologies in developing services and new business models in the real estate sector.

*Operational risks:*

Operational risks refer to the risks arising from losses due to failures or flawed management of operations.

– *Financial risks:* The Group efficiently manages its financial risks with the aim of maintaining adequate liquidity and debt levels, minimising borrowing costs and ensuring compliance with its business plans:

- Risk of exposure to interest rate fluctuations: The purpose of managing this risk is to reduce interest rate volatility to limit and control the impact of interest rate fluctuations on profit and cash flows and to keep overall borrowing costs at reasonable levels. The Colonial Group analyses the arrangement of financial instruments to hedge interest rate fluctuations. A high percentage of the Group's gross financial debt is at fixed rates.

- Risks relating to financing and debt: The Group's financial structure warrants diversification of its sources of financing by entity, product and maturity. In 2018, the two new bond issues amounting to 650 million euros and 500 million euros in Spain and

France, respectively, the improvement in the credit rating that is now BBB+ with a stable outlook, the repayment of Axiare's debt and the arrangement of the two short-term promissory note programmes with the issuance of notes amounting to 263 million euros in France represented an improvement in the Group's financial structure, thus extending and diversifying the maturity of its debt. The Colonial Group's net financial debt is held at suitable levels, measured using the loan-to-value ratio, providing the Group with sufficient financial capacity to carry out both its projects and to take on important growth targets for the coming years.

- Liquidity risk: As mentioned in the preceding paragraph, the Group has the necessary sources of financing to undertake its current projects in addition to those laid down in its business plan. The Group increased its capacity to attract capital and obtain liquidity and new lines of financing, through two new bond issues and the execution of the two short-term promissory note programmes.

– *Asset management risks:* Sustainable property management requires that the Group allocate a significant portion of its investments to acquiring, constructing, renovating and maintaining the high quality of its properties, which stand out as a result of their high energy efficiency. This property management strategy is a key part of the Group's organisation and business plan.

– *Risk of loss or damage to property assets:* The Colonial Group's properties are exposed to general risks of damage as a result of fire, flooding or other events, regardless of whether or not they are attributable to natural causes. Colonial has arranged hedges to cover the reconstruction costs of the properties it owns, as well as any damage caused to third parties.

– *Security risk of information systems:* The digital revolution brought about great benefits in innovation and growth, however, it also constitutes a source of new threats. The Group, aware of these growing threats, reviews the control measures to secure its information systems and to undertake and mitigate this risk.

*Compliance risks:*

Potential risks in relation to compliance with obligations arising from applicable legislation, agreements with third parties and obligations self-imposed by the Group, mainly through its Code of Ethics and Code of Conduct, are analysed.

– *Regulatory compliance risks:* The process of identifying and assessing risks of regulatory or contractual breach that may give rise to legal proceedings against the Group allows it to take the appropriate corrective measures to mitigate these risks or, where applicable, any possible impact thereof, through the controls established in the crime prevention model defined and implemented by the Group. The Company has also taken out insurance to cover any legal costs or possible damage against directors and executives.

– *Tax risks:* The Colonial Group must adhere to the general tax legislation of the countries in which it operates, as well as any specific regulations for the REIT regime in Spain and the SIIC regime in France. Accordingly, Colonial has a tax policy, a tax strategy and a tax risk management system, establishing adequate measures to control and monitor the management of risks in this connection.

*Reporting risks:*

In order to cover any reporting risks that may arise from errors or a failure to comply with requirements concerning the public information to be disclosed, and to ensure the reliability of this public information, Colonial has developed an Internal Control over Financial Reporting (ICFR) Organisational and Monitoring Model. Internal Audit is responsible for performing the necessary tests to verify compliance with the ICFR policies, manuals and procedures, validating the efficacy of the controls in place in these processes.

## 5. EVENTS AFTER THE REPORTING PERIOD

From 31 December 2018 to the date on which these consolidated financial statements were authorised for issue, the following significant events took place:

– From 1 January to 25 February 2019, the Parent carried out various short-term promissory note issuances amounting to a total of 172 thousand euros. The subsidiary SFL also carried out various short-term promissory note issuances amounting to a total of 244 thousand euros.

– On 31 January 2019, and once the parties had met all of their obligations, the Hotel Centro Norte was sold for a price of 27,500 thousand euros (Note 22), of which 2,750 thousand euros had been received by the Parent as a prepayment.

– In January and February 2019, the Parent repaid 206 million euros of the debt from Axiare and refinanced the outstanding debt amounting to 76 million euros, thus improving its margin, which was tied to the company's ESG rating. In addition, a sustainable loan was taken out for 75 million euros, the margin of which is tied to the ESG assessment.

## 6. FUTURE OUTLOOK

The outlook for the Madrid, Barcelona and Paris office markets is as follows:

*Barcelona and Madrid*

In recent months, the Spanish economy has continued to show a positive trend regarding certain aspects that have been drivers of economic growth in Spain over the last few years, specifically: 1) favourable performance of the labour market; 2) trade surplus and 3) low interest rates.

Due to the shortage of large high-quality spaces in the Barcelona market, especially in the city centre, forecasts indicate that many projects will be delivered with partial or full pre-lease agreements. Consequently, long-term forecasts for rent levels continue to increase, whereby Barcelona is considered one of the fastest growing cities in Europe in terms of expected growth in rent, with an annual growth rate of more than 3% between 2018 and 2022. Furthermore, Madrid is positioned as the second European city with the highest growth prospects with regard to rent in Europe for 2018-2021.

*Paris*

The Paris market is one of the most important markets in the world. The last few quarters saw clear signs of an improvement in demand, especially in CBD areas, where there is an apparent scarcity of prime rentals. Today the vacancy rate for office space in this area is the lowest of the last ten years.

Consequently, leading consultants expect this positive trend that began at the end of 2014 to be consolidated for prime property rentals in CBD areas.

With regard to growth forecasts, the French economy is expected to grow at around 1.6% for the next two years, a positive sign since this growth represents an increase on 2018 and is above the average for the euro zone.

*Strategy for the future*

The investment market has shown record contracting levels. In the current climate of low interest rates, expectations are that investors will continue to be interested in the Paris market, as one of the major fields of office operations in the euro zone.

In this market context, the Parent is implementing a selective investment policy, in order to maximise value for its shareholders.

In particular, it has focused its efforts on acquiring top-quality properties in high-potential market areas, including assets with the wherewithal to become prime rentals through repositioning.

## 7. RESEARCH AND DEVELOPMENT ACTIVITIES

As a result of the nature of the Group, its business activities and structure, Inmobiliaria Colonial, S.A. does not habitually carry out any R&D activities.

## 8. TREASURY SHARES

At 31 December 2018, the Company had 772,760 treasury shares with a nominal value of 1,932 thousand euros, which represents 0.15% of the Parent's share capital.

## 9. OTHER RELEVANT INFORMATION

On 10 December 2015, the Parent's Board of Directors agreed to adhere to the Code of Best Tax Practices. This resolution was reported to the tax authorities on 8 January 2016.

## 10. ALTERNATIVE PERFORMANCE MEASURES (EUROPEAN SECURITIES AND MARKETS AUTHORITY)

Below follows a glossary of the Alternative Performance Measures, including their definition and relevance for Colonial, 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 Parent.

| Alternative Performance Measure | Calculation method | Definition/Relevance |
|---|---|---|
| EBIT (Earnings before interest and taxes) | Calculated as the "*Operating profit*" plus "*Changes in fair value of investment property*" and "*Gains/ (losses) on changes in value of assets and impairment*". | Indicator of the profit generating capacity of the Group, considering only its productive activity less debt and tax effects. |
| EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) | Calculated as the "*Operating profit*" adjusted for "*Depreciation and amortisation*" and the "*Net change in provisions*". | the Group, considering only its productive activity, eliminating any provisions for depreciation and amortisation, debt and tax effects. |
| Gross financial debt (GFD) | Calculated as the sum of "*Bank borrowings and other financial liabilities*" and "*Issuance of bonds and other similar securities*", excluding "*Interest*" (accrued), "*Arrangement expenses*" and "*Other financial liabilities*" in the consolidated statement of financial position. | Relevant indicator for analysing the financial position of the Group. |
| EPRA[1] NAV (EPRA Net Asset Value) | Calculated based on the Company's equity and adjusting specific items according to EPRA recommendations. | Standard analysis ratio for the real estate sector and recommended by the EPRA. |
| EPRA[1] NNNAV (EPRA "triple net") | Calculated by adjusting the following items in the EPRA NAV: The market value of the financial instruments, the market value of the financial debt, any taxes that would be accrued with the sale of assets at market value, applying the reinvestment tax rebate and the tax credit recognised in the balance sheet taking into account the going concern criteria. | Standard analysis ratio for the real estate sector and recommended by the EPRA. |
| Market value excluding transaction costs or Gross Asset Value (GAV) excluding transfer costs | Appraisal of all the assets in the Group's portfolio carried out by the Group's external appraisers, deducting the transaction costs or transfer costs. | Standard analysis ratio for the real estate sector. |
| Market value including transaction costs or GAV including transfer costs | Appraisal of all the assets in the Group's portfolio carried out by the Group's external appraisers, before deducting the transaction costs or transfer costs. | Standard analysis ratio for the real estate sector. |
| Like-for-like Rentals | Amount of rental income from leases included in "*Revenue*" comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded, together with those from assets included in the portfolio of projects and renovations, as well as other atypical adjustments (for example, compensation for early termination of lease agreements). | This permits the comparison, on a like-for-like basis, of the changes in the rental income of an asset or group of assets. |

| Alternative Performance Measure | Calculation method | Definition/Relevance |
|---|---|---|
| Like-for-like Appraisal | Market value excluding transaction costs or the market value including transaction costs, comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded. | This permits the comparison, on a like-for-like basis, of the changes in the market value of the portfolio. |
| Loan to Value Group or LtV Group | Calculated as the result of dividing the gross financial debt less the amount of "*Cash and cash equivalents*" between the market value, including transaction costs, of the Group's asset portfolio. | This permits an analysis of the relation between the net financial debt and the appraisal value of the Group's asset portfolio. |
| LtV Holding or LtV Colonial | Calculated as the result of dividing the gross financial debt less the amount of "*Cash and cash equivalents*" of the Parent and the Spanish subsidiaries wholly owned thereby between the sum of the market value, including transaction costs of the asset portfolio of the head of the Group and the Spanish subsidiaries wholly owned thereby, and the EPRA NAV of the rest of the financial investments in subsidiaries. | This permits an analysis of the relation between the net financial debt and the appraisal value of the asset portfolio of the Group's parent. |

(1) EPRA (European Public Real Estate Association) which recommends the standards for best practices to follow in the real estate sector. The calculation method for these APM has been carried out following the instructions established by the EPRA.

The alternative performance measures included in the above table are based on items in the consolidated financial statements of Inmobiliaria Colonial or on the breakdown of the items (sub-items) included in the corresponding explanatory notes to the financial statements, unless otherwise indicated below.

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

**▼ EPRA NAV (EPRA Net Asset Value) – Millions of euros**

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **"Equity attributable to shareholders of the parent"** | **4,811** | **3,592** |
| **Includes:** | | |
| (i.a) Revaluation of investment assets | 24 | 13 |
| (i.a) Revaluation of assets under development | 7 | n.a. |
| (i.c) Revaluation of other investments | 26 | (58) |
| (ii) Revaluation of finance leases | n.a. | n.a. |
| (iii) Revaluation of assets classified as held for sale | n.a. | n.a. |
| **Excludes:** | | |
| (iv) Market value of financial instruments | 2 | (1) |
| (v.a) Deferred taxes | 228 | 198 |
| (v.b) Goodwill resulting from deferred assets | n.a. | n.a. |
| **Includes/excludes:** | | |
| Adjustments of (i) to (v) in relation to the interests of strategic alliances | n.a. | n.a. |
| **EPRA NAV** | **5,098** | **3,744** |

### ▼ EPRA NNNAV (EPRA "triple net") – Millions of euros

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **EPRA NAV** | **5,098** | **3,744** |
| **Includes:** | | |
| (i) Market value of financial instruments | (2) | 1 |
| (ii) Market value of the debt | (14) | (117) |
| (iii) Deferred taxes | (229) | (200) |
| **EPRA NNNAV** | **4,853** | **3,428** |

### ▼ Market value excluding transaction costs or GAV excluding transfer costs – Millions of euros

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Barcelona | 1,175 | 836 |
| Madrid | 2,511 | 1,497 |
| Paris | 6,256 | 6,064 |
| **Operating portfolio** | **9,942** | **8,398** |
| **Projects** | **925** | **519** |
| **Other** | **481** | **16** |
| **Shareholding value in Axiare** | **0** | **349** |
| **Total market value excluding transaction costs** | **11,348** | **9,282** |
| Spain | 4,778 | 3,053 |
| France | 6,570 | 6,229 |

### ▼ Market value including transaction costs or GAV including transfer costs – Millions of euros

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Total market value excluding transaction costs** | **11,348** | **9,282** |
| Plus: transaction costs | 567 | 459 |
| **Total market value including transaction costs** | **11,915** | **9,741** |
| Spain | 4,910 | 3,121 |
| France | 7,005 | 6,619 |

### ▼ Like-for-like rentals – Millions of euros

| | Barcelona | Madrid | Logistics | Paris | TOTAL |
|---|---|---|---|---|---|
| **Rental income 2016** | **30** | **43** | **0** | **198** | **271** |
| Like-for-like | 3 | 1 | 0 | 6 | 10 |
| Projects and registrations | 0 | 0 | 0 | (5) | (5) |
| Investments and divestments | 2 | 8 | 0 | (3) | 7 |
| Others and compensation | 0 | 0 | 0 | 0 | 0 |
| **Rental income 2017** | **35** | **52** | **0** | **196** | **283** |
| Like-for-like | 1 | 2 | 0 | 9 | 12 |
| Projects and registrations | 0 | 3 | 0 | (1) | 2 |
| Investments and divestments | 1 | 4 | 0 | (10) | (5) |
| Axiare | 5 | 32 | 19 | 0 | 56 |
| Others and compensation | 0 | 0 | 0 | 0 | 0 |
| **Rental income 2018** | **42** | **93** | **19** | **194** | **348** |

### ▼ Like-for-like appraisal – Millions of euros

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Valuation at 1 January** | **9,282** | **8,069** |
| Like-for-like Spain | 381 | 265 |
| Like-for-like France | 341 | 679 |
| Acquisitions | 1,422 | 625 |
| Divestments | (78) | (356) |
| **Valuation at 31 December** | **11,348** | **9,282** |

### ▼ Loan to Value Group or LtV Group – Millions of euros

| | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Gross financial debt | 4,748 | 4,170 |
| Less: *"Cash and cash equivalents"* | (68) | (1,104) |
| **(A) Net financial debt** | **4,680** | **3,066** |
| Market value including transaction costs | 11,915 | 9,741 |
| Plus: Treasury shares of the Parent valued at EPRA NAV | 8 | 39 |
| **(B) Market value including transaction costs and treasury shares of the Parent** | **11,923** | **9,780** |
| **Loan to Value Group (A)/(B)** | **39.3%** | **31.3%** |

**▼ LtV Holding or LtV Colonial – Millions of euros**

| Holding Company | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Gross financial debt | 3,002 | 2,488 |
| Less: "Cash and cash equivalents" of the Parent and Spanish subsidiaries wholly owned thereby | (41) | (1,085) |
| **(A) Net financial debt** | **2,961** | **1,403** |
| **(B) Market value including transaction costs** | **8,538** | **5,562** |
| **Loan to Value Holding (A)/(B)** | **34.7%** | **25.2%** |

## 11. ANNUAL CORPORATE GOVERNANCE REPORT

Pursuant to Article 538 of the Spanish Limited Liability Companies Law, it is hereby noted that the Annual Corporate Governance Report for 2018 is included in this Management Report in a separate section.

# 03. Annual corporate governance report 2018

Inmobiliaria Colonial, SOCIMI, S.A.

Annual corporate governance report of listed Spanish companies

## A. OWNERSHIP STRUCTURE

**A.1. Fill in the following table on the company's share capital:**

| Date of last change | Share capital (€) | Number of shares | Number of voting rights |
|---|---|---|---|
| 14/11/2018 | 1,270,286,952.50 | 508,114,781 | 508,114,781 |

**Indicate whether there are different types of shares with different associated rights:**

No

**A.2. State the direct and indirect holders of a significant stake at year-end, excluding directors:**

| Name or company name of the shareholder | % voting rights attached to the shares | | % voting rights through financial instruments | | % total voting rights |
|---|---|---|---|---|---|
| | Direct | Indirect | Direct | Indirect | |
| QATAR INVESTMENT AUTHORITY | 0.00 | 20.21 | 0.00 | 0.00 | 20.21 |
| AGUILA, LTD | 0.00 | 5.66 | 0.00 | 0.00 | 5.66 |
| INMO, S.L. | 0.00 | 3.93 | 0.00 | 0.00 | 3.93 |
| BLACKROCK, INC | 0.00 | 2.98 | 0.00 | 0.71 | 3.69 |
| DEUTSCHE BANK AG | 1.60 | 0.00 | 0.62 | 0.00 | 2.22 |

**Details of the indirect stake:**

| Name or company name of the indirect holder | Name or company name of the direct holder | % voting rights attached to the shares | % voting rights through financial instruments | % total voting rights |
|---|---|---|---|---|
| QATAR INVESTMENT AUTHORITY | DIC HOLDING LLC | 4.29 | 0.00 | 4.29 |
| QATAR INVESTMENT AUTHORITY | QATAR HOLDING NETHERLANDS BV | 15.92 | 0.00 | 15.92 |
| AGUILA, LTD | PARK, S.A.R.L. | 5.66 | 0.00 | 5.66 |
| BLACKROCK, INC | BLACKROCK HOLDING | 2.98 | 0.71 | 3.69 |
| INMO, S.L. | TRUDONBA XXI, S.L.U. | 3.93 | 0.00 | 3.93 |

**Indicate the most significant movements in the shareholder structure during the year:**

**▼ Most significant movements**

On 8 November 2018, the Company's Extraordinary General Meeting agreed, in connection with the corporate operation to purchase shares in Sociètè Foncière Lyonnaise from Qatar Holding LLC and DIC Holding LLC, to increase Colonial's share capital with 53,523,803 new shares that would be fully subscribed by Qatar Holding LLC and DIC Holding LLC. As a result of such operation, Qatar Investment Authority now has an indirect stake of over 20% in the Company's share capital.

**A.3. Fill in the following tables on the members of the company's Board of Directors who own voting shares in the company:**

| Name or company name of the director | % voting rights attached to the shares | | % voting rights through financial instruments | | % total voting rights | % voting rights that may be transferred through financial instruments | |
|---|---|---|---|---|---|---|---|
| | Direct | Indirect | Direct | Indirect | | Direct | Indirect |
| MR CARLOS FERNÁNDEZ GONZÁLEZ | 0.00 | 15.75 | 0.00 | 0.00 | 15.75 | 0.00 | 0.00 |
| MR CARLOS FERNÁNDEZ-LERGA GARRALDA | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| MS ANA SAINZ DE VICUÑA BEMBERG | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| MR JAVIER IGLESIAS DE USSEL ORDÍS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| MR JAVIER LÓPEZ CASADO | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| MR JUAN JOSÉ BRUGERA CLAVERO | 0.04 | 0.00 | 0.03 | 0.00 | 0.07 | 0.00 | 0.00 |
| MR PEDRO VIÑOLAS SERRA | 0.06 | 0.00 | 0.07 | 0.00 | 0.13 | 0.00 | 0.00 |
| MR LUIS MALUQUER TREPAT | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

| | |
|---|---|
| **% of total voting rights held by the board of directors** | 15.95 |

**Details of the indirect stake:**

| Name or company name of the director | Name or company name of the direct holder | % voting rights attached to the shares | % voting rights through financial instruments | % total voting rights | % voting rights that may be transferred through financial instruments |
|---|---|---|---|---|---|
| MR CARLOS FERNÁNDEZ-LERGA GARRALDA | EUR- CONSULTORES, SL | 0.00 | 0.00 | 0.00 | 0.00 |
| MR LUIS MALUQUER TREPAT | MS MARTA MALUQUER DOMINGO | 0.00 | 0.00 | 0.00 | 0.00 |
| MR CARLOS FERNÁNDEZ GONZÁLEZ | GRUPO FINACCESS, S.A. DE C.V. | 15.75 | 0.00 | 15.75 | 0.00 |

All the Directors listed in this section have voting rights from shares in the Company but in some cases,their stake in the share capital is below 0.009%.

**A.4. Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant stakes, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities, except for those reported in section A.6**

| Name or company name of the related party | Type of relationship | Brief description |
|---|---|---|
| No data | | |

**A.5. Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant stakes, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:**

| Name or company name of the related party | Type of relationship | Brief description |
|---|---|---|
| QATAR INVESTMENT AUTHORITY | Corporate | Colonial and Qatar Investment Authority (QIA) agreed to transfer 22% of QIA's shares in SFL to Colonial. Such operation involved a non-cash capital increase in Colonial to be fully subscribed by QIA and a cash contribution from Colonial. |
| INMO, S.L. | Corporate | Colonial and the company Inmo, S.L., a real-estate affiliate of the Puig family, are conducting a joint project to build a 21-floor building of 14,000 square metres in the city of Barcelona. |

**A.6. Describe the relationships, unless insignificant for both parties, between the significant shareholders, or their representatives, on the Board and the directors, or their representatives, when the administrators are a legal entity.**

**Explain, where appropriate, how the significant shareholders are represented. In particular, specify any directors who have been appointed to represent significant shareholders, those whose appointment was promoted by significant shareholders, or those who were related to significant shareholders and/or entities in their group, indicating the nature of such relationship. Indicate, in particular, the existence, identity and position, if any, of members on the Board, or directors' representatives, of the listed company who are also members of the governing body, or their representatives, in companies with a significant stake in the listed company or in group companies of such significant shareholders:**

| Name or company name of the related director or representative | Name or company name of the related significant shareholder | Company name of the significant shareholder's group company | Description of the relationship/position |
|---|---|---|---|
| MR ADNANE MOUSANNIF | QATAR INVESTMENT AUTHORITY | QATAR INVESTMENT AUTHORITY | Proprietary director proposed by Qatar Investment Company. |
| MR SHEIKH ALI JASSIM M.J. AL-THANI | QATAR INVESTMENT AUTHORITY | QATAR INVESTMENT AUTHORITY | Proprietary director proposed by Qatar Investment Authority. |
| MR JUAN CARLOS GARCÍA CAÑIZARES | AGUILA, LTD | AGUILA, LTD | Proprietary director proposed by Aguila LTD. |

**A.7. Indicate whether the company has been notified of any shareholders' agreements pursuant to Articles 530 and 531 of the Spanish Limited Liability Companies Law. If so, provide a brief description and list the shareholders that are party to the agreement:**

Yes

| Parties to the shareholders' agreement | % of the share capital affected | Brief description of the agreement | End date of the agreement, if any |
|---|---|---|---|
| DIC HOLDING LLC, QATAR HOLDING NETHERLANDS BV | 11.12 | QH AND DIC'S LOCK-UP: During a period of 6 months following the Completion Date QH and DIC shall not Transfer, whether wholly or in part, the Colonial Shares, except in the event of any Transfer of Colonial Shares to a company belonging to their respectiv Group. TRANSFER OF SHARES AFTER THE INITIAL PERIOD: After the Initial Period, any transfer by QH and/or DIC of the Colonial Shares shall be made in an orderly manner and in accordance with the standard market practice in Spanish listed companies and in compliance with the applicable Spanish stock exchange regulations. SHARE TRANSFER PROHIBITION TO A COMPETITOR: QH and DIC will be entitled to Transfer their Colonial Shares to any counterparty without any restriction, except in the extraordinary case of a Transfer to a Competitor in the context of a block sale or a negotiated bilateral trade. | The obligations provided for in Clauses "Transfer of shares after the Initial Period" and "Share transfer prohibition to a Competitor" of this Agreement shall remain in force until the earlier of (i) the end of a 4-year period as from the Completion Date; and (ii) the entry into an agreement by the Parties to terminate the effect of said Clauses. |

**Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:**

No

**Expressly indicate any amendments to or termination of such covenants, agreements or concerted actions during the year:**

**A.8. Indicate whether any individual or legal entities currently exercise control or could exercise control over the company pursuant to Article 5 of the Securities Market Law. If so, identify them:**

No

**A.9. Complete the following tables on the company's treasury shares:**

**At year-end:**

| Number of direct shares | Number of indirect shares(*) | Total % of share capital |
|---|---|---|
| 772,760 | | 0.15 |

**(*) Through:**

| Name or company name of the direct holder of an ownership interest | Number of direct shares |
|---|---|
| No data | |

**Explain the significant variations during the year:**

**▼ Explain the significant changes**

On 13 July 2018, due to a change in the number of voting rights, the Company reported the direct purchase of 1,020,000 treasury shares, equal to 0.234% of the share capital and the direct conveyance of 10.329.070 treasury shares equal to 2.373% of the share capital.

On 13 July 2018, the Company reported the change in the number of voting rights.

On 20 November 2018, due to a change in the number of voting rights, the Company reported the direct conveyance of 2,999,867 treasury shares, equal to 0.59% of the share capital.

**A.10. Give details of the applicable conditions and current timeline for the general meeting to authorise the Board of Directors to issue, buy back or transfer treasury shares:**

The General Meeting of Shareholders of Inmobiliaria Colonial, SOCIMI, S.A. (the “Company” or “Inmobiliaria Colonial”) granted authorisation to the Board of Directors, as item five on its agenda, for the derivative acquisition of treasury shares on 29 June 2017 and revoked the authorisation granted through the resolution of 30 June 2014. With respect to the terms and conditions of the authorisation: i) the nominal value of the shares acquired, directly or indirectly, in addition to those already held by the Company and its subsidiaries, may not exceed 10% of the share capital subscribed or any maximum amount that may be legally established; ii) the minimum price or consideration for acquisition shall be €0.01 per share and the maximum price or consideration for acquisition shall be the equivalent of the listing price of treasury shares acquired on an official regulated secondary market at the time of acquisition; iii) the procedure for acquisition may be purchase/sale, swap or any other method against payment, as circumstances advise, and iv) the duration of the authorisation is 5 years. The authorisation granted expressly provides that the shares acquired may be used in whole or in part for their delivery or transfer to the directors, executives or employees of the Company or Group companies, directly or as a result of their option rights, within the scope of the Company’s share price-based remuneration systems.

With regard to the authorisation to issue shares, the General Meeting of Shareholders of Inmobiliaria Colonial, SOCIMI, S.A. resolved to authorise the Board of Directors on 24 May 2018 and pursuant to Article 297.1 b) of the Spanish Limited Liability Companies Law to increase share capital through monetary contributions, within a maximum period of 5 years, up to half the amount of share capital, on one or several occasions, at the time and in the amount it deems appropriate, revoking the general authorisation granted through resolution six of the Company’s Ordinary General Meeting of Shareholders on 29 June 2017. Within this maximum amount, the Board of Directors was empowered to disapply preferential subscription rights, limited to a maximum overall nominal amount equal to 20% of the share capital.

**A.11. Estimated floating capital:**

| | % |
|---|---|
| Estimated floating capital | 48.19 |

**A.12. Give details of any restrictions (statutory, legal or otherwise) on the transfer of securities and/or voting rights. In particular, detail the existence of any kinds of restrictions that could hinder the company takeover through the purchase of its shares in the market, as well as any prior authorisation or communication rules that, with regard to the purchase or transfer of financial instruments in the company, would be applicable under the industry regulations.**

Yes

| Description of the restrictions |
|---|
| See section A.7 in the Report. |

**A.13. Indicate whether the general meeting has resolved to adopt neutralisation measures to address a takeover bid by virtue of the provisions of Law 6/2007.**

No

**If applicable, explain the measures approved and the terms under which these restrictions may be non-enforceable:**

**A.14. Indicate whether the company has issued securities not traded in a regulated market of the European Union.**

No

**Where applicable, state the various classes of shares, and the rights and obligations attached to each class:**

## B. GENERAL MEETING

**B.1. Indicate and state, if any, the differences with respect to the minimums stipulated in the Spanish Limited Liability Companies Law (LSC) with regard to the quorum required for the constitution of the general meeting:**

No

**B.2. Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the Spanish Limited Liability Companies Law (LSC):**

No

**B.3. Indicate the rules governing amendments to the company's bylaws. In particular, indicate the majorities required to amend the bylaws and, if applicable, the rules for protecting shareholders' rights when the bylaws are amended.**

Under the Bylaws, for the General Meeting to validly resolve to increase or reduce share capital or make any other amendment to the Company Bylaws, shareholders holding at least 50% of the subscribed capital with voting rights must be present or represented on first call. On second call, shareholders representing 25% of share capital shall be sufficient. As regards the adoption of resolutions, the Bylaws establish that issues that are substantially independent shall be voted on separately, in particular the amendment of any article or group of articles in the Company Bylaws, which stand alone. Also, a vote in favour by more than 50% of the share capital present in person or by proxy shall be sufficient to adopt resolutions with an absolute majority, whereas a vote in favour by two thirds of the share capital present in person or by proxy at the General Meeting shall be necessary when, on second call, the shareholders present represent 25% or more of the subscribed capital with voting rights, but less than 50%.

**B.4. Indicate the attendance figures for the general meetings held during the year and those of the two previous fiscal years:**

| | Attendance information | | | | |
|---|---|---|---|---|---|
| | | | % distance voting | | |
| Date of general meeting | % of attendance in person | % attendance by proxy | Electronic voting | Other | Total |
| 28/06/2016 | 24.36 | 45.70 | 0.00 | 1.63 | 71.69 |
| Of which Floating Capital | 16.50 | 9.53 | 0.00 | 1.63 | 27.66 |
| 29/06/2017 | 36.82 | 30.65 | 0.00 | 10.52 | 77.99 |
| Of which Floating Capital | 3.80 | 19.12 | 0.00 | 10.52 | 33.44 |
| 24/05/2018 | 1.23 | 77.79 | 0.01 | 0.01 | 79.04 |
| Of which Floating Capital | 0.16 | 26.97 | 0.01 | 0.01 | 27.15 |
| 08/11/2018 | 9.68 | 63.02 | 0.00 | 8.53 | 81.23 |
| Of which Floating Capital | 0.23 | 20.60 | 0.00 | 8.53 | 29.36 |

**B.5. Specify if there have been any items on the agenda at the General Meetings held during the year that, for whichever reason, were not adopted by the shareholders:**

No

**B.6. Indicate whether the bylaws contain any restrictions with respect to a minimum number of shares required to attend general meetings or to vote remotely:**

Yes

| | |
|---|---|
| **Number of shares required to attend general meetings** | 500 |
| **Number of shares needed to vote remotely** | 1 |

Article 19 of Colonial's Bylaws provides that shareholders may attend and vote at the General Meeting, in person or by proxy, where such shareholders, alone or as a group, hold at least five hundred shares, which must be entered in the shareholders register five days before the date scheduled for the General Meeting and provided they furnish proof of the foregoing by showing, at the registered office or the entities specified in the call notice, the relevant authentication certificate or the attendance card issued by Colonial or any entities responsible for keeping the shareholder register or any other method allowed by the current laws.

On the other hand, no specific number of shares is required to vote remotely. Pursuant to Article 12 of the Regulations of the General Meeting, shareholders may vote at the General Meeting or grant proxy by remote means (i.e. by post, electronically or any other remote media, provided that the shareholder's identity is guaranteed and, where appropriate, electronic communications are secure). Shareholders who cast their vote remotely shall be considered present for the purposes of constituting the quorum of the General Meeting.

**B.7. Indicate if there is a rule establishing that certain decisions, other than those established by Law, that involve the purchase, disposal, contribution to another company of key assets or other similar corporate operations, should be put to vote at the General Meeting of Shareholders:**

No

**B.8. Indicate the address and mode of accessing corporate governance content on the company's website, as well as other information on general meetings which must be made available to shareholders on the Company website:**

https://www.inmocolonial.com/accionistas-inversores/gobierno-corporativo/juntas-generales

## C. STRUCTURE OF THE COMPANY'S GOVERNING BODY

### C.1. Board of Directors

**C.1.1 The maximum and minimum number of directors stipulated in the Company Bylaws and the number stipulated by the General Meeting:**

| | |
|---|---|
| **Maximum number of directors** | 15 |
| **Minimum number of directors** | 5 |
| **Number of directors stipulated by the General Meeting** | 11 |

**C.1.2 Fill in the following table with the Board members' particulars:**

| Name or company name of the director | Representative | Category of the director | Position on the board | Date of first appointment | Date of last appointment | Appointment procedure |
|---|---|---|---|---|---|---|
| MR ADNANE MOUSANNIF | | Proprietary | DIRECTOR | 28/06/2016 | 28/06/2016 | RESOLUTION BY THE GENERAL MEETING OF SHAREHOLDERS |
| MS ANA SAINZ DE VICUÑA BEMBERG | | Independent | DIRECTOR | 30/06/2014 | 24/05/2018 | RESOLUTION BY THE GENERAL MEETING OF SHAREHOLDERS |
| MR CARLOS FERNÁNDEZ GONZÁLEZ | | Proprietary | DIRECTOR | 28/06/2016 | 28/06/2016 | RESOLUTION BY THE GENERAL MEETING OF SHAREHOLDERS |
| MR CARLOS FERNÁNDEZ-LERGA GARRALDA | | Independent | INDEPENDENT LEAD DIRECTOR | 19/06/2008 | 24/05/2018 | RESOLUTION BY THE GENERAL MEETING OF SHAREHOLDERS |
| MR JAVIER IGLESIAS DE USSEL ORDÍS | | Independent | DIRECTOR | 19/06/2008 | 24/05/2018 | RESOLUTION BY THE GENERAL MEETING OF SHAREHOLDERS |
| MR JAVIER LÓPEZ CASADO | | Proprietary | DIRECTOR | 24/05/2018 | 24/05/2018 | RESOLUTION BY THE GENERAL MEETING OF SHAREHOLDERS |
| MR JUAN CARLOS GARCÍA CAÑIZARES | | Proprietary | DIRECTOR | 30/06/2014 | 24/05/2018 | RESOLUTION BY THE GENERAL MEETING OF SHAREHOLDERS |
| MR JUAN JOSÉ BRUGERA CLAVERO | | Executive | CHAIRMAN | 19/06/2008 | 24/05/2018 | RESOLUTION BY THE GENERAL MEETING OF SHAREHOLDERS |
| MR LUIS MALUQUER TREPAT | | Independent | DIRECTOR | 31/07/2013 | 24/05/2018 | RESOLUTION BY THE GENERAL MEETING OF SHAREHOLDERS |
| MR SHEIKH ALI JASSIM M.J. AL-THANI | | Proprietary | DIRECTOR | 12/11/2015 | 28/06/2016 | RESOLUTION BY THE GENERAL MEETING OF SHAREHOLDERS |
| MR PEDRO VIÑOLAS SERRA | | Executive | CEO | 18/07/2008 | 24/05/2018 | RESOLUTION BY THE GENERAL MEETING OF SHAREHOLDERS |

| | |
|---|---|
| **Total number of directors** | 11 |

**Indicate the directors who have left by resignation, removal or any other cause, from the Board of Directors during the reporting period:**

| Name or company name of the director | Category of the director when they left | Date of last appointment | Date of departure | Special committees the director was a member of | Indicate whether the director left before the end of their office |
|---|---|---|---|---|---|
| No data | | | | | |

▼ **Reason for leaving the Board and other observations**

On 24 January 2019, the Company reported as a regulatory announcement that Ms Ana Sainz de Vicuña Bemberg had resigned as Director for the Company and would therefore leave her seat on the Audit and Control Committee too. Consequently, on that same date and following the proposal made by the Appointments and Remuneration Committee, the Board of Directors co-opted Ms Silvia Mónica Alonso-Castrillo Allain, as the new member of the Board of Directors, with independent Director status, to fill in the vacancy left by Ms Ana Sainz de Vicuña Bemberg on the Board of Directors.

**C.1.3 Complete the following tables on board members and their respective categories:**

▼ **Executive directors**

| Name or company name of the director | Position in the company organisation chart | Profile |
|---|---|---|
| MR PEDRO VIÑOLAS SERRA | CEO | He is a graduate in Business Management and MBA from ESADE and Universidad Politécnica de Cataluña, and holds a Diploma in Business Management from Universidad de Barcelona, where he also studied Law. In 1990, Pedro Viñolas began to work as Director of the Research Department at the Barcelona Stock Exchange, of which he later became Deputy Managing Director, where he remained until 1997. He then took up duties as Managing Director of FILO, S.A., a listed real estate company, where he remained until 2001. Subsequently, until July 2008, he was Partner and CEO at the Riva y García Financial Group. He was Chairman of the Urban Land Institute in Spain and member of the Board of Directors of the financial group Riva y García. He was also Chairman of the Spanish Institute of Financial Analysts in Catalonia from 1994 to 2000. He is a member of the Board at the European Public Real Estate Association (EPRA). Pedro Viñolas joined Colonial in July 2008. He is currently a member of the Board of Directors of SFL and also sits on the Executive Committee. He is a full professor at ESADE's Finance Department and a member of the Board of Directors of ElectroStocks, S.A. and Bluespace, S.A. |
| MR JUAN JOSÉ BRUGERA CLAVERO | Chairman | Chairman of Inmobiliaria Colonial Socimi, S.A. since 2008, and previously held the office of CEO from 1994 to 2006. Chairman of Société Foncière Lyonnaise since 2010. He was Chief Executive Officer of Mutua Madrileña, CEO of SindiBank and Deputy General Manager of Banco de Sabadell before this. Other occupations: He has been Chairman of the Board of Trustees of the Universidad Ramón Llull (URL). Chairman of the ESADE Foundation, Panrico and Holditex. He is currently Chairman of the Círculo de Economía of Barcelona. He is an Industrial Technical Engineer and holds an MBA from ESADE. PDG for the IESE and Honorary Doctorate from the University of Rhode Island. |

| | |
|---|---|
| **Total number of executive directors** | 2 |
| **% of the total board** | 18.18 |

### ▼ External proprietary directors

| Name or company name of the director | Name or company name of the significant shareholder who is represented or has proposed the appointment | Profile |
| --- | --- | --- |
| MR ADNANE MOUSANNIF | QATAR INVESTMENT AUTHORITY | He has both French and Moroccan nationalities and is currently working at Qatar Investment Authority —QIA— the sovereign investment fund of Qatar. In the past years, he has taken part, on behalf of QIA, in most of its real-estate operations in Europe and America, including the acquisition of the Canary Wharf Group in London and the acquisition of the Virgin Megastore building in the Parisian Champs Elysees. He also took part, once again representing QIA, in acquiring a stake in Société Foncière Lyonnaise and in Inmobiliaria Colonial in Spain. Previously, he'd worked for several years for the Morgan Stanley Real Estate Investing funds in Europe. He has a master's degree in business creation and Finances by the ESCP Europe Business School and a university degree in Civil Engineering. |
| MR SHEIKH ALI JASSIM M.J. AL- THANI | QATAR INVESTMENT AUTHORITY | A Qatar national. He has been working for over 30 years with the Qatar Government, basically in the Trade, Financial and Real-Estate industries. He has been Senior Director in Strategy and Investments since 2007. Since 1995, he has been Vice President and member of the Board of Directors and of the Executive Committee of The Housing Bank for Trade and Finance of Jordan (listed company and second most important bank in Jordan). He has been a member of the Board of Directors of United Arab Shipping Company in Dubai, UAE, since 2003; Vice President of LQB- Libyan Qatari Bank since 2007 and in 2009 he was appointed Chairman and General Manager of Qatar Navigation, a listed company based in Qatar of which he has been a member of its Board of Directors since 2006. This Holding company operates in sea transport and real estate. Since 2012, he has been a member of the Board of Directors of QADIC- Qatar Abu Dhabi Investment Company, a company specialising in real-estate investments and private equity. In November 2015, he was appointed Director of Socièté Foncière Lyonnaise (SFL). |
| MR CARLOS FERNÁNDEZ GONZÁLEZ | MR CARLOS FERNÁNDEZ GONZÁLEZ | As an Industrial Engineer he has attended senior management programmes at the Instituto Panamericano de Alta Dirección de Empresa. For over 30 years, he has held positions with a high degree of responsibility, complexity and competence in business management in different sectors. He was CEO (1997-2013) and Chairman of the Board of Directors (2005-2013) of Grupo Modelo. Since his appointment as CEO and until 2013, this Group became the leading beer company in Mexico, the seventh group in the world and the largest beer export company in the world. Furthermore, he was director in international and national companies, including Anheuser Busch (USA), Emerson Electric Co. (USA), Televisa Group (Mexico), Crown Imports, Ltd. (USA), Inbursa (Mexico) and Mexico Stock Exchange. He was also a member of the international advisory board of Banco Santander, S.A. and director of Grupo Financiero Santander México S.A.B. de C.V. He is currently the Chairman of the Board of Directors and general manager of Grupo Finaccess S.A.P.I. de C.V. -of which he is a founder- with presence in Mexico, Europe and the United States. He is also an independent Director of Banco Santander, S.A, proprietary Director of Inmobiliaria Colonial based in Spain and member of the supervisory board of AMREST Holdings in Wroclaw, Poland. |

### ▼ External proprietary directors

| Name or company name of the director | Name or company name of the significant shareholder who is represented or has proposed the appointment | Profile |
|---|---|---|
| MR JAVIER LÓPEZ CASADO | MR CARLOS FERNÁNDEZ GONZÁLEZ | He joined Finaccess as International Director of Asset Management in November 2010. Since 2012, he has been CEO of Finaccess Advisors LLC. Since 2014, he has also been responsible for Finaccess Estrategia S.L. in Spain. Prior to joining Finaccess, he worked as Senior Vice-President for Santander Private Banking in Miami. He previously held different posts in Banco Santander's International Private Banking area in Madrid and Miami. He worked at the Santander Group from 1996 to 2010. Before joining Banco Santander, he worked as a Lawyer in Madrid. He has 22 years' experience in financial markets and is a member of Grupo Finaccess' Board of Directors, the International Investment Committee and the Audit Committee of Finaccess Advisors LLC. He is Chairman of SOLTRA S.L., a company working on the promotion, education and rehabilitation of people with different capacities in order to achieve full social integration, which currently has 400 employees. He also sits on the board of trustees of several Foundations in Spain and Mexico. He holds a Law Degree from Universidad San Pablo CEU in Madrid, an MBA from the University of Miami and a Master's in Legal and Tax Consultancy for Construction and Real Estate Companies from Universidad Politécnica of Madrid. |
| MR JUAN CARLOS GARCÍA CAÑIZARES | AGUILA, LTD | Industrial Engineer. He also studied management programmes at IMD Switzerland, and holds an MBA granted jointly by the New York University Stern School of Business, London School of Economics and HEC Paris. He is an investment banker who was responsible for more than $35 billion in mergers, acquisitions and financing of acquisitions over a period of 25 years. He was Vice President of Planning for Bavaria, one of Latin America's leading breweries, where he was responsible for the $4 billion international brewery acquisition programme, and for the subsequent $8 billion merger with SABMiller plc, creating the world's second largest brewery. In recent years, he led negotiations on behalf of the Santo Domingo Group for the conversion of its holding in SABMiller into a share in Anheuser Busch Inbev following the merger of the two, an operation which was finalised in 2016. Before joining the Santo Domingo Group, he was co-founder and Main Partner of Estrategias Corporativas, an investment bank firm in Latin America. He is currently the Managing Director of Quadrant Capital Advisors, Inc. in New York (a Santo Domingo Group investment company based in New York). He is responsible for Quadrant Capital's Strategic Investments Group, including investments in Anheuser Busch Inbev and in the consumer, financial system, natural resources and energy sectors worldwide, among others. He is a member of the Boards of Park S.A.R.L., Bavaria, S.A., Valorem S.A. (Colombia) and Genesis Foundation (USA). |

| | |
|---|---|
| **Total number of proprietary directors** | 5 |
| **% of the total board** | 45.45 |

### External independent directors

| Name or company name of the director | Profile |
|---|---|
| MS ANA SAINZ DE VICUÑA BEMBERG | She is a graduate in Agricultural Economics from Reading University in the UK, with a Programme for Management Development from Harvard University. She worked at Merrill Lynch in Spain for 18 years (1984-2003). She began her career in Private Banking and worked in this sector for 12 years. She then joined Sociedad de Valores y Bolsa, which was incorporated following the acquisition of FG, a process she headed together with Mr Claudio Aguirre, and subsequently headed Operations, Systems, HR and Finance. She was then appointed General Manager of Merrill Lynch International Bank's Spanish subsidiary. She now sits on the Foundational Committee of the ARPE Foundation (Foundation for Art Research Partnership and Education). Since 2004, she has been a member of the Board and member of the Management Committee of Corporación Financiera Guadalmar (CFG), a Family Office with assets in Spain and Latin America, mainly Argentina and Chile. She supervises the Financial Assets Committee, which manages the securities portfolios and the family's investments in the Security Group -of which she is also a Director- and the Awasi and W Santiago hotel group. In 2011, she was appointed Director of Terold Invest, S.L., and in July 2015, she was appointed Director of Acciona, S.A., where she also sits on the Audit Committee. In February 2017, she was appointed Director of Prosegur Cash, S.A., and also sits on the Appointments and Remuneration Committee. |
| MR LUIS MALUQUER TREPAT | He holds a degree in Law from the University of Barcelona and a Diploma in International Institutions from the University of Geneva. Throughout his career at the law firm Maluquer Advocats, SCP, he has advised different national and international institutions, providing his services in the fields of consultancy, legal advice and lawsuits, arbitration and mediation procedures. He also has teaching experience at various institutions, such as the Barcelona Chamber of Commerce, and worked as director at the European Society for Banking and Financial Law (AEDBF Paris). He is the founding partner of Despacho Maluquer Advocats, SCP, and is a board member and secretary to a number of companies, including SFL, where he sits on the board. In addition, he has special powers of attorney and is secretary to the board of various subsidiaries of French and Swiss companies, especially in the infrastructure and agri-food industries. He is currently Chairman of the Argentinian Chamber of Commerce in Spain. |
| MR CARLOS FERNÁNDEZ-LERGA GARRALDA | Law degree from the University of Navarra, master's degree in European studies from the University of Louvain (Belgium) and PhD courses in Law at Universidad Complutense de Madrid and commercial law specialisation courses for post-graduates at the Bank of Spain's Training Centre. He completed his studies in international law at the Academy for International Law at The Hague, in comparative law and international organisations in Strasbourg and at the Collège Universitaire d´études fédéralistes, Nice, Val d'Aoste. From 1978 to 1983 he was an Advisory Member of the Minister and Secretary of State for Relations with the European Community, participating in negotiations for Spain's accession to the European Union. From 1984 to 1986, he held the position of General Manager of the European Union Advisory Service at the Banco Hispano Americano Group. He has also been a director of Abantia Corporación. He has also been Independent Lead Director and chairman of the Appointments and Remuneration Committee at Gamesa Corporación Tecnológica, S.A. (Lead Independent Director) and General Director of La Caixa. Member of the International Secretariat of World Federalist Youth (Amsterdam, the Netherlands); Secretary of the European League for Economic Cooperation (ELEC), Madrid; Secretary of the Foundation for Progress and Democracy, Deputy (Treasurer) of the Governing Board of the Madrid Bar Association, member of the Executive Committee of Real Instituto Elcano and Trustee of the Spain/US and Spain/China Council Foundations. He has also taught extensively in the School of Political Science at the Complutense University and the Institute of European Studies at the University of Alcalá de Henares, among other institutions, and has authored numerous publications on legal issues. He is currently Chairman of Iberdrola Ingeniería y Construcción, S.A. and continues to practise law at his law firm, Carlos Fernández-Lerga Abogados, mainly focusing on legal advice in commercial and civil law. He is currently a member of the Board of Directors at SFL. |

### ▼ External independent directors

| Name or company name of the director | Profile |
|---|---|
| MR JAVIER IGLESIAS DE USSEL ORDÍS | Javier Iglesias de Ussel y Ordís has a wealth of experience in financial circles. In 1974, he joined Lloyds Bank International in London, where he held different positions of responsibility for Corporate Banking in Dubai, São Paulo, Asunción and Madrid over 21 years. In 1995, he joined The Bank of New York and was appointed Country Manager for the Iberian Peninsula. He moved to New York in 2002 and was appointed Division Head for Latin America. From 2008 to December 2013, he ran the Representation Office of Chilean bank Banco de Crédito e Inversiones. Mr Iglesias de Ussel has been an Independent Director of Inmobiliaria Colonial since 2008 and has also been an Independent Director of Aresbank since March 2015. Mr Iglesias de Ussel holds a degree in Modern History from the University of Barcelona and throughout his career has been involved in numerous business administration, marketing, risk analysis and money laundering prevention courses. |

| | |
|---|---|
| **Total number of independent directors** | 4 |
| **% of the total board** | 36.36 |

**List any independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior officer of an entity which maintains or has maintained this relationship.**

**If applicable, include a statement from the board detailing the reasons why it believes this director may carry out duties as an independent director.**

| Name or company name of the director | Description of the relationship | Reasoned statement |
|---|---|---|
| No data | | |

### ▼ Other external directors

Identify the other external directors and explain why these directors may not be considered proprietary or independent directors, and what their connection is with the Company, its managers or its shareholders:

| Name or company name of the director | Reasons | Company, director or shareholders to which this person is linked | Profile |
|---|---|---|---|
| No data | | | |

| | |
|---|---|
| **Total number of other external directors** | N.A. |
| **% of the total board** | N.A. |

**Indicate any changes in the status of each director that may have occurred during the year:**

| Name or company name of the director | Date of change | Prior category | Current category |
|---|---|---|---|
| No data | | | |

**C.1.4 Complete the following table with the information on the number of female directors over the past 4 years and their category:**

| | Number of female board members | | | | % of total directors of each category | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2018 | 2017 | 2016 | 2015 |
| Executive | | | | | 0.00 | 0.00 | 0.00 | 0.00 |
| Proprietary | | | | | 0.00 | 0.00 | 0.00 | 0.00 |
| Independent | 1 | 1 | 1 | 1 | 25.00 | 25.00 | 25.00 | 33.33 |
| Other External Female Directors | | | | | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | 1 | 1 | 1 | 1 | 9.09 | 10.00 | 9.09 | 9.09 |

**C.1.5 Indicate whether the company has diversity policies in place for its Board of Directors with regards to age, gender, disability, education or work experience, among other matters. Small and medium businesses, as described by the Auditing Law, should at least report about the policy they have established to ensure gender diversity.**

Partial policies

**If this is the case, describe the diversity policies, their targets, measures and the way they have been implemented and their outcome in the fiscal year. Also indicate the specific measures taken by the Board of Directors and the Appointments and Remuneration Committee to ensure a balanced and diverse ratio of directors.**

**Should the company not have a diversity policy in place, explain the reasons for it.**

▼ **Description of policies, targets, measures and way they have been implemented, as well as their outcome**

The Board Regulations provide for, among the various obligations of the Board of Directors, the obligation to ensure that the procedures for selecting its members promote diversity of gender, experience and knowledge and do not contain any implicit bias that may entail discrimination and, in particular, facilitate the selection of female directors. In this regard, in 2016 the Board of Directors approved a Selection Policy for Candidates to the Board of Inmobiliaria Colonial (the “Selection Policy”), which expressly sets a target for a number of female members that is at least 30% of the total number of Directors on the Board by the year 2020.

In 2018, a new director was proposed but as it was a proprietary director, the proposal was made by a significant shareholder.

**C.1.6 Explain any measures that may have been agreed by the appointments committee to prevent any implicit bias in selection procedures to hinder the selection of female board members, and for the company to deliberately strive to include women with the professional profile sought as candidates and that will ensure a balanced ratio of women and men:**

▼ **Explanation of the measures**

Both the Board of Directors and the Appointments and Remuneration Committee (the “ARC”) have ensured, pursuant to the Company Bylaws and Board Regulations, that the candidates proposed as Board members meet the requirements relating to experience, technical competence and suitability, and the fact that no female directors have been appointed is not due to the existence of any implicit bias in the procedure that prevents them from being selected. In this regard, it should be pointed out that, inter alia, the ARC has the following functions: i) assess competences, knowledge and experience on the Board of Directors, defining the functions and aptitudes necessary in the candidates to fill each vacancy and assess the time and dedication necessary for members to carry out their tasks efficiently; ii) establish a representation target for the less-represented gender on the Board of Directors and; iii) table proposals to the Board to appoint independent directors and/or report proposals for the appointment of other Directors to be appointed by co-opting or submission for a decision by the General Meeting of Shareholders, and proposals to the General Meeting for the re-election or removal of the Directors.

**When, despite any measures adopted, there are few or no female directors, explain the reasons:**

▼ **Explanation of the reasons**

In 2018, only one director was appointed and was designated as representative of one of the significant shareholders.

**C.1.7 Explain the conclusions of the appointments committee on the verification of compliance with the director selection policy. And, specifically, how this policy addresses the objective of female directors accounting for at least 30% of the total number of members of the Board of Directors by 2020.**

The ARC submitted the Selection Policy to the Board of Directors for approval on 11 April 2016. This policy, which was approved by the Board of Directors on the same date, included the criteria of the ARC in this connection and, in particular, set a goal of having at least 30% of total Board seats occupied by female directors by 2020.

The members of the ARC also provided a favourable report on the Company’s corporate governance policy during the first semester of 2018. This policy specifically stipulates that the Board of Directors will ensure that the procedures for the selection of its members favour diversity in terms of gender, experience and knowledge, and have no implicit biases that may entail any discrimination whatsoever, and, in particular, the procedures will also favour the selection of female directors.

**C.1.8 Explain any reasons for which proprietary directors have been appointed at the behest of shareholders accounting for less than 3% of share capital:**

| Name or company name of the shareholder | Justification |
|---|---|
| No data | |

**Provide details of any rejections of formal requests for board representation from shareholders whose shareholding is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been granted.**

No

**C.1.9 Indicate, if any, the powers delegated by the Board of Directors to directors or to Board committees:**

| Name or company name of the director or committee | Brief description |
|---|---|
| PEDRO VIÑOLAS SERRA | In his capacity as CEO, he has been granted all the powers that may be delegated by the Board of Directors. |
| JUAN JOSÉ BRUGERA CLAVERO | In his capacity as Chairman of the Board of Directors, he has been granted all the powers set forth in the regulations of the Board of Directors. He has also been granted broad executive powers. |

**C.1.10 Identify any Board members working as managing directors, representatives of managing directors or executives at other companies that are part of the listed company's group:**

| Name or company name of the director | Group company name | Position | Does the member have executive functions? |
|---|---|---|---|
| MR CARLOS FERNÁNDEZ-LERGA GARRALDA | Société Foncière Lyonnaise | Director | NO |
| MR JUAN JOSÉ BRUGERA CLAVERO | Société Foncière Lyonnaise | Chairman of the Board of Directors | NO |
| MR LUIS MALUQUER TREPAT | Société Foncière Lyonnaise | Director | NO |
| MR PEDRO VIÑOLAS SERRA | Société Foncière Lyonnaise | Director | NO |
| MR PEDRO VIÑOLAS SERRA | Inmocol Torre Europa, S.A. | Director | NO |
| MR SHEIKH ALI JASSIM M.J. AL-THANI | Société Foncière Lyonnaise | Director | NO |
| MR PEDRO VIÑOLAS SERRA | Utopicus Innovación Cultural, S.L. | Director | NO |
| MR PEDRO VIÑOLAS SERRA | VENUSAUR SL | Natural person representing the sole director, Inmobiliaria Colonial, SOCIMI, S.A. | YES |
| MR PEDRO VIÑOLAS SERRA | Colonial Tramit, S.L. | Natural person representing the sole director, Inmobiliaria Colonial, SOCIMI, S.A. | YES |
| MR PEDRO VIÑOLAS SERRA | COLONIAL INVEST SL | Natural person representing the sole director, Inmobiliaria Colonial, SOCIMI, S.A. | YES |
| MR PEDRO VIÑOLAS SERRA | MOORAGE INVERSIONES 2014 SL | Natural person representing the sole director, Inmobiliaria Colonial, SOCIMI, S.A. | YES |
| MR PEDRO VIÑOLAS SERRA | CHAMELEON (CEDRO) SL | Natural person representing the sole director, Inmobiliaria Colonial, SOCIMI, S.A. | YES |
| MR PEDRO VIÑOLAS SERRA | AXIARE INVESTMENTS SL | Natural person representing the sole director, Inmobiliaria Colonial, SOCIMI, S.A. | YES |

| Name or company name of the director | Group company name | Position | Does the member have executive functions? |
|---|---|---|---|
| MR PEDRO VIÑOLAS SERRA | DANIELTOWN SPAIN SL | Natural person representing the sole director, Inmobiliaria Colonial, SOCIMI, S.A. | YES |
| MR PEDRO VIÑOLAS SERRA | AXIARE PROPERTIES SL | Natural person representing the sole director, Inmobiliaria Colonial, SOCIMI, S.A. | YES |
| MR PEDRO VIÑOLAS SERRA | AXIARE INVESTIGACION DESARROLLO E INNOVACIÓN SL | Natural person representing the sole director, Inmobiliaria Colonial, SOCIMI, S.A. | YES |

**C.1.11 Identify any directors, or representatives of directors who are legal entities, at your company who are members of the Board of Directors, or representatives of directors who are legal entities, in other companies listed on official securities markets other than your group, which have been notified to the company:**

| Name or company name of the director | Company name of listed company | Position |
|---|---|---|
| MR CARLOS FERNÁNDEZ GONZÁLEZ | Banco Santander S.A. | DIRECTOR |
| MR CARLOS FERNÁNDEZ GONZÁLEZ | AmRest Holdings SE | DIRECTOR |
| MS ANA SAINZ DE VICUÑA BEMBERG | Acciona, S.A. | DIRECTOR |
| MS ANA SAINZ DE VICUÑA BEMBERG | Prosegur Cash, S.A. | DIRECTOR |
| MR JUAN CARLOS GARCÍA CAÑIZARES | Valorem S.A. | DIRECTOR |

**C.1.12 Indicate and, explain where appropriate, whether the company has established rules on the maximum amount of company boards the company's directors may sit on, identifying, if any, where these rules are established:**

Yes

▼ **Explanation of the rules and identification of the document where they are established**

The Board Regulations state that directors may not sit on more than 3 boards of other Spanish listed companies besides Colonial. The Board of Directors may dispense with this ban in exceptional circumstances. It should also be pointed out that Board Regulations establish, as part of the general duties of directors, that they must carry out their functions and meet the obligations imposed on them by law, the Company Bylaws and other internal regulations with the diligence of an orderly entrepreneur, in due consideration of the nature of the post and the functions assigned to them; their dedication must be appropriate at all times, and they must take the necessary measures for proper management and control of the Company.

**C.1.13 Specify the amounts of the following items regarding the global remuneration of the Board of Directors:**

| | |
|---|---|
| **Remuneration accrued by the Board of Directors during the fiscal year (thousands of euros)** | 7,289 |
| **Amount of pension rights accumulated by the current directors (thousands of euros)** | 535 |
| **Amount of pension rights accumulated by the current directors (thousands of euros)** | |

The remuneration accrued by the Board of Directors during the fiscal year matches the group's total remuneration.

**C.1.14 List any members of the senior management who are not also executive directors and state the total remuneration accrued by them during the year:**

| Name or corporate name | Position(s) | |
|---|---|---|
| MR ALBERTO ALCOBER TEIXIDO | Business Manager | |
| MR CARLOS ESCOSA FARGA | Internal Auditor | |
| MS CARMINA GANYET CIRERA | Corporate General Manager | |
| MS NURIA OFERIL COLL | Manager of Legal Counsel | |
| **Total remuneration of senior management (thousands of euros)** | | 3,005 |

As in section C.1.13 above, the figure includes the group's total remuneration of the senior management.

**C.1.15 Indicate whether any amendments have been made to the Board regulations during the fiscal year:**

No

**C.1.16 Indicate the procedures for the selection, appointment, re-election and removal of directors. Give details of the competent bodies, the formalities to be fulfilled and the criteria to be used in each of the procedures.**

The procedures for selection, appointment and re-election of directors are governed by the Board Regulations and set out in the Selection Policy approved by the Board at the behest of the ARC. Pursuant to this selection policy, discrimination shall be avoided in the selection process, and the overruling principle is the evaluation of the merits and abilities of each of the candidates, while seeking in all cases the most qualified candidates. The directors are appointed by the General Meeting or, in the event of early vacancies, by the Board of Directors, exercising its power to co-opt. The ARC makes proposals for the appointment or re-election of independent directors. In all other cases, the Board is responsible for making proposals. Proposals must be accompanied by a supporting report from the Board that assesses the competence, experience and merits of the proposed candidates, which will be attached to the minutes of the General Meeting or the Board meeting. The proposal for the appointment or re-election of any non-independent director should also be preceded by an ARC report. For the shareholders at the General Meeting to have the information required for the appointment of the directors, from the publication of the call notice and until the General Meeting is held, the Company must display on its corporate website a permanent publication of at least these details regarding the persons proposed for appointment, ratification or re-election as Board members: their identity, CV and category to which each belongs, and the aforementioned proposal and reports and the ARC explanatory report containing the findings of the analysis performed beforehand on the Board's needs. For legal entities, information should be included on the natural person designated for the permanent exercise of the functions of the post. The procedure to evaluate directors is also governed by the Board Regulations. In this regard, a plenary session of the Board shall evaluate, once a year, and adopt, where applicable, an action plan to correct any deficiencies identified in connection with: (i) the quality and efficiency of the Board of Directors; (ii) the operations and the composition of its Committees; (iii) the diversity of the composition and competences of the Board of Directors; (iv) the performance of the Chairman of the Board and the chief executive officer of the company; and (v) the performance and contribution of each director, paying particular attention to those who are in charge of the various Committees of the Board. The evaluation of the Chairman of the Board shall be directed by the Independent Lead Director. Regarding the removal of directors, Board Regulations stipulate that directors may be removed from office at any time by the shareholders at the General Meeting even if their removal is not on the agenda. In addition, directors must tender their resignation to the Board if the Board of Directors deems it appropriate subsequent to a report from the ARC in the cases specified in the Board Regulations, which are detailed in section C.1.21 below. The Board of Directors shall not propose the removal of any independent directors before the expiry of their office as set forth in the Company Bylaws, except where just cause is found by the Board, based on a report by the ARC. It will be understood that there is just cause when the director takes up a new post or takes on new duties that prevent him/her from devoting the necessary time to the performance of the duties associated with the directorship, when the director fails to carry out the duties inherent to his/her post or when the director is involved in circumstances which cause him/her to lose his/her independent status in accordance with the provisions of the legislation applicable. The removal of independent directors may also be proposed following a takeover bid, merger or similar corporate operation entailing changes in the Company's capital structure, when these changes have been propitiated by the proportionality criterion. Without prejudice to the foregoing, the Board Regulations stipulate that independent directors may not retain their status as such for a continuous period of more than 12 years. Also, the Board of Directors may propose the removal of other directors prior to expiry of the statutory period for which they were appointed for exceptional and justifiable reasons as approved by the board, subsequent to a report by the ARC. When, as a result of their resignation or for some other reason, directors leave their post before their term has expired, they shall explain the reasons in a letter submitted to all Board members, notwithstanding notification of the departure as a regulatory announcement, and reporting of the reason for the departure in the Annual Corporate Governance Report.

**C.1.17 Explain to what extent the annual evaluation of the Board has prompted significant changes in its internal organisation and the procedures applicable to its activities:**

**▼ Description of changes**

There were no changes because the self-assessment was satisfactory.

**Describe the assessment procedure and the areas assessed by the Board of Directors with the support, if any, of an external consultant, regarding the performance and composition of the Board and its committees and any other area or aspect that has been assessed.**

**▼ Description of the assessment procedure and areas assessed**

The Board of Directors assessed its composition and competences, the operation and composition of committees and the performance of the Chairman, CEO, Independent Lead Director and the Secretary to the Board. In this regard, questionnaires were sent to all directors for these evaluations, covering various matters and collecting general recommendations for improvement. Once the responses were received, the ARC prepared the related reports assessing the Board of Directors, Chairman, CEO, Lead Independent Director, other Company directors and the Secretary to the Board, as well as its own composition, competences and operation, for submission to the Board. The ACC also prepared a report assessing its own composition, competences and functioning. The ARC hired the company Spencer Stuart as external consultant to help with the aforementioned assessments and the latter sent a report on the suitability of the procedure and methods used by Colonial for the assessments, as well as their conclusions on these. Following the assessment, the Board of Directors approved the assessment reports on the Board, its committees, the Chairman, the CEO, the Independent Lead Director and the Secretary, concluding that: (i) the Board of Directors has the proper composition and exercises the functions and competences assigned to it by the Company Bylaws and Board Regulations in an efficient manner, at all times prioritising the interest of the Company and maximising its economic value; (ii) the Executive Committee, the ARC and the Audit and Control Committee ("ACC") each have the proper composition, and they undertake and carry out in an efficient manner the competences assigned to them by the regulations applicable and by the Company's corporate documentation; (iii) the Chairman and the CEO, have carried out the functions entrusted to them in an satisfactory and appropriate manner; and (iv) the Independent Lead Director and the Secretary to the Board have discharged their functions effectively and diligently.

**C.1.18 Detail, as appropriate, for the years in which the assessment was supported by an external consultant, any business dealings that the consultant or any company in its group have with the Company or any company in its group.**

Business dealings with the consultant (Spenser Stuart) have been as an external consultant in relation to the assessment of the Board of Directors, its committees, the Chairman of the Board and the CEO, the Independent Lead Director and the secretary to the Board and as external advisor on the remuneration policy of the Board of Directors.

**C.1.19 Indicate the cases in which the directors must resign.**

Under the Board Regulations, directors must tender their resignation to the Board of Directors and resign if the latter deems it appropriate subsequent to a report from the ARC, in the following cases:

1. When they become subject to any incompatibility or prohibition established by law. 2. When they cease to discharge the executive functions associated with their appointment as directors or when the reasons for their appointment cease to exist. Specifically, proprietary directors shall tender their resignation when the shareholder they represent sells off the entire shareholding in Colonial or when the number of shares held requires a reduction in the number of proprietary directors. When, notwithstanding the foregoing paragraph, the Board of Directors considers that there are justified reasons for the director to remain in office, the impact that the new circumstances may have on the qualification of the director will be taken into account. 3. When they have been seriously reprimanded by the ARC for having infringed any of their duties as directors. 4. When their remaining as board member may adversely affect the operation of the Board or jeopardise the credit or reputation of the Company for any reason. In particular, the directors must inform the Board of any criminal proceedings in which they are an accused party and of the subsequent progress of the proceedings. In any event, if a director were prosecuted or had a court order issued against him or her initiating trial proceedings for any of the offences defined in the law, the Board shall examine the case as soon as practicable and, in view of the particular circumstances, decide whether or not he or she should remain in office, providing reasonable reasons therefor in the Annual Corporate Governance Report.

**C.1.20 Are qualified majorities other than those prescribed by law required for any type of decision?:**

No

**If applicable, describe the differences.**

**C.1.21 State whether there are any specific requirements, apart from those relating to the directors, to be appointed Chairman of the Board of Directors:**

No

**C.1.22 Indicate whether the Bylaws or the Board regulations set any age limit for directors:**

No

**C.1.23 Indicate whether the Bylaws or the Board regulations set a limited term of office or other stricter requirements for independent directors other than those established by the regulations:**

No

**C.1.24 Indicate whether the Bylaws or Board regulations stipulate specific rules to delegate votes on the Board of Directors to other directors, the procedures thereof and, in particular, the maximum number of proxy votes a director may hold. Also indicate whether there is any limit as to the categories in which it is possible to delegate votes, beyond the limits provided in law Briefly explain these rules, if any.**

Pursuant to the Regulations of the Board of Directors, the powers of representation will be granted in writing and expressly for each meeting and only to another member of the Board. However, non-executive directors may only assign proxy to another non-executive director. Furthermore, the Regulations of the board of directors set forth that in the event of a proxy, directors should provide precise instructions to their proxy on the vote for or against the items on the agenda.

**C.1.25 Indicate the number of Board meetings held during the fiscal year. Also state, if applicable, the number of occasions on which the Board met without its Chairman in attendance. Attendance shall also include proxies appointed with specific instructions.**

| | |
|---|---|
| Number of Board meetings | 15 |
| Number of Board meetings not attended by the Chairman | 0 |

Indicate the number of meetings held by the Independent Lead Director with the other directors without the attendance, in person or by proxy, of an executive Director:

| | |
|---|---|
| Number of meetings | 3 |

Indicate the number of meetings of the various board committees held during the fiscal year:

| | |
|---|---|
| Number of meetings of the Appointments and Remuneration Committee | 6 |
| Number of meetings of the Executive Committee | 0 |
| Number of meetings of the Audit and Control Committee | 10 |

**C.1.26 Indicate the number of meetings held by the Board of Directors during the fiscal year and the attendance data of its members:**

| | |
|---|---|
| Number of meetings where at least 80% of directors attended in person | 15 |
| % of attendance in person out of the total votes during the fiscal year | 94.34 |
| Number of meetings with attendance in person, or by proxy with precise instructions, of all the directors | 15 |
| % of votes cast with attendance in person, or by proxy with precise instructions, out of the total votes during the fiscal year | 100.00 |

**C.1.27 Indicate whether the consolidated and individual annual financial statements submitted to the Board for their preparation are certified beforehand:**

Yes

Identify, where applicable, the person(s) who certified the Company's individual and consolidated annual financial statements to be prepared by the Board:

| Name | Position |
|---|---|
| MS ANGELS ARDERIU IBARS | Financial Manager |

**C.1.28 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements prepared by it from being submitted to the General Meeting with reservations in the audit report.**

The Board Regulations stipulate that the ACC will ensure that the Board of Directors submits the financial statements to the General Meeting of Shareholders without limitations or reservations in the audit report. In any exceptional cases where these reservations exist, the Chairman of the Audit and Control Committee and, in exceptional circumstances, the auditors shall give a clear account of the contents and scope of these limitations or reservations to the shareholders. In any case, based on the functions granted to it in this regard by Board Regulations, the Audit and Control Committee constantly monitors the process of preparing the individual and consolidated financial statements to prevent them from being prepared with reservations in the audit report.

**C.1.29 Is the secretary to the Board a director?**

No

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

| Name or company name of the secretary | Representative |
|---|---|
| MR FRANCISCO PALÁ LAGUNA | |

**C.1.30 Indicate the specific methods established by the company to protect the independence of the external auditors, as well as the methods, if any, employed to protect the independence of the financial analysis, of investment banks and of credit rating agencies, including how the legal provisions have been effectively implemented.**

Among the obligations of the ACC is to preserve the independence of the external auditor in the performance of its duties. Furthermore, the ACC will: (i) should the external auditor resign, examine the circumstances that led to such resignation; (ii) ensure that the external auditor's compensation for his/her work does not compromise his/her integrity or independence; (iii) supervise that the Company reports as a regulatory announcement to the Spanish Securities Market Commission (CNMV) the change of auditor alongside a statement on the likeliness of a disagreement on the contents with the outgoing auditor; and (iv) ensure that the Company and the external auditor adhere to the current regulations on the provision of non-audit services as well as the limits on the auditor's business concentration and, in general, all the other rules on auditor independence. It is also a function of the ACC to establish the necessary relations with the external auditor in order to receive information on any matters that might jeopardise the auditors' independence, for examination by the Committee, any other matters related to the accounts audit process and, when appropriate, to authorise non-prohibited services on the terms provided in current legislation relating to independence and to communicate with the auditors as provided for in the financial audit legislation and auditing standards. In any case, each year the external auditors shall be required to furnish a statement of their independence with respect to the Company or entities related directly or indirectly thereto, as well as detailed and separate information on any manner of additional services of any kind provided and the related fees received from these entities by the external auditor or entities related thereto in accordance with the governing accounts audits. The ACC shall also issue, prior to the audit report, an annual report expressing an opinion on whether the independence of the auditors or audit companies has been compromised. This report shall, in any case, contain the evaluation of the provision of each and every additional service referred to in the preceding section, considered individually and as a whole, other than legal audit services in relation to the rules on independence or in accordance with the audit regulations. Additionally, the ACC has an authorisation procedure of the external auditor's services other than the prohibited ones. Furthermore, the Board of Directors, at its meeting of 22 February 2018, approved the Audit and Control Committee Regulations in line with the Technical Guide 3/2017 on audit committees for public interest entities of the CNMV of 27 June 2017, which established the procedure and specific criteria that define the Committee's activity to preserve, among other things, the independence of external auditors.

**C.1.31 Indicate whether the company changed its external auditors during the fiscal year. Where appropriate, identify the incoming and outgoing auditors:**

No

**Explain any disagreements with the outgoing auditor:**

No

**C.1.32 Indicate whether the audit firm performs other non-audit work for the company and/or its group, and if so, state the amount of fees received for such work and the percentage they represent of the fees billed to the company and/or its group:**

Yes

| | Company | Group companies | Total |
|---|---|---|---|
| Amount of fees for other non-audit work (thousands of euros) | 151 | 25 | 176 |
| Amount of fees for other non-audit work/Amount of audit work (in %) | 36.47 | 7.30 | 23.28 |

**C.1.33 Indicate whether the audit report for the annual financial statements of the previous fiscal year included any reservations or qualifications. Indicate the reasons given by the Chairman of the audit committee to the shareholders of the General Meeting to explain the contents and scope of the reservations or qualifications.**

No

**C.1.34 Indicate the number of consecutive years that the current audit firm has been auditing the Company's individual and/or consolidated annual financial statements. Likewise, indicate for how many years the current firm has been auditing the annual financial statements as a percentage of the total number of years over which the financial statements have been audited:**

| | Individual | Consolidated |
|---|---|---|
| Number of consecutive years | 2 | 2 |
| Number of years audited by the current audit firm/number of years the company or its group has been audited (as a %) | 6.25 | 6.25 |

**C.1.35 Indicate whether there is a procedure for the directors to be able to receive the necessary information to prepare for meetings of the management bodies sufficiently in advance, and if so, give details:**

Yes

▼ **Detail of the procedure**

In accordance with Board Regulations, the Chairman, aided by the Secretary to the Board, must ensure that the directors have, in advance and with sufficient notice, the necessary information for the deliberation and adoption of resolutions on the matters to be dealt with at each meeting, unless the Board of Directors has been constituted or has been exceptionally convened by reasons of urgency. Likewise, any director may, upon request to the Chairman, CEO or Secretary to the Board, request and examine the books, registers, documents and other background information of the company's operations, and may also obtain supplementary information of the interlocutors as deemed appropriate. Finally, the Company will establish the appropriate channels for directors to obtain the necessary advice for the performance of their duties including, if circumstances so require, advice at the expense of the Company. In this regard, in view of the functions of the Board Chairman, the directors shall send the Chairman requests for external assistance when they deem this necessary. The Chairman is responsible for duly transmitting this request to external advisers. Furthermore, the Regulations of the Board of Directors stipulate that the committees may resort to external advice when deemed necessary for their roles, following the same procedure as set forth above.

**C.1.36 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to report and, where applicable, resign in any circumstances that might jeopardise the company's credit or reputation:**

Yes

▼ **Detail of the procedure**

Board Regulations stipulate that directors must tender their resignation to the Board of Directors and resign if the latter deems it appropriate subsequent to a report from the ARC when their continuation as a Board member may adversely affect the operation of the Board or jeopardise the credit or reputation of the Company for any reason. In particular, the directors must inform the Board of any criminal proceedings in which they are an accused party and of the subsequent progress of the proceedings. In any event, if a director were prosecuted or had a court order issued against him or her initiating trial proceedings for any of the offences defined in the law, the Board shall examine the case as soon as practicable and, in view of the particular circumstances, decide whether or not he or she should remain in office, providing reasonable reasons therefor in the Annual Corporate Governance Report.

**C.1.37 Indicate whether any of the members of the Board of Directors have informed the company of any indictments or the commencement of oral proceedings against him/her for any of the offences specified in Article 213 of the Spanish Limited Liability Companies Law:**

No

**C.1.38 Detail any significant agreements entered into by the company which will come into force, are amended or terminated in the event of a change of control of the company following a takeover bid and the effects thereof.**

Colonial has subscribed two syndicated loans for a total amount of 875 million euros, which provide for early maturity in the event of a change of control.

On 14 November 2018, Colonial took out a bilateral loan of 50 million euros, which also provides for early maturity should there be a change of control.

As a result of the merger with Axiare Patrimonio Real Estate, SOCIMI, S.A., the company subrogated in several bilateral loans, the outstanding amount of which at 31 December 2018 was 206 million euros, subject to the change of control clause.

On the other hand, in the case of fixed-income issues under the Euro Medium Term Note ("EMTN") "non-equity" issuance programme, the bonds are expected to mature early, at the option of the bondholder, in the event of a change of control leading to the loss of the "Investment Grade" rating. The total amount of issues under the EMTN Programme amounts to 2,600 million euros.

**C.1.39 Identify, separately when referring to directors and aggregated when referring to all other cases and provide detailed information on agreements between the company and its officers, executives and employees that provide for indemnities or guarantee or golden parachute clauses in the event of resignation, unfair dismissal or termination of the contractual relationship as a result of a takeover bid or other operations.**

| **Number of beneficiaries** | 3 |
|---|---|
| **Type of beneficiary** | **Description of the agreement** |
| Chairman of the Board, CEO and Corporate General Manager | Executive Directors will receive, in accordance with their relevant service agreement approved by the Board of Directors, a payout as compensation for an unjustified dismissal or non-renewal of their office, or a material reduction of their respective functions. They will also be entitled to it (i) in the event of a waiver or resignation from their position due to a change of control at the Company or significant change in the composition of the Board of Directors and (ii) in the event of amendment of the terms and conditions agreed in their employment contracts without their consent, among other scenarios established by the Board of Directors. Said compensation consists of, (a) in relation to the Chairman, a gross amount equivalent to two years' fixed and variable remuneration, with a minimum of €1,650,000, and (b), in relation to the CEO, a gross amount equivalent to two years' fixed and variable remuneration, with a minimum of €1,920,000. The amounts shown are automatically renewed on an annual basis by applying the CPI or any another official benchmark that may ultimately replace it. In the case of the Corporate General Manager, the guarantee or golden parachute clause triggered in the event of termination under certain circumstances or change of control gives rise to compensation for termination of functions for an amount equal to 3 years' salary. There is also a Long-Term Incentive Plan (LTIP) approved by the General Meeting that entails the allocation of ordinary shares in the Company conditioned to meeting certain criteria each year. The beneficiaries of the plan are the Chairman of the Board, the CEO and the members of Colonial's Management Committee, which includes the Corporate General Manager. The Plan provides that the Board of Directors shall agree early settlement of the Plan and the award of a maximum number of outstanding shares to each beneficiary if a "substantial liquidity event" occurs. "Substantial liquidity events" shall occur (i) when a takeover bid is authorised to acquire all Colonial's share capital, or (ii) when refinancing of all Colonial's debt is authorised. In the latter case, early settlement of the Plan is subject to the ARC's ratification. If, during the term of the Plan, the Chairman or CEO were unfairly dismissed, the General Meeting did not extend their term or they were dismissed from their positions without just cause, they shall be entitled to an early settlement of the Plan and to the delivery of the maximum number of shares outstanding in the years remaining until the end of the Plan. Beneficiaries shall lose their right to the delivery of shares in the event of justified dismissal, termination for cause or if they resign on their own initiative, and in case of breach of contract in respect of confidentiality, non-solicitation of services or competition. In these cases, the beneficiaries will lose any rights to shares that have been granted. |

**Indicate whether, beyond the assumptions foreseen by the regulations, these agreements must be reported to and/or authorised by the governing bodies of the company or its group. If this is the case, specify the procedures, assumptions foreseen and nature of the bodies in charge of their approval or their communication:**

| | **Board of Directors** | **General Meeting** |
|---|---|---|
| Body which authorises the clauses | √ | |

| | **Yes** | **No** |
|---|---|---|
| Is the General Meeting informed of the clauses? | | √ |

### C.2. Board Committees

**C.2.1 Give details of all board committees, their members and the proportion of executive, proprietary, independent and other external directors that form them:**

**▼ Appointments and Remuneration Committee**

| Name | Position | Category |
|---|---|---|
| MR CARLOS FERNÁNDEZ-LERGA GARRALDA | CHAIRMAN | Independent |
| MR JAVIER IGLESIAS DE USSEL ORDÍS | MEMBER | Independent |
| MR LUIS MALUQUER TREPAT | MEMBER | Independent |
| MR JUAN CARLOS GARCÍA CAÑIZARES | MEMBER | Proprietary |
| MR ADNANE MOUSANNIF | MEMBER | Proprietary |

| | |
|---|---|
| **% of executive directors** | 0.00 |
| **% of proprietary directors** | 40.00 |
| **% of independent directors** | 60.00 |
| **% of other external directors** | 0.00 |

**Explain the functions conferred to this Committee and describe the procedures and rules of its organisation and operation. For each of these functions, indicate the more relevant actions during the fiscal year and how it effectively carried out each of the functions conferred to it by Law or Bylaws or other corporate agreements.**

Executive directors, appointed by the Board. The ARC shall appoint from among its members (i) a chairman, who, in any case, shall be an independent director, and (ii) a secretary, or it may designate the Secretary to the Board. The ARC may appoint a Vice President, who shall also be an independent director. The members of the ARC shall leave office when they cease to be directors or when the Board so resolves. The ARC shall have the following functions, among others: 1. Evaluate the skills, knowledge and experience required on the Board, define the roles and capabilities required of the candidates and decide on the time and dedication necessary for them to effectively discharge their duties. 2. Establish a target representation rate for the less-represented gender on the Board, laying down guidelines to achieve it. 3. Make appointment proposals to the Board of independent Directors to be co-opted or, if applicable, for submission to a decision by the shareholders at the General Meeting, and proposals for re-election and removal thereof by the General Meeting. 4. Report on proposals for appointment of other Directors to be co-opted or, if applicable, for submission to a decision by the shareholders at the General Meeting, and proposals for re-election and removal of those directors by the General Meeting. 5. Report the proposals for the appointment and removal of senior officers and the basic conditions of their contracts. 6. Examine and organise the succession of the Board Chairman and of the CEO of the Company and, where applicable, make recommendations to the Board to ensure a well-planned and orderly succession. 7. Make recommendations to the Board on remuneration policy for directors and general managers or other members of senior management reporting directly to the Board, for executive committees or the CEO, and for individual remuneration and other contractual conditions of Executive Directors and ensure compliance with this policy. The ARC meets whenever requested by at least 2 of its members or as resolved by its Chairman, who is responsible for calling meetings. The call notice shall be valid provided it is sent by any means that allows acknowledgement of its receipt. The ARC shall be considered validly constituted when a majority of its members are present in person or by proxy. Its resolutions shall be adopted by a majority of those present in person or by proxy, and the Chairman will have the casting vote in the event of a tie. Proxy shall be conferred in writing, expressly for each meeting, and only in favour of another member of the ARC. Members of the ARC will not take part in deliberating or voting the resolutions or decisions if they, or their related party, have a direct or indirect conflict of interest. Minutes are taken of the ACC meetings and are made available to all the Board members. In this regard, in 2018, the Committee carried out the following functions: i) Coordinated and submitted to the Board reports on the assessment of the Board of Directors, of the Committee and the performance of the Chairman of the Board, the CEO, the Independent Lead Director and the Secretary to the Board, supported by the advice from Spencer Stuart; ii) Ensured compliance with the remuneration policy established by the Company and, in particular, proposed to the Board of Directors the variable remuneration to be paid to the Chairman and the CEO; iii) Analysed the targets that condition the variable remuneration of the Management Committee for 2018; iv) Reported about the impact of the business digitalisation and the Company's culture; v) Analysed the qualifications of the members of the Board of Directors; vi) Reported in favour and proposed to the Board of Directors the approval of the Annual Report on Directors' Remuneration; vii) Proposed, depending on the performance of the parameters, the number of shares to be allocated to the beneficiaries within the framework of the LTIP adopted at the General Meeting of Shareholders on 21 January 2014; ix) Proposed to the Board of Directors the motion to set the number of Board members at 11 to be put to vote at the General Meeting; x) Presented the Board of Directors with a positive report on the appointments and re-election of the directors; xi) Proposed the re-election of the independent Directors; xii) Approve, to then be put to vote before the Board of Directors, a proposal of the succession plan for the Chairman of the Board of Directors and the CEO; and xiii) Reported to the Committee members about the performance of the Corporate Governance Unit.

**▼ Executive Committee**

| Name | Position | Category |
|---|---|---|
| MR CARLOS FERNÁNDEZ GONZÁLEZ | MEMBER | Proprietary |
| MR CARLOS FERNÁNDEZ-LERGA GARRALDA | MEMBER | Independent |
| MR PEDRO VIÑOLAS SERRA | MEMBER | Executive |
| MR JUAN JOSÉ BRUGERA CLAVERO | CHAIRMAN | Executive |
| MR JUAN CARLOS GARCÍA CAÑIZARES | MEMBER | Proprietary |
| MR ADNANE MOUSANNIF | MEMBER | Proprietary |

| | |
|---|---|
| **% of executive directors** | 33.33 |
| **% of proprietary directors** | 50.00 |
| **% of independent directors** | 16.67 |
| **% of other external directors** | 0.00 |

**Explain the functions conferred to this Committee and describe the procedures and rules of its organisation and operation. For each of these functions, indicate the more relevant actions during the fiscal year and how it effectively carried out each of the functions conferred to it by Law or Bylaws or other corporate agreements.**

The Executive Committee shall be made up of at least three and not more than eight members. The Chairman and Secretary to the Committee shall be the Chairman and Secretary to the Board of Directors. The Executive Committee may appoint from among its members a Vice President who shall act as Chairman in the event of absence. The Board of Directors shall appoint the members of the Executive Committee, ensuring that its membership structure reflects the various types of directors in a similar manner to that of the Board. To be valid, the appointment of directors who constitute the Executive Committee shall require a vote in favour by two thirds of the members of the Board and shall not be effective until it has been entered in the Commercial Registry. The members of the Executive Committee shall cease to be members when they cease to be directors or when the Board so resolves. The Executive Committee shall be called by its Chairman on his/her own initiative or when this has been requested by two of its members. The meeting must be convened by letter, telegram, e-mail or fax addressed to each of its members at least 48 hours in advance of the date of the meeting; however, it may be called with immediate effect for reasons of urgency. The meetings shall be held at the Company's registered office or at any location designated by the Chairman and indicated in the notice.

For an Executive Committee meeting to be validly constituted, the majority of its members must attend, either physically present or represented by proxy. The absolute majority of the members of the Committee shall adopt the resolutions. In the event of a conflict of interest, the directors concerned shall refrain from participating in the transaction to which the conflict refers. The votes of the directors who are affected by such conflict of interest and who must abstain shall be removed for the purposes of calculating the necessary majority of votes. In the event of a tie, the matter shall be submitted to the Board of Directors. Through its Chairman, the Executive Committee shall report to the Board on the business transacted and the resolutions adopted by the Committee. The Executive Committee did not meet in 2018.

### ▼ Audit and Control Committee

| Name | Position | Category |
|---|---|---|
| MR CARLOS FERNÁNDEZ-LERGA GARRALDA | MEMBER | Independent |
| MR JAVIER IGLESIAS DE USSEL ORDÍS | MEMBER | Independent |
| MR LUIS MALUQUER TREPAT | MEMBER | Independent |
| MS ANA SAINZ DE VICUÑA BEMBERG | CHAIRMAN | Independent |

| | |
|---|---|
| **% of executive directors** | 0.00 |
| **% of proprietary directors** | 0.00 |
| **% of independent directors** | 100.00 |
| **% of other external directors** | 0.00 |

**Explain the functions conferred to this Committee and describe the procedures and rules of its organisation and operation. For each of these functions, indicate the more relevant actions during the fiscal year and how it effectively carried out each of the functions conferred to it by Law or Bylaws or other corporate agreements.**

The ACC comprises a minimum of 3 and a maximum of 8 directors, all of which must be non-executive directors, appointed by the Board. The number of independent directors must be as determined by law at any given time, and at least one, considering their knowledge and experience in accounting and/or auditing. The ACC members shall have relevant technical knowledge in relation to the Company's sector of elected after 1 year has elapsed from the date on which his/her term of office expired; and a Secretary, who may be Secretary to the Board. The members shall be relieved of their duties once their directorships expire, or when the Board agrees so. The ACC shall have the following functions, among others: 1. Report to the General Meeting on any questions posed in relation to those matters for which the Committee is responsible, particularly the result of the audit. 2. Supervise the effectiveness of internal control, the internal audit and the risk management systems, and discuss with the auditor any significant weaknesses detected. 3. Supervise the drawing up and presenting of required financial information and submit recommendations and proposals to the Board to safeguard its integrity. 4. Propose to the Board the selection, election and replacement of the auditor, taking responsibility for the selection process, as well as the terms of its engagement, and regularly gather information from it regarding the audit plan and the implementation thereof, and preserve its independence. 5. Establish appropriate relationships with the auditor to receive information on any issues which may jeopardise its independence and issues relating to the audit process, and, as appropriate, the authorisation of non-prohibited services, among others. In any event it must, on an annual basis, receive from the auditor a statement of its independence with respect to the Company or entities directly or indirectly related thereto, as well as information on any type of additional services provided and the related fees received by the auditor or by persons or related entities. 6. Issue, on an annual basis and prior to the issuance of the annual audit report, a report expressing an opinion on whether the independence of the auditor or audit companies has been jeopardised, which must in all cases contain a reasoned evaluation of the provision of additional non-audit services in respect of the independence rules or audit standards. 7. Inform the Board of all matters established by law, the Bylaws and Board Regulations. 8. Prepare an annual report on its activities, which must be included in the directors' report. The ACC meets whenever requested to do so by at least 2 of its members, or at the behest of the Chairman, who is responsible for convening it in accordance with the Board regulations. The ACC is validly convened when the majority of its members are present or represented, adopting resolutions by majority of those present or represented. The member affected must refrain from participating in the deliberation and voting on resolutions in which the member or a person related thereto has a conflict of interest. In the event of a tie, the Chairman has the casting vote. Minutes are taken of ACC meetings and are made available to the Board. Among the activities performed by the ACC in 2018, it is worth mentioning the following: i) Act as a communications channel between the Board and the external auditor, assessing the outcome of each audit; ii) Issue before the accounts audit report a report with their opinion on the independence of the auditors; iii) Monitor the efficiency of the internal control, the internal audit and the risk management systems in the Company, including those relative to taxes, and discuss with the auditor the material weaknesses in the internal control identified during the audit; iv) Approve the reports on the risk control and management policy for its treasury shares before it is submitted to the Board of Directors; v) Monitor the strategy and practices regarding corporate social responsibility; vi) Monitor compliance with the internal code of conduct and the policy on corporate social responsibility; vii) Monitor the process of preparing and filing the required financial statements; viii) Report on the Annual Corporate Governance Report that is part of the annual financial statements, to be approved by the Board of Directors; x) Analyse and report on the Company's transactions with treasury shares to be approved by the Board of Directors; x) Report to the Board of Directors, through the Chairwoman, about the contents of the Committee meetings; xi) Update the Company's risk map and process map; xii) Monitor the implementation of measures agreed as part of the action plan and improvement plan for the Company's cybersecurity; xiii) Submit a positive report to the Board of Directors on the joint project entailing the merger of the Company and Axiare Patrimonio, Socimi, S.A; xiv) Submit a positive report to the Board of Directors on the purchase of all the shares in Société Foncière Lyonnaise from Qatar Holding LLC and DIC Holding LLC.

**Identify the directors who are members of the audit committee appointed with regard to his or her knowledge and experience in accounting, auditing or both, and indicate the date when the Chairman of the committee was appointed as such.**

| | |
|---|---|
| **Names of directors with experience** | MR CARLOS FERNÁNDEZ- LERGA GARRALDA / MR JAVIER IGLESIAS DE USSEL ORDÍS / MR LUIS MALUQUER TREPAT / MS ANA SAINZ DE VICUÑA BEMBERG |
| **Date the Chairman was appointed as such** | 27/07/2016 |

**C.2.2 Fill in the following table with the information on the number of female directors sitting on the committees of the Board of Directors at the end of the last four years:**

| | Number of female board members | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2016 | | 2015 | |
| | **Number** | **%** | **Number** | **%** | **Number** | **%** | **Number** | **%** |
| Appointments and Remuneration Committee | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Executive Committee | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Audit and Control Committee | 1 | 25.00 | 1 | 25.00 | 1 | 20.00 | 1 | 20.00 |

**C.2.3 Indicate, where applicable, the existence of regulations governing the Board committees, where they can be accessed, and any amendments thereto during the year. Also state whether any voluntary annual reports have been produced on the activities of each committee.**

Reports have been issued on the activities performed by the Audit and Control Committee and the Appointments and Remuneration Committee.

With regard to regulations governing the committees, besides the regulations established by the Regulations of the Board of Directors, on 22 February 2018, the Board of Directors adopted the regulations governing the Audit and Control Committee.

## D. RELATED-PARTY TRANSACTIONS AND INTRACOMPANY TRANSACTIONS

### D.1. Explain, where appropriate, the procedure and competent bodies for the approval of related-party transactions and intracompany transactions.

In accordance with the Regulations of the Board of Directors, express authorisation is required from the Board of Directors, which cannot be delegated, following a positive report from the ACC, in the following cases, among others: —From a director to provide Colonial's companies with professional services. The employment or any other type of relationship that executive Directors have with the Company is exempt for these purposes. — For a director, a significant shareholder or his/her representative on the Board, or a related party to sell or otherwise provide supplies, materials, goods or rights, in general, to Colonial or other companies in its Group in exchange for any type of economic compensation. — For the companies in the Group to provide supplies, materials, goods or rights, in general, to a director, a significant shareholder or his/her representative on the Board, or a related person that are outside the provider's normal business. — For the provision of work, services or sale of materials by Inmobiliaria Colonial Group companies to a director, significant shareholder or a shareholder represented on the Board, or a related person, and which, being part of their ordinary business, is not carried out at arm's length. — For any other legal business with Group companies in which the director or a related party has a direct or indirect interest. The aforementioned approval by the Board of Directors shall not be necessary when such transactions have the following three characteristics simultaneously: 1. They are carried out under contracts with standard terms and conditions and are applicable across-the-board to many customers; 2. They are carried out at market prices, generally set by the person supplying the goods or services; and 3. The amount of the operation does not exceed 1% of the Company's annual revenue.

### D.2.State any operations which are significant in terms of their value or relevant due to their contents, carried out between the company or companies in its group, and significant shareholders of the company:

| Name or company name of the significant shareholder | Name or company name of the company or company in its group | Nature of the relationship | Type of transaction | Amount (thousands of euros) |
|---|---|---|---|---|
| QATAR INVEST-MENT AUTHORITY | Inmobiliaria Colonial, SOCIMI, S.A. | Corporate | Financing agreements: capital contributions in cash or in kind | 718,000 |

### D.3. State any operations that are significant in terms of their value or relevant due to their contents, carried out between the company or companies in its group, and company directors or managers:

| Name or company name of the directors or executives | Name or company name of the related party | Link | Nature of transaction | Amount (thousands of euros) |
|---|---|---|---|---|
| No data | | | | N.A. |

### D.4. Indicate any significant operations carried out by the Company with other companies in the same group, provided that they are not eliminated when preparing the consolidated financial statements and are not part of the Company's usual business in terms of purpose and conditions.

**In any case, all intracompany operations with companies established in countries or jurisdictions considered as a safe haven must be reported:**

| Corporate name of the company in the group | Brief description of the transaction | Amount (thousands of euros) |
|---|---|---|
| No data | | N.A. |

**D.5. Detail any significant operations carried out between the company or group companies and with other related parties that have not been reported in the previous sections:**

| Company name of the related party | Brief description of the transaction | Amount (thousands of euros) |
|---|---|---|
| No data | | N.A. |

**D.6. State the methods established to detect, determine and resolve any conflicts of interest between the company and/or the group, directors, executives or significant shareholders.**

Under the Company Bylaws, directors shall refrain from taking part in discussions or voting on any resolutions or decisions in which the directors or related parties may have a direct or indirect conflict of interest. The votes of the directors who are affected by such conflict of interest and who must abstain shall be removed for the purposes of calculating the necessary majority of votes. Resolutions or decisions that affect directors in their capacity as directors, such as the appointment or revocation of positions in the governing body or others of a similar nature, are excluded from this obligation to abstain. The Regulations of the Board of Directors also stipulate that the duty of loyalty requires that directors refrain from taking part in discussions or voting on any resolutions or decisions in which the directors or any persons who are related parties may have a direct or indirect conflict of interest. Furthermore, Directors should take all necessary measures to avoid situations where their interests, on his/her own behalf or otherwise, may be in conflict with the corporate interests and with their duties to the Company. In particular, the Director should refrain from: a) entering transactions with the Company, unless these are ordinary operations under the standard conditions applied to customers and of scarce relevance, in other words, operations whose information is not required to produce a true image of the shareholder's equity, the financial statements or the Company's results; b) using the Company's name or invoking his/her appointment as Director to wrongfully influence private operations; c) making use of the corporate assets, including the Company's confidential information, for personal purposes; d) benefiting from the Company's business opportunities; e) gaining advantages or compensation from third parties other than the Company and its Group, on account of the performance of his/her role, save when these are given as mere gifts or business courtesies; f) carry out activities, on his/her own behalf or otherwise, that would be in actual competition, effective or potential, with the Company or that, in any other way, would be in constant conflict with the Company's interests. The foregoing shall also be applicable if the beneficiary of the actions or prohibited activities is a person related to the director. The persons stipulated in the Spanish Limited Liability Companies Law shall be considered related persons. In all cases, directors must notify the Board of Directors of any direct or indirect conflict that they or any related persons may have that could affect the Company. Any conflicts of interest in which the directors are involved shall be reported in the notes to the financial statements and in the Annual Corporate Governance Report. The authorisation must be approved by the General Meeting when its purpose is to waive the prohibition of obtaining an advantage or remuneration from third parties, or when it affects a transaction the value of which is greater than 10% of the Company's assets. In all other cases, this may be granted by the Board of Directors provided that the members granting it remain independent in connection with the director who has been excused. It is also necessary to ensure that the shareholders' equity remains unharmed by the authorised transaction or that, if appropriate, it is carried out at arms' length and transparently. The covenant not to compete with the Company may only be waived under circumstances that should not entail any damages to the Company or if there were damages, these would be offset by the benefits it would be entitled to. The General Meeting shall grant dispensation through an express and separate resolution.

**D.7. Is more than one Group company listed in Spain?**

No

## E. RISK MANAGEMENT AND CONTROL SYSTEMS

**E.1. Describe the Risk Management and Control System in place at the company, including tax risks:**

Risk management is a key aspect of Colonial's organisational culture and, for this reason, the Company has developed a Risk Management and Control System (hereinafter "RMCS"), which establishes certain bases to efficiently and effectively manage risk throughout the organisation, including tax risks.

In order to meet these corporate objectives, the risks to which Colonial is exposed are identified, analysed, assessed, managed, controlled and updated. In order to maintain an effective and updated RMCS, Colonial prepares a corporate risk map, which identifies the main risks affecting the Group, and evaluates them in terms of impact and likelihood of occurrence. This map is reviewed and updated every two years. Also, Colonial's RMCS establishes monitoring activities by the owners of risk by updating the records of the risks in order to verify the effectiveness of the risk management.

The Internal Audit function analyses the corporate risk map and proposes which processes, risks and controls should be reviewed each year in the Internal Audit Plan.

**E.2. Identify the bodies responsible for preparing and implementing the Risk Management and Control System, including tax risks:**

The Board of Directors is responsible for determining the Company's risk management and control policy, including tax risks, identifying its main risks, and implementing and supervising the internal reporting and control systems in order to ensure the future viability and competitiveness of the Company, adopting the decisions best suited to its implementation. The Audit and Control Committee (ACC) assists the Board of Directors in managing this policy. The ACC performs, inter alia, the following functions relating to risk control and management:

– Submitting a report on risk policy and management for approval by the Board.

– Conducting a regular review of risk control and management systems, in such a way that the main risks are identified, managed and notified properly.

– Overseeing the preparation, completeness and filing of regulated public information (financial and non-financial).

In addition, the Company has set up a Regulatory Compliance Division (RCD) and Internal Audit Unit to reinforce this objective. The RCD is responsible for ensuring compliance with any laws and regulations that may affect the Company and the internal audit function carries out the necessary supervision tasks set forth in the annual plans to assess the efficiency of the risk management and control procedures implemented to minimise risks.

The main responsibilities assigned in relation to the RMCS correspond to the Board of Directors, the Audit and Control Committee and the Internal Audit Unit. The RMCS also explicitly sets out the responsibilities of senior management, operational managers and owners of the risks in relation to risk management.

**E.3. Specify the main risks, including tax ones and, when significant, those derived from corruption (as described in the Spanish Royal Decree 18/2017) that may jeopardise the business targets:**

The main risks faced by Colonial in achieving its targets include:

– Corporate and sectoral risks arising from political and macroeconomic situations in the countries in which it operates, since the property sector is cyclical by nature, realisation of its activity through the acquisition of other companies or businesses and management of subsidiaries, management of reputation and the corporate image.

– Strategic risks arising from the specific nature of its activity, in relation to the increase in competition and complexity of investments, keeping ahead of new trends in the sector, the high concentration of office rental activities in the "Central Business Districts" of Barcelona, Madrid and Paris, anticipation of the real estate cycle in the event of a potential lower valuation of real estate assets.

– Operating risks arising from management of property assets, the high concentration of customers, damage to real estate assets, management of information systems, maintenance and repair of these systems, liability for action taken by contractors and subcontractors, management of licences for operation of real estate assets, and judicial and extrajudicial claims.

– Risks of a financial nature relating to restrictions in capital markets and in financial debt markets, levels of debt, the drop in credit ratings and interest rate fluctuations.

– Risks arising from compliance with all the regulations and contractual obligations applicable, including tax risks concerning loss of Colonial's REIT status and loss of its French subsidiary Société Foncière Lyonnaise's status as a listed property investment company ("SIIC"), limitations on the offsetting of negative taxable amounts.

**E.4. State whether the company has risk tolerance levels, including tax risks:**

Colonial has established an appetite and tolerance for each risk area. Appetite is understood as the risk level that the company is prepared to take on or reject depending on its targets and considering the expectations of its stakeholders and the risk tolerance as the determining factor of the risk level fluctuations seen as normal surrounding its risk appetite.

Risk management at Colonial has been structured into a corporate risk map, which is the tool that graphically represents the assessment of risks according to their impact, their effect on Colonial measured in economic terms and in terms of its operations, reputation and compliance, and the potential likelihood of the risk occurring over time.

In this regard, the Company assesses risk from two angles: inherent risk, which is understood to be that to which the Company is exposed in the absence of any mitigating action/controls; and residual risk, which is understood to be the risk remaining after the corresponding prevention and control measures have been taken.

**E.5. Identify any risks, including tax risks, which have occurred during the fiscal year:**

The risks that arose in 2018, the circumstances that caused them and the functioning of the control systems are as follows:

*Concentration of group activities in Spain and France*

Circumstances: Colonial focuses its business activity on the rental business of properties in Barcelona, Madrid and Paris, mainly in the “Central Business District” (CBD) areas of these cities, and is, therefore, exposed to changes in the political or economic situation in the countries in which it operates.

Control systems: Colonial consolidated and streamlined this strategy in 2018. Following a takeover bid process, it has acquired all of the shares of Axiare Patrimonio Socimi, S.A. and has carried out the merger of that company. It also strengthened the Group’s positioning in France through the acquisition of an additional 22.2% of its subsidiary Société Foncière Lyonnaise. In addition, in line with its strategy, the Group has acquired several assets in Barcelona and in Madrid and has sold several office buildings as they were considered aged non-strategic assets or were outside the CBD area, as well as a turnkey project. This strategy of focusing its activity mainly in CBD areas and its high-quality standards have positioned the Group as a benchmark in the sector.

*Increased competition in the real estate sector*

Circumstances: Heavy investment continued in 2018 in the real estate sector. This situation entails the continuation of a considerable amount of competition between companies in the sector, which could generate an increase in the price of property acquisitions, excess supply on the office rental market or a decrease in the level of rent obtained from such properties.

Control systems: Colonial diversifies its investments in Barcelona, Madrid and Paris, selecting high-quality properties located in Central Business District (“CBD”) areas. Colonial’s strategy is to have the best portfolio of offices for rent. In 2018, Colonial Group continued with this selective investment strategy strengthening the Group’s positioning in the three markets in which it operates.

*Impairment of real estate assets*

Circumstances: The holding and acquisition of real estate assets imply certain risks, including the possibility that returns on investment shall be lower than estimated or that estimates and valuations performed could prove to be inaccurate or wrong. Furthermore, the market value of the assets could drop or be negatively impacted in certain cases.

Control systems: To mitigate this risk factor, Colonial engages independent experts to appraise all its assets on a six-monthly basis. The Group also regularly reviews the future value creation potential of each of the properties in its portfolio. The Group allocates a significant portion of its resources to investing in and maintaining its real estate assets in order to enhance their value and position on the market and the income obtained from these assets. In this regard, the Group invested €161 million in 2018 in new projects and projects to renovate and improve its real estate assets.

*Financing of real estate assets. Financial structure and level of debt*

Circumstances: Companies operating in the property sector require a considerable amount of investment to guarantee their projects and business expansion through the acquisition of buildings and/or land.

Control systems: In 2018, the Group issued two new lots of bonds, one of 650 million euros by Colonial and another of 500 million euros by SFL, having repurchased bonds in both companies for 375 and 300 million euros respectively. In addition, both companies have also issued two short-term promissory note programmes for maximum amounts of 500 million and 300 million euros, respectively. Also, Colonial settled a bilateral debt that came from Axiare for a total 408 million euros. Standard & Poor's upgraded Colonial's credit rating to BBB+ long term and A-2 short term, with a stable forecast. As a result, the Group secured sufficient funding to carry out its growth and investment strategy while diversifying and increasing the average maturity of its debt and continuing to optimise its financial costs. At 31 December 2018, the Group's net financial debt amounted to €4,680 million, with an LtV ratio of 39%.

*Getting ahead of new trends*

Circumstances: The property sector, like other sectors, calls for constant adaptation to emerging trends. Increasing development of digitalisation in all sectors, the new technology applied in the property sector and the increase in co-working spaces entail constant changes that may specifically affect the real estate sector.

Control systems: Colonial allocates resources and carries out specific activities in order to analyse and, where appropriate, implement these trends in the activities carried out by the Group. In 2018, Colonial continued its goal of fostering initiatives and strategies in "Proptech" (Property Technologies), a segment that studies the impact made by technology and digitalisation on the development of services and new business models in the real-estate sector. It has also boosted its growth strategy on its co-working platform (Utopicus) with the opening of 3 new centres, thus having a total of 6 centres (1 in Barcelona and 5 in Madrid). This strategy will be reinforced in 2019 with the opening of new centres in both locations, offering great flexibility of spaces, services and content in all its centres.

**E.6. Explain any response and supervision plans in place for the company's main risks, including tax risks, as well the procedures followed by the company to ensure that the Board of Directors can respond to coming challenges:**

Risks are classified into four levels according to their impact and probability, ranging from the most to the least serious, and are then placed in one of the following categories according to the Company's response to each:

– Avoid: This entails abandoning activities that generate risks where no response has been identified that could reduce their impact and/or likelihood to an acceptable level.

– Reduce: This entails taking action to reduce the likelihood and/or impact of the risk, thereby reducing residual risk so that it is in line with the Company's risk tolerance.

– Share: The likelihood or impact of a risk is reduced by transferring or sharing part of the risk to reduce residual risk so that it is in line with the Company's risk tolerance.

– Accept: No action is taken which may affect the likelihood or impact of the risk as residual risk is already within the Company's risk tolerance.

The owners of each risk are responsible for preparing the records of risks in order to report the treatment established to mitigate and/or maintain the level of risk at the tolerance threshold accepted by the Company. Risk records state: (i) the objective pursued by the action plan, (ii) description of the course of action, (iii) the owner of the risk, (iv) the cutoff date for taking action, (v) details of the action to be taken with those responsible for implementation and start and finish dates.

Internal audit supervises the response plans that are the responsibility of the risk owners.

## F. INTERNAL RISK MANAGEMENT AND CONTROL SYSTEMS IN RELATION TO INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

**Describe the mechanisms that comprise the risk control and management systems in relation to internal control over financial reporting (ICFR) at your company.**

**F.1. The company's control environment.**

**Provide information, stating the main features, on at least the following:**

**F.1.1 Which bodies and/or functions are responsible for (i) the existence and maintenance of a proper ICFR system; (ii) its implementation; and (iii) its supervision.**

The Board of Directors, as stipulated in the Regulations, is ultimately responsible for the existence and updating of a suitable and effective ICFR system.

Specifically, Article 5 of the Board Regulations ("General Functions and Competences") stipulates, inter alia, the following functions:

1. Determine the Company's general policies and strategies, approve the investment and financing policy, the strategic or business plan, the annual management targets and annual budgets, and the treasury share policy, determine the corporate governance policy of the Company and the Group and the dividend policy, and approve the corporate social responsibility policy. The Board of Directors also determines the Company's risk management and control policy, including tax risks, identifying its main risks, and implementing and supervising the internal reporting and control systems in order to ensure the future viability and competitiveness of the Company, adopting the decisions best suited to its ideal development.

   To this end, Colonial has published an Internal Risk Management and Control Manual for its ICFR system, approved by the ACC, detailing the methodology for establishing the materiality of risks, as well as methodologies for documenting, classifying and assessing risks and associated control activities.

2. Approval of the financial information that all listed companies must periodically disclose.

   To this end, Colonial has published a Manual for Disclosure of Regulated Information that covers the aspects mentioned in this section and has been approved by the ACC.

3. Monitor the effective functioning of the Committees created by the Board and the performance of the delegated bodies and executives designated by the Board.

4. Approve and amend the Regulations of the Board of Directors.

The ICFR Organisation and Supervision Model, approved by the ACC, establishes the mechanism that the Board of Directors, and by delegation, the ACC, deems appropriate and sufficient to guarantee the completeness, reliability, correct presentation and validity of Colonial's financial information.

Without prejudice to the other functions attributed by law, Article 32 of the Regulations of the Board of Directors states that at least the following functions must be performed by the ACC. In particular, the ACC is tasked with the following functions, among others, regarding the ICFR organisational model:

1. Submit to the Board for approval a report on the risk control and management policy, which identifies at least: (i) types of financial and non-financial risks faced by the Company, including financial and economic risks, contingent liabilities and other off-balance sheet risks; (ii) the level of risk that the Company considers acceptable; (iii) the measures planned to mitigate the impact of identified risks, should they materialise; (iv) and the information and internal control systems to be used to control and manage these risks, including contingent liabilities and off-balance sheet risks.

2. Oversee the preparation and filing of required financial information.

3. In relation to the information and internal control systems: (i) supervise the preparation process and the integrity of financial information on the Company and, where applicable, on the Group; review compliance with the regulatory requirements, the proper delimitation of its scope of consolidation and the correct application of accounting principles; (ii) ensure the independence and effectiveness of the internal audit processes, propose the election, appointment, re-elect and remove the head of the internal audit unit in addition to proposing the budget for this unit, approve both orientation and its operating plans, ensure that the activity is focused mainly on the risks that are relevant to the Company, receive regular information on activities and verify that senior management takes account of the conclusions and recommendations of reports; and (iii) establish and supervise a method that allows employees to make confidential and, if possible and appropriate, anonymous, declarations on any irregularities, especially financial and accounting irregularities, that may potentially be important to the company.

4. It also receives regular information from the auditor on the audit plan and its execution.

5. Inform the Board of Directors of all matters established by law, the Company Bylaws and Board regulations beforehand, in particular regarding:

   a) The financial information that the Company must make public on a periodic basis.

Minutes shall be taken of all Committee meetings and made available to all board members.

Lastly, the Internal Audit function is responsible for drawing up the annual Internal Audit Plan and submitting it to the ACC. Such plan includes all evidence required to prove compliance with the manuals, procedures and policies related to the ICFR. The internal auditor shall carry out these internal audit tests and report on the conclusions to the ACC, including any internal control weaknesses identified, recommendations for improvement and the general conclusions of the annual audit plan that specifically includes, among others, those related to the ICFR system.

**F.1.2 Whether the following exist, especially in connection with the financial reporting process:**

**• Departments and/or mechanisms tasked with: (i) devising and reviewing the organisational structure; (ii) clearly defining the boundaries of responsibility and authority, with proper distribution of tasks and functions; and (iii) ensuring that sufficient procedures are in place to spread awareness of this across the company:**

The responsibility for developing Colonial's ICFR organisational model lies with the Internal Audit Department and the Financial Department, as they are the two departments most involved in drawing up and subsequently supervising the financial information to be reported.

Nevertheless, all Departments involved to a lesser or greater degree in preparing the financial information must also take responsibility for correctly carrying out the tasks, processes and controls in which they are involved.

The organisational model of Colonial's ICFR system is structured as follows:

a) Establishment of a general environment of appropriate control, setting out the main guidelines of operation of the ICFR and senior-level roles and responsibilities.

b) Identification of major risk events, which, if they occur, may materially affect financial information.

c) For risks identified in the relevant processes, specific mitigating controls are implemented to reduce these risks to acceptable levels. The operational Departments concerned are responsible for adequately implementing these procedures.

d) The Financial Department is responsible for maintaining documentation on and keeping Colonial's accounting policies and manuals up to date and maintaining an environment of general controls of the IT systems.

e) Lastly, the Internal Audit function and the ACC are responsible for overseeing ICFR in order to ensure its operational efficiency.

**• Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record-keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action:**

The Company's Board of Directors approved Colonial's Code of Ethics on 28 September 2011. This Code of Ethics reiterates Colonial's commitment to the principles of corporate ethics and transparency, and establishes a series of basic principles to which all Colonial personnel, partners and suppliers must adhere at all times, as their behaviour may affect Colonial's reputation.

Specifically, and with regard to financial information, Article 6.5 of the Code establishes the following:

"Colonial undertakes as a guiding principle for its corporate behaviour with shareholders, investors, analysts and the market in general, to disclose true and complete information which expresses a true and fair view of the Company and the Group, its corporate activities and its business strategies.

This information shall always be disclosed in accordance with regulations and within the timeframes established by prevailing legislation. Corporate action and the strategic decisions of Colonial are focused on creating value for its shareholders, transparency in its management, the adoption of best corporate governance practices at its companies and the strict compliance with prevailing regulations in this matter."

Colonial's Regulatory Compliance Unit, which reports to the ACC, is responsible for disseminating the Code of Ethics both internally and externally.

The Code has been distributed to all employees.

The Regulatory Compliance Unit is responsible for compiling any irregularities or breaches of the Code, and informing the Human Resources department to take the necessary disciplinary action based on the fines and sanctions detailed in the collective bargaining agreement or employment legislation applicable.

The ACC is responsible for assessing the degree of compliance with the Code and preparing an annual report based on its findings.

The Board of Directors is responsible for reviewing and updating the Code of Ethics based on the report drawn up by the ACC.

**• Whistleblowing channel to report any financial and accounting irregularities to the audit committee, in addition to any breaches of the code of conduct and irregular activities within the organisation, reporting whether this is confidential, as the case may be:**

Under Article 32 of Colonial's Board Regulations, the ACC is responsible, *inter alia*, for:

"In relation to information systems and internal control: ... (iv) for establishing and supervising a method that allows employees to make confidential and, if possible and appropriate, anonymous statements on any irregularities, especially financial and accounting irregularities, that may potentially be important to the company."

As noted in the preceding point, the Regulatory Compliance Division, which reports to the ACC, is responsible for managing any irregularities or breaches of the regulations, and specifically, of Colonial's Code of Ethics.

To this end, Colonial has set up a whistleblowing channel on its intranet where employees can report any irregularities and breaches identified at the Company.

This channel is managed by the Regulatory Compliance Unit and is regularly reviewed to guarantee its confidentiality and compliance with the regulations applicable.

**• Training programmes and regular refresher courses for personnel involved in the preparation and review of financial information and the assessment of ICFR, covering at least accounting standards, auditing, internal control and risk management:**

Colonial has a Training Plan covering all business areas according to the specific needs of each. However, the functional business areas themselves, under the coordination and supervision of the Human Resources department, are responsible for devising and proposing specific training plans for their areas.

For staff involved in preparing and reviewing financial information, training is structured around attending events concerning regulatory updates of financial, accounting and tax regulations, as well as receiving, distributing and analysing documentation from external advisors regarding regulatory developments.

In addition, the Regulatory Compliance Division, together with the functional areas, is responsible for identifying and distributing regulatory developments that affect Colonial, so that these can be analysed and implemented.

In the event of any regulatory changes of special relevance to Colonial's financial, accounting or tax departments, the Financial Department proposes the need for specific training.

Also, personnel from the Internal Audit Department attended thematic courses and forums outside the Company related to the assessment of certain internal control and risk management aspects.

**F.2. Assessment of risks in relation to financial information.**

**Report, at least, on:**

**F.2.1 The main characteristics of the process for identification of risks, including the risk of error or fraud, as follows:**

**• Whether the process exists and is documented:**

Colonial has a Risk Management and Control System (RMCS), as indicated in section E.1 of this report.

The ACC is in charge of monitoring and controlling risks as delegated by the Company's Board of Directors. To this end, the managers of the various operating units cooperate in identifying and correcting risks by applying the RMCS, as indicated in sections F.1.1 and F.1.2 of this report.

Colonial's ICFR Organisational and Monitoring Model, as well as its ICFR Internal Control and Risk Management Manual, which aim to ensure the preparation and issue of reliable financial information, are aligned with and form part of Colonial's general risk policy, the RMCS, which have been approved by the ACC.

**• Whether the process covers all financial reporting objectives (existence and occurrence, completeness, measurement, presentation, disclosure and comparability, and rights and obligations), whether it is updated and how often:**

The ICFR Internal Control and Risk Management Manual provides for the following seven types of risk:

1. Integrity: Transactions, events, assets, liabilities or equity interests that are "not" identified and, consequently, are "not" included in the Company's accounting records. Data entries "not" captured in the ledgers or rejected data entries. Disclosures "not" identified and, consequently, "not" included in the notes to the financial statements or deliberately omitted.

2. Existence: Transactions "not" authorised that are entered into the company's accounting software. Duplicated transactions. Erroneous adjustments in ledgers.

3. Disclosures and comparability: Disclosures "not" identified and, consequently, "not" included in the notes to the financial statements or deliberately omitted. Transactions that have not been recorded consistently over time.

4. Rights and obligations: Incorrect determination of the ability to control the rights arising from an asset or a contract/agreement. Correct determination of the obligations arising from a liability or a contract/agreement.

5. Measurement: Incorrect determination of the value of an asset, liability, income or expense, and which could generate the recording of adjustments in the determination of market values, amortised values, value in use or due to a depreciation error, as well as adjustments made and not properly justified.

6. Presentation: Incorrect presentation of financial transactions in the financial statements (assets vs liabilities, income vs expense, current vs non-current etc.).

7. Operating cuts: Incorrect registration of transactions during the relevant reporting period.

Colonial's ICFR Internal Control and Risk Management Manual is revised and periodically updated by Internal Audit and the Legal Advisory and Operations-Finance Departments, at the proposal of any of these, also taking into account the suggestions and proposals of Internal Audit arising from its reviews. Any revisions or updates entailing the amendment of the Manual should be approved by the ACC once the Internal Audit and the Financial Department have seen and reviewed them.

**• The existence of a process to identify the scope of the consolidated group, considering aspects such as the possibility of complex corporate structures or special-purpose vehicles:**

Colonial's Board Regulations and, specifically the section regarding the responsibilities of the ACC, stipulate that the responsibilities of the Committee include, among others:

"In relation to information systems and internal control: (i) supervise the preparation process and completeness of financial information on the Company and, where applicable, the Group, reviewing compliance with regulatory requirements, the composition of the consolidated group and the correct application of accounting criteria ..."

In this regard, Colonial has a consolidation process that stipulates, as a basic procedure, the determination of the Group's scope of consolidation at the end of every reporting period.

This procedure is implemented by the Accounting, Consolidation and Tax Department, which reports to the Financial Department and the ACC is informed when the scope of consolidation varies.

**• Whether the process takes account of other types of risks (operational, technology, financial, legal, tax, reputational, environmental risk etc.), which may affect the financial statements:**

As described in the first item of section F.2.1, the basic function of the ACC, as delegated by the Company's Board of Directors, is to monitor and control risks supported by the work done by the executives of each operating unit, which help identify and correct them.

Colonial's ICFR Organisation and Supervision Model, as well as its Internal Control and Risk Management Manual, are aligned with and form part of Colonial's general risk policy (see section E of this report), and have been approved by the CAC. In the process of identifying risks involving financial information within the ICFR system, all the areas of risk identified in Colonial's risk map have been considered.

**• Which of the entity's governing bodies supervises the process:**

Colonial's Board Regulations and, specifically the section regarding the responsibilities of the ACC, stipulate that the responsibilities of the Committee include, among others:

"In relation to information systems and internal control: ... (ii) conduct a periodic review of the internal control and risk management systems in such a way that the main risks are identified, managed and notified properly."

In this regard, the ACC is responsible for approving Colonial's ICFR Internal Control and Risk Management Manual.

As indicated in section F.1.1 and F.1.2 of this report, the Internal Audit function is responsible for monitoring the ICFR system in order to ensure operational effectiveness. The internal auditor shall carry out these internal audit tests and report on the conclusions to the ACC, including any internal control weaknesses identified, recommendations for improvement and the general conclusions of the annual audit plan which specifically includes, among others, those related to the ICFR system.

**F.3. Control activities.**

**Provide information, indicating salient features, if available, on at least the following:**

**F.3.1 Procedures to review and authorise financial information and the ICFR system description to be published on the securities markets, stating those responsible, as well as documentation describing the flow of activities and controls (including those relating to fraud risk) for the different kinds of transactions that may have a material impact on the financial statements, including the procedure for the accounting closure and the specific review of relevant judgements, estimates, valuations and forecasts.**

In relation to procedures for reviewing and authorising the financial information and description of ICFR to be disclosed in the securities markets, as mentioned above, the ACC is responsible for supervising the preparation and disclosure of reliable financial information to the market. In this regard, the Committee has approved a manual for disclosure of statutory information that regulates the procedure for preparing and approving this information.

Colonial's ICFR Internal Control and Risk Management Manual establishes the criteria for identifying the relevant public financial information as follows:

a) Periodic Public Information (PPI) obligations of issuers:

1. Quarterly Financial Report.
2. Half-yearly Financial Report.
3. Annual Financial Report and Annual Corporate Governance Report (ACGR).

b) Annual Report on Directors' Remuneration (IAR).

c) Registration document.

d) Regulatory Announcements.

There is a specific procedure to prepare and review each set of regulated financial statements to be published in the market. This includes an Corporate Department, through the Legal Advisory Department and, depending on the type of information, ending with the CEO, Board of Directors or the General Meeting of Shareholders itself.

Monitoring of the Manual for Disclosure of Statutory Information as well as the completion of the specific internal control questionnaires are mandatory and subject to review by Colonial's internal auditor.

In terms of the documentation describing activity flows and controls (including those relating to the risk of fraud) of the various types of transaction that may materially affect the financial statements, Colonial has an ICFR Organisational and Monitoring Model approved by the ACC that structures the specific mechanisms that have been provided to keep an internal control that fosters full, reliable and relevant financial information and considers the likelihood of irregularities and the ways to detect and repair them.

The Organisational Model of Colonial's ICFR system is based on two distinct areas:

a) The general control environment, where the main guidelines of operation of the ICFR and high-level roles and responsibilities are developed.

b) The specific controls on ICFR that develops operating procedures related to preparing the financial information.

In addition, Colonial has an ICFR Internal Control and Risk Management Manual that sets out the specific controls established with regard to the risks relating to financial information and formal documentation, whereas the Organisational Model contains high-level methods and controls.

Colonial has determined what errors or inaccuracies in the financial statements and other public information could severely affect its reputation, image and share price and these are, therefore, included in the ICFR system for monitoring and supervision.

Once the relevant financial information has been determined, the next step is to identify the cycles and business processes that may have a material impact on the information in terms of their preparation and their issue. Once the processes have been identified, the relevant functional areas and internal audit will then identify the implicit risks of the processes and the corresponding controls. These processes, risks and controls are formally documented so they can be correctly carried out and monitored.

The Company ensures that the identified risks are consistent with the corporate risk model.

The scope of the processes selected ensures that, by complying therewith, complete and reliable financial information is obtained.

The Financial Department and Internal Audit are jointly responsible for identifying the ICFR processes, risks and relevant controls, which are then approved by the ACC. In this process, the Company has specifically considered the potential risk of fraud and has control activities in place to prevent this risk.

The key processes identified at Colonial relating to the ICFR system are:

a) Closing of accounts, including the process of judgements, estimates, measurements and projections.

b) Consolidation and reporting of subsidiaries.

c) Revenue recognition.

d) Asset valuation (determination of the fair value of investment property).

e) Cash, debt and derivatives.

f) Manual for Disclosure of Statutory Information.

g) Procedure for maintaining the Group's accounting policies and the Accounting Policies Manual.

h) Taxes.

i) Reporting systems, including capture and preparation mechanisms for supporting financial information to be issued.

j) Investments and asset acquisitions.

k) Purchases of goods and services.

l) Human resources.

All key processes are documented and are updated annually to include any potential changes. The key processes at Colonial that have a significant influence on the preparation of financial information are documented through the following:

a) Flow charts of the activities of the processes.

b) Descriptions of the processes, risks and controls in place.

c) Risk and control matrices.

The ICFR Internal Control and Risk Management Manual is an internal regulation that is mandatory. It is, therefore, essential that all functions/departments involved monitor all the procedures established and the controls in place to ensure the reliability of Colonial's financial ranking employee in each of the departments involved in the procedures documented in the internal control model is responsible for ensuring that the processes and controls are correctly applied and documented for each accounting period.

In this regard, Colonial has software to monitor the responses to the controls defined in each accounting period for the key processes. Internal audit monitors and supervises compliance with these controls.

Operations with a material weight of judgements, estimates, valuations and forecasts are subject to special monitoring as is the case with the valuation of real-estate assets, impairment tests and performance tests on derivative financial instruments.

**F.3.2 Internal control policies and procedures for IT systems (including access security, control of changes, system operation, continuity and separation of duties) giving support to key Company processes involved in the preparation and publication of financial information.**

The Systems function is in charge of Colonial's corporate computer systems. This department reports to the Financial Department, which, Corporate Department.

At present, the operation and maintenance of Colonial's corporate IT systems supporting financial reporting are outsourced, which means that Colonial's head of Systems manages the key aspects related to physical security, continuity and operation of the systems with the external supplier.

Furthermore, the head of IT systems at Colonial is responsible for establishing the IT internal control model regarding secure access, segregation of duties (in coordination with the operating business and support areas) and control of changes, as well as carrying out risk monitoring and control activities arising from the outsourcing of the IT systems.

All Spanish Colonial Group companies operate under one transactional system, SAP. The information systems of the French Group SFL are not fully integrated with Colonial, and, therefore, information is exchanged by exporting data as files.

Colonial's IT internal control model includes, among others, the following key processes:

a) Physical security of equipment and data processing centres (in coordination with the external provider).

b) Logical security of the applications (in coordination with the external supplier).

c) Follow-up of the Service Level Agreement (SLAs) and the Service Level Objectives (SLOs) with external suppliers.

d) Project management, rollouts, developments and upgrades of current systems.

e) Management of operations.

f) Management of infrastructure and communications.

g) Management of back-up and recovery systems (in coordination with the external supplier).

h) Management of users, profiles and accesses.

i) Management of the audits of the IT systems.

**F.3.3 Internal control policies and procedures designed to supervise the management of third-party subcontracted activities, in addition to any evaluation, calculation or appraisal tasks entrusted to independent experts that may have a material impact on the financial statements.**

As described in section F.3.1, Colonial has identified the key processes that may materially affect its financial information. Among the criteria party involvement and also, those that are fully outsourced.

In this regard, the relevant processes with substantial third-party involvement are as follows:

a) Valuation of real estate assets: determination of fair value.

b) Financial hedging instruments: effectiveness tests and securing the fair value.

c) IT systems: maintenance and operation.

All processes with substantial third-party involvement have been documented, identifying the risks and controls implemented. The functional areas involved in the various processes are responsible for monitoring them and for implementing the appropriate controls.

The internal audit's annual plan includes the monitoring activities needed to ensure the processes described are correctly executed.

**F.4. Information and reporting.**

**Provide information, indicating salient features, if available, on at least the following:**

**F.4.1 A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and resolving queries or settling disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the Company's operating units.**

Colonial's ICFR Organisational and Monitoring Model, which has been approved by the ACC, stipulates that the Financial Department is responsible for maintaining documentary records of Colonial's accounting policies and keeping the Group accounting policies manual up to date, which entails resolving queries or settling disputes over their application.

Colonial has a Group Accounting Policies Manual, which has been approved by the ACC, and which must be adhered to by all Group companies. The Financial Department is responsible for preparing and maintaining this manual.

**F.4.2 Mechanisms to capture and prepare the financial information with consistent formats, to be implemented and used by all units in the Company or group, which support the main financial statements and the notes, in addition to any information provided on the ICFR.**

Colonial has implemented a computer tool to facilitate the financial consolidation and financial and operating budget planning of the Group so as to ensure greater control and security in gathering information and preparing the financial information. The Group Accounting Policies Manual establishes a chart of accounts and templates of financial statements that all Group companies must follow and which are set up in the tool, thereby guaranteeing the uniformity of the financial information.

The preparation of statutory financial information, as well as the separate financial statements for Colonial's Spanish companies, is coordinated centrally by the Financial Department and the Corporate Development and Management Control Department, thereby guaranteeing uniformity.

A significant portion of the details required to prepare this financial information is obtained directly from the IT tool, since it has been customised to do so. For those cases where certain information must be prepared without this tool, Colonial has control mechanisms in place to ensure its completeness and reliability, as well as a physical archive of the information in an internal repository with access limited to the staff involved in preparing the financial information.

Also, Colonial uses a GRC (Governance, Risk and Compliance) IT tool to monitor the information specific to ICFR management relating to compliance with the controls established for key procedures defined by the Company for the ICFR systems. Internal audit monitors and supervises the operation of this tool.

**F.5. Supervision of system operation.**

**Provide information, stating the main features, on at least:**

**F.5.1 ICFR supervisory activities conducted by the Audit Committee and whether the entity has an internal audit department whose competences include supporting the committee in its oversight of the internal control system, including ICFR. State also the scope of the ICFR assessment during the year and the procedure used by the person in charge to report the results, whether the Company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.**

The main activities carried out by the ACC in relation to the ICFR system in 2018 consisted of approving the Internal Audit Plan for 2018, which includes monitoring ICFR and being apprised of the related degree of implementation, compliance and effectiveness.

The ACC also met with the Company's external auditors to assess the internal control weaknesses encountered during the course of their work, as well as the relevant aspects or incidents.

Lastly, the ACC has performed the following main activities relating to financial information:

1. Review of the public financial information disclosed to the markets.

2. Analysis of the consistency of the accounting policies used, as well as an analysis of the observations and recommendations received from the external auditors.

3. Review of the management report.

4. Review of the information contained in the half-yearly financial statements and annual accounts concerning related-party transactions.

5. Monitoring the effectiveness of the processes, risks and relevant controls relating to ICFR.

Regarding the internal audit function, Colonial's Regulations of the Board of Directors, and, specifically the section regarding the responsibilities of the ACC, stipulate that the responsibilities of the Committee include, among others:

"The Audit and Control Committee, with respect to the information and internal control systems, will:

(iii) monitor the independence and effectiveness of the internal audit function, proposing the selection, appointment, re-election and removal of the head of internal audit; propose the department's budget, receiving regular report-backs on its activities and verifying that senior management are acting on the findings and recommendations of its reports".

In July 2009, the ACC approved Colonial's internal audit regulations. The main responsibilities of this function include periodically verifying the degree of application of the approved policies and procedures that comprise the internal control system, offering suggestions for improvement.

The ACC has already approved the Internal Audit Plan for 2019, including the necessary action necessary to guarantee monitoring and evaluation of internal control procedures, specific work to verify the operational effectiveness of Colonial's ICFR, with regular reporting on incidents detected and courses of action required for improvements, in addition to their potential impact on financial disclosures, when they have been contrasted with the areas audited.

**F.5.2 Whether the company has a discussion procedure whereby the accounts auditor (in accordance with what is set forth in the NTAs), the internal audit staff and other experts are able to inform senior management and the audit committee or company directors of any significant weaknesses in internal control identified during the processes of review of annual financial statements or any others entrusted to them. State also whether the entity has an action plan to correct or mitigate the weaknesses found.**

Article 8 of Colonial's Board Regulations provides as follows:

"Dealings of the Board of Directors with the external auditor will be through the Audit and Control Committee."

In this regard, Article 32 of the Board Regulations governs the functioning of the ACC and, inter alia, establishes the following functions:

1. Serve as a channel of communication between the Board of Directors and the Company's external auditor, assessing the results of each audit, and in this connection also with the function of regularly collecting information from the auditor on the audit plan and how it is to be carried out.

2. Establish the necessary relations with the external auditor in order to receive information on any matters that might jeopardise the auditors' independence, for examination by the Committee, any other matters related to the financial audit process and, when appropriate, to authorise non-prohibited services on the terms provided in current legislation relating to independence and to communicate with the auditors as provided for in the finan-cial audit legislation and auditing standards.

3. Supervise the effectiveness of the Company's internal control, the internal audit and the risk management systems, and discuss with the auditor any significant weaknesses detected in the internal control system during the conduct of the audit.

All these monitoring activities of the Board of Directors and the ACC are conducted throughout the year and included in the agenda of the various sessions based on the schedule established for each year.

**F.6. Other significant information.**

No additional issues to be disclosed have been identified.

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

**Report by:**

**F.7.1 If the ICFR information supplied to the market has been reviewed by the external auditor, the corresponding report should be attached. If this is not the case, it should explain why.**

The ACC and internal audit department perform the ICFR monitoring activities, which complement the contributions of the external auditor regarding the identification, as appropriate, of the internal control weaknesses identified in the course of their external audit.

These monitoring activities are considered to be appropriate and sufficient and, therefore, it is not considered necessary to submit the ICFR information to additional external review.

## G. EXTENT TO WHICH THE CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED

Please indicate the extent to which the company has followed the recommendations of the Code of Good Governance of Listed Companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

**1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by acquiring shares on the market.**

**Compliant**

**2. When a dominant and a subsidiary company are listed on the stock market, the two should provide detailed disclosures on:**

a) Their respective areas of activity and possible business relations between them, as well as those of the subsidiary listed company with other companies belonging to the same group.

b) The mechanisms in place to resolve any conflicts of interest that may arise.

**Compliant**

**3. During the ordinary general meeting, the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report, and in particular:**

a) Of the changes that have occurred since the last ordinary general meeting.

b) Of the specific reasons why the company is not following certain recommendations of the Code of Corporate Governance and, if any, the alternative rules applied to this matter.

**Compliant**

**4. The company will define and promote a policy of communication and contact with shareholders, institutional investors and proxy advisors, respecting the rules on market abuse and treating shareholders who are in the same position equally.**

And the company should make this policy public via its website, including information on the way it has been put into practice and identifying the interlocutors or persons responsible for carrying this out.

**Compliant**

**5. That the Board of Directors does not submit to the general meeting a proposal of delegation of powers to issue shares or convertible securities excluding the right to preferential purchase, for an amount above 20% of the share capital at the time of delegation.**

And that when the Board of Directors approves any issue of shares or convertible securities excluding the right to preferential purchase, the Company should immediately publish on its website the reports on this exclusion as laid down in the companies' laws.

**Compliant**

**6. The listed companies which produce the reports listed below, either in mandatory or voluntary form, publish them on their website with sufficient notice before the ordinary general meeting is held, although their dissemination is not mandatory:**

a) Report on the external auditor's independence.

b) Reports of proceedings of the audit committees and the appointments and remuneration committee.

c) Audit committee report on related-party transactions.

d) Report on the corporate social responsibility policy.

**Compliant**

**7. The Company broadcasts live, via its website, the holding of general meetings of shareholders.**

**Compliant**

**8. The Audit Committee ensures that the Board of Directors should seek to present the accounts to the General Meeting of Shareholders without limitations or qualifications in the audit report and, in exceptional cases where there are qualifications, both the chairman of the Audit Committee and the auditors should clearly explain to shareholders the contents and scope of such limitations or qualifications.**

**Compliant**

**9. The Company should make public on its website, permanently, the requirements and procedures it will accept to prove ownership of shares, the right to attend the general meeting of shareholders and the exercise or delegation of voting rights.**

And such requirements and procedures facilitate the shareholders' attendance and the exercise of their rights and are applied in a non-discriminatory manner.

**Compliant**

**10. Where any legitimate shareholder has exercised, prior to the holding of the general meeting of shareholders, the right to complete the agenda or to submit new resolution proposals, the Company:**

a) Immediately disseminates such additional items and new resolution proposals.

b) Makes public the attendance card model or form of proxy or remote voting with the changes required so that the new items on the agenda and alternative resolution proposals can be voted on, in the terms proposed by the board of directors.

c) Submits all these items or alternative proposals to vote and the same voting rules are applied to them as those made by the board of directors, including, in particular, presumptions or inferences about the direction of the vote.

d) Announces, after the general meeting of shareholders, the breakdown of the vote on such additional points or alternative proposals.

**Compliant**

**11. In the event that the Company plans to pay premiums to attend the general meeting of shareholders, it will previously establish a general policy on such premiums and this policy is stable.**

**Not applicable**

**12. The Board of Directors will perform its duties with unity of purpose and independent judgement, and it will treat all shareholders who are in the same position equally and guide itself by the Company's interests which are understood as achieving a profitable and sustainable long-term business, to promote the Company's continuity and maximise its economic value.**

In pursuing the Company's interests, in addition to complying with laws and regulations and acting in good faith, ethically and respecting the commonly accepted uses and good practices, the Board of Directors will endeavour to reconcile the Company's interests with, where applicable, the legitimate interests of its employees, its suppliers, its customers and those of other stakeholders that may be affected, as well as the impact of the Company's activities on the community as a whole and in the environment.

**Compliant**

**13. The board of directors has enough members in order to implement efficient and participative proceedings, which makes it advisable that the board should have between five and fifteen members.**

**Compliant**

**14. The Board of Directors approves a policy of selection of directors that:**

a) Is specific and verifiable.

b) Ensures that proposals for appointment or reappointment are based on a preliminary analysis of the needs of the board of directors.

c) Promotes the diversity of knowledge, experience and gender.

The result of the previous analysis of the needs of the board of directors is collected in the committee's report justifying the appointments to be published when the general meeting of shareholders is called, in which the ratification, appointment or re-election of each director is submitted.

And the selection policy promotes the goal that by 2020 the number of female directors will represent no less than 30% of the total members of the Board of Directors.

The appointments committee will annually verify compliance with the policy of selection of directors and inform thereof in the annual corporate governance report.

**Compliant**

**15. The proprietary directors and independent directors constitute a significant majority of the Board of Directors and the number of executive directors is kept to the minimum necessary, having regard to the complexity of the corporate group and the percentage shareholding of the executive directors in the Company's share capital.**

**Compliant**

**16. The percentage of proprietary directors over the total of non-executive directors is not higher than the proportion between the capital represented by such directors and the remainder of the Company's share capital.**

This criterion may be reduced:

a) In large-cap companies where the shareholdings legally considered significant are low.

b) In companies where there is a diversity of shareholders represented on the board of directors and there are no links between them.

**Compliant**

**17. The number of independent directors represents at least half of all directors.**

However, where the Company is not a large-cap or where, if it is, it has a shareholder or several acting together, who control more than 30% of the share capital, the number of independent directors should represent at least one third of all directors.

**Explain**

The company has 4 independent directors out of a total of 11, one less than the number of proprietary directors and double the number of executive directors. Thus, although the percentage of independent directors does not reach the 50% required by the recommendation, in accordance with the company's current shareholder structure it is estimated that representation of this type of Directors is considerable, and thus all interests are duly represented in the management body.

**18. Companies should post the following director particulars on their websites, and keep them permanently updated:**

a) Professional and biographical profile.

b) Other boards of directors on which they sit, whether or not these belong to listed companies, as well as other remunerated activities in which they may be involved.

c) The category to which the director belongs, where applicable, stating, in the case of proprietary directors, the shareholder they represent or to whom they have links.

d) Date when they were first appointed as a director of the company, as well as the dates of any subsequent reappointments.

e) Their holdings of company shares and their stock options.

**Compliant**

**19. The annual corporate governance report, with prior verification by the appointments committee, explains the reasons for the appointment of proprietary directors at the request of shareholders whose stake is less than 3% of the share capital; and reasons are given why formal requests for a seat on the board from shareholders with a stake equal to or greater than that of others, at whose request proprietary directors were appointed, have not been respected.**

**Not applicable**

**20. Proprietary directors tender their resignation when the shareholders they represent sell their entire shareholding. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.**

**Compliant**

**21. The Board of Directors will not propose the removal of any independent Director before the statutory period for which they were appointed, except where just cause is found by the Board of Directors following a report from the Appointments Committee. It will be understood that there is just cause when the director takes up a new post or takes on new duties that prevent him/her from devoting the necessary time to the performance of the duties associated with the directorship, when the director fails to carry out the duties inherent to his/her post or when the director is involved in circumstances which cause him/her to lose his/her independent status in accordance with the provisions of the legislation applicable.**

The removal of independent directors from office may also be proposed as a result of public buy-outs, mergers or other similar enterprise-level transactions implying a change in the structure of the Company's capital, where such changes in the Board are due to the proportionality criterion in Recommendation 16.

Compliant

**22. Companies establish rules obliging directors to provide information and, where appropriate, tender their resignation in cases where it is alleged they could prejudice the good name and reputation of the Company and, in particular, oblige them to inform the Board of Directors of any criminal lawsuits they may be involved in, as well as any subsequent legal proceedings.**

In any event, if a Director is prosecuted or has a court order issued against him or her initiating trial proceedings for any of the offences defined in corporate law, the board of directors should examine the case as soon as possible and, in view of the particular circumstances, decide whether or not he/she should remain in office. The board of directors should also give a reasoned account of these circumstances in the annual corporate governance report.

Compliant

**23. All directors clearly express their opposition when they consider that a proposal submitted to the Board for Directors for decision could be contrary to the Company's interests. Moreover, independent directors and other directors in particular, who are not affected by potential conflict of interest, should do the same in the case of decisions that could be detrimental to shareholders not directly represented on the Board of Directors.**

And when the Board of Directors adopts significant or repeated decisions on matters with regard to which the director has expressed serious reservations and subsequently opts to resign, the ensuing conclusions drawn and reasons for the resignation must be explained in the letter referred to in the following recommendation.

This recommendation also extends to the secretary to the board of directors, even if the secretary is not a director.

Compliant

**24. When, whether due to resignation or any other reason, a director leaves his or her position before the end of the term, the reasons are explained in a letter sent to all the members of the Board of Directors. Irrespective of whether such resignation is filed as a regulatory announcement, the motive for the same must be explained in the Annual Corporate Governance Report.**

Compliant

**25. In addition, the Appointments Committee will ensure that non-executive directors have sufficient time to properly perform their duties.**

And that the Board regulations sets the maximum number of boards of which the directors may form part.

Compliant

**26. The Board of Directors holds meetings as frequently as required in order to carry out its role effectively, at least eight times a year, following the programme and agenda established at the start of the year, with each director able to propose for inclusion alternative items not originally on the agenda.**

Compliant

**27. Directors' absences should be limited to the bare minimum and quantified in the Annual Corporate Governance Report. And, when they must occur, instructions are given to proxies.**

Compliant

**28. When the directors or the secretary express concerns about a particular proposal or, in the case of the directors, about the Company's progress and such concerns are not resolved within the Board of Directors, this is recorded in the minutes at the request of whoever expressed such concerns.**

Compliant

**29. The Company will establish suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the Company's expense.**

Compliant

**30. In addition, regardless of the knowledge required of the Directors to perform their duties, the Company will also offer Directors refresher programmes when circumstances so warrant.**

Compliant

**31. The agenda of the sessions clearly indicates the points on which the Board of Directors will adopt a decision or agreement so that directors can study or seek, in advance, the information required for its adoption.**

When exceptionally, for reasons of urgency, the Chairman wishes to submit for the approval of the Board of Directors any decisions or agreements not included in the agenda, this will require the express prior consent of the majority of the directors present, which will be duly recorded in the minutes.

Compliant

**32. Directors should be regularly informed of the movements in shareholdings and of the opinions that significant shareholders, investors and rating agencies have of the Company and its group.**

Compliant

**33. The chairman, as the person responsible for the proper functioning of the board of directors, in addition to exercising the functions assigned to him by law and the bylaws, should prepare and submit to the board a schedule of dates and items to be discussed; organise and coordinate regular assessment of the board and, where applicable, assessment of the company's chief executive; take responsibility for management of the board and of the effectiveness of its functioning; ensure that sufficient time is allocated to discuss strategic issues, and agree and review programmes to update knowledge for each director, when circumstances so advise.**

Compliant

**34. When there is an independent lead director, the Bylaws or regulations of the Board of Directors, in addition to the powers legally entitled, attribute him/her the following: chairing the Board of Directors in the absence of the Chairman and Vice-Chairmen, if any; echoing the concerns of non-executive directors; maintaining contacts with investors and shareholders to ascertain their views in order to form an opinion about their concerns, particularly in relation to the corporate governance of the Company; and coordinate the Chair´s plan of succession.**

Compliant

**35. The Secretary to the Board of Directors will also ensure that the Board of Directors is aware of recommendations on good governance that apply to the Company and that are part of the Code of Good Governance for listed companies.**

Compliant

**36. The complete Board of Directors should evaluate, once a year, and adopt, where applicable, an action plan to correct deficiencies identified with respect to:**

a) The quality and efficiency of operation of the board of directors.

b) The operations and the composition of its committees.

c) The diversity of Board membership and competences.

d) The performance of the Chairman of the Board of Directors and the Chief Executive Officer of the Company.

e) The performance and contribution of each Director, paying particular attention to those who are in charge of the various board committees.

The evaluation of the various committees will be based on the reports they submit to the Board of Directors, and for the latter, evaluation will be based on the one submitted by the Appointments Committee.

Every three years, the Board of Directors will be assisted to carry out the evaluation by an external consultant, whose independence will be verified by the Appointments Committee.

Business relationships that the consultant or any Company in its group have with the Company or any Company of its group should be detailed in the annual corporate governance report.

The process and the evaluated areas will be further described in the annual corporate governance report.

Compliant

**37. When an Executive Committee exists, the framework for the participation of the different categories of directors will be similar to that of the Board of Directors itself, and its Secretary will be the secretary to the board.**

Compliant

**38. The Board of Directors is always aware of matters dealt with and decisions adopted by the Executive Committee and all the members of the board receive a copy of the minutes of the meetings of the Executive Committee.**

Compliant

**39. The members of the Audit Committee, and especially its chairman, are appointed taking into account their knowledge and expertise in the field of accounting, audit or risk management, and the majority of such members are independent directors.**

Compliant

**40. Under the supervision of the audit committee, there should be a unit that assumes the internal audit function to ensure the proper functioning of the information and internal control systems, which are functionally dependent on the non-executive Chairman of the Board or the Audit Committee.**

Compliant

**41. The head of the division that fulfils the internal audit duties will present its annual work plan to the Audit Committee in which it directly reports any incidents that may have arisen during its implementation, submitting this information at the end of each year in an activity report.**

Compliant

**42. In addition to those as legally established, the Audit Committee is responsible for the following:**

1. With regard to information systems and internal control:

a) Supervise the process of preparing and the integrity of the financial information on the Company and, where applicable, to the Group, reviewing compliance with the regulatory requirements, the proper delimitation of its scope of consolidation and the correct application of accounting principles;

b) Ensure the independence and effectiveness of the internal audit processes, proposing the election, appointment, re-election and removal of the head of the internal audit division in addition to proposing the budget for this service, approving both orientation and its operating plans, ensuring that their activity is focused mainly on the risks that are relevant to the Company, receiving regular information on their activities and verifying that senior management is taking into account the conclusions and recommendations of the Committee's reports.

c) Establish and supervise a method that allows employees to make confidential and, if possible and appropriate, anonymous statements on any irregularities, especially financial and accounting irregularities, that may potentially be important to the Company.

2. With regard to the external auditor:

a) Examine the circumstances behind the resignation of the external auditor, should this occur.

b) Ensure that the remuneration for the external auditor for his or her work does not compromise his or her integrity or independence.

c) Ensure that the Company notifies the change of auditor as a regulatory announcement to the CNMV and that this notification is accompanied by a statement citing any disagreements the Company may have had with the outgoing auditor and, if there were such disagreements, to discuss them.

d) Ensure that the external auditor annually holds a meeting with the full Board of Directors to report on the work done and the evolution of the Company´s accounting and risk situation.

e) Ensure that the Company and the external auditor adhere to current regulations regarding the provision of non-audit services as well as the limits on the auditor's business concentration and, in general, the other rules on auditor independence.

**Compliant**

**43. The Audit Committee may summon any employee or executive of the Company; this includes appearances without the presence of any other executive.**

**Compliant**

**44. The Audit Committee should be informed of the operations of structural and corporate changes that the Company plans to carry out, for analysis and preliminary report to the Board of Directors on their economic conditions and their accounting impact, and especially, if any, on the proposed swap equation.**

**Compliant**

**45. The control and risk management policy should specify at least:**

a) The different types of financial and non-financial risks (including operational, technological, legal, business, environmental, political and reputational) that the Company faces, including financial and economic risks, contingent liabilities and other off-balance sheet risks.

b) Setting the level of risk that the Company considers acceptable.

c) The measures planned to mitigate the impact of identified risks, should they materialise.

d) The information and internal control systems to be used to control and manage the abovementioned risks, including contingent liabilities or off-balance sheet risks.

**Compliant**

**46. Under the direct supervision of the Audit Committee or, if any, of a specialised committee of the Board of Directors, there is an internal function of risk control and management exercised by a unit or internal department of the Company that has expressly attributed the following functions:**

a) Ensure the proper functioning of the control and risk management systems and, in particular, that all the important risks affecting the Company are adequately identified, managed and quantified.

b) Actively participate in the development of a risk strategy and take part in the important decisions concerning risk management.

c) Ensure that the control and risk management systems in place adequately mitigate the risks within the framework of the policy defined by the Board of Directors.

**Compliant**

**47. Members of the Appointments and Remuneration Committee –or both Committees if they were separate– are designated by ensuring that they have the knowledge, skills and experience appropriate to the duties that they are to perform and that most of these members are independent directors.**

**Compliant**

**48. Large-cap companies have an Appointments Committee and a separate Remuneration Committee.**

**Explain**

Based on the current structure of the Company, in particular, the number of employees and executives, as well as its organisation and activity, it is deemed appropriate to maintain a single appointments and remuneration committee.

**49. The Appointments Committee should consult with the Company's Chairman of the Board of Directors and chief executive officer of the company, especially on matters relating to executive directors.**

Any Director may request that the Appointments Committee take into consideration potential candidates to fill director vacancies if he/she feels that they are suitable.

**Compliant**

**50. The duties of the remuneration committee must be exercised with independence and include, in addition to those indicated by law, the following:**

a) Propose to the Board of Directors the standard conditions for senior officers' employment contracts.

b) Check compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy applied to directors and senior officers, as well as the remuneration systems that include shares and how they are implemented, in addition to guaranteeing that their individual remuneration is proportional to that which is paid to other directors and senior officers of the Company.

d) Ensure that any conflicts of interest do not interfere with the independence of the external advice given to the committee.

e) Verify the information on directors' and senior officers' remuneration found in various corporate documents, including the annual report on directors' remuneration.

**Compliant**

**51. The Remuneration Committee should consult with the Chairman and chief executive officer of the Company, especially on matters relating to executive directors and senior officers.**

**Compliant**

**52. The rules regarding the composition and proceedings of the supervisory and control committees should be listed in the Board Regulations and be consistent with those applicable to the legally mandatory committees under the foregoing recommendations, including the following:**

a) They should be composed exclusively of non-executive directors, with a majority of independent directors.

b) The chairmen should be independent directors.

c) The board of directors should appoint the members of these committees, taking into account the knowledge, skills and experience of the directors and the responsibilities of each committee; deliberate on its proposals and reports; and, at the first plenary session of the board after their meetings, receive an account of their activity and a report on the work carried out.

d) The committees should seek external advice when they deem it necessary to perform their duties.

e) Minutes of meetings should be taken, and copies sent to all directors.

**Not applicable**

**53. The supervision of compliance with the rules of corporate social responsibility policy, the internal codes of conduct and the corporate governance policy should be attributed to one or more committees within the Board of Directors; these committees may be the Audit Committee, the Appointments Committee, or the corporate social responsibility committee, if any, or a specialised committee created specifically for such duties by the Board of Directors; and these committees should have the following minimum duties:**

a) Overseeing compliance with the Company's internal codes of conduct and its rules of corporate governance.

b) Supervising the Company's communication strategy and its relations with shareholders and investors, including small and medium shareholders.

c) Regular assessment of the adequacy of the Company's corporate governance system so that it may fulfil its mission of promoting its business activity and keep the legitimate interests of other stakeholders in mind.

d) Reviewing the Company's corporate responsibility policy, ensuring that it is aimed at creating value.

e) Monitoring the Company's social responsibility strategy and practices and assessing its degree of compliance.

f) Supervising and evaluating relations with different stakeholders.

g) Evaluating all matters that relate to the Company's non-financial risks, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinating the process of reporting non-financial information and information on diversity, in accordance with applicable regulations and international reference standards.

Compliant

**54. The corporate social responsibility policy should include the principles or commitments, which the Company voluntarily undertakes in its relationship with the different stakeholders and identify at least:**

a) The objectives of the corporate social responsibility policy and the development of support tools.

b) The corporate strategy related to sustainability, the environment and social issues.

c) Specific practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, tax responsibility, respect for human rights and the prevention of illegal conduct.

d) Methods or systems monitoring the results of the implementation of the specific practices identified in the previous point, the associated risks and their management.

e) The mechanisms for monitoring non-financial risk, ethics and business conduct.

f) The channels of communication, participation and dialogue with stakeholders.

g) Responsible communication practices that prevent manipulation of information and protect integrity and honour.

Compliant

**55. The company should report in a separate document or in the management report on matters related to corporate social responsibility, using any of the internationally accepted methodologies.**

Compliant

**56. Directors' remuneration is what is necessary to attract and retain directors with a desirable profile, to compensate them for the dedication, qualifications and responsibility that the position entails, and to ensure that the amount does not interfere with the independence of non-executive directors' decisions.**

Compliant

**57. Executive directors are restricted to variable remuneration linked to the performance of the Company and to their personal performance, as is the remuneration in the form of shares, stock options or rights to shares or instruments that are referenced to the value of the stock and long-term savings systems such as pension plans, retirement schemes or other social security systems.**

Delivery of shares as remuneration can be contemplated for non-executive directors on condition that they hold them until they cease to be directors. The foregoing will not apply to shares that the director needs to dispose of, if appropriate, to meet the costs related to acquisition.

Compliant

**58. In the case of variable remuneration, remuneration policies should include precise limits and technical safeguards to ensure they reflect the professional performance of the recipients and not only the general progress of the markets or the company's activity sector or circumstances of this kind.**

And in particular, the variable components of remunerations:

a) Should be linked to performance criteria that are predetermined and measurable, and these criteria should consider the risk taken to obtain a result.

b) Should promote the sustainability of the Company and include non-financial criteria that are suitable for creating long-term value, such as compliance with internal rules and procedures of the Company and its policies for control and risk management.

c) Should be configured on the basis of a balance between compliance with short-term, medium-term and long-term objectives, to remunerate output for continuous performance over a periodof time that is sufficient to appreciate the contribution to the sustainable creation of value, in such a way that the items measuring this performance do not focus only on sporadic, occasional or extraordinary facts.

Compliant

**59. The payment of a significant part of the variable components of remuneration should be deferred for a period sufficient to ensure that the previously established minimum performance conditions have been met.**

Compliant

**60. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.**

Compliant

**61. A significant percentage of the variable remuneration of executive directors should be linked to the delivery of shares or financial instruments referenced to their value.**

Compliant

**62. Once the shares or options or rights over shares corresponding to the remuneration systems are allocated, directors will not be able to transfer ownership of a number of shares equivalent to twice their fixed annual remuneration, or to exercise the options or rights until at least three years have elapsed since they were allocated.**

The foregoing will not apply to shares that the director needs to dispose of, if appropriate, to meet the costs related to acquisition.

Compliant

**63. Contractual agreements include a clause that allows the Company to claim reimbursement of variable components of remuneration when payment has not been adjusted to the return conditions or when they have been paid based on data that are subsequently credited with inaccuracy.**

Compliant

**64. Payments for contract termination do not exceed the established amount equivalent to two years of total annual remuneration and they are not paid until the Company has been able to verify that the director has met the performance criteria previously established.**

Compliant

## H. OTHER INFORMATION OF INTEREST

**1. If there are any other relevant aspects of corporate governance at the company or at group companies that have not been set out in the other sections of this report but must be included to provide a more complete and reasoned view of the governance structure and practices of the company or its group, describe them briefly.**

**2. Any other information, clarification or observation related to the above sections of this report may be included in this section insofar as they are relevant and not repetitive.**

**Specifically indicate whether the Company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.**

**3. Also state whether the Company voluntarily subscribes to other international, sectoral or other ethical principles or standard practices. If applicable, identify the code concerned and the date of adoption. In particular, it will be specified whether the Company has adhered to the Code of Good Tax Practice of 20 June 2010:**

1. On 27 July 2016, following an amendment of the Regulations of the Board of Directors, it was decided that the Appointments and Remuneration Committee would have competences in relation to supervision of compliance with the rules of corporate governance and other issues related thereto. By virtue of the foregoing and to implement best corporate governance practices at Colonial, the Appointments and Remuneration Committee created the Corporate Governance Unit, reporting directly to the Committee and composed of the Chairman of the Appointments and Remuneration Committee and the Head of Legal Advisory at the company.

   Concerning paragraph C.1.3 (proprietary directors), Mr Carlos Fernández González has been stated as a significant shareholder inasmuch as he holds the control over Grupo Finaccess S.A.P.I. de C.V., a company holding the direct ownership of the shares of Colonial, S.A.

   The Selection and Diversity Policy was approved in 2019.

   The related operation mentioned in paragraph D.2. in this report was subjected and approved by the Extraordinary General Meeting of Shareholders held on 8 November 2018.

2. Ms Ana Sainz de Vicuña tendered her resignation as member of the Board of Directors of the Company on 24 January 2019, which entailed her cessation as member of the Audits and Control Committee. On the same date the Board of Directors, at the proposal of the Appointments and Retributions Committee, agreed to appoint Ms Silvia Alonso-Castrillo Allain as the new member of the Board of Directors as an independent director. Moreover, Mr Javier Iglesias de Ussel Ordís was also appointed as Chairman of the Audit and Control Committee.

3. On 10 December 2015, the Board of Directors of the Company resolved to adhere to the Code of Good Tax Practices. This resolution was communicated to the tax authorities on 8 January 2016.

**This annual corporate governance report was approved by the board of directors at a meeting on:**

26/02/2019

**List whether any directors voted against or abstained from voting on the approval of this Report.**

No

# 04. Glossary

**Earnings per share (EPS):** Profit from the year attributable to the shareholders divided by the basic number of shares.

**BD:** Business District.

**Market capitalisation:** The value of the company's capital obtained from its stock market value. It is obtained by multiplying the market value of its shares by the number of shares in circulation.

**CBD:** Central Business District (prime business area).

**Property company:** Company with rental property assets.

**Portfolio (surface area) in operation:** Property/surfaces with the capacity to generate rents at the closing date of the report.

**EBIT:** Calculated as the operating profit plus variance in fair value of property assets as well as variance in fair value of other assets and provisions.

**EBITDA:** Operating result before net revaluations, amortizations, provisions, interests and taxes.

**EPRA:** European Public Real Estate Association: Association of listed European property companies that sets best market practices for the sector.

**Free float:** The part of share capital that is freely traded on the stock market and not controlled in any stable way by shareholders.

**GAV excl. transfer costs:** Gross Asset Value of the portfolio according to external appraisers of the Group, after deducting transfer costs.

**GAV incl. transfer costs:** Gross Asset Value of the portfolio according to external appraisers of the Group, before deducting transfer costs.

**GAV Parent Company:** Gross Asset Value of directly-held assets + NAV of the 55% stake in the Torre Marenostrum SPV + Value JV Plaza Europa + NAV of 58.6% stake in SFL. + NAV stake in Axiare value of the portfolio.

**Holding:** A company whose portfolio contains shares from a certain number of corporate subsidiaries.

**IFRS:** International Financial Reporting Standards.

**JV:** Joint Venture (association between two or more companies).

**Like-for-like valuation:** Data that can be compared between one period and another (excluding investments and disposals).

**LTV:** Loan to Value (Net financial debt/GAV of the business).

**EPRA Like-for-like rents:** Data that can be compared between one period and another, excluding the following: 1) investments and disposals, 2) changes in the project and refurbishment portfolio, and 3) other extraordinary items, for example, indemnities from tenants in case of anticipated leave. Calculation based on EPRA Best Practices guidelines.

**EPRA NAV:** EPRA Net Asset Value (EPRA NAV) is calculated based on the consolidated equity of the company and adjusting some items following the EPRA recommendations.

**EPRA NNNAV:** The EPRA NNNAV is calculated adjusting the following items in the EPRA NAV: the fair market value of the financial instruments, the fair market value of the debt, the taxes that would be accrued with the sale of the assets at their market value applying tax benefits for reinvestments and the tax credit on balance, considering a going concern assumption.

**EPRA Cost Ratio:** Administrative & operating costs (including & excluding costs of direct vacancy) divided by gross rental income.

**Physical Occupancy:** Percentage: occupied sq m of the portfolio at the closing date of the report/surfaces in operation of the portfolio.

**Financial Occupancy:** Financial occupancy according to the calculation recommended by the EPRA (occupied surface areas multiplied by the market rental prices/surfaces in operation at market rental prices).

**EPRA Vacancy:** Vacant surface multiplied by the market rental prices/surfaces in operation at market rental prices. Calculation based on EPRA Best Practices guidelines.

**Reversionary potential:** This is the result of comparing the rental revenues from current contracts (contracts with current occupancy and current rents in place) with the rental revenues that would result from 100% occupancy at market prices, estimated by independent appraisers. Projects and refurbishments are excluded.

**Projects underway:** Property under development at the closing date of the report.

**RICS:** Royal Institution of Chartered Surveyors.

**SFL:** Société Foncière Lyonnaisse.

**Take-up:** Materialized demand in the rental market, defined as new contracts signed.

**TMN:** SPV of Colonial (55%) and Gas Natural (45%) related to the Torre Marenostrum building.

**Valuation Yield:** Capitalization rate applied by the independent appraisers in the valuation.

**Yield on cost:** Market rent 100% occupied/Market value at the start of the project net of impairment of value + invested capital expenditure.

**Yield occupancy 100%:** Passing rents + vacant spaces rented at the market prices/market value.

**EPRA net initial yield (NIY):** Annualised rental income based on passing rents as at the balance sheet date, reduced by the non-recoverable expenses, divided by the market value, including transfer costs (estimated purchasing costs).

**EPRA Topped-Up Net Initial Yield:** EPRA Net Initial Yield adjusted in respect of the expiration of rent-free periods.

**Gross Yield:** Gross rents/market value excluding transfer costs.

**Net Yield:** Net rents/market value including transfer costs.

**€m:** In millions of euros.

# 05. Alternative performance measures

| Alternative performance measure | Method of calculation | Definition/Relevance |
|---|---|---|
| EBIT<br>(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. |
| EBITDA<br>(Earnings Before Interest, Taxes, Depreciation and Amortization) | 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 | 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<br>(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<br>(EPRA triple net asset value) | 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. |

(1) EPRA (European Public Real Estate Association) or European Association of listed property companies which recommend the standards of best practices to be followed in the real estate sector. The method of calculation of these APMs is carried out following the indications established by EPRA.

| Alternative performance measure | Method of calculation | Definition/Relevance |
|---|---|---|
| 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. |
| Like-for-like measurement | 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 gross financial debt (reduced by the amount in the item "Cash and cash equivalents") by the market valuation including the transaction costs of the Group's asset portfolio. | It enables the analysis of the ratio between the net financial debt and the valuation of the Group's asset portfolio. |
| LTV Holding or LTV Colonial | Calculated as the result of dividing the gross financial debt (less the amount in the item "Cash and cash equivalents") by the market valuation total, 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. |

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