Colonial

Total shareholder return of 19%

Rental income of €347m (+23%) with a net profit of €525m

- Net Asset Value of 10.03€ per share, +17% vs previous year
- Gross asset value of €11,348m, +22% vs previous year
- Gross rental income of €347m, +5% like for like
- Recurring net profit over €100m, +22% vs previous year
- Axiare integration completed in record time, more than €5m of synergies confirmed

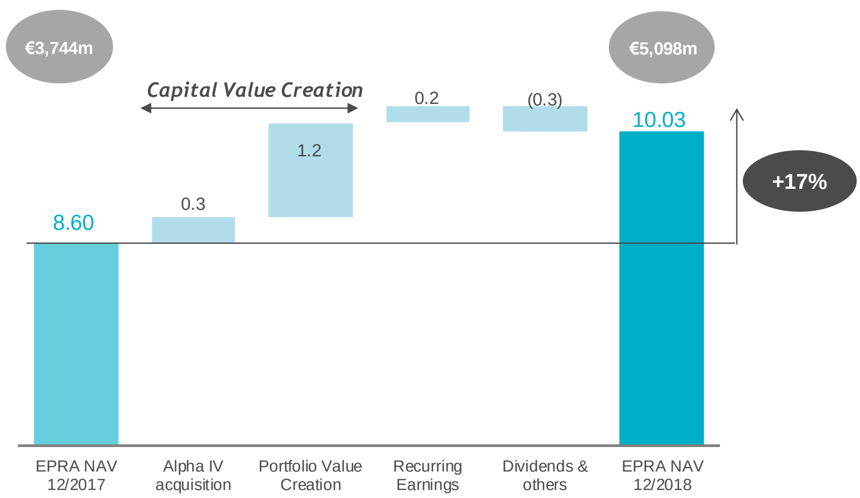
Madrid, 26 February 2019

2018 Annual Results

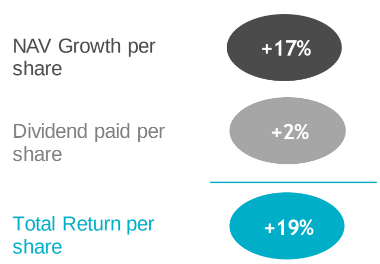
Colonial closed 2018 with an EPRA Net Asset Value of €10.03/share resulting in a year-on-year increase in value of +17%, which together with the paid dividend of €0.18 per share led to a Total Shareholder Return of 19% in 2018.

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

EPRA NAV €/share



Total Shareholder Return [1]



(1) Total return understood as NAV growth + dividends paid

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

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

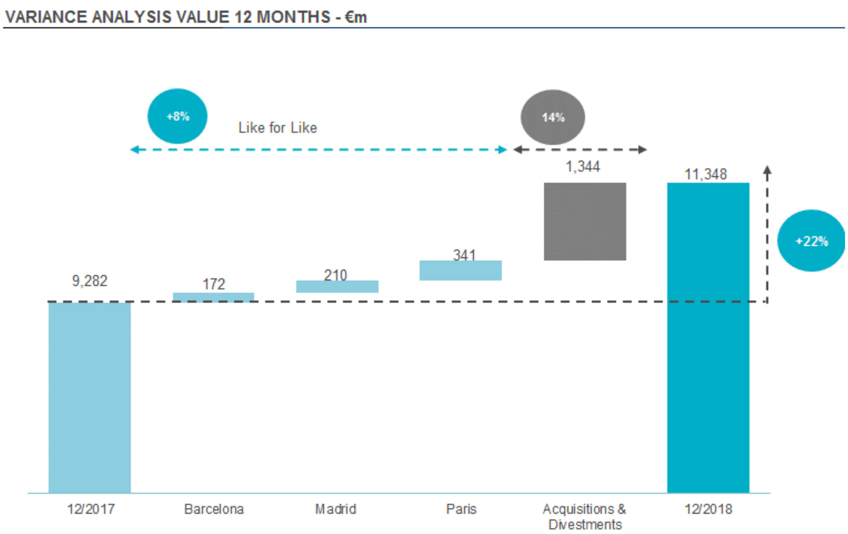
2. **The execution of Alpha IV**: acquisition of a 23% stake in SFL at a double digit discount over NAV combined with the sale of non-strategic assets with a premium on GAV

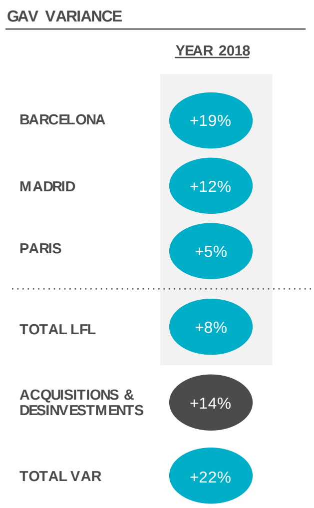
3. **The capturing of important rental increases** thanks to excellent fundamentals in the CBD, where Colonial has a unique exposure of 75%

Significant increase in value of the real estate portfolio

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

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





The office buildings in Barcelona are highlighted with an annual increase of **+19% like-for-like**, and those in Madrid up **+12% like-for-like**, both driven by significant growth in the rental prices achieved in 2018.

The **Paris portfolio increased +5.5% like-for-like** in 2018, a much higher growth than the majority of competitors.

Acceleration in the net profit

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

It has specifically resulted in:

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

(2) The strengthening of its positioning in Madrid

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

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

1. The merger and rapid integration of Axiare, incorporating a Grade A office portfolio with a strong presence in Madrid, taking advantage of business and cost synergies
2. Alpha IV: disposal of €441m of assets in secondary areas and investment of €786m[1] in the prime CBD by increasing the stake in SFL up to 81.7%
3. Active liability management sheet through various transactions, enhancing the capital structure of the Group, and resulting in an improvement in the S&P rating to BBB+

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

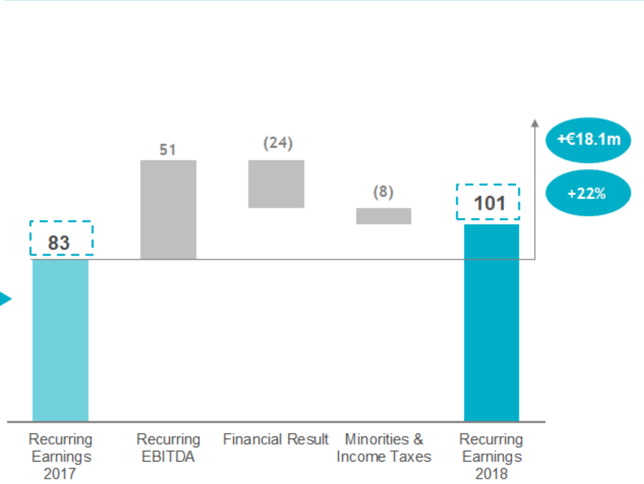
The recurring net profit was boosted through the incorporation of Axiare and a very substantial like-for-like growth in rental income.

Profit & Loss Accounts

Results analysis - €m	2018	2017
Gross Rents	347	283
Net operating expenses(*)	(21)	(16)
Overheads	(46)	(37)
Recurring EBITDA	280	229
Recurring financial result	(101)	(77)
Income tax expense & others - recurring	(19)	(10)
Minority interests - recurring	(59)	(59)
Recurring Earnings	101	83
Variance asset values & provisions	580	921
Non-recurring financial result & MTM	(40)	(2)
Income tax & others - non-recurring	(22)	20
Minority interests - non-recurring	(94)	(338)
Profit attributable to the Group	525	683

(*) Includes other income

Recurring Income - €m - Variance Analysis



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

Strong growth in income

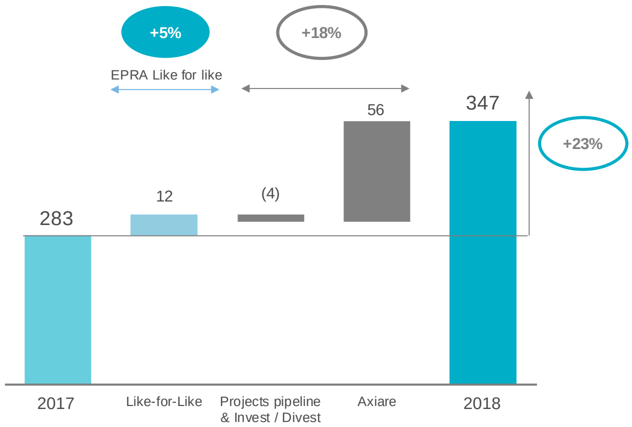
Colonial closed 2018 with a **Gross Rental Income of €347m**, **up +23% compared to the previous year** and confirming the guidance given on the Investor Day in mid-October. This important growth is based on:

(1) The incorporation of Axiare after its merger with Colonial

(2) Additional income from recent acquisitions and delivered projects

(3) A like-for-like increase of +5%

Gross Rental Income



	EPRA Like for like	Projects & refurbishments	Acquisitions & disposals	Axiare	TOTAL
BCN	+4%	(1%)	+2%	+14%	+19%
MADRID	+4%	+6%	+6%	+62%	+78%
PARIS	+5%	(1%)	(6%)	-	(1%)
TOTAL	+5%	+0%	(2%)	+20%	+23%

This level of like-for-like growth is among the highest in Europe and is mainly due to the capacity of the Colonial Group to capture rental price increases, thanks to its positioning in the CBD.

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

1. **Paris +5,0%** due to rental price increases and new leases signed on Washington Plaza, Cézanne Saint Honoré, 103 Grenelle & Galerie Champs-Elysées

2. **Madrid +4,2%** boosted by rental price increases and new leases signed on the Alfonso XII, Génova & José Abascal 45 properties

3. **Barcelona +4,2%** due to rental price increases across the whole portfolio

Solid fundamentals in all segments

Captura de crecimientos en rentas firmadas

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

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

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

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

Strong price increases	% Var. vs ERV 12/17[1]	Release Spread[2]	Madrid office portfolio without contract with cap: % Var. vs ERV 12/17[1]	Madrid office portfolio without contract with cap: Release Spread[2]
Barcelona	+10%	+23%		
Madrid	+8%[3]	+29%[3]	+9%	+30%
Paris	+5%	+14%		
TOTAL OFFICES	+8%	+26%		

(1) Signed rents vs. market prices at 31/12/2017 (ERV 12/17)
(2) Signed rents on renewals vs. previous rents
(3) The Madrid portfolio includes a CAP on one contract in Santa Engracia

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

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

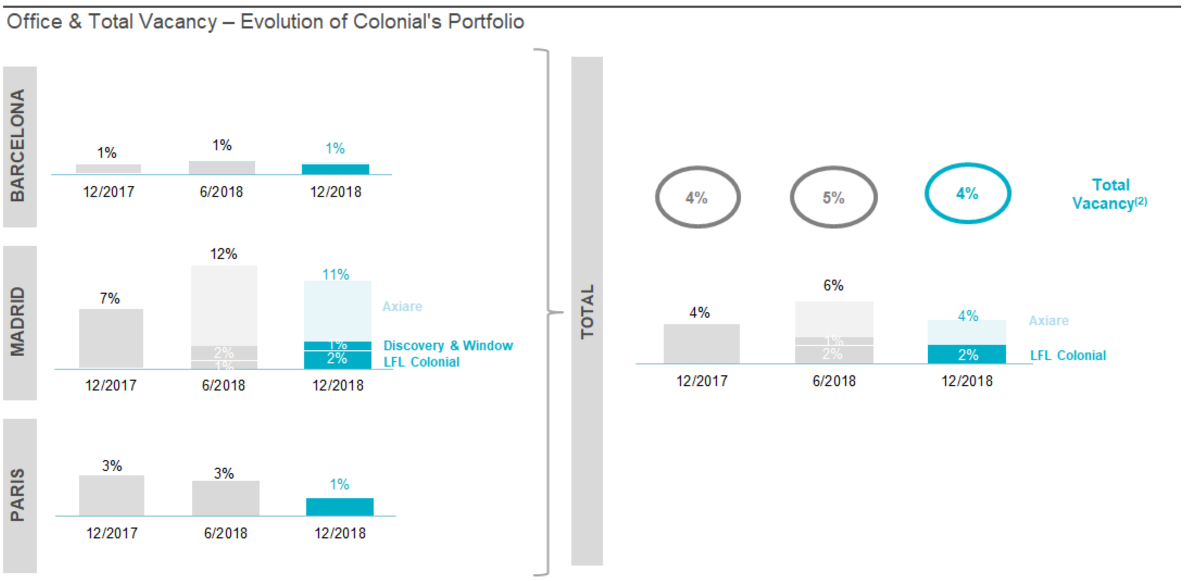
In Barcelona, worth noting is the the new leases signed of more than 3,600 sqm in Parc Glories as well as new leases for more than 2,000 sqm signed in Amigó 11-17 and 1,000 sqm in Diagonal 609, among others.

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

Solid occupancy levels

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

EPRA VACANCY[1]



(1) ***EPRA vacancy****: financial vacancy according to the calculation recommended by EPRA (1-[Vacant floorspace multiplied by the market rent/operational floorspace at market rent])*

(2) *Total portfolio including all uses: offices, retail and logistics*

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

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

- 1% of the vacancy corresponds to the recently delivered projects of The Discovery Building and The Window building with an occupancy of 85% and 89%, respectively, at the close of 2018. Both assets are generating a lot of interest and are expected to be soon fully let.

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

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

Vacancy surface of offices

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

(1) Projects and refurbishments that have entered into operation


P. Castellana 163


Alfonso XII


López de Hoyos 35


José Abascal 56


Ribera de Loira 28


Avenida Bruselas

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

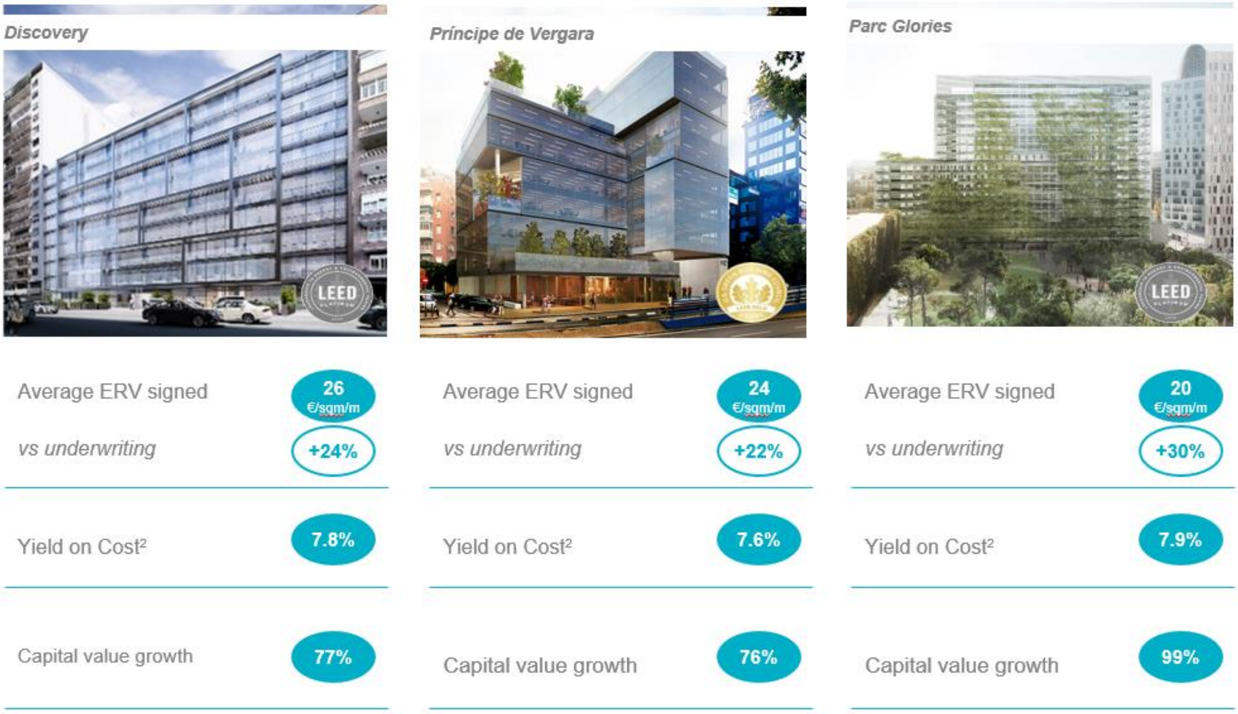
Successful project delivery – "real estate transformation"

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

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

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

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



(1) Acquisition price + invested capex

The yield on cost (rental yields over total cost) is around 8%. The increase in value was more than +87% compared to the total cost[2]. Consequently, the total return (10 years ungeared IRR) of these investments has greatly exceeded the 10% originally indicated, contributing to significant value creation for Colonial's shareholders.

On the other hand, the market consolidation is accelerating in the south of the CBD in Madrid. The disposal of the Torre Mendez Álvaro 22,000 sqm turnkey project for the Catalana Occidente headquarters confirms the high interest in this area. As a consequence the 90,000 sqm Mendez Álvaro Campus project has seen a significant value acceleration by the favourable evolution of this submarket, located just a few minutes from the CBD and benefiting from excellent public transport infrastructure.

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

Digital Strategy and Coworking

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

Utopicus - Coworking

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

- Once completed, Utopicus will soon manage more than 34,900 sqm of flexible spaces with a maximum capacity of up to 4,220 users, enhancing the positioning of Utopicus as a benchmark brand in the segment of the management of flexible spaces and coworking contents in Spain.
- It is worth noting the opening of a new centre in the new office building, The Window, developed by Colonial, in Príncipe de Vergara street in Madrid. The combination of flexible uses with traditional office space has allowed to achieve higher occupancy levels as well as higher rental income than expected.

Merger and integration of Axiare in record time

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

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

1. Consolidation of prime office leadership
   - More than €347m of rental income with €154m in Spain
   - More than €11,300m in asset value with €4,779m in Spain
   - 75% of the offices GAV in the CBD

2. Integration of the processes in the Colonial Group's real estate value chain
   - Professionalization and internalization of the commercial circuit and supply chain
   - Optimization of the IT systems
   - Integration of 8 people from Axiare into the Colonial Group

3. Optimization of the resulting asset portfolio
   - Definition of a Business Plan reviewed asset by asset
   - Review and optimization of the project portfolio
   - Identification of non-strategic assets

4. Income synergies – strengthened competitive position in the Madrid market
   - Maximization of rental prices through leadership in Grade A product
   - Usage of the integrated portfolio for cross-selling strategies
   - Greater scope of product offering to retain and attract clients

5. Operational cost synergies

   Annual cost savings of more than €5m
   - Implementation of personnel cost synergies
   - Elimination of duplications in other costs

6. Optimization of the financial structure of the merged Group
   - Cancellation and/or refinancing of more than €500m in bilateral debt
   - Optimization of financial cost

Active portfolio management

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

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

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

<u>Alpha IV acquisitions</u>

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

The main characteristics of the Alpha IV acquisitions are the following:

1. Disposals: In the third quarter, Colonial sold 7 office buildings and a turnkey project in Madrid for a total of €441m. The disposals were closed on very favourable terms for the Company, achieving a premium of +12% on the previous valuation[1]. The assets sold were non-strategic and mature properties and/or located outside of the CBD, with a gross lettable area of more than 106,000 sqm.

2. Acquisition of 22% of SFL: In November, Colonial and Qatar Investment Authority (QIA) reached an agreement in which Colonial would control up to 81% of its French subsidiary SFL. The transaction was on very advantageous terms for Colonial which had access to 10.3 million SFL shares, representing 22.2% of the share capital, at an average price of €69.6 per share, resulting in an average discount of 19% over the last reported NAV.

3. Acquisition of a prime asset in Barcelona – Diagonal 525: Colonial has acquired a 5,710 sqm above-ground office building on Barcelona's prime Avenida Diagonal. The building is currently 100% let to a single tenant, although it is expected to undergo a full-scale refurbishment in 2019 and become an iconic office building in the area.

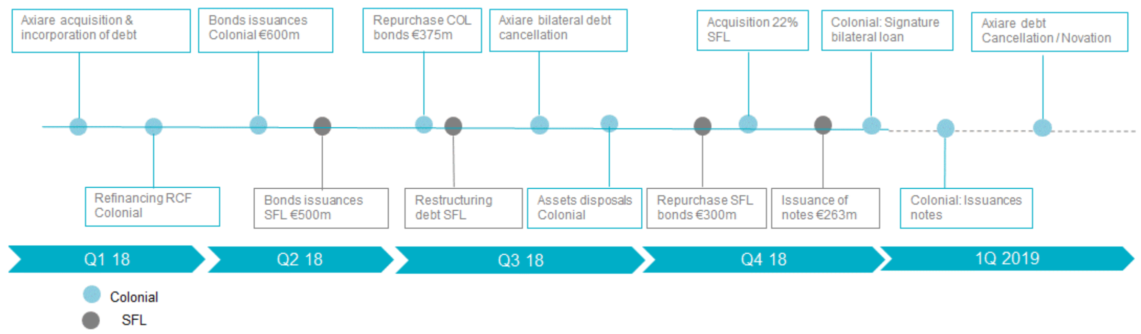
At the end of 2018, various shareholders approached Colonial to offer their SFL shares, allowing the Colonial Group to acquire around 1% of additional SFL capital, raising its current stake in its French subsidiary to 81.7%.

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

A strengthened balance sheet

Active management of the balance sheet

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



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

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

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

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

- The main transactions carried out by SFL were the following:
  - ✓ A bond issue for SFL for the nominal amount of €500m, maturing in May 2025, with an annual coupon of 1.5%.
  - ✓ The limit and maturity of its credits were adjusted, cancelling and/or reducing the limit of its undrawn facilities for €300m, extending the maturity of another credit limit of €150m from 2020 to 2023, and obtaining a new facilities with an available balance of €100m.
  - ✓ In October, it bought back €300m of its bonds maturing in November 2021 (€150m) and November 2022 (€150m).
  - ✓ Also in October, SFL started a short-term Euro Commercial Paper program, for the maximum amount of €300m, with the current issues of €263m at 31 December 2018.

Growth drivers

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

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

	Project		City	% Group	Delivery	GLA (sqm)	Total Cost €m[1]	Total Cost €/ sqm[1]	Yield on Cost
1	Pedralbes Center	Prime Commercial	Barcelona CBD	100%	1H 19	6,917	38	5,502	6.3%
2	Gala Placidia / Utopic_us		Barcelona CBD	100%	1H 19	4,312	17	3,922	7.0%
3	Miguel Angel 23		Madrid CBD	100%	2H 20	8,036	64	7,999	5.8%
4	Castellana, 163		Madrid CBD	100%	2020 / 21	10,910	52	4,803	6.5%
5	Diagonal 525		Barcelona CBD	100%	1H 21	5,710	37	6,460	6.0%
6	Emile Zola / Destination XV		Paris City Center	82%	2H 21	24,500	280	11,428	5.0%
7	Iena 96		Paris CBD	82%	1H 21	9,300	147	15,801	5.0%
8	Velazquez Padilla 17		Madrid CBD	100%	1H 21	17,239	113	6,532	6.5%
9	Plaza Europa 34		Barcelona	50%	2H 21	14,306	32	2,257	7.0%
10	Mendez Alvaro Campus		Madrid CBD South	100%	2H 22	89,871	287	3,188[2]	7.5%
11	Sagasta 27		Madrid CBD	100%	2H 22	4,481	23	5,044	6.5%
12	Louvré SaintHonoré	Prime Commercial	Paris CBD	82%	2023	16,000	205	12,831	7.3%
TOTAL OFFICE PIPELINE						**211,582**	**1,295**	**6,119**	**6.3%**

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

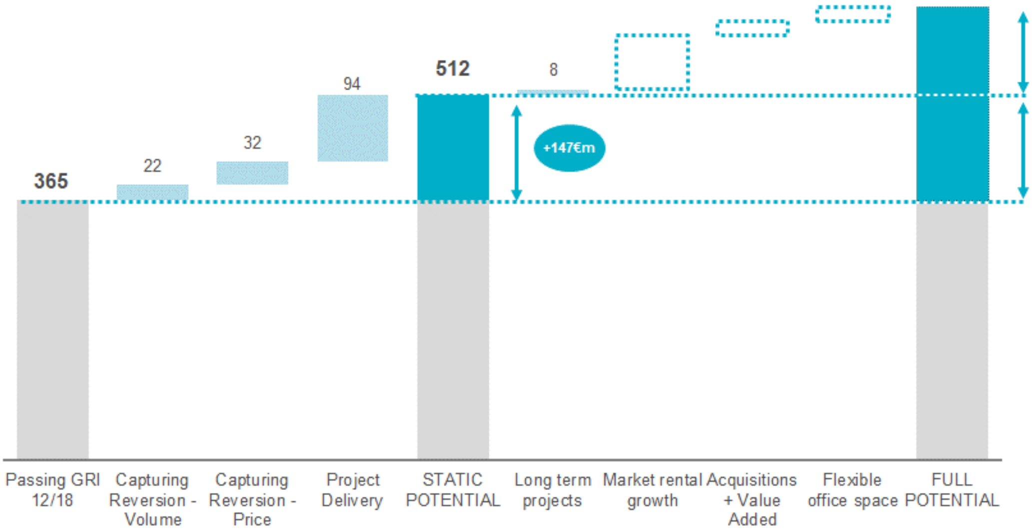
B. A strong prime positioning with a contract portfolio to capitalize on the cycle

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

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

Future cash flow potential

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



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

About Colonial

Colonial is a Spanish listed REIT company (SOCIMI), leader in the European Prime office market with presence in the main business areas of Barcelona, Madrid and Paris with a prime office portfolio of more than one million of sq m of GLA and assets under management with a value of more than €11bn.

EPRA BPR GOLD

EPRA sBPR GOLD

IBEX 35

MSCI

European Property Investment Awards WINNER 2018

Colonial

"The information included in this document should be read together with all of the public information available, particularly the Company's website www.inmocolonial.com."

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