Inmobiliaria Colonial, SOCIMI, S.A. and its subsidiaries

Report on limited review of condensed
interim consolidated financial statements and
Interim consolidated directors' Report for
the six months period ended at 30 June 2021
Interim consolidated directors' Report

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.

Report on limited review of condensed interim consolidated Financial statements

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

Introduction

We have performed a limited review of the accompanying condensed interim consolidated financial statements (hereinafter, the interim financial statements) of Inmobiliaria Colonial, SOCIMI, S.A., S.A. (hereinafter, "the parent company") and its subsidiaries (hereinafter, "the group"), which comprise the statement of financial position as at June 30, 2021, and the abridged income statement, comprehensive income statement, statement of changes in equity, cash flow statement and related notes, all condensed and consolidated, for the six months period then ended. The parent company´s directors are responsible for the preparation of these interim financial statements in accordance with the requirbements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial information, as provided in Article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

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

Conclusion

Based on our limited review, that cannot be considered as an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six months period ended June 30, 2021 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial statements, as provided in Article 12 of Royal Decree 1362/2007.

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Emphasis of Matters

We draw attention to Note 1.2), in which it is mentioned that these interim financial statements do not include all the information required of complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, therefore the accompanying interim financial statements should be read together with the consolidated annual accounts of the group for the year ended December 31, 2020. Our conclusion is not modified in respect of this matter.

Other Matters

Interim consolidated directors´ Report

The accompanying interim consolidated directors' Report for the six months period ended June 30, 2021 contains the explanations which the parent company´s directors consider appropriate regarding the principal events of this period and their impact on the interim financial statements presented, of which it does not form part, as well as the information required under the provisions of Article 15 of Royal Decree 1362/2007. We have verified that the accounting information contained in this directors' Report is in agreement with that of the interim financial statements for the six months period ended June 30, 2021. Our work is limited to checking the interim consolidated directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Inmobiliaria Colonial, SOCIMI, S.A. and its subsidiaries´ accounting records.

Preparation of this review report

This report has been prepared at the request of the Board of Directors of the Parent Company in relation to the publication of the half-yearly financial report required by Article 119 of Royal Legislative Decree 4/2015 of 23 October, approving the revised text of the Securities Market Law developed by the Royal Decree 1362/2007, of 19 October.

PricewaterhouseCoopers Auditores, S.L.

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Original in Spanish signed by
Mireia Oranias Casajoanes

July 29, 2021

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries

Interim condensed consolidated financial statements and interim consolidated directors' report for the six months ended 30 June 2021

Translation of interim condensed consolidated financial statements and interim consolidated directors' report originally issued in Spanish. In the event of discrepancy, the Spanish version prevails.

Condensed consolidated statement of financial position for the six months ended 30 June 2021

		Thousands of Euros	
ASSETS	**Note**	**30 June 2021**	**31 December 2020**
Intangible assets	-	5,419	4,633
Right of use assets	-	21,443	10,538
Property, plant and equipment	4	55,201	56,741
Investment property	5	11,761,420	11,516,120
Financial assets at amortised cost	-	27,996	29,047
Derivative financial instruments	10	4,726	287
Non-current deferred tax assets	-	584	418
Other non-current assets	6	75,231	86,635
NON-CURRENT ASSETS		**11,952,020**	**11,704,419**
Inventories	-	55,352	52,409
Trade and other receivables	6	50,779	29,693
Financial assets at amortised cost	-	9	9
Tax assets	-	20,205	17,934
Cash and cash equivalents	9	397,846	268,553
CURRENT ASSETS		**524,191**	**368,598**
Assets classified as held for sale	7	**38,238**	**281,959**
TOTAL ASSETS		**12,514,449**	**12,354,976**

		Thousands of Euros	
LIABILITIES AND EQUITY	**Note**	**30 June 2021**	**31 December 2020**
Share capital		1,270,287	1,270,287
Share premium		1,380,192	1,491,280
Own shares		(23,211)	(24,440)
Other reserves		266,747	244,888
Retained earnings		2,580,906	2,418,533
Equity attributable to shareholders of the Parent		**5,474,921**	**5,400,548**
Non-controlling interests		**1,431,991**	**1,432,616**
EQUITY	8	**6,906,912**	**6,833,164**
Bank borrowings and other financial liabilities	9	264,427	264,342
Bonds and similar securities issued	9	3,954,079	4,068,760
Derivative financial instruments	10	1,983	19,775
Lease liabilities	-	20,135	10,058
Non-current deferred tax liabilities	12	365,452	366,989
Non-current provisions	-	1,561	1,680
Other non-current liabilities	-	84,500	85,898
NON-CURRENT LIABILITIES		**4,692,137**	**4,817,502**
Bank borrowings and other financial liabilities	9	87,372	60,046
Bonds and similar securities issued	9	523,257	272,896
Issuance of promissory notes	9	30,000	235,000
Lease liabilities	-	3,177	1,973
Trade and other payables	11	238,543	115,438
Tax liabilities	-	29,412	14,724
Current provisions	-	3,639	4,233
CURRENT LIABILITIES		**915,400**	**704,310**
TOTAL LIABILITIES AND EQUITY		**12,514,449**	**12,354,976**

Notes 1 to 17 to the consolidated financial statements are an integral part of the condensed consolidated statement of financial position for the six months ended 30 June 2021.

Condensed consolidated income statement and condensed consolidated statement of comprehensive income for the six months ended 30 June 2021

		Thousands of Euros	
INCOME STATEMENT	**Note**	**June 2021**	**June 2020**
Revenue	13.1	155,890	178,107
Other income	-	1,378	1,408
Staff costs	-	(17,242)	(14,949)
Other operating expenses	-	(24,170)	(24,269)
Depreciation and amortisation charge	-	(4,108)	(3,020)
Net gains on sales of assets	13.2	590	1,752
Changes in value of investment property	13.3	146,205	(107,250)
Gains/(losses) due to changes in value of assets and impairment	13.3	(171)	638
Operating profit		**258,372**	**32,417**
Finance income	13.4	9,157	339
Finance costs	13.4	(78,703)	(45,506)
Profit/(Loss) before tax		**188,826**	**(12,750)**
Income tax	-	(560)	1,751
Consolidated net profit/(loss)		**188,266**	**(10,999)**
Net profit/(loss) for the year attributable to the Parent	-	161,899	(26,392)
Net profit attributable to non-controlling interests	8.6	26,367	15,393
Basic earnings per share (Euros)	3	0.32	(0.05)
Diluted earnings per share (Euros)	3	0.32	(0.05)
STATEMENT OF COMPREHENSIVE INCOME			
Consolidated net profit/(loss)		**188,266**	**(10,999)**
Other components of comprehensive income recognised directly in equity		**22,231**	**(34,949)**
Gains/(Losses) on financial hedge instruments	8.4 and 10	31,143	(36,492)
Transfer to comprehensive income of gains/(losses) on financial hedge instruments	8.4 and 10	(8,912)	1,543
Consolidated comprehensive income		**210,497**	**(45,948)**
Comprehensive profit/(loss) for the year attributable to the Parent	-	183,429	(60,485)
Comprehensive profit attributable to non-controlling interests	-	27,068	14,537

Notes 1 to 17 to the consolidated financial statements are an integral part of the condensed consolidated income statement and the condensed consolidated statement of comprehensive income for the six months ended 30 June 2021.

Condensed consolidated statement of changes in equity for the six months ended 30 June 2021

	Note	Share capital	Share premium	Own shares	Other reserves	Retained earnings	Equity attributable to shareholders of the Parent	Non-controlling interests	Equity
Balance at 31 December 2019	**8**	**1,270,287**	**1,513,749**	**(6,179)**	**275,229**	**2,505,512**	**5,558,598**	**1,401,899**	**6,960,497**
Total recognised income and expense for the year		--	--	--	(41,860)	2,387	(39,473)	59,357	**19,884**
Transactions with shareholders:									
Own share portfolio		--	--	(22,430)	--	--	(22,430)	--	**(22,430)**
Distribution of profits (dividends)		--	(22,469)	--	8,787	(87,869)	(101,551)	(33,267)	**(134,818)**
Share-based payment transactions		--	--	4,169	2,732	(1,777)	5,124	598	**5,722**
Changes in the scope of consolidation		--	--	--	--	--	--	4,053	**4,053**
Other changes		--	--	--	--	280	280	(24)	**256**
Balance at 31 December 2020	**8**	**1,270,287**	**1,491,280**	**(24,440)**	**244,888**	**2,418,533**	**5,400,548**	**1,432,616**	**6,833,164**
Total recognised income and expense for the year		--	--	--	21,530	161,899	183,429	27,068	**210,497**
Transactions with shareholders:									
Own share portfolio		--	--	(904)	--	--	(904)	--	**(904)**
Distribution of profits (dividends)		--	(111,088)	--	--	--	(111,088)	(27,773)	**(138,861)**
Share-based payment transactions		--	--	2,133	120	125	2,378	354	**2,732**
Changes in the scope of consolidation		--	--	--	209	--	209	(309)	**(100)**
Other changes		--	--	--	--	349	349	35	**384**
Balance at 30 June 2021	**8**	**1,270,287**	**1,380,192**	**(23,211)**	**266,747**	**2,580,906**	**5,474,921**	**1,431,991**	**6,906,912**

Notes 1 to 17 to the consolidated financial statements are an integral part of the condensed consolidated statement of changes in equity for the six months ended 30 June 2021.

Condensed consolidated statement of cash flows for the six months ended 30 June 2021

		Thousands of Euros	
	Note	**June 2021**	**June 2020**
CASH FLOWS FROM OPERATIONS			
1. CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated net profit/(loss)	-	188,266	(10,999)
Adjustments to profit/(loss)			
Depreciation and amortisation (+)	-	4,108	3,020
Provisions (+/-)	-	435	(617)
Changes in value of investment property (+/-)	-	(146,205)	107,250
Gains/(losses) due to changes in value of assets and impairment (+/-)	-	171	(638)
Others	-	1,768	(3,142)
Gains/(losses) on sale of investment property (+/-)	13.2	(590)	(1,752)
Net financial profit (+)	13.4	69,546	45,167
Income tax (+/-)	-	560	(1,751)
Adjusted profit/(loss)		118,059	136,538
Taxes refunded/(paid) (+/-)	-	10,154	(1,540)
Interest received (+)	-	245	1,116
Increase/(decrease) in current assets and liabilities			
Inventories (+/-)	-	(2,708)	(1,645)
Increase/(decrease) in receivables (+/-)	-	(22,226)	(16,770)
Increase/(decrease) in payables (+/-)	-	12,459	8,617
Increase/(decrease) in other assets and liabilities (+/-)	-	9,542	(14,981)
Total net cash flows from operating activities		**125,525**	**111,335**
2. CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in (-)			
Intangible assets	-	(1,367)	(1,617)
Property, plant and equipment	4	(580)	(5,830)
Investment property	5	(130,996)	(69,171)
Non-current financial assets and others	-	--	--
		(132,943)	(76,618)
Divestments in (+)			
Investment property	5	546	8,987
Assets classified as held for sale	7	281,924	3,939
Financial assets	-	951	2,837
		283,421	15,763
Total net cash flows from investing activities		**150,478**	**(60,855)**
3. CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid (-)	8.6	(27,773)	(33,267)
Debt repayment (-)	9	(593,713)	(308,540)
Interest paid (+/-)	-	(72,980)	(47,502)
Cancellation of financial instruments (-)	13.4	8,719	(3,081)
Own share transactions (+/-)	-	(904)	(1,382)
		(686,651)	(393,772)
Obtainment of new financing (+)	9	530,000	900,000
Other proceeds/(payments) for current financial assets and others (+/-)	-	9,941	(9)
		539,941	899,991
Total net cash flows from financing activities		**(146,710)**	**506,219**
4. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS			
Cash flow for the year		**129,293**	**556,699**
Cash and cash equivalents at beginning of year	**9.12**	**268,553**	**216,781**
Cash and cash equivalents at end of year	**9.12**	**397,846**	**773,480**

Notes 1 to 17 to the consolidated financial statements are an integral part of the condensed consolidated statement of cash flows for the six months ended 30 June 2021.

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries

Explanatory notes to the interim condensed consolidated financial statements for the six months ended 30 June 2021

1 Introduction, basis of presentation of the interim condensed consolidated financial statements and other information

1.1 Introduction

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 Parent's General Shareholders' Meeting resolved to adopt the SOCIMI (hereinafter, REIT) tax regime and to make the corresponding bylaw amendments to bring the Company's articles of association into line with the requirements stipulated in this regime, which includes 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 articles of association, 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 in the Parent's articles of association;
- the ownership of interests in the share capital of other resident or non-resident entities in Spain, the main corporate purpose of which is to acquire 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 in the Parent's articles of association 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 generate income, which in total represents less than 20% of the Parent’s 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, refurbishment 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 individuals or legal entities other than this Parent Company.

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 it is the parent 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 the first semester of 2021, the Parent maintained the credit rating obtained from *Standard & Poor's Rating Credit Market Services Europe Limited* (the "BBB+" long-term credit rating and the "A-2" short-term credit rating, both with a stable outlook). In addition, the Parent obtained a "Baa2" credit rating with a stable outlook from Moody's. In the first semester of 2021, the subsidiary SFL maintained its "BBB+" credit rating with a stable outlook and the "A-2" short-term credit rating.

Given its business activity, the Group has no environmental expenses, assets, provisions or contingencies that might be significant with respect to its equity, financial position and results. Therefore, no specific disclosures relating to environmental issues are included in these notes. However, the Group does apply a proactive environmental policy in relation to urban development, construction, maintenance and the preservation of its property portfolio.

The consolidated financial statements of the Group for 2020 were approved at the Parent's General Shareholders' Meeting held on 30 June 2021.

1.2 Basis of presentation of the interim condensed consolidated financial statements

In accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, all companies governed by the laws of a Member State of the European Union and whose securities are traded on a regulated market in any European Union country must file consolidated financial statements for years beginning on or after 1 January 2005 in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Group's 2020 consolidated financial statements were prepared by the Parent's directors in accordance with the International Financial Reporting Standards as adopted by the European Union, applying the consolidation principles, accounting policies and measurement bases set forth in Note 4 to said consolidated financial statements in order to present fairly the Group's consolidated equity and consolidated financial position at 31 December 2020 and the consolidated results of its operations, changes in consolidated equity and its consolidated cash flows for the year then ended.

These interim condensed consolidated financial statements for the six month-period ended 30 June 2021 are presented in accordance with IAS 34 Interim Financial Reporting, and were authorised for issue by the Parent's directors on 29 July 2021, all in accordance with article 12 of Spanish Royal Decree 1362/2007.

In accordance with IAS 34, the interim financial report is intended to provide an update on the latest complete set of the Group's annual consolidated financial statements, focusing on new activities, events and circumstances that took place during the six months and not duplicating information previously reported in the 2020 consolidated financial statements. Accordingly, for a proper understanding of the information included in these condensed consolidated interim financial statements, they must be read in conjunction with the Group's consolidated financial statements for 2020.

The accounting policies and methods used in preparing these interim condensed consolidated financial statements are the same as those applied in the consolidated financial statements for 2020.

However, since the accounting policies and measurement bases used in preparing the Group's interim consolidated financial statements for the six-month period ended 30 June 2021 may differ from those used by certain Group entities, the required adjustments and reclassifications were made on consolidation to unify such policies and bases and to make them compliant with IFRS and with the accounting policies and standards followed by the Parent.

The SFL Group, included in the scope of consolidation, was the subject of a limited review at 30 June 2021 on a shared basis between the Group's auditor, Deloitte & Associés and PriceWaterhouseCoopers Audit.

Standards and interpretations effective this year

New accounting standards became effective during the six-month period ended 30 June 2021, and were applied accordingly in the preparation of these interim condensed consolidated financial statements. These new standards are as follows:

- IFRS 9 (Amendment), IAS 39 (Amendment), IFRS 7 (Amendment), IFRS 4 (Amendment) and IFRS 16 (Amendment) “Interest Rate Benchmark Reform: Phase 2”: The IASB has undertaken a two-phase project to consider which exemptions, where appropriate, to provide for the purposes of the interest rate benchmark reform (“the IBOR”). The Phase 1 amendments, issued in September 2019, provide temporary exemptions from the application of specific hedge accounting requirements to the relationships affected by the uncertainties arising as a result of the IBOR reform ("the Phase 1 exemptions"). The Phase 2 amendments address issues arising from the implementation of reforms, including the substitution of a benchmark rate with an alternative rate.

- IFRS 4 (Amendment) "Extension of the temporary exemption from applying IFRS 9”: In accordance with the deferral of the validity date of IFRS 17 "Insurance contracts", the amendment changes the maturity date for the temporary exemption in IFRS 4 “Insurance contracts” with regard to the application of IFRS 9 “Financial instruments”, requiring the entities to apply IFRS 9 for the annual periods beginning from 1 January 2023, instead of from 1 January 2021.

These standards have been taken into account with effect from 1 January 2021 and their impact, which was not material. was reflected in these interim condensed consolidated financial statements.

Standards and interpretations issued but not yet in force

At the signature date of these interim condensed consolidated financial statements, the following standards, amendments and interpretations had been published by the IASB but had not become effective, either because they came into effect after the date of the interim condensed consolidated financial statements or because they had yet to be endorsed 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”: These amendments clarify the accounting treatment of sales and contributions of assets between an investor and its associates and joint ventures, which will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business”. The investor will recognise the full gain or loss when the non-monetary assets constitute a "business". If the assets do not comply with the definition of business, the investor recognises the gain or loss to the extent of the interests of other investors. The amendments will only apply when an investor sells or contributes the assets to its associate or joint venture.

  Originally, these amendments to IFRS 10 and IAS 28 were prospective and effective for the years commencing from 1 January 2016. However, at the end of 2015, the IASB took the decision to postpone the validity date thereof (without setting a specific new date), since it is planning a more extensive review that may result in the simplification of the accounting of these transactions and of other aspects of the recognition of associates and joint ventures.

- IFRS 17 "Insurance contracts": In 2017, the IASB completed its long-term project to develop an accounting standard regarding insurance contracts and published IFRS 17, "Insurance contracts". IFRS 17 replaces IFRS 4 "Insurance contracts", which currently permits an extensive variety of accounting practices. IFRS 17 will fundamentally change accounting by all entities that issue insurance contracts and investment contracts with discretionary participation components.

  The standard will apply for the years commencing from 1 January 2021, enabling its early application if IFRS 15 "Ordinary Income from Contracts with Customers" and IFRS 9 "Financial Instruments" also apply. IFRS 17 is pending approval by the European Union.

- IFRS 17 (Amendment) "Amendments to IFRS 17”: In response to some of the concerns and challenges addressed in relation to the application of IFRS 17, the IASB developed specific amendments and clarifications aimed at facilitating the implementation of the new standard, although the amendments do not change the fundamental principles of said standard. In addition, the obligatory date of entry into force of IFRS 17 to years commencing from 1 January 2023 was delayed. The amendment of IFRS 17 is pending approval by the European Union.

- IAS 1 (Amendments) “Classification of Liabilities as Current or Non-Current”: These amendments clarify that liabilities are classified as current or non-current, depending on the rights that exist at the end of the reporting year. The classification is not affected by the expectations of the entity or subsequent events at the reporting date (for example, the receipt of a waiver or a breach of the pact). The amendment also clarifies IAS 1 when it refers to the "settlement" of a liability. The effective date of these amendments is 1 January 2022, though their early application is permitted.

  However, in July 2020, there was an amendment to change the entry date of the amendment to 1 January 2023. These amendments are pending approval by the European Union.

- IAS 16 (Amendment) "Property, plant and equipment – Proceeds before Intended Use": It is forbidden to deduct from the cost of a PP&E item any income obtained from the sale of goods produced when the entity is preparing the asset for its intended use. The income from the sale of such samples, together with the production costs, are now recognised in income. The amendment also clarifies whether an entity is testing if the asset works correctly when the technical and physical performance of the asset is assessed. The financial performance of the asset is not significant for this assessment. Accordingly, an asset may be capable of operating in line with that envisaged by management and be subject to amortisation before it reaches the level of operating performance expected by management. The effective date of these amendments is 1 January 2022. This amendment is pending approval by the European Union.

- IAS 37 (Amendment) "Onerous Contracts — Cost of Fulfilling a Contract": The amendment explains that the direct cost of complying with a contract includes the incremental costs of complying with that contract and an assignment of other costs that are related directly with the compliance of contracts. It also clarifies that before providing a separate provision as a result of an onerous contract, the entity will recognise any impairment loss on the assets used to comply with the contract, instead of on the assets used in that contract. The effective date of these amendments is 1 January 2022. This amendment is pending approval by the European Union.

- IFRS 3 (Amendment) "References to the Conceptual Framework": IFRS 3 was updated to refer to the 2018 Conceptual Framework to determine what constitutes an asset or liability in a business combination (before the 2001 CM was referred to). Furthermore, a new exception was added in IFRS 3 for liabilities and contingent liabilities. The effective date of these amendments is 1 January 2022. This amendment is pending approval by the European Union.

- Annual improvements to IFRSs. 2018-2020 Cycle: The amendments affect IFRS 1, IFRS 9, IFRS 16 and IAS 41 and apply to annual periods beginning on or after 1 January 2022. The main amendments refer to:

  - IFRS 1 "First-time application of IFRS": IFRS 1 permits an exemption if a subsidiary applies IFRSs on a date subsequent to its parent. This amendment allows the entities that have taken this exemption to also measure the cumulative translation differences using the amounts recognised by the Parent, based on the transition date of the latter to IFRSs.

  - IFRS 9 "Financial instruments": The amendment addressed which costs should be included in the 10% test for the derecognition in financial liability accounts. The costs or fees could be paid to third parties or to the lender. According to the amendment, the costs or fees paid to third parties will not be included in the 10% test.

  - IFRS 16 "Leases": The illustrative example 13 accompanying IFRS 16 was amended to eliminate the illustration of the lessor's payments in relation to the lease improvements, thereby eliminating any possible confusion regarding the treatment of lease incentives.

  - IAS 41 "Agriculture": This amendment eliminates the requirement to exclude cash flows for taxes on measuring the fair value in accordance with IAS 41.

  As indicated in Note 2.2 to the consolidated financial statements for the year ended 31 December 2020, the application of new standards, amendments and interpretations will be considered by the Group once they have been ratified and approved, where appropriate, by the European Union.

  The annual improvements are pending approval by the European Union.

- IAS 1 (Amendment) "Breakdown of accounting policies": IAS 1 was amended to improve the breakdowns on accounting policies to provide more useful information to investors and other main users of the financial statements. The effective date of these amendments is 1 January 2023. This amendment is pending approval by the European Union.

- IAS 8 (Amendment) "Definition of accounting estimates": IAS 8 was amended to help to distinguish between the changes in accounting estimates and the changes in accounting policies. The effective date of these amendments is 1 January 2023. This amendment is pending approval by the European Union.

- IFRS 16 (Amendment) "COVID-19-Related Rent Concessions subsequent to 30 June 2021": The IASB extended by one year the period of application of the practical option of IFRS 16 "Leases" to help lessees to recognise the lease concessions related with COVID-19.

  Consequently, this practical option applies to the lease concessions that occur as a direct consequence of the COVID-19 pandemic and only if all the following conditions are met:

  - the change in lease payments results in a consideration reviewed for the lease that is substantially equal to, or less than, the consideration immediately prior to the change;

  - any reduction in the lease payments affects only the payments due until 30 June 2022; and

  - there is no substantial change in other terms and conditions of the lease.

  The amendment enters into force for years beginning from 1 April 2021, although its early application is permitted, even in the financial statements that are not authorised for issue at 31 March 2021, to enable the application of the practical option facilitated as soon as possible. This amendment is pending approval by the European Union.

- IAS 12 (Amendment) "Deferred Tax related to Assets and Liabilities arising from a Single Transaction": In certain circumstances under IAS 12, companies are exempt from recognising deferred taxes when assets or liabilities are recognised for the first time ("exemption from initial recognition"). Previously, certain uncertainty existed on whether the exemption was applied to transactions such as leases and dismantling obligations, transactions for which both an asset and a liability are posted at the moment of their initial recognition. The amendment clarifies that the exemption does not apply and that, therefore, the obligation exists to recognise deferred taxes on these transactions.

  The amendment enters into force for years that begin from 1 January 2023, though its early application is permitted. This amendment is pending approval by the European Union.

The Parent has in any case reviewed the potential impacts of the future application of these standards and considers that they will not have a significant effect on the Group's interim condensed consolidated financial statements at 30 June 2021.

1.3 Responsibility for the information and use of estimates

The information contained in these interim condensed consolidated financial statements for the first six months of 2021 is the responsibility of the Parent's directors, who have verified that the different controls established to ensure the quality of the financial and accounting information prepared have been effective.

The consolidated results and the determination of consolidated equity must comply with the accounting policies and principles, measurement bases and estimates followed by the Parent's directors in the preparation of the interim condensed consolidated financial statements. The main accounting policies and principles and measurement bases applied are described in Note 4 to the 2020 consolidated financial statements, notwithstanding the stipulations of Note 1.2 above, "Standards and interpretations effective in the current year".

In the interim condensed consolidated financial statements, estimates were occasionally made by the management of the Parent and of the consolidated companies to quantify certain assets, liabilities, income, expenses and commitments reported herein. These estimates, made on the basis of the best information available, relate basically to:

- The market value of investment property (Note 5). The market value was obtained from the appraisals periodically made by independent experts. These appraisals were prepared at 30 June 2021, applying the methods described in Note 5.

- Measurement of assets classified as held for sale (Note 7) and property, plant and equipment for own use (Note 4).
- Estimate of the necessary provisions for impairment losses on accounts receivable (Note 6).
- The recoverability of tax credits in respect of tax loss carryforwards and deferred tax assets recognised in the condensed consolidated statement of financial position.
- The market value of certain financial assets, including derivative financial instruments.
- Evaluation of lawsuits, obligations and contingent assets and liabilities at year-end.

Although the estimates described were made on the basis of the best available information available to date concerning the facts analysed, in the light of future events it might be necessary to change these estimates (upwards or downwards). In accordance with IAS 8, any changes to accounting estimates would be made prospectively, with the effects of the changes recognised in the consolidated statement of comprehensive income.

During the six-month period ended 30 June 2021, there were no significant changes in the estimates made at the end of 2020.

1.4 Comparative information

The information contained in these interim condensed consolidated financial statements for the first six months of 2021 is presented for comparative purposes with the information relating to the six-month period ended 30 June 2020 for the consolidated income statement, the consolidated statement of comprehensive income and the consolidated statement of cash flows, and is compared with the information relating to 2020 year-end for the consolidated statement of financial position and the consolidated statement of changes in equity.

As indicated in the 2020 consolidated financial statements, the following reclassifications were made:

- The condensed consolidated income statement headings “Changes in value of investment property” and “Gains/(losses) due to changes in value of assets and impairment” were reclassified as an integral part of Operating profit. Also, finance expenses capitalised under “Finance costs” in the condensed consolidated income statement were reclassified.

- Lastly, the item arising from cash flows from operating activities was modified, being based on Consolidated net profit/(loss) instead of Operating profit, and all the adjustments required were included in accounting profit/(loss) to obtain the net cash flows from operating activities.

All these reclassifications were included both for the figures for the first semester of 2021 and for those of the same period of 2020, to facilitate the comparison between both of them.

1.5 Seasonal nature of the Group’s operations

In view of the activities of Group companies, Group transactions are not significantly cyclical or seasonal. Therefore, no specific disclosures are provided in these explanatory notes to the interim condensed consolidated financial statements for the six-month period ended 30 June 2021.

1.6 Relative importance

In deciding how to disclose items of the financial statements or other issues, in accordance with IAS 34, the Group assessed materiality in relation to the interim condensed consolidated half-yearly financial statements.

1.7 Events after the reporting period

On 3 June 2021, the Parent, SFL and Predica Prévoyance Dialogue du Crédit Agricole (“Predica”), significant shareholder of SFL and direct holder of 5,992,903 shares of SFL (12.9%), agreed to approve a series of concurring corporate transactions that will allow Colonial to increase its current holding in the share capital of SFL (81.7%) until reaching a minimum of 94.1%, including the possibility of acquiring all said share capital, to the extent that Predica will transfer to Colonial and to SFL its whole direct holding in the capital of SFL.

In this regard, in relation with the aforementioned corporate transactions:

- SFL, a subsidiary of Colonial listed on Euronext Paris (French regulated market), approved a corporate operation with Predica, whereby Predica will transfer to SFL 3,664,259 shares of SFL (7.9%) in the framework of a programme to repurchase shares of SFL for their subsequent redemption, in the context of an exchange between SFL and Predica (or any entity controlled by Predica) of investments in companies holding certain property assets of SFL in France to be implemented simultaneously (the “Exchange of Assets”).

- Colonial's Board of Directors agreed:
  - the subscription by Predica, subject to the approval of the General Shareholders' Meeting, of a capital increase to be performed by Colonial with a charge to non-monetary contributions, whereby Predica would contribute 2,328,644 shares of SFL (5.0%) to Colonial, as consideration for the subscription of 22,494,701 newly issued shares of the Company (“Predica's Contribution”). The new Colonial shares would be issued for a unitary par value of 2.50 euros, plus a share premium of 7.50 euros per share, with the total effective amount of the capital increase thereby amounting to 224,947,010 euros. The exchange equation of Predica's Contribution was set at 9.66 shares of Colonial, with a par value of 2.50 euros each, for each SFL share; and
  - The preparation of a takeover bid to acquire all the shares of SFL held by different shareholders of Colonial and Predica with mixed consideration in cash and shares (the “Bid”), subject to the approval of the French financial markets authority (the “AMF”) and to the approval by the General Shareholders' Meeting of the corresponding capital increase agreement. As consideration for the Bid, the effective maximum amount to be paid by Colonial will be 117,478,868.24 euros and the maximum number of shares of Colonial will be 12,588,820 shares, as consideration for the 2,517,764 shares of SFL (5.4%) forming the scope of the Bid. Colonial's new shares would be issued for a unitary par value of 2.50 euros, plus a share premium of 7.50 euros per share, with the maximum effective amount of the capital increase thereby amounting to 125,888,200 euros. The exchange equation of the Bid was set at 46.66 euros and five shares of Colonial, with a par value of 2.50 euros each, for each SFL share.

Morgan Stanley & Co. International plc, as Colonial's financial adviser, issued a fairness opinion aimed at the Company's Board of Directors.

Likewise, Grant Thornton, S.L.P. Sole-Shareholder Company, appointed as an independent expert by the Mercantile Register, issued reports relating to non-monetary contributions to be made within the framework of Predica's Contribution and the Bid, pursuant to article 67 of the Consolidated Corporate Enterprises Act approved by Legislative Royal Decree 1/2010, of 2 July.

It is stated that Colonial and Predica do not act nor intend to act in agreement in relation to the aforementioned corporate transactions. Both the exchange of Assets and Predica's Contribution are subject to certain similar conditions common to this type of corporate transactions.

On 28 June 2021, the Parent's General Shareholders' Meeting approved the capital increases required, with a charge to non-monetary contributions, to be subscribed by Predica in the context of its Contribution and by those SFL shareholders that accept the Bid.

On 20 July 2021, the French financial markets authority (“the AMF”) authorised (conformité) the takeover bid prepared by Colonial on all the ordinary shares of Société Foncière Lyonnaise (“SFL”) owned by the shareholders of SFL other than Colonial and Predica Prévoyance Dialogue du Crédit Agricole (the “Bid”), whose acceptance period runs from 22 July 2021 to 25 August 2021, both inclusive.

Other subsequent events -

On 8 July 2021, the Parent increased by 125,000 thousand euros the amount of the bond issues made in June 2021, maturing in 2029 and with a coupon of 0.75% (Note 9.1).

On 13 July 2021, the Parent agreed to implement a programme to repurchase own shares in accordance with the authorisation granted by the General Shareholders' Meeting held on 29 June 2017. The purpose of the plan is to comply with the obligations arising from the share plan approved by the General Shareholders' Meeting on 30 June 2021. The maximum monetary amount assigned to the programme amounts to 50,000 thousand euros and the maximum number of shares to be acquired is 5,000,000 shares, equivalent to 1% of the Parent's current share capital. The programme will last at the most until 31 December 2021. However, it would end early if the maximum number of shares or the maximum monetary amount is reached before said date.

On 19 July 2021, the forced repurchase of the Parent's bonds materialised with a coupon of 2.728%, pending maturity in June 2023, amounting to 237,200 thousand euros (Note 9.1).

There were no other significant subsequent events.

1.8 Negative working capital

At 30 June 2021, the Group held negative working capital, including the assets classified as held for sale, amounting to 352,971 thousand euros, mainly as a result of (i) the reclassification as a current liability of the amount of the forced sale and purchase of the issuance of bonds of the Parent with a coupon of 2.728% maturing in June 2021, amounting to 237,200 thousand euros, and which was enforced on 19 July 2021, and (ii) of the reclassification as a current liability of the issue of SFL bonds with a coupon of 1.875%, maturing in November 2021, amounting to 249,700 thousand euros.

The Group has cash and cash equivalents and liabilities available to meet these maturities (Note 9).

1.9 COVID-19 health crisis

As indicated in Note 2.10 to the 2020 consolidated financial statements, the COVID pandemic significantly affected the economy in general, both on our domestic markets and on a global level. Economic activity was interrupted from the second quarter of 2020 by different waves of contagion, so Colonial's priority was at all times to ensure the health and safety of all our teams, customers and suppliers.

In this context, Colonial continued to offer all services with the maximum standards of security and quality. Activity remained stable and the results at the end of 2020 reflected the strength of Colonial's portfolio and the resistance of its business model.

During the first semester of 2021, the Group maintained the measures adopted in 2020 to limit the impact of the pandemic on its activity and results as far as possible.

The Group granted new discounts and deferrals to its customers, although they were not significant.

The Group's collection rate remains at very high levels (98%), and the unpaid amounts that may have arisen were analysed case by case, with the appropriate provisions being recognised where appropriate. In addition, the Group collected the amounts of the deferrals granted to its customers in 2020, without generating any significant payments.

2 Changes in Group composition

On 24 February 2021, the Parent acquired 3.19% of the share capital of the subsidiary Utopicus Innovación Cultural, S.L. amounting to 100 thousand euros, to hold 100% of the share capital of that subsidiary.

The changes in the scope in 2020 are found in Note 2.6 to the consolidated financial statements for the year ended 31 December 2020. Likewise, in the Appendix to the consolidated financial statements for the year ended 31 December 2020, significant information was provided on the Group companies that were consolidated at that date.

3 Earnings per share from ordinary activities

Basic earnings per share are calculated by dividing net profit attributable to shareholders of the Parent (after tax and non-controlling interests) by the weighted average number of shares issued reduced by the own shares during that period.

Both at 30 June 2021 and 2020, there were no instruments that may have had a significant diluting effect on the Parent's average number of ordinary shares.

	Thousands of Euros	
	30 June 2021	30 June 2020
Consolidated profit/(loss) attributable to shareholders of the Parent:	161,899	(26,392)
	No. of shares	No. of shares
Average number of ordinary shares (in thousands)	504,834	507,617
	Euro	Euro
Basic earnings per share:	0.32	(0.05)
Diluted earnings per share:	0.32	(0.05)

4 Property, plant and equipment

The movement in this non-current asset heading of the condensed consolidated statement of financial position is as follows:

		Thousands of Euros		
	Note	Properties for own use	Other property, plant and equipment	Total
Balance at 31 December 2019		**44,301**	**6,599**	**50,900**
Acquisition cost		*51,280*	*15,684*	*66,964*
Accumulated depreciation		*(4,889)*	*(9,085)*	*(13,974)*
Accumulated impairment		*(2,090)*	--	*(2,090)*
Additions	-	5,283	2,542	7,825
Depreciation charge	-	(1,496)	(1,443)	(2,939)
Disposals acquisition cost	-	(117)	(362)	(479)
Disposals accumulated depreciation	-	28	328	356
Impairment	-	1,078	--	1,078
Balance at 31 December 2020		**49,077**	**7,664**	**56,741**
Acquisition cost		*56,446*	*17,864*	*74,310*
Accumulated depreciation		*(6,357)*	*(10,200)*	*(16,557)*
Accumulated impairment		*(1,012)*	--	*(1,012)*
Additions	-	286	294	580
Depreciation charge	-	(842)	(728)	(1,570)
Disposals acquisition cost	-	--	(269)	(269)
Disposals accumulated depreciation	-	--	253	253
Transfers acquisition cost	-	(1)	(842)	(843)
Transfers accumulated depreciation	-	--	--	--
Impairment	13.3	309	--	309
Balance at 30 June 2021		**48,829**	**6,372**	**55,201**
Acquisition cost		*56,731*	*17,047*	*73,778*
Accumulated depreciation		*(7,199)*	*(10,675)*	*(17,874)*
Accumulated impairment		*(703)*	--	*(703)*

At 30 June 2021 and 31 December 2020, 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 were destined for leasing purposes. The cost of buildings earmarked for the Group's own use is recognised under "Property for own use".

At 30 June 2021 and 2020, the need was disclosed to recognise a reversal of the impairment on the value of the assets in the amount of 309 thousand euros (2020: 909 thousand euros), calculated based on the appraisals of independent experts.

Lastly, assets amounting to 16 thousand euros were derecognised since they were replaced in the first half of 2021, in the amount of 16 thousand euros (2020: 123 thousand euros).

5 investment property

The movements in this non-current asset heading in the condensed consolidated statement of financial position is as follows:

		Thousands of Euros			
	Note	Investment property	Property, plant and equipment in the course of construction	Advances on property, plant and equipment	Total
Balance at 31 December 2019		**10,915,600**	**880,517**	**1,000**	**11,797,117**
Additions	-	40,187	162,251	--	202,438
Additions to the scope of consolidation	-	--	4,157	--	4,157
Withdrawals	-	(131,918)	--	(500)	(132,418)
Transfers	7	(259,011)	(18,481)	--	(277,492)
Change in fair value	-	(35,520)	(42,162)	--	(77,682)
Balance at 31 December 2020		**10,529,338**	**986,282**	**500**	**11,516,120**
Additions	-	31,361	106,461	--	137,822
Withdrawals	13.2	(453)	--	(500)	(953)
Transfers	7	66,157	(100,660)	--	(34,503)
Change in fair value	13.3	117,492	25,442	--	142,934
Balance at 30 June 2021		**10,743,895**	**1,017,525**	**--**	**11,761,420**

In the first semester of 2021, the Parent acquired an asset, amounting to 5,107 thousand euros, acquisition costs included, of which 500 thousand euros were received as an advance payment in previous years.

The remaining additions in the first semester of 2021 related to investments in property assets, both under development and operation, for an amount of 132,715 thousand euros, including 6,571 thousand euros in capitalised finance costs.

Derecognitions in the first semester of 2021, amounting to 453 thousand euros, relate to derecognitions for the replacement of certain investment property items.

Lastly, in the first half of 2021, a building located in Madrid was transferred to the "Assets classified as held for sale" heading in the condensed consolidated statement of financial position, amounting to 34,503 thousand euros.

5.1 Changes in value of investment property

The "Changes in value of investment property" heading in the condensed consolidated income statement includes the revaluation gains on investment property for the six-month period ended 30 June 2021 amounting to 142,934 thousand euros (2020: 107,236 thousand euros of losses), in accordance with the appraisals of independent experts at year-end.

In accordance with IAS 40, the Group calculates the fair value of its investment property on a regular basis. This fair value is determined based on the reference values of the valuations made on a six-monthly basis by independent experts (Jones Lang LaSalle and CB Richard Ellis Valuation in Spain and CBRE and Cushman & Wakefield in France) so that, at the close every six months, the fair value reflects the prevailing market conditions for the investment property at that date. The valuation reports prepared by independent experts contain only the standard warnings and/or disclaimers concerning the scope of the findings of the appraisals carried out, referring basically to the comprehensiveness and accuracy of the information provided by the Group, except for those described in the following paragraph.

At 30 June 2021, the Group's appraisals were updated, based on the contract portfolio to date and on the new yields. The breakdown of the variation in yields is shown in the following table:

Yields (%) - Offices	30 June 2021	31 December 2020
Barcelona – Prime Yield		
Leased out	4.31	4.37
Total portfolio	4.33	4.38
Madrid – Prime Yield		
Leased out	4.14	4.24
Total portfolio	4.19	4.27
Paris – Prime Yield		
Leased out	3.01	3.03
Total portfolio	2.99	3.01

A change of one-quarter of one point in yields has the following impact on the valuations used by the Group to determine the value of its property assets (Property, plant and equipment -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
June 2021	12,016,897	911,575	(778,871)
December 2020	12,020,024	912,800	(780,310)

A reconciliation of the valuations used by the Group to the carrying amounts of the condensed consolidated statement of financial position in which the appraised assets are located is as follows:

		Thousands of Euros	
	Note	30 June 2021	31 December 2020
Condensed consolidated statement of financial position headings -			
Property, plant and equipment – Own use	4	37,531	37,494
investment property	5	11,761,420	11,515,620
Inventories	-	55,352	52,409
Assets classified as held for sale	7	38,238	281,959
Trade and other receivables – Lease incentives	6	78,397	81,493
Intangible assets – Lease rights acquired	-	465	1,002
Total condensed consolidated statement of financial position headings		**11,971,403**	**11,969,977**
Unrealised gains on assets recognised under IAS 16	-	39,110	39,568
Unrealised gains other assets	-	6,384	10,479
Valuation		**12,016,897**	**12,020,024**

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.

5.2 Other disclosures

At 30 June 2021, the Group had pledged assets as collateral for mortgage loans (Note 9.7), the carrying amount of which was 1,171,603 thousand euros (2020: 1,176,881 thousand euros), to secure debts amounting to 271,740 thousand euros (2020: 272,780 thousand euros).

6 Trade and other receivables and Other non-current assets

The detail of heading of current assets of the condensed consolidated statement of financial position is as follows:

	Thousands of Euros			
	30 June 2021		31 December 2020	
	Current	Non-current	Current	Non-current
Trade receivables from sales and services	25,690	--	12,945	--
Trade receivables for property sales	574	--	648	--
Accrual of lease incentives	21,766	56,631	21,690	59,803
Other receivables	4,122	--	4,907	--
Other assets	7,444	18,600	138	26,832
Impairment of receivables -				
- Trade receivables from sales and services	(8,817)	--	(10,635)	--
Total trade and other receivables	**50,779**	**75,231**	**29,693**	**86,635**

6.1 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 with no significant overdue amounts.

6.2 Accrual of lease incentives

This includes the amount of the incentives in the operating lease agreements (grace periods, etc.) that the Group offers its customers, which are recognised in the income statement during the minimum operating lease term.

6.3 Impairment of receivables

Given the breakdown of the Colonial Group's lessee portfolio, formed by companies of recognised prestige with proven financial solvency, the scant history of losses from receivable balances in the last 10 years, including the years of the financial crisis, the Colonial Group considered that the impairment due to the expected loss from these financial assets is not significant.

Despite that, the Group companies analysed the receivable balances for sales and services on an individual basis and recognised the corresponding impairment for an amount equal to the expected credit losses. In the framework of the COVID-19 pandemic, the Group did not recognise a significant increase in the amount of the impairment of receivables.

7 Assets classified as held for sale

The movement in this heading of assets of the condensed consolidated statement of financial position is as follows:

		Thousands of Euros	
		investment property	
	Note	30 June 2021	31 December 2020
Opening balance		**281,959**	**176,434**
Increase	-	6	6,680
Transfers	5	34,963	283,315
Withdrawals	13.2	(281,961)	(183,100)
Changes in value	13.3	3,271	(1,370)
Closing balance		**38,238**	**281,959**

In January and February 2021, the three buildings transferred in 2020, one of the Parent and two of SFL, were disposed of, for a joint sale amount of 283,500 thousand euros, giving rise to a net profit of 590 thousand euros, taking into account the indirect costs of the sale. These assets were recognised at 31 December 2020 at their sales price, reduced by the estimated indirect costs associated with these sales.

In June 2021, an asset amounting to 34,963 thousand euros, including 460 thousand euros of lease incentives, was transferred to the "Assets classified as held for sale" heading in the condensed consolidated statement of financial position.

“Changes in value of investment property” in the condensed consolidated income statement includes the profit from the revaluation of the investment property reclassified to "Assets classified as held for sale" for the six-month period ended 30 June 2021, amounting to 3,271 thousand euros (at 30 June 2020: (14 thousand euros of losses).

8 Equity

8.1 Share capital

At both 30 June 2021 and 31 December 2020, the share capital was represented by 508,114,781 fully subscribed and paid shares of 2.5 euros par value each.

Based on the 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 were as follows:

	30 June 2021		31 December 2020	
	Number of shares*	% ownership	Number of shares*	% ownership
Name or corporate name of the shareholder:				
Qatar Investment Authority (**)	102,675,757	20.21%	102,675,757	20.21%
Finaccess Group	80,028,647	15.75%	80,028,647	15.75%
Inmo S.L.	29,002,980	5.71%	29,002,980	5.71%
Aguila Ltd.	28,880,815	5.68%	28,880,815	5.68%
PGGM Vermongensbeheer B.V.	24,865,302	4.89%	25,438,346	5.01%
Norges Bank	15,375,588	3.03%	--	--
BlackRock Inc	14,619,478	2.88%	15,343,358	3.02%

* Does not include certain financial instruments linked to shares of the Parent.
** Qatar Investment Authority is responsible for managing 21,782,588 shares of the Parent owned by DIC Holding, LLC.

The Parent has no knowledge of other significant equity interests.

The Parent's General Shareholders' Meeting held on 30 June 2021 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 five years, bonds convertible into new shares of the Parent or other similar securities that may give the right, directly or indirectly, to subscribe shares of the Parent, with the express power to exclude the pre-emptive subscription right of the shareholders up to a maximum of 20% of the share capital, and to increase the 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 30 June 2021, the Parent's General Shareholders' Meeting resolved to authorise the Board of Directors, in accordance with article 297.1 b) of the Spanish Companies Act, 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 preferential subscription right up to a maximum of 20% of the share capital.

8.2 Share premium

In 2020, the amount of the share premium was reduced by 22,469 thousand euros, as a result of the dividend distribution resolution approved by the General Shareholders' Meeting on 30 June 2020.

On 30 June 2021, the General Shareholders' Meeting resolved to distribute dividends with a charge to the share premium amounting to 111,088 thousand euros.

8.3 Own shares

The number of the Parent's own shares and their acquisition cost were as follows:

	30 June 2021		31 December 2020	
	No. of shares	Thousands of Euros	No. of shares	Thousands of Euros
Free tranche	2,943,007	21,308	3,131,110	22,546
Liquidity contracts	229,500	1,903	229,500	1,894
Closing balance	**3,172,507**	**23,211**	**3,360,610**	**24,440**

8.3.1.1 Deliveries of Parent shares deriving from the long-term Incentives Plan -

Every year, the Parent settles the obligations to comply with the previous year's share 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.

In April 2021, the Parent settled the outstanding obligations relating to compliance with the plan once the Board had calculated the number of shares to be delivered to the beneficiaries of the Plan, in accordance with the level of fulfilment of indicators for 2020, which stood at 296,337 shares. Certain beneficiaries thereof granted the Parent part of the shares (108,234 shares) provided to them to meet the payment of taxes arising from the delivery of said shares.

8.4 Other reserves

The following table shows details of the condensed consolidated statement of financial position item "Other reserves" and of the movements in these reserves during the year:

		Thousands of Euros					
	Note	Legal reserve	Other reserves	Valuation of financial hedge instruments	Share-based payments	Transaction s with non-controlling interests	**Total**
At 1 January 2020		**45,980**	**141,973**	**22,403**	**9,678**	**55,195**	**275,229**
Revaluation – gross	-	--	--	(44,609)	--	--	(44,609)
Non-controlling interest in revaluation - gross	8.6	--	--	1,073	--	--	1,073
Reclassification to profit/(loss) - gross	-	--	--	1,676	--	--	1,676
Other comprehensive income		--	--	(41,860)	--	--	(41,860)
Transfer to/from retained earnings	-	8,787	--	--	--	--	8,787
Transactions with owners in their capacity as such:							
Share-based payments	-	--	--	--	2,732	--	2,732
At 31 December 2020		**54,767**	**141,973**	**(19,457)**	**12,410**	**55,195**	**244,888**

		Thousands of Euros					
	Note	Legal reserve	Other reserves	Valuation of financial hedge instruments	Share-based payments	Transactions with non-controlling interests	**Total**
At 1 January 2021		**54,767**	**141,973**	**(19,457)**	**12,410**	**55,195**	**244,888**
Revaluation – gross	-	--	--	31,143	--	--	31,143
Non-controlling interest in revaluation - gross	8.6	--	--	(701)	--	--	(701)
Reclassification to profit/(loss) - gross	10	--	--	(8,912)	--	--	8,912
Other comprehensive income		--	--	21,530	--	--	21,530
Transactions with owners in their capacity as such:							
Share-based payments	-	--	--	--	120	--	120
Transactions with non-controlling interests	-	--	--	--	--	209	209
At 30 June 2021		**54,767**	**141,973**	**2,073**	**12,530**	**55,404**	**266,747**

8.5 Retained earnings

The changes in retained earnings are as follows:

		Thousands of Euros	
	Note	30 June 2021	31 December 2020
Opening balance at		**2,418,533**	**2,505,512**
Net profit for the year	3	161,899	2,387
Charge to the legal reserve	8.4	--	(8,787)
Components of other comprehensive income recognised directly in retained earnings:			
Gains/(Losses) on transactions with own shares	-	125	(1,777)
Dividends	-	--	(79,082)
Other gains/(losses)	-	349	280
Closing balance at		**2,580,906**	**2,418,533**

Gains/(losses) on transactions with own shares relate to the deliveries of own shares to the beneficiaries of the long-term incentives plan, calculated as the difference between the carrying amount of the shares delivered and the amount of the obligation assumed by the Parent.

8.6 Non-controlling interests

The movement in this heading of the condensed consolidated statement of financial position is as follows:

		Thousands of Euros				
	Note	Inmocol Torre Europa, S.A.	Utopicus subgroup	SFL subgroup	Wittywood, S.L.	Total
Balance at 31 December 2019		**12,610**	**575**	**1,388,714**	**--**	**1,401,899**
Income for the financial year	-	(1,163)	(266)	61,524	335	60,430
Dividends and other	-	--	--	(32,692)	(1)	(32,693)
Changes in the scope of consolidation	-	--	--	--	4,053	4,053
Financial hedge instruments	-	--	--	(1,073)	--	(1,073)
Balance at 31 December 2020		**11,447**	**309**	**1,416,473**	**4,387**	**1,432,616**
Income for the financial year	-	103	--	26,063	201	26,367
Dividends and other	-	--	--	(27,384)	--	(27,384)
Changes in the scope of consolidation	2	--	(309)	--	--	(309)
Financial hedge instruments	-	--	--	701	--	701
Balance at 30 June 2021		**11,550**	**--**	**1,415,853**	**4,588**	**1,431,991**

The breakdown of the items included in "Dividends and others" is as follows:

	Thousands of Euros	
	30 June 2021	31 December 2020
Dividend paid by the SFL subgroup to non-controlling interests	(17,829)	(22,466)
Dividend paid by Washington Plaza to non-controlling interests	(9,944)	(10,801)
Others	389	574
Total	**(27,384)**	**(32,693)**

9 Bank borrowings and other financial liabilities

The detail of these headings of the condensed consolidated statement of financial position, by type of debt and maturity, is as follows:

30 June 2021	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	21,780	--	--	--	--	--	--	21,780
Loans	2,080	193,960	75,700	--	--	--	269,660	271,740
Interest	1,212	--	--	--	--	--	--	1,212
Debt arrangement expenses	(2,310)	(1,965)	(1,658)	(1,225)	(385)	--	(5,233)	(7,543)
Total bank borrowings	22,762	191,995	74,042	(1,225)	(385)	--	264,427	287,189
Other financial liabilities:								
Current accounts	62,112	--	--	--	--	--	--	62,112
Interest on current accounts	25	--	--	--	--	--	--	25
Other financial liabilities	2,473	--	--	--	--	--	--	2,473
Total other financial liabilities	64,610	--	--	--	--	--	--	64,610
Total bank borrowings and other financial liabilities	**87,372**	**191,995**	**74,042**	**(1,225)**	**(385)**	**--**	**264,427**	**351,799**
Bonds and similar securities issued:								
Bond issues and promissory notes	486,900	289,600	--	687,200	1,150,000	1,850,000	3,976,800	4,463,700
Interest	41,589	--	--	--	--	--	--	41,589
Debt arrangement expenses	(5,232)	(4,973)	(4,875)	(4,677)	(3,144)	(5,052)	(22,721)	(27,953)
Total bonds and similar securities issued	**523,257**	**284,627**	**(4,875)**	**682,523**	**1,146,856**	**1,844,948**	**3,954,079**	**4,477,336**
Issuance of promissory notes	30,000	--	--	--	--	--	--	30,000
Total issue trade bills	**30,000**	**--**	**--**	**--**	**--**	**--**	**--**	**30,000**
Total	**640,629**	**476,622**	**69,167**	**681,298**	**1,146,471**	**1,844,948**	**4,218,506**	**4,859,135**

31 December 2020	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	4,352	--	--	--	--	--	--	4,352
Loans	2,081	194,999	75,700	--	--	--	270,699	272,780
Interest	1,247	--	--	--	--	--	--	1,247
Debt arrangement expenses	(2,303)	(2,132)	(1,855)	(1,385)	(985)	--	(6,357)	(8,660)
Total bank borrowings	5,377	192,867	73,845	(1,385)	(985)	--	264,342	269,719
Other financial liabilities:								
Current accounts	52,168	--	--	--	--	--	--	52,168
Interest on current accounts	27	--	--	--	--	--	--	27
Other financial liabilities	2,474	--	--	--	--	--	--	2,474
Total other financial liabilities	54,669	--	--	--	--	--	--	54,669
Total bank borrowings and other financial liabilities	**60,046**	**192,867**	**73,845**	**(1,385)**	**(985)**	**--**	**264,342**	**324,388**
Bonds and similar securities issued:								
Bond issues	249,700	289,600	306,200	493,300	1,000,000	2,000,000	4,089,100	4,338,800
Interest	28,420	--	--	--	--	--	--	28,420
Debt arrangement expenses	(5,224)	(4,991)	(4,595)	(4,335)	(3,113)	(3,306)	(20,340)	(25,564)
Total bonds and similar securities issued	**272,896**	**284,609**	**301,605**	**488,965**	**996,887**	**1,996,694**	**4,068,760**	**4,341,656**
Issuance of promissory notes	235,000	--	--	--	--	--	--	235,000
Total issue trade bills	**235,000**	**--**	**--**	**--**	**--**	**--**	**--**	**235,000**
Total	**567,942**	**477,476**	**375,450**	**487,580**	**995,902**	**1,996,694**	**4,333,102**	**4,901,044**

The changes in net financial debt in the first half of 2021, which arose from cash flows and others, are detailed in the table below:

	Thousands of Euros		
	31 December 2020	Cash flows	30 June 2021
Lines of credit	4,352	17,428	21,780
Loans	272,780	(1,040)	271,740
Issuance of promissory notes	235,000	(205,000)	30,000
Bond issues	4,338,800	124,900	4,463,700
Gross financial debt (gross nominal debt)	**4,850,932**	**(63,712)**	**4,787,220**
Cash and cash equivalents	(268,553)	(129,293)	(397,846)
Net financial debt	**4,582,379**	**(193,005)**	**4,389,374**

9.1 Issues of the Parent's straight bonds

The breakdown of the issues of straight bonds by the Parent is as follows:

				Thousands of Euros		
Issue	Duration	Maturity	Fixed-rate coupon payable annually	Amount of the issue	30 June 2021	31 December 2020
06-15	8 years	06-2023	2.728%	500,000	237,200	306,200
10-16	8 years	10-2024	1.450%	600,000	187,200	493,300
11-16	10 years	11-2026	1.875%	50,000	50,000	50,000
11-17	8 years	11-2025	1.625%	500,000	500,000	500,000
11-17	12 years	11-2029	2.500%	300,000	300,000	300,000
04-18	8 years	04-2026	2.000%	650,000	650,000	650,000
10-20	8 years	10-2028	1.350%	500,000	500,000	500,000
06-21	8 years	06-2029	0.750%	500,000	500,000	--
Total issues					**2,924,400**	**2,799,500**

The bonds were admitted for trading on the Irish Stock Exchange's main *securities market*.

On 14 June 2021, the Parent launched an invitation to the holders of the bonds with a coupon of 2.728%, maturing in June 2023 (the “2023 bonds”), and with a coupon of 1.45%, maturing in October 2024 (the “2024” bonds, and together with the 2023 Bonds, the “Bonds”) to make a sales offering of the bonds to Colonial in exchange for cash. Likewise, in relation to the 2023 Bonds, the Parent announced that it expected to exercise its right to amortise (in conformity with the terms and conditions of the 2023 Bonds) each of the 2023 Bonds not acquired by the Parent in the offer, if any, for the total amount of the redemption, which will be calculated in conformity with the terms and conditions of the 2023 Bonds.

On 21 June 2021, the Parent announced the result of the Offer, which amounted to 69,000 thousand euros for the 2023 Bonds and 306,100 thousand euros for the 2024 Bonds.

On 15 June 2021, as part of the “*Euro Medium Term Note Programme*”, the Parent agreed to issue straight bonds for a total nominal amount of 500,000 thousand euros, maturing in June 2029, an annual coupon of 0.750% and an issue price of 98.969% of their nominal value.

At 30 June 2021, the fair value of the bonds issued by the Parent was 3,092,410 thousand euros (2020: 2,987,681 thousand euros).

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 30 June 2021 and 31 December 2020.

9.2 Issue of SFL straight bonds

The breakdown of issues of non-convertible bonds by SFL is as follows:

				Thousands of Euros		
Issue	Duration	Maturity	Fixed-rate coupon payable annually	Amount of the issue	30 June 2021	31 December 2020
11-14	7 years	11-2021	1.875%	500,000	249,700	249,700
11-15	7 years	11-2022	2.250%	500,000	289,600	289,600
05-18	7 years	05-2025	1.500%	500,000	500,000	500,000
06-20	7 years	06-2027	1.500%	500,000	500,000	500,000
Total issues					**1,539,300**	**1,539,300**

The bonds were admitted for trading on the Euronext Paris regulated market.

At 30 June 2021, the fair value of the bonds issued by SFL was 1,609,064 thousand euros (2020: 1,615,147 thousand euros).

9.3 Issuance of promissory notes by the Parent

In December 2018, the Parent registered on the Irish Stock Exchange a commercial paper programme (European Commercial Paper)for a maximum limit of 300,000 thousand euros maturing at short term, subsequently extended to 500,000 thousand euros. At 30 June 2021, there were no issues under way (2020: 70,000 thousand euros).

9.4 Issuance of SFL promissory notes

In September 2018, the subsidiary SFL registered a short-term promissory note (NEU CP) issuance programme for a maximum amount of 500,000 thousand euros. This programme was renewed on 18 May 2021. The issues in force at 30 June 2021 amounted to 30,000 thousand euros (2020: 165,000 thousand euros).

9.5 Syndicated financing of the Parent

The breakdown of the Parent's syndicated financing is provided below:

Thousands of Euros	Maturity	30 June 2021 Limit	30 June 2021 Nominal amount drawn down	31 December 2020 Limit	31 December 2020 Nominal amount drawn down
Credit facility	11-2025	500,000	--	500,000	--
Credit facility (extendable annually for two years until 2027)	11-2025	500,000	--	500,000	--
Total syndicated financing of the Parent		**1,000,000**	**--**	**1,000,000**	**--**

The interest rate is variable with a spread tied to the Euribor.

Compliance with financial ratios –

At 30 June 2021 and 31 December 2020, the Parent complied with all the financial ratios envisaged in its loan agreements.

9.6 SFL syndicated loan

The breakdown of SFL's syndicated loan is shown in the following table:

Thousands of Euros	Maturity	30 June 2021 Limit	30 June 2021 Nominal amount drawn down	31 December 2020 Limit	31 December 2020 Nominal amount drawn down
Credit facility	06-2024	390,000	--	390,000	--
Total SFL syndicated loan		**390,000**	**--**	**390,000**	**--**

The interest rate is variable with a spread tied to the Euribor.

Compliance with financial ratios -

At 30 June 2021 and 31 December 2020, SFL complied with the financial ratios envisaged in its respective loan agreements.

9.7 Mortgage-backed loans

The detail of the mortgage-backed loans held by the Group on certain investment properties are presented in the following table:

		Thousands of Euros			
		30 June 2021		31 December 2020	
	Note	Mortgage debt	Market value of collateral	Mortgage debt	Market value of collateral
investment property	5.2	271,740	1,186,537	272,780	1,189,729
Total mortgage-backed loans		**271,740**	**1,186,537**	**272,780**	**1,189,729**

The Parent holds a "sustainable loan" amounting to 75,700 thousand euros, with a variable interest rate tied to the Euribor plus a spread. Also, this spread may vary by +/-5 basis points according to the rating that the Parent obtains in relation to ESG (environment, social and corporate governance) from the GRESB Sustainability Organisation.

Also, the SFL subgroup maintains a fixed rate mortgage loan, in the amount of 196,040 thousand euros (2020: 197,080 thousand euros).

Compliance with financial ratios -

The Group's mortgage-backed loans are subject to compliance with various financial ratios. At 30 June 2021 and 31 December 2020, the Group complied with the financial ratios demanded in its mortgage loan agreements.

9.8 Other loans

The Group has 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:

			30 June 2021		31 December 2020	
Thousands of Euros	Society	Maturity	Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
BECM	SFL	07-2023	150,000	--	150,000	--
BNP Paribas	SFL	05-2025	150,000	--	150,000	--
CADIF	SFL	06-2023	175,000	--	175,000	--
Banque Postale	SFL	06-2024	75,000	--	75,000	--
Société Générale	SFL	10-2025	100,000	--	100,000	--
Total other loans			**650,000**	**--**	**650,000**	**--**

Compliance with financial ratios -

All the loans are subject to compliance with certain financial ratios on a quarterly basis for the Parent and on a half-yearly basis for the subsidiary SFL.

At 30 June 2021 and 31 December 2020, the Parent and the subsidiary SFL complied with all the financial ratios envisaged in their respective loan agreements.

9.9 Lines of credit

The Group had drawn down facilities for a joint amount of 21,780 thousand euros (2020: 4,352 thousand euros).

9.10 Other financial liabilities - Current accounts

At 30 June 2021, the subsidiary SCI Washington had a current account with its shareholder amounting to 55,567 thousand euros (2020: 49,866 thousand euros). Likewise, the Parholding subgroup also had a current account with the same shareholder which, at 30 June 2021, amounted to 6,545 thousand euros (2020: 2,302 thousand euros). These current accounts accrue interest tied to the three-month Euribor plus an additional spread.

9.11 Guarantees given

At 30 June 2021, the Parent had granted guarantees to government bodies, customers and suppliers in the amount of 9,620 thousand euros (2020: 9,121 thousand euros).

Of the total guarantees delivered, the main one granted, in the amount of 4,803 thousand euros, relates to commitments acquired by Asentia. Accordingly, the Parent and Asentia have an agreement in place whereby if any of the guarantees are enforced, Asentia must compensate the Parent for any losses incurred within 15 days.

9.12 Cash and cash equivalents

The condensed consolidated statement of financial position at 30 June 2021 included cash and cash equivalents amounting to 397,846 thousand euros (2020: 268,553 thousand euros), of which 119,956 thousand euros were pledged or of restricted use, of which 118,179 correspond to a restricted balance as a result of the announcement of a voluntary takeover bid on shares of SFL in the hands of non-controlling interests (Note 1.7) (2020: 1,777 thousand euros).

9.13 Debt arrangement expenses

In the first semester of 2021 and 2020, the condensed consolidated income statement included 3,105 thousand euros and 1,631 thousand euros, respectively, corresponding to the costs amortised in the year (Note 13.4).

9.14 Loan interest

The Group's average interest rate in the first semester of 2021 was 1.83% (2020: 1.80%) or 2.26% including the accrual of fees (2020: 2.08%). The average interest rate on the Group's debt at 30 June 2021 (spot) is 1.69% (2020: 1.69%).

The accrued interest outstanding recognised in the condensed consolidated statement of financial position amounted to:

	Thousands of Euros	
	30 June 2021	31 December 2020
Obligations	41,589	28,420
Bank borrowings	1,212	1,247
Other financial liabilities - Current accounts	25	27
Total	**42,826**	**29,694**

The amount corresponding to the obligations includes the cost of cancelling the Parent's outstanding obligations at 30 June 2021, amounting to 237,200 thousand euros, following the irrevocable notification of the enforcement of the forced sale and purchase clause by the Parent itself on 14 June 2021. The repurchase cost booked at 30 June 2021 amounted to 13,877 thousand euros.

9.15 Capital management and risk management policy

The basic risks to which the Group is exposed and the risk management policies are detailed in the financial statements for the year ended 31 December 2020, and are reproduced in the interim consolidated directors' report which forms part of these interim financial statements.

10 Derivative financial instruments

The following table details the financial instruments and their fair values:

	Society	Counterparty	Interest rate	Maturity	Nominal value (thousands of euros)	Fair value – Asset / (Liability)
Cash flow hedges-						
Collar	SFL	Société Générale	-0.11%/-0.60%	2026	100,000	676
Collar	SFL	CIC	-0.25%/-0.52%	2027	100,000	1,340
Cash flow hedges on future envisaged transactions -						
Swap	SFL	CA-CIB	-0.3475%	2026	100,000	554
Swap	SFL	CIC	-0.4525%	2026	100,000	1,093
Swap	Colonial	Natwest	0.3460%	2033	25,000	158
Swap	Colonial	Natwest	0.3490%	2033	150,000	905
Swap	Colonial	CA-CIB	0.5730%	2034	85,000	(297)
Swap	Colonial	BBVA	0.5673%	2034	82,500	(160)
Swap	Colonial	CaixaBank	0.5695%	2034	82,500	(243)
Swap	Colonial	SocGen	0.6190%	2035	375,000	(1,283)
Total at 30 June 2021					**1,200,000**	**2,743**

	Society	Counterparty	Interest rate	Maturity	Nominal value (thousands of euros)	Fair value – Asset / (Liability)
Cash flow hedges-						
Collar	SFL	Société Générale	0%/-0.7525%	2026	100,000	46
Collar	SFL	CIC	-0.25%/-0.52%	2027	100,000	165
Cash flow hedges on future envisaged transactions -						
Swap	SFL	CA-CIB	-0.3475%	2026	100,000	(457)
Swap	SFL	CIC	-0.4525%	2026	100,000	76
Swap	Colonial	Natwest	0.0835%	2032	350,000	(6,734)
Swap	Colonial	Natwest	0.0935%	2032	110,000	(2,217)
Swap	Colonial	CA-CIB	0.0980%	2032	40,000	(782)
Swap	Colonial	Natwest	0.3460%	2033	50,000	(1,586)
Swap	Colonial	Natwest	0.3490%	2033	150,000	(4,796)
Swap	Colonial	Barclays	0.3515%	2033	100,000	(3,203)
Total at 31 December 2020					**1,200,000**	**(19,488)**

In the first semester of 2021, the Parent cancelled swaps for a nominal amount of 625,000 thousand euros, all of them maturing in 2032 and 2033. These cancellations led net income of 8,719 thousand euros to be recognised in the condensed consolidated income statement at 30 June 2021. Alongside this, the Parent arranged new derivative financial instruments totalling 625,000 thousand euros, maturing in 2033, 2034 and 2035.

The impact on the condensed consolidated income statement of the recognition of derivative financial instruments is shown in the following table:

		Thousands of Euros	
	Note	June 2021	June 2020
Income from derivative financial instruments*		8,912	--
Financial derivative expense		(193)	(1,618)
Net gains/(losses) on derivative financial instruments	13.4	**8,719**	**(1,618)**

* The cancellations of derivative financial instruments led to a transfer to the condensed consolidated statement of comprehensive income of the amount recognised in equity, generating income of 8,912 thousand euros.

10.1 Hedge accounting -

At 30 June 2021 and 31 December 2020, the Parent and the subsidiary SFL applied hedge accounting to all derivative financial instruments.

At 30 June 2021, the accumulated impact recognised as a result of hedge accounting directly in consolidated equity gave rise to a payable balance of 2,073 thousand euros (Note 8.4), net of the tax effect and consolidation adjustments (2020: receivable balance of 19,457 thousand euros).

10.2 Fair value of derivative financial instruments -

The fair value of the derivative financial instruments was calculated by discounting estimated future cash flows based on an interest rate curve and on assigned volatility at 30 June 2021, using the appropriate discount rates established by an independent expert.

Changes of +/- 25 basis points in the interest rate curve have an effect on the fair value of derivative financial instruments of 21,877 thousand euros and -26,700 thousand euros, respectively.

11 Trade payables and other non-current liabilities

"Trade and other payables" in the condensed consolidated statement of financial position includes the dividend approved by the General Shareholders' Meeting held on 30 June 2021, amounting to 111,088 thousand euros, which was paid in July 2021.

12 Tax matters

The detail of the "Non-Current Deferred Tax Liabilities" heading on the non-current liability side of the condensed consolidated statement of financial position is as follows:

	Thousands of Euros	
	30 June 2021	31 December 2020
Deferred tax liabilities	365,452	366,989
Non-current tax liabilities	--	--
	365,452	366,989

12.1 Deferred tax liabilities

The breakdown of deferred tax liabilities and the changes therein are provided below:

	Thousands of Euros			
Deferred tax liabilities	31 December 2020	Increase	Derecognitions	30 June 2021
Asset revaluations	361,919	430	(1,875)	360,474
Asset revaluations (Spain)	144,653	430	--	145,083
Asset revaluations (France)	217,266	--	(1,875)	215,391
Deferral for reinvestment	4,595	--	(93)	4,502
Others	475	1	--	476
	366,989	431	(1,968)	365,452

13 Income and expenses

13.1 Revenue

Revenue comprises rental income from the Group’s rental properties, which are basically concentrated in the cities of Barcelona, Madrid and Paris, whose distribution by geographical segments is presented in the following table:

Rental segment	Thousands of Euros	
	June 2021	June 2020
Barcelona*	22,910	25,841
Madrid*	45,918	59,106
Rest of Spain*	985	1,970
Paris	86,077	91,190
Total	**155,890**	**178,107**

* Includes coworking client income of 3,824 thousand euros and 3,705 thousand euros at 30 June 2021 and 2020, respectively.

Income includes the effect of deferring grace periods and rent reset clauses throughout the term elapsing between the start of the lease agreement and the first option to renew it. At 30 June 2021, the impact of previous accruals decreased revenue by 2,746 thousand euros (2020: increase of 5,330 thousand euros).

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	
	30 June 2021	31 December 2020
Within one year	*307,169*	*309,994*
Spain	124,608	133,905
France	182,561	176,089
1 to 5 years	*633,642*	*655,130*
Spain	191,173	212,970
France	442,469	442,160
More than five years	*472,774*	*454,569*
Spain	34,800	39,708
France	437,974	414,861
Total	**1,413,585**	**1,419,693**
Spain	*350,581*	*386,583*
France	*1,063,004*	*1,033,110*

13.2 Net gains on sales of assets

The breakdown of the Group's net gains on sales of assets (Notes 5 and 7), and their geographical distribution, is detailed as follows:

	Thousands of Euros					
	Spain		France		Total	
	June 2021	June 2020	June 2021	June 2020	June 2021	June 2020
Sale price	19,500	13,800	264,000	--	283,500	13,800
Asset derecognition	(19,277)	(11,540)	(262,684)	--	(281,961)	(11,540)
Indirect costs and other	272	(508)	(1,221)	--	(949)	(508)
Net gains on sales of assets	**495**	**1,752**	**95**	**--**	**590**	**1,752**

The assets classified as held for sale are recognised for accounting purposes at their estimated sales price, reduced by the indirect costs associated with the sale.

The indirect costs and other costs from asset sales in Spain in the first semester of 2021 include the reversal of certain sales costs provisioned in 2020, amounting to 632 thousand euros.

13.3 Changes in the value of assets and impairment

The breakdown of "Changes in fair value of investment properties" in the condensed consolidated income statement, by type, is as follows:

		Thousands of Euros	
	Note	June 2021	June 2020
investment property	5	142,934	(107,236)
Assets classified as held for sale – Investment property	7	3,271	(14)
Changes in value of investment property		**146,205**	**(107,250)**
Spain		91,528	(150,056)
France		54,677	42,806

The breakdown, by nature, of the impairment losses recognised under “Gains/(losses) due to changes in value of assets and impairment” in the condensed consolidated income statement is detailed in the following table:

	Note	Thousands of Euros	
		June 2021	June 2020
Impairment/(Reversal of impairment) of properties for own use	4	309	909
Other impairment	-	--	(46)
Derecognitions of replaced assets	-	(480)	(225)
Impairment charges and net gains/(losses) on assets		**(171)**	**638**
Spain		(171)	684
France		--	(46)

13.4 Finance income and costs

The breakdown of financial loss by type, is as follows:

	Note	Thousands of Euros	
		June 2021	June 2020
Finance income:			
Interest and similar income	-	245	339
Income from derivative financial derivatives	10	8,912	--
Total finance income		**9,157**	**339**
Finance costs:			
Finance and similar expenses	-	(46,648)	(46,851)
Capitalised borrowing costs	-	6,571	4,979
Restated finance costs	-	(278)	(385)
Finance costs associated with the repurchase of bonds	9.1	(35,140)	--
Finance costs associated with arrangement costs	9.13	(3,015)	(1,631)
Financial derivative expense	10	(193)	(1,618)
Total finance costs		**(78,703)**	**(45,506)**
Total financial loss		**(69,546)**	**(45,167)**

14 Segment reporting

All the Group's activities are carried out in Spain and France. Segment reporting was as follows:

Segment reporting first half of 2021	Thousands of Euros							
	Property rentals (traditional business)					Flexible business	Corporate unit	Total Group
	Barcelona	Madrid	Paris	Remaining	Total Equity			
Income								
Revenue (Note 13.1)	21,172	43,946	86,077	871	152,066	3,824	--	155,890
Other income	4	3	309	--	316	--	1,062	1,378
Net gains on sales of assets (Note 13.2)	7	212	95	276	590	--	--	590
Changes in fair value of investment property (Note 13.3)	28,158	63,536	54,677	(166)	146,205	--	--	146,205
Gains/(losses) due to changes in value of assets and impairment (Note 13.3)	(199)	(254)	--	--	(453)	(25)	307	(171)
Profit / (Loss) from operations	45,959	99,431	137,292	2,099	284,781	262	(26,671)	258,372
Financial profit (Note 13.4)	--	--	--	--	--	--	(69,546)	(69,546)
Profit/(Loss) before tax	--	--	--	--	--	--	188,826	188,826
Consolidated net profit/(loss)	--	--	--	--	--	--	188,266	188,266
Net profit attributable to non-controlling interests (Note 8.6)	--	--	--	--	--	--	(26,367)	(26,367)
Net profit/(loss) attributable to shareholders of the Parent (Note 3)	--	--	--	--	--	--	161,899	161,899

The most significant transactions between segments in the first semester of 2021 were as follows:

	Thousands of Euros			
	Traditional business	Flexible business	Corporate Unit	Total Group
Income				
Revenue	3,526	--	--	3,526
Profit / (Loss) from operations	--	(3,526)	--	(3,526)

None of the Group's customers represented more than 10% of the income from ordinary activities.

Segment reporting first half of 2020	Thousands of Euros							
	Property rentals (traditional business)					Flexible business	Corporate unit	Total Group
	Barcelona	Madrid	Paris	Remaining	Total Equity			
Income								
Revenue (Note 13.1)	24,194	57,185	91,190	1,833	174,402	3,705	--	178,107
Other income	57	--	841	--	898	--	510	1,408
Net gains on sales of assets (Note 13.2)	(43)	926	--	869	1,752	--	--	1,752
Changes in fair value of investment property (Note 13.3)	(49,744)	(97,099)	42,806	(3,213)	(107,250)	--	--	(107,250)
Gains/(losses) due to changes in value of assets and impairment (Note 13.3)	(106)	(81)	--	--	(187)	(38)	863	638
Profit / (Loss) from operations	(27,741)	(45,439)	129,532	(529)	55,823	992	(24,398)	32,417
Financial profit (Note 13.4)	--	--	--	--	--	--	(45,167)	(45,167)
Profit/(Loss) before tax	--	--	--	--	--	--	(12,750)	(12,750)
Consolidated net profit/(loss)	--	--	--	--	--	--	(10,999)	(10,999)
Net profit attributable to non-controlling interests (Note 8.6)	--	--	--	--	--	--	(15,393)	(15,393)
Net profit/(loss) attributable to shareholders of the Parent (Note 3)	--	--	--	--	--	--	(26,392)	(26,392)

The most significant transactions between segments in the first semester of 2020 were as follows:

	Thousands of Euros			
	Traditional business	Flexible business	Corporate Unit	Total Group
Income				
Revenue	3,430	--	--	3,430
Profit / (Loss) from operations	--	(3,430)	--	(3,430)

None of the Group's customers represented more than 10% of the income from ordinary activities.

15 Related-party transactions and balances

At 30 June 2021 and 31 December 2020, the Group did not have any balances or transactions with related parties.

16 Remuneration and other benefits to the Board of Directors and senior management

16.1 Composition of the Board of Directors

The Parent's Board of Directors comprised eight men and three women at 30 June 2021, with its composition being as follows:

Director	Position	Type of director
Juan José Brugera Clavero	Chairman	Executive
Pedro Viñolas Serra	Vice-Chairman	Executive
Sheikh Ali Jassim M. J. Al-Thani	Director	Proprietary
Adnane Mousannif	Director	Proprietary
Carlos Fernández González	Director	Proprietary
Javier López Casado	Director	Proprietary
Juan Carlos García Cañizares	Director	Proprietary
Luis Maluquer Trepat	Coordinating Director	Independent
Ana Mónica Alonso-Castrillo Allain	Director	Independent
Ana Ana Bolado Valle	Director	Independent
Ana Ana Cristina Peralta Moreno	Director	Independent

16.2 Remuneration of Board members

Remuneration received by members of the Board of Directors of the Parent, by item, was as follows:

	Thousands of Euros					
	30 June 2021			30 June 2020		
	Parent	Other Group companies	Total	Parent	Other Group companie s	Total
Remuneration earned by executive directors (*):	**1,632**	**75**	**1,707**	**1,886**	**75**	**1,961**
Attendance fees of non-executive directors:	**518**	**24**	**542**	**627**	**57**	**684**
Attendance fees of executive directors:	**--**	**30**	**30**	**--**	**38**	**38**
Fixed remuneration of non-executive directors:	**388**	**20**	**408**	**476**	**40**	**516**
Directors' remuneration	263	20	283	313	20	333
Additional remuneration Audit and Control Committee	50	--	50	75	20	95
Additional remuneration of the Nomination and Remuneration Committee	75	--	75	88	--	88
Remuneration executive directors:	**--**	**35**	**35**	**--**	**35**	**35**
Total	**2,538**	**184**	**2,722**	**2,989**	**245**	**3,234**

Remuneration for executive directors (*):	1,632	140	1,772	1,886	148	2,034

(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan.

In the first half of 2021, the fixed remuneration and attendance fees earned by members of the Parent's Board of Directors in their capacity as such amounted to 906 thousand euros (2020: 1,103 thousand euros). Additionally, certain non-executive directors of the Parent received 44 thousand euros from SFL in their role as directors of that company (2020: 97 thousand euros).

The monetary remuneration earned by the executive directors of the Parent in the first semester of 2021 for all items received amounted to 1,632 thousand euros (2020: 1,886 thousand euros), and they also received remuneration in kind of 1,089 thousand euros corresponding to the long-term share delivery plan (2020: 1,364 thousand euros). Additionally, executive directors of the Parent received 140 thousand euros from SFL in their role as directors of that company (2020: 148 thousand euros).

At 30 June 2021 and 2020, the Parent had taken out civil liability insurance policies covering all the directors, senior management and employees of the Parent, which include, for both years, the civil liability annual insurance premium for damage caused by acts or omissions amounting to 374 thousand euros and 359 thousand euros, respectively.

The Parent's General Shareholders' Meeting held on 28 June 2016 approved the granting of a defined-contribution scheme for executive directors covering retirement and, when applicable, disability and death, with overall annual contributions of 183 thousand euros and 183 thousand in euros in 2021 and 2020, respectively. At 30 June 2021, the Parent recognised 91 thousand euros in this connection under “Staff costs” in the condensed consolidated income statement (2020: 91 thousand euros).

In addition to the matters indicated in the preceding paragraph, the Group has not granted any loans and has not taken out any pension plans or life insurance for former or serving members of the Board of Directors of the Parent.

At 30 June 2021 and 2020, 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 the first half of 2021 and 2020, 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.

16.3 Remuneration of senior management

The Parent’s senior management comprises senior executives and other persons responsible for the management of the Parent, which report to the CEO. At 30 June 2021, senior management comprised three men and two women (two men and two women at 30 June 2020).

Monetary remuneration earned by senior management in the first half of 2021 amounted to 982 thousand euros (2020: 887 thousand euros). Furthermore, they received 998 thousand euros corresponding to the long-term incentives plan (2020: 1,072 thousand euros).

The Board of Directors' Meeting held on 27 July 2016 approved the granting of a defined-contribution scheme to a member of senior management covering retirement contingencies and, when applicable, disability and death, with annual contributions of 63 thousand euros and 63 thousand euros in 2021 and 2020, respectively. At 30 June 2021 and 2020, the Parent recognised 32 thousand euros and 32 thousand euros, respectively, in this connection under “Staff costs” in the consolidated income statement.

At 30 June 2021 and 2020, one member of senior management had signed a golden parachute clause, in the event of termination under certain circumstances or a change of control.

16.4 New long-term incentive plan.

On 30 June 2021, the General Shareholders' Meeting approved a new long-term incentives plan, consisting in the delivery of Parent company shares, aimed at executives, including executive directors of the Parent and other employees of the Colonial Group (the "Plan"), rendering invalid the share delivery plan that was approved by the General Shareholders' Meeting held on 21 January 2014 and extended for the last time, for a two-year period by an agreement of the General Shareholders' Meeting dated 30 June 2020.

The Plan beneficiaries must subscribe to and accept the conditions of the Plan to be entitled to it, and the delivery of shares will depend on the beneficiaries having an employment or trading relationship with any Group company on the dates on which the delivery occurs.

The Plan will have a duration of five years and will be divided into three overlapping annual cycles, each independent among themselves (that is, with the delivery of shares corresponding to each cycle once three years have elapsed since the beginning of each cycle).

17 Average headcount

The Group headcount, and the average headcount by job category and gender, is as follows:

	Number of employees				Average headcount, 2021		Average headcount, 2020	
	June 2021		June 2020					
	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	11	9	13	9	11	9	13	9
Technical graduates and middle managers	36	42	46	54	37	42	45	54
Administrative	31	88	26	80	31	88	25	81
Others	5	1	5	2	5	1	5	2
Total employees	**83**	**140**	**90**	**145**	**84**	**140**	**88**	**146**

Inmobiliaria Colonial, SOCIMI, S.A.
and Subsidiaries

Interim consolidated directors' report for
for the six-month period of 2021

1. Company situation

State of the rental market

Barcelona

Take-up in the office market of Barcelona was 112,000 sqm in the first half of 2021, +42% above the figure of the same period of the previous year. This figure sets the beginning of the recovery after the COVID-19 crisis even though this figure is still 33% below the average for first half average of the 2016-2020 period. The CBD and 22@ areas have captured 40% and 32%, respectively, of the total demand for offices in Barcelona. The overall vacancy rate continued to rise, whilst in the CBD, it stood at 5.1%. Likewise, Grade A office supply remains at low levels, below 2%. Prime rents remained stable, due to a lack of quality spaces, standing at €27/sqm/month.

Madrid

In the office market of Madrid, 160,000 sqm were signed during the first half of 2021, +7% higher than the same period of the previous year, although still 24% below the first half average for the period 2016-2020. Both the technology and the food and leisure sectors represented 53% of the demand, in particular for large office spaces. The overall vacancy rate of the market remained stable, and the vacancy rate in the CBD reached 6.3%. Prime rents maintained stable in line with previous quarters with prime rents in Madrid standing at €36/sqm/month.

Paris

In the office market in Paris, take-up in the first half of 2021 was 765,000 sqm, although continues to be significantly lower than the levels of 2019, shows a clear trend of recovery, improving the figure of the first half of 2020 by +14%. In the CBD the recovery of the activity is set with take-up level +30% higher than the same period of the previous year. In the CBD, the vacancy rate stood at 4.3% even though with Grade A vacancy almost inexistent. Prime rents in Paris stand at €920/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 4,600 million euros with a free float of around 60%, and manages an asset volume of more than 12,000 million euros.

The Company's strategy focuses on 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.

In the last three years, the Colonial Group has performed significant non-core asset divestments for almost 2,000 million euros, with double-digit premiums with respect to the valuation under way.

Likewise, to improve the Group's Prime portfolio, since 2015, Colonial has acquired over 3,900 million euros of CBD core properties, identifying assets with value added potential in market segments with solid fundamentals.

At the close of the first half of 2021, the Colonial Group had a robust capital structure with a solid "Investment Grade" rating. The Group's LTV (Loan to value) stood at 34.6% in June 2021.

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 30 June 2021, the Group's revenue totalled 156 million euros, of which 115 million euros relate to the recurring lease business.

According to the independent appraisals carried out by CB Richard Ellis and Jones Lang Lasalle in Spain and CB Richard Ellis and Cushman & Walkefield in France, at semester end, the investment property and assets classified as held for sale were revalued at 146 million euros. The revaluation, which was posted both in France and Spain, was the result of the increased appraisal value of the assets.

Net financial profit was (70) million euros.

Profit/(loss) before tax and non-controlling interests at the end of the first semester of 2021 amounted to 189 million euros.

Lastly, after subtracting profit attributable to non-controlling interests (26 million euros), and income tax of (1) million euros, the profit after tax attributable to the Group amounted to 162 million euros.

Profit (loss) for the year

<u>*Shareholders' earnings & Net Tangible Asset*</u>

Colonial closed the first half with a Net Tangible Assets (NTA) of €5,774m, corresponding to €11.36/share. This figure sets the Colonial Group’s return to growth and reflects the growing polarization of the investment and rental markets towards top quality prime assets, versus secondary assets.

This increase of NTA was based on an significant value creation, both in Paris and Spain, which saw an increase of €0.27/share and a recurring result of €0.11/share, increasing the NTA previous to the payment of dividends and the Liability Management up to €11.66/share (+3.5% vs 12/20 and + 4.1% year-on-year).

The NTA in June 2021 was €11.36/share, +1.5% year-on-year once the paid dividend and the Liability Management were deducted.

Including the dividend approved at the Annual General Shareholders Meeting on 30 June 2021, which amounted to €0.22/share (+10% vs the dividend paid the previous year), the Total Shareholder Return amounted to +2.8% in 6 months.

Among the main aspects that explain the growth of the NTA, it is important to highlight:

1. Positive like-for-like growth in the first half of 2021, for the entire portfolio of the Group

2. Successful management of the project portfolio with high levels of pre-letting

3. Resilient execution of the contract portfolio, exceeding ERV's of the previous year

4. A favorable situation in the investment markets for prime assets, enabling disposals with a double-digit premium on GAV.

Gross Asset Value of €12,017m +2% like-for-like in the first half of 2021 (+3% like-for-like year-on-year)

The gross asset value of the Colonial Group at the close of the first half of 2021 amounted to €12,017m (€12,655m including transfer costs), showing an increase of +3% like-for-like compared to the previous year. The growth registered in the first half of 2021 corresponds to +2% like-for-like.

Including the impact of the disposals registered in the first half of 2021, the asset value has remained stable.

In Paris, the value of the portfolio increased +5% like-for-like year-on-year (+2% in 6 months), based on the resilience of the prime portfolio in Paris and the progress in the project pipeline.

In Spain, the office portfolio increased +2% year-on-year. Of special mention is the increase in value of the portfolio in the first half of 2021, with +4% like-for-like in Barcelona and +3% like-for-like in Madrid. These increases are based on the strong positioning of the portfolio of assets in the city centre and CBD, together with the successful delivery and management of projects.

The increase in value of Colonial's asset portfolio is due to:

1) The high concentration in prime CBD locations with strong fundamentals, enabling higher protection in downward cycles and a better growth profile in upward cycles.

2) The high quality of the buildings that enables attracting clients with maximum solvency and high loyalty indices.

3) A successful diversification strategy that optimizes the risk profile of the portfolio.

4) An industrial approach on value creation through the repositioning of assets, creating Alpha real estate value that enables to create a competitive advantage in the market and consequently a higher-than-average return..

Net Profit of €162m, with important growth compared to the previous year

The Colonial Group closed the first half of 2021 with a net profit of €162m, +€188m compared to the previous year.

The recurring earnings of €57m, a lower figure compared to the first half of the previous year, reflects the impact of the disposals and the acceleration of the renovation program. The variation in the recurring results is mainly explained by the following effects:

1.The execution of the disposals of non-strategic assets with premiums over valuation that has resulted in a year-on-year reduction of €7.6m in net results for lower rents in exchange for an improved quality of the cash flow from post-sales of the portfolio post divestments. In addition, there was a reduction of €10m, mainly due to indemnities for early exits in the previous year.

2.The start and acceleration of the portfolio's renovation program with the aim of repositioning portfolio assets with significant value creation potential and future cash flow reversion based on a real estate transformation of the assets. This program involves temporary tenant rotation leading to a negative impact on EBITDA rents of €8.4m in the results in the first half of 2021.

Stable net recurring like-for-like results with an EPS of €16.37cts/share

Excluding the effects of the active management of the portfolio, the Comparable Recurring Net Profit amounts to €83m, in line with the results of the previous year.

The recurring results per share in the first half of 2021 amounts to €11.14cts per share. The impact of the decrease in rents due to non-strategic disposals and indemnities was (€3.38cts) per share and the impact of the tenant rotation in the renovation program was (€1.84cts) per share. Consequently, the Comparable Recurring Net Profit 3 per share was €16.37cts per share, in line with the previous year's recurring result.

Gross Rental Income and Net Rental Income (EBITDA Rents)

Colonial closed the first half of 2021 with €155m of Gross Rental Income and Net Rental Income (EBITDA rents) of €143m.

The Gross Rental Income in the first half of 2021 decreased by (13%), mainly due to the disposal of non-strategic assets carried out in 2020 and the beginning of 2021, as well as to the acceleration of the renovation program to reposition assets. This active management of the portfolio has a temporary short-term impact, however it ensures a higher portfolio quality and greater value creation potential, as a result of the repositioning of each asset.

In like-for-like terms, adjusting for investments, disposals and the effect of the projects and assets under repositioning, the Gross Rental Income has increased by +2% compared to the same period of the previous year.

The Net Rental Income (EBITDA rents) increased by +2% in like-for-like terms

This increase in Net Rental Income like-for-like was driven by an increase in the Paris portfolio of +5.3%, which compensated for a temporary correction in the Barcelona portfolio.

The Madrid portfolio slightly exceeded the previous year at +0.3% like-for-like.

The Barcelona portfolio was corrected in like-for-like terms due to the exit of tenants in secondary assets, which have not been compensated yet by spaces recently let to new tenants.

Due to the COVID-19 crisis, in 2020 Colonial reached deferral agreements and/or discount systems for the tenants most impacted by the crisis resulting in a negative impact of 4.5% of the "annualized passing rents" of the contract portfolio on 31 December 2020. In the first half of 2021, there were no new significant deferrals or discounts, and the collection rate of the Colonial Group was 100% for the offices portfolio (98% including all uses).

Analysis of Gross Rental Income like-for-like

The Gross Rental Income like-for-like increased by +2% compared to the same period of the previous year. This like-for-like increase in rents was driven by an increase in the Paris and Madrid portfolios, which compensated for the temporary correction in the Barcelona offices portfolio.

The like-for-like variation in the offices portfolio of the Group is explained by the rotation of tenants in secondary areas mainly. The breakdown is as follows:

1.Income from the Barcelona offices portfolio (0.6%) like-for-like, due to the rotation of tenants in the Sant Cugat and Park Cugat assets, which correspond to the minor exposure of Colonial outside of the city center. The portfolio in the prime CBD increased by +2.2% like-for-like.

2.Income from the Madrid offices portfolio +0.4% like-for-like, mainly driven by increases in net results in the Castellana 43 and Santa Engracia assets, among others, which have compensated tenant rotation in the Francisca Delgado asset.

3.Income from the Paris offices portfolio +1% like-for-like, mainly due to the assets 104 Haussmann, 6 Hanovre, Rives de Seine and Washington Plaza, among others.

The rental income of the Colonial Group has been affected by 1) the sale of non-strategic assets carried out in 2020, and 2) the acceleration of the renovation program of the Group, specifically the repositioning projects in the Diagonal 530 and Torre Marenostrum assets in Barcelona, the more than 8,000 sqm of renovations on the Cézanne Saint Honoré building and the renovation of 7,000 sqm on the Washington Plaza building, both in Paris.

Resilient operating fundamentals

1.Increase in take-up levels compared to the previous year

At the close of the first half of 2021, the Colonial Group had signed 57 rental contracts in the office portfolio corresponding to 59,784 sqm. This level of activity exceeded the letting volume of the previous year by +42%.

If we take into consideration the prices of signed rents, the volume of annualized rents of the contracts signed in the first 6 months of the year amounted to €28m, an increase of +71% compared to the volume of rents signed in the same period of the previous year.

It is important to highlight that after a strong first quarter take-up of 29,759 sqm, in the second quarter, more than 30,000 sqm were also signed, half in Paris and the rest in Barcelona and Madrid.

Of the total letting activity in cumulative terms, 56% (33,631 sqm) corresponds to contract renewals and revisions, spread over the three markets in which the group operates. Regarding new contracts, a total of 26,153 sqm were signed, highlighting 12,630 sqm in Paris and 10,943 sqm in Madrid. 71% of the take-up in the first half of 2021 corresponds to contracts signed in Barcelona and Madrid, and the rest were signed in Paris.

2. Solid increases in signed rental prices.

In the second quarter of the year, the Colonial Group signed high rental prices, continuing with the solid activity reported in the first quarter of the year.

The maximum rents signed in the portfolio of the Group reached €930/sqm/year in Paris, as well as €35/sqm/month in Madrid and €28/sqm/month in Barcelona. With these price levels, Colonial's portfolio clearly sets the benchmark for prime in each of the markets in which it operates.

Capturing rental prices above market rents as of 12/20-

Compared with the market rent (ERV) as of December 2020, signed rents increased by +6% in the first half of the year.

Highlighted is the Paris portfolio, where the rents increased by +8% versus market rents. In Spain, in the Madrid portfolio, the rents increased +6% vs. the market rents (+10% in the second quarter), and in Barcelona, the prices were signed at +2% higher than the market rent (+4% in the second quarter).

Double-digit increases in release spreads -

The release spreads (signed rental prices vs. previous rents) of the first half of the year have reached a high double-digit level of +14%. These ratios highlight the reversionary potential of Colonial's contract portfolio with significant improvement gap on current passing rents. Worth mentioning is the high release spread in the Barcelona portfolio of +25%, as well as the solid increase in Madrid of +9%.

Colonial's portfolio is able to attract maximum rents given the prime location, high quality and efficiency levels of the assets and lowest carbon footprint ratios in the market. Specifically, the average carbon emission intensity of the assets that were signed in the first months of the year reached 5 kgCoe2/m2 (carbon intensity in Scopes 1 & 2), one of the most eco-efficient of the sector in Europe.

3. A mix of high-quality clients focused on Grade A assets in the CBD

Of the letting activity of the Group in the first half of 2021, 90% of the buildings were signed in the CBD of Madrid and Barcelona, as well as in the CBD and the central 7ème district in Paris.

Likewise, this letting activity was carried out on buildings with maximum eco-efficient energy, demonstrated by their BREEAM and LEED certifications.

Among the renewals signed, those highlighted are the three prime CBD assets in Avenida Diagonal in Barcelona (Diagonal, 609-615, Diagonal 220-240 and Diagonal 682), as well as various renewals on prime CBD assets in Madrid, such as José Abascal 56, José Abascal 45, Recoletos 37 and Génova 17, among others.

The new contracts signed were mainly in the prime CBDs in Madrid and Paris, specifically the assets of Recoletos 27, Alfonso XII, José Abascal 45, Don Ramón de la Cruz 84, Washington Plaza and 103 Grenelle, among others.

Among the clients that renewed their contracts with Colonial, it is worth highlighting the large number of professional services companies that confirm their loyalty with Grade A assets in the CBD locations in Colonial's portfolio.

The clients that have signed these new agreements with the Colonial Group are companies in the technology sector, consultancy and advisory firms, as well as companies of consumer goods with high added value.

4. Occupancy stability in the portfolio

The total vacancy of the Colonial Group at the close of the first half of 2021 stood at 5%, in line with the last reported quarter and the close of 2020. The improvement in vacancy in the Paris portfolio compensated for the temporary increase in vacancy in Barcelona and Madrid, due to the entry into operation of repositioned surfaces and tenant rotation.

The Barcelona office portfolio has a vacancy rate of 7.6%, a rate higher than that reported in the last quarter as well as at the close of 2020. This increase is mainly due to tenant rotation in various assets, such as the Sant Cugat, Diagonal 609 and Vía Augusta 21-23 assets.

In the office portfolio in Madrid the vacancy rate was 5.2%, a rate that has increased this semester, mainly due to the entry into operation of the Ortega y Gasset 100 asset. Excluding this asset, the vacancy rate of the Madrid portfolio is 2.8%.

The office portfolio in Paris has a vacancy rate of 3.9%, which has decreased this semester, mainly due to the new contracts signed on the Edouard VII and Washington Plaza assets. A significant part of the vacancy of the Paris portfolio is due to the entry into operation of completed refurbishments on the Grenelle 103 asset.

The new delivered areas offer potential cash flow from additional rents, given that they represent a top-quality offer in the centre of Paris, currently scarce in the market. Excluding the Grenelle asset, the vacancy rate in Paris is 2%.

Active management of the portfolio – "reloading" future growth

1. Alpha VI Project – €1,000m increased exposure in Paris CBD

In the first half of 2021, the Colonial Group has approved to enhance its stake in its Paris subsidiary SFL listed on Euronext Paris through the acquisition jointly1 of Colonial and SFL of the 12.9% stake held in SFL by Predica and the launch of a voluntary mixed tender offer on the remaining 5% held by minority shareholders of SFL

This transaction enables Colonial to increase its stake in the share capital of SFL from 81.7% to a minimum of 94%, including the possibility of acquiring the total SFL capital through a mixed IPO. Colonial will not use the procedure of a forced sale after the completion of the IPO and consequently, the SFL shares will continue to be listed on the Euronext Paris.

The transaction consolidates Colonial's leadership in the prime office sector in Europe reinforcing its positioning in the French market, the largest European office market, and will particularly allow to:

I. Increase its exposure to prime offices through the investment in circa €1bn of prime assets in Paris

- ✓ Acquisition of circa €1bn of exposure to assets in Paris by increasing Colonial's stake in SFL
- ✓ Increased exposure to value-accretive flag-ship projects in Paris
- ✓ Reaching full ownership in 90 Champs Élysées, 104 Haussmann, Galerie Champs Élysées, and Washington Plaza

II. Reorganize its shareholding structure

- ✓ Simplification of Colonial Group's shareholding structure
- ✓ Strengthening of long-term partnership between SFL and Predica, an internationally renowned institutional investor
- ✓ Increased free float by circa €0.4bn in terms of Net Tangible Assets (NTA)
- ✓ Consolidation of Pan-European prime office platform.

III. Attractive transaction terms for Colonial Shareholders

- ✓ Positive impact on EPS
- ✓ Neutral impact on short-term NTA, with mid-term NTA accretion
- ✓ Solid capital structure with circa €0.4bn of additional equity (in NTA terms)
- ✓ Post transaction LTV remains at solid Investment Grade level.

This operation involves a simplification of the shareholding structure of its subsidiary SFL which reinforces its Real Estate exposure in Paris and consists in:

• A contribution by Predica, personal insurance subsidiary of Crédit Agricole Assurances to Colonial of a 5% stake in Société Foncière Lyonnaise (SFL); and

• A share and assets swap between SFL and Predica whereby Predica will transfer to SFL an 8% stake in SFL in the context of the SFL share buy-back program. The Colonial Group will continue the long-term relationship between SFL and Predica with the creation of new joint ventures 51% held by SFL and 49% held by Predica in several assets (103 Grenelle, Cloud, Cézanne Saint-Honoré and 92 Champs Elysées), while SFL will own entirely several assets (90 Champs Élysées, 104 Haussmann, Galerie Champs Élysées and Washington Plaza) by acquiring Predica's stakes in the entities holding these assets.

It is contemplated that the contribution by Predica of its 5% stake in SFL into Colonial and the share and assets swap would take place concurrently. All these transactions remain subject to customary conditions (including municipality pre-emption right waiver and AMF clearance decision with respect to the tender offer) to be satisfied on 31 December 2021 at the latest.

Within the framework of the agreed transactions, Colonial has already registered a a voluntary mixed tender offer for all the shares of SFL owned by minority shareholders for a consideration equal to €46,66 and 5 newly issued shares of Colonial (listed in Madrid and Barcelona) for each share of SFL.

The financial terms of the tender offer, the contribution of SFL shares to Colonial and the share and assets swap between SFL and Predica are all based on the December 2020 EPRA NDV parity (adjusted for dividend distribution).

By tendering their shares, minority shareholders of SFL would become shareholders of Colonial and benefit, notably from a direct exposure to the leader of the prime office sector in Europe with increased diversification and enhanced access to market liquidity compared to their current situation.

Colonial called for an Extraordinary Shareholders Meeting for the approval of the contribution by Predica and the capital increase resulting from the mixed tender offer. This Extraordinary Shareholders Meeting, which took place on 28 June 2021, approved the operation

The transaction has been approved by the Board of Directors of Colonial and is also supported by the SFL Board of Directors (including independent directors).

After the meeting last 8th July 2021, SFL's Board of Directors issued a favorable report on the IPO with mixed compensation formulated by Colonial on the SFL shares. This report was approved by the AMF, the French market regulatory authority, on 20 July 2021, with the expected acceptance period of the IPO to be from 22 July to 25 August 2021.

This transaction allows Colonial to increase its presence in the Paris market, the largest office market in the Eurozone. It reinforces our bet for prime assets, offering the best return for our shareholders while strengthening our platform for further growth in Europe.

2. Completion of the 2020 disposal program

In 2020, the Colonial Group completed the disposal program for a total of €617m of mature and non-strategic assets with a double-digit premium on the appraisal value. These disposals include the disposal of 5 mature and/or secondary office assets in Paris, Madrid and Barcelona, as well as non-strategic assets for logistics and commercial use.

A part of this disposal program was registered at the beginning of the first quarter of 2021 amounting to €284m. In particular, two disposals were registered in Paris on mature core assets, 112 Wagram and 9 Percier, with a premium of +16% over valuation and a capital value of €20,000/sqm. These transactions show the investors' appetite for the Paris market.

In addition, Colonial signed the sale of the retail asset Les Gavarres in Tarragona, coming from the Axiare acquisition.

3. Acceleration of the renovation program for future growth

The Colonial Group currently has a renovation program on 9 different assets to be repositioned, 4 in Paris, 3 in Barcelona and 2 in Madrid.

The renovation program covers more than 105,000 sqm in different assets of the portfolio distributed in

Barcelona (53,000 sqm), Madrid (25,000 sqm) and Paris (28,000 sqm) with an investment of around €60m in Capex over a period of approximately 36 months, of which €22m have been executed to date.

The reversionary potential is at more than €30m of additional rental income. Likewise, an important value creation is expected once the assets are repositioned.

Paris, 27,782 sqm of renovations across 4 assets-

A new phase of renovation on 8,500 sqm has begun on the Cézanne Saint-Honoré asset, which has a BREEAM In-use Very Good certification. The renovation project designed by the architectural office SKAsociés Architectes includes an office design with finishes similar to those of luxury hotels, focusing on its users' well-being. With this renovation, which will be completed in the second quarter of 2022 and includes the renovation of the entrance and common areas, the company ensures the future value growth of the building. It is important to highlight that during the second quarter of 2021, more than 3,700 sqm (44% of the renovation program of this asset) was pre-let, reaching maximum rents in the Paris market.

The second most important renovation program corresponds to 7,000 sqm on the Washington Plaza building, a trophy asset located between the Avenue des Champs-Élysées and the central Boulevard Haussmann. In the first half of the year, 1,200 sqm were signed on repositioned surfaces with rents at the high end of the market.

In the 103 Grenelle building, more than 1,500 sqm of the 5,600 sqm repositioned in Grenelle have already been let, signed at rents 15% above the previous rents.

Charles de Gaulle is currently let at 77%.

Barcelona, 53,131 sqm of renovations over 3 assets-

During the fourth quarter of 2021, the renovation works will be completed on Diagonal 530 (12,877 sqm), which have enabled a +10% increase of the lettable surface area of the asset. It will be one of the best assets in the prime CBD in Barcelona, with a large floor size and a central location in Avenida Diagonal. Once finished at the end of 2021, these new spaces will aim to capture prime rents in the prime CBD market of Barcelona.

During 2021, the renovation work will be finished on the Torre Marenostrum building (22,394 sqm), where a mono-tenant building has been transformed into a multi-tenant building. The asset will offer a hybrid product, one part with a flexible/coworking offer and the other with a traditional rental product. Currently, the building has 7,600 sqm, already refurbished and 100% pre-let, with the rest of the surface area under refurbishment.

Conversations are moving forward with the current tenant in the Parc Glories II asset to vacate the building at the end of the contract and to initiate the renovation program afterwards. This building has a GLA of more than 17,860 sqm in the centre of the 22@ market in Barcelona, a few metres away from Colonial's successful Parc Glories I project. The current rent of the Parc Glories II building is at €13/sqm/month with important value creation potential given the unbeatable location and the opportunity to optimize the spaces and quality of the asset through a prime factory focus.

Madrid, 24,995 sqm of renovations over 2 assets-

In Madrid, during the second quarter of 2021, the renovation project was completed on the spaces in Ortega y Gasset (7,792 sqm), a unique asset located in the centre of the capital. The project is at the commercialization phase and has been well received by the market.

The renovation program in Cedro (17,203 sqm) is near to completion phase so the commercialization phase has already started for this asset.

A solid capital structure

A strong balance sheet

At the close of the first quarter of 2021, the Colonial Group had a solid balance sheet with an LTV of 34.6%, 198 bps lower than the same period of the previous year.

The liquidity of the Group amounted to €2,438m, between cash and undrawn credit lines. This liquidity enables the Group to assure its financing needs in the coming years.

After a year affected by the exceptional conditions derived from COVID-19, Colonial continues to have a solid financial profile that has enabled the Group to maintain its credit rating by Standard & Poor's of BBB+, the highest in the Spanish real estate sector.

In April 2021, Standard & Poor's reviewed Colonial's credit rating, maintaining the same level as prior to the COVID-19 crisis.

Liability Management

In the first half of 2021, the Colonial Group carried out a bond issuance, listed on the Spanish market, amounting €500m which was later extended up to €625m. The issue has a maturity of 8 years with a coupon of 0.75%, the lowest in the history of the Group. The markets have widely backed Colonial's issuance, to the point that the demand exceeded almost three times the issuance volume. The issue was supported by the main international institutional investors, also invested in previous issues, which have once again showed their support of the Company.

In parallel, Colonial announced the execution of the buy-back option of the €306m of its remaining bonds maturing in 2023 which accrued an annual coupon of 2.728%. At the close of June 2021, the buyback for a total of €69m was formalized, leaving the amount of €237m pending, which at the date of publication of these results, has already been fully acquired. Additionally, Colonial launched a buyback offer for its bonds maturing in 2024 and a coupon of 1.45%, of which €306m have been repurchased

These debt refinancing operations allowed the average maturity of the Group's debt to be extended to 5.3 years, and also enabled the optimization of the financial cost.

Analyst consensus

At 30 June 2021 Colonial's shares closed with a revaluation of +6%, a figure in line with the EPRA index and the IBEX 35 index.

In the framework of the COVID-19 crisis, analysts are continuously revisiting their assumptions and perspectives on the European listed market.

Strategic Prime positioning to maximize value creation

Colonial's strength is based on its strategic prime positioning in offices in the CBD with clients of recognized solvency, and a solid balance sheet of the Group.

The main strengths of the Colonial Group are the following:

A. Pan-European leadership in Grade A offices in the city centre (CBD).

Main owner of top-quality assets in central locations with 77% of its portfolio in CBD areas in each of the markets Colonial operates in.

An adequate international diversification with a 61% exposure in Paris, one of the most defensive office markets globally.

B. A strong prime positioning with a top-quality client portfolio which provides an attractive combination of 1) rents at the high end of the market with 2) high loyalty levels and solid maturity profiles.

The contract portfolio of the Colonial Group had a positive "reversionary buffer" in this year, given that the current rents of the portfolio are still below the current market rents. Likewise, to date, the Group has captured high reversion rates with a release spread1 of +14% at the close of the first half of 2021.

C. Excellence in ESG

The Colonial Group pursues a clear leadership in ESG, being a fundamental element of its strategy, prioritizing sustainable long-term returns, based on a business model of high-quality products. Accordingly, the Colonial Group's Corporate Strategy has a central focus on maximum excellence in the fields of governance, social aspects and sustainable investment.

D. An attractive project pipeline located in the best areas of Paris, Madrid and Barcelona, with significant pre-letting.

Colonial's project portfolio is totally located in the city centres of Barcelona, Madrid and Paris. More than 50% of the value corresponds to 3 big projects in Paris and Campus Méndez Álvaro, which is a mix of office and residential use in the south of the Madrid CBD.

E. A renovation program of more than 105,000 sqm with significant reversionary potential in rents and value

The Colonial Group currently has a renovation program on 9 different assets to be repositioned, 4 in Paris, 3 in Barcelona and 2 in Madrid.

The reversionary potential is at more than €30m of additional rental income. Likewise, a significant value creation is expected once the assets are repositioned.

F. Active management of the portfolio, through the disposals of non-core assets, improving the prime positioning and releasing capital for opportunities of value creation for our shareholders

Over the last 3 years, the Colonial Group has carried out significant disposals of non-core assets for around €2,000m, with double-digit premiums over current valuations.

G. A solid balance sheet with the best rating in the Spanish real estate sector, confirmed by S&P and Moody's in the middle of the COVID-19 crisis. The Group has one of the highest levels of liquidity in the sector, as well as a LTV of 34.6%, with a collateral of top-quality core assets.

H. High growth potential and value creation

The portfolio offers significant potential for cash flow growth through its prime positioning, future rents from the project portfolio and the renovation program.

The asset portfolio has the potential to reach annual income (passing rents) of €485m, resulting in an increase of +45% (+€151m) related to the annualized cash flow from the rental income as of 30 June 2021.

3. Liquidity and capital resources

See the "Capital Management and Risk Management Policy" section in Note 15.14 to the consolidated financial statements for the year ended 31 December 2020 and Note 9.15 to these interim condensed consolidated financial statements.

4. Risk management policies and objectives

Asset management is exposed to various internal and external risks and uncertainties, which may have an impact on Colonial's activities. Colonial's objective is therefore to create sustainable value by optimising the relationship between profitability and risks, which is constantly evolving in financial, environmental, social and economic areas, among others. This balance, together with a dynamic view of risk, reinforces Colonial's leadership in the sector and consolidates its long-term position. Risk management is a key aspect of Colonial's organisational culture and for this reason, the Group has developed the Colonial Risk Management and Control System (hereinafter, SCGR), establishing the bases for efficient and effective risk management throughout the organisation.

To comply with these corporate objectives, the risks to which Colonial is exposed are identified, analysed, assessed, managed, controlled and updated. To maintain an effective updated RMCS, Colonial prepares a corporate risk map, which identifies the main risks affecting the Group and assesses them in terms of impact and the probability of occurrence. This map is reviewed and updated frequently each year to obtain an integrated dynamic risk management tool, which evolves with the changes in environment in which the Company operates and the changes in the organisation itself.

The main responsibilities in relation to the RMCS correspond to the Board of Directors, the Audit and Control Committee and the internal audit unit. The RMCS also expressly determines the responsibilities of senior management, operational divisions and other risk owners with respect to risk management.

The Board of Directors is also responsible for determining the risk control and management policy, including tax risks, identifying the Group's main risks and implementing and overseeing the internal information and control systems, in order to ensure the Group's future viability and competitiveness, while adopting the most relevant decisions for its best development. To manage this function, it has the support of the Audit and Control Committee, which performs, among others, the following functions related to risk management and control:

- Submit a report on risk policy and risk management to the Board for approval.
- Periodically review risk management and control systems to adequately identify, manage and report key risks.
- Oversee the process of preparation, the completeness and presentation of mandatory public reporting (both financial and non-financial).

Also, Colonial has formed the regulatory compliance and internal audit units as tools to reinforce this objective. The regulatory compliance unit is responsible for overseeing the adequate compliance with the regulations and laws that may affect the performance of its activities and the internal audit function is responsible for performing the supervision activities required, envisaged in its annual plans approved by the Audit and Control Committee, to assess the effectiveness of the risk management processes and of the action plans and controls implemented by the corresponding departments to mitigate said risks.

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

- External risks: risks relating to the environment in which Colonial carries out its activity and which influence and condition the company’s operations.
- Internal risks: risks arising from the activity of the Company and its management team.

The main external risks facing Colonial in the attainment of its objectives include the following:

- Economic risks arising from the political and macroeconomic climate in the countries in which it operates and changes in investors' own expectations.

- Market risks, arising from changes in the business model itself, from the greater complexity in developing the investment/divestment strategy and from the fluctuations of the real estate market with an impact on the valuation of real estate assets.
- Financial risks, related with restrictions on capital markets, fluctuating interest rates, the impact of changes in tax regulations (mainly due to the REIT system) and those of the counterparty of the main clients.
- Environmental risks, arising from the most demanding ESG requirements, and mainly those related with the impact of climate change on the Group's activity.

The main internal risks facing Colonial in the attainment of its objectives include the following:

- Strategic risks in relation with the Group's size and diversification, with the asset portfolio breakdown and the market strategy of *coworking*.
- Diverse operating risks related with the maintenance of occupancy levels of properties and the level of rental agreements, with the development of projects in terms and costs, with the management of debt levels and the current credit rating, with cyberattacks or failures in reporting systems, together with those specific to the management of the organisational structure and talent.
- Risks arising from compliance with all contractual regulations and obligations applicable to it, including the tax risks related with the loss of REIT status by Colonial or its status of listed real estate investment company (LREIC) by its French subsidiary Société Foncière Lyonnaise.

Also, the global health crisis caused by COVID-19 in 2020 generated high uncertainty in many areas, especially in the economic scope, having different effects on various sectors of the business fabric.

In this first semester of 2021, the high resilience of the Group was reinforced faced with this crisis which, together with an advanced vaccination programme and the expectation of seeing the progress of current or future variants of COVID is dispelling part of this uncertainty and consolidating the fundamentals in the sector.

5. Events after the reporting period

On 3 June 2021, the Parent, SFL and Predica Prévoyance Dialogue du Crédit Agricole ("Predica"), significant shareholder of SFL and direct holder of 5,992,903 shares of SFL (12.9%), agreed to approve a series of concurring corporate transactions that will allow Colonial to increase its current holding in the share capital of SFL (81.7%) until reaching a minimum of 94.1%, including the possibility of acquiring all said share capital, to the extent that Predica will transfer to Colonial and to SFL its whole direct holding in the capital of SFL.

In this regard, in relation with the aforementioned corporate transactions:

- SFL, a subsidiary of Colonial listed on Euronext Paris (French regulated market), approved a corporate operation with Predica, whereby Predica will transfer to SFL 3,664,259 shares of SFL (7.9%) in the framework of a programme to repurchase shares of SFL for their subsequent redemption, in the context of an exchange between SFL and Predica (or any entity controlled by Predica) of investments in companies holding certain property assets of SFL in France to be implemented simultaneously (the "Exchange of Assets").
- Colonial's Board of Directors agreed:
    - the subscription by Predica, subject to the approval of the General Shareholders' Meeting, of a capital increase to be performed by Colonial with a charge to non-monetary contributions, whereby Predica would contribute 2,328,644 shares of SFL (5.0%) to Colonial, as consideration for the subscription of 22,494,701 newly issued shares of the Company ("Predica's Contribution"). The new Colonial shares would be issued for a unitary par value of 2.50 euros, plus a share premium of 7.50 euros per share, with the total effective amount of the capital increase thereby amounting to 224,947,010 euros. The exchange equation of Predica's Contribution was set at 9.66 shares of Colonial, with a par value of 2.50 euros each, for each SFL share; and
    - The preparation of a takeover bid to acquire all the shares of SFL held by different shareholders of Colonial and Predica with mixed consideration in cash and shares (the "Bid"), subject to the approval of the French financial markets authority (the "AMF") and to the approval by the General Shareholders' Meeting of the corresponding capital increase agreement. As consideration for the Bid, the effective maximum amount to be paid by Colonial will be 117,478,868.24 euros and the maximum number of shares of Colonial will be 12,588,820 shares, as consideration for the 2,517,764 shares of SFL (5.4%) forming the scope of the Bid. Colonial's new shares would be issued for a unitary par value of 2.50 euros, plus a share premium of 7.50 euros per share, with the maximum effective amount of the capital increase thereby amounting to 125,888,200 euros. The exchange equation of the Bid was set at 46.66 euros and five shares of Colonial, with a par value of 2.50 euros each, for each SFL share.

Morgan Stanley & Co. International plc, as Colonial's financial adviser, issued a fairness opinion aimed at the Company's Board of Directors.

Likewise, Grant Thornton, S.L.P. Sole-Shareholder Company, appointed as an independent expert by the Mercantile Register, issued reports relating to non-monetary contributions to be made within the framework of Predica's Contribution and the Bid, pursuant to article 67 of the Consolidated Corporate Enterprises Act approved by Legislative Royal Decree 1/2010, of 2 July.

It is stated that Colonial and Predica do not act nor intend to act in agreement in relation to the aforementioned corporate transactions. Both the exchange of Assets and Predica's Contribution are subject to certain similar conditions common to this type of corporate transactions.

On 28 June 2021, the Parent's General Shareholders' Meeting approved the capital increases required, with a charge to non-monetary contributions, to be subscribed by Predica in the context of its Contribution and by those SFL shareholders that accept the Bid.

On 20 July 2021, the French financial markets authority ("the AMF") authorised (conformité) the takeover bid prepared by Colonial on all the ordinary shares of Société Foncière Lyonnaise ("SFL") owned by the shareholders of SFL other than Colonial and Predica Prévoyance Dialogue du Crédit Agricole (the "Bid"), whose acceptance period runs from 22 July 2021 to 25 August 2021, both inclusive.

Other subsequent events -

On 8 July 2021, the Parent increased by 125,000 thousand euros the amount of the bond issues made in June 2021, maturing in 2029 and with a coupon of 0.75% (Note 9.1).

On 13 July 2021, the Parent's Board of Directors agreed to implement a programme to repurchase own shares in accordance with the authorisation granted by the General Shareholders' Meeting held on 29 June 2017. The purpose of the plan is to comply with the obligations arising from the share plan approved by the General Shareholders' Meeting on 30 June 2021. The maximum monetary amount assigned to the programme amounts to 50,000 thousand euros and the maximum number of shares to be acquired is 5,000,000 shares, equivalent to 1% of the Parent's current share capital. The programme will last at the most until 31 December 2021. However, it would end early if the maximum number of shares or the maximum monetary amount is reached before said date.

On 19 July 2021, the forced repurchase of the Parent's bonds materialised with a coupon of 2.728%, pending maturity in June 2023, amounting to 237,200 thousand euros (Note 9.1).

There were no other significant subsequent events.

6. Future outlook

The COVID-19 pandemic significantly affected both our domestic markets and global markets. Likewise, it continues to have an impact on Colonial's real estate activity and on the economy in general, although the speed of the vaccination process envisages an economic recovery consensus from the second semester of 2021 regarding the eurozone economies.

There was a significant contraction of the global economy although, to date, all the international bodies envisage a significant recovery of the GDP in Europe and, in particular, on the markets in which Colonial operates: Spain and France, whose governments have taken and are taking unprecedented decisions, implementing instruments for recovery, such as the Next Generation EU Funds.

There is a majority opinion that in the medium term, there will be a recovery of this economic impact, although a plurality of opinions exist on the speed of the recovery in each country and region, which will depend mainly on the tendencies of the recent and new waves of the health crisis.

Barcelona and Madrid-

With regard to the quality office market in Barcelona and Madrid, the fundamentals remain strong with a better outlook than in secondary areas. It is expected that demand for quality assets in prime locations recovers before that of secondary properties, due to the need of high value-added companies to capture talent, offer the best working environment to its employees and have the best mobility options. This demand, tied to a scant quality offering and a significant lack of new office projects for the coming years, makes it be foreseen that prime rentals will remain stable and can grow again once the health crisis has ended.

Likewise, investor appetite is expected to continue for prime office products. In a climate of low interest rates, the current spread level of real estate yields with respect to the 10-year bond stood at over 300 basis points, historical maximums and over 100 basis points above the long-term average.

Paris-

Paris is one of the world's most important markets and has high liquidity.

Today the availability of office space in the best areas of the city was less than 2%. The lack of a combined product with the high demand of companies for Prime products means that consultants foresee that office rentals will remain at high levels. In this regard, in the first semester of 2021, prime location rentals stood at levels of 920 euros/m²/year.

With respect to the volume of investment, the interest of foreign capital for prime office buildings continues to be very high, with various operations under way, which will be concluded in the coming weeks. Prime yields remain stable at 2.75% and even below in one-off operations.

Future strategy-

In this market context, Colonial's strategy continues to be committed to long-term value creation in the prime office sector, with the focus on quality and yields adjusted to risk, and with a strong credit rating and liquidity position.

7. Research and development activities

As a result of the nature of the Group, its business activities and structure, Inmobiliaria Colonial, SOCIMI, S.A. does not habitually carry out any R&D activities.

8. Own shares

During the first half of 2021, Inmobiliaria Colonial, SOCIMI, S.A. delivered a net amount of 188,103 own shares to the beneficiaries of the long-term incentive plan (Note 8.3). At 30 June 2021, the Parent held a closing balance of 3,172,507 shares with a par value of 7,931 thousand euros (2.5 euros per share), representing 0.6% of the Parent's share capital.

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

Below follows an explanatory 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 revised by the company's auditor (Deloitte, S.L.).

Alternative Performance Measure .	**Calculation method**	**Definition/Relevance**
EBIT	Calculated as "Profit from operations".	Indicator of the profit generating capacity of the Group, considering only its productive activity less debt and tax effects.
Analytical EBIT	Calculated as EBIT and reduced by the "Financial profit" arising from the recognition of the "IFRS finance lease" standard associated with the flexible business (coworking).	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 Amortisation)	Calculated as "Profit from operations" adjusted by "Depreciation and amortisation charge", "Net variation in provisions", "Variations in value of investment properties" and "Gains/(losses) due to changes in value of assets and impairment".	Indicator of the profit generating capacity of the Group, considering only its productive activity, eliminating any provisions for amortisation, debt and tax effects.

Alternative Performance Measure .	Calculation method	Definition/Relevance
Analytical EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation)	Calculated by adjusting to the EBITDA the expenses incurred under "Depreciation and amortisation charge" and "Financial profit", arising from the recognition of the "IFRS 16 finance lease" standard associated with the flexible business (coworking).	Indicator of the profit generating capacity of the Group, considering only its productive activity, eliminating any provisions for amortisation, debt and tax effects.
EBITDA equity	Calculated by adjusting to the analytical EBITDA the "general expenses" and "extraordinary expenses" not associated with the operation of property.	Indicator of the profit generating capacity of the Group, considering only its productive activity, eliminating any provisions for amortisation/depreciation, debt and tax effects, associated with the operation of property.
Gross financial debt (GFD)	Calculated as the sum of the items "Bank borrowings and other financial liabilities", "Issuance of bonds and other similar securities" and "Promissory notes", excluding "Interest" (accrued), "Arrangement expenses" and "Other financial liabilities" in the consolidated statement of financial position.	Relevant indicator to analyse the Group's financial position.
Net financial debt (NFD)	Calculated by adjusting in gross financial debt the item "Cash and cash equivalents".	Relevant indicator to analyse the Group's financial position.
EPRA1 NTA (EPRA Net Tangible Assets)	Calculated based on the Company's equity, adjusting specific items according to EPRA recommendations.	Standard analysis ratio for the real estate sector, recommended by EPRA.
EPRA[1] NDV (EPRA Net Disposal Value)	Calculated by adjusting the following items in the EPRA NTA: 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 tax assets available to the Group, taking into account the going concern criteria.	Standard analysis ratio for the real estate sector, recommended by 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 external appraisers to the Group, 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 external appraisers to the Group, before deducting the transaction costs *transfer costs.*	Standard analysis ratio for the property sector.
Like-for-like rentals	Amount of rental income from leases included in the item "*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.
Like-for-like appraisal	Market Value excluding transaction costs or the Market Value including transfer 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.

EPRA (1European Public Real Estate Association*) which recommends the standards for best practices to follow in the* property sector. The calculation method of these APM has been carried out following the instructions established by EPRA.

Alternative Performance Measure .	Calculation method	Definition/Relevance
Loan-to-Value Group or LtV Group	Calculated as the result of dividing the net financial debt 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 Group's Parent and the Spanish subsidiaries wholly owned thereby, and the EPRA NTA 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 portfolio of assets of the parent company of the Group.

Alternative Performance Measures included in the foregoing table arise from items in the consolidated financial statements and in the condensed consolidated interim financial statements of Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries or from the breakdowns of the items (sub-items) included in the corresponding explanatory notes to the report, except as indicated below.

Below follows a reconciliation of those alternative performance measures whose origin does not fully derive from items or sub-items in the consolidated annual financial statements of Inmobiliaria Colonial, as provided for in paragraph 28 of the aforementioned recommendations.

- **Analytical EBIT**

Analytical EBIT	Millions of euros	
	30/06/2021	30/06/2020
Operating profit	258	32
Adjustments: Financial profit arising from the recognition in line with the IFRS 16 Finance lease standard	--	--
Analytical EBIT	**258**	**32**

- **EBITDA**

EBITDA	Millions of euros	
	30/06/2021	30/06/2020
Operating profit	258	32
Adjustments: Depreciation and amortisation charge	4	3
Adjustments: Net change in provisions	1	(1)
Adjustments: Changes in value of investment property	(146)	107
Adjustments: Gains/(losses) due to changes in value of assets and impairment	--	(1)
EBITDA	**117**	**140**

▪ Analytical EBITDA

Analytical EBITDA	Millions of euros	
	30/06/2021	30/06/2020
EBITDA	117	140
Adjustments: Depreciation and amortisation arising from the recognition in line with the IFRS 16 Finance lease standard	(1)	--
Adjustments: Financial profit arising from the recognition in line with the IFRS 16 Finance lease standard	--	--
Analytical EBITDA	**116**	**140**

▪ EBITDA equity

EBITDA equity	Millions of euros	
	30/06/2021	30/06/2020
Analytical EBITDA	116	140
Adjustments: Net overheads and extraordinary expenses	25	26
EBITDA equity	**141**	**166**

▪ EPRA NTA (Net Tangible Assets)

EPRA NTA (EPRA Net Tangible Assets)	Millions of euros	
	30/06/2021	31/12/2020
"Equity attributable to shareholders of the Parent"	**5,475**	**5,401**
Includes/excludes:		
Adjustments of (i) to (v) in relation to the interests of strategic alliances	--	--
Diluted NTA	**5,475**	**5,401**
Includes:		
(ii.a) Revaluation of investment assets	--	--
(ii.b) Revaluation of assets under development	--	--
(ii.c) Revaluation of other investments	59	64
(iii) Revaluation of finance leases	--	--
(iv) Revaluation of inventories	10	10
Diluted NTA at Fair Value	**5,544**	**5,475**
Excludes:		
(v) Deferred taxes	233	233
(vi) Market value of financial instruments	(3)	19
EPRA NTA	**5,774**	**5,727**
Number of shares (millions)	508	508
EPRA NTA per share	**11.36**	**11.27**

- **EPRA NDV (Net Disposal Value)**

EPRA NDV (EPRA Net Disposal Value)	Millions of euros	
	30/06/2021	31/12/2020
"Equity attributable to shareholders of the Parent"	**5,475**	**5,401**
Includes/excludes:		
Adjustments of (i) to (v) in relation to the interests of strategic alliances	--	--
Diluted NDV	**5,475**	**5,401**
Includes:		
(ii.a) Revaluation of investment assets	--	--
(ii.b) Revaluation of assets under development	--	--
(ii.c) Revaluation of other investments	59	64
(iii) Revaluation of finance leases	--	--
(iv) Revaluation of inventories	10	10
Diluted NDV at Fair Value	**5,544**	**5,475**
Excludes:		
(v) Deferred taxes	--	--
(vi) Market value of financial instruments	--	--
Includes:		
(ix) Market value of the debt	(245)	(280)
EPRA NDV	**5,299**	**5,195**
Number of shares (millions)	508	508
EPRA NDV per share	**10.43**	**10.23**

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

Market value excluding transaction costs or GAV excluding transfer costs	Millions of euros	
	30/06/2021	31/12/2020
Barcelona	1,373	1,333
Madrid	2,494	2,441
Paris	6,378	6,616
Operating portfolio	**10,245**	**10,390**
Projects	1,717	1,556
Others	55	74
Total Market Value excluding transaction costs	**12,017**	**12,020**
Spain	4,694	4,562
France	7,323	7,458

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

Market value including transaction costs or GAV including Transfer costs	Millions of euros	
	30/06/2021	31/12/2020
Total Market Value excluding transaction costs	12,017	12,020
Plus: transaction costs	638	611
Total Market Value including transaction costs	**12,655**	**12,631**
Spain	4,816	4,685
France	7,839	7,946

- ***Like-for-like* Rentals**

Like-for-like rentals	Millions of euros				
	Offices				
	Barcelona	Madrid	Paris	Others	TOTAL
Rental income 30/06/2020	**25**	**57**	**90**	**6**	**177**
Like-for-like	--	--	1	1	2
Projects and registrations	(1)	(2)	(5)	--	(8)
Investments and divestments	(2)	(1)	(3)	(2)	(8)
Others and compensation	--	(9)	--	--	(9)
Rental income 30/06/2021	**22**	**45**	**83**	**5**	**155**

- ***Like-for-like appraisal***

Like-for-like appraisal	Millions of euros	
	30/06/2021	31/12/2020
Valuation at 1 January	12,020	12,196
Like-for-like Spain	145	(163)
Like-for-like France	128	300
Acquisitions and disposals	(276)	(313)
Valuation at 31 December	**12,017**	**12,020**

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

Loan-to-Value Group or LtV Group	Millions of euros	
	30/06/2021	31/12/2020
Gross financial debt	4,787	4,851
Commitments to defer property asset purchase and sale transactions	--	--
Less: "Cash and cash equivalents"	(398)	(269)
(A) Net financial debt	**4,389**	**4,582**
Market Value including transaction costs	12,655	12,631
Plus: Own shares of the Parent valued at EPRA NTA	36	38
(B) Market value including transaction costs and the Parent's own shares	**12,691**	**12,669**
Loan to Value Group (A)/(B)	**34.6%**	**36.2%**

- ### LtV Holding or LtV Colonial

LtV Holding or LtV Colonial	Millions of euros	
Holding Company	30/06/2021	31/12/2020
Gross financial debt	3,000	2,945
Commitments to defer property asset purchase and sale transactions	--	--
Less: "Cash and cash equivalents" of the Parent and Spanish subsidiaries wholly owned thereby	(353)	(244)
(A) Net financial debt	**2,647**	**2,701**
(B) Market Value including transaction costs	**9,120**	**8,972**
Loan to Value Holding (A)/(B)	**29.0%**	**30.1%**