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

Audit Report,
Consolidated Annual Accounts and
Directors' Report
as at 31 December 2018

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

Independent auditor´s report on the consolidated annual accounts

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

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Inmobiliaria Colonial, SOCIMI, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2018, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at 31 December 2018, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

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

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

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

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter
Valuation of Investment Property Colonial Group has real estate assets which are recognised in Investment property amounting to Euro 11,083,133 thousand at 31 December 2018 under the fair value model in accordance with NIC 40, that represent 96% of total assets. Also, the variation in value in investment property in 2018 amounts to Euro 701,952 thousand, representing 99% of the consolidated profit before taxes for the year. Notes 4.c), 9 and 18.f) to the accompanying consolidated annual accounts contains information on the assets included in this heading. In order to obtain the fair value of these assets, the Group commissions valuations that are carried out by independent third party experts. Fair value is determined using the discounted cash flow methodology, in accordance with standard market practice. Such valuations are based on a series of significant judgements and estimates. We have therefore focused on this area due to the materiality of this heading with respect to the Company's total assets and the significant judgment required on the part of Management. Changes in these assumptions could lead to a significant variation in the fair value of such assets and their impact on the consolidated comprehensive income statement and consolidated statement of financial position.	We obtained the year-end valuations of these assets by independent experts and we assessed that these experts meet the requirements of competence and independence, finding no exceptions. We determined that the valuations were performed in accordance with the Valuation Rules of the Royal Institution of Chartered Surveyors (RICS), included in the so-called "Red Book" - valuation manual. In this respect, we held meetings with the valuers together with our internal experts and verified for a representative sample of these valuations, the calculations used, final profitability, term of the rental contracts, the type and age of the properties, their location and occupancy rate and the discount rate used. Also, for a sample of assets, we verified the technical specifications used by the independent experts when determining the fair value of those assets using the purchase deeds. Lastly, we assessed the relevant disclosures in Notes 4.c), 9 and 18.f) to the accompanying consolidated annual accounts. We consider that we have obtained sufficient audit evidence in the course of our work to corroborate the reasonableness of the valuation of investment property.

Key audit matter	How our audit addressed the key audit matter
Acquisition and merger of Axiare Patrimonio SOCIMI, S.A. As indicated in Note 2.f of the accompanying Notes to the consolidated annual accounts, the public offer of the shares of Axiare Patrimonio SOCIMI, S.A. (Axiare) was confirmed on 2 February 2018. As a result, the Parent company acquired 86.86% of Axiare's share capital with a net cost value of Euro 1,207,645 thousand at this date. On 24 May 2018 and 25 May 2018, the General Shareholders' Meetings of the Parent company and Axiare, respectively, approved the merger of Axiare into the Parent company, which was registered with the Company Registry of Madrid on 4 July 2018. The merger operation was the merger of Axiare into Inmobiliaria Colonial, SOCIMI, S.A. and, as a result, its dissolution without liquidation and block transfer of its total rights and obligations with accounting effects from 2 February 2018. As a result of the business combination, the Parent company recorded a "Goodwill" whose net carrying amount at 31 December 2018 to Euro 62,225 thousand (Note 7 of the accompanying Notes to the consolidated annual accounts). Business combinations are complex processes that require Management's involvement to determine the accounting impacts in both the balance sheet and income statement of current and future financial years, as the acquired assets and assumed liabilities and commitments need to be identified, valued and recognised and the goodwill determined, whose future valuation will require estimates that will have a significant impact on the Group. Different valuation methodologies must be used to recognise acquired assets and assumed liabilities at fair value, which require complex judgments and estimates that cannot always be compared with external market sources and with the collaboration, if the case, of the Group's external experts.	We have verified the acceptance of the public offer of Axiare's shares on 2 February 2018, by the announcement of the National Securities Market Commission, thereby confirming the number of shares and percentage of capital obtained. The business combination carried out has required an analysis by us of the acquired assets and assumed liabilities identified and valued. For this analysis, we have reviewed the business combination, obtaining a full knowledge of the operation's terms and conditions, including the consideration transferred, and of the accounting statements related to the acquisition, and we have reviewed the values and valuations given to the acquired assets and recorded obligations, including the final process for determining goodwill. In our analysis, with the collaboration of our specialists in valuations, we have carried out the following tests on: • Adequacy of the methodology used to value the assets. • The estimates and projections of flows, as well as the discount rates applied. • The valuations of real estate assets, verifying the external independent appraisers' reports. • The liabilities recorded, analysing their valuation and the estimate of the provisions considered based on the information available at the moment of the operation. • Adequate disclosure of the information in the accompanying annual accounts. As a result of our analysis, we have been able to verify the consistency of the criteria applied by the Group and the amounts recorded in the accounts for the business combination, as well as the suitability of the information disclosed in the accompanying consolidated annual accounts.

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2018 financial year, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.

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

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

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

On the basis of the work performed, as described above, we have verified that the information mentioned in section a) above is provided in the consolidated management report and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2018 financial year, and its content and presentation are in accordance with the applicable regulations.

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

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

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

The Parent company´s audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

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

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Report on other legal and regulatory requirements

Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated 25 February 2019.

Appointment period

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

Services provided

Services provided to the Group for services other than the audit of the accounts, are indicated in the Note 23 to the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
José M Solé Farre (05565)

February 26, 2019

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2018, prepared in accordance with International Financial Reporting Standards and
Consolidated Management Report

Translation of a report originally Issued in Spanish based on our work performed In accordance with the audit regulations In force in Spain and of consolidated financial statements originally Issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group In Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, SOCIMI, S.A. AND SUBSIDIARIES
(COLONIAL GROUP)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

(Thousands of euros)

ASSETS	Note	31 December 2018	31 December 2017
Goodwill		62,225	-
Intangible assets		3,759	3,037
Property, plant and equipment	8	43,332	39,369
Investment property	9	11,083,133	8,792,396
Non-current financial assets	10	32,454	444,350
Non-current deferred tax assets	17	411	407
NON-CURRENT ASSETS		**11,225,314**	**9,279,559**
Inventories	9	46,587	-
Trade and other receivables	11	99,972	103,232
Current financial assets		1,300	12
Tax assets	17	19,757	20,115
Cash and cash equivalents	13	68,293	1,104,601
CURRENT ASSETS		**235,909**	**1,227,960**
Assets classified as held for sale	22	**26,091**	**-**
TOTAL ASSETS		**11,487,314**	**10,507,519**

LIABILITIES AND EQUITY	Note	31 December 2018	31 December 2017
Share capital		1,270,287	1,088,293
Share premium		1,578,439	1,126,248
Reserves of the Parent		215,990	245,118
Reserves at consolidated companies		1,223,497	406,366
Valuation adjustments recognised in equity - financial instruments		(2,078)	(559)
Valuation adjustments on available-for-sale financial assets		-	70,415
Other equity instruments		6,017	4,686
Treasury shares		(5,606)	(31,262)
Profit for the year		524,763	682,523
Equity attributable to shareholders of the Parent		**4,811,309**	**3,591,828**
Non-controlling interests		**1,290,486**	**2,087,870**
EQUITY	12	**6,101,795**	**5,679,698**
Bank borrowings and other financial liabilities	13 and 14	723,928	857,237
Bonds and similar securities issued	13	3,776,866	3,307,633
Non-current deferred tax liabilities	17	374,882	371,233
Non-current provisions	16	1,380	11,450
Other non-current liabilities	15	66,333	44,362
NON-CURRENT LIABILITIES		**4,943,389**	**4,591,915**
Bank borrowings and other financial liabilities	13 and 14	9,100	39,350
Bonds and similar securities issued	13	284,242	13,574
Trade payables	15	114,779	143,880
Tax liabilities	17	16,349	18,819
Current provisions	16	17,660	20,283
CURRENT LIABILITIES		**442,130**	**235,906**
TOTAL LIABILITIES AND EQUITY		**11,487,314**	**10,507,519**

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of financial position for the year ended 31 December 2018.

INMOBILIARIA COLONIAL, SOCIMI, S.A. AND SUBSIDIARIES
(COLONIAL GROUP)

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(Thousands of euros)

Income statement	**Note**	**2018**	**2017**
Revenue	18-a	348,273	283,287
Other income	18-b	5,677	2,714
Staff costs	18-c	(29,138)	(28,936)
Other operating expenses	18-d	(60,094)	(40,921)
Depreciation and amortisation	8	(3,353)	(2,445)
Net change in provisions	18-e	2,436	(5,704)
Net gains/(losses) on sales of assets	18-g	11,721	527
Operating profit		**275,522**	**208,522**
Changes in fair value of investment property	18-f	701,952	933,435
Gains/(losses) on changes in value of assets and impairment	18-f	(131,390)	(5,220)
Finance income	18-h	7,831	7,802
Finance costs	18-h	(149,433)	(86,846)
Impairment of financial assets	18-h	(143)	(401)
Profit before tax		**704,339**	**1,057,292**
Income tax expense	17	(26,230)	23,159
Consolidated net profit		**678,109**	**1,080,451**
Net profit for the year attributable to the Parent		524,763	682,523
Net profit attributable to non-controlling interests	12	153,346	397,928
Basic earnings per share (euros)	5	1.17	1.83
Diluted earnings per share (euros)	5	1.17	1.83
Statement of comprehensive income			
Consolidated net profit		**678,109**	**1,080,451**
Other components of comprehensive income recognised directly in equity		**(53,854)**	**69,028**
Gains/(losses) on hedging instruments	12 and 14	956	(94)
Gains/(losses) on available-for-sale financial assets	10	(54,777)	69,098
Tax effect on prior years' profit or loss	12 and 14	(33)	24
Transfers to comprehensive income		**(2,429)**	**91**
Gains/(losses) on hedging instruments	12 and 14	(2,472)	122
Tax effect on prior years' profit or loss	12 and 14	43	(31)
Consolidated comprehensive income		**621,826**	**1,149,570**
Comprehensive income for the year attributable to the Parent		468,467	751,633
Comprehensive income attributable to non-controlling interests		153,359	397,937
Comprehensive basic earnings per share (euros)		1.05	2.01
Comprehensive diluted earnings per share (euros)		1.05	2.01

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2018.

INMOBILIARIA COLONIAL, SOCIMI, S.A. AND SUBSIDIARIES
(COLONIAL GROUP)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED
31 DECEMBER 2018

(Thousands of euros)

	Note	Share capital	Share premium	Reserves of the Parent	Reserves at consolidated companies	Valuation adjustments recognised in equity - financial instruments	Valuation adjustments on available-for-sale financial assets	Other equity instruments	Treasury shares	Profit/(loss)	Equity attributable to shareholders of the Parent	Non-controlling interests	Equity
Balance at 31 December 2016		**892,058**	**731,326**	**250,634**	**199,417**	**(571)**	**1,317**	**3,697**	**(49,811)**	**273,647**	**2,301,714**	**1,706,205**	**4,007,919**
Total income and expense recognised in the year		-	-	-	-	12	69,098	-	-	682,523	751,633	397,937	**1,149,570**
Transactions with shareholders:													
Capital increases		196,235	394,922	(6,691)	-	-	-	-	-	-	584,466	-	**584,466**
Treasury share portfolio		-	-	10,371	-	-	-	-	2,956	-	13,327	-	**13,327**
Distribution of 2016 profit		-	-	(7,910)	218,808	-	-	-	-	(273,647)	(62,749)	(27,000)	**(89,749)**
Share-based payment transactions		-	-	(1,286)	-	-	-	989	2,537	-	2,240	641	**2,881**
Changes in the scope of consolidation		-	-	-	79	-	-	-	(2)	-	77	9,737	**9,814**
Other changes		-	-	-	(11,938)	-	-	-	13,058	-	1,120	350	**1,470**
Balance at 31 December 2017	**12**	**1,088,293**	**1,126,248**	**245,118**	**406,366**	**(559)**	**70,415**	**4,686**	**(31,262)**	**682,523**	**3,591,828**	**2,087,870**	**5,679,698**
Total income and expense recognised in the year		-	-	-	-	(1,519)	(54,777)	-	-	524,763	468,467	153,359	**621,826**
Transactions with shareholders:													
Capital increases		181,994	463,517	(1,149)	-	-	-	-	-	-	644,362	-	**644,362**
Treasury share portfolio		-	-	7,332	-	-	-	-	22,754	-	30,086	-	**30,086**
Distribution of 2017 profit		-	(11,326)	(33,798)	650,026	-	-	-	-	(682,523)	(77,621)	(52,273)	**(129,894)**
Share-based payment transactions		-	-	(1,513)	-	-	-	1,667	2,902	-	3,056	358	**3,414**
Changes in the scope of consolidation		-	-	-	151,426	-	-	-	-	-	151,426	(899,425)	**(747,999)**
Other changes		-	-	-	15,679	-	(15,638)	(336)	-	-	(295)	597	**302**
Balance at 31 December 2018	**12**	**1,270,287**	**1,578,439**	**215,990**	**1,223,497**	**(2,078)**	**-**	**6,017**	**(5,606)**	**524,763**	**4,811,309**	**1,290,486**	**6,101,795**

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2018.

INMOBILIARIA COLONIAL, SOCIMI, S.A. AND SUBSIDIARIES
(COLONIAL GROUP)
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2018
(Thousand of euros)

	Note	2018	2017
CASH FLOWS IN OPERATIONS			
1. CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES			
Profit from operations		275,522	208,522
Adjustments to profit			
Depreciation and amortisation (+)		3,353	2,445
Net change in provisions (+/-)	18-e	(2,436)	5,704
Other	18-a	3,489	(11,079)
Gains/(losses) on sale of investment property (+/-)	18-g	(11,721)	(527)
Adjusted profit		268,207	205,065
Taxes recovered (paid) (+/-)		(11,834)	29,434
Interest received (+)		2,460	-
Increase/(decrease) in current assets and liabilities			
Increase/(decrease) in receivables (+/-)		15,279	929
Increase/(decrease) in payables (+/-)		(107,866)	9,845
Increase/(decrease) in other assets and liabilities (+/-)		11,107	4,866
Total net cash flows in operating activities		**177,353**	**250,139**
2. CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Investments in (-)			
Intangible assets		(2,973)	(1,318)
Property, plant and equipment	8	(4,063)	(2,867)
Investment property	9	(307,661)	(128,862)
Non-current financial assets and others		(216,776)	(211,886)
Business combinations	2-f	(843,149)	(316,540)
Cash and cash equivalents acquired in a business combination	10	160,157	16,223
		(1,214,465)	(645,250)
Disposals of (+)			
Investment property	9	378,959	450,671
		378,959	450,671
Total net cash flows in investing activities		**(835,506)**	**(194,579)**
3. CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Dividends paid (-)	12	(129,894)	(89,749)
Repayment of bank borrowings (-)	13	(955,744)	(572,925)
Repayment of debts with bondholders (-)	13	(675,000)	(300,700)
Interest paid (+/-)	18	(142,723)	(94,406)
Post-control transactions (+/-)	21	-	(266)
Treasury share transactions (+/-)	12	(58)	13,327
		(1,903,419)	(1,044,719)
New bank borrowings obtained (+)	13	120,440	609,968
New bondholder borrowings obtained (+)	13	1,412,500	800,000
Capital increases (+)	12	-	591,157
Expenses associated with capital increases	12	(1,149)	(6,691)
Other proceeds/(payments) for current financial investments and other (+/-)		(6,527)	(5,874)
		1,525,264	1,988,560
Total net cash flows in financing activities		**(378,155)**	**943,841**
4. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS			
Cash flow for the year		**(1,036,308)**	**999,401**
Cash and cash equivalents at beginning of year	**13**	**1,104,601**	**105,200**
Cash and cash equivalents at end of year	**13**	**68,293**	**1,104,601**

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of cash flows at 31 December 2018.

Inmobiliaria Colonial, SOCIMI, S.A.
and Subsidiaries

Notes to the consolidated financial statements
for the year ended
31 December 2018

1. Colonial Group business activity

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

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

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

The Parent’s corporate purpose, as set out in its bylaws, is as follows:

- the acquisition and development of urban properties for lease;
- the ownership of interests in the share capital of listed real estate investment companies (REITs) or other non-resident entities in Spain with the same corporate purpose, which are subject to a regime similar to that established for REITs in relation to the obligatory profit distribution policy stipulated by law or the bylaws;
- the ownership of interests in the share capital of other resident or non-resident entities in Spain, the main corporate purpose of which is the acquisition of urban properties earmarked for lease, which are subject to the regime established for REITs in relation to the obligatory profit distribution policy stipulated by law or the bylaws and meet the investment requirements stipulated for these companies; and
- the ownership of shares or equity interests in collective real estate investment undertakings governed by Law 35/2003, of 4 November, on collective investment undertakings or any law that may replace it in the future.

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

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

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

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

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries (“the Group”) carry out their activities in Spain (mainly in Barcelona and Madrid) and in France (Paris) through the group of which the parent is Société Foncière Lyonnaise, S.A. (hereinafter, the “SFL subgroup” or “SFL” for the subsidiary).

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

In 2018, the Parent improved the credit rating obtained from Standard & Poor's Rating Credit Market Services Europe Limited, which is now a "BBB+" long-term credit rating and an "A-2" short-term credit rating, both with a stable outlook. In addition, the Parent maintained the "Baa2" credit rating with a negative outlook from Moody's. In 2018, the subsidiary SFL maintained its credit rating of "BBB+" with a stable outlook, and the "A-2" short-term credit rating.

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

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (EU-IFRSs) as adopted by the European Union, taking into account all mandatory accounting policies and rules and measurement bases, the Spanish Code of Commerce, the Spanish Limited Liability Companies Law, the Spanish Securities Markets Law and other applicable company law, as well as regulations laid down by the Spanish National Securities Market Commission (CNMV), to present a true and fair view of the Colonial Group's consolidated equity and financial position at 31 December 2018 and of the comprehensive income from its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended.

The consolidated financial statements of Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries for the year ended 31 December 2018 were prepared on the basis of the accounting records kept by the Parent and by the other companies comprising the Colonial Group, and were authorised for issue by the Parent's directors at the Board of Directors meeting held on 26 February 2019.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements at 31 December 2018 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify the policies and bases used and to make them compliant with EU-IFRSs.

In order to present on a consistent basis the various items that make up the consolidated financial statements, the accounting principles and measurement bases used by the Parent were applied to all the companies included in the scope of consolidation.

The Group's consolidated financial statements for the year ended 31 December 2017 were approved by the shareholders at the Parent's Annual General Meeting held on 24 May 2018.

b) Adoption of International Financial Reporting Standards

The Colonial Group's consolidated financial statements are presented in accordance with EU-IFRSs, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002. In Spain, the obligation to present consolidated financial statements under European IFRSs is also regulated in final provision eleven of Law 62/2003, of 30 December, on tax, administrative and social measures.

The main accounting principles and measurement bases adopted by the Colonial Group are detailed in Note 4.

Standards and interpretations effective this year

New accounting standards came into force in 2018 and were accordingly taken into account when preparing these consolidated financial statements. These new standards are as follows:

IFRS 4 (Amendment) “Applying IFRS 9 ‘Financial instruments’ with IFRS 4 ‘Insurance contracts’”- Amendments to IFRS 4":

- IFRS 9, "Financial instruments"

- IFRS 15 "Revenue from contracts with customers".

- In relation to the entry into force of IFRS 15, the Colonial Group considers that, based on the nature of the business, it will not have a significant impact on the Group's consolidated financial statements.

  IFRS 15 (Amendment) “Clarifications to IFRS 15 ‘Revenue from contracts with customers’”

- Annual improvements to IFRSs. 2014-2016 Cycle: The amendments affect IFRS 1 and IAS 28 and apply to annual periods beginning on or after 1 January 2018. The main amendments refer to:

- IFRS 1 “First-time adoption of International Financial Reporting Standards”.

    - IAS 28 “Investments in associates and joint ventures”.

    - IFRS 2 (Amendment) “Classification and measurement of share-based payment transactions”

- IAS 40 (Amendment) “Transfers of investment property”

- IFRIC 22 “Foreign currency transactions and advance consideration”

- The impact of the interpretation of these amendments has not been significant.

Standards and interpretations issued but not yet effective

At the date of authorisation for issue of these consolidated financial statements, the following standards, amendments or interpretations were published by the IASB but had not yet come into force, and although early application is permitted, the Group opted not to apply them early:

IFRS 16, "Leases"

- The application of IFRS 16 entered into force on 1 January 2019. At this date, the Group had commitments for non-cancellable operating leases amounting to 15,664 thousand euros (Note 18-d).

  - The Group expects to recognise right-of-use assets for approximately 27,192 thousand euros on 1 January 2019, lease liabilities for 30,576 thousand euros and negative consolidated reserves amounting to 3,384 thousand euros.

    The Group expects net profit after tax to decrease by approximately 723 thousand euros in 2019 as a result of adopting the new standards. Operating profit is expected to increase by approximately 720 thousand euros, given that the operating lease payments are included in operating profit, as is the case with the amortisation of the right-of-use assets. However, the interest on the lease liabilities is excluded.

    Cash flows from operating activities will increase and cash flows from financing activities will decrease by approximately 3,676 thousand euros, since the reimbursement of part of the principal of the lease liabilities will be classified as cash flows from financing activities.

    The Group's activities as a lessor are not material and, therefore, are not expected to have a significant impact on the Group's financial statements. However, additional information will have to be disclosed as of next year.

- IFRS 9 (Amendment) “Prepayment component with negative compensation”.

- IFRIC 23 "Uncertainty over income tax treatments"

Accordingly, at the date of authorisation for issue of these consolidated financial statements, the following standards, amendments or interpretations were published by the IASB but had not yet come into force, and are subject to approval by the European Union:

- IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its associate or joint venture"

- IFRS 17 "Insurance contracts"

- IAS 28 (Amendment) "Long-term interests in associates and joint ventures"

- Annual improvements to IFRSs. 2015-2017 Cycle: The amendments affect IFRS 3, IFRS 11, IAS 12 and IAS 23 and shall apply to annual periods beginning on or after 1 January 2019, all of which are subject to adoption by the EU. The main amendments refer to

- IFRS 3 "Business combinations".

    - IFRS 11 "Joint arrangements".

    - IAS 12 "Income taxes".

    - IAS 23 "Borrowing costs".

    - IAS 19 (Amendment) "Plan amendment, curtailment or settlement".

- IFRS 3 (Amendment) "Definition of a business"

- IAS 1 (Amendment) and IAS 8 (Amendment) "Definition of material"

- The application of new standards, amendments and interpretations will be considered by the Group once they have been ratified and adopted, where appropriate, by the European Union.

The Parent's directors have reviewed the potential impacts of the future application of these standards and consider that their entry into force will not have a significant effect on the consolidated financial statements.

c) Functional currency

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

d) Responsibility for the information provided and estimates and judgements made

The information in these consolidated financial statements is the responsibility of the Parent's directors. Management of the Parent has made estimates based on objective data in order to quantify certain assets, liabilities, income, expenses and commitments reported herein. These estimates and criteria relate to the following:

- The market value of properties for own use, investment properties and inventories (Notes 8 and 9).

  The market value was obtained from the appraisals periodically made by independent experts. Such appraisals were made on 31 December 2018 and 2017 in accordance with the methods described in Notes 4-b and 4-c.

- Classification, measurement and impairment of financial investments (Note 4-e).

- Estimate of the appropriate allowances for doubtful debts (Note 11).

- Measurement of deferred tax liabilities recognised in the consolidated statement of financial position (Notes 4-m and 17).

- Measurement of assets classified as held for sale (Notes 4-s and 22).

- Goodwill impairment testing (Note 7).

- The market value of certain financial assets (Note 10), including derivative financial instruments (Note 14).

- Evaluation of lawsuits, obligations, and contingent assets and liabilities at year-end (Note 16).

Although these estimates were made on the basis of the best available information at the date of authorising these consolidated financial statements for issue, events that take place in the future might make it necessary to change these estimates (upwards or downwards). Changes in accounting estimates would be applied prospectively and would be recognised in the consolidated statement of comprehensive income.

e) Basis of consolidation

The main consolidation principles applied by the Parent’s directors in preparing these consolidated financial statements were as follows:

1. The accompanying consolidated financial statements were prepared from the accounting records of Inmobiliaria Colonial, SOCIMI, S.A. and of the companies controlled thereby, whose financial statements were prepared by each Group company's management. The Parent is considered to have effective control in the circumstances outlined in point 6 below.

2. The results of the subsidiaries acquired or sold during the year are included in consolidated income from the effective date of acquisition and are no longer included from the date of disposal, as appropriate.

3. All accounts receivable and payable and other transactions between the consolidated companies have been eliminated on consolidation.

4. Where necessary, the financial statements of the subsidiaries are adjusted to ensure uniformity with the accounting policies applied by the Parent. All subsidiaries have the same reporting date as the Parent, i.e., 31 December.

5. The interest of non-controlling shareholders is established in proportion to the fair values of the identifiable assets and liabilities recognised. Non-controlling interest in:

    a. Investees’ equity: recognised in equity under "Non-controlling interests" in the consolidated statement of financial position.

    b. Profit or loss for the year: recognised under “Net profit attributable to non-controlling interests” in the consolidated statement of comprehensive income.

6. The Group used the following criteria to determine the consolidation method applicable to the various companies comprising the Group:

    Full consolidation:

    - Subsidiaries are fully consolidated and are considered to be all entities in which the Group directly or indirectly controls the financial and operating policies such that power is exercised over the investee. This is generally accompanied by an ownership interest of more than half of an entity’s voting rights. In addition, to evaluate whether the Group controls another entity, it considers the power over the investee; the exposure or rights to variable returns of the investment; and the ability to use this power over the investee to affect the amount of the investor's returns. When evaluating whether the Group exercises control over an entity, the existence and the effect of any potential voting rights, both those held by the Parent and by third parties, are taken into consideration, provided they are of a substantive nature.

    - Subsidiaries are accounted for using the acquisition method. The acquisition cost is the fair value of the assets delivered, the equity instruments issued and the liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and identifiable liabilities and contingencies incurred in a business combination are measured initially at fair value at the acquisition date, regardless of the effect of non-controlling interests. When the acquisition cost is higher than the fair value of the Group's interest in the identifiable net assets acquired, the difference is recognised as goodwill. If the acquisition cost is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income (details of the companies consolidated at 31 December 2018 and 2017 are included in the Appendix).

7. The accompanying consolidated financial statements do not include the tax effect, if any, of transferring the reserves of the consolidated companies to the Parent's equity, since it is considered that these reserves will be used to finance the operations of each company and any potential distributions will not represent a significant additional tax cost.

f) Changes in the scope of consolidation

The following changes occurred in the scope of consolidation in 2018:

- On 16 January 2018, the Parent acquired 100% of the share capital of the Spanish company LE Offices Egeo, S.A.U. (hereinafter, “Egeo”), the owner of an office building located in Madrid (Note 9). The acquisition price was 49,098 thousand euros, plus associated acquisition costs. In addition, in 2018 the loan held by Egeo with a financial institution for 30,182 thousand euros, including interest, was paid off early.

- Voluntary takeover bid to acquire shares of Axiare Patrimonio SOCIMI, S.A.

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

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

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

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

  On 2 February 2018, the Spanish National Securities Market Commission published the result of the takeover bid, which was accepted for 45,912,569 shares, representing 81.55% of the shares targeted by the takeover bid and 58.07% of the share capital of Axiare Patrimonio SOCIMI, S.A., entailing the payment of 842,955 thousand euros.

  With this expenditure, the value of the ownership interest in Axiare Patrimonio SOCIMI, S.A. amounted to 1,207,647 thousand euros, including the value of the ownership interest held by the Parent prior to the date of the takeover (Note 10-b). As a result, taking into account the shares already previously held by the Parent, the latter now holds 68,674,633 shares, representing 86.86% of the share capital of Axiare Patrimonio SOCIMI, S.A.

  Reason for the business combination -

  As explained in the prospectus of the takeover bid, with the acquisition of Axiare, the Colonial Group consolidated its position as the European platform in the prime office market of Paris, Madrid and Barcelona. Axiare's asset portfolio at 30 September 2017, with 74% relating to offices, of which 93% are located in Madrid, clearly complements the Colonial Group's strategy, which consists of investing in the office markets of Madrid, Barcelona and Paris, with a focus on high-quality buildings. The acquisition of Axiare will allow Colonial to increase the value of its current portfolio and increase the Group's exposure in Spain. Furthermore, the synergies with the acquisition of Axiare may represent a savings in operating costs. Accordingly, it will potentially enable Axiare's financing structure to be optimised as a result of its integration into the Group with a credit rating of BBB by Standard & Poor's and Baa2 by Moody's.

Net assets acquired and cost of business combination -

The Parent's directors made an initial allocation of the cost of the business combination, provisionally estimating that the difference between the cost of the business combination and the fair value of the net assets acquired is as shown in the following table:

	Thousands of Euros		
	Carrying amount	Value adjustment	Fair value
Investment property	1,734,566	(3,193)	1,731,373
Other non-current assets	32,662	-	32,662
Current assets	180,414	9,969	190,383
Non-current liabilities	(645,213)	-	(645,213)
Current liabilities	(116,181)	(3,999)	(120,180)
Total net assets	**1,186,248**	**2,777**	**1,189,025**
Consideration paid on the investment (*)			**1,207,645**
Capital increase as a result of the merger			**157,909**
Positive combination difference (Goodwill)			**176,529**

(*) The consideration paid was calculated as the total acquisition price plus the revaluation of the investment acquired prior to the acquisition of control.

These initial estimates are provisional and the Group has a one-year period to adjust them on the basis of any subsequent more significant or complete information that it may receive.

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

"Other operating expenses" in the consolidated statement of comprehensive income for 2018 includes 8,021 thousand euros in transaction costs associated with the transaction.

The fair value of the accounts receivable acquired, mainly of a commercial nature, amounted to 15,886 thousand euros and did not differ from their gross contractual amounts. The Parent's directors do not consider that, at the acquisition date, there were signs that such accounts would not be collected in full.

The operating income of the Axiare subgroup in January 2018 amounted to losses of 57,234 thousand euros, including 47,842 thousand euros relating to incentive and indemnity plans and 12,579 thousand euros relating to the takeover bid launched by Inmobiliaria Colonial, SOCIMI, S.A.

Allocation to the cash-generating unit and impairment of goodwill

In accordance with IAS 36, Management identifies the different cash-generating units by looking at the smallest identifiable group of assets that generates cash inflows for the entity that are largely independent of the cash inflows from other assets or groups of assets.

In this context, the Group has considered, when defining its cash-generating units, how the management of the different real estate assets that make up the Group is organised, and also how to frame them within the business segment.

The Parent's directors consider that the change in value recorded by the structured portfolio acquired through the business combination with Axiare after the date of the acquisition of control represents the materialisation of the expectations existing at the date of this business combination.

Merger by absorption between Inmobiliaria Colonial, SOCIMI, S.A. (absorbing company) and Axiare Patrimonio SOCIMI, S.A. (absorbed company)

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

- On 20 March 2018, Utopicus increased its share capital by 4 thousand euros, corresponding to 3,638 shares with a par value of 1 euro each, plus a share premium, which was subscribed and paid in full by the Parent.

- On 7 May 2018, the Parent acquired 100% of Peñalvento from the subsidiary Agisa for 20,755 thousand euros.

- On 16 November 2018, the Parent acquired 10,323,982 shares of the subsidiary SFL from Qatar Holding, LLC and DIC Holding, LLC through (i) the Parent's contribution of 7,136,507 shares of the subsidiary as consideration for the subscription of the 53,523,803 new shares of the Company (Note 12-a), (ii) the exchange of 400,000 shares of the subsidiary SFL for 3,000,000 shares of the Parent that it held as treasury shares (Note 12-f), and (iii) the sale to the Parent of 2,787,475 shares of the subsidiary SFL for 203,486 thousand euros.

- On 29 November, the Parent acquired 281,022 shares of the subsidiary SFL for 18,969 thousand euros.

- In addition, the Parent acquired 441,000 shares of the subsidiary SFL through the exchange of 315,000 shares of the Parent held as treasury shares (Note 12-f) and 8,442 thousand euros.

The following changes arose in the scope of consolidation in 2017:

- On 18 May 2017, the subsidiary Inmocol Torre Europa, S.A. (hereinafter, "Inmocol") was incorporated. The initial share capital of 20,000 thousand euros was fully subscribed by the Parent and its shareholder as follows:

    - The shareholder subscribed 50% of the share capital through a non-monetary contribution of land located at Hospitalet del Llobregat, valued at 10,000 thousand euros, on which Inmocol will construct an office building.

    - The remaining 50% of the share capital was subscribed by the Parent, having only paid 25% of the capital subscribed, i.e., 2,500 thousand euros. The unpaid share capital subscribed will be paid by the Parent when agreed upon by the Board of Directors of Inmocol.

- During the first half of 2017, the Parent also acquired 4,700 shares in its subsidiary SFL, for a total of 265 thousand euros, thus increasing its interest in the share capital from 58.55% to 58.56%.

- On 27 September 2017, the Parent acquired all the shares of the Spanish company LE Offices Arturo Soria, S.L. (currently Colonial Arturo Soria, S.L., and hereinafter, "Arturo"), the owner of an office building located in Madrid (Note 9). The acquisition price was 19,747 thousand euros, plus associated acquisition costs. Of this amount, 4,200 thousand euros were deferred until 31 January 2018 at the latest (Note 15), and were paid in 2018. In addition, the loan held by Arturo Soria with a financial institution for 13,159 thousand euros, including interest, was paid off early, which was registered with the Property Registry on 26 November 2017.

- On 27 October 2017, the Parent acquired 61.51% of the share capital of the Spanish company Utopicus Innovación Cultural, S.L. (hereinafter, "Utopicus"), the head of the Utopicus co-working platform. The acquisition price amounted to 2,633 thousand euros, including associated acquisition costs, and 205 thousand euros were deferred, which were recognised under "Trade payables" in the consolidated statement of financial position (Note 15). On this same date, Utopicus increased its share capital by 1,001 thousand euros, corresponding to 910 shares of one euro par value each, plus a share premium, which was subscribed and paid in full by the Parent, thus increasing its interest in the share capital of Utopicus to 69.60%.

- On 30 November 2017, after the previous tenant left, the subsidiary SFL acquired the Emile Zola property (Note 9) through (i) the acquisition of all share capital of the French company SAS Société Immobilière Victoria, which owns the land and a portion of the buildings of this property, directly from the subsidiary SFL, and (ii) the subsidiary SFL acquired the rest of the property that was not owned by SAS Société Immobilière Victoria. The acquisition cost totalled 165,000 thousand euros.

- On 20 December 2017, the Parent acquired all the share capital of the Spanish companies Almacenes Generales Internacionales, S.A. (hereinafter, "Agisa") and Soller, S.A., which own several plots of land located in Madrid (Note 9). The acquisition price was 178,220 thousand euros, including associated acquisition costs. Of this amount, 41,335 thousand euros were deferred until 31 December 2018 at the latest (Note 15). Several guarantees were extended as collateral for the deferred amount (Note 13-i). On 31 December 2018, the deferred amounts were paid and the guarantees extended were cancelled.

- On 20 and 27 December 2017, Agisa acquired 64.60% of the share capital of the Spanish company Peñalvento, S.L. (hereinafter, "Peñalvento"), which owns a plot of land in Madrid (Note 9). The acquisition price was 12,127 thousand euros, including associated acquisition costs. Of this amount, 632 thousand euros were deferred until 31 December 2018 (Note 15). Several guarantees were extended as collateral for the deferred amounts (Note 13-i). In addition, in a single deed, the loan held by Peñalvento with a financial institution for 20,192 thousand euros, including interest, was paid off early, which is expected to be registered in the property registry on 30 January 2018. With the acquisition of the aforementioned ownership interest, together with the 35.40% interest in the share capital of Peñalvento owned by Agisa, the Parent now owns all share capital of Peñalvento.

At 31 December 2018 and 2017, Colonial Invest, S.L.U., Colonial Tramit, S.L.U., Axiare Properties, S.L.U., SB2 SAS, SB3 SAS and SCI SB3 were inactive subsidiaries.

g) Comparison of information

The information relating to 2018 included in these notes to the consolidated financial statements is presented, for comparison purposes, with the information relating to 2017.

h) Aggregation of items

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

i) Correction of errors

No significant errors were detected in the preparation of the accompanying consolidated financial statements that would have made it necessary to restate the amounts included in the consolidated financial statements for 2017.

j) Negative working capital

At 31 December 2018, the Group had a negative working capital of 176,230 thousand euros, however, the Group hassufficient undrawn lines of financing to cover this amount (Note 13).

3. Distribution of the Parent's profit

The distribution of profit for 2018 proposed by the Board of Directors of the Parent and that will be submitted for approval at the Annual General Meeting is as follows:

	Thousands of euros
Profit for the year of the Parent	**36,308**
To legal reserve	3,631
To dividends	32,677
Total distributed	**36,308**

The Parent's Board of Directors will submit for approval at the Annual General Meeting a proposed distribution of dividends totalling 0.20 euros per share, which would give rise to a total maximum dividend of 101,623 thousand euros based on the current number of outstanding shares. The definitive amount of the dividend, as well as the nature of the reserves to be distributed, will be determined prior to its distribution based on the treasury shares held by the Parent (Note 12-f).

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

Thousands of euros	2013	2014	2015	2016	2017
Dividends distributed	-	-	47,833	62,749	77,219

4. Accounting policies and measurement bases

The main accounting policies and measurement bases used to prepare the consolidated financial statements, in accordance with EU-IFRSs and the interpretations in force when these consolidated financial statements were prepared, are as follows:

a) Business combinations and intangible assets

Business combinations

Business combinations are accounted for by applying the acquisition method (Note 2-e).

The cost of the business combination is allocated at the acquisition date by recognising, at fair value, all assets, liabilities and contingent liabilities of the acquired entity that meet the criteria for recognition established in IFRS 3. The excess of the cost of a business combination over the acquiree's allocated assets, liabilities and contingent liabilities is recognised as goodwill, which, accordingly, represents advance payments made by the Colonial Group for future economic benefits generated by the assets of the acquiree that are not individually and separately identifiable and recognisable.

The negative different, if any, between the cost of the business combination and the allocation to assets, liabilities and contingent liabilities of the acquired entity, is recognised as profit or loss in the year in which it is incurred.

If a business combination is achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at fair value at the acquisition date and recognises any resulting gain or loss in the consolidated statement of comprehensive income or under other consolidated comprehensive income, where appropriate.

Intangible assets

As a general rule, intangible assets are initially measured at their acquisition or production cost. They are then measured at cost less the corresponding accumulated amortisation and, where applicable, less any impairment losses. These assets are amortised over their useful life.

b) Property, plant and equipment (Note 8)

Properties for own use, including other property, plant and equipment, are recognised at acquisition cost less any accumulated depreciation and any impairment.

Historical cost includes expenses directly attributable to the acquisition of the properties. Any potential impairment losses on the properties are recognised in accordance with the same valuation assumptions described in Note 4-d.

Subsequent costs are capitalised or recognised as a separate asset only when it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be determined reliably. Maintenance and upkeep expenses are charged to the consolidated statement of comprehensive income in the year incurred.

Group companies depreciate their property, plant and equipment for own use and other items of property, plant and equipment using the straight-line method, distributing the cost of the assets over the years of estimated useful life. The breakdown of the useful life of property for own use located in Spain and France is as follows:

	Years of estimated useful life	
	Spain	France
Property for own use		
Buildings	50	50
Fixtures	10 to 15	10 to 50
Other property, plant and equipment	4 to 10	5 to 50

Gains or losses arising on the disposal (Note 18-g) or derecognition of an asset (Note 18-f) from this heading are determined as the difference between the sale price and its carrying amount and are recognised in the consolidated statement of comprehensive income.

c) Investment property (Note 9)

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

Investment property is stated at its fair value at the end of the reporting period and is not subject to annual depreciation.

Profit or loss arising from changes in the fair value of investment property is included in income in the same period in which it occurs and recognised under “Changes in fair value of investment property” in the consolidated statement of comprehensive income. These gains or losses are not included in operating profit as the changes in value are not directly within the control of the Group’s management.

Assets are transferred from investment property in progress to investment property when they are ready for use. The classification of an investment property to the investment property in progress heading takes place only when the rehabilitation or renovation project will exceed 1 year in length.

When the Group recognises as an increase in fair value of an investment property the cost of an asset that replaces another already included in such amount, the Group reduces the value of the property by the fair value of the asset replaced, recognising the impact under “Gains/(losses) on changes in value of assets and impairment” in the consolidated statement of comprehensive income (Note 18-f). If the fair value of the assets replaced cannot be reliably determined, the cost of the replacement is included in the carrying amount of the property, whose fair value is later reassessed periodically on the basis of appraisals performed by independent experts.

In accordance with IAS 40, the Group calculates the fair value of its investment property on a regular basis. Fair value is determined based on the valuations made by independent experts (Jones Lang LaSalle and CB Richard Ellis Valuation in Spain, and Jones Lang La Salle and Cushman & Wakefield in France, in both 2018 and 2017) at the date of preparing the consolidated statement of financial position, so that the year-end fair values for investment property items reflect prevailing market conditions. The valuation reports prepared by independent experts contain only the standard warnings and/or disclaimers concerning the scope of the findings of the appraisals carried out, referring basically to the comprehensiveness and accuracy of the information provided by the Group.

The Discounted Cash Flow (hereinafter, “DCF”) method was primarily used to determine the market value of the Group's investment property in 2018 and 2017.

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

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

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

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

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

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

The key inputs in this valuation method are the determination of net income, the period of time over which they are discounted, the estimated realisable value at the end of each period and the target internal rate of return used to discount the cash flows.

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

The yields and other assumptions used in determining future cash flows in 2018 and 2017 are set out in the tables below:

	Gross	
Yields (%) - Offices	31 December 2018	31 December 2017
Barcelona – Prime Yield		
Leased out	4.72	4.92
Total portfolio	4.75	5.00
Madrid – Prime Yield		
Leased out	4.53	4.56
Total portfolio	4.51	4.57
Paris – Prime Yield		
Leased out	3.23	3.25
Total portfolio	3.24	3.26

Assumptions made at 31 December 2018					
Rent increases (%) - Offices	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5 and thereafter**
Barcelona –					
Leased out	**3.0**	**3.0**	**3.0**	**3.0**	**2.25**
Total portfolio	**3.0**	**3.0**	**3.0**	**3.0**	**2.25**
Madrid –					
Leased out	**3.0**	**3.0**	**3.0**	**3.0**	**2.5**
Total portfolio	**3.0**	**3.0**	**3.0**	**3.0**	**2.5**
Paris –					
Leased out	**0.5**	**1.0**	**1.5**	**1.5**	**1.5**
Total portfolio	**0.5**	**1.0**	**1.5**	**1.5**	**1.5**

Assumptions made at 31 December 2017					
Rent increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	3.0	3.0	3.0	3.0	2.25
Total portfolio	3.0	3.0	3.0	3.0	2.25
Madrid –					
Leased out	3.0	3.0	3.0	3.0	2.5
Total portfolio	3.0	3.0	3.0	3.0	2.5
Paris –					
Leased out	1.0	1.50	2.0	2.0	2.0
Total portfolio	1.0	1.50	2.0	2.0	2.0

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

A change of one-quarter of one point in yields would have the following impact on the valuations used by the Group at 31 December 2018 and 2017 to determine the value of its investment property: property, plant and equipment for own use, investment property, inventories and assets classified as held for sale.

	Thousands of euros		
Sensitivity of valuations to a change of one quarter of a point in yields	Valuation	Decrease of one quarter of a point	Increase of one quarter of a point
December 2018	11,348,133	776,117	(671,522)
December 2017	8,933,035	639,037	(551,470)

A reconciliation between the valuations used by the Group and the carrying amounts of the headings of the consolidated statement of financial position where the valued assets are recognised, is as follows:

	31 December 2018	31 December 2017
Headings of the consolidated statement of financial position -		
Property, plant and equipment	34,734	33,781
Investment property (Note 9)	11,083,133	8,792,396
Inventories (Note 9)	46,587	-
Assets classified as held for sale (Note 22)	26,091	-
Trade and other receivables – Lease incentives (Note 11)	88,061	78,746
Total headings of the consolidated statement of financial position	**11,278,606**	**8,904,923**
Unrealised gains on assets recognised under IAS 16	31,614	28,292
Unrealised gains on other assets	11,913	-
Payments outstanding	26,000	-
Assets not valued	-	(180)
Valuation	**11,348,133**	**8,933,035**

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

The income earned in 2018 and 2017 from the lease of investment properties amounted to 348,273 thousand euros and 283,287 thousand euros, respectively (Note 18-a) and is recognised under "Revenue" in the accompanying consolidated statement of comprehensive income.

In addition, the bulk of repair and maintenance expenses incurred by the Colonial Group in connection with the operation of its investment properties is passed on to the respective tenants (Note 4-q).

d) Impairment of property, plant and equipment

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

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

e) Financial instruments (excluding derivative financial instruments)

Financial assets (Note 10)

Initial recognition

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

Classification and subsequent measurement

The financial assets held by the Group are classified in the following categories:

- Loans and receivables: this heading includes loans granted to third parties and associates. They are measured at face value and classified according to maturity. This heading also includes non-current deposits and guarantees granted, primarily in relation to deposits placed with official entities in connection with guarantees collected from lessees, in accordance with prevailing legislation.

- Investments held to maturity: this heading includes non-derivative financial assets, such as current and non-current fixed-income securities that are generally held until maturity and measured at amortised cost. Current fixed-income securities are recognised under "Current financial assets" in the consolidated statement of financial position. Interest income is calculated in the year in which it accrues, in accordance with financial criteria.

- Available-for-sale financial assets: this heading includes investments where the Group does not exercise significant influence or control. They are measured at fair value and the profit or loss on changes in this fair value is recognised under other consolidated comprehensive income.

Financial liabilities (Note 13)

Financial liabilities consist primarily of bank borrowings and bond issues and are recognised at amortised cost.

Accounts payable are initially measured at the fair value of the consideration received, adjusted for directly attributable transaction costs, and are subsequently measured at amortised cost.

Financial liabilities are derecognised when the obligations giving rise to them cease to exist. When debt instruments are exchanged between the Group and a third party, as long as these instruments have substantially different conditions, the Group derecognises the original financial liability and recognises the new financial liability. The difference between the carrying amount of the original liability and the consideration paid, including any attributable transaction costs, is recognised in the consolidated statement of comprehensive income.

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

f) Receivables (Note 11)

Receivables are measured at their recoverable amount, i.e. net, where applicable, of the allowances recognised to cover past-due balances where circumstances reasonably warrant their consideration as doubtful debts.

g) Cash and cash equivalents (Note 13-l)

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

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

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

h) Own equity instruments (Note 12)

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

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

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

i) Provisions and contingent liabilities (Note 16)

In preparing the consolidated financial statements, the Parent's directors distinguish between:

- Provisions: credit balances covering obligations arising as a consequence of past events which could give rise to liabilities at the Group companies, the nature of which is certain but the amount and timing of which cannot be determined, and

- Contingent liabilities: possible obligations arising from past events, the materialisation of which will be confirmed only by the occurrence or non-occurrence of one or more future events not within the control of the consolidated companies.

The consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised, but are disclosed in Note 16.

The provisions, which are quantified taking into consideration the best information available concerning the consequences of the events on which they are based, and which are revised at each reporting close, are recognised in order to cover the specific and likely risks for which they were originally recognised, and are fully or partially reversed if and when said risks cease to exist or are reduced.

j) Employee benefits

Termination benefits

Under current legislation, the Group is required to pay severance to employees terminated under certain conditions. Severance payments that can be reasonably quantified are recorded as a expense in the year in which the decision to terminate the contract is taken and a valid expectation regarding termination is transmitted to third parties. At 31 December 2018, the Parent did not record any provisions in this connection.

Pension obligations

In 2018 and 2017 the Parent assumed a commitment with executive directors and one member of senior management to make a defined contribution to an external pension plan that meets the requirements established by Royal Decree 1588/1999, of 15 October.

At 31 December 2018 and 2017, the SFL subgroup had several defined benefit pension plans. Defined benefit obligations are calculated on a regular basis by independent actuarial experts. The actuarial assumptions used to calculate these liabilities are adapted to the situation and to applicable French legislation, in accordance with IAS 19. The actuarial cost recorded in the consolidated statement of comprehensive income in relation to these plans is the sum of the service costs for the period, the interest expense and actuarial gains and losses. At 31 December 2018, net liabilities for defined benefits amounted to 902 thousand euros (872 thousand euros at 31 December 2017).

Share-based payments (Note 19)

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

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

k) Derivative financial instruments (Note 14)

The Group uses financial derivatives to manage its exposure to variations in interest rates. All derivative financial instruments, whether or not they are designated as hedging instruments, are carried at fair value, market value in the case of listed securities, or using option valuation methods or discounted cash flow analysis for non-listed securities. The fair value of the derivative financial instruments is determined based on the valuations made by independent experts (Solventis A.V., S.A., in 2018 and 2017).

The following valuation criteria have been applied:

- Cash-flow hedges: fair value gains or losses arising on transactions which classify for hedge accounting are recognised, net of taxes, directly in other consolidated comprehensive income, under “Gains/(losses) on hedging instruments”, until the underlying or expected transaction occurs, at which point they are reclassified, where appropriate, to "Finance costs" or "Finance income" in the consolidated statement of comprehensive income. Any valuation gains and losses on the ineffective portion of the hedge are recognised directly as financial profit or loss in the consolidated statement of comprehensive income.

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

In accordance with IFRS 13, the Group estimated its own credit risk and that of the counterparty in the measurement of its derivative portfolio.

Hedge accounting is discontinued when a hedging instrument expires or is sold or exercised, or when the hedge no longer qualifies for hedge accounting. Gains or losses on hedging instruments recognised in other consolidated comprehensive income remain under this heading until the related transaction is performed. Once the related cash flow occurs, any cumulative gain or loss recognised in other consolidated comprehensive income is transferred to consolidated net profit or loss for the year. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other consolidated comprehensive income is transferred to consolidated net profit or loss for the year.

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

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

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

The method used to determine the effectiveness of hedging instruments consists of calculating the statistical correlation between the benchmark interest rates at each measurement date for the derivative and the related hedged liability, taking into consideration that the hedging instrument is considered effective if this statistical correlation is between 0.80 and 1.

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

l) Current / non-current

The normal operating cycle is understood to be the period of time between the acquisition of the assets that form part of the Group’s various business activities and the realisation of the finished assets in the form of cash or cash equivalents.

The Group's primary business is the lease of assets and its normal business cycle is the calendar year. Therefore, assets and liabilities maturing in one year or less are classified as current assets and those maturing in more than one year are classified as non-current assets, except for receivables arising from the recognition of lease incentives (Notes 4-n and 11-b), which are applied on a straight-line basis over at least the term of the lease agreement and are considered to be current assets.

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

m) Income tax (Note 17)

General regime

The expense for Spanish corporate income tax and similar taxes applicable to consolidated foreign operations is recognised in the consolidated statement of comprehensive income, except when the tax expense is generated by a transaction whose gains or losses are taken directly to equity, in which case the corresponding tax is also recognised in equity.

Income tax expense is the sum of the tax payable on profit for the year and the variation in recognised deferred tax assets and liabilities.

Corporate income tax expense for the year is calculated based on taxable profit for the year, which differs from the net profit or loss presented in the consolidated statement of comprehensive income because it excludes certain taxable profit and deductible expenses from prior years, as well as other exempt items. The Group's current tax liabilities are calculated using tax rates that have been enacted or substantively enacted by the reporting date.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, deferred tax assets not recorded in the consolidated statement of financial position are reassessed at the end of each reporting period and are recorded to the extent that it has become probable that they will be recovered through future taxable profits. In accordance with IAS 12, changes in deferred tax assets and liabilities caused by changes in tax rates or tax laws are recognised in the consolidated statement of comprehensive income for the year in which these changes are approved.

In accordance with that established in IAS 12, the measurement of the Group's deferred tax liabilities reflects the tax consequences that would follow from the manner in which the carrying amount of its assets is expected to be recovered or settled. In this regard, for deferred tax liabilities that arise from investment properties that are measured using the IAS 40 fair value model, there is a refutable presumption that their carrying amount will be recovered through their sale. Consequently, the deferred tax liabilities arising from the Group's investment properties located in Spain were calculated by applying a tax rate of 25%, less any existing tax credits not recognised at 31 December 2018. The effective settlement rate was therefore 18.75%.

Until 31 December 2016, the Parent was the head of a group of companies filing consolidated tax returns under tax group no. 6/08.

REIT Regime

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

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

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

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

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

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

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

The term will be calculated:

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

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

c) In the case of shares or ownership interests in the companies referred to in Article 2.1 of this Law, they should be retained on the asset side of the REIT's balance sheet for at least three years following their acquisition or, as appropriate, from the beginning of the first tax period in which the special tax regime set forth in this Law is applied.

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

Failure to meet this condition will require the REIT to file income tax returns under the general tax regime from the tax period in which the aforementioned condition is not met. The REIT will also be obliged to pay, together with the amount relating to the aforementioned tax period, the difference between the amount of tax payable under the general tax regime and the amount paid under the special tax regime in the previous tax periods, including any applicable late-payment interest, surcharges and penalties.

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

SIIC regime – SFL subgroup

Since 1 January 2003, the SFL subgroup companies have filed tax returns under the French tax regime applicable to listed real estate investment companies ("the SIIC regime"). This regime enabled the assets allocated to the rental business to be recognised at market value at the date on which it availed itself of this tax regime, currently subject to a tax rate of 19% (hereinafter, "exit tax"), payable within a period of four years, on the capital gains recognised.

This regime affects only real estate activities, and is not applicable to companies engaged in sales and services, such as Segpim, S.A. and Locaparis SAS in the SFL subgroup, to properties under finance leases (unless the lease is cancelled early) or to the subgroups and investees in conjunction with third parties.

This regime affords the SFL subgroup an exemption from taxes on earnings generated from its rental business and on capital gains obtained from the sale of properties, provided that 95% of profit from that activity and 60% of the capital gains obtained from property sales of companies under this regime are distributed each year in the form of dividends.

On 30 December 2006, a new amendment to the SIIC regime ("SIIC 4") was approved, which established, among other provisions, that dividends paid annually to shareholders that directly or indirectly hold more than 10% of the share capital of an SIIC and that are exempt from tax or subject to a tax rate that is less than two-thirds of the standard French income tax rate would be subject to a 20% levy, payable by the SIIC. This provision applies to the dividends distributed from 1 July 2007 onwards. At 31 December 2007, the Parent notified SFL that dividends distributed from 1 July 2007 would be taxed in Spain at a rate of over 11.11% as a result of the partial waiver of the exemption for these dividends. As a result, the 20% tax withheld at source described above was not applicable.

After the Parent adhered to the REIT regime, the 20% tax withheld at source was no longer applicable, provided the significant shareholders comply with their minimum tax obligations in accordance with SIIC regulations.

n) Revenue and expenses (Note 18)

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

However, in accordance with the accounting principles established in the EU-IFRS conceptual framework, the Group recognises revenue when it is earned together with all the necessary associated expenses. The sale of goods is recognised when the goods have been delivered and ownership transferred.

Interest income is accrued on a time proportion basis, according to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the future cash receipts estimated over the expected life of the financial asset from the asset's carrying amount.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established, i.e. when shareholders at the Annual General Meetings of the subsidiaries approve the distribution of the corresponding dividend.

Property leases-

In accordance with IFRS 16, leases are classified as finance leases whenever their terms imply that substantially all the risks and rewards incidental to ownership of the leased asset have been transferred to the lessee. Other leases are classified as operating leases. At 31 December 2018 and 2017, all of the Group's leases qualified as operating leases.

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

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

Specific lease terms and conditions: lease incentives -

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

The indemnity payments made by lessees to cancel their lease agreements prior to their minimum termination date are also recognised as income in the consolidated statement of comprehensive income on the date on which they are claimable by the Group.

o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of investment property (Note 9), which require preparation during a significant period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

p) Consolidated statement of cash flows (indirect method)

The terms used in the consolidated statement of cash flows are defined as follows:

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

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

- Investing activities: the acquisition, sale or disposal by other means of non-current assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of equity and borrowings that are not operating activities.

q) Costs passed on to lessees

In accordance with EU-IFRSs, the Group does not consider the costs incurred by lessees from its investment properties as income and they are recognised, less the corresponding costs, in the consolidated income statement. In 2018 and 2017, a total of 65,341 thousand euros and 46,935 thousand euros, respectively, were invoiced in this regard.

Direct operating expenses associated with investment properties that generated rental income in 2018 and 2017, included under "Operating profit" in the consolidated income statement, amounted to 82,681 thousand euros and 65,841 thousand euros, respectively, prior to deducting the costs passed on to the lessees. The expenses incurred in connection with investment properties that did not generate rental income were not significant.

r) Related party transactions

The Group's transactions with related parties are all carried out at market prices. Furthermore, the transfer prices applied are fully documented and supported and the Parent's directors therefore do not consider that transfer prices pose a significant risk that could give rise to a material liability in the future.

s) Assets classified as held for sale (Note 22)

Assets classified as held for sale are measured at the lower of their carrying amount in accordance with applicable measurement rules and fair value less costs to sell.

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

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

t) Inventories

Inventories, consisting of land, developments under construction and finished developments, are measured at acquisition cost or execution cost.

Execution cost includes direct and indirect construction costs in addition to the expenses incurred in financing the construction work while in progress, as long as the construction work takes longer than one year.

Prepayments made in connection with call options on properties are recognised as inventory prepayments and it is assumed that expectations regarding the conditions enabling their exercise will be met.

The Group records inventory impairment provisions, as appropriate, when market value is lower than carrying amount.

The corresponding valuation was carried out based on appraisals performed by independent experts (Jones Lang LaSalle) in accordance with the Appraisal and Valuation Standards issued by the Royal Institute of Chartered Surveyors (RICS) of the United Kingdom, and the International Valuation Standards (IVS) issued by the International Valuation Standards Committee (IVSC).

The land portfolio was valued using the residual method, which was deemed the best approach. This approach was complemented by the use of the comparable sales method in order to verify the consistency of the resulting unit valuations.

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

In 2018 no capitalised borrowing costs associated with inventories were recognised.

u) *Fair value hierarchy*

Financial assets and liabilities measured at fair value are classified according to the following hierarchy established in IFRS 7 and IFRS 13:

- Level 1: Inputs are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: Inputs are based on quoted prices for similar assets or liabilities in active markets (not included in level 1), prices quoted for identical or similar assets or liabilities in markets that are not active, techniques based on valuation models for which all relevant inputs are observable in the market or can be corroborated by observable market data.

- Level 3: In general, inputs are unobservable and reflect estimates based on market assumptions to determine the price of the asset or liability. Unobservable data used in the valuation models are significant in the fair values of the assets and liabilities.

In accordance with IFRS 13, the Group estimated the bilateral credit risk in order to reflect both its own risk, as well as counterparty risk in the fair value of its derivatives (Note 4-k). Credit risk at 31 December 2018 and 2017 was not considered to be material.

The detail of the Group's financial assets and liabilities measured at fair value according to the aforementioned levels is as follows:

31 December 2018

	Thousands of euros		
	Level 1	Level 2	Level 3
Assets			
Non-current financial assets available for sale	-	-	-
Derivative financial instruments:			
Not classified as hedges	-	591	-
Total assets (Note 10)	**-**	**591**	**-**
Liabilities			
Derivative financial instruments:			
Classified as hedges	-	2,650	-
Not classified as hedges	-	1,041	-
Total liabilities (Note 14)	**-**	**3,691**	**-**

31 December 2017

	Thousands of euros		
	Level 1	Level 2	Level 3
Assets			
Non-current financial assets available for sale	419,277	-	-
Derivative financial instruments:			
Not classified as hedges	-	1,484	-
Total assets (Note 10)	**419,277**	**1,484**	**-**
Liabilities			
Derivative financial instruments:			
Classified as hedges	-	348	-
Not classified as hedges	-	153	-
Total liabilities (Note 14)	**-**	**501**	**-**

5. Earnings per share

Basic earnings per share are calculated by dividing earnings for the year attributable to shareholders of the Parent (after tax and non-controlling interests) by the weighted average number of shares outstanding during that year.

At 31 December 2018 and 2017, there were no instruments that may have had a diluting effect on the Parent's average number of ordinary shares.

	Thousands of euros	
	31 December 2018	31 December 2017
Consolidated profit for the year attributable to shareholders of the Parent:	**524,763**	**682,523**
	No. of shares	No. of shares
Weighted average number of ordinary shares (in thousands)	448,214	373,312
	Euro	Euro
Basic earnings per share	**1.17**	**1.83**
Diluted earnings per share:	**1.17**	**1.83**

6. Segment reporting

a) Segmentation criteria

Segment reporting is organised, firstly, on the basis of the Group's business segments, and, secondly, by geographical segment.

The business lines described below have been defined in line with the Colonial Group's organisational structure at 31 December 2018 and 2017, which has been used by the Group's management to analyse the financial performance of the various operating segments.

b) Basis and methodology for business segment reporting

The segment information below is based on monthly reports prepared by Group management, generated using the same computer application that prepares all of the Group's accounting data.

Segment revenue comprises revenue directly attributable to each segment, as well as gains from the sale of investment properties. Segment revenue excludes both interest and dividend income.

Segment expenses comprise operating expenses directly attributable to each segment and losses on the sale of investment properties. Allocated expenses do not include interest, the income tax expense or general administrative expenses incurred in the provision of general services that are not directly allocated to any business segment.

Segment assets and liabilities are those directly related to the segment's operating activities. The Group has no set criteria for allocating borrowings or equity by business segment. Borrowings are attributed in full to the "Corporate Unit".

Segment information for these businesses is as follows:

2018 segment reporting

	Thousands of euros						
	Equity					**Corporate Unit**	**Total Group**
	Barcelona	Madrid	Paris	Other	Total equity		
Income							
Revenue (Note 18-a)	41,629	106,144	193,509	6,757	348,039	234	**348,273**
Other income (Note 18-b)	20	281	3,943	-	4,244	1,433	**5,677**
Net gains/(losses) on sales of assets (Note 18-g)	-	11,745	21	(45)	11,721	-	**11,721**
Operating profit/(loss)	38,802	105,522	185,577	6,466	336,367	(60,845)	**275,522**
Changes in fair value of investment property (Note 18-f)	180,263	237,583	289,014	(4,908)	701,952	-	**701,952**
Gains/(losses) on changes in value of assets and impairment (Note 18-f)	(15,610)	(10)	-	-	(15,620)	(115,770)	**(131,390)**
Financial profit/(loss) (Note 18-h)	-	-	-	-	-	(141,745)	**(141,745)**
Profit before tax	-	-	-	-	-	704,339	**704,339**
Consolidated net profit	-	-	-	-	-	678,109	**678,109**
Net profit/(loss) attributable to non-controlling interests (Note 18-j)	-	-	-	-	-	(153,346)	**(153,346)**
Net profit/(loss) attributable to shareholders of the Parent (Note 5)	-	-	-	-	-	524,763	**524,763**

There were no significant inter-segment transactions in 2018.

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

	Thousands of euros						
	Equity					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total equity		
Assets							
Goodwill	-	-	-	-	62,225	-	**62,225**
Intangible assets, property, plant and equipment, investment property, assets classified as held for sale and inventories (Notes 8, 9 and 22).	1,246,581	3,344,285	6,459,341	111,540	11,161,747	41,155	**11,202,902**
Financial assets	2,468	3,714	820	2	7,004	95,043	**102,047**
Other non-current assets	-	-	-	-	-	411	**411**
Trade receivables and other current assets	-	-	-	-	-	119,729	**119,729**
Total assets	**1,249,049**	**3,347,999**	**6,460,161**	**111,542**	**11,230,976**	**256,338**	**11,487,314**

	Thousands of euros						
	Equity					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total equity		
Liabilities							
Bank borrowings and other financial liabilities (Note 13)	-	-	-	-	-	733,028	**733,028**
Bonds and similar securities issued (Note 13)	-	-	-	-	-	4,061,108	**4,061,108**
Operating liabilities (suppliers and payables)	-	-	-	-	-	114,779	**114,779**
Other liabilities	-	-	-	-	-	476,604	**476,604**
Total liabilities	**-**	**-**	**-**	**-**	**-**	**5,385,519**	**5,385,519**

	Thousands of euros						
	Equity					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total equity		
Other information							
Investments in intangible assets, property, plant and equipment and investment property	82,105	104,899	50,667	871	238,542	1,918	**240,460**
Depreciation and amortisation	(62)	(302)	(468)	-	(832)	(2,521)	**(3,353)**
Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year:							
- Changes in provisions (Note 18-e)	(95)	266	(660)	-	(489)	2,925	**2,436**
- Changes in fair value of investment property (Note 18-f)	180,263	237,583	289,014	(4,908)	701,952	-	**701,952**
- Gains/(losses) on changes in value of assets and impairment (Note 18-f)	(15,610)	(10)	-	-	(15,620)	(115,770)	**(131,390)**

2017 segment reporting

	Thousands of euros						
	Equity					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total equity		
Income							
Revenue (Note 18-a)	34,871	52,270	195,780	366	283,287	-	**283,287**
Other income (Note 18-b)	7	69	2,145	-	2,221	493	**2,714**
Net gains/(losses) on sales of assets (Note 18-g)	8	519	-	-	527	-	**527**
Operating profit/(loss)	33,497	46,300	188,513	260	268,570	(60,048)	**208,522**
Changes in fair value of investment property (Note 18-f)	78,155	139,404	715,421	455	933,435	-	**933,435**
Gains/(losses) on changes in value of assets and impairment (Note 18-f)	(287)	(2,129)	-	-	(2,416)	(2,804)	**(5,220)**
Financial profit/(loss) (Note 18-h)	-	-	-	-	-	(79,445)	**(79,445)**
Profit before tax	-	-	-	-	-	1,057,292	**1,057,292**
Consolidated net profit	-	-	-	-	-	1,080,451	**1,080,451**
Net profit/(loss) attributable to non-controlling interests (Note 18-j)	-	-	-	-	-	(397,928)	**(397,928)**
Net profit/(loss) attributable to shareholders of the Parent (Note 5)	-	-	-	-	-	682,523	**682,523**

There were no significant inter-segment transactions in 2017.

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

	Thousands of euros						
	Equity					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total equity		
Assets							
Intangible assets, property, plant and equipment and investment property (Notes 8 and 9)	906,338	1,759,960	6,119,969	7,691	8,793,958	40,844	**8,834,802**
Financial assets	1,659	3,899	2,181	-	7,739	1,541,224	**1,548,963**
Other non-current assets	-	-	-	-	-	407	**407**
Trade receivables and other current assets	-	-	-	-	-	123,347	**123,347**
Total assets	**907,997**	**1,763,859**	**6,122,150**	**7,691**	**8,801,697**	**1,705,822**	**10,507,519**

	Thousands of euros						
	Equity					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total equity		
Liabilities							
Bank borrowings and other financial liabilities (Note 13)	-	-	-	-	-	896,587	**896,587**
Bonds and similar securities issued (Note 13)	-	-	-	-	-	3,321,207	**3,321,207**
Operating liabilities (suppliers and payables)	-	-	-	-	-	143,880	**143,880**
Other liabilities	-	-	-	-	-	466,147	**466,147**
Total liabilities	**-**	**-**	**-**	**-**	**-**	**4,827,821**	**4,827,821**

	Thousands of euros						
	Equity					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total equity		
Other information							
Investments in intangible assets, property, plant and equipment and investment property	10,447	25,236	96,452	66	132,201	3,648	**135,849**
Depreciation and amortisation	(1)	(118)	(485)	-	(604)	(1,841)	**(2,445)**
Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year:							
- Changes in provisions (Note 18-e)	(61)	(24)	1,915	-	1,830	(7,534)	**(5,704)**
- Changes in fair value of investment property (Note 18-f)	78,155	139,404	715,421	455	933,435	-	**933,435**
- Gains/(losses) on changes in value of assets and impairment (Note 18-f)	(287)	(2,129)	-	-	(2,416)	(2,804)	**(5,220)**

7. Goodwill

The changes in this heading in 2018 were as follows:

	Thousands of euros
	Goodwill
Balance at 31 December 2017	-
Business combinations (Note 2-a)	176,529
Impairment of goodwill (Note 18)	(114,304)
Balance at 31 December 2018	**62,225**

The goodwill recognised at 31 December 2018 relates to the business combination with Axiare Patrimonio SOCIMI, S.A. and subsidiaries (Note 2-a).

At 31 December 2018, the amount of goodwill was reduced in line with the revaluation of investment property arising from the business combination (Note 2-a).

The recoverable amount was estimated on the basis of its value in use, which was based on assumptions of cash flows, growth rates and discount rates consistent with those applied in the calculation of the market values of investment property.

The value in use has been calculated as the present value of the cash flows resulting from the financial projections discounted at rates that take into account specific risks of the assets and the implementation of a strategic plan based on a long-term approach. The projections are made for a time horizon of 10 years.

The projections are prepared based on the evolution and historical experience in the market of similar assets under the management of the Colonial Group.

The main variables that influence the calculations of these projections are:

- A discount rate of 4.60%, taking into account the exit yields used by independent experts in the valuations of the assets of the Axiare subgroup.

- Income flows, in line with expected market rents, and new expected rents derived from current portfolio investment projects.

8. Property, plant and equipment

The changes in this heading of the consolidated statement of financial position in 2018 and 2017 were as follows:

	Thousands of euros		
	Properties for own use	Other property, plant and equipment	**Total**
Balance at 31 December 2016	**32,328**	**11,733**	**44,061**
Acquisition cost	***44,783***	***19,570***	***64,353***
Accumulated depreciation	***(7,814)***	***(7,837)***	***(15,651)***
Accumulated impairment	***(4,641)***	-	***(4,641)***
Additions	2,077	982	**3,059**
Additions to the scope of consolidation (Note 2-f)	195	130	**325**
Depreciation charge	(434)	(1,033)	**(1,467)**
Disposals	(97)	(197)	**(294)**
Transfers	(13)	(3,886)	**(3,899)**
Impairment (Note 18-f)	(287)	(2,129)	**(2,416)**
Balance at 31 December 2017	**33,769**	**5,600**	**39,369**
Acquisition cost	***42,697***	***12,814***	***55,511***
Accumulated depreciation	***(4,000)***	***(7,214)***	***(11,214)***
Accumulated impairment	***(4,928)***	-	***(4,928)***
Additions	2,947	977	**3,924**
Additions to the scope of consolidation (Note 2-f)	131	505	**636**
Depreciation charge	(575)	(1,063)	**(1,638)**
Disposals	(270)	(330)	**(600)**
Transfers	-	11	**11**
Impairment (Note 18-f)	1,630	-	**1,630**
Balance at 31 December 2018	**37,632**	**5,700**	**43,332**
Acquisition cost	***44,789***	***13,553***	***58,342***
Accumulated depreciation	***(3,859)***	***(7,853)***	***(11,712)***
Accumulated impairment	***(3,298)***	-	***(3,298)***

At 31 December 2018 and 2017, the Group used two floors of the building located at Avenida Diagonal, 530, in Barcelona, one floor of the building located at Paseo de la Castellana, 52, in Madrid and one floor of the building located at 42 *rue* Washington in Paris for its own use, while the rest of these buildings are rented out. The cost of buildings earmarked for the Group's own use is recognised under "Properties for own use".

On 5 September 2017, the subsidiary Finresa sold an asset for 425 thousand euros, resulting in the disposal of 193 thousand euros and a profit of 190 thousand euros.

In 2017 certain assets amounting to 3,899 thousand euros were reclassified to "Investment property" in the consolidated statement of financial position (Note 9), given that the Group expects to earn rental income or obtain a gain from its sale as a result of future increases in their market prices.

At 31 December 2018, it became evident that an impairment loss in the amount of 1,630 thousand euros had to be reversed, evidenced by the appraisals performed by independent experts (Note 18-f). In 2017, an impairment loss on the value of the assets in the amount of 2,416 thousand euros was recognised (Note 18-f).

Lastly, assets amounting to 538 thousand euros and 101 thousand euros were derecognised due to being replaced in 2018 and 2017, respectively (Note 18-f).

9. Investment property

The changes in this heading of the consolidated statement of financial position in 2018 and 2017 were as follows:

	Thousands of euros		
	Investment property	Investment property in progress	**Total**
Balance at 31 December 2016	**7,462,928**	**299,699**	**7,762,627**
Additions	74,277	57,175	**131,452**
Additions to the scope of consolidation (Note 2-f)	359,678	11,033	**370,711**
Disposals (Note 18-g)	(5,049)	-	**(5,049)**
Transfers (Notes 8 and 22)	(271,528)	(132,925)	**(404,453)**
Changes in fair value (Note 18-f)	925,082	12,026	**937,108**
Balance at 31 December 2017	**8,545,388**	**247,008**	**8,792,396**
Additions	106,450	127,148	**233,598**
Additions to the scope of consolidation (Note 2-f)	1,700,094	110,616	**1,810,710**
Disposals (Note 18-g)	(358,466)	(24,368)	**(382,834)**
Transfers (Notes 8, 9 and 22)	(147,292)	(74,603)	**(72,689)**
Changes in fair value (Note 18-f)	651,382	50,570	**701,952**
Balance at 31 December 2018	**10,497,556**	**585,577**	**11,083,133**

Movements in 2018

The additions for the year relate to the following transactions:

- On 18 January 2018, Colonial acquired an asset located in Plaza Gal-la Placidia, Barcelona, for 13,744 thousand euros, including acquisition costs.
- On 2 July 2018, the Parent acquired a property located at Avenida Diagonal 525, Barcelona, for 29,285 thousand euros, including purchase costs, and provided the seller with guarantees to secure payment of the deferred amounts.
- In September 2018, the Parent acquired a property located at Josefa Valcárcel, 40bis, for 30,201 thousand euros, including acquisition costs.
- In 2018, the Parent finalised the acquisition of three logistics warehouses in San Fernando de Henares, making payments for a total amount of 17,842 thousand euros, including acquisition costs, established in the turnkey contract.
- The other additions in 2018 relate to the investments made in various properties, both under development and in operation, for a total amount of 142,526 thousand euros, including 5,307 thousand euros in capitalised borrowing costs.

In addition, as indicated in Note 2-f, the following additions were made to the scope of consolidation:

- In January 2018, the Parent acquired all the shares of the subsidiary Egeo, which resulted in an addition of 79,337 thousand euros to the scope of consolidation of the office building owned by the subsidiary.
- In February 2018, the business combination between the Parent and Axiare Patrimonio, SOCIMI, S.A. was recognised (Note 2-a), which led to the addition of 1,731,373 thousand euros to the scope of consolidation.

The derecognitions in 2018 relate to the following transactions (Notes 4-c and 18-g):

- On 11 January and 12 June 2018, the Parent disposed of premises located on calle Orense in Madrid and a flat in Tenerife for a total joint sale of 1,930 thousand euros, giving rise to a net profit of 713 thousand euros, taking into account the indirect costs of the sale.
- On 9 March 2018, the Parent sold a shopping centre in Collado Villalba (Madrid) for 19,700 thousand euros. The transfer did not generate any margin.

- On 21 May 2018, the Parent sold a hotel in Madrid for 15,500 thousand euros. The transfer did not generate any margin.

- On 26 September 2018, the Parent sold six properties located in Madrid for a total of 281,500 thousand euros.

- On 27 December 2018, the Parent sold an asset located in Madrid for 5,300 thousand euros.

- Lastly, assets amounting to 15,618 thousand euros were derecognised due to being replaced in 2018 (Note 18-f).

On 3 October 2018, the Parent entered into a sale and purchase agreement, subject to conditions precedent, for an assets to be built on land that it owns, which will be executed between May 2022 and February 2023, provided the conditions precedent envisaged in the agreement have been met. In this regard, the Parent's directors considered that there was a change in use of this asset, whereby it was reclassified to “Inventories” in the consolidated statement of financial position in the amount of 46,587 thousand euros. As of the date on which the agreement was signed, the Parent received 14,142 thousand euros on the price.

At 31 December 2018, a property was reclassified from “Investment property” to “Assets classified as held for sale” in the statement of financial position in the amount of 26,091 thousand euros (Notes 22 and 24).

<u>Movements in 2017</u>

The additions in 2017 related to the following transactions:

- On 30 November 2017, the subsidiary SFL acquired the Emile Zola property through (i) the acquisition of all share capital of the French company SAS Société Immobilière Victoria, which owns the land and a portion of the buildings of this property, resulting in an addition to the scope of consolidation of 107,721 thousand euros, and (ii) the rest of the property that was not owned by SAS Société Immobilière Victoria directly from the subsidiary SFL, resulting in an addition of 62,289 thousand euros.

- The remaining additions related to development and renovation projects, mainly on properties of the SFL subgroup, in the amount of 33,961 thousand euros, and at properties of other Group companies, in the amount of 35,202 thousand euros. The above amounts included 2,591 thousand euros in capitalised borrowing costs.

In addition, as indicated in Note 2-f, the following additions were made to the scope of consolidation:

- On 18 May 2017, the subsidiary Inmocol Torre Europa, S.A. was included in the scope of consolidation, resulting in the addition to the scope of consolidation of land contributed by the shareholder of this company in the amount of 10,000 thousand euros, plus 80 thousand euros in associated acquisition costs.

- On 27 September 2017, the Parent acquired all shares in Colonial Arturo Soria, S.L.U., resulting in the addition to the scope of consolidation of the office building owned by the subsidiary, for 32,579 thousand euros.

- As set forth above in the changes due to additions, on 30 November 2017, the subsidiary SFL acquired the Emile Zola property through the acquisition of all share capital of the French company SAS Société Immobilière Victoria, which owns the land and a portion of the buildings of this property, representing an addition to the scope of consolidation of 107,721 thousand euros.

- On 20 and 27 December 2017, the Parent acquired all shares in Agisa, Soller and Peñalvento, resulting in the addition to the scope of consolidation of the land owned by these companies for 220,331 thousand euros.

The derecognitions in 2017 related to the following transactions (Notes 4-c and 18-g):

- On 12 January 2017, the Parent disposed of several of its properties located on calle Orense in Madrid, for a total of 5,600 thousand euros, resulting in the disposal of 4,650 thousand euros and a profit of 290 thousand euros.

- On 31 October 2017, the subsidiary Finresa sold an asset for 410 thousand euros, resulting in the disposal of 399 thousand euros and a profit of 11 thousand euros.

Transfers in 2017 related to the following transactions:

- In the first half of the year, the subsidiary reclassified the In&Out property under “Assets classified held for sale” in the consolidated statement of financial position (Note 22), once the subsidiary's Board of Directors passed the resolution to sell this asset. The amount transferred totalled 408,352 thousand euros.

- Furthermore, several assets amounting to a total of 3,899 thousand euros were reclassified from “Property, plant and equipment” in the consolidated statement of financial position, given that the Group expected to earn rental income or obtain a gain from their sale as a result of future increases in their market prices.

a) Changes in fair value of investment property

“Changes in fair value of investment property” in the consolidated income statement includes the profit from the revaluation of the investment property for 2018 and 2017, in the amount of 701,952 thousand euros and 937,108 thousand euros (Note 18-f), respectively, in accordance with the appraisals of independent experts at 31 December 2018 and 2017 (Note 4-c).

b) Capitalised borrowing costs

The table below details the borrowing costs capitalised in 2018 and 2017 (Note 18-h):

	Thousands of euros	
	Amount capitalised during the period	Average interest rate
2018:		
Inmobiliaria Colonial, SOCIMI, S.A.	755	2.44%
Moorage inversions 2014, S.L.U.	297	2.44%
SFL subgroup	4,255	1.72%
Total 2018:	**5,307**	-
2017:		
Inmobiliaria Colonial, SOCIMI, S.A.	857	2.53%
Danieltown Spain, S.L.U.	141	2.52%
Moorage inversions 2014, S.L.U.	84	2.53%
SFL subgroup	1,509	1.90%
Total 2017:	**2,591**	-

c) Other information

The total surface area (above and under-ground) of investment property and projects under development at 31 December 2018 and 2017 is as follows:

Minimum	Total surface area (m^2) of investment property					
	Investment property		Investment property in progress		Total	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Barcelona (*)	356,486	286,655	60,220	81,838	416,706	368,493
Madrid	562,419	385,461	55,066	153,165	617,485	538,626
Rest of Spain	492,324	13,048	83,399	-	575,723	13,048
Paris (*)	362,742	377,426	78,292	64,867	441,034	442,293
	1,773,971	**1,062,590**	**276,977**	**299,870**	**2,050,948**	**1,362,460**

(*) Including 100% of the floor space of Washington Plaza (a property owned by the Group company SCI Washington, 66%-owned by SFL), the Haussmann, Champs Élysées, 82-88 and Champs Élysées, 90 buildings (owned by the Parholding subgroup, a company 50%-owned by SFL), the Torre del Gas property (owned by Torre Marenostrum, S.L., a company 55%-owned by the Parent) and the Torre Europa, 46-48 building (owned by Inmocol Torre Europa, S.A., a company 50%-owned by the Parent).

At 31 December 2018, the Group has pledged assets as collateral for mortgage loans with a carrying amount of 1,826,491 thousand euros to secure debts amounting to 515,642 thousand euros (Note 13-g). At 31 December 2017, the corresponding balances were 1,048,232 thousand euros and 237,980 thousand euros, respectively.

10. Non-current financial assets

The changes in this heading of the consolidated statement of financial position in 2018 and 2017 were as follows:

	Thousands of euros			
	31 December 2017	Additions to the scope of consolidation (Note 2-f)	Disposals	31 December 2018
Deposits and guarantees given	23,589	12,886	(612)	31,863
Derivative financial instruments	1,484	660	(1,553)	591
Available-for-sale financial assets	419,277	-	(419,277)	-
Total	**444,350**	**13,546**	**421,442**	**32,454**

	Thousands of euros			
	31 December 2016	Acquisitions or provisions	Additions to the scope of consolidation (Note 2-f)	31 December 2017
Deposits and guarantees given	12,383	4,616	6,590	23,589
Derivative financial instruments	-	1,484	-	1,484
Available-for-sale financial assets	138,293	280,984	-	419,277
Total	**150,676**	**287,084**	**6,590**	**444,350**

a) Deposits and guarantees given

Long-term deposits and guarantees basically comprise deposits made with the official bodies in each country for deposits collected from lessees, in accordance with prevailing legislation.

b) Available-for-sale financial assets - Interest in Axiare Patrimonio SOCIMI, S.A.

In 2016, the Parent acquired 10,846,541 shares of Axiare Patrimonio SOCIMI, S.A. (hereinafter, "Axiare"), representing 15.09% of its share capital.

In March 2017, the Parent acquired 1,404,000 shares of Axiare, representing 1.78% of the company's current share capital, for 18,801 thousand euros, obtaining an interest of 15.49% in Axiare.

In November 2017, the Parent acquired 10,511,523 shares of Axiare, representing 13.30% of Axiare's share capital at this date, for a total amount of 193,085 thousand euros, equivalent to 18.36 euros per share, obtaining an interest of 28.79% in Axiare.

In 2017, the Parent received 3,681 thousand euros in dividends from its interest in Axiare, which were recognised under “Finance income” in the consolidated statement of comprehensive income (Note 18-h).

At 31 December 2017, the Parent recognised its shareholding in Axiare Patrimonio SOCIMI, S.A. at the year-end share price of 18.42 euros per share, which represented a cumulative impact on the Parent's equity of 70,415 thousand euros (1,317 thousand euros at 31 December 2016).

The Parent's directors considered that the Parent did not exercise, nor could it exercise, significant influence over Axiare at 31 December 2017, and thus it was considered to be a financial investment.

During 2018, and until the date on which control of Axiare Patrimonio SOCIMI, S.A. was obtained, the Parent continued to recognise changes in the fair value of the investment directly against the item "Valuation adjustments of available-for-sale financial assets" in consolidated equity.

Following the acquisition of control of the investee, the cost of the investment became part of the cost of the business combination in stages described in Note 2.

11. Trade and other receivables

The breakdown of this current asset heading in the accompanying consolidated statement of financial position at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	31 December 2018	31 December 2017
Trade receivables for sales and services	15,027	27,049
Accrual of lease incentives	88,061	78,746
Other receivables	85,704	86,564
Other current assets	1,277	386
Impairment of receivables -		
- Trade receivables for sales and services	(4,624)	(4,040)
- Other receivables	(85,473)	(85,473)
Total trade and other receivables	**99,972**	**103,232**

a) Trade receivables from sales and services

This mainly includes the amounts receivable from customers, fundamentally from the Group's rentals business in France, that are billed monthly, quarterly or yearly. At 31 December 2018 and 2017, no material amounts were past due.

b) Accrual of lease incentives (Note 4-n)

This includes the amount of the incentives in the operating lease agreements (rent-free periods, etc.) that the Group offers its customers, which are recognised in the consolidated statement of comprehensive income during the minimum operating lease term. Of that amount, 68,014 thousand euros have a maturity of more than 1 year (61,300 thousand euros at 31 December 2017).

c) Other receivables

At 31 December 2018 and 2017, the amounts owed by Nozar, S.A., resulting from the cancellation of the purchase agreements entered into in July 2007 as a result of failing to comply with the conditions precedent, were recognised under "Other receivables", and totalled 85,473 thousand euros, including accrued interest.

Nozar, S.A. is currently involved in bankruptcy proceedings; consequently, at 31 December 2018 and 2017, the accompanying consolidated statement of financial position included an impairment loss for the entire amount of this company's trade receivables.

12. Equity

a) Share capital

At 31 December 2016, the Parent's share capital was represented by 356,823,399 shares with a par value of 2.50 euros each, which had been fully subscribed and paid.

In 2017, the Parent carried out two capital increases, both with a charge to monetary contributions and the disapplication of pre-emption rights, through the accelerated bookbuild offering for qualified investors:

- The increase was registered with the Mercantile Registry on 5 May 2017. Its purpose is to reinforce the Parent's equity in order to take full advantage of investment opportunities which are currently available, carry out repositioning and improvement investments to maximise the quality, occupancy and value of the assets that already formed part of its portfolio, as well as consolidate its credit rating and possible improve it. As a result of the placement, 35,646,657 new shares were issued each with a par value of 2.50 euros, for a total amount of 253,092 thousand euros, prompting an increase in share capital and the share premium of 89,117 thousand euros and 163,975 thousand euros, respectively. The new shares were admitted to trading on 8 May 2017 on the Barcelona and Madrid Stock Exchanges.

- The increase aimed at ensuring and optimising the funding for the takeover bid for the shares of Axiare Patrimonio SOCIMI, S.A. (Note 9-c) not owned by Colonial was registered with the Mercantile Registry on 29 November 2017. As a result of the placement, 42,847,300 new shares were issued each with a par value of 2.50 euros, for a total amount of 338,065 thousand euros, prompting an increase in share capital and the share premium of 107,118 thousand euros and 230,947 thousand euros, respectively. The new shares were admitted to trading on 4 December 2017 on the Barcelona and Madrid stock exchanges.

As a result, the Company's share capital at 31 December 2017 was represented by 435,317,356 fully subscribed and paid up shares with a par value of 2.50 euros each.

The following capital increases took place in 2018:

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

- On 16 November 2018, the issuance of 53,523,803 new shares with a par value of 2.50 euros each for 487,602 thousand euros, resulting in a capital increase of 133,810 thousand euros, plus a share premium of 353,792 thousand euros, was registered with the Mercantile Registry.

As a result, the Parent's share capital at 31 December 2018 was represented by 508,114,781 fully subscribed and paid up shares with a par value of 2.50 euros each.

Based on the pertinent notifications regarding the number of company shares to the Spanish National Securities Market Commission (CNMV), the shareholders owning significant direct or indirect interests in the Parent at 31 December 2018 and 2017 were as follows:

	31 December 2018		31 December 2017	
	Number of shares*	% ownership	Number of shares*	% ownership
Name or corporate name of the shareholder:				
Qatar Investment Authority	80,892,169	15.92%	41,610,141	9.56%
Finaccess Group	80,028,647	15.75%	79,378,647	18.23%
Aguila Ltd.	28,800,183	5.67%	28,800,183	6.62%
DIC Holding, LLC	21,782,588	4.29%	-	-
Inmo S.L.	20,011,190	3.94%	20,011,190	4.60%
BlackRock Inc	15,256,886	3.00%	10,955,962	2.52%
Deutsche Bank A.G.	8,135,390	1.60%	8,135,390	1.87%

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

At 31 December 2018 and 31 December 2017, Blackrock Inc. and Deutsche Bank AG formally obtained financial instruments associated with the Parent's shares that, in the event the instruments are exercised, could give rise to an additional interest in the share capital of Colonial. The Parent has no knowledge of other significant equity interests.

The Parent has no knowledge of other significant equity interests.

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

Additionally, on 24 May 2018, the shareholders at the Parent's Annual General Meeting resolved to authorise the Board of Directors, in accordance with Article 297.1 b) of the Spanish Limited Liability Companies Law, to increase the share capital through monetary contributions by up to half the amount of the share capital, within a maximum period of five years, on one or more occasions and at the time and by the amount it deems appropriate. Within the maximum amount indicated, the Board of Directors is empowered to exclude the pre-emption right up to a maximum of 20% of the share capital.

b) Share premium

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

In 2018, the amount of the share premium was also reduced by 11,326 thousand euros as a result of the resolution for the distribution of dividends approved by the shareholders at the Annual General Meeting on 24 May 2018.

The two accelerated bookbuild offerings carried out in 2017 gave rise to an increase in the share premium of 394,922 thousand euros.

c) Legal reserve

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

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

At 31 December 2016, the legal reserve amounted to 33,615 thousand euros. In 2017, taking into account the allocation to the legal reserve included in the distribution of the Parent's profit for 2016 approved by the shareholders at the Annual General Meeting held on 29 June 2017, the legal reserve amounted to 39,099 thousand euros. At 31 December 2018, taking into account the allocation to the legal reserve included in the distribution of the Parent's profit for 2017 approved by the shareholders at the Annual General Meeting held on 24 May 2018, the legal reserve amounted to 42,349 thousand euros, although it had not yet reached the stipulated level at the date of authorisation for issue of these consolidated financial statements.

d) Other reserves of the Parent

The shareholders at the Annual General Meeting held on 29 June 2017 approved, among other resolutions, the distribution of a dividend of 13,394 thousand euros with a charge to reserves as part of the distribution of profit for 2016.

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

As a result of the capital increases described in Note 11-a, costs of 1,149 thousand euros were reported in 2018 (6,691 thousand euros in 2017) under “Reserves of the Parent” in consolidated equity.

In 2018, the Parent carried out transactions involving treasury shares, which gave rise to a gain of 7,332 thousand euros (profit of 10,371 thousand euros in 2017), and which were registered directly in the Parent's equity.

The income generated from the delivery of treasury shares to the beneficiaries of the long-term incentives plan (Note 19-a), calculated as the difference between the carrying amount of the shares delivered and the amount of the obligation assumed by the Parent (Note 4-j), which amounted to 1,513 thousand euros in 2018 (1,286 thousand euros in 2017) was also recognised in the Parent's reserves.

At 31 December 2018, the Parent held 169,439 thousand euros in restricted reserves.

e) Valuation adjustments recognised in other consolidated comprehensive income - financial instruments

This heading of the consolidated statement of financial position includes the sum of gains and losses arising from changes in the fair value of efficient financial derivatives classified as cash flow hedges (Note 14).

The changes in this heading are as follows:

	Thousands of euros	
	31 December 2018	31 December 2017
Beginning balance	**(559)**	**(571)**
Changes in the fair value of hedges in the year	(3,890)	(39)
Transfers to consolidated net profit	2,371	51
Ending balance	**(2,078)**	**(559)**

In 2018, and as a result of the business combination described in Note 2, the Group included the financial instruments arising from Axiare Patrimonio SOCIMI, S.A. and its subsidiaries described in Note 14. “Changes in the fair value of hedges in the year” includes the impact of the changes in value of these instruments from the date of the takeover. Subsequent to this date, the Parent cancelled the various derivative financial instruments arising from the absorbed company Axiare Patrimonio SOCIMI, S.A., which entailed the transferred to consolidated net profit of 2,299 thousand euros.

During 2017, the subsidiary Torre Marenostrum cancelled the derivative financial instrument it held with a financial institution. This instrument was assigned as a hedge to the subsidiary's mortgage loan with this financial institution, which was novated, though the conditions are not substantially different. Consequently, the subsidiary transferred the amount of the hedging derivative financial instrument recognised directly in equity to the statement of comprehensive income at the time of novation on a straight-line basis over the initial outstanding term of the cancelled derivative. The amount recycled in 2018 amounted to 72 thousand euros (51 thousand euros in 2017). The subsidiary Torre Marenostrum contracted a new derivative financial instrument in 2017 that was assigned as a hedge of the new mortgage loan mentioned above.

f) Treasury shares of the Parent

At 31 December 2018 and 2017, the number of the Parent's treasury shares and their acquisition cost were as follows:

	31 December 2018		31 December 2017	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Beginning balance	**4,279,940**	**29,421**	**5,469,985**	**35,426**
Buyback plan 14 November 2016	-	-	6,837,328	46,787
Buyback plan 16 October 2017	-	41	2,260,000	17,797
Delivery of incentives plan shares (Note 19)	(421,813)	(2,902)	(380,116)	(2,537)
Other acquisitions	133	-	-	-
Other disposals	(3,315,000)	(22,812)	(9,907,257)	(68,052)
Ending balance	**543,260**	**3,748**	**4,279,940**	**29,421**

Share buyback plans of the Parent -

On 14 November 2016, the Parent's Board of Directors agreed to carry out a treasury share buyback programme. The purposes of the plan are to complete the coverage of the share plan approved at the General Shareholders Meeting on 21 January 2014 and additional initiatives that the Board of Directors may consider advisable in the Company's business interest. The maximum monetary amount assigned to the programme amounted to 68,000 thousand euros and a maximum of 10,000,000 shares may be acquired, equivalent to 2.8% of the Parent's share capital as of that date. The maximum duration of the programme was six months, i.e., up to 15 May 2017. However, it would be ended early if the maximum number of shares or the maximum monetary amount was reached before said date. The buyback programme was completed in 2017.

On 16 October 2017, the Parent's Board of Directors agreed to implement a new programme involving the repurchase of treasury shares in accordance with the authorisation granted by the shareholders at the Annual General Meeting held on 30 June 2014. The maximum monetary amount assigned to the programme amounted to 100,000 thousand euros and the maximum number of shares to be acquired is 12,000,000 shares, equivalent to 3% of the Parent's share capital as of that date. The maximum duration of the programme was six months, i.e., up to 17 April 2018. However, it would be ended early if the maximum number of shares or the maximum monetary amount is reached before said date. On 3 November 2017, the Parent ended the share buyback programme early.

Deliveries of Parent shares deriving from the long-term incentives plan (Note 19) -

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

Other disposals -

On 29 November 2017, the Parent sold 9,907,257 shares at a price equivalent to the issue price of the new shares issued in the framework of the accelerated bookbuild offering carried out on the same date (Note 12-a), i.e., at 7.89 euros per share.

On 16 November 2018, the Company exchanged 3,000,000 treasury shares for 400,000 shares of the subsidiary SFL (Note 4-f). In December 2018 a total of 315,000 shares of the Parent were exchanged for 42,000 additional shares of the subsidiary SFL.

g) Liquidity contracts

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

At 31 December 2018 and 2017, the Parent's treasury shares included in the liquidity contracts and their acquisition cost were as follows:

	31 December 2018		31 December 2017	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Beginning balance	**229,500**	**1,841**	**209,603**	**1,329**
Liquidity contract dated 22 June 2015	-	-	30,480	482
Liquidity contract dated 11 July 2017	-	17	(10,583)	30
Ending balance	**229,500**	**1,858**	**229,500**	**1,841**

Liquidity contract dated 22 June 2015 -

On 22 June 2015, the Parent entered into a liquidity contract to enhance the liquidity of its transactions and the regularity of its quoted share price as provided for under CNMV Circular 3/2007, of 19 December.

Upon issue of CNMV Circular 1/2017, of 26 April 2017, the Parent terminated the liquidity contract on 10 July 2017, effective as of 10 July 2017.

Liquidity contract dated 11 July 2017 -

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

h) Treasury shares of SFL

In 2017 the treasury shares of SFL, amounting to 13,056 thousand euros, were reclassified from “Treasury shares” to “Consolidated reserves” in the consolidated statement of financial position.

i) Non-controlling interests

The changes in this heading of the consolidated statement of financial position are as follows:

	Thousands of euros					
	Torre Marenostrum, S.L.	Inmocol Torre Europa, S.A.	Utopicus subgroup	SFL subgroup	Axiare subgroup (*)	**Total**
Balance at 31 December 2016	**23,962**	**-**	**-**	**1,682,243**	**-**	**1,706,205**
Profit/(loss) for the year	1,954	1,037	(65)	395,002	-	**397,928**
Dividends and other	(1,574)	-	11	(24,446)	-	**(26,009)**
Changes in the scope of consolidation (Note 2-f)	-	10,000	80	(343)	-	**9,737**
Financial instruments	9	-	-	-	-	**9**
Balance at 31 December 2017	**24,351**	**11,037**	**26**	**2,052,456**	**-**	**2,087,870**
Profit/(loss) for the year	2,831	563	(478)	147,971	2,459	**153,346**
Dividends and other	(619)	-	12	(50,711)	-	**(51,318)**
Changes in the scope of consolidation (Note 2-f)	-	-	645	(897,611)	(2,459)	**(899,425)**
Financial instruments	13	-	-	-	-	**13**
Balance at 31 December 2018	**26,576**	**11,600**	**205**	**1,252,105**	**-**	**1,290,486**

(*) Non-controlling interests of the Axiare subgroup generated from the date of the takeover until the date of the merger (Note 2-f).

The breakdown of the items included in “Dividends and other” at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	31 December 2018	31 December 2017
Dividend paid by the SFL subgroup to non-controlling interests	(44,089)	(19,909)
Dividend paid by Washington Plaza to non-controlling interests	(6,921)	(5,516)
Dividend paid by Torre Marenostrum to non-controlling interests	(618)	(1,575)
Other	310	991
Total	**(51,318)**	**(26,009)**

The SFL subgroup has the following shareholders agreements with Prédica:

- Agreement in SCI Washington, in which SFL holds 66%. In the event of a change of control of SFL, Prédica may consent to the change of control, or acquire or sell all of the shares and current accounts held by SFL in the common subsidiary, at a price agreed between the parties or at market value.

- Agreement in Parholding, in which SFL holds 50%. In the event of a change of control of SFL, Prédica may consent to the change of control, or acquire or sell all of the shares and current accounts held by SFL in the common subsidiary, at a price agreed between the parties or at market value.

13. Bank borrowings, other financial liabilities and bonds and similar securities issued

The detail of these headings of the consolidated statement of financial position, by type of debt and maturity, at 31 December 2018 and 2017 is as follows:

31 December 2018

	Thousands of euros							
	Current	Non-current						Total
	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	
Bank borrowings:								
Lines of credit	-	-	-	-	-	-	-	-
Loans	7,494	10,721	62,186	268,265	90,282	176,955	608,409	615,903
Syndicated loans	-	-	-	20,000	50,000	-	70,000	70,000
Interest	1,313	-	-	-	-	-	-	1,313
Debt arrangement expenses	(2,711)	(2,645)	(2,472)	(1,761)	(1,237)	(1,830)	(9,945)	(12,656)
Total bank borrowings	**6,096**	**8,076**	**59,714**	**286,504**	**139,045**	**175,125**	**668,464**	**674,560**
Other financial liabilities:								
Current accounts	-	52,246	-	-	-	-	52,246	52,246
Interest on current accounts	40	-	-	-	-	-	-	40
Derivative financial instruments (Note 14)	473	-	-	2,098	899	221	3,218	3,691
Other financial liabilities	2,491	-	-	-	-	-	-	2,491
Total other financial liabilities	**3,004**	**52,246**	**-**	**2,098**	**899**	**221**	**55,464**	**58,468**
Total bank borrowings and other financial liabilities	**9,100**	**60,322**	**59,714**	**288,602**	**139,944**	**175,346**	**723,928**	**733,028**
Bonds and similar securities issued:								
Bond issues	262,500	-	350,000	350,000	500,000	2,600,000	3,800,000	4,062,500
Interest	26,310	-	-	-	-	-	-	26,310
Arrangement expenses	(4,568)	(4,576)	(4,542)	(4,220)	(3,672)	(6,124)	(23,134)	(27,702)
Total bonds and similar securities issued	**284,242**	**(4,576)**	**345,458**	**345,780**	**496,328**	**2,593,876**	**3,776,866**	**4,061,108**
Total at 31 December 2018	**293,342**	**55,746**	**405,172**	**634,382**	**636,272**	**2,769,222**	**4,500,794**	**4,794,136**

31 December 2017

	Thousands of euros							
	Current	Non-current						Total
	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	
Bank borrowings:								
Lines of credit	33,459	-	-	-	-	-	-	33,459
Loans	4,087	154,151	14,218	79,280	197,217	199,383	644,249	648,336
Syndicated loans	-	-	-	150,000	13,400	-	163,400	163,400
Interest	1,180	-	-	-	-	-	-	1,180
Debt arrangement expenses	(2,276)	(2,085)	(1,742)	(1,458)	(441)	(469)	(6,195)	(8,471)
Total bank borrowings	**36,450**	**152,066**	**12,476**	**227,822**	**210,176**	**198,914**	**801,454**	**837,904**
Other financial liabilities:								
Current accounts	-	55,645	-	-	-	-	55,645	55,645
Interest on current accounts	56	-	-	-	-	-	-	56
Derivative financial instruments (Note 14)	363	-	-	-	-	138	138	501
Other financial liabilities	2,481	-	-	-	-	-	-	2,481
Total other financial liabilities	**2,900**	**55,645**	-	-	-	**138**	**55,783**	**58,683**
Total bank borrowings and other financial liabilities	**39,350**	**207,711**	**12,476**	**227,822**	**210,176**	**199,052**	**857,237**	**896,587**
Bonds and similar securities issued:								
Bond issues	-	375,000	-	500,000	500,000	1,950,000	3,325,000	3,325,000
Interest	17,348	-	-	-	-	-	-	17,348
Arrangement expenses	(3,774)	(3,404)	(3,148)	(3,105)	(2,702)	(5,008)	(17,367)	(21,141)
Total bonds and similar securities issued	**13,574**	**371,596**	**(3,148)**	**496,895**	**497,298**	**1,944,992**	**3,307,633**	**3,321,207**
Total at 31 December 2017	**52,924**	**579,307**	**9,328**	**724,717**	**707,474**	**2,144,044**	**4,164,870**	**4,217,794**

The changes in net financial debt in 2018, which arose from cash flows and other, are detailed in the table below:

	Thousands of euros			
	31 December 2017	Cash flows	Changes in control of subsidiaries	31 December 2018
Lines of credit	33,459	(33,459)	-	-
Loans	648,336	(708,445)	676,012	615,903
Syndicated loans	163,400	(93,400)	-	70,000
Bond issues	3,325,000	737,500	-	4,062,500
Gross financial debt (gross nominal debt)	**4,170,195**	**(97,804)**	**676,012**	**4,748,403**
Cash and cash equivalents	**(1,104,601)**	**1,196,819**	**(160,511)**	**(68,293)**
Net financial debt	**3,065,594**	**1,099,015**	**515,501**	**4,680,110**

a) Issues of the Parent's straight bonds

In April 2018, the Parent issued new straight bonds under the EMTN programme for a nominal amount of 650,000 thousand euros maturing in April 2026, with an annual coupon of 2% and an issue price of 99,481% of their nominal value.

In July 2018, the Parent paid off early the outstanding balance of 375,000 thousand euros for the issue of non-convertible bonds maturing in June 2019.

The breakdown of the issues of straight bonds made by the Parent at 31 December 2018 and 2017 is as follows:

				(Thousands of euros)		
Issue	Term	Maturity	Fixed-rate coupon payable annually	Amount of the issue	31 December 2018	31 December 2017
05/06/2015	5 years	05 /06/2019	1,863%	750,000	-	375,000
05/06/2015	8 years	05/06/2023	2,728%	500,000	500,000	500,000
28/10/2016	8 years	28/10/2024	1,450%	600,000	600,000	600,000
10/11/2016	10 years	10/11/2026	1,875%	50,000	50,000	50,000
28/11/2017	8 years	28/11/2025	1,625%	500,000	500,000	500,000
28/11/2017	12 years	28/11/2029	2,500%	300,000	300,000	300,000
17/04/2018	8 years	17/04/2026	2,000%	650,000	650,000	-
Total issues					**2,600,000**	**2,325,000**

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

At 31 December 2018 and 2017, the fair value of the bonds issued by the Parent was 2,557,454 thousand euros and 2,378,881 thousand euros, respectively.

European Medium Term Note Programme -

On 5 October 2016, the Parent registered a 12-month European Medium Term Note programme for 3,000,000 thousand euros, which can be extended to 5,000,000 thousand euros, on the Irish Stock Exchange. On 27 November 2018, the Spanish National Securities Market Commission (CNMV) approved the registration of the Company's Euro Medium Term Note Programme in the official registers.

Compliance with financial ratios -

These straight bonds establish the obligation, at 30 June and 31 December of each year, to meet a financial ratio, whereby the value of the non-guaranteed asset of the Colonial Group in the consolidated statement of financial position at each of these dates must at least be equal to the financial debt not guaranteed. This ratio had been met at 31 December 2018 and 2017.

b) Issue of SFL straight bonds

In May 2018, SFL issued new straight bonds for a nominal amount of 500,000 thousand euros and maturing in May 2025, with an annual coupon of 1.50% and an issue price of 99,199% of their nominal value.

In September 2018, the subsidiary SFL paid off early the 300,000 thousand euros corresponding to the issue of non-convertible bonds maturing in November 2021 and November 2022.

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

				(Thousands of Euros)		
Issue	Term	Maturity	Fixed-rate coupon payable annually	Amount of the issue	31 December 2018	31 December 2017
20/11/2014	7 years	26/11/2021	1,875%	500,000	350,000	500,000
16/11/2015	7 years	16/11/2022	2,250%	500,000	350,000	500,000
29/05/2018	7 years	29/05/2025	1,500%	500,000	500,000	-
Total issues					**1,200,000**	**1,000,000**

The bonds are unsubordinated obligations, all of which rank pari passu. They are traded on the Euronext Paris exchange.

At 31 December 2018 and 2017, the fair value of the bonds issued by SFL was 1,222,330 thousand euros and 1,062,635 thousand euros, respectively.

In November 2017, the subsidiary SFL settled the bonds maturing from the 2012 issue, with an outstanding nominal amount of 300,700 thousand euros.

c) Issuance of promissory notes of the Parent

In December 2018, the Parent registered a European Commercial Paper Programme for maximum limit of 300,000 thousand euros and maturing in the short term. At 31 December 2018, no promissory notes had been issued (Note 24).

d) Issuance of promissory notes of SFL

In September 2018, the subsidiary SFL registered a short-term promissory note issuance programme (NEU CP) for a maximum of 300,000 thousand euros, with issuances in force as at 31 December 2018 of 262,500 thousand euros (Note 24).

e) Syndicated financing of the Parent

The breakdown of the Parent's syndicated financing at 31 December 2018 and 2017 is detailed in the table below:

Thousands of euros	**Maturity**	31 December 2018		31 December 2017	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Credit facility	December 2023	500,000	50,000	350,000	150,000
Credit facility	March 2022	375,000	20,000	375,000	13,400
Total syndicated financing of the Parent		**875,000**	**70,000**	**725,000**	**163,400**

The variable interest rate is tied to the EURIBOR plus a spread.

In May 2018, the Parent refinanced the syndicated loan signed in November 2015, amounting to 350,000 thousand euros and maturing in November 2021, increasing the nominal amount to 500,000 thousand euros, extending its maturity until December 2023 and reducing the financing spread. This line of credit is aimed at covering its general corporate needs. A total of 13 banks took part in the process, with Natixis acting as agent bank. This refinancing was not considered to be a substantial modification to the liability. At 31 December 2018, the amount of the loan drawn down stood at 50,000 thousand euros.

In March 2017, the Parent signed a new syndicated line of credit for 375,000 thousand euros, maturing at five years. This line of credit was intended to cover the Parent's general corporate needs. A total of 10 banks took part in the process, with Crédit Agricole acting as lead bank.

Compliance with financial ratios –

The loans are subject to compliance with the following financial ratios on a quarterly basis:

Ratios
Loan-to-value ratio ≤ 55%
Interest coverage ratio ≥ 2x
Secured mortgage debt / Value of property assets ≤15% *(25% for the new syndicated loan)*
Secured non-mortgage debt / Value of non-property assets ≤15% *(25% for the new syndicated loan)*
Value of the consolidated assets >= 4.5 billion euros

At 31 December 2018 and 2017, the Parent complied with all financial ratios.

f) Syndicated financing of SFL

The breakdown of SFL's syndicated financing at 31 December 2018 and 2017 is as follows:

Thousands of euros	Maturity	31 December 2018		31 December 2017	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Credit facility	October 2019	-	-	150,000	-
Credit facility	July 2020	250,000	-	400,000	-
Total SFL syndicated loan		**250,000**	**-**	**550,000**	**-**

The credit facility maturing in October 2019 was paid off in June 2018 and the limit of the credit facility maturing in July 2020 was reduced to 150,000 thousand euros.

The variable interest rate is tied to the EURIBOR plus a spread.

Compliance with financial ratios -

SFL syndicated loans must meet the following financial ratios every six months:

Ratios
Loan-to-value ratio ≤ 50% Interest coverage ratio ≥ 2 Secured debt / Equity value ≤ 20% Appraisal value of unmortgaged properties >= 2 billion euros Gross financial debt of subsidiaries / Gross consolidated financial debt < 25%

At 31 December 2018 and 2017, SFL complied with the financial ratios stipulated in the respective financing agreements.

g) Mortgage-backed loans

At 31 December 2018 and 2017, the Group held the following mortgage-backed loans for certain investment properties:

	Thousands of euros			
	31 December 2018		31 December 2017	
	Mortgage debt	Market value of collateral	Mortgage debt	Market value of collateral
Investment property (Note 9)	515,642	1,828,786	237,980	1,054,197
Total	**515,642**	**1,828,786**	**237,980**	**1,054,197**

At 31 December 2018, 55% of the mortgage debt (281,656 thousand euros) relates to bilateral loans arranged by companies of the former Axiare subgroup. These are floating rate loans tied to EURIBOR plus an additional spread, although a number of derivative financial instruments have been arranged to cover 40% of the outstanding nominal amount at 31 December 2018 (Note 14).

The remainder relates to the SFL subgroup (201,240 thousand euros at a fixed rate) and to the subsidiary Torre Marenostrum, S.L. (32,746 thousand euros tied to EURIBOR plus an additional spread).

In the second half of 2018, the Parent paid off early 334,136 thousand euros on various loans from Axiare Patrimonio SOCIMI, S.A.

Compliance with financial ratios -

The Group's mortgage-backed loans are subject to compliance with various financial ratios (LTV and Debt Service Coverage Ratio, whose thresholds vary according to the assets financed). At 31 December 2018 and 2017, the Group complied with the financial ratios required in its mortgage loan agreements.

h) Other loans

At 31 December 2018, the Group had seven bilateral loans not secured by a mortgage guarantee, that were subject to compliance with various ratios. The total limits and balances drawn down are as follows:

Thousands of euros	Company	Maturity	31 December 2018		31 December 2017	
			Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Other loans:						
BECM	SFL	April 2019	-	-	150,000	150,000
BECM	SFL	July 2023	150,000	-	-	-
Banco Sabadell	SFL	June 2020	70,000	-	70,000	10,000
BNP Paribas	SFL	May 2021	150,000	50,000	150,000	75,000
CADIF	SFL	June 2023	175,000	-	175,000	175,000
Banque Postale	SFL	June 2024	75,000	-	75,000	-
Société Générale	SFL	October 2023	100,000	-	75,000	-
Bankinter	Colonial	July 2024	50,000	50,000	-	-
Total other loans			**770,000**	**50,000**	**620,000**	**410,000**

In 2018, the subsidiary SFL paid off early the BECM loan maturing in April 2019.

In July and October 2018, the subsidiary SFL took out two new revolving lines of credit with BECM and Sociéte Générale, maturing in five years, for 150,000 thousand euros and 100,000 thousand euros, respectively.

In November 2018, the Parent took out a bilateral loan with Bankinter for 50,000 thousand euros maturing in six years.

In 2017, the subsidiary SFL signed two new lines of credit with CADIF and Banque Postale for a total of 175,000 thousand euros and 75,000 thousand euros, maturing in 6 and 7 years, respectively. Furthermore, SFL increased the limit of the bilateral loan that it had taken out with Banco Sabadell by 20,000 thousand euros, which was set at 70,000 thousand euros.

Compliance with financial ratios

The loan corresponding to the Parent is subject to compliance with the following financial ratios on a quarterly basis:

Ratios
Loan-to-value ratio ≤ 55%
Interest coverage ratio ≥ 2x
Secured mortgage debt/Value of property assets ≤ 15% (25% for the new syndicated loan)
Secured non-mortgage debt/Value of non-property assets ≤ 15% (25% for the new syndicated loan)
Value of the consolidated assets ≥ 4.5 billion euros

The loans corresponding to the subsidiary SFL are subject to compliance with the following financial ratios on a half-yearly basis:

Ratios
Loan-to-value ratio ≤ 50% Interest coverage ratio ≥ 2 Secured debt / Equity value ≤ 20% Appraisal value of unmortgaged properties >= 2 million euros Gross financial debt subsidiaries / Gross consolidated financial debt < 25%

At 31 December 2018 and 2017, the Parent and SFL complied with the financial ratios stipulated in the respective financing agreements.

Lastly, at 31 December 2018, the companies of the Utopicus subgroup had four loans drawn down for a total of 261 thousand euros (356 thousand euros at 31 December 2017). These loans are not subject to compliance with any ratio.

i) Credit facilities

At 31 December 2018, the Group did not have any credit facilities drawn down. At 31 December 2017, the balance drawn down was 33,459 thousand euros.

j) Other financial liabilities - Current accounts

At 31 December 2018, the Group had a current account in the amount of 52,246 thousand euros extended to the Group company SCI Washington (55,645 thousand euros at 31 December 2017). This current account accrues an additional spread on the three-month Euribor.

k) Guarantees given

At 31 December 2018, the Parent had granted guarantees to government bodies, customers and suppliers in the amount of 24,155 thousand euros (1,102,474 thousand euros at 31 December 2017). These include the following guarantees granted to cover deferred payments deriving from acquisition transactions:

Of the amount remaining, the main guarantee provided amounted to 4,946 thousand euros to secure the obligations acquired by Asentia Accordingly, the Parent and this subsidiary have an agreement in place whereby if any of the guarantees are enforced, Asentia must compensate the Parent for any damages sustained within 15 days.

The following guarantees at 31 December 2017 had been cancelled in 2018:

- In February 2018, the bank guarantee presented to the CNMV as security for the voluntary takeover bid for shares of Axiare Patrimonio SOCIMI, S.A., issued by Caixabank for an amount of 1,033,676 thousand euros, and guaranteed with a cash deposit, was cancelled.

- In May 2018, the bank guarantee deposited as security for the deferred payment on the acquisition of 100% of the shares in the subsidiary Moorage, amounting to 15,680 thousand euros, was cancelled.

- Lastly, in December 2018 the bank guarantees provided to purchase Agisa, Soller and Peñalvento (Note 2-f), for the sum of 41,767 thousand euros, were cancelled. The amount payable was recognised under “Trade payables” in the consolidated statement of financial position (Note 15).

l) Cash and cash equivalents

At 31 December 2018 and 2017, amounts of 68,293 thousand euros and 1,104,601 thousand euros, respectively, were recognised under “Cash and cash equivalents”, of which 1,777 thousand euros and 1,045,668 thousand euros, respectively, were either restricted or pledged.

The balance at 31 December 2017 included 1,033,676 thousand euros relating to the cash required to meet the voluntary takeover bid for the shares of Axiare Patrimonio, SOCIMI, S.A., which was secured by the aforementioned bank guarantee and which has already been cancelled.

m) Debt arrangement expenses

At 31 December 2018 and 2017, the debt arrangement expenses assumed by the Group and not yet accrued amounted to 40,358 thousand euros and 29,612 thousand euros, respectively. These expenses are taken to the consolidated income statement during the term of the debt in accordance with financial criteria. In this regard, in 2018 and 2017 the Group recognised 6,384 thousand euros and 5,191 thousand euros, respectively, in the consolidated income statement corresponding to the costs paid during the year.

n) Interest rate on borrowings

The interest rate on the Group's borrowings, the Group's average credit spread, with and without accrual of the financing fees for 2018 and 2017, is shown in the table below:

	(Thousands of euros)			
	2018		2017	
Issue	Without accrual of fees	With accrual of fees	Without accrual of fees	With accrual of fees
Average interest rate of the Group	2.00%	2.28%	2.35%	2.49%
Average credit spread of the Group	1.37%	1.65%	1.56%	1.87%

The interest rate of the Group's outstanding debt at 31 December 2018 is 1.77% (1.86% at 31 December 2017).

The accrued interest outstanding recognised in the consolidated statement of financial position at 31 December 2018 and 2017 amounted to:

	(Thousands of euros)	
Issue	31 December 2018	31 December 2017
Parent bonds	20,211	15,006
SFL bonds	6,099	2,342
Bank borrowings	1,313	1,180
Other financial liabilities - Current accounts	40	56
Total	**27,663**	**18,584**

o) Capital management and risk management policy

Companies operating in the real estate sector need to make heavy upfront investments to ensure development of their projects and growth of their businesses through the purchase of rental properties and/or land.

The Group's financial structure requires its sources of financing to be diversified In terms of entities, products and maturity dates, in order to ensure the continuity of its companies as profitable businesses and to be able to maximise returns for shareholders.

On 5 October 2016, the Parent registered a 12-month European Medium Term Note programme for 3,000,000 thousand euros, which can be extended to 5,000,000 thousand euros, on the Irish Stock Exchange. On 27 November 2018, the Spanish National Securities Market Commission (CNMV) approved the registration of the Company's Euro Medium Term Note Programme in the official registers.

In December 2018, the Parent registered a European Commercial Paper Programme for maximum limit of 300,000 thousand euros and maturing in the short term. At 31 December 2018, no promissory notes had been issued (Note 24).

The various bond issues launched from 2015 to 2018 have enabled the Parent to finance its corporate transactions and real estate asset acquisitions carried out during these years, to reduce the finance costs of its borrowings, and to extend and diversify the maturity dates thereof. The Parent's financing is granted entirely over the long term and structured in such a manner that it allows the performance of the underlying business plan.

p) Financial risk management policy

The Group efficiently manages its financial risks with the aim of having an adequate financial structure that allows it to maintain high levels of liquidity, minimise borrowing costs, reduce volatility due to changes in capital and ensure compliance with its business plans.

- Interest rate risk: The risk management policy is designed to limit and control the impact of interest rate fluctuations on profit and cash flows, to maintain the level of debt, and to keep overall borrowing costs at reasonable levels in accordance with the Group's credit rating.

  In order to attain these objectives, the Group enters into interest rate hedges to hedge against potential fluctuations in finance costs if necessary. The Group's policy is to arrange instruments that comply with accounting rules to be considered effective hedges and, therefore, to recognise changes in market value directly in the Group's other consolidated comprehensive income. At 31 December 2018, 90% of total debt in Spain and 93% in France was hedged or at fixed rates (93% and 85%, respectively, at 31 December 2017).

- Liquidity risk: Based on the annual cash budget, the Colonial Group draws up the monthly follow-up report on its cash forecasts to manage its liquidity risk and meet its various financing needs.

  The Group considers the following mitigating factors in managing liquidity risk: (i) recurring cash flow generation by the Group's core activities, (ii) its ability to renegotiate and obtain new financing on the basis of long-term business plans, and (iii) the quality of the Group's assets.

  Cash surpluses may eventually arise that enable the Group to have lines of credit available but not yet drawn down or highly-liquid deposits with no risk. At 31 December 2018, the Group had sufficient lines of credit available to meet its short-term maturities. The Group does not use high-risk financial products as a method for investing cash surpluses.

- Counterparty risk: the Group mitigates this risk by using top-tier financial institutions to arrange its financing and by accessing the debt market through bond issues.

- Credit risk: the Parent analyses the exposure implied by at-risk accounts receivable on an ongoing basis, monitoring their settlements and recognising charges whenever its receivables are deemed impaired.

14. Derivative financial instruments

The following table details the financial instruments and their fair values at 31 December 2018 and 2017:

Derivative financial instrument	Company	Counterparty	Interest rate	Maturity	Notional value (thousands of euros)	Fair value – Asset / (Liability)
Swap	SFL	CA-CIB	0.23%	2022	100,000	(1,041)
Cap	SFL	CADIF	0.25%	2022	100,000	591
Swap	Colonial*	Santander	0.25%	2022	18,000	(205)
Swap	Colonial*	ING	0.95%	2022	18,650	(823)
Swap	Colonial*	DB	0.27%	2022	18,650	(230)
Swap	Venusaur*	DB	0.43%	2023	57,000	(899)
Vanilla swap	Torre Marenostrum	CaixaBank	0.94%	2032	26,197	(493)
Total at 31 December 2018					**338,497**	**(3,100)**

* Arising from the business combination with Axiare described in Note 2-a.

Derivative financial instrument	Company	Counterparty	Interest rate	Maturity	Notional value (thousands of euros)	Fair value – Asset / (Liability)
Swap	SFL	CA-CIB	0.23%	2022	100,000	(103)
Cap	SFL	CADIF	0.25%	2022	100,000	1,484
Swap (redeemed step-up)	Colonial	BBVA	4.40%	2018	4,212	(50)
Cap	Colonial	ING	1.25%	2018	300,000	-
Cap	Colonial	Morgan Stanley	1.25%	2018	130,000	-
Vanilla swap	Torre Marenostrum	CaixaBank	0.94%	2032	27,728	(348)
Total at 31 December 2017					**661,940**	**983**

With the business combination between the Parent and Axiare Patrimonio SOCIMI, S.A., the Parent has integrated the derivative financial instrument contracts of the subsidiary for a nominal amount of 394,249 thousand euros. After the date of the business combination, various financial instruments were cancelled, generating a finance cost of 3,267 thousand euros, which was recognised under "Finance costs" in the consolidated statement of comprehensive income.

The impact for 2018 and 2017 of accounting for derivatives qualifying for hedge accounting on the consolidated income statement was a net finance cost of 6,345 thousand euros and 322 thousand euros, respectively (Note 18-h).

a) Hedge accounting -

At 31 December 2018, the Parent and Torre Marenostrum applied hedge accounting to all derivative financial instruments. At 31 December 2017, hedge accounting was only applied to Torre Marenostrum.

At 31 December 2018, a balance receivable of 2,078 thousand euros was recognised in the consolidated statement of comprehensive income as a result of hedge accounting, net of the tax effect and consolidation adjustments. At 31 December 2017, a balance receivable of 559 thousand euros was recognised in the consolidated statement of comprehensive income (Note 12).

b) Fair value of derivative financial instruments -

The fair value of the derivatives was calculated by discounting estimated future cash flows based on an interest rate curve and on assigned volatility at 31 December 2018, using the appropriate discount rates established by an independent expert.

15. Trade payables and other non-current liabilities

The breakdown of these headings in the consolidated statement of financial position, by item and maturity, is as follows:

	Thousands of euros			
	31 December 2018		31 December 2017	
	Current	Non-current	Current	Non-current
Trade and other payables	45,219	-	26,487	-
Payables for the purchase of properties	32,676	-	72,636	4,600
Advances	22,748	14,142	17,047	-
Guarantees and deposits received	2,207	51,710	4,628	39,497
Payable to Social Security	1,782	-	2,292	-
Unearned income	564	-	4,657	-
Other payables and liabilities	9,583	481	16,133	265
Total	**114,779**	**66,333**	**143,880**	**44,362**

a) Trade and other payables

This heading includes primarily the amounts payable by the Group for business-related purchases and associated costs.

b) Payables for the purchase of properties

This heading includes the amounts payable arising from acquisitions of ownership interest and/or properties. At 31 December 2017, the amount included under this line item relates mainly to the refurbishment or renovation work on various properties carried out by SFL, mainly the Louvre Saint-Honoré building, in the amount of 19,996 thousand euros (10,218 thousand euros at 1 December 2017).

In 2018 the deferred amounts were paid for the acquisitions of the ownership interest (Note 2-f) in Moorage (20,280 thousand euros, including the contingent price classified as non-current), in Agisa, Soller and Peñavento (41,967 thousand euros), and in Colonial Arturo Soria, S.L.U. (4,200 thousand euros).

The effect of the updated deferred payments was not material.

c) Advances

Current advances relate mainly to the amounts paid upfront by lessees for bi-monthly or quarterly rent.

Non-current advances include 14,142 thousand euros on the price of the investments, in accordance with the sale and purchase agreement subject to conditions precedent signed by the Parent (Note 9).

d) Guarantees and deposits received

This heading includes mainly security deposits paid by lessees.

e) Unearned income

This heading includes the amounts received by SFL for rights of entry, which relate to the amounts invoiced by lessees to reserve a unique space, and that were recognised as income on a straight-line basis over the minimum term of the related lease agreement.

f) Average period of payment to suppliers and trade creditors

The table below sets forth the information on the various Spanish Group companies required by final provision two of Law 31/2014, of 3 December, amending the Spanish Limited Liability Companies Law to improve corporate governance, and amending additional provision three of Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, which establishes measures to combat late payment in commercial transactions, all in accordance with that established in the resolution of 29 January 2016 issued by the Spanish Accounting and Audit Institute (ICAC) on disclosures to be included in the notes to the consolidated financial statements with regard to the average period of payment to suppliers in commercial transactions involving the various Spanish companies pertaining to the Group.

	2018	2017
	Days	Days
Average supplier payment period	32	31
Ratio of transactions settled	32	31
Ratio of transactions pending payment	48	31
	Amount (in thousands of euros)	Amount (in thousands of euros)
Total payments made	221,716	93,540
Total payments pending	8,205	5,212

The figures shown in the foregoing table in relation to payments to suppliers relate to suppliers that because of their nature are trade creditors for the supply of goods and services and, therefore, they include the figures relating to certain line items of "Trade payables" in the accompanying consolidated statement of financial position.

Law 11/2013 on measures to support entrepreneurs, stimulate growth and create employment, which amended the Law on late payments (Law 3/2004, of 29 December), entered into force on 26 July 2013. The new law stipulates that the maximum payment period to suppliers as of 29 July 2013 is 30 days, unless there is an agreement between the parties which increases the maximum period to 60 days.

With regard payments made after the legally established period, note that these are primarily payments relating to works contracted and property refurbishment, which are paid within the payment terms stipulated in the contracts signed with the various contractors.

16. Provisions and contingent assets and liabilities

Changes in "Current provisions" and "Non-current provisions" in the consolidated statement of financial position for 2018 are as follows:

	Thousands of euros		
	Non-current provisions		Current provisions
	Provisions for employee benefits	Provisions for contingencies and other provisions	Provisions for contingencies and other provisions
Balance at 31 December 2017	**1,244**	**10,206**	**20,283**
Provisions	59	10	8,402
Disposals/Amounts used (Note 18-e)	(12)	-	(11,025)
Disposals/Amounts used (Note 18-h)	-	(10,127)	-
Balance at 31 December 2018	**1,291**	**89**	**17,660**

a) Non-current provisions

Provisions for the outstanding urban development costs of UE-1. –

As a result of restructuring the financial debt of Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. (hereinafter, "DUE"), a former subsidiary, the Company granted a loan for a maximum of 85,000 thousand euros, the purpose of which, among others, is to finance the development of the project implemented by DUE and to cover the costs of the work yet to be carried out on the UE-1, up to an amount of no more than 20,000 thousand euros. The Parent recognised the appropriate provisions (Note 16).

The Parent had a restricted cash line of credit with BBVA to cover the outstanding execution costs of the UE-1, which was drawn down when DUE showed that the development work had been carried out. At 31 December 2017, 9,876 thousand euros had been drawn down.

In 2018 the Parent sold the loan granted to DUE to a third party for 1 euro, thus being released from all its obligations.

Provisions for employee benefits -

This line item includes the retirement benefits and seniority bonuses of employees of SFL (Note 4-j).

b) Current provisions

Current provisions include an estimate of the Parent's various future risks.

c) Contingent assets

In 2010, the Parent filed certain lawsuits against former directors for transactions carried out between June 2006 and December 2007 regarding the following corporate actions for liability, with the following currently in process:

- A corporate action for liability against certain former directors in relation to the purchase of assets by the Parent for reinvestment of the proceeds by the sellers in shares of the Company, as part of the 29 June 2006 capital increase or otherwise.

- A corporate action for liability against certain former directors in connection with the losses caused to the Company by the acquisition of shares of Riofisa in 2007.

Given that the aforementioned lawsuits relate to claims filed against third parties in favour of Colonial, the only contingency that may arise is the payment of legal costs in the event that both cases are lost. At 31 December 2018, the appropriate provision had been recognised to meet any potential costs.

17. Tax matters

a) Adherence to the REIT Tax Regime and dissolution of the tax group, both effective as of 1 January 2017

Up until 31 December 2016, the Parent was the head of a group of companies filing consolidated tax returns since 1 January 2008. This consolidated tax group included only subsidiaries incorporated in Spain, in which the Parent either directly or indirectly owns at least 75% of their share capital (this threshold falls to 70% in the case of listed subsidiaries) and has the majority of the voting rights.

In addition to the Parent, the consolidated tax group for 2016 included Danieltown Spain, S.L.U., Colonial Invest, S.L.U. and Colonial Tramit, S.L.U.

On 30 June 2017, the Parent chose to operate within the REIT Tax Regime (Note 1-a). Adherence to this tax regime entailed the dissolution of the Parent's tax group at 31 December 2016, effective as of 1 January 2017, and the outstanding adjustments to be recovered from the tax group.

In addition to the Parent, in 2017 the following subsidiaries also chose to operate under the REIT Tax Regime: Danieltown Spain, S.L.U., Moorage Inversions 2014, S.L.U., Hofinac Real Estate, S.L.U. and Fincas y Representaciones, S.A.U. Likewise, in 2017 the subsidiary Colonial Arturo Soria, S.L.U. was acquired, which had already chosen to operate under the REIT Tax Regime prior to 1 January 2017. In 2018 the subsidiaries Agisa, Soller, Peñalvento, Axiare Investments and Venusaur chose to operate under the REIT Tax Regime, and LE Offices Egeo, a subsidiary acquired in January 2018, had already chosen to operate under the REIT Tax Regime.

b) Tax receivables and tax payables

The breakdown of “Tax assets” in the accompanying consolidated statement of financial position is as follows:

	Thousands of euros			
	Current		Non-current	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Tax refunds receivable	19	2	-	-
Income tax refunds receivable	1,555	13,294	-	-
VAT recoverable	18,183	6,819	-	-
Deferred tax assets	-	-	411	407
Total tax receivables	**19,757**	**20,115**	**411**	**407**

At 31 December 2017, "Income tax refunds receivable" included a balance in favour of the Parent of 12,113 thousand euros arising from minimum income tax prepayments made in 2016. The amount of those prepayments related to the minimum payment of 23% and of the accounting profit/(loss) at the date of the prepayment, in accordance with the temporary measures in force for 2016. In January 2018, the tax authorities refunded the remaining 12,113 thousand euros.

The breakdown of “Tax liabilities” in the accompanying consolidated statement of financial position is as follows:

	Thousands of euros			
	Current		Non-current	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Income tax payable	422	2,349	-	-
Other taxes payable	3,428	2,827	-	-
Exit tax payable (SFL Group)	9,242	8,437	13,368	21,390
VAT payable	3,257	5,206	-	-
Deferred tax liabilities	-	-	361,514	349,843
Total tax payables	**16,349**	**18,819**	**374,882**	**371,233**

Exit tax SFL (Note 4-m)-

In 2017, the subsidiary SFL acquired the Emile Zola property, which qualified for the SIIC regime in December 2017, thus generating exit tax in the amount of 21,138 thousand euros, which must be paid in four equal annual payments between 2018 and 2021.

In 2016, the subsidiary SFL executed the purchase option in the finance lease agreement that it held with respect to the property Wagram 131. This asset was subject to the SIIC regime, giving rise to the corresponding obligation to pay the exit tax, totalling 13,012 thousand euros, which must be paid to the French tax authorities in four equal annual payments between 2017 and 2020.

c) Reconciliation of the accounting profit/(loss) to the taxable profit/(tax loss)

The reconciliation of the accounting profit/(loss) before tax to the taxable profit/(tax loss) after temporary differences is shown in the following table:

	Thousands of euros	
	2018	2017
Accounting profit before tax (aggregate of individual expenses)	453,371	882,811
SFL profit/(loss) subject to the SIIC regime (Note 4-m)	(377,025)	(812,025)
REIT profit/(loss) (Note 4-m)	(88,524)	(8,715)
Permanent differences	(38,364)	(17,532)
Temporary differences	37,535	(20,512)
Aggregate taxable profit/(tax loss) before use of unused tax losses	**(13,007)**	**24,027**
Offset of tax losses	(2,496)	-
Aggregate taxable profit/(tax loss)	**(15,503)**	**24,027**
Taxable profit recognised for accounting purposes	22,046	28,846
Taxable loss not recognised for accounting purposes	(37,549)	(4,819)

d) Reconciliation of income tax expense

Income tax -

Article 29 of Corporate Income Tax Law 27/2014, of 27 November, which entered into force on 1 January 2015, established a standard tax rate of 25% for taxpayers liable for this tax.

The above-mentioned Royal Decree Law also established the limit for tax loss carryforwards at 25% of the tax base, prior to their offset, for companies whose revenue is equal to or greater than 60 million euros.

On 30 June 2017, the Parent chose to operate within the REIT Tax Regime, which is applicable effective as of 1 January 2017 (Note 1). After adhering to the REIT regime, the profit arising from REIT activities will be taxed at a rate of 0%, provided that the stipulated requirements are met (Note 4-m).

The breakdown of "Income tax expense" in the consolidated statement of comprehensive income for 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Corporate income tax expense	(7,397)	(9,842)
Deferred tax on the restatement of assets at their fair value (IAS 40)	(10,488)	(56,990)
Reduction in deferred liabilities due to the drop in the tax rate - France	-	13,779
Reduction in deferred liabilities due to reversal liability SIIC-4	-	72,159
Other non-primary components	(8,345)	4,053
Income tax expense	**(26,230)**	**23,159**

e) Deferred tax assets

The breakdown of the deferred tax assets recognised by the Group is as follows:

	Thousands of euros			
	Recognised for accounting purposes			
Deferred tax assets	31 December 2017	Increase	Decrease	31 December 2018
Valuation of financial instruments	339	-	(10)	329
Other	68	14	-	82
	407	**14**	**(10)**	**411**

Prior years' tax loss carryforwards –

The corporate income tax in force as of 1 January 2016 stipulates that prior years' tax loss carryforwards may be offset in future years without any time limit, although it generally establishes an offset limit of 70% of taxable profit, with a minimum of 1 million. In the event that the revenue recognised by the Company or the tax group falls between 20 million euros and 60 million euros, the offset is limited to 50% of taxable profit, while if revenue is equal to or exceeds 60 million euros the offset limit is reduced to 25% of taxable profit.

As indicated above, some of the Group companies formed part of consolidated tax group 6/08, which means that certain transactions among companies included in the tax group were eliminated from the aggregate sum of the individual tax loss balances; they are not included in consolidated taxable profit until the gain or loss on the respective transaction is realised with third parties. In addition, the consolidated tax regime allowed companies with taxable profit to make use of the tax losses generated by other companies within the same consolidated tax group.

Following the dissolution of the Parent's tax group at 31 December 2016, effective as of 1 January 2017, the outstanding adjustments for transactions among the companies of the extinguished consolidated tax group were recovered, and the resulting tax losses were assigned to each of the companies of the group based on how they contributed to incurring these losses.

The following table shows the aggregate tax loss carryforwards to be offset by Spanish companies:

	Thousands of euros
Year	Companies forming part of the Group
2000	12,979
2001	5,468
2003	140
2004	38,516
2005	36
2006	25,053
2007	321,571
2008	1,200,383
2009	865,940
2010	530,185
2011	117,894
2012	111,873
2013	85,767
2014	16,317
2015	2,075,745
2016	1,012
2017	4,010
2018	38,292
Total	**5,451,181**

Deferred tax asset for tax credit carryforwards

The nature and amount of unused tax credits at 31 December 2018 by the Group due to insufficient taxable profit in prior years, and the last years for offset are set out below:

	Thousands of euros		
Type	Year incurred	Amount	Last year for use
Double taxation tax credit			
	2008	6,553	n.a.
	2009	238	n.a.
	2010	227	n.a.
	2011	295	n.a.
	2012	168	n.a.
	2013	69	n.a.
	2014	135	n.a.
Tax credit for donations			
	2010	4	2020
	2011	4	2021
	2012	4	2022
	2013	6	2023
	2014	6	2024
	2015	9	2025
	2016	22	2026
Tax credit for training			
	2008	1	2023
	2009	1	2024
	2010	1	2025
Tax credit for reinvestment			
	2003	3,316	2018
	2004	1,056	2019
	2005	92	2020
	2006	1,314	2021
	2007	7,275	2022
	2008	1,185	2023
	2009	434	2024
	2010	713	2025
	2011	39	2026
	2012	123	2027
	2013	112	2028
	2014	24	2029
		23,426	

Tax credit for reinvestment -

As set forth in prevailing legislation, for the tax credit for reinvestment of extraordinary gains to be applicable, the assets acquired with the proceeds must be held for a five-year period (three years, in the case of financial investments), unless the assets failing to comply with the deadline are reinvested within the prevailing timeframe. The terms for holding the amounts reinvested by the Parent are as follows:

	Thousands of euros
	2019
Reinvested by the Parent	18,701
Associated profit	188

The Parent's directors consider that the Parent will comply with the stipulated timeframes.

f) Deferred tax liabilities

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

	Thousands of euros			
Deferred tax liabilities	31 December 2017	Increase	Decrease	31 December 2018
Asset revaluations	344,089	16,025	(4,045)	356,069
Asset revaluations (Spain)	*146,113*	*8,939*	*(4,045)*	*151,007*
Asset revaluations (France)	*197,976*	*7,086*	-	*205,062*
Deferral for reinvestment	5,158	-	(188)	4,970
Other	596	-	(121)	475
	349,843	**16,025**	**(4,354)**	**361,514**

Deferred tax liability for asset revaluations –

This deferred tax liability relates mainly to the difference between the accounting cost of investment properties measured at fair value (under IFRS) and their tax cost (acquisition cost less depreciation and any impairment that may be deductible).

Asset revaluations (Spain)

This line item includes the deferred taxes associated with the Group's investment property located in Spain that would be accrued if these assets were transferred at the fair value at which they are recognised, using the effective rate that would be applicable to each of the companies taking into account applicable legislation and any unrecognised tax credits.

Following the adoption of the REIT Tax Regime, the changes in the deferred taxes recognised in 2017 relate mainly to the properties owned by the companies that did not choose to operate under this regime, i.e., Torre Marenostrum, S.L. and Inmocol Torre Europa, S.A., and to certain adjustments arising from corporate transactions. Accordingly, the deferred taxes associated with the investment property of Colonial Group companies, wholly owned by the Parent, were recognised at an effective rate of 18.75% (tax rate of 25% with a limit on tax loss carryforwards of 25%). Consequently, in calculating its deferred tax liabilities, the Group considers applying the deferred tax asset of 44,385 thousand euros arising from the tax losses (the difference between the 25% tax rate and the effective settlement rate applied of 18.75%).

Asset revaluations (France)

"Asset revaluations (France)" records the amount of the deferred taxes associated with the Group's investment property located in France, which would accrue if those assets are sold. It should be noted that practically all of the assets in France are subject to the SIIC regime (Note 4-m), and therefore no additional tax would arise at the time of their sale. Only the assets of the companies forming part of the Parholding subgroup would fall outside of that tax regime at 31 December 2018 and 2017.

The Colonial Group also recognised deferred tax under this heading in connection with the asset revaluations under the SIIC regime (the SIIC-4 liability), calculated as the minimum stipulated dividend under the regime, in the event that all capital gains on the investment properties recognised by the SFL Group are realised, taking into account an effective tax rate for the calculation of the deferred tax of 11.15% Following the adoption of the REIT Tax Regime, and given that the dividend distributed by the subsidiary SFL to the Parent will no longer be subject to this taxation, the deferred tax recognised in this connection amounting to 72,159 thousand euros was reversed.

In 2017 the subsidiary SFL recognised the impact of the gradual reduction in the French tax rate, which dropped from 33.33% to 25%, and which entailed a decrease in the deferred tax liabilities due to the adjustment made to assets of 13,779 thousand euros.

g) Years open for review and tax audits

The Group has the last four years open for review by the tax inspection authorities for all applicable taxes in Spain and France, except income tax of Spanish companies with tax loss carryforwards or unused tax credits, in which case the period under review for this tax is extended to ten years. In 2016 the Parent filed supplementary income tax returns for 2011 to 2014, breaking the statute of limitations for these years.

No additional material liability for the Group is expected to arise in the event of a new tax audit.

h) Disclosure requirements arising from REIT status, Law 11/2009, amended by Law 16/2012

The disclosure requirements arising from the status of the Parent and certain subsidiaries as REITs (Note 17-a) are included in the related notes to the individual financial statements.

i) Adherence to the Code of Best Tax Practices

On 10 December 2015, the Company's Board of Directors agreed to adhere to the Code of Best Tax Practices. This resolution was reported to the tax authorities on 8 January 2016.

18. Revenue and expenses

a) Revenue

Revenue comprises basically rental income from contracts with customers arising from the Group's rental properties, which are concentrated in the cities of Barcelona, Madrid and Paris. The breakdown of revenue, by geographical segment, in 2018 and 2017 is shown in the table below:

Rental segment	Thousands of euros	
	2018	2017
Barcelona	41,629	34,871
Madrid	106,144	52,270
Rest of Spain	6,991	366
Paris	193,509	195,780
	348,273	**283,287**

Revenue for 2018 and 2017 includes the effect of the lease incentives throughout the minimum term of the lease agreement (Note 4-n). Revenue also includes the accrued amounts received in connection to rights of entry (Note 15-e). At 31 December 2018 and 2017, these accruals increased revenue by 536 thousand euros and 13,061 thousand euros, respectively.

At 31 December 2018 and 2017, the total minimum future lease payments receivable corresponding to the Group's non-cancellable operating leases, based on the leases currently in force at each date, without taking into account the impact of common expenses, future increases in the CPI or future contractual lease payment revisions based on market parameters, were as follows:

Minimum operating lease payments	Thousands of euros	
	Nominal amount	
	31 December 2018	31 December 2017
Less than one year	313,327	268,060
Spain	*131,841*	*83,567*
France	*181,486*	*184,493*
Between one and five years	639,112	562,568
Spain	*206,842*	*124,389*
France	*432,270*	*438,179*
Over five years	151,105	141,118
Spain	*68,163*	*16,492*
France	*82,942*	*124,626*
Total	**1,103,544**	**971,746**
Spain	***406,846***	***224,448***
France	***696,698***	***747,298***

b) Other operating income

This heading relates mainly to property services rendered, and amounted to 5,677 thousand euros and 2,714 thousand euros at 31 December 2018 and 2017, respectively.

c) Staff costs

The breakdown of “Staff costs” in the accompanying consolidated statement of comprehensive income is as follows:

	Thousands of euros	
	2018	2017
Wages and salaries	19,688	18,092
Social security costs	6,935	6,580
Other employee benefit costs	3,014	4,710
Contributions to defined benefit plans	241	239
Internal reallocation	(740)	(686)
Total staff costs	**29,138**	**28,936**
Spain	***16,350***	***13,527***
France	***12,788***	***15,409***

“Other employee benefit costs” includes amounts corresponding to costs accrued in 2018 under the Parent's long-term remuneration plan (Note 19-a) and SFL’s share option plan detailed in Note 19-c, totalling 3,406 thousand euros (2,880 thousand euros in 2017).

The contributions made by the Parent in 2018 and 2017 to defined benefit plans amounted to 241 thousand euros and 239 thousand euros, respectively, and are recognised under “Staff costs” in the consolidated statement of comprehensive income. At year-end 2017 and 2016, there were no contributions payable to this pension plan.

The Group headcount at 31 December 2018 and 2017, and the average headcount in 2018 and 2017, by job category and gender, is as follows:

	Number of employees				Average headcount, 2018		Average headcount, 2017	
	2018		2017					
	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	14	7	14	6	16	7	13	5
Technical graduates and middle managers	34	40	32	37	36	41	33	32
Administrative staff	26	73	16	53	21	64	16	52
Other	5	1	5	3	5	2	4	2
Total employees	**79**	**121**	**67**	**99**	**78**	**114**	**66**	**91**

d) Other operating expenses

The breakdown of “Other operating expenses” in the consolidated statement of comprehensive income is as follows:

	Thousands of euros	
	2018	2017
External and other expenses	30,726	17,979
Taxes other than income tax	29,368	22,942
Total other operating expenses	**60,094**	**40,921**

Operating leases as lessee -

At the end of 2018 and 2017, the subsidiary Utopicus had agreed the following minimum lease payments with the lessors, based on the leases in force, taking into account the charging of expenses, future increases in the CPI or other lease payment revisions:

	Thousands of euros	
	2018	2017
Less than 12 months	3,514	282
Between 1 and 5 years	11,884	832
More than 5 years	266	348
Total minimum operating lease payments as lessee	**15,664**	**1,461**

These amounts relate to the lease agreements signed by Utopicus for the premises at which it offers its co-working services.

e) Net change in provisions

The changes in “Net change in provisions” in the consolidated statement of comprehensive income during the year are as follows:

	Thousands of euros	
	2018	2017
Net charge to operating provisions (Note 16)	5,289	(5,592)
Net charge to provisions for doubtful debts and other	(953)	(112)
Total net change in provisions	**4,336**	**(5,704)**

f) Changes in the fair value of investment property and Gains/(losses) on changes in value of assets and impairment

The breakdown of “Changes in fair value of investment property” in the consolidated statement of comprehensive income for 2018 and 2017, by type, is as follows:

	Thousands of euros	
	2018	2017
Investment property (Note 9)	701,952	937,108
Assets classified as held for sale - Investment property (Note 22)	-	(3,673)
Changes in fair value of investment property	**701,952**	**933,435**
Spain	***412,938***	***218,014***
France	***289,014***	***715,421***

The breakdown, by nature, of the impairment charges recognised under “Gains/(losses) on changes in value of assets and impairment” in the consolidated statement of comprehensive income is as follows:

	Thousands of euros	
	2018	2017
Impairment of goodwill	(114,304)	-
Impairment/(Reversal of impairment) of properties for own use (Note 8)	1,630	(287)
Impairment of other property, plant and equipment (Note 8)	-	(2,129)
Other impairment	(447)	(2,703)
Derecognitions of replaced assets (Notes 8 and 9)	(18,269)	(101)
Gains/(losses) on changes in value of assets and impairment	**(131,390)**	**(5,220)**

g) Net gains/(losses) on sales of assets

The breakdown of the Group's net gains/(losses) on sales of assets (Notes 8, 9 and 22), and their geographical distribution, is detailed as follows:

	Thousands of euros					
	Spain		France		Total	
	2018	2017	2018	2017	2018	2017
Sale price	388,930	6,435	260	445,000	389,190	451,435
Asset derecognition	(366,986)	(5,242)	(230)	(404,679)	(367,216)	(409,921)
Derecognition grace periods	-	-	-	(40,321)	-	(40,321)
Indirect costs and other	(10,244)	(666)	(9)	-	(10,244)	(666)
Net gains/(losses) on sales of assets	**11,700**	**527**	**21**	**-**	**11,721**	**527**

h) Finance income and costs

The breakdown of finance income and costs in 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Finance income:		
Revenue from equity investments (Note 10-b)	71	3,681
Interest and similar income	2,389	1,435
Income from derivative financial instruments (Note 14)	64	95
Capitalised borrowing costs (Note 9)	5,307	2,591
Total finance income	**7,831**	**7,802**
Finance costs:		
Finance and similar costs	(105,235)	(78,996)
Finance costs associated with loan repayment	(6,946)	(2,242)
Finance costs associated with the repurchase of bonds	(24,459)	-
Finance costs associated with arrangement expenses (Note 13-m)	(6,384)	(5,191)
Expense on derivative financial instruments (Note 14)	(6,409)	(417)
Total finance costs	**(149,433)**	**(86,846)**
Impairment of financial assets (Note 16)	**(143)**	**(401)**
Total financial loss	**(141,745)**	**(79,445)**

i) Related party transactions

The main related party transactions undertaken in 2018 and 2017 were as follows:

	Thousands of euros	
	2018	2017
	Building leases	Building leases
Gas Natural, SDG, S.A. (*)	5,300	5,227
Total	**5,300**	**5,227**

(*) Gas Natural, SDG, S.A. is the shareholder of the Parent in the subsidiary Torre Marenostrum, S.L.

On 16 November 2018, the Parent acquired 10,323,982 shares of the subsidiary SFL from Qatar Holding, LLC and DIC Holding, LLC through (i) the Parent's contribution of 7,136,507 shares of the subsidiary as consideration for the subscription of the 53,523,803 new shares of the Company (Note 12-a), (ii) the exchange of 400,000 shares of the subsidiary SFL for 3,000,000 shares of the Parent that it held as treasury shares (Note 12-f), and (iii) the sale to the Parent of 2,787,475 shares of the subsidiary SFL for 203,486 thousand euros.

j) Profit/(loss) by company

The contribution of the consolidated companies to profit/(loss) for the year was as follows:

Company	Thousands of euros					
	Consolidated net profit/(loss)		Net profit/(loss) attributable to non-controlling interests		Net profit/(loss) for the year attributable to the Parent	
	2018	2017	2018	2017	2018	2017
Inmobiliaria Colonial, SOCIMI, S.A.	120,534	154,306	(2,699)	-	117,835	154,306
SFL subgroup	384,646	868,431	(147,971)	(395,002)	236,675	473,429
Torre Marenostrum, S.L.	6,291	4,505	(2,831)	(1,954)	3,460	2,551
Danieltown Spain, S.L.U.	15,424	3,311	-	-	15,424	3,311
Moorage Inversiones 2014, S.L.U.	70,351	5,194	-	-	70,351	5,194
Hofinac Real Estate, S.L.U.	31,152	32,494	-	-	31,152	32,494
Fincas y representaciones, S.A.U.	10,879	3,345	-	-	10,879	3,345
Inmocol Torre Europa, S.A.	1,125	1,993	(563)	(1,037)	562	956
Colonial Arturo Soria, S.L.U.	2,589	3,511	-	-	2,589	3,511
LE Offices Egeo, S.A.U.	6,071	-		-	6,071	-
Agisa, S.A.U.	6,731	1,842	-	-	6,731	1,842
Soller, S.A.U.	5,628	2,421	-	-	5,628	2,421
Peñalvento, S.L.U.	10,243	2,019	-	-	10,243	2,019
Utopic_US subgroup	(2,780)	(2,917)	478	65	(2,302)	(2,852)
Axiare Investments, S.A.	(3,197)	-	206	-	(2,991)	-
Axiare Properties, S.A.	(4)	-	-	-	(4)	-
Axiare I+D+i, S.A.	(835)	-	10	-	(825)	-
Venusaur, S.A.	10,370	-	94	-	10,464	-
Chameleon (Cedro),	2,895	-	(70)	-	2,825	-
Colonial Invest, S.L.U.	(2)	(2)	-	-	(2)	(2)
Colonial Tramit, S.L.U.	(2)	(2)	-	-	(2)	(2)
Total	**678,109**	**1,080,451**	**(153,346)**	**(397,928)**	**524,763**	**682,523**

19. Stock option plans

a) Long-term remuneration plan linked to fulfilment of several management indicators

On 21 January 2014, the shareholders at the Parent's Annual General Meeting set up a long-term remuneration plan for the Chairman and the Managing Director of the Parent and for members of the Group's Management Committee, applicable from 2014 to 2018.

Between 1 and 15 April of each of the following periods, at the proposal of the Nomination and Remuneration Committee, the Board of Directors must determine the number of shares that correspond to each beneficiary of the plan based on fulfilment of the indicators the previous year. The shares will be delivered to the beneficiaries between 15 and 30 April each year.

Shares received under this plan may not be sold or transferred by beneficiaries within the first three years of receiving them, except as required to pay any taxes chargeable in this regard.

The determination of shares to be allocated will be subject to a final adjustment to ensure that the cash value of the shares does not exceed the average Colonial share price for November 2013 by more than 150%.

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

In 2018 and 2017, the Parent recognised 1,454 thousand euros and 1,334 thousand euros, respectively, under “Staff costs - Other employee benefit costs” in the consolidated income statement to cover the incentive plan (Note 18-c).

On 25 April 2018, the Parent settled the outstanding obligations relating to compliance with the plan once the Board determined the number of shares to be delivered to the beneficiaries of the Plan in accordance with the level of fulfilment of indicators for 2017, which was 348,394 shares (Note 12). The shares were delivered to the beneficiaries on this date. Of these shares, 195,100 shares were delivered to members of the Board of Directors and 153,294 shares to members of senior management, with a market value upon delivery of 1,828 thousand euros and 1,436 thousand euros, respectively.

On 26 April 2017, the Board determined the number of shares to be delivered to beneficiaries of the Plan in accordance with the level of fulfilment of indicators for 2016 was 313,954 shares (Note 12). The shares were delivered to the beneficiaries on the same date. Of these shares, 175,814 shares were delivered to members of the Board of Directors and 138,140 shares to members of senior management, with a market value upon delivery of 1,257 thousand euros and 988 thousand euros, respectively.

b) Extension of the term of the long-term remuneration plan linked to fulfilment of several management indicators

On 29 June 2017, the shareholders at the Annual General Meeting agreed to extend the term for applying the share delivery plan approved at the General Shareholders Meeting held on 21 January 2014 for an additional two years, in accordance with the terms and conditions thereof.

c) Share option plans on SFL shares

The subsidiary SFL had two bonus share plans at 31 December 2018, the breakdown of which is as follows:

	Plan 4	Plan 4	Plan 5
Meeting date	13.11,2015	13.11,2015	20.04,2018
Board of Directors date	26.04,2016	03.03,2017	20.04,2018
Initial target number	32,036	33,376	33,592
Initial expected %	70.83%	70.83%	100%
Initial expected number	22,691	23,640	33,592
Amount per share (euros)	41.49	42.61	48.64
Options cancelled/disposals	(1,168)	(2,268)	(1,456)
Expected % at year-end	150%	100%	100%
Estimated number at year-end	46,302	31,108	32,136

Each allocation plan has been calculated based on the expected number of shares multiplied by the unit fair value of those shares. The expected number of shares is the total number of shares multiplied by the expected percentage of take-up in the grant, The resulting amount is charged on a straight-line basis over the grant period.

The fair value of the shares allocated is determined by the quoted price at the grant date, adjusted by the discounted value of future dividends paid during the acquisition period applying the Capital Asset Pricing Model (CAPM).

In the first half of 2018, a total of 37,896 bonus shares were delivered in accordance with Plan 3 for 2015.

At 31 December 2018 and 2017, a total of 1,952 thousand euros and 1,546 thousand euros relating to these bonus share plans were recognised in the consolidated income statement (Note 18-c).

20. Balances with related parties and associates

At 31 December 2018 and 2017, the Group did not have any balances outstanding with related parties and associates.

21. Director and senior management remuneration and other benefits

a) Composition of the Parent's Board of Directors

The Parent’s Board of Directors was made up of ten men and one woman at 31 December 2018 and nine men and one woman at 31 December 2017.

At 31 December 2018, the composition of the Parent's Board of Directors is as follows:

Director	Position	Type of director
Juan José Brugera Clavero	Chairman	Executive
Pedro Viñolas Serra	Chief Executive Officer	Executive
Carlos Fernández González	Director	Proprietary
Javier López Casado	Director	Proprietary
Sheikh Ali Jassim M. J. Al-Thani	Director	Proprietary
Adnane Mousannif	Director	Proprietary
Juan Carlos García Cañizares	Director	Proprietary
Carlos Fernández-Lerga Garralda	Lead Director	Independent
Ms Ana Sainz de Vicuña	Director	Independent
Javier Iglesias de Ussel Ordís	Director	Independent
Luis Maluquer Trepat	Director	Independent

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

On 24 January 2019, Ana Sainz de Vicuña tendered her resignation as an independent director . On this same date, Silvia-Mónica Alonso-Castrillo Allain was appointed as an independent director .

In 2017, Juan Villar-Mir de Fuentes resigned from his position as director.

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

b) Remuneration of Board members

The breakdown of the remuneration received in 2018 and 2017 by the members of the Board of Directors of the Parent, by item, is as follows:

31 December 2018

	Thousands of euros		
	Parent	Other Group companies	Total
Remuneration earned by executive directors (*):	**3,347**	**150**	**3,497**
Attendance fees for non-executive directors:	**561**	**80**	**641**
Directors' attendance fees	537	80	617
Additional attendance fees for the Chairman	24	-	24
Attendance fees for executive directors:	-	**45**	**45**
Fixed remuneration of non-executive directors:	**780**	**100**	**880**
Directors' remuneration	505	60	565
Additional remuneration for the Audit and Control Committee	125	40	165
Additional remuneration for the Nomination and Remuneration Committee	150	-	150
Executive directors' remuneration:	-	**70**	**70**
Total 2018	**4,688**	**445**	**5,133**

Remuneration for executive directors (*):	3,347	265	3,612

(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan described in Note 18.

31 December 2017

	Thousands of euros		
	Parent	Other Group companies	Total
Remuneration earned by executive directors (*):	**4,866**	**150**	**5,016**
Attendance fees for non-executive directors:	**580**	**95**	**575**
Directors' attendance fees	557	95	652
Additional attendance fees for the Chairman	23	-	23
Attendance fees for executive directors:	**-**	**50**	**50**
Fixed remuneration of non-executive directors:	**780**	**100**	**880**
Directors' remuneration	495	60	555
Additional remuneration for the Audit and Control Committee	135	40	175
Additional remuneration for the Nomination and Remuneration Committee	150	-	150
Executive directors' remuneration:	**-**	**70**	**70**
Total 2017	**6,226**	**465**	**6,691**
Remuneration for executive directors (*):	4,866	270	5,136

(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan described in Note 18.

At 31 December 2018 and 2017, the Parent had taken out a civil liability insurance policy covering all of its directors, executives and employees, for a premium of 369 thousand euros and 393 thousand euros, respectively. The aforementioned amount includes the insurance premium paid for both periods for civil liability insurance to cover damages caused by acts or omissions.

The shareholders at the Annual General Meeting held on 28 June 2016 approved the granting of a defined contribution scheme for executive directors covering retirement and, when applicable, disability and death. At 31 December 2018 and 2017, the Parent recognised 180 thousand euros and 178 thousand euros, respectively, in this connection under "Staff costs" in the consolidated income statement.

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

At 31 December 2018 and 2017, two members of the Board of Directors had signed golden parachute clauses in the event of certain cases of termination or change of control, all of which were approved at the General Shareholders Meeting.

In 2018 and 2017, there were no finalisations, modifications or early terminations of contracts outside of the normal business activities between the Parent and the members of the Board of Directors or any other person acting on their behalf.

c) Remuneration of senior management

The Parent's senior management team is formed by senior executives and other persons responsible for the management of the Company, reporting to the CEO. The Company's senior management team was made up of two men and two women at 31 December 2018 and 2017.

Monetary compensation earned by senior management in 2018 amounted to 1,505 thousand euros. Furthermore, they received 1,436 thousand euros corresponding to the long-term incentives plan (1,918 thousand euros and 988 thousand euros, respectively, in 2017).

At its meeting held on 27 July 2016, the Board of Directors approved the granting of a defined contribution scheme for a member of senior management covering retirement and, when applicable, disability and death. At 31 December 2018 and 2017, the Parent recognised 62 thousand euros and 61 thousand euros, respectively, in this connection under “Staff costs” in the consolidated statement of comprehensive income.

At 31 December 2018 and 2017, one member of senior management had signed a golden parachute clause, in the event of termination under certain circumstances or a change of control.

22. Assets classified as held for sale

The changes in this heading in 2018 and 2017 were as follows:

	Thousands of euros
	Investment property
Balance at 31 December 2016	-
Transfers (Note 9) Disposals (Note 18-g) Changes in value (Note 18-f)	408,352 (404,679) (3,673)
Balance at 31 December 2017	-
Transfers (Note 9)	26,091
Balance at 31 December 2018	**26,091**

Investment property (Note 9) -

Movements in 2018

In 2018, the Parent transferred a property from "Investment property" in the consolidated statement of financial position amounting to 26,091 thousand euros (Note 24).

Movements in 2017

In the first half of 2017, the subsidiary SFL transferred the In&Out building from "Investment property" in the consolidated statement of financial position amounting to 408,352 thousand euros. The value of the property at 30 June 2017 took into consideration the price of the sale commitment signed by the subsidiary SFL on 25 July 2017, which amounted to 445,000 thousand euros, less transaction costs. In September 2017, the sale commitment was executed for the aforementioned amount (Note 18-g).

“Changes in fair value of investment property” in the consolidated statement of comprehensive income includes the loss of 3,673 thousand euros from the revaluation of the assets classified as held for sale for 2017 (Note 17-f), in accordance with the appraisals of independent experts at 31 December 2017 (Note 4-c).

23. Auditors' fees

Fees incurred for auditing services in 2018 and 2017 provided to the various companies composing the Colonial Group by the principal auditor and other auditors are set forth below:

Description	Thousands of euros			
	2018		2017	
	Principle auditor	Other auditors	Principle auditor	Other auditors
Audit services	756	237	569	239
Other attest services	176	25	91	3
Total audit and related services	**932**	**262**	**660**	**242**
Tax advisory services	-	18	-	-
Other services	47	717	135	542
Total professional services	**47**	**735**	**135**	**542**

The principal auditor of the Colonial Group for 2018 and 2017 was PricewaterhouseCoopers Auditores, S.L.

The fees for other attest services include 149 thousand euros relating to services provided to the Company for issuing comfort letters and agreed-upon procedure reports on ratios linked to financing agreements and an agreed-upon procedure report on the net asset value (88 thousand euros for 2017). In addition, the Company provided services to subsidiaries on agreed-upon procedures on ratios linked to financing agreements for 2 thousand euros. The principal auditor's fees represent less than 1% of its revenue in Spain.

24. Events after the reporting period

From 31 December 2018 to the date on which these consolidated financial statements were authorised for issue, the following significant events took place:

- From 1 January to 25 February 2019, the Parent carried out various short-term promissory note issuances amounting to a total of 172 million euros. The subsidiary SFL also carried out various short-term promissory note issuances amounting to a total of 244 million euros.

- On 31 January 2019, and once the parties had met all of their obligations, the Hotel Centro Norte was sold for a price of 27,500 thousand euros (Note 22), of which 2,750 thousand euros had been received by the Parent as a prepayment.

- In January and February 2019, the Parent repaid 206 million euros of the debt from Axiare and refinanced the outstanding debt amounting to 76 million euros, thus improving its margin, which was tied to the company's ESG rating. In addition, a sustainable loan was taken out for 75 million euros, the margin of which is tied to the ESG assessment.

APPENDIX
Companies included in the scope of consolidation

At 31 December 2018 and 2017, fully consolidated subsidiaries and related information were as follows:

	% ownership				Shareholder	Business
	Direct		Indirect			
	2018	2017	2018	2017		
Torre Marenostrum, S.L. (*) Avda. Diagonal 532 08006 Barcelona (Spain)	55%	55%	-	-		Real estate
Colonial Invest, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Colonial Tramit, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Danieltown Spain, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Moorage Inversiones 2014, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Hofinac Real Estate, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100% (*)	-	-		Real estate
Fincas y representaciones, S.A.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Inmocol Torre Europa, S.A. (*) Avda. Diagonal 532 08006 Barcelona (Spain)	50%	50%	-	-		Real estate
Colonial Arturo Soria, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
LE Offices Egeo, S.A.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	-	-	-		Real estate
Chameleon (Cedro), S.L.U. Avda. Diagonal, 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Venusaur, S.L.U. Avda. Diagonal, 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Axiare Invesments, S.L.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	100%	-	-		Real estate
Axiare Properties, S.L.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	100%	-	-		Real estate
Axiare Investigación, Desarrollo e Innovación, S.L.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	100%	-	-		Real estate
Almacenes Generales Internacionales, S.A.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	100%	-	-		Real estate
Soller, S.A.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	100%	-	-		Real estate
Peñalvento, S.L.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	-	-	100%	Almacenes Generales Internacionales, S.A.U.	Real estate

	% ownership				Shareholder	Business
	Direct		Indirect			
	2018	2017	2018	2017		
Utopicus Innovación Cultural, S.L. Duque de Rivas, 5 28012 Madrid (Spain)	83.47%	69.60%	-	-		Co-working
Zincshower, S.L.U. Colegiata, 9 28012 Madrid (Spain)	-	-	100%	100%	Utopicus Innovación Cultural, S.L.	Co-working
Colaboración e Innovación Virtual, S.L.U. Duque de Rivas, 5 28012 Madrid (Spain)	-	-	100%	100%	Utopicus Innovación Cultural, S.L.	Co-working
Société Foncière Lyonnaise, S.A. (SFL) 42, rue Washington 75008 Paris (France)	81.71%	58.55%	-	-		Real estate
Condorcet Holding SNC (**) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
Condorcet PROPCO SNC (**) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	Condorcet Holding SNC	Real estate
SCI Washington (*) 42, rue Washington 75008 Paris (France)	-	-	66%	66%	SFL	Real estate
SCI 103 Grenelle (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI Paul Cézanne (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
Segpim, S.A. (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Sale of real estate and provision of services
Locaparis, SAS (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	Segpim	Sale of real estate and provision of services
Maud, SAS (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SAS Société Immobilière Victoria (*) 42, rue Washington 75008 Paris (France)	-	-	100%	-	SFL	Real estate
SB2, SAS (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SB3, SAS (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI SB3 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SAS Parholding (*) 42, rue Washington 75008 Paris (France)	-	-	50%	50%	SFL	Real estate
SCI Parchamps (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate
SCI Pargal (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate
SCI Parhaus (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate

* Company audited in 2018 by PricewaterhouseCoopers
** Company audited in 2018 by Deloitte & Associés

At 31 December 2018 and 2017, the Colonial Group companies were audited by PricewaterhouseCoopers Auditores, S.L., with the exception of the SFL Group, which was audited jointly by Deloitte and PricewaterhouseCoopers.

Inmobiliaria Colonial, SOCIMI, S.A.
and Subsidiaries

Consolidated Management Report for the year ended 31 December 2018

1. Company situation

State of the rental market

Barcelona

During the fourth quarter of 2018, 65,000 sqm of offices were signed in the offices market in Barcelona, a figure +40% above the average over the last five years. Barcelona closed 2018 with a take-up volume of 366,000 sqm, a figure above the previous year, confirming the positive trend of the rental market. The vacancy rate continued a downward trend, thanks to good domestic demand, a key factor for the growth of the offices market. Currently the vacancy rate stands at 5.7%, positioning it at an all-time low in the last decade. In the CBD area, this has dropped further to 2.1%. A lack of future supply and the solid demand experienced in some areas of the city is driving up rents. Consequently, prime rents reached €25.25/sqm/month, which represents a year-on-year growth of +8.6%. Long-term forecasts remain bullish, positioning Barcelona as one of the cities with the greatest expected rental growth in Europe.

Madrid

During the fourth quarter of 2018, the take-up in the offices market in Madrid was 122,000 sqm, substantially higher than the average over the last five years. In total, Madrid had a take-up volume of close to 486,000 sqm in 2018. The vacancy rate stood at 10.5%, in line with the previous year, due to the entry into operation of new projects. In the CBD, the vacancy rate decreased to reach 6.7%. This decrease makes it increasingly more difficult to find quality spaces in the city centre and puts pressure on demand while increasing prime rents which continue to rise, resulting in a price of €34.50/sqm/month. It is worth mentioning that Madrid is positioned as one of the cities with the greatest expected rental growth in Europe.

Paris

In the offices market in Paris, the take-up in 2018 reached 2,540,000 sqm, a figure which continues to exceed the average over the last ten years. Available office space was reduced to below 3 million sqm, 10% lower than the vacancy rate the previous year. This decrease in available office space reached levels below those of 2009. In the CBD, the vacancy rate stood at 1.4%. As a consequence, prime rents continue to increase, reaching levels above €810/sqm/year.

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

Organisational structure and functioning

Colonial is a benchmark REIT in the high-quality office market in Europe and has been a member of the IBEX 35, the benchmark Spanish stock market index, since the end of June 2017.

The company has a stock market capitalisation of approximately 4,500 million euros with a free float of around 60%, and manages an asset volume of more than 11,000 million euros.

The Company's strategy focuses on creating an industrial value through the creation of prime high-quality products, through the repositioning and transformation of real estate assets.

In particular, its strategy is based on the following:

- A business model focused on the transformation and creation of high-quality offices in prime locations, mainly central business districts (CBD).

- Maximum commitment to the creation of offices that meet the most demanding market requirements, with particular emphasis on efficiency and sustainability.

- A pan-European strategy, diversified in the Madrid, Barcelona and Paris office markets.

- An investment strategy combining core acquisitions and prime factory acquisitions with value added components.

- A clear industrial real estate approach to capture value creation that exceeds the market average.

Today Colonial is a leading European company that specifically focuses on areas in city centres and leads the Spanish property market in terms of quality, sustainability and efficiency in its portfolio of offices.

It has also adopted a comprehensive approach in all areas of corporate social responsibility and aspires to maximum standards of (1) sustainability and energy efficiency, (2) corporate governance and transparency, and (3) excellence in human resources and social actions, making them an integral part of the Group's strategy.

Over the last three years, the Group has successfully executed its acquisition programme, making investments of more than 2,200 million euros (committed amounts including future capex). All acquisitions relate to assets in excellent locations with good fundamentals, the potential for additional return through property repositioning and always maintaining maximum financial discipline.

At the close of 2018, the Colonial Group had a robust capital structure with a solid investment grade rating. The Group's LTV stood at 39.3% in December 2018.

The Company's strategy is to consolidate itself as a leader in prime office rentals in Europe, with special emphasis on the Barcelona, Madrid and Paris markets:

- A solid capital structure with a clear commitment to maintaining the highest credit rating standards – investment grade.

- Attractive returns for shareholders based on recurring return combined with the creation of real estate value based on value added initiatives.

2. Business performance and results

Introduction

At 31 December 2018, the Group's revenue amounted to 348 million euros.

Profit from operations amounted to 276 million euros.

According to the independent appraisals carried out by Jones Lang Lasalle and CB Richard Ellis Valuation in Spain and Jones Lang LaSalle and Cushman & Walkfield in France at year-end, the investment property was valued at 702 million euros. This revaluation, reported both in France and in Spain, reflects a 8% increase in value in like-for-like terms on rental assets in operation with respect to December 2017 (15% in Spain and 5% in France).

The net finance cost was 142 million euros.

After taking into account the profit attributable to non-controlling interests (153 million euros), the profit after tax attributable to the Parent amounted to 525 million euros.

Profit for the year

The highlights of the rental business are as follows:

2018 was an excellent year for the Colonial Group, with a total return for shareholders of 19%, due to the increase in the EPRA NAV per share of 17% in combination with a dividend yield of 2%.

This return is a result of the strategy to specialise in prime offices in the Barcelona, Madrid and Paris markets, with a focus on creating real estate value -"Prime Factory"- that awards the quality of return while maintaining maximum financial discipline.

On 9 July 2018, the merger of Inmobiliaria Colonial, SOCIMI, S.A. with Axiare Patrimonio SOCIMI, S.A. was undertaken, an operation that has allowed the leadership of the Colonial Group in prime offices to be consolidated by offering our clients more than 1.2 million above grade square metres in office buildings, through 73 assets in the best locations in Madrid, Barcelona and Paris.

The merger of both companies constitutes a transformational event in the strategic plan, accelerating the Group's growth with the incorporation of a portfolio of top quality offices in Spain.

The Group's successful strategy is reflected in all sections of the financial and operating results for 2018:

> Total Shareholder Return of 19%

> Net Asset Value of €10.03/share, +17% vs. previous year

> Gross asset value of 11,348 million euros, + 22% (+8% like-for-like)

> Income from the rental business of 347 million euros, +23%

> Net profit of 525 million euros, €1.17/share

> Recurring net earnings of 101 million euros, +22%

The Group resulting from the merger has obtained very sound operating results, capturing strong rental increases in all markets

> Attracting growth in rent signed +8% vs market rent in December 2017, +26% in "release spread"

> Sound occupancy levels of 96%

Increase in recurring profit

Recurring net profit attributable to the Parent amounted to 101 million euros, an increase of +22% year-on-year., which is explained mainly by three elements:

1. A solid year-on-year increase in rental income of 5%.

2. An improvement in financial loss.

3. Less corporate income tax expense.

Growth in rental income

The Colonial Group posted 5% growth in rental income on a like-for-like basis with regard to the end of the previous year, which is one of the highest increases in the sector.

Rental income increased in Spain by 4% on a like-for-like basis, thanks to the strong result of the portfolio. The Paris portfolio increased by 5% on a like-for-like basis, underpinned by the contracts signed for the Washington Plaza, Cézanne Saint Honoré, 103 Grenelle & Percier buildings.

Creation of real estate value

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

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

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

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

Solid fundamentals in all segments

The Colonial Group's business showed excellent performance with an upward trend in lease agreements, maintaining close to full occupancy levels.

Lease agreements with significant increases in rent

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

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

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

Solid occupancy levels

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

The Madrid office portfolio's vacancy rate stood at 11% at the close of 2018, 7% correspond to the Axiare portfolio, 1% of the vacancy corresponds to the recently delivered projects of The Discovery Building and The Window building, and the rest of the Madrid portfolio has a vacancy of 2%. The vacancy rate of the Madrid portfolio reached 7%, due mainly to new surface areas available as a result of the delivery of the Discovery project. Not including this new product, the rest of the Madrid portfolio has a vacancy rate of 2%.

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

Active portfolio management and growth vectors

The Colonial Group has an attractive growth profile based on the following vectors:

A. Colonial-Axiare merger & integration

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

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

1. Consolidation of prime office leadership
   - More thab 347 millon euros in rental income corresponding to recurring business, with 154 million euros in Spain
   - More than 11,300 million euros in asset value with 4,779 million euros in Spain
   - 75% of the offices GAV in the CBD

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

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

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

5. Operational cost synergies
   Annual cost savings of more than 5 million euros
   - Implementation of personnel cost synergies
   - Elimination of duplications in other costs

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

B. A portfolio of contracts to obtain the cycle: an attractive contract maturity profile to continue to obtain significant rental price increases, as shown by the results of the second half of 2018.

C. An attractive project pipeline: Colonial has a project pipeline of more than 1,280 million euros (total cost of completed product) corresponding to more than 210,000 sqm to create prime products that offer strong returns and therefore, future value creation with solid fundamentals.

	Proyecto		Ciudad	% Grupo	Entrega	GLA (m²)	Total Coste €m	Total Coste €/ sqm	Yield on Cost
1	Pedralbes Center	Prime Commercial	Barcelona	100%	1H 19	6,917	38	5,502	6.3%
2	Gala Placidia / Utopic_us		Barcelona	100%	1H 19	4,312	17	3,922	7.0%
3	Miguel Angel 23		Madrid	100%	2H 20	8,036	64	7,999	5.8%
4	Castellana, 163		Madrid	100%	2020 / 21	10,910	52	4,803	6.5%
5	Diagonal 525		Barcelona	100%	1H 21	5,710	37	6,460	6.0%
6	Emile Zola / Destination XV		Paris	82%	2H 21	24,500	280	11,428	5.0%
7	Iena 96		Paris	82%	1H 21	9,300	147	15,801	5.0%
8	Velazquez Padilla 17		Madrid	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	100%	2H 22	89,871	287	3,188	7.5%
11	Sagasta 27		Madrid	100%	2H 22	4,481	23	5,044	6.5%
12	Louvré SaintHonoré	Prime Commercial	Paris	82%	2023	16,000	205	12,831	7.3%
TOTAL OFFICE PIPELINE						**211,582**	**1,295**	**6,119**	**6.3%**

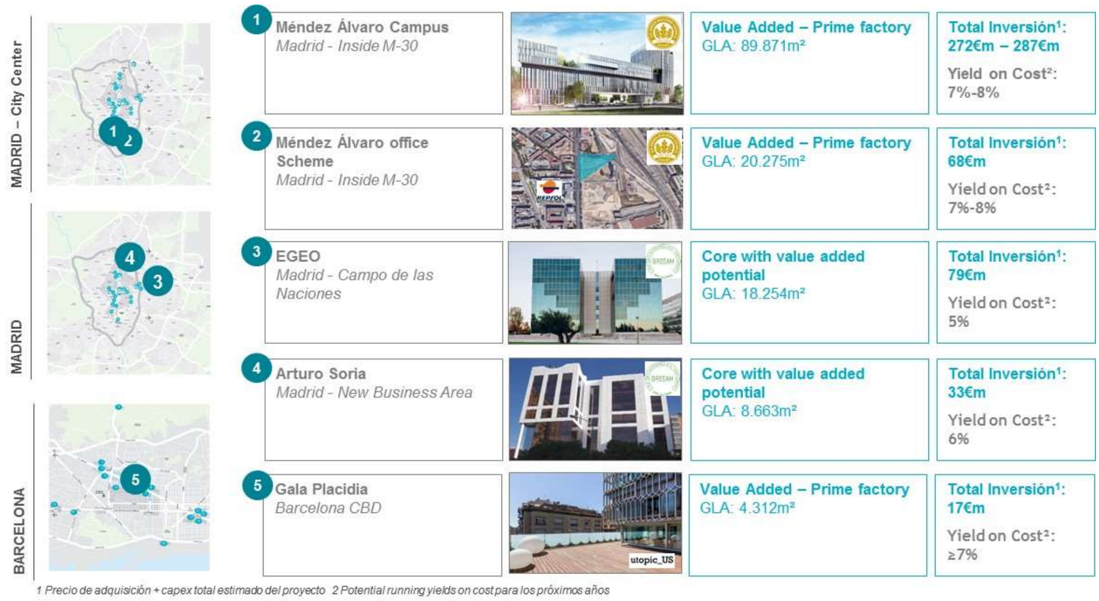
1 Total Coste producto acabado = Coste de adquisición/ Asset Value pre proyecto + capex futuro
2 Datos de proyecto a fecha de publicación de este informe

a.

Alpha III Acquisitions

At the beginning of 2018, Colonial acquired five assets with a total investment of 480 million euros. The investment consists of the development of more than 110,000 sqm of offices in the south of the Madrid CBD.

In addition, two high quality assets were acquired in new business areas in Madrid and an asset located in the CBD of Barcelona, where a total refurbishment will be carried out in order to develop coworking initiatives.



(1) Last GAV reported: GAV 06/18 for operating assets and acquisition cost + capex in the future project

<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 441 million euros, and the acquisition of prime assets for a total of 756 million euros.

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

1. Disposals: In the third quarter, Colonial sold 7 office buildings and a turnkey project in Madrid for a total of 441 million euros. The disposals were closed on very favourable terms for the Company, achieving a premium of +12% on the previous valuation1. The assets sold were non-strategic and mature properties and/or located outside of the CBD, with a gross lettable area of more than 106,000 sqm.

2. Acquisition of 22% of SFL: In November, Colonial and Qatar Investment Authority (QIA) reached an agreement in which Colonial would control up to 81% of its French subsidiary SFL. The transaction was on very advantageous

terms for Colonial which had access to 10.3 million SFL shares, representing 22.2% of the share capital, at an average price of €69.6 per share, resulting in an average discount of 19% over the last reported NAV.

3. Acquisition of a prime asset in Barcelona - Diagonal 525: Colonial has acquired a 5,710 sqm above-ground office building on Barcelona's prime Avenida Diagonal. It is expected to undergo a full-scale refurbishment in 2019 and become an iconic office building in the area.

Capital structure and value of the share

Active management of the balance sheet

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

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

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

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

- Repayment of the debt from Axiare amounting to 396 million euros, all of which is secured by a mortgage guarantee. In the first quarter of 2019 and up until the date of issue of this report, the Parent repaid 206 million euros of the debt from Axiare and refinanced the outstanding debt amounting to 76 million euros, thus improving its margin, which was tied to the company's ESG rating. In addition, a sustainable loan was taken out for 75 million euros, the margin of which is tied to the ESG assessment.

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

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

Solid evolution on the stock market

At 2018 year-end, Colonial's shares closed with an annual decrease of 2%, a negative figure that nonetheless outperformed its peers in Spain and France as well as the EPRA & IBEX35 benchmark indices.

There are currently 25 analysts, both national and international, covering the company. It is worth highlighting the reports issued by JP Morgan, with a target price of €11.2/share, as well as Renta4 and Barclays with a target price of €11.1/share and €10.6/share respectively.

3. Liquidity and capital resources

See "Capital management and risk management policy” under Note 13-o to the consolidated financial statements for the year ended 31 December 2018.

The average payment period of the Group's Spanish companies to its suppliers was around 48 days in 2018. With regard payments made after the legally established period, note that these are primarily payments relating to works contracted and property refurbishment, which are paid within the payment terms stipulated in the contracts signed with the various contractors.

The Group has established two payment days per month to comply with the requirements set forth in Law 11/2013, of 26 July. Accordingly, invoices received are entered on the 5th and the 20th of each month and the related payments are made on the 5th and the 20th of the following month.

4. Risk management policies and objectives

Colonial is exposed to a variety of risk factors arising from the countries in which it operates and from the very nature of its activities. Colonial's Board of Directors is responsible for determining the risk management and control policy, identifying the Group's main risks, and implementing and supervising the Control and Risk Management System that Colonial has developed and which is the foundation for the efficient and effective management of risks throughout the organisation.

Section E of the Annual Corporate Governance Report sets out the main risks that arose during the year and the circumstances that prompted them. The risks associated with the Group's activities are described below.

Strategic risks:

The risks related to the sector and environment in which the Group carries on its business, the markets in which it operates and strategies adopted to carry out its activities are analysed.

- Risks associated with the situation of the sector: The Colonial Group pays special attention to the economic, political, legal and social risks related to the countries in which it operates (Spain and France). The European real estate sector has maintained the dynamism of the previous year in spite of the political uncertainty and economic policies of the last year, characterised by reaching very significant investment levels. The maturity of the French real estate sector and the high level of investment in the Spanish real estate sector in recent years have enabled the Group to have a more optimistic outlook over the coming years in terms of increased returns from its investments and sustainable growth.
- Risks associated with a competitive sector: The real estate sector is characterised as being highly competitive, reaching high levels of investment in recent years, and was driven by specialised international investment funds and by listed real estate investment companies (REITs). The high quality of the Colonial Group's assets, the value of these assets and its strategy of focusing mainly on its office rental activities in prime central business district (CBD) areas have positioned the Group as a key benchmark in the real estate sector in Europe. The successful investment and growth strategy implemented by the Colonial Group in recent years, and the acquisition and merger of Axiare Patrimonio SOCIMI, S.A. in 2018, have strengthened the Group's position in the sector.
- Risks related to the value of assets: Every six months the Group carries out appraisals, through independent experts and by applying objective market criteria, on all of its property assets. Colonial allocates a significant portion of its resources to investing in and maintaining its property assets in order to enhance their value and position on the market, and to optimise income and returns.

Corporate risks:

Risks relating to the organisational structure, corporate culture, corporate policies and key decision-making processes of the governing bodies are analysed.

- Reputational risk and risks concerning social commitment: The Colonial Group's corporate social responsibility policy sets out the principles and bases of the Group's voluntary commitment to its stakeholders. Management of these expectations forms part of the Group's objectives in terms of sustainability and creating value for these stakeholders.
- Corporate governance risk: The Group's management of corporate governance focuses on maintaining its commitment to continue making progress on a model based on the principles of efficiency, regulatory compliance and transparency, that are in line with the main international regulations and standards.
- Anticipation of new trends: As is the case with other sectors, the real estate sector requires continuous adaptation to emerging trends. The growing implementation of digitalisation in all sectors, the new technology supplied in the real estate sector, and the increase in co-working spaces result in constant changes that specifically affect the real estate sector. In 2018 the Colonial Group continued to assign specific resources and activities for the purpose of implementing these trends by boosting the growth of its co-working platform by opening new centres and the

development of digitalisation and new technologies in developing services and new business models in the real estate sector.

Operational risks:

Operational risks refer to the risks arising from losses due to failures or flawed management of operations.

- Financial risks: The Group efficiently manages its financial risks with the aim of maintaining adequate liquidity and debt levels, minimising borrowing costs and ensuring compliance with its business plans:
  - Risk of exposure to interest rate fluctuations: The purpose of managing this risk is to reduce interest rate volatility to limit and control the impact of interest rate fluctuations on profit and cash flows and to keep overall borrowing costs at reasonable levels. The Colonial Group analyses the arrangement of financial instruments to hedge interest rate fluctuations. A high percentage of the Group's gross financial debt is at fixed rates.
  - Risks relating to financing and debt: The Group’s financial structure warrants diversification of its sources of financing by entity, product and maturity. In 2018, the two new bond issues amounting to 650 million euros and 500 million euros in Spain and France, respectively, the improvement in the credit rating that is now BBB+ with a stable outlook, the repayment of Axiare's debt and the arrangement of the two short-term promissory note programmes with the issuance of notes amounting to 263 million euros in France represented an improvement in the Group's financial structure, thus extending and diversifying the maturity of its debt. The Colonial Group's net financial debt is held at suitable levels, measured using the loan-to-value ratio, providing the Group with sufficient financial capacity to carry out both its projects and to take on important growth targets for the coming years.
  - Liquidity risk: As mentioned in the preceding paragraph, the Group has the necessary sources of financing to undertake its current projects in addition to those laid down in its business plan. The Group increased its capacity to attract capital and obtain liquidity and new lines of financing, through two new bond issues and the execution of the two short-term promissory note programmes.
- Asset management risks: Sustainable property management requires that the Group allocate a significant portion of its investments to acquiring, constructing, renovating and maintaining the high quality of its properties, which stand out as a result of their high energy efficiency. This property management strategy is a key part of the Group's organisation and business plan.
- Risk of loss or damage to property assets: The Colonial Group’s properties are exposed to general risks of damage as a result of fire, flooding or other events, regardless of whether or not they are attributable to natural causes. Colonial has arranged hedges to cover the reconstruction costs of the properties it owns, as well as any damage caused to third parties.
- Security risk of information systems: The digital revolution brought about great benefits in innovation and growth, however, it also constitutes a source of new threats. The Group, aware of these growing threats, reviews the control measures to secure its information systems and to undertake and mitigate this risk.

Compliance risks:

Potential risks in relation to compliance with obligations arising from applicable legislation, agreements with third parties and obligations self-imposed by the Group, mainly through its Code of Ethics and Code of Conduct, are analysed.

- Regulatory compliance risks: The process of identifying and assessing risks of regulatory or contractual breach that may give rise to legal proceedings against the Group allows it to take the appropriate corrective measures to mitigate these risks or, where applicable, any possible impact thereof, through the controls established in the crime prevention model defined and implemented by the Group. The Company has also taken out insurance to cover any legal costs or possible damage against directors and executives.
- Tax risks: The Colonial Group must adhere to the general tax legislation of the countries in which it operates, as well as any specific regulations for the REIT regime in Spain and the SIIC regime in France. Accordingly, Colonial has a tax policy, a tax strategy and a tax risk management system, establishing adequate measures to control and monitor the management of risks in this connection.

Reporting risks:

In order to cover any reporting risks that may arise from errors or a failure to comply with requirements concerning the public information to be disclosed, and to ensure the reliability of this public information, Colonial has developed an Internal Control over Financial Reporting (ICFR) Organisational and Monitoring Model. Internal Audit is responsible for performing the necessary tests to verify compliance with the ICFR policies, manuals and procedures, validating the efficacy of the controls in place in these processes.

5. Events after the reporting period

From 31 December 2018 to the date on which these consolidated financial statements were authorised for issue, the following significant events took place:

- From 1 January to 25 February 2019, the Parent carried out various short-term promissory note issuances amounting to a total of 172 thousand euros. The subsidiary SFL also carried out various short-term promissory note issuances amounting to a total of 244 thousand euros.

- On 31 January 2019, and once the parties had met all of their obligations, the Hotel Centro Norte was sold for a price of 27,500 thousand euros (Note 22), of which 2,750 thousand euros had been received by the Parent as a prepayment.

- In January and February 2019, the Parent repaid 206 million euros of the debt from Axiare and refinanced the outstanding debt amounting to 76 million euros, thus improving its margin, which was tied to the company's ESG rating. In addition, a sustainable loan was taken out for 75 million euros, the margin of which is tied to the ESG assessment.

6. Future outlook

The outlook for the Madrid, Barcelona and Paris office markets is as follows:

Barcelona and Madrid

In recent months, the Spanish economy has continued to show a positive trend regarding certain aspects that have been drivers of economic growth in Spain over the last few years, specifically: 1) favourable performance of the labour market; 2) trade surplus and 3) low interest rates.

Due to the shortage of large high-quality spaces in the Barcelona market, especially in the city centre, forecasts indicate that many projects will be delivered with partial or full pre-lease agreements. Consequently, long-term forecasts for rent levels continue to increase, whereby Barcelona is considered one of the fastest growing cities in Europe in terms of expected growth in rent, with an annual growth rate of more than 3% between 2018 and 2022. Furthermore, Madrid is positioned as the second European city with the highest growth prospects with regard to rent in Europe for 2018-2021.

Paris

The Paris market is one of the most important markets in the world. The last few quarters saw clear signs of an improvement in demand, especially in CBD areas, where there is an apparent scarcity of prime rentals. Today the vacancy rate for office space in this area is the lowest of the last ten years.

Consequently, leading consultants expect this positive trend that began at the end of 2014 to be consolidated for prime property rentals in CBD areas.

With regard to growth forecasts, the French economy is expected to grow at around 1.6% for the next two years, a positive sign since this growth represents an increase on 2018 and is above the average for the euro zone.

Strategy for the future

The investment market has shown record contracting levels. In the current climate of low interest rates, expectations are that investors will continue to be interested in the Paris market, as one of the major fields of office operations in the euro zone.

In this market context, the Parent is implementing a selective investment policy, in order to maximise value for its shareholders.

In particular, it has focused its efforts on acquiring top-quality properties in high-potential market areas, including assets with the wherewithal to become prime rentals through repositioning.

7. *Research and development activities*

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

8. *Treasury shares*

At 31 December 2018, the Company had 772,760 treasury shares with a nominal value of 1,932 thousand euros, which represents 0.15% of the Parent's share capital.

9. *Other relevant information*

On 10 December 2015, the Parent's Board of Directors agreed to adhere to the Code of Best Tax Practices. This resolution was reported to the tax authorities on 8 January 2016.

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

Below follows a glossary of the Alternative Performance Measures, including their definition and relevance for Colonial, in accordance with the recommendations of the European Securities and Markets Authority (ESMA) published in October 2015 (ESMA Guidelines on Alternative Performance Measures). These alternative performance measures have not been audited or reviewed by the Parent.

Alternative Performance Measure .	Calculation method	Definition/Relevance
EBIT ***(Earnings before interest and taxes)***	Calculated as the "*Operating profit*" plus "*Changes in fair value of investment property*" and "*Gains/(losses) on changes in value of assets and impairment*".	Indicator of the profit generating capacity of the Group, considering only its productive activity less debt and tax effects.
EBITDA **(*Earnings Before Interest, Taxes, Depreciation and Amortization*)**	Calculated as the "*Operating profit*" adjusted for "*Depreciation and amortisation*" and the "*Net change in provisions*".	Indicator of the profit generating capacity of the Group, considering only its productive activity, eliminating any provisions for depreciation and amortisation, debt and tax effects.
Gross financial debt (GFD)	Calculated as the sum of *"Bank borrowings and other financial liabilities"* and *"Issuance of bonds and other similar securities"*, excluding *"Interest"* (accrued), *"Arrangement expenses"* and *"Other financial liabilities"* in the consolidated statement of financial position.	Relevant indicator for analysing the financial position of the Group.
EPRA[1] NAV **(*EPRA Net Asset Value*)**	Calculated based on the Company's equity and adjusting specific items according to EPRA recommendations.	Standard analysis ratio for the real estate sector and recommended by the EPRA.
EPRA[1] NNNAV **(EPRA "triple net")**	Calculated by adjusting the following items in the EPRA NAV: The market value of the financial instruments, the market value of the financial debt, any taxes that would be accrued with the sale of assets at market value, applying the reinvestment tax rebate and the tax credit recognised in the balance sheet taking into account the going concern criteria.	Standard analysis ratio for the real estate sector and recommended by the EPRA.
Market value excluding transaction costs or *Gross Asset Value (GAV) excluding transfer costs*	Appraisal of all the assets in the Group's portfolio carried out by the Group's external appraisers, deducting the transaction costs or transfer costs.	Standard analysis ratio for the real estate sector.
Market value including transaction costs or *GAV including transfer costs*	Appraisal of all the assets in the Group's portfolio carried out by the Group's external appraisers, before deducting the transaction costs or transfer costs.	Standard analysis ratio for the real estate sector.

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

Alternative Performance Measure .	Calculation method	Definition/Relevance
Like-for-like **Rentals**	Amount of rental income from leases included in "*Revenue*" comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded, together with those from assets included in the portfolio of projects and renovations, as well as other atypical adjustments (for example, compensation for early termination of lease agreements).	This permits the comparison, on a like-for-like basis, of the changes in the rental income of an asset or group of assets.
Like-for-like **Appraisal**	Market value excluding transaction costs or the market value including transaction costs, comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded.	This permits the comparison, on a like-for-like basis, of the changes in the market value of the portfolio.
Loan to Value **Group or LtV Group**	Calculated as the result of dividing the gross financial debt less the amount of *"Cash and cash equivalents"* between the market value, including transaction costs, of the Group's asset portfolio.	This permits an analysis of the relation between the net financial debt and the appraisal value of the Group's asset portfolio.
LtV Holding or LtV Colonial	Calculated as the result of dividing the gross financial debt less the amount of *"Cash and cash equivalents"* of the Parent and the Spanish subsidiaries wholly owned thereby between the sum of the market value, including transaction costs of the asset portfolio of the head of the Group and the Spanish subsidiaries wholly owned thereby, and the EPRA NAV of the rest of the financial investments in subsidiaries.	This permits an analysis of the relation between the net financial debt and the appraisal value of the asset portfolio of the Group's parent.

The alternative performance measures included in the above table are based on items in the consolidated financial statements of Inmobiliaria Colonial or on the breakdown of the items (sub-items) included in the corresponding explanatory notes to the financial statements, unless otherwise indicated below.

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

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

EPRA NAV (EPRA *Net Asset Value*)	31/12/2018	31/12/2017
	(Millions of euros)	
"EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT"	**4,811**	**3,592**
Includes:		
(i.a) Revaluation of investment assets	24	13
(i.a) Revaluation of assets under development	7	n.a.
(i.c) Revaluation of other investments	26	(58)
(ii) Revaluation of finance leases	n.a.	n.a.
(iii) Revaluation of assets classified as held for sale	n.a.	n.a.
Excludes:		
(iv) Market value of financial instruments	2	(1)
(v.a) Deferred taxes	228	198
(v.b) Goodwill resulting from deferred assets	n.a.	n.a.
Includes/excludes:		
Adjustments of (i) to (v) in relation to the interests of strategic alliances	n.a.	n.a.
EPRA NAV	**5,098**	**3,744**

- **EPRA NNNAV (EPRA "triple net")**

EPRA NNNAV (EPRA "triple net")	31/12/2018	31/12/2017
	(Millions of euros)	
EPRA NAV	**5,098**	**3,744**
Includes:		
(i) Market value of financial instruments	(2)	1
(ii) Market value of the debt	(14)	(117)
(iii) Deferred taxes	(229)	(200)
EPRA NNNAV	**4,853**	**3,428**

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

Market value excluding transaction costs or GAV *excluding transfer costs*	**31/12/2018**	**31/12/2017**
	(Millions of euros)	
Barcelona	1,175	836
Madrid	2,511	1,497
Paris	6,256	6,064
Operating portfolio	**9,942**	**8,398**
Projects	**925**	**519**
Other	**481**	**16**
Shareholding value in Axiare	**0**	**349**
Total market value excluding transaction costs	**11,348**	**9,282**
Spain	4,778	3,053
France	6,570	6,229

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

Market value including transaction costs or GAV *including transfer costs*	**31/12/2018**	**31/12/2017**
	(Millions of euros)	
Total market value excluding transaction costs	**11,348**	**9,282**
Plus: transaction costs	567	459
Total market value including transaction costs	**11,915**	**9,741**
Spain	4,910	3,121
France	7,005	6,619

- ***Like-for-like* rentals**

***Like-for-like* rentals**	**Barcelona**	**Madrid**	**Logistics**	**Paris**	**TOTAL**
	(Millions of euros)				
Rental income 2016	**30**	**43**	**0**	**198**	**271**
Like-for-like	3	1	0	6	10
Projects and registrations	0	0	0	(5)	(5)
Investments and divestments	2	8	0	(3)	7
Others and compensation	0	0	0	0	0
Rental income 2017	**35**	**52**	**0**	**196**	**283**
Like-for-like	1	2	0	9	12
Projects and registrations	0	3	0	(1)	2
Investments and divestments	1	4	0	(10)	(5)
Axiare	5	32	19	0	56
Others and compensation	0	0	0	0	0
Rental income 2018	**42**	**93**	**19**	**194**	**348**

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

***Like-for-like* appraisal**	**31/12/2018**	**31/12/2017**
	(Millions of euros)	
Valuation at 1 January	**9,282**	**8,069**
Like-for-like Spain	381	265
Like-for-like France	341	679
Acquisitions	1,422	625
Divestments	(78)	(356)
Valuation at 31 December	**11,348**	**9,282**

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

Loan to Value **Group or LtV Group**	**31/12/2018**	**31/12/2017**
	(Millions of euros)	
Gross financial debt	4,748	4,170
Less: *"Cash and cash equivalents"*	(68)	(1,104)
(A) Net financial debt	**4,680**	**3,066**
Market value including transaction costs	11,915	9,741
Plus: Treasury shares of the Parent valued at EPRA NAV	8	39
(B) Market value including transaction costs and treasury shares of the Parent	**11,923**	**9,780**
Loan to Value **Group (A)/(B)**	**39.3%**	**31.3%**

- **LtV Holding or LtV Colonial**

LtV Holding or LtV Colonial	**31/12/2018**	**31/12/2017**
Holding Company	*(Millions of euros)*	
Gross financial debt	3,002	2,488
Less: “Cash and cash equivalents” of the Parent and Spanish subsidiaries wholly owned thereby	(41)	(1,085)
(A) Net financial debt	**2,961**	**1,403**
(B) Market value including transaction costs	**8,538**	**5,562**
Loan to Value **Holding (A)/(B)**	**34.7%**	**25.2%**

11. Annual Corporate Governance Report

Pursuant to Article 538 of the Spanish Limited Liability Companies Law, it is hereby noted that the Annual Corporate Governance Report for 2018 is included in this Management Report in a separate section.