Inmobiliaria Colonial, SOCIMI, S.A.

Audit Report,
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 annual accounts

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

Report on the annual accounts

Opinion

We have audited the annual accounts of Inmobiliaria Colonial, SOCIMI, S.A. (the Company), which comprise the balance sheet as at December 31, 2018, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at December 31, 2018, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 2 of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

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

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

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

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter
Measurement of non-current investments in Group companies	

At 31 December 2018 Inmobiliaria Colonial, SOCIMI, S.A. recognises a balance under Non-current investments in group companies amounting to Euro 2,999,462 thousand, as detailed in Notes 4.e) and 9 to the accompanying annual accounts. These investments are significant with respect to the Company's annual accounts as they account for approximately 48% of total assets.

As indicated in Note 4.e) to the accompanying annual accounts, the Company carries out an assessment of the possible impairment adjustments by comparing the carrying amount of the shares with the recoverable amount , this being, unless otherwise evidenced, the investee's equity adjusted for any latent capital gains existing at the measurement date. Value adjustments and, if appropriate, their reversal, are recognised in the income statement for the year in which they arise.

The quantification of the recoverable amount of such investments requires the use of judgements and significant estimates by Company Management when determining the valuation method and considering the key assumptions established.

The materiality of the investments in group companies and the significant judgements described above mean that we consider this matter a key audit matter.

Our audit procedures included, among others, the review of the process implemented by the Company to assess the potential impairment of non-current investments in group companies.

In addition, we assessed the valuation methodology used by the Company. We obtained the audited balance sheets of the most relevant investees and reviewed the amounts of the capital gains identified and checked them against the valuations of their investment property carried out by independent experts, whom we assessed in terms of the requisite competence and independence, finding no exceptions.

We ascertained that these valuations were performed in accordance with the Valuation Rules of the Royal Institution of Chartered Surveyors (RICS), included in the so-called "Red Book" - valuation manual. In this respect, we held meetings with the valuers together with our internal experts and verified for a representative sample of these valuations, the 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, through the relevant purchase deeds, the technical specifications used by the independent experts in determining the fair value of those assets using the purchase deeds.

We concluded that Management's approach is consistent and is supported by the available evidence.

Lastly, we assessed whether the disclosures of information included in Notes 4.e) and 9 to the accompanying annual accounts in relation to this matter are adequate with respect to those required under applicable accounting regulations.

Key audit matter	How our audit addressed the key audit matter
Valuation of Investment Property The Company has real estate assets which are recognised under Investment property amounting to Euro 2,742,136 thousand at 31 December 2018, representing 44% of total assets. Notes 4.c) and 7 to the accompanying annual accounts include information on the assets included under this heading. As indicated in Note 4.c), these properties are tested for impairment. In order to obtain the recoverable amount of such assets, the Company determines the fair value through independent expert valuations. The methodology used to determine the fair value of the investment properties is mainly the discounted cash flows method, in accordance with standard market practice. Such valuations are based on a series of significant judgements and estimates. We have therefore focused on this area due to the materiality of this heading with respect to the Company's total assets and the significant judgement required on the part of Management. Changes in the assumptions used could lead to a significant variation in the recoverable value of such assets and their impact on the income statement.	For the purposes of validating their carrying amount before considering any impairment, we verified the annual depreciation of investment property and observed that it is calculated on a straight-line basis, without detecting significant incidents. We obtained the year-end valuations of these assets by independent experts and we assessed that these experts meet the requirements of competence and independence, finding no exceptions. We determined that the valuations were performed in accordance with the Valuation Rules of the Royal Institution of Chartered Surveyors (RICS), included in the so-called "Red Book" - valuation manual. In this respect, we held meetings with the valuers together with our internal experts and verified for a representative sample of these valuations, the 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 verified the relevant disclosures in Notes 4.c) and 7 to the accompanying annual accounts. We consider that we obtained sufficient audit evidence in the course of our work to corroborate the reasonableness of the carrying amount 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 23 of the accompanying Notes to the 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 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 Company and Axiare, respectively, approved the merger of Axiare into the Company, which was registered with the Company Registry of Madrid on 4 July 2018. The merger operation was the merger of Axiare into the Company 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 merger, the Company recorded a "Goodwill" whose net carrying amount at 31 December 2018 Euro 160,347 thousand (Note 5 of the accompanying Notes to the 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 Company. 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 Company'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. In addition, we have reviewed the merger resolutions, the independent expert's report on the common draft terms of merger of Axiare's merger into the Company and the approvals by the respective governing bodies of Inmobiliaria Colonial, SOCIMI, S.A. The merger operation 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.

Key audit matter	How our audit addressed the key audit matter
A breakdown of the effect of the business combination is given in Note 23 of the accompanying Notes to the annual accounts. The valuation criteria and the judgments and estimates made may have a significant impact on the Company's annual accounts for 2018 and future years. We have considered that this matter should be stated as it is a significant transaction that has a relevant impact on the Company's annual accounts.	• 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 Company and the amounts recorded in the accounts for the acquisition and subsequent merger, as well as the suitability of the information disclosed in the accompanying annual accounts.

Other information: Management report

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

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

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

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

On the basis of the work performed, as described above, we have verified that the information mentioned in section a) above is provided in the management report and that the rest of the information contained in the management report is consistent with that contained in the annual accounts for the 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 annual accounts

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

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

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

Auditor's responsibilities for the audit of the annual accounts

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

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

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

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

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

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

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

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

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

We also provide the Company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with the Company´s audit committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters.

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

Report on other legal and regulatory requirements

Report to the audit committee

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

Appointment period

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

Services provided

Services provided to the Company and its subsidiaries for services other than the audit of the accounts and additional are indicated in Note 21 to the 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.

Financial Statements for the year ended
31 December 2018 and
Management Report, together with the
Auditor's 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 financial statements originally Issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the company In Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

BALANCE SHEET AT 31 DECEMBER 2018
(Thousands of euros)

ASSETS	Notes to the financial statements	31.12.2018	31.12.2017
NON-CURRENT ASSETS:			
Intangible assets-	**Note 5**	**163,187**	**1,684**
Goodwill		160,347	-
Intellectual property		1,451	676
Computer software		1,389	1,008
Property, plant and equipment-	**Note 6**	**18,783**	**17,445**
Land and buildings		18,131	18,188
Plant and other property, plant and equipment		3,950	4,185
Impairment of property, plant and equipment		(3,298)	(4,928)
Investment property	**Note 7**	**2,742,136**	**1,531,337**
Land		1,654,032	1,160,562
Buildings and installations		1,000,909	373,685
Investment property in progress		155,642	76,726
Impairment of investment property		(68,447)	(79,636)
Non-current investments in Group companies and associates-	**Note 9**	**3,155,478**	**2,138,741**
Non-current equity instruments of the Group		3,008,823	2,075,941
Loans to companies	**Note 19**	156,016	65,752
Impairment of financial investments in Group companies and associates		(9,361)	(2,952)
Non-current financial investments-	**Note 9**	**18,191**	**432,100**
Non-current equity instruments		-	423,277
Other non-current financial assets		18,191	8,823
Total non-current assets		**6,097,775**	**4,121,307**
Non-current assets held for sale	**Note 11**	**26,091**	**-**
Trade and other receivables		**50,796**	**18,587**
Trade receivables for sales and services		2,844	1,571
Trade receivables from Group companies and associates	**Note 19**	23,203	210
Sundry account receivables	**Note 12**	13,628	3,859
Advances to suppliers		949	91
Employee receivables		5	4
Other accounts receivable from public authorities	**Note 17**	10,167	12,852
Current investments in Group companies and associates-	**Note 19**	**4,190**	**192**
Current loans to Group companies and associates		4,190	192
Current financial investments-	**Note 12**	**1,300**	**9**
Current equity instruments		9	9
Other current financial assets		1,291	-
Current prepayments and accrued income		**121**	**135**
Cash and cash equivalents.	**Note 15**	**33,236**	**1,069,355**
Total current assets		**115,734**	**1,088,278**
TOTAL ASSETS		**6,213,509**	**5,209,585**

LIABILITIES	Notes to the financial statements	31.12.2018	31.12.2017
EQUITY:			
SHAREHOLDERS' EQUITY		**3,096,736**	**2,462,145**
Share capital		**1,270,287**	**1,088,293**
Issued capital		1,270,287	1,088,293
Share premium		**1,578,439**	**1,126,248**
Reserves-		**215,991**	**245,118**
Legal and bylaw reserves		42,349	39,099
Other reserves		173,642	206,019
Treasury shares		**(5,606)**	**(31,262)**
Profit for the year		**36,308**	**32,497**
Other equity instruments		**1,317**	**1,251**
VALUATION ADJUSTMENTS-		**(492)**	**70,415**
Available-for-sale financial assets		-	70,415
Hedging transactions		(492)	-
Total equity	**Note 13**	**3,096,244**	**2,532,560**
NON-CURRENT LIABILITIES:			
Non-current provisions-	**Note 14**	**160**	**10,289**
Non-current employee benefit obligations		71	83
Other provisions		89	10,206
Non-current payables-		**2,920,628**	**2,488,366**
Debt instruments and other marketable securities	**Note 15**	2,582,966	2,310,656
Bank borrowings	**Note 15**	316,205	160,412
Derivatives	**Note 10**	1,108	-
Other non-current financial liabilities	**Note 16**	20,349	17,298
Non-current payables to Group companies and associates-	**Note 19**	**44,842**	**18,094**
Deferred tax liabilities and other payables to public authorities-	**Note 17**	**38,636**	**39,363**
Non-current accrued expenses and deferred income	**Note 9**	**14,142**	**-**
Total non-current liabilities		**3,018,408**	**2,556,112**
CURRENT LIABILITIES:			
Current provisions	**Note 14**	**16,311**	**19,914**
Current payables-		**19,715**	**11,573**
Debt instruments and other marketable securities	**Note 15**	17,116	12,120
Bank borrowings	**Note 15**	2,446	(608)
Derivatives	**Note 10**	150	50
Other current financial liabilities		3	11
Current payables to Group companies and associates	**Note 19**	**6,653**	**48**
Trade and other payables		**56,174**	**89,368**
Payable to suppliers		45,081	78,729
Sundry accounts payable		6,845	8,273
Customer advances		2,750	-
Other payables to public authorities	**Note 17**	1,498	2,366
Current accrued expenses and deferred income		**4**	**10**
Total current liabilities		**98,857**	**120,913**
TOTAL EQUITY AND LIABILITIES		**6,213,509**	**5,209,585**

The accompanying Notes 1 to 24 and the Appendix are an integral part of the balance sheet at 31 December 2018.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

INCOME STATEMENT FOR 2018
(Thousands of euros)

	Notes to the financial statements	2018	2017
CONTINUING OPERATIONS:			
Revenue-	**Note 18**	**198,422**	**100,545**
Sales		123,976	70,725
Services rendered		1,587	703
Income from holdings in Group companies		72,859	29,117
Other operating income-		**7**	**2**
Non-core and other current operating income		7	2
Staff costs-	**Note 18**	**(15,147)**	**(13,268)**
Wages, salaries and similar expenses		(12,645)	(11,219)
Employee benefit costs		(2,502)	(2,049)
Other operating expenses-		**(29,556)**	**(27,285)**
Outside services		(25,590)	(16,993)
Taxes other than income tax		(7,680)	(2,197)
Losses on, impairment of and changes in allowances for trade receivables	**Note 18**	3,776	(8,073)
Other current operating expenses		(62)	(22)
Depreciation and amortisation-	**Notes 5, 6 and 7**	**(59,008)**	**(25,275)**
Impairment and gains/(losses) on disposal of non-current assets-	**Note 18**	**17,876**	**32,499**
Impairment and losses		4,053	32,285
Gains/(losses) on disposals and other		13,823	214
Profit from operations-		**112,594**	**67,218**
Finance income-	**Note 18**	**2,626**	**4,895**
From investments in equity instruments-		**-**	**3,681**
Third parties		-	3,681
From marketable securities and other financial instruments-		**2,626**	**1,214**
Group companies and associates	**Note 19**	1,746	268
Third parties		880	946
Finance costs-	**Note 18**	**(84,395)**	**(42,151)**
On payables to Group companies and associates	**Note 19**	(422)	(193)
On payables to third parties		(83,973)	(41,958)
Change in fair value of financial instruments-	**Note 18**	**11,309**	**(2)**
Trading portfolio and other		(4,329)	(2)
Allocation to profit or loss of fair value changes in financial assets		15,638	-
Impairment and gains/(losses) on disposal of financial instruments-	**Notes 9 and 18**	**(6,553)**	**5,236**
Impairment and losses		(6,553)	5,230
Gains/(losses) on disposals and other		-	6
Financial loss-		**(77,013)**	**(32,022)**
Profit before tax-		**35,581**	**35,196**
Income tax	**Note 17**	727	(2,699)
Profit for the year from continuing operations-		**36,308**	**32,497**
Profit for the year-		**36,308**	**32,497**

The accompanying Notes 1 to 24 and the Appendix are an integral part of the income statement for 2018.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

STATEMENT OF CHANGES IN EQUITY FOR 2018

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE
(Thousands of euros)

	Notes to the financial statements	2018	2017
PROFIT PER INCOME STATEMENT (I)		**36,308**	**32,497**
Income and expense recognised directly in equity:			
Arising from cash flow hedges	**Note 13**	(2,791)	-
Adjustments to fair value of available-for-sale financial assets	**Note 10**	(54,777)	69,098
Total income and expense recognised directly in equity (II)		**(57,568)**	**69,098**
Amounts transferred to the income statement:			
Arising from cash flow hedges	**Note 13**	2,299	-
Adjustments to fair value of available-for-sale financial assets	**Note 9**	(15,638)	-
Total transfers to profit or loss (III)		**(13,339)**	**-**
Total recognised income and expense (I+II+III)		**(34,599)**	**101,595**

The accompanying Notes 1 to 24 and the Appendix are an integral part of the statement of recognised income and expense for 2018.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

STATEMENT OF CHANGES IN EQUITY FOR 2018

B) STATEMENT OF CHANGES IN EQUITY

(Thousands of euros)

	Notes to the financial statements	Share capital	Share premium	Reserves	Treasury shares	Profit for the year	Other equity instruments	Financial assets available for sale	Hedging transactions	Total
Balance at 31 December 2016		**892,058**	**731,326**	**250,634**	**(36,755)**	**54,839**	**1,168**	**-**	**-**	**1,893,270**
Total recognised income and expense		-	-	-	-	32,497	-	70,415	-	**102,912**
Transactions with shareholders:	**Note 13**									
Capital increases		196,235	394,922	(6,691)	-	-	-	-	-	**584,466**
Treasury shares transactions (net)		-	-	10,371	2,956	-	-	-	-	**13,327**
Distribution of profit		-	-	(7,910)	-	(54,839)	-	-	-	**(62,749)**
Accrual long-term remuneration plan 2017	**Note 18**	-	-	-	-	-	1,334	-	-	**1,334**
Delivery long-term remuneration plan 2016	**Note 20**	-	-	(1,286)	2,537	-	(1,251)	-	-	**-**
Balance at 31 December 2017		**1,088,293**	**1,126,248**	**245,118**	**(31,262)**	**32,497**	**1,251**	**70,415**	**-**	**2,532,560**
Total recognised income and expense		-	-	-	-	36,308	-	(70,415)	(492)	**(34,599)**
Transactions with shareholders:	**Note 13**									
Capital increases		181,994	463,517	(1,149)	-	-	-	-	-	**644,362**
Treasury shares transactions (net)		-	-	7,332	22,754	-	-	-	-	**30,086**
Distribution of profit		-	(11,326)	(33,796)	-	(32,497)	-	-	-	**(77,619)**
Accrual long-term remuneration plan 2018	**Note 18**	-	-	-	-	-	1,454	-	-	**1,454**
Delivery long-term remuneration plan 2017	**Note 20**	-	-	(1,514)	2,902	-	(1,388)	-	-	**-**
Balance at 31 December 2018		**1,270,287**	**1,578,439**	**215,991**	**(5,606)**	**36,308**	**1,317**	**-**	**(492)**	**3,096,244**

The accompanying Notes 1 to 24 and the Appendix are an integral part of the statement of recognised income and expense for 2018.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

STATEMENT OF CASH FLOWS FOR 2018

(Thousands of euros)

	Notes to the financial statements	2018	2017
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES (I):		**(52,542)**	**56,949**
Profit for the year before tax from continuing operations-		**35,581**	**35,196**
Profit/(loss) for the year before tax from discontinued operations-		**-**	**-**
Adjustments to profit-		**41,509**	**(759)**
Depreciation and amortisation	**Notes 5, 6 and 7**	59,008	25,275
Impairment losses	**Note 18**	(4,053)	(32,285)
Changes in provisions	**Notes 14 and 18**	(3,777)	8,073
Gains/(losses) on derecognition and disposal of non-current assets	**Notes 5, 6 and 7**	(13,823)	(214)
Impairment and gains/(losses) on disposal of financial instruments	**Notes 8 and 18**	6,553	(5,236)
Finance income	**Note 18**	(2,626)	(4,895)
Income from holdings in Group companies	**Note 19**	(72,859)	(29,117)
Finance costs	**Note 18**	84,395	42,151
Change in fair value of financial instruments	**Notes 9 and 18**	(11,309)	2
Other income and expenses		-	(4,513)
Changes in working capital		**(126,306)**	**13,747**
Trade and other receivables		(28,327)	(258)
Other current assets		4,181	432
Trade and other payables		(101,003)	11,518
Other current liabilities		(1,157)	(8)
Other non-current assets and liabilities		-	2,063
Other cash flows from operating activities-		**(3,326)**	**8,765**
Interest paid		(76,313)	(47,315)
Income from holdings in Group companies	**Notes 18 and 19**	72,859	29,117
Finance income		128	4,038
Other taxes received (paid)		-	23,534
Proceeds from and payments for cancellation of derivatives		-	(609)
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES (II)		**(800,142)**	**(388,896)**
Payments for investments-		**(1,203,185)**	**(393,853)**
Group companies and associates	**Note 8**	(313,861)	(157,356)
Intangible assets	**Note 5**	(2,251)	(1,152)
Property, plant and equipment	**Note 6**	(494)	(2,792)
Investment property	**Note 7**	(143,968)	(16,667)
Other financial assets	**Note 8**	(45,545)	(215,886)
Business combinations	**Note 23**	(693,159)	-
Other financial assets	**Note 12**	(3,907)	-
Proceeds from sales of investments-		**403,043**	**4,957**
Property, plant and equipment		-	11
Investment property	**Note 7**	378,708	4,940
Other current financial assets	**Notes 9 and 19**	24,335	6
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES (III)		**(183,435)**	**1,321,893**
Proceeds from and payments for equity instruments-		**(77,371)**	**535,044**
Issue of equity instruments	**Note 13**	-	591,157
Distribution of dividends	**Note 3**	(77,619)	(62,749)
Acquisition/Disposal of own equity instruments	**Note 13**	1,397	13,327
Expenses associated with capital increases	**Note 13**	(1,149)	(6,691)
Proceeds from and payments for financial liability instruments-		**(106,064)**	**786,849**
Issue of bank borrowings	**Note 15**	262,555	435,000
Bonds and similar marketable securities issued	**Note 15**	650,000	800,000
Issue of borrowings from Group companies and associates	**Note 19**	33,353	(60,615)
Credit issues with Group companies and associates	**Note 19**	-	5,938
Other payables		12,213	
Redemption and repayment of bank borrowings	**Note 15**	(689,177)	(393,474)
Redemption and repayment of bonds and similar marketable securities	**Note 15**	(375,000)	-
Other payables		(8)	-
Reimbursements of contributions - Group companies		-	(182)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**(1,036,119)**	**989,764**
Cash and cash equivalents at beginning of year		1,069,355	79,591
Cash and cash equivalents at end of year		33,236	1,069,355

The accompanying Notes 1 to 24 and the Appendix are an integral part of the statement of cash flows for 2018.

Inmobiliaria Colonial, SOCIMI, S.A.

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

1. Company activity

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

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

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

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

In 2010, the spin-off and contribution to the subsidiary Asentia Project, S.L. (hereinafter, "Asentia") of the land and development business, was performed, including shares in the subsidiary Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. (hereinafter, "DUE") to which a project in Seville was transferred. In addition, the non-monetary contribution of the Llacuna property development in Barcelona to the subsidiary Abix Service, S.L.U. (hereinafter, "Abix") was carried out. These transactions took place under the scope of the framework refinancing agreement signed between the Company and the banks on 19 February 2010.

The aforementioned mergers, spin-offs and non-monetary contributions availed themselves of the tax regime provided for in Title VII, Chapter VIII, of the Spanish Corporate Income Tax Law. In accordance with legal requirements, all relevant information regarding these corporate transactions is detailed in the financial statements for the years concerned.

In 2014, the assets and liabilities of Abix, a wholly-owned company until this date, were transferred en bloc to Inmobiliaria Colonial, SOCIMI, S.A. The aforementioned transaction entailed the transfer en bloc by universal succession of all of Abix's assets and liabilities to the Company, and the subsequent dissolution of the investee, all in accordance with Article 87.1 of Law 3/2009, of 3 April, on structural changes to corporations.

On 2 February 2018, the Company carried out the merger by absorption with Axiare Patrimonio SOCIMI, S.A., whose registered office was located at Calle Ortega y Gasset 29, 5ª, Madrid, and which mainly engaged in the acquisition and development of urban properties for lease and the holding of equity interests in other real estate investment trusts. The merger was carried out in order to optimise the Company's resources, improving the cost structure in carrying out its activities and acting as a single entity in the market.

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

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

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

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

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

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

In 2018, the Company 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 Company maintained the “Baa2” credit rating with a negative outlook from Moody’s.

In view of the business activity carried on by the Company, 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 Company does apply a proactive environmental policy in relation to urban development, construction, maintenance and the preservation of its property portfolio.

The Company is the head of a group of subsidiaries and is obliged under current legislation to prepare consolidated financial statements separately. The consolidated financial statements for 2017 were approved by the shareholders at the Annual General Meeting of Inmobiliaria Colonial, SOCIMI, S.A. held on 24 May 2018, and they were subsequently filed with the Barcelona Mercantile Registry.

2. <u>Basis of preparation</u>

a) Regulatory financial reporting framework applicable to the Company

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

a) The Spanish Commercial Code and other commercial and corporate legislation.

b) The Spanish National Chart of Accounts approved by Royal Decree 1514/2007, along with Royal Decrees 1159/2010 and 602/2016, amending certain aspects of the Chart of Accounts and its sectorial adaptations and, in particular, the Sectorial Adaptation of the National Chart of Accounts of Property Companies approved by the Order of 28 December 1994, and the provisions approved by the Spanish National Securities Market Commission (CNMV).

c) Mandatory standards approved by the Spanish Accounting and Audit Institute in implementing the General Chart of Accounts and its supplementary regulations, the Securities Market Law and other regulations issued by the Spanish National Securities Market Commission.

d) All other applicable Spanish accounting legislation.

b) True and fair view

The accompanying financial statements were prepared on the basis of the accounting records kept by the Company, and are presented in accordance with the applicable financial reporting regulatory framework and, in particular, with the accounting policies and measurement bases contained therein, to present a true and fair view of the Company's equity, financial position, income, and cash flows for the year then ended. These financial statements were prepared by the Company's directors for approval by the shareholders at the Annual General Meeting and are expected to be approved without any changes.

The 2017 financial statements were approved by the shareholders at the Annual General Meeting held on 24 May 2018.

c) Non-mandatory accounting policies applied

No non-mandatory accounting policies have been applied. Accordingly, the directors have authorised these financial statements for issue on the basis of all mandatory accounting policies and standards that have a material effect on such statements. All mandatory accounting principles were applied.

d) Key issues in relation to the measurement and estimation of uncertainty

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

- Impairment losses or reversals of impairment losses recognised in previous years on property for own use and investment property as a result of lower or higher property appraisals carried out by independent experts vis-à-vis the carrying amount recognised for these assets (Notes 6 and 7).

  The market value of the property for own use and of the investment property was obtained from the appraisals periodically made by independent experts. Such appraisals were made on 30 June 2018 and 31 December 2018 in accordance with the methods described in Notes 4-b and 4-c.

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

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

- Measurement of non-current assets held for sale (Note 4-f).

- Estimate of the appropriate allowances for doubtful debts (Note 4-g).

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

- The market value of certain financial assets, including derivative financial instruments (Notes 4-e and 9).

- Evaluation of lawsuits, obligations, and contingent assets and liabilities at year-end (Note 14).

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

Although these estimates were made on the basis of the best information available at 2018 year-end, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively and would be recognised in the related income statement.

e) Comparison of information

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

f) Aggregation of items

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

g) Correction of errors

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

h) Functional currency

These financial statements are presented in euros as this is the currency of the main economic area in which the Company operates.

3. Distribution of profit

The distribution of the 2018 profit proposed by the Board of Directors of the Company for approval at the Annual General Meeting is as follows:

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

The Company'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 Company (Note 13).

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

Thousands of euros	2013	2014	2015	2016	2017
Dividends distributed	-	-	47,833	62,749	77,619

4. Accounting policies and measurement bases

The main accounting policies and measurement bases used by the Company to prepare its financial statements, in accordance with the National Chart of Accounts, were as follows:

a) Intangible assets

As a general rule, intangible assets are initially measured at their acquisition or production cost. They are then measured at cost less the corresponding accumulated amortisation and, where applicable, less any impairment losses. These assets are amortised over their useful life. Those assets are amortised over ten years when their useful life cannot be reliably estimated.

Computer software-

"Computer software" includes mainly the cost of acquiring and implementing an integrated IT system, in addition to subsequent extensions or upgrades of such system. The cost is amortised on a straight-line basis at a rate of 25% per year.

Goodwill-

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

The Company assigns goodwill arising on the business combination to each of the cash-generating units (CGUs) that are expected to benefit from the synergies of the combination and determines their useful life separately for each CGU. After initial recognition, goodwill is measured at cost less any accumulated amortisation and impairment losses. After initial recognition, goodwill is carried at cost, less any accumulated amortisation and any accumulated impairment losses recognised.

The Company amortises goodwill on a straight-line basis over 10 years.

In addition, the cash-generating units to which the goodwill has been assigned are tested at least once a year for indications of impairment.

Impairment losses on goodwill are not reversed in subsequent periods.

b) Property, plant and equipment

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-c.

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 Company and the cost of the asset can be determined reliably. Maintenance and upkeep expenses are charged to the income statement in the year incurred.

The Company depreciates its property, plant and equipment for own use and other items of property, plant and equipment using the straight-line method at annual rates based on the years of estimated useful life, as follows:

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

Impairment of property, plant and equipment -

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

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

c) Investment property

“Investment property” in the balance sheet reflects the values of the land, buildings and other constructions held to earn rent or for capital appreciation upon disposals due to future increases in their respective market prices.

Investment property is recognised at acquisition cost, plus any capital gains assigned as a result of the merger between Grupo Inmocaral, S.A. (absorbing company) and Inmobiliaria Colonial, SOCIMI, S.A. and between Inmobiliaria Colonial, SOCIMI, S.A. (Notes 1 and 23) (absorbing company) and Axiare Patrimonio SOCIMI, S.A. (absorbed company), less accumulated depreciation and the relevant accumulated impairment losses.

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

For developments in progress, the only costs capitalised are execution and borrowing costs, provided such expenses were accrued before the asset was ready for use and the construction work lasted over one year.

Investment property in progress is transferred to investment property in operation when the assets are ready for use. The classification of an investment property to the investment property in progress heading takes place only when the rehabilitation project will exceed 1 year in length.

The Company depreciates its investment properties by the straight-line method at annual rates based on the years of estimated useful life, as follows:

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

The Company periodically compares the carrying amount of its investment property with the market value based on valuations made by independent experts for each of them. The appropriate impairment losses are recognised on investment property when the market value of an asset is lower than the carrying amount. The market value is determined on a half-yearly basis: that is, at 30 June and at 31 December of each year, based on the valuations made by independent experts (Jones Lang LaSalle and CB Richard Ellis Valuation in Spain for the years 2018 and 2017), so that the year-end market 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 Company.

The Discounted Cash Flow (hereinafter, “DCF”) method was primarily used to determine the market value of the Company'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, less a period for the marketing thereof.

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	
Exit yields (%) - Offices	31 December 2018	31 December 2017
Barcelona – Prime Yield		
Leased out	4.75	4.85
Total portfolio	4.77	4.88
Madrid – Prime Yield		
Leased out	4.48	4.45
Total portfolio	4.44	4.47

Assumptions made at 31 December 2018					
Rent increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	3.00	3.00	3.00	3.00	2.25
Total portfolio	3.00	3.00	3.00	3.00	2.25
Madrid –					
Leased out	3.00	3.00	3.00	3.00	2.50
Total portfolio	3.00	3.00	3.00	3.00	2.50

Assumptions made at 31 December 2017					
Rent increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	3.00	3.00	3.00	3.00	2.25
Total portfolio	3.00	3.00	3.00	3.00	2.25
Madrid –					
Leased out	3.00	3.00	3.00	3.00	2.50
Total portfolio	3.00	3.00	3.00	3.00	2.50

Developments in progress were valued using the dynamic residual method, 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.

Changes of one-quarter of one point in yields would have the following impact on the valuations used by the Company to determine the value of its assets recognised under "Property, plant and equipment" and "Investment property" in the balance sheet:

Sensitivity of valuations to a change of one quarter of a point in yields	Thousands of euros		
	Valuation	Decrease of one quarter of a point	Increase of one quarter of a point
December 2018	3,444,420	145,801	(163,407)
December 2017	1,923,747	94,384	(84,360)

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 these investment properties amounted to 123,976 thousand euros and 70,725 thousand euros, respectively, and is recognised under “Revenue” in the income statement (Note 18).

Gains or losses arising on the disposal or derecognition of an asset are determined as the difference between the sale price and its carrying amount, and are recognised under “Impairment and gains/(losses) on disposal of non-current assets” in the income statement.

d) *Leases*

Finance leases-

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Other leases are classified as operating leases. At 31 December 2018 and 2017, all of the Company’s leases qualified as operating leases.

Operating leases-

Income and expenses deriving from operating leases are recognised in the income statement in the year in which they accrue.

The acquisition cost of the leased assets is presented in the balance sheet in accordance with the nature of the asset, plus the costs directly attributable to the lease, which are expensed over the term of the lease on the same basis as lease income.

Any collection or payment made on entering into an operating lease is treated as an advance collection or payment and is taken to profit or loss over the lease term, as benefits from the leased asset are received or provided.

e) *Financial instruments*

Financial assets

Initial recognition -

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

In the case of equity investments in Group companies that exercise control over subsidiaries, the fees paid to legal advisors and other professionals related to the acquisition of the investment are recognised directly in profit or loss.

Classification-

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

- Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of business, or financial assets that do not arise from the ordinary course of business and are not equity instruments or derivatives with fixed or determinable payments and are not traded in an active market.

- Investments held to maturity: debt securities, with a fixed maturity date and determinable collection amounts traded in an active market and which the Company has expressed its intent and capacity to hold until their maturity date.

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

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

Subsequent measurement-

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

Investments in Group companies, associates and jointly controlled entities are measured at cost less, if applicable, any accumulated impairment losses. Such losses are calculated as the difference between the carrying amount and the recoverable amount, where the latter is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, the estimated impairment of these investments takes into account the equity of the investee, adjusted by the unrealised gains existing at the valuation date. The correction of value, and, when applicable, its reversal, is entered in the income statement of the year in which it occurs.

Lastly, available-for-sale financial assets are measured at fair value. Fair value gains and losses are recognised in equity until the asset is disposed of or is determined to be impaired (on a prolonged or permanent basis), at which point the cumulative gains or losses are reclassified to the income statement. Permanent impairment is presumed to exist if the market value of the asset has fallen by more than 40% or if a prolonged decline in the price has occurred over a year and a half without a recovery in value.

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

The Company tests its financial assets that are not carried at fair value for impairment at least at the end of each reporting period. If the recoverable amount of the financial asset is lower than its carrying amount, objective evidence of impairment is deemed to exist, in which case, it is recognised in the income statement.

In particular, the Company calculates valuation adjustments relating to trade and other receivables by carrying out a case-by-case analysis of the solvency of the debtor.

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

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

Financial liabilities

Financial liabilities include accounts payable by the Company that have arisen from the purchase of goods or services in the normal course of the Company's business and those which, not having commercial substance, cannot be classified as derivatives.

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.

Liability derivative financial instruments are measured at fair value, using the same criteria as those applied to financial assets held for trading described in the preceding section.

The Company derecognises financial liabilities when the obligations giving rise to them cease to exist. When a debt instrument swap takes place between the Company and a third party, as long as these instruments have substantially different conditions, the Company 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 income statement.

If debt instruments that do not have substantially different terms are exchanged, the original financial liability is not derecognised and the amount of the fees paid are recognised as an adjustment to its carrying amount. The amortised cost of the financial liability is determined by applying the effective interest rate, which is equal to the carrying amount of the financial liability on the date of modification with the cash flows to be paid according to the new conditions.

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

Own equity instruments (Note 13)-

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

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

Treasury shares acquired by the Company during the year are recognised at the value of the consideration delivered in exchange and are deducted directly from equity. Any gains or losses on the acquisition, sale, issue or retirement of own equity instruments are recognised directly in equity and in no case are they recognised in profit or loss.

Derivative financial instruments (Note 10) -

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

- Derivative financial instruments that meet the criteria for hedge accounting are initially recognised at fair value, plus any transaction costs, if applicable, directly attributable to their arrangement or less any transaction costs, if applicable, directly attributable to their issue. However, the transaction costs are subsequently recognised in profit or loss, such that they do not form part of the effective change of the hedge.

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

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 accumulated directly in equity remain in equity until the related transaction materialises. Once the related cash flow occurs, any cumulative gain or loss recognised in the Company's equity is transferred to the income statement 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 consists of calculating the statistical correlation between the benchmark interest rates at each measurement date for the derivative and the hedged liability. This is applicable to the hedged portion of the derivative liability.

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

The Company's directors have considered the credit risk in the measurement of the derivatives portfolios, with no significant impact seen as at 31 December 2018 and 2017.

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

f) Non-current assets and disposal groups classified as held for sale

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

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 in a condition to be immediately sold and the sale is expected to be fully realised within a period of no more than twelve months from its classification as a held-for-sale asset.

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

g) Receivables

Trade receivables are measured at their recoverable amount, i.e. net, where applicable, of the allowances recognised to cover past-due balances where circumstances warrant their consideration as doubtful debts. At 31 December 2018 and 2017, there were no unprovisioned past-due debt risks in relation to accounts receivable.

h) Statement of cash flows (indirect method)

The terms used in the 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: principal revenue-producing activities and other activities that are not investing or financing activities.

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

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

i) Cash and cash equivalents.

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

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

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

j) Current / non-current

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

The Company'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 income associated with incentives or grace periods (Notes 4-n and 12), which are applied on a straight-line basis over the term of the lease agreement and are considered to be a current asset.

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

k) Provisions and contingent liabilities

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

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

- 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 beyond the control of the Company.

The financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised, but are disclosed in Note 14.

Provisions are recognised at the present value of the best possible estimate of the consideration required to settle or transfer the obligation, taking into account the information available concerning the event and its consequences and recognising any adjustments arising from the discounting of provisions as a finance cost when accrued.

The receivable from a third party upon settlement of the obligation, when the reimbursement is virtually certain, is recognised as an asset, except where there is a legal obligation to outsource the risk discharging the Company of this obligation. In this case, benefits are used to estimate any amount to be recognised as the provision.

l) *Employee benefits*

Termination benefits-

Under current legislation, the Company 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 and 2017, the Company did not record any provisions in this connection.

Pension obligations (Note 18) -

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

Share-based payments (Note 20) -

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

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

m) *Income tax expense (Note 17)*

Income tax expense (income) includes the amount of current tax payable (receivable) and deferred tax liability (asset).

The current income tax expense is the amount payable by the Company as a result of income tax settlements for a given year. Tax credits and other tax benefits, excluding tax withholdings and prepayments, and tax loss carryforwards effectively offset in the current period, reduce the current income tax expense.

Deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured by applying the tax rate at which the asset is expected to be realised or the liability is expected to be settled to the corresponding temporary difference or tax asset.

Deferred tax liabilities are recognised for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and affects neither the accounting profit (loss) nor taxable profit (tax loss). Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognised with a balancing entry in equity.

In accordance with the regulations in effect, the measurement of the Company'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, it is considered that there is a rebuttable presumption that their carrying amount will be recovered through their sale. When determining the deferred tax attributable to the capital gains assigned to the business combination described in Note 1, a portion of the cost of which was not tax deductible, the 25% tax rate was applied less 25% of the offset of tax loss carryforwards as stipulated by the current limitation established by law at 31 December 2018. The effective rate taken into consideration was 18.75% after the legislative amendment of December 2016 that established new limitations on the offset of tax loss carryforwards, among other matters.

The balance sheet includes those tax credits considered likely to be recoverable within a reasonable timeframe, either because of the performance of the property market itself, or through taxable profits generated by the activities carried out by the Company's management.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Unrecognised deferred tax assets are also reassessed at the end of each reporting period, and are recognised to the extent it is likely they will be recovered through future taxable profit.

REIT Regime -

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

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

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

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

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

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

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

The term will be calculated:

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

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

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

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

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

The corporate income tax rate for REITs 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.

n) Revenue and expenses

General criteria-

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. Revenue is measured at the fair value of the consideration received, less discounts and tax.

Revenue from sales is recognised when the significant risks and rewards from ownership of the sold asset have been transferred to the buyer, where daily management of the asset is not exercised and effective control is not held.

Property leases -

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Other leases are classified as operating leases. At 31 December 2018 and 2017, all of the Company's leases qualified as operating leases (Note 4-d).

Revenue from operating leases is recognised as income on a straight-line basis over the term of the lease, and the initial direct costs incurred in arranging these operating leases are taken to the income statement 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 Company to its customers (Note 4-j). The Company recognises the aggregate cost of incentives granted as a reduction in rental income over the minimum term of the lease on a straight-line basis. The effects of the rent-free periods are recognised during the minimum term of the lease agreement.

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

Interest and dividends received -

Interest received on financial assets is recognised using the effective interest rate method, and dividends are recognised when the right of the shareholder to receive them is declared. Interest and dividends from financial assets accrued subsequent to acquisition are recognised as income in the income statement.

Pursuant to the Resolution of Spanish Accounting and Audit Institute Official Bulletin 79, regarding the recognition of certain items of income (dividends, income from loans to related companies, etc.) for companies whose corporate purpose is the holding of equity investments, the Company recognises dividend income from the investments held in companies over which it has control as an increase in "Revenue" in the income statement (Notes 18 and 19).

o) *Related party transactions (Note 19)*

The Company carries out all transactions with related parties at arm's length. In addition, as transfer prices are adequately documented, the Company's directors consider that there are no significant risks that could give rise to material liabilities in the future.

p) *Costs passed on to lessees*

The bulk of repair and maintenance expenses incurred by the Company in connection with the operation of its assets are passed on to the respective lessees of the properties. The Company does not consider the costs incurred by lessees from its investment property as income and they are recognised, less the corresponding costs, in the income statement. In 2018 and 2017, a total of 27,320 thousand euros and 18,503 thousand euros, respectively, were invoiced in this regard.

Direct operating expenses associated with rented investment property net of costs passed on that generated rental income in 2018 and 2017, included under "Operating profit" in the income statement, amounted to 11,025 thousand euros and 5,712 thousand euros, respectively. The expenses incurred in connection with investment properties that did not generate rental income were not significant.

q) *Business combinations*

Business combinations arising from the acquisition of all assets and liability of a company or a portion thereof that represents one or more businesses are recognised in line with the acquisition method.

In the case of business combinations arising as a result of the acquisition of shares or investments in the share capital of a company, the Company recognises the investment in line with that established for holdings in the equity of Group companies, jointly controlled entities and associates (Note 23).

5. Intangible assets

The changes in this heading of the balance sheet in 2018 and 2017, and the most significant information affecting this heading, were as follows:

	Thousands of euros			
	Goodwill	Intellectual property	Computer software	**Total**
Balance at 31 December 2016	**-**	**290**	**771**	**1,061**
Acquisition cost	***-***	***306***	***4,708***	***5,014***
Accumulated amortisation	***-***	***(16)***	***(3,937)***	***(3,953)***
Additions	-	500	654	**1,154**
Amortisation charge	-	(114)	(417)	**(531)**
Balance at 31 December 2017	**-**	**676**	**1,008**	**1,684**
Acquisition cost	***-***	***806***	***3,483***	***4,289***
Accumulated amortisation	***-***	***(130)***	***(2,475)***	***(2,605)***
Additions	-	1,156	1,095	**2,251**
Business combinations (Note 23)	176,529	-	1,298	**177,827**
Amortisation charge	(16,182)	(381)	(752)	**(17,315)**
Disposals (Note 18-e)	-	-	(1,260)	**(1,260)**
Balance at 31 December 2018	**160,347**	**1,451**	**1,389**	**163,187**
Acquisition cost	***176,529***	***1,962***	***4,477***	***182,891***
Accumulated amortisation	***(16,182)***	***(511)***	***(3,088)***	***(19,704)***

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

At year-end 2018 and 2017, the Company had fully amortised intangible assets still in use amounting to 1,916 thousand euros and 1,675 thousand euros, respectively.

6. Property, plant and equipment

The changes in this heading of the balance sheet in 2018 and 2017, and the most significant information affecting this heading, were as follows:

	Thousands of euros		
	Land and buildings	Other property, plant and equipment	Total
Balance at 31 December 2016	**13,389**	**2,177**	**15,566**
Acquisition cost	***19,471***	***11,050***	***30,521***
Accumulated depreciation	***(1,441)***	***(8,873)***	***(10,314)***
Accumulated impairment	***(4,641)***	**-**	**(4,641)**
Additions	216	2,576	2,505
Depreciation charge	(55)	(475)	(530)
Disposals (Note 18-e)	(3)	(93)	(5,721)
Impairment (Note 18-d)	(287)	-	(96)
Balance at 31 December 2017	**13,260**	**4,185**	**17,445**
Acquisition cost	***19,680***	*7,912*	*27,592*
Accumulated depreciation	***(1,492)***	*(3,727)*	*(5,219)*
Accumulated impairment	***(4,928)***	**-**	*(4,928)*
Additions	-	494	**494**
Business combinations (Note 23)	-	577	**577**
Depreciation charge	(57)	(786)	**(843)**
Disposals (Note 18-e)	-	(520)	**(520)**
Impairment (Note 18-d)	1,630	-	**1,630**
Balance at 31 December 2018	**14,833**	**3,950**	**18,783**
Acquisition cost	***19,680***	***7,136***	***26,816***
Accumulated depreciation	***(1,549)***	***(3,186)***	***(4,735)***
Accumulated impairment	***(3,298)***	**-**	***(3,298)***

The Company uses two floors of the building located at Avenida Diagonal, 532, in Barcelona and one floor of the building located at Paseo de la Castellana, 52, in Madrid.

In 2018, the Company derecognised certain assets under “Property, plant and equipment”, with a net carrying amount of 520 thousand euros (96 thousand euros in 2017), which were reclassified under “Impairment and gains/(losses) on disposal of non-current assets - Gains/(losses) on disposals and other” in the income statement (Note 18-e).

At 31 December 2018, the need to recognise an impairment loss reversal in the amount of 1,630 thousand euros on properties for own use was evidenced by the appraisals performed by an independent expert (Note 4-b). The amount was recognised under “Impairment and gains/(losses) on disposal of non-current assets - Impairment and losses” in the income statement (Note 18-d). In the year ended 31 December 2017, an impairment loss was recognised on the value of the properties for own use amounting to 287 thousand euros.

At year-end 2018 and 2017, the Company had fully depreciated property, plant and equipment still in use amounting to 2,006 thousand euros and 2,299 thousand euros, respectively.

The Company has no property, plant and equipment outside of Spanish territory, and it has no purchase commitments.

The Company's policy is to take out insurance policies to cover any risks affecting items of property, plant and equipment. At 31 December 2018 and 2017, these items were fully insured.

7. Investment property

The changes in this heading of the balance sheet in 2018 and 2017, and the most significant information affecting this heading, were as follows:

	Thousands of euros			
	Land	Buildings and installations	Investment property in progress	**Total**
Balance at 31 December 2016	**1,041,956**	**396,877**	**71,272**	**1,510,105**
Acquisition cost	***1,160,545***	***721,983***	***71,272***	***1,953,800***
Accumulated depreciation	-	***(325,106)***	-	***(325,106)***
Accumulated impairment	***(118,589)***	-	-	***(118,589)***
Additions	17	12,053	5,454	**17,524**
Depreciation charge	-	(24,214)	-	**(24,214)**
Disposals (Note 18-e)	-	(13,053)	-	**(13,053)**
Write-offs for depreciation	-	2,022	-	**2,022**
Write-offs for impairment	6,381	-	-	**6,381**
Impairment (Note 18-d)	32,572	-	-	**32,572**
Balance at 31 December 2017	**1,080,926**	**373,685**	**76,726**	**1,531,337**
Acquisition cost	***1,160,562***	***720,983***	***76,726***	***1,958,271***
Accumulated depreciation	-	***(347,298)***	-	***(347,298)***
Accumulated impairment	***(79,636)***	-	-	***(79,636)***
Additions	17,811	50,957	75,955	**144,723**
Business combinations (Note 23)	625,832	736,287	131,580	**1,493,699**
Depreciation charge	-	(40,850)	-	**(40,850)**
Disposals (Note 18-e)	(171,457)	(182,366)	(43,859)	**(397,682)**
Write-offs for depreciation	-	21,897	10,515	**32,412**
Write-offs for impairment	2,165	-	-	**2,165**
Transfers (Note 11)	21,284	61,643	(84,759)	**(1,832)**
Transfers from depreciation	-	(19,495)	(11,364)	**(30,859)**
Application of impairment	6,600	-	-	**6,600**
Impairment (Note 18-d)	2,423	-	-	**2,423**
Balance at 31 December 2018	**1,585,585**	**1,001,758**	**154,793**	**2,742,136**
Acquisition cost	***1,654,032***	***1,387,504***	***155,643***	***3,197,179***
Accumulated depreciation	-	***(385,746)***	***(849)***	***(386,595)***
Accumulated impairment	***(68,448)***	-	-	***(68,448)***

Movements in 2018 -

The additions in 2018 relate to the following acquisitions:

- On 18 January 2018, the Company acquired an asset located in Plaza Gal-la Placidia, Barcelona, for 16,561 thousand euros, including acquisition costs.

- On 2 July 2018, the Company acquired an asset located at Diagonal 523-525, Barcelona, for 29,285 thousand euros, including acquisition costs.

- In September 2018, the Company acquired a property located at Josefa Valcárcel, 40bis, for 30,201 thousand euros, including acquisition costs.

- In 2018, the Company 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 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 50,835 thousand euros, including 755 thousand euros in capitalised borrowing costs.

The disposals carried out in 2018 relate to the following (Note 18-e):

- On 11 January and 12 June 2018, the Company sold the premises located on calle Orense de Madrid and a flat located in Tenerife for a total of 1,930 thousand euros.

- On 9 March 2018, the Company sold a shopping centre in Collado Villalba (Madrid) for 19,700 thousand euros.

- On 21 May 2018, the Company sold a hotel in Madrid for 15,500 thousand euros.

- In August 2018, the Company sold a property located in Madrid for a total of 65,000 thousand euros.

- In September 2018, the Company sold various properties located in Madrid for a total of 281,500 thousand euros.

- On 27 December 2018, the Company sold a property located at Lagasca, 88, Madrid for 5,300 thousand euros.

The Company derecognised assets amounting to 5,102 thousand euros due to being replaced in 2018.

Movements in 2017 -

The additions in the year ended 31 December 2017 relate to the investments made in various properties, both under development and in operation, for a total amount of 17,524 thousand euros, including 857 thousand euros in capitalised borrowing costs.

On 12 January 2017, the Company officially sold part of an asset located at calle Orense, Madrid for 5,600 thousand euros (Note 18-e).

Impairment -

At 31 December 2018, the need to recognise an impairment loss reversal for the amount of 2,423 thousand euros on investment properties was evidenced by the appraisals performed by independent experts. The amount was recognised under "Impairment and gains/(losses) on disposal of non-current assets - Impairment and losses" in the income statement (32,572 thousand euros in 2017) (Note 18-d).

Other information -

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

Location	Total surface area (m2)					
	Investment property in use		Investment property in progress		Total	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Barcelona	284,828	244,890	41,414	33,138	326,242	278,028
Madrid	386,275	264,044	21,560	18,717	407,835	282,761
Rest of Spain	492,324	12,735	83,399	-	575,723	12,735
	1,163,427	**521,669**	**146,373**	**51,855**	**1,309,800**	**573,524**

The Company has no contractual obligations for the acquisition, construction or development of investment properties or for repairs and maintenance.

At 31 December 2018, the Company had properties provided as collateral for mortgage debt with a carrying amount of 533,868 thousand euros included under “Investment property” in the balance sheet (Note 15-c). At 31 December 2017, the Company did not have any property provided as a mortgage guarantee.

At year-end 2018 and 2017, the Company had fully depreciated investment property still in use amounting to 159,269 thousand euros and 140,547 thousand euros, respectively.

The Company has no property, plant and equipment outside of Spanish territory, and it has no purchase commitments.

The Company's policy is to take out insurance policies to cover any risks affecting investment properties. At 31 December 2018 and 2017, these items were fully insured.

8. Operating leases - Lessor

At year-end 2018 and 2017, the Company had contracted with tenants the following minimum irrevocable lease payments under the leases currently in force, without taking into account the impact of common expenses, future increases in the CPI or future contractual lease payment revisions:

Minimum operating lease payments	Thousands of euros Nominal amount 31 December 2018	 31 December 2017
Less than one year	103,620	63,972
Between one and five years	160,825	93,659
Over five years	68,163	16,490
Total	**332,608**	**174,121**

9. Non-current investments in Group companies and associates and non-current financial investments

a) Non-current equity instruments in Group companies

The breakdown by subsidiary at 31 December 2018 and 2017 is as follows:

31 December 2018

	Thousands of euros			
	Beginning balance	Additions or charges	Business combinations (Note 23)	Ending balance
Cost:				
Société Foncière Lyonnaise, S.A.	1,511,370	748,643	-	2,260,013
Torre Marenostrum, S.L.	24,790	-	-	24,790
Colonial Tramit, S.L.U.	13	10	-	23
Colonial Invest, S.L.U.	13	-	-	13
Danieltown Spain, S.L.U.	30,038	-	-	30,038
Moorage Inversiones 2014, S.L.U.	49,355	-	-	49,355
Hofinac Real Estate, S.L.U.	202,000	-	-	202,000
Fincas y Representaciones, S.A.U.	46,681	-	-	46,681
Inmocol Torre Europa, S.A.	10,080	-	-	10,080
Colonial Arturo Soria, S.L.U.	19,747	877	-	20,624
Almacenes Generales Internacionales, S.A.U.	100,124	1,180	-	101,304
Soller, S.A.U.	78,096	920	-	79,016
Peñalvento, S.L.U.	-	20,755	-	20,755
Axiare Investments, S.L.U.	-	-	18,067	18,067
Axiare Properties, S.L.U.	-	-	2	2
Axiare I+D+i, S.L.U.	-	-	149	149
Venusaur, S.L.U.	-	-	63,001	63,001
Chameleon (Cedro), S.L.U.	-	-	24,056	24,056
LE Offices Egeo, S.A.U.	-	51,222	-	51,222
Utopicus Innovación Cultural, S.L.	3,634	4,000	-	7,634
Total cost	**2,075,941**	**827,607**	**105,275**	**3,008,823**
Impairment:				
Colonial Tramit, S.L.U.	(8)	(2)	-	(10)
Colonial Invest, S.L.U.	(7)	(2)	-	(9)
Axiare Investments, S.L.U.	-	(3,197)	-	(3,197)
Axiare Properties, S.L.U.	-	(2)	-	(2)
Axiare I+D+i, S.L.U.	-	(149)	-	(149)
Utopicus Innovación Cultural, S.L.	(2,937)	(3,057)	-	(5,994)
Total impairment losses	**(2,952)**	**(6,409)**	**-**	**(9,361)**
Net total	**2,072,989**	**821,198**	**105,275**	**2,999,462**

31 December 2017

	Thousands of euros			
	Beginning balance	Additions or charges	Disposals or reversals	Ending balance
Cost:				
Société Foncière Lyonnaise, S.A.	1,511,105	265	-	1,511,370
Torre Marenostrum, S.L.	26,201	-	(1,411)	24,790
Colonial Tramit, S.L.U.	13	-	-	13
Colonial Invest, S.L.U.	13	-	-	13
Danieltown Spain, S.L.U.	30,038	-	-	30,038
Moorage Inversiones 2014, S.L.U.	49,355	-	-	49,355
Hofinac Real Estate, S.L.U.	202,000	-	-	202,000
Fincas y Representaciones, S.A.U.	46,620	61	-	46,681
Inmocol Torre Europa, S.A.	-	10,080	-	10,080
Colonial Arturo Soria, S.L.	-	19,747	-	19,747
Almacenes Generales Internacionales, S.A.U.	-	100,124	-	100,124
Soller, S.A.U.	-	78,096	-	78,096
Utopicus Innovación Cultural, S.L.	-	3,634	-	3,634
Total cost	**1,865,345**	**212,007**	**(1,411)**	**2,075,941**
Impairment:				
Colonial Tramit, S.L.U.	(5)	(3)	-	(8)
Colonial Invest, S.L.U.	(5)	(2)	-	(7)
Moorage Inversiones 2014, S.L.U.	(5,010)	-	5,010	-
Hofinac Real Estate, S.L.U.	(803)	-	803	-
Fincas y Representaciones, S.A.U.	(2,359)	-	2,359	-
Utopicus Innovación Cultural, S.L.	-	(2,937)	-	(2,937)
Total impairment	**(8,182)**	**(2,942)**	**8,172**	**(2,952)**
Total net carrying amount	**1,857,163**	**209,065**	**6,761**	**2,072,989**

The information related to Group companies at 31 December 2018 and 2017 is disclosed in Appendix I to these notes.

Movements in 2018 -

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

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

On 7 May 2018, the Company acquired 100% of Peñalvento, S.L. from the subsidiary Agisa for 20,755 thousand euros. On 3 October 2018, the Company entered into a sale and purchase agreement, subject to conditions precedent, for 100% of the shares of Peñalvento. The agreement indicates that the sale will be executed between May 2022 and February 2023, provided the conditions precedent envisaged in the agreement have been met. As of the date on which the agreement was signed, the Company received 14,142 thousand euros on the price of the investments.

On 16 November 2018, the Company acquired 10,323,982 shares of the subsidiary LLC from Qatar Holding, LLC and DIC Holding, LLC through (i) the Company'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 for 487,602 thousand euros (Note 13-d); (ii) the exchange of 400,000 shares of the subsidiary for 3,000,000 shares of the Company that it held as treasury shares for 27,330 thousand euros (Note 13-d); and (iii) the sale to the Parent of 2,787,475 shares of the subsidiary SFL 203,486 thousand euros.

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

In addition, in December 2018 the Company acquired 441,000 shares of the subsidiary SFL through the exchange of 315,000 shares of the Company held as treasury shares (Note 12-d) for 2,814 thousand euros and the delivery of cash in the amount of 8,442 thousand euros.

As a result of the acquisitions detailed above, the Company's ownership interest in the share capital of the subsidiary SFL increased from 58.56% to 81.71%.

Movements in 2017 -

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

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

On 27 September 2017, the Company acquired all 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. The acquisition price was 19,747 thousand euros. Of this amount, 4,200 thousand euros were deferred until 31 January 2018 at the latest, and were recognised under “Trade payables” in the balance sheet. In addition, the loan held by Arturo Soria with a financial institution for 13,159 thousand euros, including interest was cancelled early and subsequently registered with the Property Registry on 26 November 2017.

On 27 October 2017, the Company 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, and 205 thousand euros were deferred, which were recognised under “Trade payables” in the balance sheet. 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 Company, thus increasing its interest in the share capital of Utopicus to 69.60%. At 31 December 2018, the 55 thousand euros that had been deferred were paid.

On 20 December 2017, the Company acquired all share capital of the Spanish companies Almacenes Generales Internacionales, S.A.U. (hereinafter, "Agisa") and Soller, S.A.U., which own several plots of land located in Madrid. The acquisition price was 178,220 thousand euros. Of this amount, 41,335 thousand euros were deferred until 31 December 2018 at the latest, and were recognised under “Trade payables” in the balance sheet. Several guarantees were extended as collateral for the deferred amount (Note 15). On 31 December 2018, the deferred amounts were paid and the guarantees extended to cover these payments were cancelled.

Impairment -

In 2018 and 2017, the Company did not recognise any impairment losses on the financial interest in SFL given that the fair value of that interest, calculated based on SFL's EPRA Triple Net Asset Value (EPRA NNNAV) at the close of 2018 and 2017, was 86.32 and 80.14 euros per share, respectively, higher than the acquisition cost of the shareholding (Note 4-e).

The price of SFL shares at the close of 2018 and 2017 was 60.80 euros and 54.61 euros per share, respectively.

b) Non-current investments in Group companies and associates - Loans to companies

The details of "Loans to companies" in the balance sheet are as follows:

	Thousands of euros	
	31 December 2018	31 December 2017
Danieltown Spain, S.L.U.	12,916	12,486
Moorage Inversiones 2014, S.L.U.	13,605	6,035
Hofinac Real Estate, S.L.U.	426	-
Colonial Arturo Soria, S.L.U.	12,159	13,159
LE Offices Egeo, S.A.U.	28,182	-
Almacenes Generales Internacionales, S.A.U.	-	11,495
Peñalvento, S.L.U.	20,711	22,577
Axiare Investments, S.L.U.	25,102	-
Axiare I+D+i, S.L.U.	500	-
Venusaur, S.L.U.	13,962	-
Chameleon (Cedro), S.L.U.	25,157	-
Utopicus Innovación Cultural, S.L.	3,296	-
Total	**156,016**	**65,752**

Loans granted to Group companies earn interest at market rates.

c) Non-current equity instruments

The breakdown of "Non-current equity instruments" in the balance sheet at 31 December 2018 and 2017 was as follows:

	Thousands of euros	
	31 December 2018	31 December 2017
Fair value:		
Non-current equity instruments		
Axiare Patrimonio SOCIMI, S.A.	-	419,277
Advances for purchases of shares	-	4,000
Total fair value	**-**	**423,277**

Axiare Patrimonio SOCIMI, S.A. –

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

In March 2017, the Company acquired 1,404,000 shares of Axiare representing 1.78% of the company's current share capital, for 15,801 thousand euros, including acquisition costs, obtaining an interest of 15.49% in Axiare.

At 31 December 2017, the Company held an ownership interest of 28.7%, represented by 22,762,064 Axiare shares.

In 2018, and up until the date on which the Company obtained control over Axiare, the Company recognised the changes in the fair value of the investment directly in equity.

Once the takeover bid for Axiare was completed (Note 23), and control over this company was obtained, the cost of the investment at the date of the takeover formed part of the cost of the financial interest in the subsidiary and, subsequently, the cost of the business combination in stages (Note 23). In addition, the Company reclassified to the income statement the amount recognised in equity as a result of measuring the investment at fair value up until the date of the takeover, which amounted to 15,638 thousand euros.

Advances for purchases of shares –

In 2017, the Company signed a call option for all shares of LE office Egeo, S.A.U., the option premium of which amounted to 4,000 thousand euros. On 16 January 2018, the Company exercised the call option and acquired all shares of LE Offices Egeo, S.A.U. (Note 9-a).

d) Other non-current financial assets

The breakdown of "Other non-current financial assets" in the balance sheet at 31 December 2018 and 2017 was as follows:

	Thousands of euros	
	31 December 2018	31 December 2017
Cost:		
Other non-current financial assets		
Account receivable held with former shareholders	-	7,751
Guarantees and deposits	18,191	8,823
Total cost	**18,191**	**16,574**
Impairment:		
Account receivable held with former shareholders	-	(7,751)
Total impairment losses	**-**	**(7,751)**
Total other non-current financial assets	**18,191**	**8,823**

Account receivable held with former shareholders-

"Other non-current financial assets" included the account receivable held with companies of a former shareholder of the Company relating to the tax effect of the difference between the tax and accounting bases of the assets contributed in the capital increase dated 29 June 2006. This receivable is secured by a guarantee on first demand.

In 2015, the Company returned the guarantees corresponding to the amounts deemed unrecoverable, thus recognising on the balance sheet only those amounts considered to be recoverable, totalling 7,751 thousand euros. This amount was fully impaired at 31 December 2017.

At 31 December 2018, the companies of the former shareholders were in an advanced phase of liquidation, and it was considered that the provisions for the full amounts recognised in the balance sheet would not be recovered. The Company therefore derecognised these amounts for accounting purposes.

Non-current deposits and guarantees-

This heading includes the amount of non-current deposits and guarantees granted, primarily in relation to deposits made with official entities in connection with security deposits collected from tenants, in accordance with prevailing legislation.

10. Derivative financial instruments

The derivative financial instruments held by the Company at 31 December 2018 and 2017 are as follows:

31 December 2018

Financial instrument	Counterparty	Interest rate	Maturity	Thousands of euros	
				Nominal amount	Fair value – Asset / (Liability)
Interest rate swap	ING	0.95%	2022	18,650	(824)
Interest rate swap	Deutsche Bank	0.27%	2022	18,650	(230)
Interest rate swap	Banco Santander	0.25%	2022	18,000	(204)
Total at 31 December 2018				**55,300**	**(1,258)**

31 December 2017

Financial instrument	Counterparty	Interest rate	Maturity	Thousands of euros	
				Nominal amount	Fair value – Asset / (Liability)
Swap (redeemed step-up)	BBVA	4.40%	2018	4,212	(50)
Cap	ING	1.25%	2018	300,000	-
Cap	Morgan Stanley	1.25%	2018	130,000	-
Total at 31 December 2017				**434,212**	**(50)**

At 31 December 2017, the Company had arranged 2 CAPs of a total nominal amount of 430,000 thousand euros, with a hedge level of 1.25% (strike), maturing on 31 December 2018. The amount paid for the premiums was 8,580 thousand euros, which was recognised in full as a hedging expense in the 2014 income statement, valuing the CAPs at 0 thousand euros in the balance sheet.

In 2017, the CA-CIB CAP was sold for 6 thousand euros, resulting in income of that amount in the "Impairment and gains/(losses) on disposal of financial instruments – Gains/(losses) on disposals and other" in the income statement (Note 18-f).

At 31 December 2018 and 2017, the impact on the income statement of recognising derivative financial instruments amounted to 4,329 thousand euros and 2 thousand euros in finance costs, respectively (Note 18-f). This impact is recognised in "Change in fair value of financial instruments – Trading portfolio and others" in the income statement.

The fair value of the derivative financial instruments was calculated by discounting estimated future cash flows based on an interest rate curve and on assigned volatility at each calculation date.

11. Non-current assets held for sale

The changes in this heading of the balance sheet in 2018 and 2017, and the most significant information affecting this heading, were as follows:

	Thousands of euros	
	Transfers (Note 7)	**Total**
Balance at 31 December 2016	-	-
Balance at 31 December 2017	-	-
Transfers (Note 7)	26,091	**26,091**
Balance at 31 December 2018	**26,091**	**26,091**

Movements in 2018 -

On 28 December 2018, the Company entered into a private agreement for the sale of the Hotel Centro Norte property and received 2,750 thousand euros as a prepayment. The transfer will take place in 2019, provided that all conditions established in this agreement has been fulfilled.

12. Current financial investments and sundry account receivables

a) *Current financial investments*

The detail of the balances recognised under "Current financial investments" in the balance sheet at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	31 December 2018	31 December 2017
Cost:		
Current equity instruments	9	9
Loans to companies (DUE)	-	74,266
Other current financial assets	1,291	-
Total cost	**1,300**	**74,275**
Impairment:		
Impairment (DUE)	-	(74,266)
Total impairment	**-**	**(74,266)**
Total current financial investments	**1,300**	**9**

Loan to Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. (DUE)–

As a result of restructuring the financial debt of the then investee DUE, the Company granted a loan for a maximum of 85,000 thousand euros, which was fully impaired at year-end 2017, the purpose of which was to finance the development of the project implemented by DUE and to cover the costs related to the work yet to be carried out on the UE-1, among other things. In this regard, the amount yet to be drawn down at 31 December 2017 totalled 10,214 thousand euros, and for such purpose, in accordance with the obligations assumed, the Company recognised the appropriate provision under “Other non-current provisions” on the balance sheet for the part not drawn (Note 14).

In accordance with the provisions of the agreement between both companies, the loan granted by the Company was convertible into a participating loan provided that the company DUE was in the process of dissolution. In this regard, on 25 June 2015, in response to the request by DUE, 72,451 thousand euros were converted into a participating loan.

In 2018 the Company sold the loan granted to Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. to a third-party for 1 euro, thus be released from all its obligations.

Other current financial assets -

These assets mainly relate to deposits made by the Company to guarantee the performance of its obligations.

b) *Sundry account receivables*

The detail of the balances recognised under "Sundry account receivables" in the balance sheet at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	31 December 2018	31 December 2017
Cost:		
Nozar, S.A.	85,473	85,473
Lease incentives (Note 4-m)	13,616	3,471
Other	12	388
Total cost	**99,101**	**89,332**
Impairment:		
Nozar, S.A.	(85,473)	(85,473)
Total impairment	**(85,473)**	**(85,473)**
Total sundry account receivables	**13,628**	**3,859**

At 31 December 2018 and 2017, the amounts owed by Nozar, S.A. resulting from the termination of purchase contracts formalised in July 2007 due to breach of compliance with the conditions precedent, are recognised under "Sundry account receivables".

Nozar, S.A. is currently involved in bankruptcy proceedings; consequently, at 31 December 2018 and 2017, the balance sheet includes an impairment loss for the entire amount of this company's trade receivables.

Lease incentives –

"Lease incentives" includes the amount of the incentives in the operating lease agreements (rent-free periods, etc.) that the Company offers its customers, which are recognised in the income statement during the minimum operating lease term (Note 4-m). Of that amount, 10,474 thousand euros have a maturity of more than 1 year (2,360 thousand euros at 31 December 2017).

13. Equity

a) *Share capital*

At 31 December 2016, the Company'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 Company carried out two capital increases, both with a charge to monetary contributions and the disapplication of pre-emption rights for 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 Company'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 23) 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.

In 2018, the Company carried out two capital increases, both charged to monetary contributions and the disapplication of pre-emption rights for the accelerated bookbuild offering for qualified investors:

- The increase aimed at ensuring and optimising the funding for the takeover bid for Axiare Patrimonio SOCIMI, S.A. shares not owned by Colonial once the takeover was executed was registered with the Mercantile Registry on 2 July 2018 (Note 23). As a result of the placement, 19,273,622 new shares were issued each with a par value of 2.50 euros, for a total amount of 157,909 thousand euros, prompting an increase in share capital and the share premium of 48,184 thousand euros and 109,725 thousand euros, respectively. The new shares were admitted to trading on 9 July 2018 on the Barcelona and Madrid Stock Exchanges.

- On 16 November 2018, the 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 Company at 31 December 2018 and 2017 are 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 in the Company.

At 31 December 2018 and 2017, Blackrock Inc. and Deutsche Bank AG formally obtained financial instruments associated with the Company's shares that, in the event the instruments are exercised, could give rise to an additional interest in the share capital of Colonial.

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

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

Within the maximum amount indicated, the Board of Directors is empowered to exclude the pre-emption right up to a maximum of 20% of the share capital.

b) *Share premium*

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

On 24 May 2018, dividends were distributed with a charge to the share premium for a total of 11,326 thousand euros.

In 2017, as a result of the aforementioned accelerated bookbuild offerings, the amount of the share premium increased by 394,922 thousand euros.

c) *Legal*

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. At 30 December 2017, taking into account the allocation to the legal reserve included in the distribution of the Company'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 as part of the distribution of profit for 2017.

At 31 December 2018, taking into account the allocation to the legal reserve included in the distribution of Company'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 financial statements.

Other reserves-

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 13-a), costs of 1,149 thousand euros were reported in 2018 (6,691 thousand euros in 2017), under “Reserves” in equity.

In 2018, the Company carried out transactions involving treasury shares, which gave rise to a gain of 7,332 thousand euros (10,371 thousand euros for 2017), and which were registered directly in the Company's equity. The income generated from the delivery of treasury shares to the beneficiaries of the long-term incentives plan (Note 20-c), calculated as the difference between the carrying amount of the shares delivered and the amount of the obligation assumed by the Company, which amounted to 1,514 thousand euros in 2018 (1,286 thousand euros in 2017) was also recognised in the Company's reserves.

At 31 December 2018 and the 2017, the Company had a voluntary reserves amounting to 169,439 thousand euros classified as restricted.

d) *Treasury shares*

At 31 December 2018 and 2017, the Company'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 20-c)	(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**

Company share buyback plans -

On 14 November 2016, the Company'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 held 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 Company'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 Company's Board of Directors agreed to implement a 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 Company'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 Company ended the share buyback programme early.

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

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

Other disposals -

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

On 29 November 2017, the Company 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, i.e. at 7.89 euros per share.

e) *Liquidity contracts*

The Company 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 Company'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 Company 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.

On 10 July 2017, upon the issue of CNMV Circular 1/2017, of 26 April 2017, the Company terminated the liquidity contract.

Liquidity contract dated 11 July 2017 -

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

f) Valuation adjustments - Available-for-sale financial assets

This balance sheet heading included the net amount of changes in the fair value of financial investments available for sale described in Note 9-c.

g) Valuation adjustments – Hedging transactions

The changes in 2018 in this heading of the balance sheet are as follows:

	Thousands of euros	
	31 December 2018	31 December 2017
Beginning balance	-	-
Changes in the fair value of hedges in the year	(2,792)	-
Transfers to the income statement	2,299	-
Ending balance	**(492)**	-

In 2018, as a result of the business combination described in Note 23, the Company incorporated the derivative financial instruments of Axiare Patrimonio SOCIMI, S.A. "Changes in the fair value of hedges during the year" includes the impact of changes in the value of these instruments since the takeover date.

In 2018, the Company cancelled the various derivative financial instruments arising from the absorbed company Axiare Patrimonio SOCIMI, S.A., which entailed the transfer to the income statement of 2,299 thousand euros.

14. Provisions and contingencies

a) *Provisions*

The breakdown of current and non-current provisions in the balance sheet at year-end 2018 and 2017, as well as the main changes in 2018, are as follows:

	Thousands of euros			
	Current	Non-current		
	Provisions for contingencies and charges	Provisions for personnel	Provisions for contingencies and charges	Total non-current
Balance at 31 December 2017	**19,914**	**83**	**10,206**	**10,289**
Provisions (Note 18-c)	7,422	-	10	10
Disposals/amounts used (Note 18-c)	(11,025)	(12)	-	(12)
Disposals/amounts used (Note 18-f)	-	-	(10,127)	(10,127)
Balance at 31 December 2018	**16,311**	**71**	**89**	**160**

Provision for contingencies and charges - Non-current

As a result of restructuring the financial debt of Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. (hereinafter, "DUE") (Note 12), 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 higher than 20,000 thousand euros. At 31 December 2017, the urban planning costs amounting to 9,786 thousand euros were paid. In 2018 the Company assigned all of the rights and obligations of Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. to a third party, and the Company derecognised the provision corresponding to the outstanding urban planning costs, which amounted to 10,127 thousand euros.

Provision for contingencies and charges - Current

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

b) *Contingent assets*

In 2010, the Company filed certain lawsuits on behalf of the Company against former directors for transactions carried out between June 2006 and December 2007 regarding the following corporate actions for liability:

- A corporate action for liability against certain former directors in relation to the purchase of assets by the Company 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. The Company's directors do not expect such possible rulings to have a significant impact on the financial statements, given that at 31 December 2018, the appropriate provision had been recognised to meet any possible costs.

15. Bank borrowings, debt instruments and other marketable securities

At 31 December 2018 and 2017, the breakdown by debt type and maturity 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:								
Syndicated loans	-	-	-	20,000	50,000	-	70,000	70,000
Mortgage loans	3,343	6,504	7,906	71,049	12,295	104,859	202,613	205,956
Other loans	-	-	-	-	-	50,000	50,000	50,000
Fees and interest	639	-	-	-	-	-	-	639
Debt arrangement	(1,536)	(1,546)	(1,539)	(1,048)	(791)	(1,484)	(6,408)	(7,944)
Total bank borrowings	**2,446**	**4,958**	**6,367**	**90,001**	**61,504**	**153,375**	**316,205**	**318,651**
Debt instruments and other marketable securities:								
Bonds issues	-	-	-	-	500,000	2,100,000	2,600,000	2,600,000
Fees and interest	20,211	-	-	-	-	-	-	20,211
Debt arrangement	(3,095)	(3,103)	(3,095)	(3,095)	(2,822)	(4,919)	(17,034)	(20,129)
Total debt instruments and other marketable securities	**17,116**	**(3,103)**	**(3,095)**	**(3,095)**	**497,178**	**2,095,081**	**2,582,966**	**2,600,082**
Total at 31 December 2018	**19,562**	**1,855**	**3,272**	**86,906**	**558,682**	**2,248,456**	**2,899,171**	**2,918,733**

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:								
Syndicated loans	-	-	-	150,000	13,400	-	163,400	163,400
Fees and interest	372	-	-	-	-	-	-	372
Debt arrangement	(980)	(980)	(983)	(911)	(114)	-	(2,988)	(3,968)
Total bank borrowings	**(608)**	**(980)**	**(983)**	**149,089**	**13,286**	**-**	**160,412**	**159,804**
Debt instruments and other marketable securities:								
Bonds issues	-	375,000	-	-	-	1,950,000	2,325,000	2,325,000
Fees and interest	15,006	-	-	-	-	-	-	15,006
Debt arrangement	(2,886)	(2,530)	(2,273)	(2,267)	(2,267)	(5,007)	(14,344)	(17,230)
Total debt instruments and other marketable securities	**12,120**	**372,470**	**(2,273)**	**(2,267)**	**(2,267)**	**1,944,993**	**2,310,656**	**2,322,776**
Total at 31 December 2017	**11,512**	**371,490**	**(3,256)**	**146,822**	**11,019**	**1,944,993**	**2,471,068**	**2,482,580**

a) *Issues of the Company's straight bonds*

The breakdown of the issues of straight bonds made by the Company 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
5/06/2015	5 years	5 /06/2019	1.86%	750,000	-	375,000
5/06/2015	8 years	5/06/2023	2.73%	500,000	500,000	500,000
28/10/2016	8 years	28/10/2024	1.45%	600,000	600,000	600,000
10/11/2016	10 years	10/11/2026	1.88%	50,000	50,000	50,000
28/11/2017	8 years	28/11/2025	1.68%	500,000	500,000	500,000
28/11/2017	12 years	28/11/2029	2.50%	300,000	300,000	300,000
17/04/2018	8 years	17/04/2026	2.00%	650,000	650,000	-
Total bond issues					**2,600,000**	**2,325,000**

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

The bonds issued by the Company that are traded on a regulated market had a fair value of 2,620,211 thousand euros and 2,378,881 thousand euros (par value of 2,600,000 thousand euros and 2,325,000 thousand euros, respectively) at 31 December 2018 and 2017.

European Medium Term Note Programme -

On 5 October 2016, the Company 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 in the balance sheet 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) *Syndicated financing*

The breakdown of the Company's syndicated debt at 31 December 2018 and 2017 is provided below:

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

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

Colonial refinanced its syndicated loan, taken out in November 2015 for a total of 350,000 thousand euros and maturing in November 2021, thus increasing the nominal amount to 500 million euros reducing the financing spread and extending its maturity to December 2023.

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% Secured non-mortgage debt / Value of non-property assets ≤ 15% Value of the consolidated assets ≥ 4.5 billion euros

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

c) Mortgage loans

The detail of the mortgage-backed loans on certain assets of the Company at 31 December 2018 and 2017 is shown in the table below:

	Thousands of euros			
	31 December 2018		31 December 2017	
	Mortgage debt	Market value of collateral	Mortgage debt	Market value of collateral
Investment property (Note 7)	205,955	592,235	-	-
Total mortgage loans	**205,955**	**592,235**	**-**	**-**

Compliance with financial ratios -

The 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, the Company complied with the financial ratios required in its mortgage loan agreements.

d) Other loans

At 31 December 2018, "Other loans" was comprised of a loan for 50,000 thousand euros maturing in 2024.

e) Other guarantees given

At 31 December 2018, the Company has granted guarantees to government bodies, customers and suppliers in the amount of 24,155 thousand euros (1,091,123 thousand euros at 31 December 2017). These include to guarantees for a total of 14,250 thousand euros arranged to guarantee the deferred payments deriving from investment property acquisitions.

Of the amount remaining, the main guarantee provided amounted to 4,946 thousand euros to secure the obligations acquired by Asentia. The Company and Asentia have an agreement in place whereby if any of the guarantees is enforced, Asentia must compensate the Company for any damage 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 9), for the sum of 41,767 thousand euros, were cancelled. The amount of the accounts payable was recognised in “Payable to suppliers” in the balance sheet.

f) *Fees and interest*

The interest rate on the Company's borrowings, its 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	2.23%	2.35%	2.55%	2.69%
Average credit spread	1.47%	1.73%	1.61%	1.94%

The interest rate on the outstanding debt at 31 December 2018 is 1.98% (1.99% at 31 December 2017).

The accrued interest outstanding recognised in the balance sheet at 31 December 2018 and 2017 amounts to:

	Thousands of euros	
Issue	31 December 2018	31 December 2017
Bonds	20,211	15,006
Bank borrowings	639	372
Total	**20,850**	**15,378**

g) *Loan arrangement expenses*

At 31 December 2018 and 2017, the debt arrangement expenses assumed by the Company and not yet accrued amounted to 28,071 thousand euros and 21,198 thousand euros, respectively. These expenses are taken to the income statement during the term of the debt generating them on a time proportion basis. In this regard, in 2018 and 2017, the Company recognised 3,727 thousand euros and 2,045 thousand euros, respectively, in the income statement, corresponding to the costs repaid during the year (Note 18-f).

h) *Cash and cash equivalents.*

At 31 December 2018 and 2017, amounts of 33,233 thousand euros and 1,069,355 thousand euros, respectively, were recognised under “Cash and cash equivalents”, of which 1,777 thousand euros and 11,992 thousand euros, respectively, were either restricted or pledged. The balance for 2017 included 1,033,676 thousand euros with the necessary cash to be able to carry out the voluntary takeover bid for the acquisition of shares of Axiare Patrimonio, SOCIMI, S.A. (Note 23), the amount of which was secured by a bank guarantee. This guarantee was cancelled after the takeover bid was executed.

16. Other non-current financial liabilities

At 31 December 2018, this heading included 20,349 thousand euros relating to the guarantee is received from lessees and other deposits receipt and to the contingent consideration on the deferred payment for the purchase of the shares in Utopicus (54 thousand euros).

In 2018, a total of 4,600 thousand euros were paid in relation to the contingent consideration for the purchase of shares in the subsidiary Moorage.

At 31 December 2017, this heading amounted to 17,298 thousand euros relating to the guarantees received from lessees and other deposits received, the contingent consideration on the acquisition of the shares in Moorage (4,600 thousand euros) and the deferred payment for the acquisition of Utopicus shares (72 thousand euros).

17. Tax matters

Up until 31 December 2016, Inmobiliaria Colonial, S.A. was the parent 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 Company owned at least 75%, either directly or indirectly (this threshold falls to 70% in the case of listed subsidiaries), and in which it held the majority of voting rights.

On 30 June 2017, the Company chose to operate within the REIT Tax Regime (Note 1). Adherence to this tax regime entailed the dissolution of the Group's tax group at 31 December 2016, effective as of 1 January 2017.

The detail of balances with the tax authorities at 31 December 2018 and 2017 is as follows:

	Thousands of euros			
	Tax receivables		Tax payables	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Tax receivables and payables	-	-	1,196	1,079
Value added tax receivable and payable	9,471	64	-	1,008
Current tax refundable and payable	696	12,788	-	-
Other deferred taxes	-	-	187	187
Social Security payable	-	-	115	92
Total current balances	**10,167**	**12,852**	**1,498**	**2,366**
Deferred tax due to the merger (Note 1)	-	-	33,192	33,731
Other deferred taxes	-	-	5,444	5,632
Total non-current balances	**-**	**-**	**38,636**	**39,363**

Current tax refundable –

At 31 December 2018, the Company had a balance in its favour of 676 thousand euros deriving from income tax for 2017. In January 2019, the tax authorities refunded this amount.

The reconciliation of the accounting profit/(loss) to the taxable profit/(tax loss) at 31 December 2018 and 2017 is as follows:

31 December 2018

	Thousands of euros		
	General regime	REIT regime	Total
Accounting profit/(loss) for the period (before tax)	**49,852**	**(14,271)**	**35,581**
Permanent differences:			
Dividends SFL (Note 19)	-	(62,664)	(62,664)
Other dividends - subsidiaries (Note 19)	-	(4,395)	(4,395)
Plan contribution (Note 20)	-	242	242
Capital increase costs (Note 13)	-	(1,149)	(1,149)
Other	(321)	7,905	7,584
Temporary differences:			
Arising in prior years			
Deferral for reinvestment	750	-	750
Non-deductible provisions	(90,996)	3,001	(87,995)
Non-deductible amortisation and depreciation	(1,339)	-	(1,339)
Arising in the year-			
Impairment of the portfolio (Note 9)	-	6,409	6,409
Amortisation of SFL financial goodwill	-	(282)	(282)
Amortisation of Axiare goodwill (Nota 23)	-	16,182	16,182
Non-deductible provisions	-	5,661	5,661
Retirements from deferred tax on asset gains	9,338	75,351	84,689
Non-deductible finance costs	(1,533)	40,343	38,810
Taxable profit (tax loss)	**(34,249)**	**72,333**	**38,084**

A distinction has been made between the portion of accounting profit for 2018 that will be taxed under the general income tax regime and the portion that falls under the REIT Regime. The following table shows the main differences between accounting profit/(loss) and taxable profit/(tax loss) for 2018:

General regime -

- Pursuant to Law 16/2012, of 27 December, the depreciation of property, plant and equipment, intangible assets and investment property for the tax periods initiated within 2013 and 2014 would be deductible from taxable profit up to 70 per cent of that which would be tax deductible. In this regard, the Company carried out the corresponding adjustments to its taxable profit. In 2018, and according to the provisions of the Law, the Company has recovered a tenth part of the allocations made to depreciation in 2013 and 2014, which were considered non-deductible.

- Other provisions which were not tax deductible in prior years.

- Inclusion in taxable profit of differences between the carrying amounts and the tax bases arising from corporate transactions recognised in prior years (Note 1).

REIT Regime -

- Exemption for dividends from subsidiaries.

- Impairment of properties that are not tax deductible.

- Impairment losses on financial interests considered not tax deductible.

- In accordance with the resolution in Royal Decree Law 12/2012, of 30 March, amending Article 20 of the Corporate Income Tax Law, the Company has temporarily adjusted the finance cost that exceeds 30% of the yearly profit.

- Inclusion in taxable profit of differences between the carrying amounts and the tax bases arising from corporate transactions recognised in prior years (Note 1).

- Non-deductible provisions (Notes 9 and 14).

31 December 2017

	Thousands of euros		
	General regime	REIT regime	Total
Accounting profit/(loss) for the period (before tax)	**32,120**	**3,076**	**35,196**
Permanent differences:			
Dividends SFL (Note 19)	-	(28,603)	(28,603)
Dividends Torre Marenostrum, S.L. (Note 19)	-	(514)	(514)
Plan contribution (Note 20)	-	239	239
Recovery of the tax impairment	-	4,289	4,289
Non-deductible provision	(1,168)	1,251	83
Capital increase costs (Note 13)	-	(6,691)	(6,691)
Other	(10)	57	47
Temporary differences:			
Arising in prior years-			
Deferral for reinvestment	750	-	750
Non-deductible provisions	(3,150)	-	(3,150)
Impairment of the portfolio (Note 9)	(8,171)	-	(8,171)
Non-deductible amortisation and depreciation	(1,339)	-	(1,339)
Arising in the year-			
Impairment of the portfolio (Note 9)	-	2,941	2,941
Amortisation of SFL financial goodwill	-	(283)	(283)
Non-deductible provisions	-	11,169	11,169
Retirements from deferred tax on asset gains	(20,229)	-	(20,229)
Non-deductible finance costs	(835)	22,671	21,836
Other	(273)	1	(272)
Taxable profit (tax loss)	**(2,305)**	**9,603**	**7,298**

A distinction has been made between the portion of accounting profit that will be taxed under the general regime and the portion that falls under the REIT Regime. The following table shows the main differences between accounting profit/(loss) and taxable profit/(tax loss) for 2017:

General regime

- Recovery of impairment of equity interests with Group companies, considered not tax deductible in prior years.

- Pursuant to Law 16/2012, of 27 December, the depreciation of property, plant and equipment, intangible assets and investment property for the tax periods initiated within 2013 and 2014 would be deductible from taxable profit up to 70 per cent of that which would be tax deductible. In this regard, the Company carried out the corresponding adjustments to its taxable profit. In 2017, and according to the provisions of the Law, the Company has recovered a tenth part of the allocations made to depreciation in 2013 and 2014, which were considered non-deductible.

- Recovery of impairment of properties which were not deductible.

- Other provisions which were not tax deductible in prior years.

- REIT Regime

- Dividends from the subsidiaries SFL and Torre Marenostrum, S.L. in application of the exemption as provided for under Article 21 of the Corporate Income Tax Law.

- Impairment of equity interests allocated in 2017 with Group companies, considered not tax deductible.

- In accordance with the resolution in Royal Decree Law 12/2012, of 30 March, amending Article 20 of the Corporate Income Tax Law, the Company has temporarily adjusted the finance cost that exceeds 30% of the yearly profit.

- Non-deductible provisions (Notes 9 and 14).

The reconciliation between the accounting profit/(loss) and the income tax expense recognised in the income statement for 2018 and 2017 is as follows:

	Thousands of euros	
	2018 (*)	2017 (*)
Accounting profit before tax	35,581	35,196
Permanent differences (**)	(60,382)	(31,150)
Adjusted accounting profit/(loss)	**(24,801)**	**4,046**
- REIT Regime	(74,332)	(26,896)
- General regime	49,531	30,942
Accounting profit adjusted to the General Regime	**49,531**	**30,942**
- Unregistered deferred tax assets offset in the year	(93,868)	(13,768)
Taxable profit/(loss) with the General Regime	**(44,337)**	**17,174**
Corporate income tax expense at 25%	-	4,294
Activation shield	305	(689)
Other adjustments	(1,032)	(906)
Total tax expense recognised in the income statement	**(727)**	**2,699**
- Current tax	-	3,605
- Deferred tax	(727)	(906)

(*) Income tax expense is calculated for the accounting profit which is taxed under the General Regime. The rest of the accounting profit, which is taxed under the special REIT regime, will be taxed at a rate of 0% and does not generate tax expense.
(**) The 1,149 thousand euros and 6,691 thousand euros of capital increase expenses recognised directly in the Company's equity in 2018 and 2017 are not included.

Deferred tax assets –

The breakdown of deferred tax assets at 31 December 2018 and 2017 by item is as follows:

31 December 2018

Deferred tax assets (Tax base)	Thousands of euros	
	General Regime base	REIT base
Tax loss carryforwards	5,413,609	-
Non-deductible impairment	-	5,661
Non-deductible impairment on the portfolio	8	9,350
Non-deductible finance costs	396,246	63,015
Non-deductible amortisation	8,036	-
Non-deductible provisions	66,716	14,170
Other	100	10
Total tax credits and deferred tax assets	**5,884,715**	**92,046**
Balance recognised for accounting purposes (*)	**-**	**-**

(*) In accordance with the above, when determining the deferred tax liability at 31 December 2018, the Company has considered the application of tax credits totalling 10,939 thousand euros, with these being calculated at the effective settlement rate, estimated at 18.75% (Note 4-m).

31 December 2017

Deferred tax assets (Tax base)	Thousands of euros	
	General Regime base	REIT base
Tax loss carryforwards	5,379,360	-
Non-deductible impairment	-	287
Non-deductible impairment on the portfolio	8	2,941
Non-deductible finance costs	397,779	22,671
Non-deductible amortisation	9,377	-
Non-deductible provisions	157,712	11,169
Other	100	-
Total tax credits and deferred tax assets	**5,994,336**	**37,068**
By transactions in tax group	3	-
Total transactions with tax group companies	**3**	**-**
Total deferred tax assets	**5,994,339**	**37,068**
Balance recognised for accounting purposes (*)	**-**	**-**

(*) In accordance with the above, when determining the deferred tax liability at 31 December 2017, the Company has considered the application of tax credits totalling 11,000 thousand euros, with these being calculated at the effective settlement rate, estimated at 18.75% (Note 4-m).

Deferred tax assets relating to prior year tax loss carryforwards –

The Corporate Income Tax Law in force as of 1 January 2015 stipulates that prior years' tax loss carryforwards may be offset in future years without any time limit.

The following table details the tax loss carryforwards generated by the Company as at 31 December 2018:

Year incurred	Thousands of euros Taxable profit under the general regime
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	530,183
2011	117,893
2012	85,756
2013	83,618
2014	15,028
2015	2,074,346
2016	145
2017	2,305
2018	34,249
Total	**5,413,609**

Deferred tax liabilities -

The breakdown of deferred tax liabilities at 31 December 2018 and 2017 by item is as follows:

31 December 2018

Deferred tax liabilities	Thousands of euros Tax base
Deferral for reinvestment outstanding	18,906
Deferred liability for financial goodwill	2,470
Deferred liability from gains allocated to investment property and financial assets	261,004
Capitalised tax credits	(128,238)
Total	**154,142**
Deferred tax liabilities (*)	**38,823**

(*) Of the deferred tax liabilities, 38,636 are recognised under "Non-current deferred tax liabilities" and 186 thousand euros are recognised in current liabilities under "Other payables to public authorities".

31 December 2017

Deferred tax liabilities	Thousands of euros Tax base
Deferral for reinvestment outstanding	19,656
Deferred liability for financial goodwill	2,180
Deferred liability from gains allocated to investment property and financial assets	264,382
Capitalised tax credits	(129,457)
Total	**156,761**
Deferred tax liabilities (*)	**39,550**

(*) Of the deferred tax liabilities, 38,636 are recognised under "Non-current deferred tax liabilities" and 186 thousand euros are recognised in current liabilities under "Other payables to public authorities".

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 under applicable laws. The terms for holding the amounts reinvested by the Company are as follows:

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

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

Deferred liability for gains allocated to investment property and financial assets –

The deferred tax attributable to the capital gains assigned to the merger of Grupo Inmocaral, S.A. and Inmobiliaria Colonial, SOCIMI, S.A. (Note 1) was calculated based on a 25% tax rate on 41,077% of the total capital gains attributable to those assets, as determined in 2015 by an independent third party (Loan Agency Services).

"Deferred liability for gains allocated to investment property and financial assets", as detailed in Note 4-m, includes the amount of deferred taxes associated with the Company's investment property that would accrue if these assets were transferred using the effective rate that would be applicable, taking into account applicable legislation and any unrecognised tax credits. Accordingly, the deferred taxes associated with the Company's investment property were recognised at an effective rate of 18.75% (tax rate of 25% with a limit on tax loss carryforwards of 25%).

Unused tax credits –

The breakdown of unused tax credits due to insufficient taxable profit at 31 December 2018 and 2017 by item is as follows:

	Thousands of euros	
	2018	2017
Unused tax credits for dividends receivable	7,685	7,685
Unused tax credits for deductions for donations	55	55
Unused tax credits for training	3	3
Unused tax credits for reinvestment	15,683	16,141
Total unused tax credits	**23,426**	**23,884**
Balance recognised for accounting purposes	-	-

The nature and amount of the unused tax credits at 31 December 2018 due to insufficient taxable profit in prior years and the corresponding last year for use are as follows:

	Thousands of euros		
Type	Year incurred	Unrecognised for accounting purposes	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
		7,743	

At 31 December 2018, the unused tax credits for reinvestment due to insufficient taxable profit and the corresponding last year for use are as follows:

Year incurred	Thousands of euros	
	Amount	Last year for use
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
Total	**15,683**	

Years open for review and tax audits -

The Company has the last four years open for review by the tax inspection authorities for all applicable taxes. In 2015, the Company filed supplementary income tax returns for 2011 to 2014, breaking the statute of limitations for these years.

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

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.

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

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

	Thousands of euros
Share premium	1,126,248
Legal and bylaw reserves	39,099
Other reserves:	
Restricted reserve	169,439
Other reserves	36,580
Total reserves at 31 December 2018	**1,371,366**

b) Reserves arising from years in which the tax regime established under this Law was applied, differentiating the part arising from income subject to the tax rate of 0%, or of 19%, with respect to those which, where appropriate, were taxed at the standard tax rate.

	Thousands of euros		
	General regime	REIT regime	**Total**
Reserves from 2017:			
Appropriation to the legal reserve (Note 13-c)	-	3,250	**3,250**
Gains on treasury shares and Capital increase costs	-	4,668	**4,668**
Total	**-**	**7,918**	**7,918**

In addition, in 2018 the share premium increased by 452,191 thousand euros as a result of the capital increases carried out during the year.

c) Dividends distributed with a charge to profit for each year in which the tax regime established under this Law was applicable, differentiating the part arising from income subject to the tax rate of 0%, or of 19%, with respect to those which, where appropriate, were taxed at the standard tax rate.

	Thousands of euros		
	General regime	REIT regime	**Total**
2017 dividend	-	29,247	**29,247**
Total	**-**	**29,247**	**29,247**

d) In the event of the distribution of dividends with a charge to reserves, designation of the year in which the reserve used was set up, and whether such reserves were subject to the tax rate of 0%.19% or a standard tax rate.

	Thousands of euros		
	General regime	REIT regime	**Total**
2017 dividend	48,371	-	**48,371**
Total	**48,371**	**-**	**48,371**

The dividend corresponding to 2017 and paid in 2018 included the distribution of 11,326 thousand euros as a share premium and 37,045 thousand euros to reserves from profit generated in the years prior to adhering to the REIT regime.

e) Date on which it was resolved to distribute the dividends referred to in letters c) and d) above.

The resolution for the distribution of dividends for 2017 was approved by the shareholders at Annual General Meeting of 24 May 2018.

f) Acquisition date of the properties earmarked for lease and of the equity interests in companies referred to in Article 2.1 of this Law.

Property	**Location**	**Date of acquisition**	**Maintenance start date**
Pedralbes Centre	Barcelona	19 Dec 92	1 Jan 17
Avda. Diagonal, 530	Barcelona	19 Dec 92	1 Jan 17
Sant Antoni Mª Claret, 436	Barcelona	19 Dec 92	1 Jan 17
Amigó, 11-17	Barcelona	28 Dec 94	1 Jan 17
Berlín-Numancia	Barcelona	15 Apr 97	1 Jan 17
Avda. Diagonal, 682	Barcelona	30 Dec 97	1 Jan 17
Pº de la Castellana, 52	Madrid	28 Jul 98	1 Jan 17

Property	Location	Date of acquisition	Maintenance start date
Vía Augusta, 21-23	Barcelona	26 Oct 98	1 Jan 17
Francisco Silvela, 42	Madrid	25 Oct 04	1 Jan 17
Alfonso XII	Madrid	28 Mar 00	1 Jan 17
Ramírez de Arellano, 37	Madrid	30 Nov 99	1 Jan 17
Sant Cugat - Sant Joan	Sant Cugat del Vallès	24 Dec 99	1 Jan 17
Les Glòries - Diagonal	Barcelona	9 Jun 00	1 Jan 17
Jose Ortega y Gasset, 100	Madrid	5 Jul 00	1 Jan 17
Pg. dels Til·lers, 2-6	Barcelona	15 Sep 00	1 Jan 17
Poeta Joan Maragall	Madrid	18 Apr 01	1 Jan 17
Avda. Diagonal, 409	Barcelona	9 Oct 01	1 Jan 17
Parc Central 22@ A.1.6 - A.1.7	Barcelona	17 Feb 05	1 Jan 17
Recoletos, 37-41	Madrid	21 Oct 05	1 Jan 17
Pº de la Castellana, 43	Madrid	21 Oct 05	1 Jan 17
Miguel Ángel, 11	Madrid	21 Oct 05	1 Jan 17
José Abascal, 56	Madrid	21 Oct 05	1 Jan 17
López Hoyos, 35	Madrid	21 Oct 05	1 Jan 17
Martinez Villergas, 49	Madrid	24 Mar 06	1 Jan 17
Orense, 46-48	Madrid	27 Jun 05	1 Jan 17
Pérez Rozas, 25	Santa Cruz de Tenerife	17 Jun 02	1 Jan 17
Botánico, 8	Puerto de La Cruz	17 Jun 02	1 Jan 17
Hotel Mojacar	Mojacar	3 Jul 06	1 Jan 17
Párraco Ramón Glez Guedes, 15	Las Palmas de Gran Canaria	17 Jun 02	1 Jan 17
Plaza Europa, 42-44	L'Hospitalet Llobregat	30 Dec 14	1 Jan 17
Príncipe de Vergara, 112-114	Madrid	14 Jul 15	1 Jan 17
Génova, 17	Madrid	28 Jul 15	1 Jan 17
Santa Engracia	Madrid	17 Dec 15	1 Jan 17
José Abascal, 45	Madrid	21 Jun 16	1 Jan 17
Travessera de Gràcia, 47-49	Barcelona	28 Dec 16	1 Jan 17
Avda. Diagonal, 609	Barcelona	19 Dec 92	1 Jan 17
Torre Bcn	Barcelona	31 Oct 01	1 Jan 17
Travessera de Gràcia, 11	Barcelona	28 Dec 94	1 Jan 17
Hotel Centro Norte	Madrid	16 Oct 02	1 Jan 17
Illacuna	Barcelona	6 May 14	1 Jan 17
Ricard Roca, 1	Palma de Mallorca	19 Dec 92	1 Jan 17
Diagonal, 197	Barcelona	4 Dec 14	4 Dec 14
Park Cugat	Sant Cugat	16 Mar 17	16 Mar 17
Virto	Alcobendas	28 Jul 14	28 Jul 14
Cabanillas I	Cabanillas del Campo	29 Jul 14	29 Jul 14
Azuqueca I	Azuqueca de Henares	30 Jul 14	30 Jul 14
Rivas	Rivas-Vaciamadrid	24 Sep 14	24 Sep 14
Guadalix	San Agustín de Guadalix	9 Oct 14	9 Oct 14
Camarma I	Camarma de Esteruelas	9 Oct 14	9 Oct 14
Manuel de Falla, 7	Madrid	24 May 16	24 May 16
Ribera de Loira, 28	Madrid	4 Dec 14	4 Dec 14
Tucumán	Madrid	30 Mar 15	30 Mar 15
Velázquez, 80 bis	Madrid	22 May 15	22 May 15
Ramírez de Arellano, 15	Madrid	21 Jul 15	21 Jul 15
Avda. Bruselas, 38	Alcobendas	23 Sep 15	23 Sep 15
Alcalá, 506	Madrid	23 Sep 15	23 Sep 15
Las Mercedes Open Park	Madrid	23 Sep 15	23 Sep 15
Don Ramón de la Cruz, 82	Madrid	8 Oct 15	1 May 16
Josefa Valcárcel, 24	Madrid	26 Jan 16	26 Jan 16
San Fernando Logistics Park I	San Fernando de Henares	24 Oct 18	24 Oct 18
Sagasta, 31-33	Madrid	17 Nov 16	17 Nov 16
Alcalá de Henares I	Alcalá de Henares	25 Nov 16	25 Nov 16
Azuqueca II	Azuqueca de Henares	25 Nov 16	25 Nov 16
J.I. Luca de Tena, 7	Madrid	23 Dec 16	23 Dec 16
Miguel Ángel, 23	Madrid	16 Jan 17	16 Jan 17

Property	Location	Date of acquisition	Maintenance start date
Puerto de Somport, 8	Madrid	20 Jan 17	2 Jan 16
Sagasta, 27	Madrid	4 Apr 17	4 Apr 17
Josefa Valcárcel, 40 bis	Madrid	16 Nov 17	30 Sep 18
Dos Hermanas	Dos Hermanas	30 Jul 14	30 Jul 14
Valls Logístics	Valls	9 Oct 14	9 Oct 14
Les Gavarres	Tarragona	4 Dec 14	4 Dec 14
Constantí	Constantí (Tarragona)	30 Jul 15	30 Jul 15
Viapark	Vicar (Almería)	14 Apr 16	14 Apr 16

Financial investment	Date of acquisition	Maintenance start date
Société Foncière Lyonnaise, S.A.	9 Jun 04	1 Jan 17
Danieltown, S.L.U.	28 May 15	1 Jan 17
Moorage Inversiones 2014, S.L.U.	25 May 16	1 Jan 17
Hofinac Real State, S.L.U.	30 Jun 16	1 Jan 17
Fincas y Representaciones, S.A.U.	29 Dec 16	1 Jan 17
Colonial Arturo Soria, S.L.	27 Sep 17	27 Sep 17
L.E. Offices Egeo, S.L.U.	16 Jan 18	16 Jan 18
Almacenes Generales Internacionales, S.A.U. (AGISA)	20 Dec 17	1 Jan 18
Soller, S.A.U.	20 Dec 17	1 Jan 18
Peñalvento, S.L.U.	31 May 18	31 May 18
Axiare Investments, S.L.U.	6 Jul 18	1 Jan 18
Venusaur, S.L.U.	2 Dec 16	1 Jan 18
Chameleon (Cedro), S.L.U.	31 Jan 17	31 Jan 17

g) Identification of the asset included in the 80% referred to in Article 3.1 of this Law.

All the properties in the above list are included within the 80%.

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

h) Reserves from years in which the special tax regime established under this Law was applied, used in the tax period, which are not intended for distribution or to offset losses, identifying the year in which such reserves originated.

Not applicable.

18. <u>Revenue and expenses</u>

a) Revenue -

The Company's revenue relates to sales in Barcelona, Madrid and Paris. The detail by type of business activity is as follows:

Activity	Thousands of euros	
	2018	2017
Building leases (Note 4-c)	123,976	70,725
Services rendered	1,587	703
Income from holdings in Group companies (Note 4-n)	72,859	29,117
Total	**198,422**	**100,545**

Geographical markets	Thousands of euros	
	2018	2017
Barcelona	39,475	29,644
Madrid	81,733	40,714
Paris (*)	62,664	28,603
Other (**)	14,550	1,584
Total	**198,422**	**100,545**

(*) The total amount corresponds to finance income from dividends of SFL (Note 19).
(**) Includes 10,195 thousand euros and 514 thousand euros in 2018 and 2017, respectively, relating to dividends from the shareholding in various Spanish subsidiaries (Note 19).

Income from 2018 and 2017 includes the effect of incentives to leasing throughout the minimum term of the contract (Note 4-n), which has led to an increase in revenue of 2,653 thousand euros and 1,742 thousand euros, respectively.

b) Staff costs -

The detail of "Staff costs" in the income statement is as follows:

	Thousands of euros	
	2018	2017
Wages and salaries	12,645	11,219
Social security costs	1,154	883
Other employee benefit costs	1,741	1,612
Contributions to defined benefit pension plans	347	239
Internal reallocation	(740)	(685)
Total	**15,147**	**13,268**

At 31 December 2018 and 2017, "Other employee benefit costs" included 1,454 thousand euros and 1,334 thousand euros, respectively, relating to the amount accrued in the year from the long-term remuneration plan described in Note 20-d.

c) Losses on, impairment of and changes in allowances for trade receivables -

The breakdown of “Losses on, impairment of and changes in allowances for trade receivables” in the income statement is as follows:

	Thousands of euros	
	2018	2017
Period provision for doubtful debts (Note 4-g)	8	85
Reversal of period provision for doubtful debts (Note 4-g)	(191)	(18)
Period provision for contingencies and charges (Note 14)	7,422	7,988
Reversal of period provision for contingencies and charges (Note 14)	(11,025)	-
Period provision for other trade balances	10	18
Total impairment/charges	**(3,776)**	**8,073**

d) *Impairment of property assets*

The changes in the impairment of property assets in the various balance sheet headings at 31 December 2018 and 2017 are presented below:

	Thousands of euros		
	Property, plant and equipment (Note 6)	Investment property (Note 7)	Total
Balance at 31 December 2016	**(4,641)**	**(118,589)**	**(123,230)**
Provision	(287)	(694)	(981)
Reversal	-	33,266	33,266
Disposals	-	6,381	6,381
Balance at 31 December 2017	**(4,928)**	**(79,636)**	**(84,564)**
Provision	-	(20,587)	(20,587)
Reversal	1,630	23,010	24,640
Disposals	-	2,165	2,165
Transfers	-	6,601	6,601
Balance at 31 December 2018	**(3,298)**	**(68,447)**	**(71,745)**

The reconciliation with the income statement is as follows:

	Thousands of euros	
	2018	2017
Provisions for non-current assets	(20,587)	(981)
Use of provisions for non-current assets	24,640	33,266
Total impairment/charges	**4,053**	**32,285**

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

The detail of “Impairment and gains/(losses) on disposal of non-current assets - Gains/(losses) on disposals and other” in the income statement is as follows:

	Thousands of euros	
	2018	2017
Gains/(losses) on disposals:		
Property, plant and equipment	-	12
Investment property	20,705	298
Total gains/(losses) on disposal of assets	**20,705**	**310**
Other (derecognition due to replacement):		
Intangible assets (Note 5)	(1,260)	-
Property, plant and equipment (Note 6)	(520)	(96)
Investment property (Note 7)	(5,102)	(8)
Total other (derecognition due to replacement)	**(6,882)**	**(96)**
Total	**13,823**	**214**

The gains/(losses) from disposals of the Company's assets in 2018 and 2017 were as follows:

	Thousands of euros	
	2018	2017
Sale price	388,930	5,612
Net asset value (Note 7)	(358,003)	(4,642)
Indirect costs and other	(10,222)	(660)
Net gains/(losses) on sales of assets	**20,705**	**310**

f) *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 and other	127	89
Income from investments in equity instruments	-	3,681
Capitalised borrowing costs (Note 7)	755	857
Finance income from Group companies and associates (Note 19)	1,744	268
Total finance income	**2,626**	**4,895**
Interest on borrowings and bonds	(64,913)	(37,563)
Debt arrangement expenses accrued (Note 15-g)	(3,727)	(2,045)
Interest from derivatives	(1,667)	-
Costs associated with the repurchase of bonds	(7,303)	-
Costs associated with loan repayment	(6,223)	(2,242)
Other finance costs	(140)	(108)
Finance costs - Group companies and associates (Note 19)	(422)	(193)
Total finance costs	**(84,395)**	**(42,151)**
Change in available-for-sale financial assets (Note 9-c)	15,638	-
Change in derivative instruments (Note 10)	(4,329)	(2)
Change in fair value of financial instruments	**11,309**	**(2)**
Impairment of the financial interest in Hofinac Real Estate, S.L.U.	-	803
Impairment of the financial interest in Fincas y Representaciones, S.A.U.	-	2,359
Impairment of the financial interest in Moorage Inversiones 2014, S.L.U.	-	5,010
Impairment of the financial interest in Utopicus Innovación Cultural, S.L. (Note 9)	(3,057)	(2,937)
Impairment of the financial interest in Colonial Tramit, S.L.U. (Note 9)	(2)	(3)
Impairment of the financial interest in Colonial Invest, S.L.U. (Note 9)	(2)	(2)
Impairment of the financial interest in Axiare Investments, S.L. (Note 9)	(3,197)	-
Impairment of the financial interest in Axiare Properties, S.L. (Note 9)	(2)	-
Impairment of the financial interest in Axiare I+D+I, S.L.U. (Note 9)	(149)	-
Application of provision for contingencies and charges (Note 14)	10,127	368
Impairment of credit facilities with DUE (Note 10)	(10,270)	(368)
Impairment and gains/(losses) on disposal of financial instruments	**(6,552)**	**5,230**
Sale of derivatives (Note 9)	-	6
Gains/(losses) on disposals and other	**-**	**6**
Total financial profit (loss)	**(77,012)**	**(32,022)**

19. Related party transactions and balances

a) *Related party transactions*

Details of transactions with related parties in 2018 and 2017 are as follows:

2018

	Thousands of euros			
	Services rendered	Dividends received	Financial interest income	Financial interest costs
Torre Marenostrum, S.L.	181	756	-	-
Colonial Tramit, S.L.U.	2	-	-	-
Colonial Invest, S.L.U.	2	-	-	-
Danieltown Spain, S.L.U.	72	-	367	-
Moorage Inversiones 2014, S.L.U.	62	9	319	-
Hofinac Real Estate, S.L.U.	151	4,406	-	(422)
Fincas y Representaciones, S.A.U.	101	919	-	-
Inmocol Torre Europa, S.A.	219	-	-	-
Colonial Arturo Soria, S.L.U.	67	425	-	-
LE Offices EGEO, S.A.U.	213	41	-	-
Almacenes Generales Internacionales, S.A.U.	61	-	-	-
Soller, S.A.U.	61	428	-	-
Peñalvento, S.L.U.	62	3,211	602	-
Axiare Investments, S.L.U.	30	-	-	-
Venusaur, S.L.U.	37	-	313	-
Chameleon (Cedro), S.L.U.	30	-	143	-
Utopicus Innovación Cultural, S.L.	63	-	-	-
Société Foncière Lyonnaise, S.A.	-	62,664	-	-
Total 2018	**1,414**	**72,859**	**1,744**	**(422)**

2017

	Thousands of euros			
	Services rendered	Services rendered	Services rendered	Services rendered
Torre Marenostrum, S.L.	162	514	-	-
Société Foncière Lyonnaise, S.A.	-	28,603	-	-
Danieltown Spain, S.L.U.	60	-	183	-
Moorage Inversiones 2014, S.L.U.	60	-	85	-
Hofinac Real Estate, S.L.U.	122	-	-	(193)
Fincas y Representaciones, S.A.U.	84	-	-	-
Inmocol Torre Europa, S.A.	137	-	-	-
Colonial Arturo Soria, S.L.U.	15	-	-	-
Total 2017	**640**	**29,117**	**268**	**(193)**

In addition to the transactions listed in the preceding table, in 2017 the Company received an extraordinary dividend with a charge to reserves from Torre Marenostrum for 1,411 thousand euros, which was recognised as a reduction in the cost of the financial interest (Note 9).

b) *Related party balances -*

At 31 December 2018 and 2017, the Company recognised the following balances with related parties in the balance sheet:

2018

	Thousands of euros				
	Current accounts receivable	Non-current loans granted	Current loans granted	Non-current payables to Group companies	Current payables to Group companies
Torre Marenostrum, S.L.	17	-	30	-	-
Danieltown Spain, S.L.U.	624	13,524	43	-	-
Moorage Inversiones 2014, S.L.U.	17,742	13,424	-	-	(10)
Hofinac Real Estate, S.L.U.	31	-	82	(17,017)	-
Fincas y Representaciones, S.A.U.	2,706	-	-	-	(99)
Inmocol Torre Europa, S.A.	22	-	-	(7,500)	-
Colonial Arturo Soria, S.L.U.	6	12,159	11	-	-
LE Offices Egeo, S.A.U.	6	28,182	-	-	(1,499)
Almacenes Generales Internacionales, S.A.U.	6	-	-	(17,029)	(1,995)
Soller, S.A.U.	637	-	-	(3,296)	(2)
Peñalvento, S.L.U.	1,366	21,313	-	-	(1)
Axiare Investments, S.L.	6	24,500	-	-	-
Axiare Properties, S.L.	-	-	1	-	-
Axiare I+D+i, S.L.U.	-	500	500	-	-
Venasur, S.L.U.	6	14,152	-	-	-
Chameleon (Cedro), S.L.U.	6	25,062	3,523	-	(3,047)
Utopicus Innovación Cultural, S.L.	22	3,200	-	-	-
Total	**23,203**	**156,016**	**4,190**	**(44,842)**	**(6,653)**

2017

	Thousands of euros				
	Current accounts receivable	Non-current loans granted	Current loans granted	Non-current payables to Group companies	Current payables to Group companies
Torre Marenostrum, S.L.	16	-	-	-	-
Danieltown Spain, S.L.U.	73	12,486	-	-	(25)
Moorage Inversiones 2014, S.L.U.	73	6,035	152	-	(23)
Hofinac Real Estate, S.L.U.	12	-	18	(10,594)	-
Fincas y Representaciones, S.A.U.	8	-	22	-	-
Inmocol Torre Europa, S.A.	22	-	-	(7,500)	-
Colonial Arturo Soria, S.L.	6	13,159	-	-	-
Almacenes Generales Internacionales, S.A.U.	-	11,495	-	-	-
Peñalvento, S.L.U.	-	22,577	-	-	-
Total	**210**	**65,752**	**192**	**(18,094)**	**(48)**

20. Director and senior management remuneration and other benefits

a) Composition of the Company's Board of Directors

The Company'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, its composition was as follows:

Director	Position	Type of director
Juan José Brugera Clavero	Chairman	Executive
Pedro Viñolas Serra	Chief Executive Officer	Executive
Sheikh Ali Jassim M. J. Al-Thani	Director	Proprietary
Adnane Mousannif	Director	Proprietary
Carlos Fernández González	Director	Proprietary
Javier López Casado	Director	Proprietary
Juan Carlos García Cañizares	Director	Proprietary
Carlos Fernández-Lerga Garralda	Lead Director	Independent
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 . On this same date, Silvia-Mónica Alonso-Castrillo Allain was appointed as a new independent director .

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

In accordance with the provisions of Article 229 of the Spanish Limited Liability Companies Law, at the end of 2018 the Company's directors did not report to other members of the Board any direct or indirect conflict of interest that they, or any person associated with them as defined by the Spanish Limited Liability Companies Law, may have with respect to the Company.

b) Remuneration of Board members

Remuneration received in 2018 and 2017 by members of the Board of Directors of the Company, by item, is as follows:

	Thousands of euros	
	2018	2017
Remuneration earned by executive directors (*):	**3,347**	**4,866**
Attendance fees:	**561**	**580**
Attendance fees for directors	537	557
Additional attendance fees for the Chairman and Deputy Chairman	24	23
Fixed remuneration:	**780**	**780**
Directors' remuneration	505	495
Additional remuneration for members of the Audit and Control Committee	125	135
Additional remuneration for members of the Nomination and Remuneration Committee	150	150
Total	**4,688**	**6,226**
Remuneration earned by executive directors (*):	**3,347**	**4,866**

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

At 31 December 2018 and 2017, the Company had taken out a civil liability insurance policy covering all of its directors, executives and employees, for a total 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, with overall annual contributions of 180 thousand euros and 178 thousand euros in 2018 and 2017, respectively.

In addition to the matters indicated in the preceding paragraph, the Company has not granted any loans or taken out any additional pension plans or life insurance for former or serving members of the Company'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 Company and the members of the Board of Directors or any other person acting on their behalf.

c) Remuneration of senior management

The Company’s senior management team is formed by senior executives and other persons responsible for the management of the Company, reporting to the CEO, as per the definition provided in the Good Governance Code for listed companies. 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 1,411 thousand euros. Furthermore, they received 1,436 thousand euros corresponding to the long-term incentives plan (1,818 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 Company recognised an annual contribution for this item under “Staff costs” in the income statement of 62 thousand euros and 61 thousand euros, respectively.

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.

d) Long-term bonus scheme linked to delivery of several management indicators

On 21 January 2014, the Company's General Shareholders Meeting set up a long-term bonus scheme for the Chairman and Chief Executive Officer of Inmobiliaria Colonial, SOCIMI, S.A. and for members of the Company's Executive Committee that will apply from 2014 to 2018.

Following a proposal submitted by the Nomination and Remuneration Committee, from 1 to 15 April in each of these years, the Board of Directors must determine the number of shares to be allocated to each beneficiary under the plan based on compliance with the indicators for 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 Company recognised 1,454 thousand euros and 1,334 thousand euros (Note 18-b) under “Staff costs”, respectively, to cover this incentives plan.

On 25 April 2018, the Company 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 would be 348,394 shares (Note 13-d). The shares were delivered to the beneficiaries on 26 May 2018. 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 Company 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 2016 would be 313,934 shares (Note 13-d). The shares were delivered to the beneficiaries on 26 April 2017. 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.

e) 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.

21. Other information

a) Employees

The number of Company employees at 31 December 2018 and 2017, as well as the average number of employees for 2018 and 2017, by job category and gender, is as follows:

	No. of employees at 31 December				Average no. of employees			
	2018		2017		2018		2017	
Professional category	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	5	4	5	3	5	4	5	3
Technical graduates and middle managers	14	7	11	8	13	8	12	6
Administrative staff	22	43	14	32	18	38	14	33
Total	**41**	**54**	**30**	**43**	**36**	**50**	**31**	**42**

The Company also had one female employee with a disability equal to or exceeding 33% at 31 December 2018 and 2017.

b) *Audit fees*

Fees incurred for auditing services to the Company in 2018 and 2017 by the principal auditor (PricewaterhouseCoopers Auditores, S.L.) set forth below:

	Thousands of euros	
Description	2018	2017
Audit services	414	223
Other attest services	151	88
Total audit and related services	**565**	**311**
Tax advisory services	-	-
Other services	20	82
Total professional services	**20**	**82**

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.

c) *Capital management: policies and objectives*

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

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 Company'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.

On 23 December 2018, the Company formally implemented a 12-month Euro Commercial Paper programme to issue promissory notes up to a maximum of 300,000 thousand euros, which may be expanded to 500,000 thousand euros. No promissory notes were issued as at 31 December 2018.

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

Financial risk management policy –

The Company 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 Company'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 Company’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 Company's income statement. 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 Company draws up the monthly follow-up report on its cash forecasts to manage its liquidity risk and meet its various financing needs.

  The Company considers the following mitigating factors in managing liquidity risk: (i) recurring cash flow generation by the Company’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 Company’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 Company had sufficient lines of credit available to meet its short-term maturities. The Company does not use high-risk financial products as a method for investing cash surpluses.

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

- Credit risk: the Company 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.

The Company holds a majority stake in several companies (Note 9-a). The accompanying financial statements cover the Company individually and, therefore, do not reflect any changes in the components of equity that would be recognised if the aforementioned subsidiaries were to be consolidated. The Company prepares its consolidated financial statements on the basis of the International Financial Reporting Standards (IFRSs). According to the consolidated financial statements, shareholders' equity at the company at 31 December 2018 amounted to 4,811,309 thousand euros, attributable consolidated profit to 524,763 thousand euros, and assets and revenue to 11,487,314 thousand euros and 348,273 thousand euros, respectively.

22. Average supplier payment period

Following is the information 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 financial statements in relation to the average period of payment to suppliers in commercial transactions.

	2018	2017
	Days	Days
Average supplier payment period	29	30
Ratio of transactions settled	28	30
Ratio of transactions pending payment	50	29
	Amount (in thousands of euros)	Amount (in thousands of euros)
Total payments made	159,620	67,232
Total payments pending	6,202	3,803

The figures in the table above on payments to suppliers refer to suppliers which by their nature are trade creditors because they are suppliers of goods and services. Therefore, they include the figures for “Payable to suppliers” and “Sundry account payables” on the accompanying balance sheet.

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 that 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.

23. Business combinations

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

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

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

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

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

On 24 May 2018, the shareholders at the Company's Annual General Meeting and on 25 May 2018 at the Annual General Meeting of Axiare Patrimonio SOCIMI, S.A. approved the merger by absorption of Axiare by the Company and the dissolution without liquidation and the transfer en bloc of all its assets and liabilities to the Company effective for accounting purposes as of 2 February 2018.

On 4 July 2018, the merger deed executed on 2 July 2018 between Inmobiliaria Colonial, SOCIMI, S.A. and Inmobiliaria Colonial, S.A. was registered in the Madrid Mercantile Registry. (absorbing company) and Axiare Patrimonio SOCIMI, S.A. (absorbed company). In this respect, to meet the exchange of the merger, the Company issued 19,273,622 new ordinary shares, with a par value of 2.50 euros, of the same class and series as those currently in circulation, representing 4.43% of Colonial's share capital 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 relate to share capital and 109,725 thousand euros to share premium (Note 13). The new shares were admitted to trading on 9 July 2018.

The assets and liabilities of Axiare Patrimonio SOCIMI, S.A. included in the merger, as indicated on the its balance sheet at 2 February 2018, are summarised below:

ASSETS	02.02,2018
Non-current assets:	
Intangible assets	1,298
Property, plant and equipment	656
Investment property	1,085,203
Non-current investments in Group companies and associates	127,016
Non-current financial investments	21,326
Total non-current assets	**1,235,499**
Current assets:	
Trade and other receivables	13,983
Current investments in Group companies and associates	3,586
Current financial investments	207
Current prepayments and accrued income	4,167
Cash and cash equivalents.	149,941
Total current assets	**171,884**
TOTAL ASSETS	**1,407,383**

EQUITY AND LIABILITIES	02.02,2018
Equity:	
Shareholders' equity-	**754,747**
Valuation adjustments-	**(4,562)**
Total equity	**750,185**
Non-current liabilities:	
Non-current payables-	569,597
Total non-current liabilities	**569,597**
Current liabilities:	
Current payables	14,439
Trade and other payables	72,011
Current accrued expenses and deferred income	1,151
Total current liabilities	**87,601**
TOTAL EQUITY AND LIABILITIES	**1,407,383**

The revenue and operating profit obtained by Axiare Patrimonio SOCIMI, S.A. at 31 December 2017 amounted to 61,776 thousand euros and 17,615 thousand euros, respectively.

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

	Thousands of euros
Carrying amount of the investment prior to the merger:	1,207,645
Capital increase as a result of the merger:	157,909
Equity of the absorbed company	(750,185)
Positive difference of the merger	**615,369**
Difference allocated to:	
Property, plant and equipment	(79)
Investment property	408,496
Non-current investments in Group companies and associates	21,235
Current financial investments	9,966
Current payables - Other current financial liabilities	(651)
Trade and other payables	(127)
Goodwill	**176,529**

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

24. Events after the reporting period

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

- From 1 January to 25 February 2019, the Company carried out various short-term promissory note issuances amounting to a total of 172,000 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 11), of which 2,750 thousand euros had been received by the Company as a prepayment.

- In January and February 2019, the Company repaid 206 million euros of the debt from Axiare Patrimonio SOCIMI, S.A. In addition, a sustainable loan was taken out for 75 million euros, the margin of which is tied to the ESG assessment.

APPENDIX

INVESTMENTS IN GROUP COMPANIES

2018	Address	Thousands of euros					% ownership	Thousands of euros
		Share capital	Reserves, share premium and interim dividend	Profit/(loss)	Valuation adjustments	Dividend (Note 19)		Cost (Note 9)
Torre Marenostrum, S.L. (*)	Avda. Diagonal 532, Barcelona (Spain)	5,334	9,474	1,868	(987)	756	55%	24,790
Colonial Tramit, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	3	12	(2)	-	-	100%	23
Colonial Invest, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	3	3	(2)	-	-	100%	13
Danieltown Spain, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	541	22,504	(678)	-	-	100%	30,038
Moorage Inversiones 2014, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	63	21,708	(79)	-	9	100%	49,355
Hofinac Real Estate, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	24,943	139,278	5,626	-	4,406	100%	202,000
Fincas y Representaciones, S.A.U.	Avda. Diagonal 532, Barcelona (Spain)	926	1,808	176	-	919	100%	46,681
Inmocol Torre Europa, S.A. (*)	Avda. Diagonal 532, Barcelona (Spain)	12,500	(61)	(90)	-	-	50%	10,080
Colonial Arturo Soria, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	3	12,026	1,482	-	425	100%	20,624
LE Offices Egeo, S.A.U.	Avda. Diagonal 532, Barcelona (Spain)	60	36,030	2,167	-	41	100%	51,222
Almacenes Generales Internac., S.A.U.	Pº de la Castellana 52, Madrid (Spain)	2,083	31,845	7,062	-	-	100%	101,304
Soller, S.A.U.	Pº de la Castellana 52, Madrid (Spain)	2,524	8,093	(30)	-	428	100%	79,016
Peñalvento, S.L.U.	Pº de la Castellana 52, Madrid (Spain)	2,400	615	(177)	-	3,211	100%	20,755
Axiare Investments, S.L.U.	Pº de la Castellana 52, Madrid (Spain)	1,503	2,507	(78)	-	-	100%	18,067
Axiare Properties, S.L.U.	Pº de la Castellana 52, Madrid (Spain)	3	(1)	(4)	-	-	100%	2
Axiare I+D+i, S.L.U.	Pº de la Castellana 52, Madrid (Spain)	3	146	(835)	-	-	100%	149
Venusaur, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	3	62,658	(1,767)	(899)	-	100%	63,001
Chameleon (Cedro), S.L.U.	C/ Rosario Pino, 14-16, Madrid (Spain)	453	4,277	1,479	-	-	100%	24,056
Utopicus Innovación Cultural, S.L.	C/ Duque de Rivas 5, Madrid (Spain)	8	4,876	(2,869)	-	-	83.47%	7,634
Société Foncière Lyonnaise, S.A. (**)	42, rue Washington, Paris (France)	93,058	3,565,161	351,636	-	62,664	81.71%	2,260,013

* Company audited by PricewaterhouseCoopers

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

INVESTMENTS IN GROUP COMPANIES

2017	Address	Thousands of euros					% ownership	Thousands of euros
		Share capital	Reserves, share premium and interim dividend	Profit/(Loss)	Valuation adjustments	Dividend (Note 19)		Cost (Note 9)
Torre Marenostrum, S.L. (*)	Avda. Diagonal 532, Barcelona (Spain)	5,334	9,322	1,525	(954)	514	55%	24,790
Colonial Tramit, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	3	4	(2)	-	-	100%	13
Colonial Invest, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	3	5	(2)	-	-	100%	13
Danieltown Spain, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	541	22,844	(340)	-	-	100%	30,038
Moorage Inversiones 2014, S.L.U.	Avda. Diagonal 532, Barcelona (Spain)	63	21,707	10	-	-	100%	49,355
Hofinac Real Estate, S.L. (*)	Avda. Diagonal 532, Barcelona (Spain)	24,943	138,789	4,896	-	-	100%	202,000
Fincas y Representaciones, S.A.U.	Avda. Diagonal 532, Barcelona (Spain)	926	1,579	1,149	-	-	100%	46,681
Inmocol Torre Europa, S.A. (*)	Avda. Diagonal 532, Barcelona (Spain)	12,500	-	(61)	-	-	50%	10,080
Colonial Arturo Soria, S.L.	Avda. Diagonal 532, Barcelona (Spain) Avda. Diagonal 532, 08006 Barcelona, Spain	3	12,026	425	-	-	100%	19,747
Almacenes Generales Internac., S.A.U.	Pº de la Castellana 52, Madrid (Spain)	2,083	36,008	(3,414)	-	-	100%	100,124
Soller, S.A.U.	Pº de la Castellana 52, Madrid (Spain)	2,524	8,093	428	-	-	100%	78,096
Utopicus Innovación Cultural, S.L.	C/ Duque de Rivas 5, Madrid (Spain)	252	1,038	(405)	-	-	69.60%	3,634
Société Foncière Lyonnaise, S.A. (**)	42, rue Washington, Paris (France)	93,058	587,202	272,390	-	28,603	58.56%	1,511,370

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

Inmobiliaria Colonial, S.A.

Management report
for the year ended
31 December 2018

1. Company situation

State of the Spanish 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

Revenue totalled 347 million euros at 31 December 2018, and was generated by the Group’s rental business.

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 Company 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 18%
- 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 solid 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"
- Solid occupancy levels of 96%

Increase in recurring profit

Recurring net profit attributable to the Parent amounted to 101 million euros, a 22% increase on the previous 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 than 347 million 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
   - Professionalisation and internationalisation of the commercial circuit and supply chain
   - Optimization of the IT systems
   - Integration of 8 people from Axiare into the Colonial Group

3. Optimisation of the resulting asset portfolio
   - Definition of a business plan reviewed asset by asset
   - Review and optimisation of the project portfolio
   - Identification of non-strategic asset

4. Income synergies - strengthened competitive position in the Madrid market
   - Maximisation 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. Operating cost synergies
   Annual cost savings of more than 5 million euros
   - Implementation of personnel cost synergies
   - Elimination of duplications in other costs

6. Optimisation 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 pipeline of projects: 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

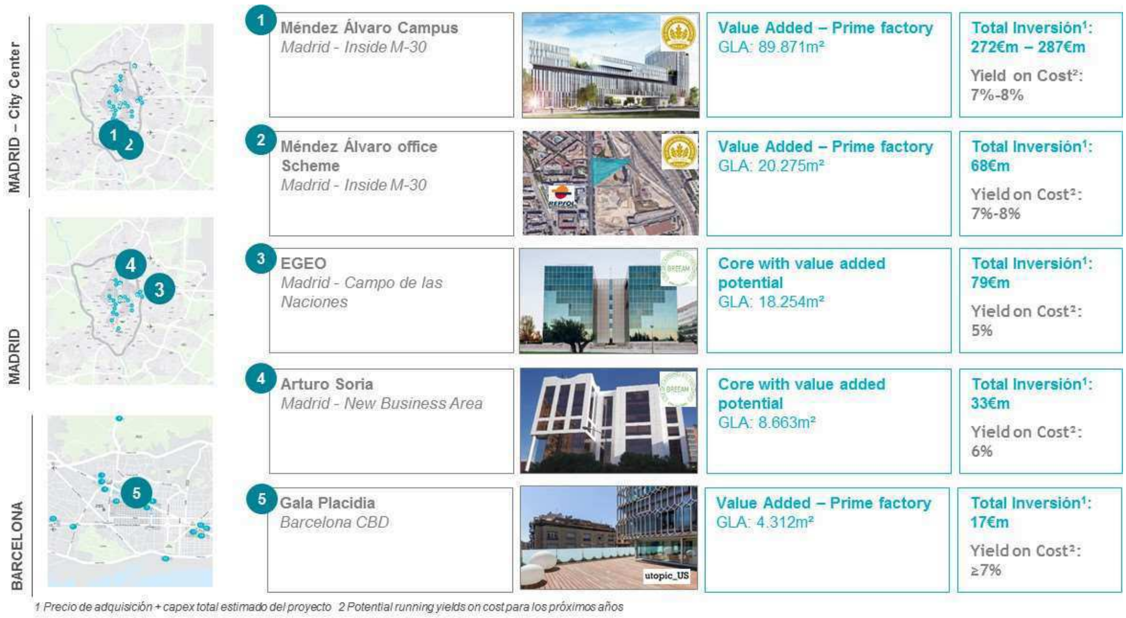
2 Datos de proyecto a fecha de publicación de este informe

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

<u>Alpha III Acquisitions</u>

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.

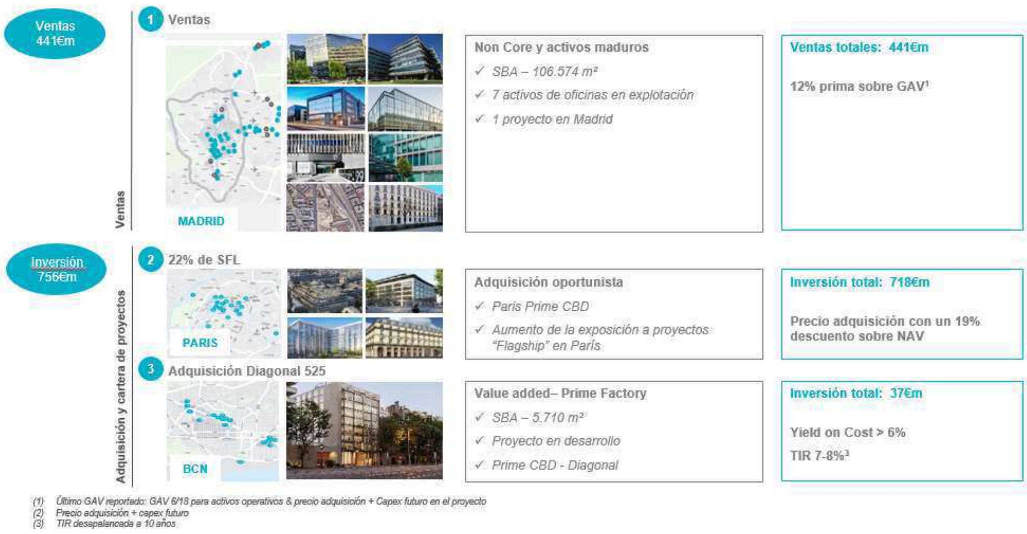


(1) Last GAV reported: GAV 06/18 for operating assets and acquisition cost + capex in the future project

Alpha IV Acquisitions

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

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



1. Disposals: In the third quarter, Colonial sold 7 office buildings and a turnkey project in Madrid for a total price of 441 million euros. The disposals were closed on very favourable terms for the Company, achieving a premium of 12% on the previous valuation. 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 Investmet Authority (QIA) reached an agreement in wich Colonial would control up to 81% of its French subsidiary SFL. The transaction was on very advantageous terms for Colonial wich had access to 10.3 million SFL shares, representing 22.2% of the share capital, at an average price of 69.6 euros 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 of 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.

- Cancellation of 396 million euros in debt from Axiare, all of it secured by mortgage guarantees. Additionally, in the first quarter of 2019, 206 million euros in Axiare debt has already been cancelled, and the rest of the pending debt has been refinanced for the remaining amount of 76 million euros, improving margins and cancelling mortgage guarantees 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 September, 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/sharea, 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 Note 21 to the financial statements for the year ended 31 December 2018.

The Company's average payment period to its suppliers was around 29 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 Company has established two payment days per month to comply with the requirements set forth in Law 11/2013. 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 (Note 22).

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 Company's activities are described below.

Strategic risks:

The risks related to the sector and environment in which the Company 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). In spite of the political uncertainty and economic policies of the last year, the European real estate sector has reached 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 Colonial 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 Colonial'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 Colonial in recent years, and the acquisition and merger of Axiare Patrimonio SOCIMI, S.A. in 2018, have strengthened the Company's position in the sector.
- Risks related to the value of assets: Every six months the Company 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 Colonial's voluntary commitment to its stakeholders. Management of these expectations forms part of the Company's objectives in terms of sustainability and creating value for these stakeholders.
- Corporate governance risk: Colonial'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 Colonial 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 Company 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. Colonial analyses the arrangement of financial instruments to hedge interest rate fluctuations. The Company maintains a high percentage of its gross financial debt tied to fixed rates.
  - ✓ Risks relating to financing and debt: Colonial's financial structure warrants diversification of its sources of financing by entity, product and maturity. In 2018, the new bond issue amounting to 650 million euros, the improvement in the credit rating that is now BBB+ with a stable outlook, the repayment of Axiare's debt and the arrangement of a short-term promissory note programme represented an improvement in the Company's financial structure, thus extending and diversifying the maturity of its debt. Colonial's net financial debt is held at suitable levels, measured using the loan-to-value ratio, providing the Company 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, Colonial has the necessary sources of financing to undertake its current projects in addition to those laid down in its business plan. The Company increased its capacity to attract capital and obtain liquidity and new lines of financing, whereby in 2018 it launched a new bond issue and arranged a short-term promissory note programme.
- Asset management risks: Sustainable property management requires that Colonial 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 incorporated into the Company's organisation and business plan.
- Risk of loss or damage to property assets: Colonial'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. The Company 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 Company, 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 Company, 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 Colonial 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 Company. Colonial has also taken out insurance to cover any legal costs or possible damage against directors and executives.
- Tax risks: Colonial must adhere to the general tax legislation of the countries in which it operates, as well as any specific regulations for the REIT regime. Accordingly, the Company 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 by the Company, 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 financial statements were authorised for issue, the following significant events took place:

- From 1 January to 25 February 2019, the Company carried out various short-term promissory note issuances amounting to a total of 172,000 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 11), of which 2,750 thousand euros had been received by the Company as a prepayment.
- In January and February 2019, the Company repaid 206 million euros of the debt from Axiare Patrimonio SOCIMI, S.A. 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 Company 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 Company, 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 Company's share capital.

9. Other relevant information

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.

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

Below follows a glossary of the Alternative Performance Measures, including their definition and relevance for Inmobiliaria Colonia, S.A., in accordance with the recommendations of the European Securities and Markets Authority (ESMA) published in October 2015 (ESMA Guidelines on Alternative Performance Measures). These alternative performance measures have not been audited or reviewed by the Company auditor.

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.

Alternative Performance Measure .	**Calculation method**	**Definition/Relevance**
EPRA[1] NNNAV (EPRA "triple net")	Calculated by adjusting the following items in the EPRA NAV: The market value of the financial instruments, the market value of the financial debt, any taxes that would be accrued with the sale of assets at market value, applying the reinvestment tax rebate and the tax credit recognised in the balance sheet taking into account the going concern criteria.	Standard analysis ratio for the real estate sector and recommended by the EPRA.
Market value excluding transaction costs or *Gross Asset Value (GAV) excluding transfer costs*	Appraisal of all the assets in the Group's portfolio carried out by the Group's external appraisers, deducting the transaction costs or transfer costs.	Standard analysis ratio for the real estate sector.
Market value including transaction costs or *GAV including transfer costs*	Appraisal of all the assets in the Group's portfolio carried out by the Group's external appraisers, before deducting the transaction costs or transfer costs.	Standard analysis ratio for the real estate sector.
***Like-for-like* Rentals**	Amount of rental income from leases included in "*Revenue*", comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded, together with those from assets included in the portfolio of projects and renovations, as well as other atypical adjustments (for example, compensation for early termination of lease agreements).	This permits the comparison, on a like-for-like basis, of the changes in the rental income of an asset or group of assets.

Alternative Performance Measure .	Calculation method	Definition/Relevance
Like-for-like **Appraisal**	Market value excluding transaction costs or the market value including transaction costs, comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded.	This permits the comparison, on a like-for-like basis, of the changes in the market value of the portfolio.
Loan to Value **Group or LtV Group**	Calculated as the result of dividing the gross financial debt less the amount of *"Cash and cash equivalents"* between the market value, including transaction costs, of the Group's asset portfolio.	This permits an analysis of the relation between the net financial debt and the appraisal value of the Group's asset portfolio.
LtV Holding or LtV Colonial	Calculated as the result of dividing the gross financial debt less the amount of "Cash and cash equivalents" of the Parent and the Spanish subsidiaries wholly owned thereby between the sum of the market value, including transaction costs of the asset portfolio of the head of the Group and the Spanish subsidiaries wholly owned thereby, and the EPRA NAV of the rest of the financial investments in subsidiaries.	This permits an analysis of the relation between the net financial debt and the appraisal value of the asset portfolio of the Group's parent.

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

The alternative performance measures included in the above table are based on items in the consolidated financial statements of Inmobiliaria Colonial or on the breakdown of the items (sub-items) included in the corresponding explanatory notes to the financial statements, unless otherwise indicated below.

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

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

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 held for sale	n.a.	n.a.
Excludes:		
(iv) Market value of financial instruments	2	(1)

EPRA NAV (EPRA *Net Asset Value*)	31/12/2018	31/12/2017
	(Millions of euros)	
(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	**-**	**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	568	459
Total market value including transaction costs	**11,916**	**9,741**
Spain	4,911	3,121
France	7,005	6,619

▪ ***Like-for-like* rentals**

Like-for-like rentals	Barcelona	Madrid	Paris	TOTAL
	(Millions of euros)			
Rental income 2016	**30**	**43**	**198**	**271**
Like-for-like	3	1	6	10
Projects and registrations	0	0	(5)	(5)
Investments and divestments	2	8	(3)	7
Others and compensation	-	-	-	-
Rental income 2017	**35**	**52**	**196**	**283**
Like-for-like	1	2	-	9
Projects and registrations	-	3	-	(1)
Investments and divestments	1	4	-	(10)
Axiare	5	32	19	-
Others and compensation	-	-	-	-
Rental income 2018	**42**	**93**	**19**	**194**

▪ ***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**

	31/12/2018	31/12/2017
***Loan to Value* Group or LtV Group**	*(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 the Company's treasury shares	**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 Company 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.