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

Audit Report
Consolidated financial statements as at 31 December 2022
Consolidated Management Report

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

Independent auditor's report on the consolidated financial statements

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

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Inmobiliaria Colonial, SOCIMI, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the financial statement as at 31 December 2022, and the income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the equity and financial position of the Group as at 31 December 2022, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

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

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

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

Key audit matters

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

Key audit matters	How our audit addressed the key audit matters
Valuation of Investment Properties The Group has real estate assets which are recognized mainly under the heading Investment properties, at an amount of EUR 12,231,952 thousand at 31 December 2022, using the fair value model in accordance with IAS 40 Investment properties, and represent 91% of total assets. Similarly, in 2022 the heading Variation in value of investment properties reflects a loss of EUR 147,493 thousand in respect mainly of these assets, having a significant impact on consolidated results for the year. Information on the assets included in this heading is disclosed in notes 4.4, 9 and 19.7 to the accompanying consolidated financial statements. In order to obtain the fair value of these assets, the Group requests independent expert valuations. The fair value is determined according to the discounted cash flow method in accordance with standard market practice. These valuations are based on significant judgements and estimates. We therefore focused on this area given the materiality of investment properties with respect to total assets and the effect of its valuation on the Group's results and the significant judgements and estimates assumed by management. Changes in such assumptions could lead to a significant variation in the fair value of those assets and their impact on the consolidated income statement, the consolidated statement of comprehensive income and the consolidated financial statement.	We obtained the valuations of all investment properties performed at year end by independent experts and assessed them in terms of the requirements of competence and independence and found no exceptions. We checked that the valuations were performed in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors (RICS) of Great Britain and in accordance with the International Valuation Standards (IVS) published by the International Valuation Standards Committee (IVSC). In this regard, we held meetings with the valuers together with our internal experts, analyzing for a sample of those valuations the reasonableness of the variables used, such as the discount rate, rent and the rent increase considered, as well as other variables necessary to complete the valuations such as the market return, the term of the rental agreements and type and age of the buildings, their location and occupancy rates. Similarly, for a sample of assets, we checked through the sales and purchase deeds, the technical specifications considered by the independent experts when determining the market value of those assets. Lastly, we assessed the corresponding disclosures in notes 4.4, 9 and 19.7 to the accompanying consolidated financial statements. We consider that we have obtained sufficient and adequate audit evidence in the course of our work concerning the reasonableness of the valuation of the Group's investment properties.

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2022 financial year, the formulation of which is the responsibility of the Parent company's directors and does not form an integral part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility regarding the consolidated management report, in accordance with legislation governing the audit practice, is to:

a) Verify only that the certain information included in the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration, as referred to in the Auditing Act, has been provided in the manner required by applicable legislation and, if not, we are obliged to disclose that fact.

b) Evaluate and report on the consistency between the rest of the information included in the consolidated management report and the consolidated financial statements as a result of our knowledge of the Group obtained during the audit of the aforementioned financial statements, as well as to evaluate and report on whether the content and presentation of this part of the consolidated management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have verified that the information mentioned in section a) above has been provided in the manner required by applicable legislation and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated financial statements for the 2022 financial year, and its content and presentation are in accordance with applicable regulations.

Responsibility of the directors and the audit and control committee for the consolidated financial statements

The Parent company's directors are responsible for the preparation of the accompanying consolidated financial statements , such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the aforementioned directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Parent company's audit and control committee is responsible for overseeing the process of preparation and presentation of the consolidated financial statements.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with the Parent company's audit and control committee, we determine those matters that were of most significance in the audit of the consolidated financial statements 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

European single electronic format

We have examined the digital files of the European single electronic format (ESEF) of Inmobiliaria Colonial, SOCIMI, S.A. and its subsidiaries for the 2022 financial year that comprise an XHTML file which includes the consolidated financial statements for the financial year and XBRL files with tagging performed by the entity, which will form part of the annual financial report.

The directors of Inmobiliaria Colonial, SOCIMI, S.A. are responsible for presenting the annual financial report for 2022 financial year in accordance with the formatting and markup requirements established in the Delegated Regulation (EU) 2019/815 of 17 December 2018 of the European Committee (hereinafter the ESEF Regulation). In this regard, the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration have been incorporated by reference in the consolidated management report.

Our responsibility is to examine the digital files prepared by the Parent company's directors, in accordance with legislation governing the audit practice in Spain. This legislation requires that we plan and execute our audit procedures in order to verify whether the content of the consolidated financial statements included in the aforementioned digital files completely agrees with that of the consolidated financial statements that we have audited, and whether the format and markup of these accounts and of the aforementioned files has been affected, in all material respects, in accordance with the requirements established in the ESEF Regulation.

In our opinion, the digital files examined completely agree with the audited consolidated financial statements, and these are presented and have been marked up, in all material respects, in accordance with the requirements established in the ESEF Regulation.

Report to the audit and control committee of the Parent company

The opinion expressed in this report is consistent with the content of our additional report to the audit and control committee of the Parent company dated 28 February 2023.

Appointment period

The General Ordinary Shareholders' Meeting held on 30 June 2021 appointed us as auditors of the Group for a period of one year, for the year ended 31 December 2022.

Previously, we were appointed by resolution of the General Ordinary Shareholders' Meeting for a period of 3 years and we have audited the accounts continuously since the year ended 31 December 2017.

Services provided

Services provided to the Group for services other than the audit of the accounts are disclosed in note 24 to the consolidated financial statements.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
Alfredo Aguilera Sanz (22290)

28 February 2023

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Consolidated financial statements for the year ended
31 December 2022, prepared in accordance with international rules
on financial information and consolidated management report

Translation of Consolidated financial statements for the year ended 31 December 2022, prepared in accordance with international financial reporting standards and consolidated management report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Consolidated financial statements for the year ended 31 December 2022

		Thousands of euros	
ASSETS	**Note**	**31 December 2022**	**31 December 2021**
Intangible assets		4,882	5,010
Right-of-use assets	7	16,899	18,886
Property, plant and equipment	8	55,310	55,162
Investment property	9	12,231,952	12,183,368
Non-current financial assets	10	29,360	26,296
Derivative financial instruments	15	277,249	14,775
Non-current deferred tax assets	18	510	696
Other non-current assets	12	83,865	55,377
NON-CURRENT ASSETS		**12,700,027**	**12,359,570**
Inventory	11	87,128	60,689
Trade and other receivables	12	36,763	37,757
Financial assets at amortised cost		9	9
Derivative financial instruments	15	13	--
Tax assets	18	19,236	23,557
Cash and cash equivalents	14	159,957	218,942
CURRENT ASSETS		**303,106**	**340,954**
Assets classified as held for sale	23	**466,480**	**27,000**
TOTAL ASSETS		**13,469,613**	**12,727,524**

		Thousands of euros	
EQUITY AND LIABILITIES	**Note**	**31 December 2022**	**31 December 2021**
Capital Social		1,349,039	1,349,039
Share premium		1,491,773	1,584,454
Own shares		(66,374)	(66,657)
Other reserves		523,648	239,398
Retained earnings		2,861,375	2,892,540
Equity attributable to shareholders of the Parent		**6,159,461**	**5,998,774**
Non-controlling interests		**1,183,199**	**1,185,655**
EQUITY	13	**7,342,660**	**7,184,429**
Bank borrowings and other financial liabilities	14	511,722	71,142
Bonds and similar securities issued	14	4,475,897	4,284,957
Lease liabilities	7	16,162	17,737
Non-current deferred tax liabilities	18	348,156	360,109
Long-term provisions	17	1,555	1,877
Other non-current liabilities	16	80,921	88,175
NON-CURRENT LIABILITIES		**5,434,413**	**4,823,997**
Liabilities associated with assets classified as held for sale	23	75,700	--
Bank borrowings and other financial liabilities	14	2,139	1,129
Bonds and similar securities issued	14	17,494	308,705
Issuance of promissory notes	14	409,000	257,000
Derivative financial instruments	15	233	--
Lease liabilities	7	3,404	3,259
Trade and other payables	16	168,954	135,808
Tax liabilities	18	11,421	9,536
Current provisions	17	4,195	3,661
CURRENT LIABILITIES		**692,540**	**719,098**
TOTAL EQUITY AND LIABILITIES		**13,469,613**	**12,727,524**

Notes 1 to 25 and the Appendix described in the notes to the consolidated financial statements are an integral part of the consolidated statement of financial position at 31 December 2022.

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Consolidated income statement and consolidated statement of comprehensive income for the year ended 31 December 2022

INCOME STATEMENT	Note	Thousands of euros 2022	Thousands of euros 2021
Revenue	19.1	361,613	316,719
Other income	19.2	9,304	5,330
Personnel expenses	19.3	(36,219)	(37,377)
Other operating expenses	19.4	(55,298)	(44,105)
Depreciation and amortisation		(8,988)	(8,112)
Net gains on sales of assets	19.5	5,938	(1,261)
Changes in value of investment property	19.7	(147,493)	444,226
Gains/(losses) on changes in value of assets due to impairment	19.6	(631)	(1,012)
Operating profit		**128,226**	**674,408**
Finance income	19.8	657	9,400
Finance costs	19.8	(86,891)	(120,434)
Profit before tax		**41,992**	**563,374**
Income tax expense	18	7,626	3,533
Consolidated net profit		**49,618**	**566,907**
Net profit/(loss) for the year attributable to the Parent	5	7,979	473,842
Net profit attributable to non-controlling interests	13.6	41,639	93,065
Basic earnings per share (euros)	5	0.02	0.92
Diluted earnings per share (euros)	5	0.02	0.92

STATEMENT OF COMPREHENSIVE INCOME	Note	Thousands of euros 2022	Thousands of euros 2021
Consolidated net profit		**49,618**	**566,907**
Other items of comprehensive income recognised directly in equity		**277,074**	**36,720**
Gains/(losses) on financial instrument hedges	13.4	279,650	45,697
Transfer to the statement of comprehensive income of financial instrument hedges	13.4	(2,124)	(8,977)
Tax effect on prior years' profit or loss	13.4	(452)	--
Consolidated comprehensive income		**326,692**	**603,627**
Comprehensive profit/(loss) for the year attributable to the Parent		283,972	510,449
Comprehensive income attributable to non-controlling interests		42,720	93,178

The accompanying Notes 1 to 25 and the Appendix are an integral part of the income statement and consolidated global statement of financial position for the year ended 31 December 2022.

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Consolidated statement of changes in equity for the year ended 31 December 2022

	Note	Capital Social	Share premium	Own shares	Other reserves	Retained earnings	Equity attributable to shareholders of the Parent	Non-controlling interests	Equity
Balance at 31 December 2020		**1,270,287**	**1,491,280**	**(24,440)**	**244,888**	**2,418,533**	**5,400,548**	**1,432,616**	**6,833,164**
Total recognised income and expense for the year		--	--	--	36,607	473,842	510,449	93,178	**603,627**
Transactions with shareholders:									
Capital increases		78,752	204,261	--	--	(1,223)	281,790	--	**281,790**
Own share portfolio		--	--	(44,351)	--	--	(44,351)	--	**(44,351)**
Distribution of profits		--	(111,087)	--	--	--	(111,087)	(27,773)	**(138,860)**
Share-based remuneration payments		--	--	2,134	1,463	125	3,722	65	**3,787**
Changes in scope of consolidation		--	--	--	(42,466)	28	(42,438)	(312,427)	**(354,865)**
Other changes		--	--	--	(1,094)	1,235	141	(4)	**137**
Balance at 31 December 2021	**13**	**1,349,039**	**1,584,454**	**(66,657)**	**239,398**	**2,892,540**	**5,998,774**	**1,185,655**	**7,184,429**
Total recognised income and expense for the year		--	--	--	275,993	7,979	283,972	42,720	**326,692**
Transactions with shareholders:									
Capital increases		--	--	--	--	--	--	--	**--**
Own share portfolio		--	--	283	--	(789)	(506)	--	**(506)**
Distribution of profits		--	(92,681)	--	3,873	(38,728)	(127,536)	(40,938)	**(168,474)**
Share-based remuneration payments		--	--	--	5,071	--	5,071	72	**5,143**
Changes in scope		--	--	--	(687)	--	(687)	(4,313)	**(5,000)**
Other changes		--	--	--	--	373	373	3	**376**
Balance at 31 December 2022	**13**	**1,349,039**	**1,491,773**	**(66,374)**	**523,648**	**2,861,375**	**6,159,461**	**1,183,199**	**7,342,660**

The accompanying Notes 1 to 25 and the Appendix described in the consolidated report are part of the consolidated statement of changes in equity for the year ended 31 December 2022.

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Consolidated statement of cash flows for the year ended 31 December 2022

		Thousands of euros	
	Note	**2022**	**2021**
CASH FLOWS FROM OPERATIONS			
1. CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated net profit		49,618	566,907
Adjustments to profit/(loss):			
Depreciation and amortisation (+)		8,988	8,112
Provisions (+/-)	19.4	520	(4,103)
Changes in value of investment property (+/-)	19.7	147,493	(444,226)
Gains/(losses) on changes in value of assets due to impairment (+/-)	19.6	631	1,012
Other		880	14,448
Gains / (losses) on sale of investment property (+/-)	19.5	(5,938)	1,261
Net financial profit (+)	19.8	86,234	111,034
Income tax expense (+/-)	18	(7,626)	(3,533)
Adjusted profit		280,800	250,912
Taxes refunded / (paid) (+/-)		(5,157)	(14,436)
Interest received (+)		657	488
Increase/(decrease) in current assets and liabilities			
Inventories (+/-)		(26,049)	(7,813)
Increase / (decrease) in receivables (+/-)		5,260	(11,266)
Increase / (decrease) in payables (+/-)		8,126	17,228
Increase/(decrease) in other assets and liabilities (+/-)		(8,244)	32,984
Total net cash flows in operating activities		**255,393**	**268,097**
2. CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in (-)			
Intangible assets		(2,145)	(2,307)
Property, plant and equipment	8	(4,043)	(2,285)
Investment property	9	(703,098)	(303,958)
Non-current financial assets and others	10	(3,064)	--
		(712,350)	(308,550)
Disposals of (+)			
Investment property and assets classified as held for sale	9 and 23	81,936	346,697
Financial assets	10	--	2,673
		81,936	349,370
Total net cash flows from investing activities		**(630,414)**	**40,820**
3. CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid (-)	13	(168,474)	(138,860)
Debt repayment (-)	14	(505,300)	(1,311,433)
Interest paid (+/-)	19,8	(106,309)	(141,337)
Redemption of financial instruments (-)	19,8	15,135	8,719
Purchase of non-controlling interests (-)		(5,000)	(136,207)
Own share transactions (+/-)	13.4 and 13.5	283	(44,351)
Obtainment of new financing (+)	14	1,085,701	1,395,000
Other proceeds/(payments) for current financial investments and other (+/-)		--	9,941
Total net cash flows in financing activities		**316,036**	**(358,528)**
4. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS			
Cash flow for the year	**14**	**(58,985)**	**(49,611)**
Cash or cash equivalents at beginning of year	**14**	**218,942**	**268,553**
Cash or cash equivalents at end of year	**14**	**159,957**	**218,942**

The accompanying Notes 1 to 25 and the Appendix are an integral part of the consolidated cash flow statement for the year ended 31 December 2022.

Inmobiliaria Colonial, SOCIMI, S.A.
and subsidiaries

Notes to the consolidated financial statements for the year ended 31 December 2022

1 Colonial Group business activity

Inmobiliaria Colonial, SOCIMI, S.A. (hereinafter “the Company”) was formed as public limited company in Spain for an indefinite period on 8 November 1956. Its registered office is located at Paseo de la Castellana, 52 de Madrid (Spain).

On 29 June 2017, the Parent's General Shareholders' Meeting resolved to adopt the REIT tax system. On 30 June 2017, the Parent submitted a request to the tax authorities to be included in the REIT tax system, applicable as of 1 January 2017.

The Parent's purpose, as set out in its articles of association, is as follows:

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

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

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

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

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

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

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 2022, the Parent maintains the credit rating obtained from *Standard & Poor's Rating Credit Market Services Europe Limited*, "BBB+" at long term and "A-2" at short term, both with a stable outlook. In addition, the Parent obtained a "Baa2" credit rating with a positive outlook from Moody's. In 2022, the subsidiary SFL also maintained its credit rating of "BBB+" with a stable outlook, and the "A-2" short-term credit rating.

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

2 Basis of presentation of the consolidated financial statements

2.1 Basis of presentation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (EU-IFRSs) as adopted by the European Union, taking into account all mandatory accounting policies and rules and measurement bases, the Spanish Code of Commerce, the Spanish Limited Liability Companies Law, the Spanish Securities Markets Law and other applicable company law, as well as regulations laid down by the Spanish National Securities Market Commission (CNMV), to present a true and fair view of the Group's consolidated equity and financial position at 31 December 2022 and of the income from its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended.

The consolidated financial statements of Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries for the year ended 31 December 2022, were prepared from the accounting records kept by the Parent and by the other Group companies, and they were authorised for issue by the Parent's directors at the Board of Directors' meeting held on 27 February 2023.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements at 31 December 2022 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify the policies and bases used and to make them compliant with EU-IFRS.

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

The Group's consolidated financial statements for the year ended 31 December 2021 were approved by the shareholders of the Parent at the General Meeting held on 21 June 2022.

2.2 Adoption of International Financial Reporting Standards

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

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

2.2.1 Standards and interpretations effective this year -

New accounting standards came into force in 2022 and were, accordingly, taken into account when preparing these consolidated financial statements. These new standards are as follows:

- IAS 16 (Amendment) "Property, plant and equipment: amounts received before the foreseen use.
- IAS 37 (Amendment) "Onerous Contracts: costs of fulfilling a contract".
- IFRS 3 (Amendment), "References to the Conceptual Framework".

- Annual improvements to IFRS. 2018-2020 cycle: The following amendments affect IFRS 1, IFRS 9, IFRS 16 and IAS 41:
    - IFRS 1 “First-Time Adoption of IFRSs”. IFRS 1 allows an exemption if a subsidiary adopts IFRSs at a date later than its parent. This amendment allows entities that have taken this exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRSs.
    - IFRS 9 “Financial instruments”. The amendment addresses which costs should be included in the 10% test for derecognition of financial liabilities. Costs or fees may be paid to third parties or to the lender. According to the amendment, costs or fees paid to third parties will not be included in the 10% test.
    - IAS 41 “Agriculture”.
    - With reference to the IASB's enhancement of IFRS 16 “Leases”, this has not been endorsed by the European Union, because only Illustrative Example 13 accompanying IFRS 16 has been amended (to remove the illustration of lessor payments in relation to leasehold improvements, eliminating any possible confusion about the treatment of lease incentives). Illustrative examples accompany, but are not part of, IFRS.

These standards were taken into account with effect from 1 January 2022, and their impact on these consolidated financial statements was not material.

2.2.2 Standards and interpretations issued and not in force that can be adopted in advance-

At the date of authorisation for issue of these consolidated financial statements, the following standards, amendments or interpretations were published by the IASB and the IFRS Interpretations Committee, but have not yet come into force, although they can be adopted in advance:

- IFRS 17 “Insurance contracts”. The standard is applicable for the years commencing from 1 January 2023, enabling its early application if IFRS 9 “Financial Instruments” is applied on the initial application date of IFRS 17 or before this date.
- IFRS17 (Amendment) “Initial Application of IFRS 17 and IFRS 9 - Comparative Information”. This amendment is effective for annual periods beginning on or after 1 January 2023.
- IAS 1 (Amendment) “Breakdown of accounting policies”. The effective date of these amendments is 1 January 2023.
- IAS 8 (Amendment) “Definition of accounting estimates”. The effective date of these amendments is 1 January 2023.
- IAS 12 (Amendment) 'Deferred tax relating to assets and liabilities arising from a single transaction'. The amendment enters into force for years that begin from 1 January 2023, though its early application is permitted.

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

2.2.3 Standards, interpretations and amendments to existing standards which cannot be adopted in advance or which have not been adopted by the European Union –

At the date of preparation of these consolidated financial statements, the following standards, amendments and interpretations have been published by the IASB and the IFRS Interpretations Committee and are pending adoption by the European Union:

- IFRS 10 (Amendment) and IAS 28 (Amendment) “Sale or contribution of assets between an investor and its associate or joint venture”.
- IFRS 16 (Amendment) 'Lease liability on a sale and leaseback'.
- IAS 1 (Amendment) “Classification of Liabilities as Current or Non-Current”. In July 2020, there was an amendment to change the entry date of the amendment to 1 January 2023. These amendments are pending approval by the European Union.
- IAS 1 (Amendment) “Non-current liabilities with conditions (“covenants”)”.

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

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

2.3 Functional currency

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

2.4 Responsibility for the information provided and accounting estimates and judgements made

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

- The market value of properties for own use, investment properties and inventories (Notes 8, 9 and 11). The market value was obtained from the appraisals periodically made by independent experts. These appraisals were prepared at 31 December 2022 and 2021, applying the methods described in notes 4.3, 4.4 and 4.21.
- Measurement of deferred tax liabilities recognised in the consolidated statement of financial position (Notes 4.14 and 18).
- The classification and measurement of assets classified as held for sale (Notes 4.20 and 23).
- Market value of derivative financial instruments (Notes 4.12, 4.22 and 15).

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

2.5 Basis of consolidation

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

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

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

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

All Group companies were fully consolidated, as outlined below:

- Subsidiaries are fully consolidated and are considered to be all entities in which the Group directly or indirectly controls the financial and operating policies such that power is exercised over the investee. This is generally accompanied by an ownership interest of more than half of an entity's voting rights. In addition, to evaluate whether the Group controls another entity, it considers the power over the investee; the exposure or rights to variable returns of the investment; and the ability to use this power over the investee to affect the amount of the investor's returns. When evaluating whether the Group exercises control over an entity, the existence and the effect of any potential voting rights, both those held by the Parent and by third parties, are taken into consideration, provided they are of a substantive nature.
- Subsidiaries are accounted for using the acquisition method. The acquisition cost is the fair value of the assets delivered, the equity instruments issued and the liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and identifiable liabilities and contingencies incurred in a business combination are measured initially at fair value at the acquisition date, regardless of the effect of non-controlling interests. When the acquisition cost is higher than the fair value of the Group's interest in the identifiable net assets acquired, the difference is recognised as goodwill. If the acquisition cost is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement (details of the companies consolidated at 31 December 2022 and 2021 are included in the Appendix).

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

Non-controlling interests are stated at the proportion of the fair values of the identifiable assets and liabilities recognised. Non-controlling interests in:

- Investees' equity: recognised in equity under "Non-controlling interests" in the consolidated statement of financial position.
- Profit or loss for the year: recognised under "Net profit attributable to non-controlling interests" in the consolidated income statement.

2.6 Changes in the scope of consolidation

The following changes occurred in the scope of consolidation in 2022:

- On 25 April 2022, SFL acquired all the shares of SCI Pasteur 123, owner of the property 91 Boulevard Pasteur of almost 40,000 square metres, located in the centre of Paris (15th arrondissement) for 485,145 thousand euros (Note 9).
- On 3 June 2022, the Parent acquired 50% of the share capital of the subsidiary Wittywood, S.L. amounting to 5,000 thousand euros, to hold 100% of the share capital of that subsidiary (Note 13.6).

The following changes occurred in the scope of consolidation in 2021:

- On 24 February 2021, the Parent acquired 3.19% of the share capital of the subsidiary Utopicus Innovación Cultural, S.L. amounting to 100 thousand euros, to hold 100% of the share capital of that subsidiary (Note 13.6).
- On 4 August 2021, the subsidiary SFL repurchased 7.86% of SFL's own shares from Predica, which were immediately redeemed, and carried out a share swap consisting of the acquisition from Predica of its non-controlling interests in the subsidiaries SCI Washington (34%) and SAS Parholding (50%) in exchange for non-controlling interests in SCI Paul Cézanne (49%), SCI 103 Grenelle (49%), SAS Cloud (49%) and SAS 92 Champs-Elysées (49%) (Note 13.6).
- On 5 August 2021, a capital increase was registered in the commercial register of the Parent Company through the issue of 22,494,701 new shares with a par value of 2.50 euros per share, plus a share premium, amounting to a total of 201,553 thousand euros according to the share price. The capital increase was fully subscribed by Predica, through the non-monetary contribution of 2,328,644 shares in the subsidiary SFL. The exchange ratio of Predica's contribution was set at 9.66 Colonial shares (Note 13.6).
- On 6 September 2021, a takeover bid for all the shares of SFL held by shareholders other than Colonial and Predica was registered in the commercial register of the Parent Company for mixed consideration in cash and shares. The exchange equation of the bid was set at 46.66 euros and five shares of Colonial, with a par value of 2.50 euros each, for each SFL share. On 20 July 2021, the French financial markets authority approved the bid. On 28 June 2021, the general shareholders's meeting approved the corresponding resolution to increase capital. On 30 August 2021, the French financial markets authority announced the result of the bid, which reached 4.2% of the shares targeted. As such, the Parent Company acquired 1,801,231 shares of the subsidiary SFL, by issuing 9,006,155 new shares of the Parent Company for a par value of 2.50 euros, plus a share premium, for a total amount of 81,461 thousand euros, according to the share price, and cash payments amounting to 84,045 thousand euros (Note 13.6).

At 31 December 2022 and 2021, the subsidiaries Colonial Tramit, S.L.U., Inmocol One, S.A.U., Inmocol Two, S.L.U., Inmocol Three, S.L.U., SAS SB2, SAS SB3 and SCI SB3 are dormant.

2.7 Comparison of information

The information relating to 2022 included in these notes to the consolidated financial statements is presented, for comparison purposes, with the information relating to 2021.

2.8 Aggregation of items

Certain items in the consolidated statement of financial position, the income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows are grouped together to make them easier to understand; however, whenever the amounts involved are material, the information is broken down in the related notes to the consolidated financial statements.

2.9 Correction of errors

No significant errors have been found in the preparation of the consolidated financial statements that would require a restatement of the amounts included in the consolidated financial statements for 2021.

2.10 Climate change

Climate change brings with it major changes in the economy, making it necessary to be increasingly aware of its impacts on the financial and non-financial performance of companies. The major issues associated with these changes have led to very ambitious objectives involving radical transformations, framed within the framework of the European green pact, the Sharm el-Sheikh agreement (COP27), the Glasgow agreement (COP26), and even the Paris agreement (COP21).

The purpose of this note is to present the impact of these changes on the Group's business and performance, as well as the main accounting impacts on the consolidated accounts.

Effects of climate-related changes on the Group's financial position

The property sector accounts for a significant share of greenhouse gas emissions in Spain and France. For this reason, the Group has put a strategy in place to ensure that the risks and impacts of climate change and the measures to address them are monitored.

The main effects on the consolidated annual accounts linked to weather-related changes have been considered. These impacts are not exact figures, as it is very difficult to dissociate the impacts from other factors that have influenced the performance of the period. On this basis, the major impacts on the financial data are as follows:

- A positive impact on the valuation of the Group's properties that have been recognised as environmentally friendly (as evidenced by the certifications obtained).
- An increase in the investment and operating costs of property to anticipate regulatory developments and adapt to changes in customer demand for more sustainable spaces. These include, for example, the installation of LED technology in lighting systems, the selection and implementation of more efficient air-conditioning systems and the digitisation of buildings to optimise energy consumption.
- Various expenses, such as the costs of environmental certification of properties, costs linked to the publication of ESG data, and elements of remuneration of certain employees or directors linked to the achievement of ESG objectives.
- Increased green energy procurement costs. Green energy certificates of origin have experienced a large increase in demand, making the purchase price of such certificates more expensive.
- Increased cost of materials due to the use of new, more sustainable materials with a lower impact on the carbon footprint.

Other potential impacts on the consolidated annual financial statements

Other potential impacts of climate change, which do not have an impact on the consolidated financial statements, are as follows:

- Risks associated with financial instruments (IFRS 7): On 17 February 2022, the Parent announced that the bondholders' meetings have approved the conversion of all of the Group's outstanding bonds into green bonds, representing 81.8% of the total gross debt as at 31 December 2022.
  At the closing date of these consolidated financial statements, the Group has 3.5% of its financial liabilities indexed to ESG indicators (1.5% at 31 December 2021), the interest rates of which may vary depending on the evolution of these indicators. There was no effect on the Group's financing during 2022.
- Fees and taxes related to environmental regulation (IAS37): the investments made by the Group have enabled it to be in line with the regulations in force regarding climate change. As a result, the Group has not received any sanctions for non-compliance with these regulations. The Group has also implemented a

monitoring system to anticipate regulatory developments in this area and to take the necessary actions to ensure compliance. As at 31 December 2022, no provision has been recorded for penalties for non-compliance with current environmental regulations.

- The depreciation of assets (IAS36) or the re-estimation of the useful lives and residual values of fixed assets (IAS16): the Group's assets are mainly recorded at fair value and therefore the Group's financial statements do not include any significant impact arising from these standards.

3 Distribution of Parent's profit

The distribution of profit from 2022 proposed by the Board of Directors of the Parent and that will be submitted for approval at the General Annual Meeting is as follows:

	Thousands of euros
Profit for the year of the Parent	**116,332**
To legal reserve	11,633
To dividends	104,699
Total distributed	**116,332**

The Board of Directors of the Parent may propose an additional distribution by way of refund of share premium.

Likewise, the proposal to apply the 2021 profit approved by the shareholders' meeting of the Parent Company held on 21 June 2022 was approved without any changes and consisted of its full transfer to the profit/(loss) of previous years.

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

Thousands of euros	2017	2018	2019	2020	2021
Amounts distributed	77,619	101,567	101,551	111,087	127,536

4 Accounting policies

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

4.1 Business combinations

Business combinations are accounted for by applying the acquisition method.

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

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

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

4.2 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.

4.3 Property, plant and equipment

Land and buildings intended for own use as well as other property, plant and equipment are recognised at historical cost less accumulated depreciation and impairment losses.

Historical cost includes the acquisition price at the date of recognition of the asset and expenses directly attributable to the acquisition of those assets. Any potential impairment losses on properties are recorded in accordance with the same measurement assumptions as those described in Note 4.4.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset only when they can be measured reliably and it is probable that future economic benefits associated with them will flow to the Group. The remaining costs of day-to-day servicing of assets are charged to the consolidated income statement in the year in which they are incurred.

Group companies depreciate their property, plant and equipment for own use and other property, plant and equipment using the straight-line method, distributing the cost of the assets over the years of estimated useful life and provided that the residual value does not change or changes insignificantly. The remaining costs of day-to-day servicing of assets are charged to the consolidated income statement in the year in which they are incurred.

The breakdown of the useful life of property for own use located in Spain and France is as follows:

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

Gains or losses arising on the sale (Note 19.5) or derecognition of an asset (Note 19.6) under this heading are determined as the difference between the selling price and its carrying amount and are recognised in the consolidated income statement.

4.4 Investment property

“Investment property” in the consolidated statement of financial position reflects the values of the land, buildings, considered in whole or in part or both and other constructions held to earn rents or for capital appreciation upon disposals due to future increases in their respective market prices.

The acquisition of an asset or group of assets through a partnership that does not represent a business combination as defined in IFRS 3 - Business Combinations shall be recognised in the statement of financial position as investment property.

In accordance with the option provided by IAS 40 - Investment Property, the Group chooses to present the investment property is presented at fair value at the end of the reporting period and is not depreciated.

Profit or loss arising from changes in the fair value of investment property is included in the profit of the period in which it occurs and recognised under “Changes in value of investment property” in the consolidated income statement (Note 19.7).

Gains or losses resulting from the derecognition or disposal of an investment property are determined as the difference between the net proceeds from the transaction and the carrying amount of the asset and are recognised in the consolidated income statement for the period in which the derecognition occurs (Note 19.5).

When the Group recognises as an increase in fair value of an investment property the cost of an asset that replaces another already included in such amount, the Group reduces the value of the property by the fair value of the asset replaced, recognising the impact under “Gains/(losses) on changes in value of assets due to impairment” in the consolidated income statement (Note 19.6). When the fair value of the replaced asset cannot be identified, it is recorded by increasing the fair value of the property, and subsequently revalued periodically by reference to independent external valuations carried out in accordance with the valuation and appraisal standards published by the Royal Institute of Chartered Surveyors (RICS) of Great Britain, and in accordance with the International Valuation Standards (IVS) published by the International Valuation Standards Committee (IVSC).

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

Investment property whose disposal is highly probable is reclassified as “Assets classified as held for sale” and measured at fair value in accordance with IFRS 5 - Non-current assets held for sale and discontinued operations.

In accordance with IAS 40, the Group determines the fair value of investment property every half year, i.e. at 30 June and 31 December of each period. Fair value is determined by taking as reference values the valuations performed by independent third-party experts (level 3 fair value hierarchy) at the date of the consolidated statement of financial position, CB Richard Ellis Valuation and Cushman & Wakefield for 2022 in both Spain and France and for 2021, Jones Lang LaSalle and CB Richard Ellis Valuation in Spain and CB Richard Ellis Valuation and Cushman & Wakefield in France, so that, at the end of each period, the fair value reflects the market conditions of the investment property elements at that date. The valuation reports prepared by independent experts contain only the standard warnings and/or disclaimers concerning the scope of the findings of the appraisals carried out, referring to the comprehensiveness and accuracy of the information provided by the Group.

The Discounted Cash Flow (hereinafter, “DCF”) method was primarily used to determine the market value of the Group’s investment property in 2022 and 2021.

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

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

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

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

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

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

The most relevant key inputs of this method for the purposes of sensitivity analysis are the determination of net income and the rate of return, especially as it is a 10-year discounted cash flow model. The other variables considered, although they are taken into account in determining fair value, are not considered to be key, and therefore no quantitative information is included, nor are they sensitised, since any possible reasonable variations would not entail a significant change in the fair values of the assets.

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 detail of the *yields* considered, and other assumptions used in determining future cash flows in 2022 and 2021, are set out in the tables below:

	Gross	
Weighted Yields (%) - Offices	31 December 2022	31 December 2021
Barcelona – Prime Yield		
Portfolio in operation	4.44	4.23
Total portfolio	4.46	4.26
Madrid – Prime Yield		
Portfolio in operation	4.26	4.12
Total portfolio	4.22	4.17
Paris – Prime Yield		
Portfolio in operation	3.30	2.94
Total portfolio	3.27	2.94

Assumptions made at 31 December 2022					
Rent increases (%) – Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Portfolio in operation	2.0	2.75	2.5	2.5	2.5
Total portfolio	2.0	2.75	2.5	2.5	2.5
Madrid –					
Portfolio in operation	2.0	3.0	2.5	2.5	2.5
Total portfolio	2.0	3.0	2.5	2.5	2.5
Paris –					
Portfolio in operation	3.0	2.0	2.0	2.0	2.0
Total portfolio	3.0	2.0	2.0	2.0	2.0

Assumptions made at 31 December 2021					
Rent increases (%) – Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Portfolio in operation	(0.75)	2.0	4.0	2.75	2.75
Total portfolio	(0.75)	2.0	4.0	2.75	2.75
Madrid –					
Portfolio in operation	(0.75)	2.5	3.5	3.0	3.0
Total portfolio	(0.75)	2.5	3.5	3.0	3.0
Paris –					
Portfolio in operation	0.0	0.5	1.0	1.5	1.5
Total portfolio	0.0	0.5	1.0	1.5	1.5

In addition, developments in progress were valued using the dynamic residual method as the best approximation. 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.

<u>Sensitivity analysis of the hypotheses</u>

A change of one-quarter of one point in yields has the following impact on the valuations used by the Group at 31 December 2022 and 2021, to determine the value of its property assets (Property, plant and equipment -own use, Investment property, inventories and assets classified as held for sale):

	Thousands of euros		
Sensitivity of valuations to a change of one quarter of a point in rates of return	Measurement	Decrease of one quarter of a point	Increase of one quarter of a point
December 2022	13,005,183	960,997	(826,582)
December 2021	12,436,041	960,845	(820,948)

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

	31 December 2022	31 December 2021
Headings of the consolidated statement of financial position -		
Property, plant and equipment – Own use (Note 8)	37,538	37,241
Investment property (Note 9)	12,231,952	12,210,368
Inventory (Note 11)	87,128	60,689
Assets classified as held for sale (Note 23)	466,480	--
Lease incentives (Note 12)	104,437	76,194
Trade and other receivables - Acquired lease rights (Note 12)	73	99
Total headings of the consolidated statement of financial position	**12,927,608**	**12,384,591**
Other adjustments made to the valuation	18,600	--
Unrealised gains on assets recognised in property, plant and equipment	44,603	39,649
Unrealised gains on assets recognised in Inventory	14,372	11,801
Measurement	**13,005,183**	**12,436,041**

The income earned in 2022 and 2021 from the rental of investment property in the property segment (traditional business) amounted to 307,998 thousand euros (Note 19.1), respectively, and are recognised under "Revenue" in the consolidated income statement.

The bulk of repair and maintenance expenses incurred by the Group in connection with the operation of its investment properties is passed on to the respective tenants (Note 4.18).

Direct operating expenses associated with investment properties which generated rental income in 2022 and 2021, included under "Operating profit" in the consolidated income statement amounted to 100,742 thousand euros and 82,189 thousand euros, respectively, prior to deducting the costs passed on to the lessees. Expenses incurred in connection with investment properties that did not generate rental income were not material.

4.5 Impairment of property, plant and equipment

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

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

4.6 Financial assets and liabilities

4.6.1 Financial assets

<u>Classification</u>

The Group classifies its financial assets in the following valuation categories:

- those that are subsequently measured at fair value (either through profit or loss or other comprehensive income); and

- assets measured at amortised cost.

The classification depends on the entity's business model for managing financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses are recorded in the income statement or in other comprehensive income. For investments in equity instruments not held for trading, this depends on whether the Group made an irrevocable election at initial recognition to account for the investment in equity at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when it changes its business model to manage those assets.

Recognition and derecognition

Conventional purchases and sales of financial assets are recognised on the trade date, which is the date on which the Group undertakes to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets expire or are transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

On initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset that is not at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition of the financial asset. The transaction costs of financial assets recognised at fair value through profit and loss are recognised as an expense in the income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are only the payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and on the characteristics of the asset's cash flows. There are three measurement categories in which the Group classifies its debt instruments:

- Amortised cost: Assets held for the collection of contractual cash flows when those cash flows represent only principal and interest payments are measured at amortised cost. Interest income on these financial assets is included in interest income in accordance with the effective interest rate method. Any gain or loss arising when they are derecognised is recognised directly in profit and loss. Impairment losses are presented as a separate line item in the consolidated income statement.
- Fair value through other comprehensive income: Assets held for the collection of contractual cash flows and for the sale of financial assets, when the cash flows from the assets represent only principal and interest payments, are measured at fair value through other comprehensive income. Changes in the carrying amount are taken to other comprehensive income, except for the recognition of impairment losses, interest income and exchange gains or losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit and loss and recognised in financial expenses. Interest income on these financial assets is included in interest income in accordance with the effective interest rate method. Exchange gains and losses are presented in finance costs and the impairment expense is presented as a separate line item in the consolidated income statement.
- Fair value through profit or loss: Assets that do not meet the criteria for measurement at amortised cost or at fair value through other comprehensive income are recognised at fair value through profit or loss. A profit or loss on a debt investment that is subsequently recognised at fair value through profit or loss is recognised in profit or loss and presented net in the consolidated income statement within finance costs in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. When Group management has chosen to present gains and losses in the fair value of investments in equity in other comprehensive income, there is no subsequent reclassification of gains and losses in the fair value to income following the derecognition of the investment.

Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive the payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in finance costs in the consolidated income statement when applicable. Impairment losses (and reversals of impairment losses) on investments in equity measured at fair value through other comprehensive income are not presented separately from other changes in fair value.

<u>Impairment</u>

The Group evaluates on a prospective basis the expected credit losses associated with its assets at amortised cost and at fair value through other comprehensive income. The method applied for impairment depends on whether there has been a significant increase in credit risk.

For trade receivables, given the composition of the Group's portfolio, which is made up of companies of acknowledged prestige and proven financial solvency, the low history of losses from debtor balances over the last 10 years, including the years of financial crisis, the Group has considered that the expected impairment of these financial assets is immaterial (Note 12).

4.6.2 Financial liabilities

Financial liabilities are accounts payable by the Group that have arisen from the purchase of goods and services in the course of the Company's business and those which, not arising from trading activities, cannot be considered to be derivative financial instruments.

<u>Classification</u>

The Group classifies its financial liabilities in the following valuation categories:

- Financial liabilities at amortised cost: accounts payable are initially recognised at the fair value of the consideration received, adjusted for directly attributable transaction costs. These liabilities are subsequently carried at amortised cost.
- Financial liabilities at fair value through profit or loss: these are liabilities that are acquired for the purpose of selling them in the short term. These financial liabilities are initially and subsequently measured at fair value, with changes in fair value recognised in the consolidated income statement for the year.

<u>Recognition and derecognition</u>

The Group derecognises financial liabilities when the obligations giving rise to them cease to exist.

The Group classifies as short-term trade payables the retentions made to regular suppliers in construction projects, which are normally due within 12 months from the completion of the projects, as they are considered to be liabilities that are incurred in the normal operating cycle of the Group's business.

4.7 Receivables

Trade receivables are carried at recoverable value, i.e., net, where applicable, of the allowances recognised to cover balances of a certain age (Note 4.6.6), whose circumstances reasonably warrant their consideration as doubtful receivables.

4.8 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.

4.9 Own equity instruments

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

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

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

4.10 Provisions and contingent liabilities

When preparing the consolidated financial statements, the Parent's directors make a distinction between:

- Provisions: creditor balances covering obligations arising as a consequence of past events which could give rise to liabilities at the Group companies, the nature of which is certain but the amount and timing of which cannot be determined, and
- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of consolidated companies.

The consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised, but are disclosed in Note 17.

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

4.11 Employee benefits

4.11.1 Termination benefits -

Under current Spanish legislation, the Group is required to pay termination benefits to employees terminated under certain conditions. Severance payments which can be reasonably quantified are recorded as an 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 2022 and 2021, the Group did not record any provisions in this connection.

4.11.2 Pension obligations -

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

SFL maintains several defined benefit pension plans. Defined benefit obligations are calculated on a regular basis by independent actuarial experts. The actuarial assumptions used to calculate these liabilities are adapted to the situation and to applicable French legislation, in accordance with IAS 19. The actuarial cost recorded in the consolidated statement of comprehensive income in relation to these plans is the sum of the service costs for the period, the interest expense and actuarial gains and losses.

4.11.3 Share-based payments -

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

In the case of transactions settled with equity instruments, both the services rendered and the increase in equity are measured at the fair value of the services received, unless that of the equity instruments transferred is more reliable, by reference to the grant agreement 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. In the case of the plans described in Note 20, it has been decided to measure them at the amount of the equity instruments transferred.

4.12 Derivative financial instruments

The Group uses financial derivatives to manage its exposure to variations in interest rates. All derivative financial instruments, whether or not they are designated as hedging instruments, are carried at fair value, market value in the case of listed securities, or using option valuation methods or discounted cash flow analysis for non-listed securities. The fair value of the derivative financial instruments is determined based on the valuations made by independent experts (Solventis A.V., S.A. in 2022 and 2021).

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

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

The following measurement base was used to recognise each of the following:

- Cash flow hedges: fair value gains or losses arising on transactions which classify for hedge accounting are recognised, net of taxes, directly in consolidated comprehensive income, under "Gains/(losses) on hedging instruments", until the underlying or expected transaction occurs, at which point they are reclassified, where appropriate, to "Finance costs" or "Finance income" in the consolidated statement of comprehensive income. Any valuation gains and losses on the ineffective portion of the hedge are recognised directly as financial profit or loss in the consolidated income statement.
- Treatment of financial instruments that are not allocated to a specific liability and do not qualify for hedge accounting: gains or losses arising from the restatement at fair value of these financial instruments are recognised directly as financial profit or loss in the consolidated 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 recognised in consolidated comprehensive income remain under this heading until the related transaction is performed. Once the related cash flow occurs, any cumulative gain or loss recognised in consolidated comprehensive income is transferred to consolidated net profit or loss for the year. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other consolidated comprehensive income is transferred to consolidated comprehensive net profit or loss for the year.

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

- Retrospective tests measure how effectively the derivative instrument would have hedged the liability over its life, using historical interest rates to date.
- Prospective tests measure the instrument's expected effectiveness on the basis of forward interest rates as published by Bloomberg at the measurement date. This is adjusted monthly from the inception of the hedge on the basis of the historical interest rates already established.

The method used to determine the effectiveness of hedging financial instruments consists of calculating the statistical correlation between the reference interest rates at each fixing date of the derivative and the related hedged liability.

4.13 Current/non-current

The ordinary operating cycle is defined as the period from the acquisition of the assets used to carry on the Group's lines of business to the date that they are turned into cash or cash equivalents.

The Group's main business is its rentals business, for which it is considered that the normal cycle of its operations corresponds to the calendar year; hence, assets and liabilities maturing at less than one year are classified as current and those maturing at over one year are classified as non-current.

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

4.14 Income tax expense

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

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

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

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised in the consolidated statement of financial position to the extent that it has become probable that they will be recovered through future taxable profits. In accordance with IAS 12, changes in deferred tax assets and liabilities caused by changes in tax rates or tax laws are recognised in the consolidated statement of comprehensive income for the year in which these changes are approved.

In accordance with IAS 12, when measuring deferred tax liabilities the Group reflects the tax consequences that would arise from the manner in which the carrying amount of its assets is expected to be recovered or settled. In this regard, for deferred tax liabilities that arise from investment properties that are measured using the IAS 40 fair value model, there is a rebuttable presumption that their carrying amount will be recovered through their sale. Consequently, the deferred tax liabilities arising from the Group's investment properties located in Spain were calculated by applying a tax rate of 25%, less any existing tax credits not recognised at 31 December 2022 for non-SOCIMI assets, as well as for capital gains on SOCIMI assets existing at the time of adoption of the SOCIMI regime. The effective tax calculation rate was therefore 18.75%.

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

4.14.1 REIT regime

Effective as of 1 January 2017, the tax system of the Parent 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 trusts (REITs). Article 3 establishes the investment requirements of this type of company, namely:

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

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

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

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

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

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

The term will be calculated:

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

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

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

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

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

The corporate income tax rate for REITs is 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.

SOCIMIs are obliged to distribute 80% of ordinary profits, 50% of the profits derived from the transfer of real estate or shares that have met the maintenance requirement, as dividends on an annual basis, provided that the other 50% is reinvested in eligible assets within a period of three years; if the other 50% is not reinvested within this period, such profits must be distributed in full together with "ordinary" profits, if any, arising from the year in which the reinvestment period ends and 100% of the profit from dividends from companies qualifying as qualifying investments (SOCIMIs and/or REITs).

4.14.2 SIIC regime – SFL subgroup

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

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

This regime affords the SFL subgroup an exemption from taxes on earnings generated from its rental business and on capital gains obtained from the sale of properties, provided that 95% of profit from that activity, 70% of the capital gains obtained from property sales of companies under this regime are distributed each year in the form of dividends and 100% of dividends.

4.15 Income and expense

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

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

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

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

4.15.1 Property leases

In accordance with IFRS 16, leases are classified as finance leases whenever their terms imply that substantially all the risks and rewards incidental to ownership of the leased asset have been transferred to the lessee. Other leases are classified as operating leases. In this regard, at 31 December 2022 and 2021, all the Group's leases qualified as operating leases.

4.15.2 Property leases-Lessor

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

In relation to the amendment to IFRS 16 arising from the situation generated by the pandemic, the Group has considered the aid granted to lessees as amendments to the initial contract, recording them as a rent incentive, except for minor cases, in which they have been recorded directly against the consolidated income statement, reducing the net amount of the turnover.

4.15.3 Specific lease terms and conditions: lease incentives

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

Indemnity payments made by lessees to cancel their leases prior to their minimum termination date are also recognised as income in the consolidated income statement on the date on which they become due and payable to the Group.

4.15.4 Property leases-Lessee

Leases are recognised as a right-of-use asset and the corresponding liability is posted on the date on which the leased asset is available for use by the Group. Each lease payment is allocated between liabilities and interest expense. The financial expense is charged to profit or loss over the term of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The right-of-use asset is amortised over the shorter of the asset's useful life or the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including fixed payments in substance), less any incentive for lease receivables,
- variable lease payments that depend on an index or rate,
- amounts the lessee is expected to pay as residual value guarantees,
- the exercise price of a call option if the lessee is reasonably certain that it will exercise the option, and
- penalty payments on termination of the lease, if the term of the lease reflects the exercise by the lessee of that option.

Lease payments are discounted using the interest rate implied in the lease. If that rate cannot be determined, the incremental rate of borrowing is used, being the rate that the lessee would have to pay to borrow the necessary funds to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost which includes the following:

- the amount of the initial measurement of the lease liability,
- any lease payments made on or before the start date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Payments under short-term leases and leases of low value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a term of 12 months or less.

In relation to the amendment to IFRS 16 as a result of the situation generated by the pandemic, the Parent has considered the aid received from the lessors of spaces leased by its subsidiary Utopicus as if it were a variable lease payment, recognising its impact directly against the consolidated income statement.

4.16 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of property developments or inventory (Notes 9, 11 y 19.8.1), which require preparation during a significant period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

4.17 Consolidated statement of cash flows (indirect method)

The following terms are used in the consolidated statement of cash flows with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to insignificant risk of changes in value.
- Operating activities: the principal revenue-producing activities and other activities that are not investing or financing activities.
- Investing activities: the acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents.
- Financing activities: non-operating activities that result in changes in the size and composition of equity and liabilities.

4.18 Costs passed on to lessees

In accordance with EU-IFRS, the Group does not consider the costs incurred by lessees from its investment properties as revenue and they are recognised, less the corresponding costs, in the consolidated income statement. The amounts passed on for these items in 2022 and 2021 amounted to 67,726 thousand euros and 58,129 thousand euros, respectively.

4.19 Transactions with related parties

All the Group's transactions with related parties are at arm's length. Transfer prices are adequately supported, and consequently the Parent's directors consider that no significant risks exist in this respect from which significant liabilities could arise in the future.

4.20 Assets classified as held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, the assets are available for immediate sale and the sale is highly probable and will occur no more than twelve months after classification of the asset as held for sale. The Group classifies assets classified as held for sale when there is a formal decision by the board of directors or the executive committee and the sale is expected to be completed within 12 months.

They are measured at the lower of carrying amount and fair value less costs to sell, except for deferred tax assets, assets arising from employee benefits, financial assets, investment property carried at fair value and contractual rights under insurance contracts, which are specifically exempted from this requirement.

Non-current assets (including those that are part of a disposal group) are not depreciated while they are classified as held for sale, but interest and other expenses attributable to the liabilities of a disposal group that is classified as held for sale continue to be recognised.

Non-current assets (or disposal groups) are presented separately from other assets in the consolidated statement of financial position, both assets classified as held for sale and assets of a disposal group classified as held for sale under "Assets classified as held for sale". Liabilities that form part of a disposal group classified as held for sale are also presented separately from other liabilities in the consolidated statement of financial position under "Liabilities associated with assets classified as held for sale". These assets and liabilities shall not be offset or presented as a single amount.

4.21 Inventory

Inventories, consisting of land, developments in progress and completed developments, are stated at cost, with appropriate impairment losses recognised when the net realisable value is lower than cost.

The cost includes the acquisition costs and the direct and indirect costs necessary for their construction, as well as the financial expenses incurred in the financing of the works while they are under construction, provided that this process lasts more than one year.

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

The market value is determined periodically through independent expert valuations. Possible valuation results are recorded according to the same valuation assumptions as described in Note 4.4.

4.22 Fair value hierarchy

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

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

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

In accordance with IFRS 13, the Group estimated the bilateral credit risk in order to reflect both its own risk and the counterparty risk on the fair value of its derivatives (Note 4.12). Credit risk at 31 December 2022 and 2021 was not considered to be material.

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

31 December 2022	Thousands of euros		
	Level 1	Level 2	Level 3
Assets			
Other L/T financial instruments (Note 10)	--	--	2,760
Derivative financial instruments (Note 15):			
Classified as hedges	--	277,262	--
Not classified as hedges	--	--	--
Total assets	--	277,262	2,760
Liabilities			
Derivative financial instruments:			
Classified as hedges	--	233	--
Not classified as hedges	--	--	--
Total liabilities (Note 15)	--	233	--

31 December 2021	Thousands of euros		
	Level 1	Level 2	Level 3
Assets			
Derivative financial instruments:			
Classified as hedges	--	14,775	--
Not classified as hedges	--	--	--
Total assets (Note 15)	--	14,775	--
Liabilities			
Derivative financial instruments:			
Classified as hedges	--	--	--
Not classified as hedges	--	--	--
Total liabilities (Note 15)	--	--	--

5 Earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of the Parent (after tax and non-controlling interests) by the weighted average number of ordinary shares outstanding during the period, excluding treasury shares.

Diluted earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of the Parent (after tax and non-controlling interests) by the weighted average number of shares outstanding plus all dilutive effects inherent in potential ordinary shares.

Both at 31 December 2022 and 2021, there were no instruments that may have had a significant diluting effect on the Parent's average number of ordinary shares.

The long-term remuneration plans of the Parent Company are settled with shares that the Parent Company holds as treasury shares in advance. Such deliveries of shares have no relevant or material effect on diluted earnings per share (Note 20).

Details of the calculation of basic and diluted earnings per share are as follows:

	Thousands	
	2022	2021
Net consolidated profit attributable to equity holders of the parent (thousands of euros)	7,979	473,842
Average number of ordinary shares outstanding excluding treasury shares (thousands)	531,429	515,705
Basic earnings per share (in euros)	**0.02**	**0.92**
Net consolidated profit attributable to equity holders of the parent (thousands of euros)	7,979	473,842
Average number of potential common shares outstanding (thousands)	531,429	515,705
Diluted earnings per share (in euros)	**0.02**	**0.92**

The calculation of the average number of ordinary shares outstanding or potential shares outstanding is as follows:

	Thousands of shares	
	2022	2021
Ordinary shares outstanding at the beginning of the period	539,616	508,115
Average adjustment of own shares	(8,187)	(4,615)
Average adjustment for outstanding ordinary shares (excluding treasury shares)	--	12,205
Average number of ordinary shares outstanding excluding treasury shares	**531,429**	**515,705**
Impact of dilution on the average number of ordinary shares	--	--
Average number of potential common shares outstanding	**531,429**	**515,705**

There have been no transactions involving ordinary shares or potential ordinary shares other than those recorded between the closing date at 31 December 2022 and the preparation of the consolidated financial statements that would significantly change the number of ordinary shares or potential ordinary shares outstanding at the end of the period.

6 Segment reporting

6.1 Segmentation criteria

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

The business lines described below have been defined in line with the Group's organisational structure at 31 December 2022 and 2021, which has been used by the Group's management to analyse the financial performance of the various operating segments.

The rentals segment (or traditional business) includes activities associated with office rentals, while the flexible business segment includes the activities associated with coworking or flexible office spaces.

6.2 Basis and methodology for business segment reporting

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

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

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

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

Segment information for these businesses is as follows:

2022 segment reporting	Thousands of euros							
	Rentals (Traditional business)					Flexible business	Corporate unit	Total Group
	Barcelona	Madrid	Paris	Remainder	Total rentals			
Income								
Revenue (Note 19.1)	44,569	98,201	204,517	--	347,287	14,326	--	361,613
Other income (Note 19.2)	--	101	6,065	--	6,166	--	3,138	9,304
Gains on sales of assets (Note 19.5)	2	6,376	(440)	--	5,938	--	--	5,938
Changes in value of investment property (Note 19.7)	(75,842)	(110,287)	38,636	--	(147,493)	--	--	(147,493)
Gains/(losses) on changes in value of assets due to impairment (Note 19.6)	(40)	(657)	--	--	(697)	(677)	743	(631)
Operating profit/(loss)	(38,141)	(19,300)	238,209	--	180,768	4,914	(57,456)	128,226
Financial profit (Note 19.8)	--	--	--	--	--	--	(86,234)	(86,234)
Profit before tax	--	--	--	--	--	--	41,992	41,992
Consolidated net profit	--	--	--	--	--	--	49,618	49,618
Net profit attributable to non-controlling interests (Note 13.6)	--	--	--	--	--	--	(41,639)	(41,639)
Net profit/(loss) attributable to shareholders of the Parent (Note 5)	--	--	--	--	--	--	7,979	7,979

The most significant transactions between segments in the year 2022 were as follows:

	Thousands of euros			
	Traditional business	Flexible business	Corporate unit	Total Group
Income				
Revenue	8,814	--	--	8,814
Operating profit/(loss)	--	(8,814)	--	(8,814)

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

	Thousands of euros							
	Rentals (Traditional business)					Flexible business	Corporate unit	Total Group
	Barcelona	Madrid	Paris	Remainder	Total rentals			
Assets								
Goodwill	--	--	--	--	--	--	--	--
Intangible assets, right-of-use assets, property, plant and equipment, investment property, assets classified as held for sale and inventories (Notes 7, 8, 9, 11 and 23)	1,481,172	3,195,551	8,109,831	--	12,786,554 -- --	31,235 32,974	44,862	12,862,651 32,974 --
Financial assets	8,654	17,127	15,351	--	41,132	1,988	423,468	466,588
Other non-current assets	--	--	--	--	--	--	84,375	84,375
Trade receivables and other current assets	--	--	--	--	--	--	55,999	55,999
Total assets	**1,489,826**	**3,212,678**	**8,125,182**	**0**	**12,827,686**	**33,223**	**608,704**	**13,469,613**

	Thousands of euros							
	Rentals (Traditional business)							
	Barcelona	Madrid	Paris	Remainder	Total rentals	Flexible business	Corporate unit	Total Group
Liabilities								
Bank borrowings and other financial liabilities (Note 14)	--	--	--	--	--	--	513,861	513,861
Bonds and similar securities issued (Note 14)	--	--	--	--	--	--	4,493,391	4,493,391
Issuance of promissory notes (Note 14)	--	--	--	--	--	--	409,000	409,000
Derivative financial instruments (Note 15)	--	--	--	--	--	--	233	233
Lease liabilities (Note 7)	--	--	--	--	--	19,566	--	19,566
Operating liabilities (suppliers and payables)	--	--	--	--	--	--	168,954	168,954
Liabilities associated with assets classified as held for sale	--	75,700	--	--	75,700	--	--	75,700
Other liabilities	--	--	--	--	--	--	446,248	446,248
Total liabilities	--	75,700	--	--	75,700	**19,566**	**6,031,687**	**6,126,953**

	Thousands of euros							
	Rentals (Traditional business)							
	Barcelona	Madrid	Paris	Remainder	Total rentals	Flexible business	Corporate unit	Total Group
Other information								
Investments in non-current assets, intangible assets, property, plant and equipment, investment property, inventories and assets classified as held for sale	34,090	103,239	116,587	--	253,916	2,800	2,916	259,632
Depreciation and amortisation	(32)	(11)	(326)	--	(369)	(4,629)	(3,990)	(8,988)
Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year:								
- Changes in provisions (Note 19.4)	(49)	(19)	304	--	236	21	(777)	(520)
- Changes in value of investment property (Note 19.7)	(75,842)	(110,287)	38,636	--	(147,493)	--	--	(147,493)
- Gains/(losses) on changes in value of assets due to impairment (Note 19.6)	(40)	(657)	--	--	(697)	(677)	743	(631)

2021 segment reporting	Thousands of euros							
	Rentals (Traditional business)							
	Barcelona	Madrid	Paris	Remainder	Total rentals	Flexible business	Corporate unit	Total Group
Income								
Revenue (Note 19.1)	41,793	89,899	174,634	1,672	307,998	8,721	--	316,719
Other income (Note 19.2)	4	9	3,402	--	3,415	--	1,915	5,330
Gains on sales of assets (Note 19.5)	(1,537)	(102)	108	270	(1,261)	--	--	(1,261)
Changes in value of investment property (Note 19.7)	46,106	143,031	255,177	(88)	444,226	--	--	444,226
Gains/(losses) on changes in value of assets due to impairment (Note 19.6)	(226)	(827)	--	25	(1,028)	(228)	244	(1,012)
Operating profit/(loss)	80,083	219,653	425,939	4,071	729,746	(924)	(54,414)	674,408
Financial profit (Note 19.8)	--	--	--	--	--	--	(111,034)	(111,034)
Profit before tax	--	--	--	--	--	--	563,374	563,374
Consolidated net profit	--	--	--	--	--	--	566,907	566,907
Net profit attributable to non-controlling interests (Note 13.6)	--	--	--	--	--	--	(93,065)	(93,065)
Net profit/(loss) attributable to shareholders of the Parent (Note 5)	--	--	--	--	--	--	473,842	473,842

The most significant transactions between segments in the year 2021 were as follows:

	Thousands of euros			
	Traditional business	Flexible business	Corporate unit	Total Group
Income				
Revenue	7,290	--	--	7,290
Operating profit/(loss)	--	(7,290)	--	(7,290)

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

	Thousands of euros							
	Rentals (Traditional business)					Flexible business	Corporate unit	Total Group
	Barcelona	Madrid	Paris	Remainder	Total rentals			
Assets								
Goodwill	--	--	--	--	--	--	--	--
Intangible assets, right-of-use assets, property, plant and equipment, investment property, assets classified as held for sale and inventories (Notes 7, 8, 9, 11 and 23)	1,522,996	3,232,366	7,497,284	19,765 19,765	12,272,411 19,765 --	32,974 32,974	44,730	12,350,115 52,739 --
Financial assets	8,388	17,092	4,346	273	30,099	1,725	228,198	260,022
Other non-current assets	--	--	--	--	--	--	56,073	56,073
Trade receivables and other current assets	--	--	--	--	--	--	61,314	61,314
Total assets	**1,531,384**	**3,249,458**	**7,501,630**	**20,038**	**12,302,510**	**34,699**	**390,315**	**12,727,524**

	Thousands of euros							
	Rentals (Traditional business)					Flexible business	Corporate unit	Total Group
	Barcelona	Madrid	Paris	Remainder	Total rentals			
Liabilities								
Bank borrowings and other financial liabilities (Note 14)	--	71,124	--	--	71,124	--	1,147	72,271
Bonds and similar securities issued (Note 14)	--	--	--	--	--	--	4,593,662	4,593,662
Issuance of promissory notes (Note 14)	--	--	--	--	--	--	257,000	257,000
Derivative financial instruments (Note 15)	--	--	--	--	--	--	--	--
Lease liabilities (Note 7)	--	--	--	--	--	20,996	--	20,996
Operating liabilities (suppliers and payables)	--	--	--	--	--	--	135,808	135,808
Other liabilities	--	--	--	--	--	--	463,358	463,358
Total liabilities	--	71,124	--	--	71,124	**20,996**	**5,450,975**	**5,543,095**

	Thousands of euros							
	Rentals (Traditional business)					Flexible business	Corporate unit	Total Group
	Barcelona	Madrid	Paris	Remainder	Total rentals			
Other information								
Investments in non-current assets, intangible assets, property, plant and equipment, investment property, inventories and assets classified as held for sale	86,323	78,443	160,393	205	325,364	2,117	1,791	329,272
Depreciation and amortisation	(29)	(854)	(312)	--	(1,195)	(4,124)	(2,793)	(8,112)
Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year:								
- Changes in provisions (Note 19.4)	(87)	475	(613)	(45)	(270)	169	(657)	(758)
- Changes in value of investment property (Note 19.7)	46,106	143,031	255,177	(88)	444,226	--	--	444,226
- Gains/(losses) on changes in value of assets due to impairment (Note 19.6)	(226)	(827)	--	25	(1,028)	(228)	244	(1,012)

7 Leases

The subsidiary Utopicus rents several offices as a lessee. Rental contracts are normally made for fixed terms of 4 to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. Leases do not impose covenants, but the leased assets cannot be used as collateral for loans.

7.1 Right-of-use assets

	Thousands of euros	
	31 December 2022	31 December 2021
Property, plant and equipment	16,899	18,886
Right-of-use assets	**16,899**	**18,886**

7.2 Deferred taxes relating to rights of use

		Thousands of euros	
	Note	31 December 2022	31 December 2021
Deferred tax assets relating to rights of use	18,5	289	528
Deferred taxes relating to rights of use		**289**	**528**

7.3 Lease liabilities

	Thousands of euros	
	31 December 2022	31 December 2021
Non-current lease liabilities	16,162	17,737
Current lease liabilities	3,404	3,259
Lease liabilities	**19,566**	**20,996**

7.4 Operating leases as lessee

The subsidiary Utopicus has agreed under contract the following minimum lease payments with the lessors in accordance with the contracts in force, taking into account the impact of expenses, future CPI increases and other agreed rent updates:

	Thousands of euros	
	2022	2021
Up to 12 months	2,463	3,181
Between 1 and 5 years	4,177	5,834
More than 5 years	--	869
Total minimum operating lease payments - as lessee	**6,640**	**9,884**

These amounts relate to the leases signed by the subsidiary Utopicus for the premises where it carries out its business.

7.5 Impacts on consolidated income statement

The impacts on the consolidated income statement are presented in the following table:

	Thousands of euros	
	31 December 2022	31 December 2021
Depreciation and amortisation	(2,780)	(2,325)
Restated finance costs	(1,233)	(792)
Total	**(4,013)**	**(3,117)**

8 Property, plant and equipment

The changes in this caption of the consolidated statement of financial position have been the following:

	Note	Thousands of euros		
		Property for own use	Other property, plant and equipment	Total
Balance at 31 December 2020		**37,495**	**19,246**	**56,741**
Acquisition cost		*43,365*	*30,945*	*74,310*
Accumulated depreciation and amortisation		*(4,858)*	*(11,699)*	*(16,557)*
Accumulated impairment		*(1,012)*	--	*(1,012)*
Additions		39	2,246	2,285
Depreciation charge		(562)	(2,521)	(3,083)
Disposals acquisition cost		--	(531)	(531)
Disposals accumulated depreciation		--	314	314
Transfers acquisition cost		--	(829)	(829)
Transfers accumulated depreciation		--	(4)	(4)
Impairment	19.6	269	--	269
Balance at 31 December 2021		**37,241**	**17,921**	**55,162**
Acquisition cost		*43,404*	*31,831*	*75,235*
Accumulated depreciation and amortisation		*(5,420)*	*(13,910)*	*(19,330)*
Accumulated impairment		*(743)*	--	*(743)*
Additions		115	3,928	4,043
Depreciation charge		(561)	(3,374)	(3,935)
Disposals acquisition cost		--	(2,414)	(2,414)
Disposals accumulated depreciation		--	2,414	2,414
Impairment	19.6	743	(703)	40
Balance at 31 December 2022		**37,538**	**17,772**	**55,310**
Acquisition cost		*43,519*	*33,345*	*76,864*
Accumulated depreciation and amortisation		*(5,981)*	*(14,870)*	*(20,851)*
Accumulated impairment		--	*(703)*	*(703)*

At 31 December 2022 and 2021, the Group used two floors of the building located at Avenida Diagonal, 530, in Barcelona, one floor of the building located at Paseo de la Castellana, 52, in Madrid, and one floor of the building located at 42, *rue* Washington in Paris for its own use, while the rest of these buildings are rented out. The cost of buildings earmarked for the Group's own use is recognised under "Properties for own use".

At 31 December 2022, it became evident that an impairment reversal in the amount of 40 thousand euros had to be recognised, evidenced by the appraisals performed by independent experts (Note 4.3). In 2021, an impairment loss of 269 thousand was recognised on the value of the assets.

In 2022 no assets were derecognised due to being replaced (2021: 217 thousand euros).

9 Investment property

The changes in this caption of the statement of financial position were:

	Note	Thousands of euros	
		2022	2021
Beginning balance		**12,183,368**	**11,516,120**
Additions for subsequent capitalised disbursements		226,970	263,660
Additions arising from acquisitions		--	52,561
Additions to the scope of consolidation	2.6	485,145	--
Sale or disposal by other means	19.5	(26,136)	(27,581)
Assets classified as held for sale	23	(489,205)	(61,503)
Net gain/(loss) from fair value adjustments	19.7	(147,493)	441,134
Other entries	19.6	(697)	(1,023)
Ending balance		**12,231,952**	**12,183,368**

9.1 Movements in 2022

Additions for subsequent capitalised disbursements correspond to investments made in real estate assets, both in development and in operation, amounting to 226,970 thousand euros, including 9,017 thousand euros of capitalised financial expenses.

In February, SFL acquired 100% of the shares of SCI Pasteur 123, owner of a property in Paris, resulting in a capital gain of 485,145 thousand euros (Note 2.6).

In 2022, the Parent disposed of two properties and one premises in Madrid for a total sale price of 31,624 thousand euros, which resulted in a gain of 4,809 thousand euros in the consolidated income statement, including the indirect costs of the sale.

In 2022, properties were reclassified to the "Assets classified as held for sale" heading in the condensed consolidated statement of financial position, for a total of 489,205 thousand euros.

The other entries correspond to assets amounting to a total of 697 thousand euros being derecognised due to being replaced.

9.2 Movements in 2021

Additions for subsequent capitalised disbursements corresponded to investments made in real estate assets, both in development and in operation, amounting to 263,660 thousand euros, including 11,937 thousand euros of capitalised financial expenses.

In 2021, the Parent acquired a property in Barcelona for 47,454 thousand euros, including purchase costs. It also executed the third and last purchase option for the acquisition of one floor of a building in Madrid for a total amount of 5,107 thousand euros, including purchase costs, which implied a write-off, disposal or other disposition of the advance recorded in prior years of 500 thousand euros.

In addition, an office building was disposed of for a total sale price of 27,200 thousand euros, which resulted in a loss of 1,567 thousand euros, including indirect sale costs, being recognised in the consolidated income statement.

In 2021, properties were reclassified to the "Assets classified as held for sale" heading in the condensed consolidated statement of financial position, for a total of 61,503 thousand euros.

The other entries corresponded to assets amounting to a total of 1.023 thousand euros being derecognised due to being replaced.

9.3 Changes in value of investment property

The "Changes in value of investment property" heading in the consolidated income statement includes the results from the revaluation of investment property, according to valuations by independent experts as of 31 December 2022 and 2021 (Notes 4.4 and 19.7).

9.4 Capitalised financial costs

The details of borrowing costs plus cost of investment property is shown in Note 19.8.1.

9.5 Other information

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

	Total surface area (m^2) of investment property					
	Investment property		Investment property in progress (**)		Total	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Barcelona (*)	356,748	332,666	33,390	55,879	390,138	388,545
Madrid	553,118	601,938	157,997	196,643	711,115	798,581
Rest of Spain	--	16,901	--	23,557	--	40,458
Paris (*)	391,249	341,634	73,871	79,687	465,120	421,321
	1,301,115	1,293,139	265,258	355,766	1,566,373	1,648,905

(*) For 2022 and 2021, 100% of the surface area of the properties whose companies have been consolidated using the full consolidation method is included.

(**) They do not include 20,276 m^2 of surface area of the subsidiary Peñalvento, since the asset is classified under "Inventories" (Note 11), and the areas of 101,501m^2 and 8.347 m^2 , relating to 2022 and 2021 , respectively, of property assets recorded under "Assets classified as held for sale" (Note 23).

As at 31 December 2022, the Group has pledged an asset to secure a mortgage loan with a carrying amount of 185,000 thousand euros, as security for a debt of 75,700 thousand euros (Note 14.7). At 31 December 2021, the corresponding balances were 169,961 thousand euros and 75,700 thousand euros, respectively.

10 Non-current financial assets

The changes in this caption of the consolidated statement of financial position have been the following:

	Thousands of euros			
	31 December 2021	Inclusions	Disposals	31 December 2022
Deposits and guarantees given	26,296	304	--	26,600
Total non-current financial assets at amortised cost	**26,296**	**304**	**--**	**26,600**
Other financial instruments	--	2,760	--	2,760
Total non-current financial assets at fair value	**--**	**2,760**	**--**	**2,760**
Total non-current financial assets	**26,296**	**3,064**	**--**	**29,360**

	Thousands of euros			
	31 December 2020	Inclusions	Disposals	31 December 2021
Deposits and guarantees given	29,047	--	(2,751)	26,296
Total non-current financial assets at amortised cost	**29,047**	**--**	**(2,751)**	**26,296**

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

On 11 February 2022, the Parent acquired an interest in Fifth Wall Real State Technology amounting to 2,760 thousand euros.

11 Inventory

The composition of this caption in the consolidated statement of financial position is as follows:

	Thousands of euros	
	31 December 2022	31 December 2021
Beginning balance	**60,689**	**52,409**
Additions	26,439	8,280
Ending balance	**87,128**	**60,689**

Inventories correspond to the office building that the Group is developing for a third party. On 3 October 2018, the Parent entered into a sale and purchase agreement, subject to a condition precedent, for 100% of the shares in the subsidiary Peñalvento. The contract provides for the sale and purchase to be completed during 2023, provided that the conditions precedent have been fulfilled. The Group received a total of 28,287 thousand euros in prepayments (see Note 16.3).

Details of finance costs capitalised as a cost of inventories are given in Note 19.8.1.

12 Trade receivables and other non-current assets

The composition of this current asset heading in the consolidated statement of financial position is as follows:

		Thousands of euros			
		31 December 2022		31 December 2021	
	Note	Current	Non-Current	Current	Non-Current
Trade receivables for sales and services	12.1	19,220	--	17,306	--
Trade receivables for sale of properties	12.2	225	--	849	--
Accrual of lease incentives	12.3	20,572	83,865	20,817	55,377
Other receivables	12.4	2,266	--	89,104	--
Other assets		1,941	--	3,029	--
Impairment of receivables -					
- Trade receivables for sales and services		(6,595)	--	(7,875)	--
- Other receivables	12.4	(866)	--	(85,473)	--
Total trade and other receivables		**36,763**	**83,865**	**37,757**	**55,377**

12.1 Trade receivables for sales and services

This mainly includes the amounts receivable from customers, fundamentally from the Group's rentals business, that are billed monthly, quarterly or yearly with no significant overdue balances not provided for at 31 December 2022 and 2021.

12.2 Trade receivables for sales of properties

This mainly includes the receivable amounts from the sale of assets.

12.3 Accrual of lease incentives

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

In 2022, 789 thousand euros relating to the accrual of rental incentives for a property classified as held for sale was transferred to “Assets classified as held for sale” in the consolidated income statement (2021: 547 thousand euros) (Note 23).

12.4 Other receivables

At 31 December 2022 and 2021, "Other Receivables" includes mainly the amounts owed by Nozar, S.A. as a result of the termination of the purchase contracts entered into in July 2007 for failure to comply with the conditions precedent, including the interest accrued to date.

On 21 May 2021, the Parent adhered to the proposed agreement with Nozar, S.A., whereby the Parent accepted a 97% debt reduction and a schedule of deferred payments over twelve, twenty-three and thirty-five months. On 21 December 2021, the agreement was ratified by Madrid Commercial Court No. 2.

13 Equity

13.1 Share capital

At 31 December 2022 and 2021, the share capital comprised 539,615,637 shares with a par value of 2.5 euros each, which had been fully subscribed and paid.

According to the detail included in section A.2 of the Annual Corporate Governance Report of the Parent for 2022, shareholders owning significant stakes in the Parent's share capital, both direct and indirect, as at 31 December 2022 and 2021, were as follows:

	31 December 2022		31 December 2021	
	Number of shares*	% ownership	Number of shares*	% ownership
Name or corporate name of the shareholder:				
Qatar Investment Authority (**)	102,675,757	19.03%	102,675,757	19.03%
Fernández González, Carlos	82,488,909	15.29%	80,028,647	14.83%
Puig, S.A.	39,795,000	7.37%	29,002,980	5.37%
Aguila Ltd.	28,880,815	5.35%	28,880,815	5.35%
Credit Agricole, S.A.	22,494,701	4.17%	22,494,701	4.17%
BlackRock Inc	15,956,812	2.96%	16,182,616	3.00%

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

** Qatar Investment Authority is responsible for managing 21,782,588 shares of the Parent owned by DIC Holding, LLC.

At 31 December 2022 and 2021, Aguila Ltd. and BlackRock Inc. had formally obtained financial instruments associated with the Parent's shares that, in the event the instruments are exercised, could give rise to an additional interest in the share capital of Colonial. These financial instruments do not and cannot involve the issue of new shares of the Parent.

The Parent is not aware of any other significant shareholdings.

The Annual General Meeting held on 21 June 2022 resolved to authorise the Board of Directors to issue, on behalf of the Parent and on one or more occasions and for a maximum period of five years, bonds convertible into new shares of the Parent or other similar securities that may give the right, directly or indirectly, to subscribe shares of the Parent, with the express power to exclude the pre-emptive subscription right of the shareholders up to a maximum of 20% of the share capital, and to increase the capital by the amount necessary to meet the conversion. The total maximum amount of the issue or issues of the securities that may be performed under this authorisation may not exceed a combined amount of 500,000 thousand euros or its equivalent in another currency.

On 21 June 2022, the Annual General Meeting resolved to authorise the Board of Directors, in accordance with article 297.1 b) of the Spanish Companies Act, to increase the share capital through monetary contributions by up to half the amount of the share capital, within a maximum period of five years, on one or more occasions and at the time and by the amount it deems appropriate. Within the maximum amount indicated, the Board of Directors is empowered to exclude the pre-emption right up to a maximum of 20% of the share capital.

13.2 Share premium

In 2021, as a result of the two capital increases, the amount of the net share premium increased by 204,261 thousand euros. In addition, on 30 June 2021, the General Shareholders' Meeting resolved to distribute dividends with a charge to the share premium amounting to 111,087 thousand euros, which were paid to shareholders.

On 21 June 2022, the General Shareholders' Meeting resolved to distribute dividends with a charge to the share premium amounting to 92,681 thousand euros, which were paid to shareholders.

At 31 December 2022, the share premium amounted to 1,491,773 thousand euros.

13.3 Own shares

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

	31 December 2022		31 December 2021	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Free tranche	7,915,908	64,494	7,943,007	64,745
Liquidity contracts	302,462	1,880	229,500	1,912
Closing balance	**8,218,370**	**66,374**	**8,172,507**	**66,657**

13.3.1 Own shares – Free tranche

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

	Note	31 December 2022		31 December 2021	
		No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance		7,943,007	64,745	3,131,110	22,546
Buyback plan 2021		--	--	5,000,000	43,439
Delivery of incentives plan shares	20	(27,099)	(251)	(296,337)	(2,134)
Other acquisitions		--	--	108,234	894
Closing balance		**7,915,908**	**64,494**	**7,943,007**	**64,745**

<ins>Share buyback plan of the Parent –</ins>

On 13 July 2021, the Parent agreed to carry out a treasury share buyback programme. The maximum number of shares to be acquired amounted to 5,000,000, equivalent to 0.93% of the share capital of the Parent at that date. On 16 November 2021, the Parent ended the share buyback programme.

13.3.2 Own shares - Liquidity contracts

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

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

	31 December 2022		31 December 2021	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	229,500	1,912	229,500	1,894
Liquidity contract dated 11 July 2017				
Expenses	--	--	--	18
Liquidity contract dated 4 January 2022				
Purchase	17,945,849	116,688	--	--
Sale	(17,872,887)	(116,720)	--	--
Closing balance	**302,462**	**1,880**	**229,500**	**1,912**

On 11 July 2017, the Parent entered into a liquidity contract to enhance the liquidity of its transactions and the regularity of its quoted share price as provided for under CNMV Circular 1/2017 of 26 April.

On 4 January 2022, the Parent announced the termination of this contract, being replaced by a new one signed with Banco Sabadell, S.A. The contract is valid for 12 months and can be extended.

13.4 Other reserves

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

		Thousands of euros					
	Note	Legal reserve	Other reserves	Measurement of financial instrument hedges	Share-based payments	Transactions with non-controlling interests	**Total**
At 31 December 2020		**54,767**	**141,973**	**(19,457)**	**12,410**	**55,195**	**244,888**
Revaluation – gross		--	--	45,697	--	--	45,697
Deferred tax		--		--	--	--	--
Non-controlling interest in revaluation - gross		--	--	(114)	--	--	(114)
Deferred tax		--	--	--	--	--	--
Reclassification to profit - gross		--	--	(8,977)	--	--	(8,977)
Non-controlling interest in reclassification to profit/(loss) - gross		--	--	1	--	--	1
Deferred tax		--	--	--	--	--	--
Other comprehensive income		--	--	36,607	--	--	36,607
Transfer to/from retained earnings		--	--	--	(1,094)	--	(1,094)
Transactions with owners in their capacity as such:							
Share-based payments	20	--	--	--	1,463	--	1,463
Transactions with non-controlling interests		--	--	(28)	--	(42,438)	(42,466)
At 31 December 2021		**54,767**	**141,973**	**17,122**	**12,779**	**12,757**	**239,398**

		Thousands of euros					
	Note	Legal reserve	Other reserves	Measurement of financial instrument hedges	Share-based payments	Transactions with non-controlling interests	**Total**
At 31 December 2021		**54,767**	**141,973**	**17,122**	**12,779**	**12,757**	**239,398**
Revaluation – gross		--	--	279,650	--	--	279,650
Deferred tax		--		(452)	--	--	(452)
Non-controlling interest in revaluation - gross		--	--	(1,117)	--	--	(1,117)
Deferred tax		--	--	--	--	--	--
Reclassification to profit - gross		--	--	(2,124)	--	--	(2,124)
Non-controlling interest in reclassification to profit/(loss) - gross		--	--	36	--	--	36
Deferred tax		--	--	--	--	--	--
Other comprehensive income		--	--	275,993	--	--	275,993
Transfer to/from retained earnings		3,873	--	--	--	--	3,873
Transactions with owners in their capacity as such:							
Share-based payments	20	--	--	--	4,710	361	5,071
Transactions with non-controlling interests		--	--	--	--	(687)	(687)
At 31 December 2022		**58,640**	**141,973**	**293,115**	**17,489**	**12,431**	**523,648**

13.4.1 Legal Reserve

Under the Consolidated Spanish 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 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, this reserve may only be used to set off losses and provided no other sufficient reserves are available for this purpose.

On 21 June 2022, the General Meeting of Shareholders was held where it was approved to allocate 3,873 thousand euros to the legal reserve from the result of 2021.

At 31 December 2022 and 2021, the legal reserve is not fully constituted.

13.4.2 Other reserves

At 31 December 2022, the Parent had 169,439 thousand euros of restricted reserves. This item also includes the merger reserve generated by the operations carried out in 2019, with a debit balance of 27,466 thousand euros.

13.5 Retained earnings

The changes in retained earnings are as follows:

	Note	Thousands of euros	
		2022	2021
Balance at 31 December of the previous year		**2,892,540**	**2,418,533**
Net profit for the year	5	7,979	473,842
To legal reserve	13.4.1	(3,873)	--
Transfer to/from other reserves		--	1,094
Other items of comprehensive income recognised directly in retained earnings:			
Capital increases		--	(1,223)
Profit/(loss) from own share transactions		(789)	125
Dividends		(34,855)	--
Other gains/(losses)		373	169
Balance at 31 December		**2,861,375**	**2,892,540**

Gains/(losses) on transactions with own shares relate to the deliveries of own shares to the beneficiaries of the long-term incentives plan (Note 20.1), calculated as the difference between the carrying amount of the shares delivered and the amount of the obligation assumed by the Parent (Note 4.11), as well as for transactions carried out by the financial intermediary under the liquidity contract.

13.6 Non-controlling interests

The changes in this caption of the consolidated statement of financial position have been the following:

	Thousands of euros				
	Inmocol Torre Europa, S.A.	Utopicus Innovación Cultural, S.L.	SFL Subgroup	Wittywood, S.L.	Total
Balance at 31 December 2020	**11,447**	**309**	**1,416,473**	**4,387**	**1,432,616**
Income for the financial year (Note 19.10)	275	(59)	92,871	(22)	93,065
Dividends and other	--	--	(27,712)	--	(27,712)
Changes to scope (Note 2.6)	--	(250)	(312,177)	--	(312,427)
Financial instrument hedges	--	--	113	--	113
Balance at 31 December 2021	**11,722**	**--**	**1,169,568**	**4,365**	**1,185,655**
Income for the financial year (Note 19.10)	1,107	--	40,584	(52)	41,639
Dividends and other	--	--	(40,863)	--	(40,863)
Changes to scope (Note 2.6)	--	--	--	(4,313)	(4,313)
Financial instrument hedges	678	--	403	--	1,081
Balance at 31 December 2022	**13,507**	**--**	**1,169,692**	**--**	**1,183,199**

The breakdown of the items included in “Dividends and other” is as follows:

	Thousands of euros	
	31 December 2022	31 December 2021
Dividend paid by the SFL subgroup to non-controlling interests	(3,007)	(17,829)
Dividend paid by subsidiaries of the SFL subgroup to non-controlling interests	(37,931)	(9,944)
Other	75	61
Total	(40,863)	(27,712)

The SFL subgroup has the following shareholders’ agreements with Prédica:

- SFL had two shareholder agreements in the SCI Washington and Parholding, in which SFL held 66% and 50% of their share capital, respectively.

- As a result of the transactions carried out by the Group in 2021 described in Note 2.6, SFL acquired the non-controlling interests in these companies, thereby terminating the previous agreements, in exchange for 49% of the companies SCI Paul Cézanne, SCI 103 Grenelle, SAS Cloud and SAS Champs-Elysées, for which SFL and Prédica signed a new shareholders' agreement.
- SFL retains the former subsidiaries in which it holds a 51% interest. On the basis of the shareholders' agreement, in which the conditions for qualifying these shareholdings as controlling interests are met (the decisions that most significantly affect the companies are controlled by SFL), SFL has sole control over the four companies. As a result, the Group has fully consolidated the four subsidiaries.

13.6.1 Summarised financial information on the main subsidiaries with non-controlling interests

The following table shows the summarised financial information for the main subsidiaries with non-controlling interests:

		Thousands of euros							
Non-controlling	% non-controlling	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Ordinary income	Profit/(loss) for the year	Total comprehensive income	Cash flows
SFL Group	1.7%	8,159,380	168,614	2,323,226	528,333	204,517	181,616	206,102	(45,448)
Inmocol Torre Europa (*)	50%	39,429	5,316	20,697	1,266	--	(156)	(156)	3,630

(*) Pursuant to the shareholders' agreement signed between the parties.

14 Bank borrowings, other financial liabilities and bonds and similar securities issued

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

31 December 2022	Thousands of euros							
	Current	Non-current						
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Older than 5 years	Total non-current	Total
Bank borrowings:								
Loans	--	--	--	--	420,000	--	420,000	420,000
Syndicated financing	--	100,000	--	--	--	--	100,000	100,000
Interest	2,354	--	--	--	--	--	--	2,354
Debt arrangement costs	(2,688)	(2,544)	(2,164)	(2,016)	(1,554)	--	(8,278)	(10,966)
Total debts with credit institutions	(334)	97,456	(2,164)	(2,016)	418,446	--	511,722	511,388
Other financial liabilities	2,473	--	--	--	--	--	--	2,473
Total other financial liabilities	2,473	--	--	--	--	--	--	2,473
Total debts with credit institutions and other financial liabilities	**2,139**	**97,456**	**(2,164)**	**(2,016)**	**418,446**	**--**	**511,722**	**513,861**
Bonds and similar securities issued:								
Bond issues	--	187,200	1,000,000	700,000	599,000	2,024,000	4,510,200	4,510,200
Interest	26,957	--	--	--	--	--	--	26,957
Debt arrangement costs	(9,463)	(9,419)	(8,607)	(7,150)	(5,667)	(3,460)	(34,303)	(43,766)
Total bonds and similar securities issued	**17,494**	**177,781**	**991,393**	**692,850**	**593,333**	**2,020,540**	**4,475,897**	**4,493,391**
Issue of promissory notes	409,000	--	--	--	--	--	--	409,000
Total issuance of promissory notes	**409,000**	**--**	**--**	**--**	**--**	**--**	**--**	**409,000**
Total	**428,633**	**275,237**	**989,229**	**690,834**	**1,011,779**	**2,020,540**	**4,987,619**	**5,416,252**

31 December 2021	Thousands of euros							
	Current	Non-current						
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Older than 5 years	Total non-current	Total
Bank borrowings:								
Loans	--	75,700	--	--	--	--	75,700	75,700
Interest	702	--	--	--	--	--	--	702
Debt arrangement costs	(2,047)	(1,985)	(1,575)	(921)	(77)	--	(4,558)	(6,605)
Total debts with credit institutions	(1,345)	73,715	(1,575)	(921)	(77)	--	71,142	69,797
Other financial liabilities	2,474	--	--	--	--	--	--	2,474
Total other financial liabilities	2,474	--	--	--	--	--	--	2,474
Total debts with credit institutions and other financial liabilities	**1,129**	**73,715**	**(1,575)**	**(921)**	**(77)**	**--**	**71,142**	**72,271**
Bonds and similar securities issued:								
Bond issues	289,600	--	187,200	1,000,000	700,000	2,425,000	4,312,200	4,601,800
Interest	25,467	--	--	--	--	--	--	25,467
Debt arrangement costs	(6,362)	(6,134)	(6,090)	(5,277)	(3,820)	(5,922)	(27,243)	(33,605)
Total bonds and similar securities issued	**308,705**	**(6,134)**	**181,110**	**994,723**	**696,180**	**2,419,078**	**4,284,957**	**4,593,662**
Issue of promissory notes	257,000	--	--	--	--	--	--	257,000
Total issuance of promissory notes	**257,000**	**--**	**--**	**--**	**--**	**--**	**--**	**257,000**
Total	**566,834**	**67,581**	**179,535**	**993,802**	**696,103**	**2,419,078**	**4,356,099**	**4,922,933**

The changes in net financial debt in 2022, which arose from cash flows, are detailed in the table below:

	Thousands of euros		
	31 December 2021	Cash flows	31 December 2022
Loans	75,700	344,300	420,000
Liabilities associated with assets classified as held for sale (Note 23)	--	75,700	75,700
Syndicated financing	--	100,000	100,000
Issue of promissory notes	257,000	152,000	409,000
Bond issues	4,601,800	(91,600)	4,510,200
Gross financial debt (nominal gross debt)	**4,934,500**	**580,400**	**5,514,900**
Cash and cash equivalents	(218,942)	58,985	(159,957)
Net financial debt	**4,715,558**	**639,385**	**5,354,943**

In 2022, the Parent reclassified a mortgage loan of 75,700 thousand euros to “Liabilities associated with assets classified as held for sale” (Note 23).

14.1 Issues of the Parent's straight bonds

The detail of the issues of standard bonds made by the parent company is as follows:

				Thousands of euros		
Issue date	Duration	Maturity	Fixed coupon payable annually	Issue amount	31 December 2022	31 December 2021
28-10-16	8 years	10-2024	1.450%	600,000	187,200	187,200
10-11-16	10 years	11-2026	1.875%	50,000	50,000	50,000
28-11-17	8 years	11-2025	1.625%	500,000	500,000	500,000
28-11-17	12 years	11-2029	2.500%	300,000	300,000	300,000
17-04-18	8 years	04-2026	2.000%	650,000	650,000	650,000
14-10-20	8 years	10-2028	1.350%	500,000	500,000	500,000
22-06-21	8 years	06-2029	0.750%	625,000	625,000	625,000
Total issues					**2,812,200**	**2,812,200**

In February, the Parent converted all of its outstanding bonds into "green bonds" under a Green Financing Framework, the pillars of which are energy efficiency and the prevention and reduction of carbon emissions from the Group's assets. The conversion was approved by the bondholders after accepting the consent solicitation launched for each series of bonds in accordance with the respective terms and conditions of each issue.

The bond issues dated 14-10-20 and 22-06-21 were admitted to trading on the regulated market (AIAF Fixed Income Securities Market) of the Madrid Stock Exchange (CNMV) and the remaining bond issues on the regulated market (Main Securities Market) of the Irish Stock Exchange.

At 31 December 2022 and 2021, the fair value of the bonds issued by the Parent was 2,440,714 thousand euros and 2,928,360 thousand euros, respectively.

14.1.1 European Medium Term Note Programme -

On 5 October 2016, the Parent registered a 12-month European Medium Term Note programme for 3,000,000 thousand euros, which can be extended to 5,000,000 thousand euros, on the Irish Stock Exchange. On 8 June 2022, the CNMV approved the registration of the programme renewal in the official registers of the Parent's Euro Medium Term Note Programme.

14.1.2 Compliance with financial ratios -

The simple obligations currently in force stipulate that certain financial ratios must be met by 30 June and 31 December of each year. Under these ratios, the value of the Group's unsecured assets in the consolidated statement of financial position at each of the above dates must be at least equal to the unsecured financial debt. These ratios were met at 31 December 2022 and 2021.

14.2 Issuance of straight SFL bonds

The detail of the issues of non-convertible bonds made by SFL is as follows:

Issue date	Duration	Maturity	Fixed coupon payable annually	Thousands of euros		
				Issue amount	31 December 2022	31 December 2021
16-11-15	7 years	11-2022	2.250%	500,000	--	289,600
29-05-18	7 years	05-2025	1.500%	500,000	500,000	500,000
05-06-20	7 years	06-2027	1.500%	599000	599000	500,000
21-10-21	6,5 years	04-2028	0.500%	599000	599000	500,000
Total issues					**1,698,000**	**1,789,600**

In April and June 2022, SFL has formalised two extensions (TAP) on its bonds maturing in 2028 and 2027, respectively, amounting to 99,000 thousand euros each.

In September 2022, SFL made an early redemption of the entire outstanding balance of the bond issue dated 16-11-15, amounting to 289,600 thousand euros.

These bonds constitute non-subordinated bonds and without any preference among them, and have been admitted to trading on the Euronext Paris regulated market.

At 31 December 2022 and 2021, the fair value of the bonds issued by SFL was 1.470.152 thousand euros and 1,836,854 thousand euros, respectively.

14.3 Issue of promissory notes by the Parent

The parent company registered a European Commercial Paper programme on the Irish Stock Exchange in December 2018 for a maximum limit of 300,000 thousand euros with a short-term maturity, subsequently extended to 500,000 thousand euros. This programme was renewed on 22 September 2022. At 31 December 2022, there are no issues (140,000 thousand euros at 31 December 2021).

14.4 Issuing promissory notes by SFL

In September 2018, SFL registered a short-term promissory note (NEU CP) issuance programme for a maximum amount of 500,000 thousand euros with a short-term maturity. This programme was renewed in May 2022. As at 31 December 2022, outstanding issues amounted to 409,000 thousand euros (31 December 2021: 117,000 thousand euros).

14.5 Syndicated financing of the Parent

The detail of the parent company's syndicated financing is detailed in the following table:

Thousands of euros	Maturity	31 December 2022		31 December 2021	
		Limit	Nominal drawn down	Limit	Nominal drawn down
Credit policy	11-2027	1,000,000	--	1,000,000	--
Total parent company syndicated financing		**1,000,000**	**--**	**1,000,000**	**--**

On November 2022, the maturity of the credit line was extended to November 2027. This credit line is considered sustainable because its margin is pegged to the rating obtained by the GRESB agency.

The fixed interest rate is variable with a margin referenced to the EURIBOR.

14.5.1 Compliance with financial ratios -

At 31 December 2022 and 2021, the Parent was complying with all financial ratios.

14.6 SFL syndicated financing

The detail of SFL's syndicated financing is detailed in the following table:

Thousands of euros	Maturity	31 December 2022		31 December 2021	
		Limit	Nominal drawn down	Limit	Nominal drawn down
Credit policy	06-2024	390,000	100,000	390,000	--
Total SFL syndicated financing		**390,000**	**100,000**	**390,000**	**--**

The fixed interest rate is variable with a margin referenced to the EURIBOR.

14.6.1 Compliance with financial ratios -

At 31 December 2022 and 2021, SFL was complying with the financial ratios provided in its respective financing contracts.

14.7 Secured mortgage loans

Details of the Group's mortgage loans are shown in the table below:

	Note	Thousands of euros			
		31 December 2022		31 December 2021	
		Mortgage debt	Asset market value	Mortgage debt	Asset market value
Investment property	9,5	--	--	75,700	170,400
Total secured mortgage loans		**--**	**--**	**75,700**	**170,400**

The Parent holds a “sustainable loan” amounting to 75,700 thousand euros, whose margin will vary according to the rating the Parent obtains in ESG (environment, social and corporate governance) from the GRESB sustainability agency.

This loan was reclassified in 2022 to “Liabilities associated with assets classified as held for sale” in the consolidated statement of financial position (Note 23).

14.7.1 Compliance with financial ratios -

The Group's mortgage-backed loan is subject to compliance with various financial ratios. At 31 December 2022 and 2021, the Group complied with the required financial ratios.

14.8 Other loans

The Group holds unsecured loans. The total limits and balances provided are detailed below:

Thousands of euros	Society	Maturity	31 December 2022		31 December 2021	
			Limit	Nominal drawn down	Limit	Nominal drawn down
CADIF	SFL	06.2025	175,000	--	175,000	--
BECM	SFL	07.2027	200,000	--	150,000	--
Banque Postale	SFL	06.2024	75,000	--	75,000	--
BNP Paribas	SFL	05.2025	150,000	--	150,000	--
Société Générale	SFL	10.2025	100,000	--	100,000	--
Intesa Sanpaolo	SFL	12.2027	100,000	--	100,000	--
Caixabank	SFL	03.2027	100,000	--	--	--
Sabadell	SFL	11.2027	50,000	--	--	--
Bilateral loans (Revolving Credit Facility)			**950,000**	**--**	**750,000**	**--**
BBVA	Colonial	04.2027	100,000	100,000	--	--
BNP Term Loan	SFL	12.2027	300,000	300,000	--	--
Bankinter	Inmocol	02.2027	20,000	20,000	--	--
Other loans			**420,000**	**420,000**	**--**	**--**
Total loans			**1,370,000**	**420,000**	**750,000**	**--**

Bilateral loans in Revolving Credit Facility (RCF) format

In 2022, SFL increased the limit of the BECM loan by 50,000 thousand euros and extended the maturity by 4 years to July 2027. In addition, the maturity of the CADIF loan was extended by 2 years and the Sanpaolo loan by 1 year to 2025 and 2027, respectively.

In March 2022, SFL signed a new bilateral RCF loan with Caixabank for a limit of 100,000 thousand euros and maturity in 2027. In addition, in November 2022, SFL signed another bilateral RCF loan with Banco Sabadell for a limit of 50,000 thousand euros and maturity in 2027. At the year end, both loans were available in full.

Other loans

In February 2022, the subsidiary Inmocol Torre Europa, S.A. signed a new bilateral loan with the financial institution Bankinter for 20,000 thousand euros, as well as a new hedging derivative financial instrument to cover this liability, with Société Générale (Note 15).

In April 2022, the Parent signed a new bilateral loan for an amount of 100,000 thousand euros maturing in 2027. This loan is considered sustainable as its margin is linked to the ESG (environmental, social and corporate governance) rating obtained by the Parent from the sustainability agency GRESB.

In December 2022, SFL signed a Term Loan with different banks for a limit of 300,000 thousand euros and maturity in 2027, extendable annually for 2 years until 2029. This loan is fully drawn down at year end.

14.8.1 Compliance with financial ratios

All these SFL loans are subject to compliance with certain financial ratios on a half-yearly basis. At 31 December 2022 and 2021, SFL was complying with the financial ratios provided in its respective financing contracts.

Furthermore, at 31 December 2022, the Parent's loan complies with the financial ratios foreseen in its financing contract.

14.9 Guarantees given

At 31 December 2022, the Group has granted guarantees to government bodies, customers and suppliers in the amount of 8,883 thousand euros (8,845 thousand euros at 31 December 2021).

Of the total collateral provided, the main guarantee granted, amounting to 4,804 thousand euros, corresponds to commitments acquired by the company Asentia. In this regard, the Parent and Asentia have signed an agreement whereby, if any of the guarantees are executed, Asentia must compensate the Parent for any loss incurred within a maximum period of 15 days.

14.10 Cash and cash equivalents

At 31 December 2022 and 2021, this heading includes cash and cash equivalents for 159.957 thousand euros and 218,942 thousand euros, respectively, 1,382 thousand of which are restricted or pledged at 31 December 2022 (2021: 1.777 thousand euros).

14.11 Debt arrangement costs

In 2022 and 2021, the Group recognised in the consolidated statement income 8,636 thousand euros and 6,292 thousand euros, respectively, corresponding to arrangement costs paid during the year (Note 19.8).

14.12 Financing interest

The average interest rate of the Group in 2022 was 1.44% (1.73% in 2021) or 1.73% including the accrual of fees (2.04% in 2021). The average interest rate of the Group's debt at 31 December 2022 (spot) is 1.71% (1.40% at 31 December 2021).

The amount of accrued interest pending payment recorded in the consolidated statement of financial position amounts to:

	Thousands of euros	
	31 December 2022	31 December 2021
Obligations	26,957	25,467
Bank borrowings	2,354	702
Total	**29,311**	**26,169**

14.13 Capital management and risk management policy

Companies that operate in the real estate sector require a significant level of investment to guarantee the development of their projects and the growth of their business through the acquisition of real estate in equity and/or land.

The Group's financial structure requires its sources of financing to be diversified in entities as well as products and maturity, with the objective of ensuring its companies continue to be profitable businesses and being able to maximise shareholder return.

14.14 Financial risk management policy

The Group efficiently manages financial risks with the objective of having an adequate financial structure that allows high levels of liquidity to be maintained as well as minimising financing costs, reducing volatility due to capital changes and ensuring compliance with its business plans.

Interest-rate risk: The risk management policy has the objective of limiting and controlling the impact of variations in interest rates on the result and cash flows, maintaining the level of indebtedness and the overall cost of debt in line with the Group's credit rating.

To achieve this objective, interest rate hedging instruments are contracted, if necessary, to cover possible financial cost fluctuations. The Group's policy is to contract instruments that comply with the provisions of the accounting regulations to be considered as efficient accounting coverage, and thus record its market value variations directly in the Group's other consolidated result. At 31 December 2022, the percentage of hedged or fixed-rate debt as a percentage of the Group's total debt was 96% (as at 31 December 2021 was 95%).

Liquidity risk: In order to manage liquidity risk and meet the diverse needs for funds, based on the annual treasury budget, the Group monitors the treasury forecasts monthly.

The Group considers the following mitigating factors for liquidity risk management: (i) the generation of recurring cash in the businesses on which the Group bases its activity; (ii) the ability to renegotiate and obtain new financing facilities based on long-term business plans and (iii) the quality of the Group's assets.

Occasionally there may be excess cash making it possible to have undrawn credit facilities or highly-liquid deposits with no risk. At 31 December 2022, the Group has sufficient financing facilities to meet its short-term maturities. The Group does not arrange high-risk financial products as a method of investing cash surpluses.

Counterparty risk: The Group mitigates this risk by carrying out financial operations with leading institutions, as well as accessing the debt market through bond issues.

Credit risk: the Group 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.

15 Derivative financial instruments

The following table details the financial instruments and the fair value of each of them:

	Company	Counterparty	Interest rate	Maturity	Nominal (Thousands of euros)	Fair value - Assets / (Liabilities) (*)
Cash flow hedges -						
CAP	SFL	CIC	2.0000%	2023	100,000	13
Swap	SFL	CIC	2.6250%	2027	100,000	1,762
Swap	SFL	Société Générale	2.4920%	2029	100,000	3,162
Swap	SFL	CIC	2.4240%	2029	100,000	3,603
Swap	SFL	CADIF	2.4925%	2029	200,000	6,322
Swap	Inmocol	Société Générale	0.8400%	2027	20,000	1,829
Cash flow hedges of planned future transactions -						
Swap	Colonial	Natwest	0.3460%	2033	25,000	5,841
Swap	Colonial	Natwest	0.3490%	2033	150,000	35,010
Swap	Colonial	CA-CIB	0.5730%	2029	173,000	18,510
Swap	Colonial	BBVA	0.5673%	2029	165,700	17,752
Swap	Colonial	CaixaBank	0.5695%	2029	168,050	17,979
Swap	Colonial	Société Générale	0.6190%	2030	747,500	76,868
Swap	Colonial	Société Générale	0.7075%	2032	173,500	16,035
Swap	Colonial	Natixis	0.7040%	2032	173,300	16,059
Swap	Colonial	Société Générale	0.7600%	2033	213,500	19,140
Swap	Colonial	Natixis	0.7570%	2033	213,350	19,188
Swap	Colonial	JP Morgan	0.8000%	2033	102,750	8,982
Swap	Colonial	Natixis	0.7900%	2033	101,470	8,974
Total 31 December 2022					**3,027,120**	**277,029**

(*) Including accrued interest on cash flow hedges.

	Company	Counterparty	Interest rate	Maturity	Nominal (Thousands of euros)	Fair value - Assets / (Liabilities)
Cash flow hedges-						
Collar	SFL	Société Générale	-0.11%/-0.60%	2026	100,000	1,671
Collar	SFL	CIC	-0.25%/-0.52%	2027	100,000	2,453
Cash flow hedges of planned future transactions -						
Swap	Colonial	Natwest	0.3460%	2033	25,000	501
Swap	Colonial	Natwest	0.3490%	2033	150,000	2,966
Swap	Colonial	CA-CIB	0.5730%	2034	85,000	561
Swap	Colonial	BBVA	0.5673%	2034	82,500	623
Swap	Colonial	CaixaBank	0.5695%	2034	82,500	551
Swap	Colonial	Société Générale	0.6190%	2035	375,000	1,933
Swap	Colonial	Société Générale	0.7075%	2034	125,000	675
Swap	Colonial	Natixis	0.7040%	2034	125,000	704
Swap	Colonial	Société Générale	0.7600%	2035	156,250	761
Swap	Colonial	Natixis	0.7570%	2035	156,250	794
Swap	Colonial	JP Morgan	0.8000%	2035	75,000	251
Swap	Colonial	Natixis	0.7900%	2035	75,000	331
Total 31 December 2021					**1,712,500**	**14,775**

During the first half of 2022, SFL cancelled the two derivative instruments it had contracted for a nominal amount of 200,000 thousand euros. The amount recorded directly in equity associated with these instruments, which amounted to 15,295 thousand euros, will be recognised in the consolidated income statement over the life of the new bonds issued (TAP) by SFL (Note 14.2).

During the second half of 2022, the Parent cancelled forward starting hedging instruments for a nominal amount of 1,337,500 thousand euros, maturing in 2034 and 2035 (and initial terms of 7 and 10 years). The Parent applied hedge accounting to these instruments based on forecasted future debt issuance transactions. As the forecast transactions remain probable, the Parent has retained in equity the amount recorded for the change in market value of these hedges up to the time of cancellation (185,752 thousand euros). This amount will be reclassified to the consolidated income statement as of the date on which the initially hedged debt issues were planned. These cancellations have resulted in a cost recorded in the income statement amounting to 1,992 thousand euros. In parallel, the Parent has contracted new derivatives with a notional amount of 2,232,120 thousand euros and maturing in 2029, 2030, 2032 and 2033 (all with a term of 5 years).

In addition, SFL has contracted five cash flow hedges for a total of 600,000 thousand euros with CIC, Societe Generale and CADIF, maturing in 2023, 2027 and 2029. These hedges have an average rate of 2.42%.

The impact on the consolidated income statement of the recognition of derivative financial instruments for 2022 and 2021 is shown in the following table:

		Thousands of euros	
	Note	2022	2021
Income from derivative financial instruments		--	8,912
Expenses from derivative financial instruments		(1,992)	(128)
Net expenses from derivative financial instruments	**19,8**	**(1,992)**	**8,784**

15.1 Hedge accounting

At 31 December 2022 and 2021, the Parent and SFL applied hedge accounting to different derivative financial instruments.

At 31 December 2022, the cumulative impact recognised directly in equity in the consolidated statement of financial position due to hedge accounting amounted to a credit balance of 293,115 thousand euros, after recognition of the tax impact and consolidation adjustments. At 31 December 2021, the impact recorded amounted to a credit balance of 17,122 thousand euros (Note 13.4).

15.2 Fair value of derivative financial instruments

The fair value of derivative financial instruments has been calculated from an update of estimated future cash flows based on an interest rate curve and volatility assigned at 31 December 2022, using the appropriate discount rates established by an independent third-party expert.

Variations of +/- 25 basis points in the interest rate curve have an effect on the fair value of derivative financial instruments of 32,814 and -27,361 thousand euros, respectively.

16 Trade creditors and other non-current liabilities

The breakdown of these headings by nature and due dates of the consolidated financial statements is as follows:

		Thousands of euros			
		31 December 2022		31 December 2021	
	Note	Current	Non-Current	Current	Non-current
Trade and other payables		42,533	--	41,992	--
Payables for real estate purchases		34,991	--	35,445	--
Advances	11	59,956	--	31,282	28,287
Guarantees and deposits received		4,005	80,562	3,434	59,322
Debts with Social Security		2,885	--	3,170	--
Advanced income		2,187	--	1,952	--
Other payables and liabilities		22,397	359	18,533	566
Total		**168,954**	**80,921**	**135,808**	**88,175**

16.1 Trade and other payables

This mainly collects the outstanding amounts for trade purchases made by the Group, and their related costs.

16.2 Payables for real estate purchases

Collects debts derived from acquisitions of shares and/or real estate. As at 31 December 2022 and 2021, the amount included in this item corresponds mainly to payments for refurbishment or renovation works on various properties in the development of SFL. The effect of updating deferred payments is not significant.

16.3 Prepayments from customers

Non-current advances mainly include the amount of 28,287 thousand euros on account of the price of the asset being promoted by the Group under the sale and purchase agreement subject to suspensive conditions signed by the Parent and a third party (Note 11), as well as amounts collected in advance from SFL's customers amounting to 31,360 thousand euros.

16.4 Guarantees and deposits received

This essentially collects the amounts delivered by the tenants as collateral.

16.5 Advanced income

This collects the amounts received by SFL as entry fees, which correspond to amounts billed by tenants to reserve a unique space, and which are recognised as income in a linear manner during the minimum duration of the corresponding lease.

16.6 Average payment period to suppliers and trade creditors

The information required by the second final provision of Law 31/2014, of 3 December, which modifies the Corporate Enterprises Act for the improvement of corporate governance, and modifying the third additional provision of Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, which establishes measures to combat late payments in commercial operations, all in accordance with the provisions of the resolution of 29 January 2016 of the Institute of Accounting and Audit of Accounts (ICAC) on the information to be incorporated in the report of the consolidated annual accounts in relation to the average period of payment to suppliers in trade operations, of the various Spanish companies making up the Group.

	2022	2021
	Days	Days
Average period of payment to suppliers	41	29
Ratio of transactions paid	41	28
Ratio of outstanding transactions	43	43
	Amount (Thousands of euros)	
Total payments made	178,185	
Total number of invoices paid	29,008	
Total outstanding payments	10,230	
Total payments made within the maximum legal deadline	145,671	
Total payments made within the maximum legal deadline over total payments made	82.00%	
Total invoices paid within the maximum legal deadline	26,732	
Total invoices paid within the maximum legal deadline as a percentage of total invoices paid	92.00%	

The data included in the previous table on payments to suppliers refer to those that by their nature are accounts payable for debts with suppliers of goods and services, so that data related to certain items of the “Trade payables and other accounts payable” are included from the consolidated statement of financial position.

On 26 July 2013, Law 11/2013 on measures to support entrepreneurs, stimulate growth and job creation, which modifies the Late Payment Law (Law 3/2004, of 29 December) entered into force. This modification establishes that the maximum period of payment to suppliers, from 29 July 2013, will be 30 days, unless there is a contract between the parties that raises this to a maximum of 60 days.

In relation to payments made outside the maximum legal term set, these correspond mainly to payments related to contracting works and real estate renovation, which are paid within the term established in the corresponding contracts signed with the contractors.

17 Provisions and contingent assets and liabilities

The movement of the headings of the consolidated statement of financial position “Current provisions” and “Non-current provisions” and their corresponding detail is as follows:

	Thousands of euros	
	Non-current	Current
	Staff provisions	Provisions for risks and other provisions
Beginning balance	**1,877**	**3,661**
Provisions	1,193	380
Provisions against equity	(383)	--
Other disposals	(6)	(960)
Application	(12)	--
Transfers	(1,114)	1,114
Ending balance	**1,555**	**4,195**

17.1 Long-term provisions

17.1.1 Personal provision –

Includes amounts corresponding to retirement indemnities and long-service bonuses for SFL employees (Note 4.11) amounting to 1,036 thousand euros at 31 December 2022 (1,346 thousand euros at 31 December 2021).

17.2 Current provisions

Current provisions include an estimate of various future risks of the parent company.

18 Tax matters

18.1 Option for SOCIMI and SIIC Tax Regime

On 30 June 2017, the parent company opted for the REIT tax regime (Note 1). SFL has filed tax returns under the French tax regime applicable to listed real estate investment companies ("the SIIC regime").

18.2 Tax receivables and tax payables

Details of "Tax assets" and "Deferred and non-current tax assets" in the consolidated statement of financial position are as follows:

		Thousands of euros			
		Current		Non-current	
	Note	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Tax refunds receivable		9	5	--	--
Income tax refunds receivable		606	519	--	--
VAT refundable		18,621	23,033	--	--
Deferred tax assets	18,5	--	--	510	696
Total		**19,236**	**23,557**	**510**	**696**

Details of "Tax liabilities" and "Deferred and non-current tax liabilities" in the consolidated statement of financial position are as follows:

	Note	Thousands of euros			
		Current		Non-current	
		31 December 2022	31 December 2021	31 December 2022	31 December 2021
Income tax payable		374	938	--	--
Other taxes payable		3,327	3,324	--	--
VAT payable		7,720	5,274	--	--
Deferred tax liabilities	18,6	--	--	348,156	360,109
Total		**11,421**	**9,536**	**348,156**	**360,109**

18.3 Reconciliation of income tax results

Law 27/2014, of 27 November, on corporate tax, effective 1 January 2015, established in its article 29 that the general tax rate for taxpayers was 25 percent.

The aforementioned Royal Decree-Law also established the limitation to the compensation of negative tax bases at 25% of the tax base, prior to said compensation, for companies whose revenue is equal to or greater than 60 million euros.

On 30 June 2017, the parent company opted for the SOCIMI tax regime, which was applicable with effect 1 January 2017 (Note 1). After the option for the REIT system, the results derived from the REIT activity are taxed at a rate of 0% as long as the requirements for this are met (Note 4.14-m).

The details of the “Income tax” heading of the consolidated income statement was as follows:

	Thousands of euros	
	2022	2021
Income tax expense	(3,647)	(2,750)
Deferred tax revaluation assets at fair value (IAS 40)	13,208	7,594
Other non-main components	(1,935)	(1,311)
Income tax expense	**7,626**	**3,533**

18.4 Reconciliation between income tax expense and prima facie tax

	Thousands of euros	
	2022	2021
Profit from continuing activities before tax	41,992	563,374
	41,992	563,374
Taxed at the Spanish tax rate of 25%	(10,498)	(144,144)
Tax effect of amounts that are not deductible (taxable) in the calculation of the tax benefit:		
IAS 40 application (revaluations and redemptions of depreciation)	4,127	118,650
Impairment of goodwill	--	3
Other adjustments	(2,198)	13,074
Subtotal	(8,569)	(12,417)
Difference in tax rates by REIT and SIIC regime	19,921	15,674
Difference in foreign tax rates	(971)	(962)
Adjustments to current tax for previous years	1	258
Unrecognised tax losses previously used to reduce deferred tax expense	773	--
Unrecognised tax losses previously recovered now to reduce current tax expense	(637)	--
Tax losses for the year not recognised in accounting	(2,892)	980
Income tax expense	**7,626**	**3,533**

18.5 Deferred tax assets

The detail of deferred tax assets registered by the Group is as follows:

		Thousands of euros			
		Recognised in accounting			
	Note	31 December 2021	Inclusions	Write-offs	31 December 2022
Leases	7,2	528	--	(239)	289
Other		168	53	--	221
Total		**696**	**53**	**(239)**	**510**

18.5.1 Prior years' tax losses pending offset –

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

The tax loss carryforwards of Spanish companies accumulated at 31 December 2022 amount to 5,384,125 thousand euros.

18.5.2 Deferred assets for tax credits through deductions -

The Group has various deductions pending application at 31 December 2022 due to insufficient tax liability amounting to a total of 8,085 thousand euros not activated.

18.6 Deferred tax liabilities

The details of deferred tax liabilities along with their movements are detailed in the following tables:

	Thousands of euros			
	31 December 2021	Inclusions	Write-offs	31 December 2022
Asset revaluation	355,224	(12,057)	(161)	343,006
Asset revaluation-Spain-	144,559	(4,886)	(161)	139,512
Asset revaluation-France-	210,665	(7,171)	--	203,494
Deferral for reinvestment	4,409	(187)	--	4,222
Hedge Instruments	--	452	--	452
Other	476	--	--	476
Total	**360,109**	**(11,792)**	**(161)**	**348,156**

18.6.1 Deferred liability for asset revaluation -

This corresponds, essentially, to the difference between the accounting cost of market-valued real estate investments (IFRS base) and their tax cost (valued at acquisition cost, net of amortisation and impairment of the value that would have been deductible).

Asset revaluation - Spain -

This includes the amount of deferred taxes associated with the Group's real estate investments located in Spain, which would be accrued if said assets are transmitted at the fair value to which they are registered, using the effective rate that would apply to each of companies taking into account the applicable regulations and the existence of unregistered tax credits.

Following the adoption of the REIT tax regime in 2017, the movements in deferred taxes recognised, which mainly relate to the properties owned by the companies that have not opted for this regime, Inmocol Torre Europa, S.A for 2022 (Wittywood, S.L. and Inmocol Torre Europa, S.A. for 2021), which are wholly owned by the Parent, were recognised at an effective rate of 18.75% (tax rate of 25% with a limit on the offset of tax loss carryforwards of 25%). Consequently, in calculating deferred tax liabilities, the Group considers the application of 46,403 thousand euros of deferred tax assets derived from negative tax bases (difference between the 25% tax rate and the effective settlement rate applied to 18.75%).

Asset revaluation - France -

Includes the amount of the deferred taxes associated with the Group's investment property located in France, which would accrue if those assets are sold. It should be recalled that almost all assets in France are subject to the SIIC regime (Note 4.14-m), so they will not generate additional tax at the time of transmission. At 31 December 2022 and 2021 , only the assets of the member companies of the Parholding Subgroup were left out of said tax regime.

18.7 Tax years pending verification and inspection actions

The Group has the last four tax years open for inspection for all taxes applicable to it in Spain and France, except for corporate income tax of Spanish companies with negative tax bases to be offset or deductions pending application, in which case the verification period extends to 10 tax years.

On 2 November 2022, the Parent was notified of the commencement of general verification and investigation audits for corporate income tax for 2018 to 2021, and for value-added tax, withholdings on account of non-residents and withholdings and payments on account of income from employment, professional activities and economic activities for the period October 2018-December 2021.

It is not expected that additional liabilities will be accrued for the Group as a result of a possible inspection.

18.8 Disclosure requirements relating to REIT status, Law 11/2009, as amended by Law 16/2012

The information requirements relating to the REIT status of the Parent and its subsidiaries are included in the corresponding notes to the individual financial statements.

18.9 Compliance with the code of good tax practices –

On 10 December 2015, the Board of Directors of the Parent agreed to adhere to the Code of Best Tax Practices ("CBPT" hereinafter). This agreement was communicated to management on 8 January 2016. During 2022, the Parent presented the Annual Tax Transparency Report for companies adhering to the CBPT for 2021, following the proposal for the reinforcement of good corporate tax transparency practices for companies adhering to the Code of Good Tax Practices, approved at the plenary session of 20 December 2016.

19 Income and expense

19.1 Revenue

The net amount of revenues corresponds to the ordinary income from contracts with clients for rents derived from the Group's equity activity, which basically focuses on the markets of Barcelona, Madrid and Paris. The net amount of turnover and its distribution by geographic segments is included in the following table:

	Thousands of euros	
	2022	2021
Barcelona	44,569	41,793
Madrid	98,201	89,899
Rest of Spain	--	1,672
Paris	204,517	174,634
Total assets (traditional business)	**347,287**	**307,998**
Total flexible business	**14,326**	**8,721**
Total net turnover	**361,613**	**316,719**

Revenue for 2022 and 2021 include the effect of rental incentives throughout the minimum duration of the contract (Note 4.15). Revenue also includes the accrued amounts received in connection to rights of entry (Note 16.5). At December 2022, the impact of the above accruals led to an increase in turnover of 25,493 thousand euros (for 2021 this entailed a decrease of 6,500 thousand euros).

The total amount of the minimum future lease charges corresponding to the Group's non-cancellable operating leases, in accordance with the contracts in force on each date, and without taking into account the impact of common expenses, future increases in the CPI or future income updates based on contractually agreed market parameters is as follows:

	Thousands of euros	
	Nominal Value (*)	
	31 December 2022	31 December 2021
Less than one year	*360,423*	*314,513*
Spain	132,192	126,807
France	228,231	187,706
Between one and five years	*901,344*	*698,233*
Spain	220,234	187,602
France	681,110	510,631
More than five years	*689,312*	*501,738*
Spain	40,323	26,019
France	648,989	475,719
Total	**1,951,079**	**1,514,484**
Spain	*392,749*	*340,428*
France	*1,558,330*	*1,174,056*

(*) Nominal value without taking into account the effect of rental incentives.

19.2 Other operating income

This heading relates mainly to property services rendered. At 31 December 2022 and 2021, this amounted to 5,330 thousand and 9,304 thousand respectively.

19.3 Personnel expenses

The “Staff costs” heading in the consolidated income statement is as follows:

	Thousands of euros	
	2022	2021
Wages and salaries	19,017	25,904
Compensation	4,790	903
Social security costs	6,252	6,757
Other welfare expenses	7,388	4,761
Contributions to defined benefit plans	217	288
Internal reallocation	(1,445)	(1,236)
Total staff costs	**36,219**	**37,377**
Spain	*17,836*	*14,638*
France	*18,383*	*22,739*

The heading “Wages and salaries” for 2021 includes the accrual, in accordance with current French labour legislation, of extraordinary remuneration for certain employees of the subsidiary SFL arising from extraordinary transactions carried out in 2021 (sales of investment property and non-controlling interests) amounting to 8,128 thousand euros.

“Other employee benefit expenses” includes amounts corresponding to costs accrued in 2022 under the Parent's long-term remuneration plan (Note 20.1) and SFL’s share option plan (Note 20.2), totalling 5,320 thousand euros (3,787 thousand euros in 2021).

The contributions made by the Parent in 2022 and 2021 amounted to 7.388 thousand euros and 4,761 thousand euros, respectively, and are recognised under “Employer's social security contributions”. At the end of both years, there are no outstanding amounts to contribute to the mentioned pension plan.

The number of people employed by the Group, as well as the average number of employees during the year distributed by categories and gender, was as follows:

	No. employees				Average 2022		Average 2021	
	2022		2021					
	Men	Women	Men	Women	Men	Women	Men	Women
General and Area Management	11	8	11	8	11	8	11	9
Qualified technicians and middle managers	39	45	33	45	36	43	37	43
Office clerks	36	98	29	95	34	94	29	92
Other	5	1	5	1	5	1	5	1
Total employees by gender	**91**	**152**	**78**	**149**	**86**	**146**	**82**	**145**
Total Group employees	**243**		**227**		**232**		**227**	

Of the total number of employees of the Group, the number of employees with a disability of 33% or more as at 31 December 2022 is 4 (2021: 1).

19.4 Other operating expenses

The “Other operating expenses” heading of the consolidated statement of income is as follows:

	Thousands of euros	
	2022	2021
External services and other expenses	27,935	18,191
Taxes	27,363	25,914
Total Other operating expenses	**55,298**	**44,105**

19.4.1 Net change in provisions

The movement in the year in the operating provisions included in external services and other expenses is as follows:

	Thousands of euros	
	2022	2021
Net application operating provisions	--	(526)
Net provision for doubtful debts and other provisions	1,488	1,195
Other allocations/(reversals) of provisions	(968)	(4,772)
Total Net variation of provisions	**520**	**(4,103)**

19.5 Net gains on sales of assets

The composition of the Group's net results from asset sales (Notes 9 and 23), as well as their geographical distribution, are detailed below:

	Thousands of euros					
	Spain		France		Total	
	2022	2021	2022	2021	2022	2021
Sale price	56,624	85,597	26,872	264,000	83,496	349,597
Asset derecognition (Notes 9 and 23)	(49,650)	(84,678)	(27,035)	(262,684)	(76,685)	(347,362)
Write-off of waiting periods	(2)	(269)	--	71	(2)	(198)
Indirect and other costs	(594)	(2,019)	(277)	(1,279)	(871)	(3,298)
Net result from asset sales	**6,378**	**(1,369)**	**(440)**	**108**	**5,938**	**(1,261)**

19.6 Gains/(losses) on changes in value of assets due to impairment

The detail of the nature of the impairments recorded in the “Result due to changes in asset value and impairment” heading of the consolidated income statement is presented in the following table:

		Thousands of euros	
	Note	2022	2021
Impairment / (Reversal) of property for own use	8	40	269
Substitute write-offs	9	(697)	(1,281)
Right-of-use assets		26	--
Result due to variation in asset value and impairment		**(631)**	**(1,012)**

19.7 Changes in value of investment property

The breakdown of the result of the “Variations in value in real estate investments” heading of the consolidated income statement broken down by type is as follows:

		Thousands of euros	
	Note	2022	2021
Investment property	9	(147,493)	441,134
Assets classified as held for sale – Investment property	23	--	3,092
Changes in property investment value		**(147,493)**	**444,226**
Spain		(186,129)	189,049
France		38,636	255,177

19.8 Finance income and costs

The breakdown of the financial result broken down by type is as follows:

		Thousands of euros	
	Note	2022	2021
Financial income:			
Other interests and similar income		657	488
Income from derivative financial instruments	15	--	8,912
Total Financial Income		**657**	**9,400**
Financial expenses:			
Financial expenses and similar expenses		(82,525)	(86,974)
Capitalised financial costs	9 and 11	9,407	12,404
Restated finance costs	7 and 18	(1,233)	(872)
Financial costs associated with debt cancellation and restructuring		(1,912)	(2,484)
Financial expenses associated with repurchase of bonds		--	(36,088)
Finance costs associated with arrangement expenses	14,11	(8,636)	(6,292)
Expenses from derivative financial instruments	15	(1,992)	(128)
Total Financial costs		**(86,891)**	**(120,434)**
Total Financial Result (Loss)		**(86,234)**	**(111,034)**

19.8.1 Capitalised interest costs

The detail of financial costs capitalised as plus cost of investment property and inventories is shown in the table below:

	Note	Thousands of euros		
		Capitalised in the period		Average interest rate
		Investment property	Inventory	
2022				
Inmobiliaria Colonial, SOCIMI, S.A.	9	5,130	--	1.88%
Inmocol Torre Europa, S.A.	9	274	--	1.88%
Peñalvento, S.L	11	--	390	1.88%
Wittywood, S.L.	9	37	--	1.88%
SFL Subgroup	9	3,576	--	1.13%
Total 2022		**9,017**	**390**	
2021				
Inmobiliaria Colonial, SOCIMI, S.A.	9	5,879	--	2.28%
Peñalvento, S.L.	11	--	467	2.28%
SFL Subgroup	9	6,058	--	1.45%
Total 2021		**11,937**	**467**	

19.9 Transactions with related parties

There were no related party transactions in 2022 and 2021.

19.10 Result by company

The contribution of each company included in the scope of consolidation to the consolidated results for the year was as follows:

Company	Thousands of euros					
	Net consolidated income		Net result attributed to non-controlling interests		Net profit for the year attributable to the Parent	
	2022	2021	2022	2021	2022	2021
Inmobiliaria Colonial, SOCIMI, S.A.	(134,719)	203,778	--	--	(134,719)	203,778
SFL Subgroup	181,616	364,346	40,584	92,871	141,032	271,475
Inmocol Torre Europa, S.A.	2,213	550	1,107	275	1,106	275
Peñalvento, S.L.U.	(127)	(180)	--	--	(127)	(180)
Colonial Tramit, S.LU	1	--	--	--	1	--
Utopicus Innovación Cultural, S.L.	1,151	(1,540)	--	(59)	1,151	(1,481)
Wittywood, S.L.	(517)	(44)	(52)	(22)	(465)	(22)
Inmocol One, S.A.	--	(1)	--	--	--	(1)
Inmocol Two, S.L.	--	(1)	--	--	--	(1)
Inmocol Three, S.L.	--	(1)	--	--	--	(1)
Total	**49,618**	**566,907**	**41,639**	**93,065**	**7,979**	**473,842**

20 Stock option plans

20.1 Long-term remuneration plan of the Parent

20.1.1 Former long-term remuneration plan of the Parent

On 21 January 2014, the Annual General Meeting of the parent company established, for the Chairman and CEO of the parent company, as well as for the members of the Group's steering committee, a long-term compensation plan to be applicable from 2014 to 2018.

The plan was extended twice, and was rendered ineffective by the adoption of the new plan.

Shares received under this plan cannot 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.

On 24 April 2021, the Parent settled the outstanding obligations relating to compliance with the plan once the Board had calculated the number of shares to be delivered to the beneficiaries of the Plan, in accordance with the level of fulfilment of indicators for 2021, which stood at 296.337 shares (Note 13.3.1). On that date, the shares were delivered to their beneficiaries. Of these, 131,861 shares were delivered to the members of the Board of Directors and 164,476 to members of senior management, at a market value at the time of delivery of 1,364 and 1,702 thousand euros, respectively.

20.1.2 New long-term remuneration plan of the Parent

On 30 June 2021, the General Shareholders' Meeting approved a new long-term incentive plan consisting of the delivery of shares in the Parent, aimed at executives, including the Parent's executive directors, and other employees of the Colonial Group (the “Plan”).

The new plan has a duration of five years and is divided into three overlapping annual cycles of three years each, independent of each other. The first cycle of the New Plan corresponds to the three-year period between 1 January 2021 and 31 December 2023, the second cycle of the New Plan to the three-year period between 1 January 2022 and 31 December 2024 and the third cycle of the New Plan to the three-year period between 1 January 2023 and 31 December 2025. The maximum number of shares to be delivered to the executive directors in the first cycle of the New Plan is 170,196 shares for the executive chairman of the Board of Directors of the Company and 340,392 shares for the chief executive officer of Colonial.

As a general rule, the maximum total number of shares of the Company that, in execution of the Plan, will be delivered to the beneficiaries of the Plan at the end of each cycle will be the result of dividing the maximum amount allocated to the corresponding cycle by the weighted average listed price of the Company's shares in the 30 trading days prior to 1 January 2021. In addition, the number of shares to be received will be increased by a number of shares equivalent to the amount of dividends per share distributed by Colonial to its shareholders during each cycle based on the number of shares assigned to the beneficiary in the cycle. For these purposes, the weighted average of Colonial's share price on the dividend payment dates in each of the years of the cycle will be taken as the reference value of the share.

The delivery of the Parent's shares under the first cycle of the New Plan will take place in 2024, after the audited financial statements for 2023 have been prepared. The specific date of delivery of the shares will be determined by the Board of Directors.

Exceptionally, on 17 July 2022, following a resolution of the Board of Directors of the Parent (Note 22.1), 41,691 shares were delivered in advance to Juan José Brugera Clavero as accrual of the first cycle of the new plan while he had maintained his employment relationship with the Parent, including 14,592 shares earmarked for the fulfilment of the tax obligations of payment on account. These shares had a market value at the time of delivery of 252 thousand euros.

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

In 2022, an expense of 983 thousand euros (an expense of 670 thousand euros in 2021) has been recorded under the heading “Personnel expenses” in the consolidated income statement (Note 19.3), to cover the incentive plan approved on 30 June 2021.

20.2 SFL stock option plans

The subsidiary SFL maintains a free share allocation plan at 31 December 2022, whose details are as follows:

	Plan 5	Plan 5	Plan 5
Meeting date	20.04.2018	20.04.2018	19.11.2021
Board of Directors Date	06.02.2020	11.02.2021	18.02.2022
Initial target number	34,476	33,460	30,624
% initially expected	100%	100%	100%
Number initially expected	34,476	33,460	30,624
Value per share (euros)	65.38	54.59	73.37
Options cancelled / outflows	-596	-468	-128
% expected at closing	200%	100%	100%
Estimated number at closing	**67,760**	**32,992**	**30,496**

Each share allocation plan has been calculated based on the expected number of shares multiplied by the unit fair value of those shares. This expected number of shares corresponds to the total number of shares multiplied by the expected purchase attribution percentage. The resulting amount is allocated linearly during the allocation period.

The fair value of the attributed shares is determined by the price at the date of attribution, corrected by the updated value of future dividends paid during the acquisition period, applying the Capital Asset Pricing Model (CAPM) method.

At 31 December 2022, the expected percentage at year-end for the 2020 plan was 200%, while for the 2021 and 2022 plan it was 100%.

During the first half of 2022, 64,992 free shares from Plan 5 from 2018 were delivered.

At 31 December 2022 and 2021, a total of 4,301 thousand euros and 3,870 thousand euros were recognised in the consolidated statement of income relating to these bonus share plans (Note 19.3).

21 Balances with related parties and associated companies

At 31 December 2022 and 2021 the Group did not have any balances outstanding with related parties and associates, with the exception of those detailed below.

In the context of the public tender offer for shares in the subsidiary launched by the Parent (Note 2.6), in September 2021, certain directors and senior management contributed their SFL shares to the proposed exchange.

22 Remuneration and other benefits to the Board of Directors and members of senior management

22.1 Composition of the Parent's Board of Directors

At 31 December 2022, the Board of Directors of the Parent consists of 7 men and 4 women (8 men and 3 women in 2021).

At 31 December 2022, the composition of the Parent's Board of Directors is as follows:

	Position	Director Type
Mr Juan José Brugera Clavero	Chairman	Other external
Mr Pedro Viñolas Serra	Vice-chairman	Executive
Mr Sheikh Ali Jassim M. J. Al-Thani	Director	Proprietary
Mr Adnane Mousannif	Director	Proprietary
Mr Carlos Fernández González	Director	Proprietary
Mr Juan Carlos García Cañizares	Director	Proprietary
Mr Luis Maluquer Trepat	Director	Independent
Ms Silvia Mónica Alonso-Castrillo Allain	Director	Independent
Ms Ana Lucrecia Bolado Valle	Director	Independent
Ms Ana Cristina Peralta Moreno	Director	Independent
Ms Begoña Orgambide García	Director	Proprietary

Pursuant to Article 229 of the Spanish Limited Liability Companies Law, at the close of 2022, the directors of the Parent reported that neither they nor any parties related thereto have any direct or indirect conflict with the interests of the Parent.

On 22 February 2022, the Parent reported that the Chairman of the Board of Directors, Juan Brugera Clavero, reached, in April 2022, the maximum age set in France to hold the position of Chairman of the Board of Directors and, therefore, on that date, he ceased to hold the position of Chairman of the Board of Directors of SFL. In this regard, the Board of Directors of the Parent, following a favourable report from the Appointments and Remuneration Committee ("ARC" hereinafter), has also resolved, effective 30 April 2022, to terminate his executive duties as Chairman of the Board of Directors of the Parent and to continue as a non-executive chairman with the status of "other external".

In addition, with effect from 30 April 2022, the Board of Directors of the Parent, following a report from the ARC, has considered that the figure of the coordinating director required by law is not necessary for those cases in which the Chairman of the Board of Directors is an executive director. Therefore, Luis Maluquer Trepat continues as an independent director.

On 30 August 2022, the director Javier López Casado left the Board due to death.

On 27 September 2022, Begoña Orgambide García was appointed proprietary director in place of Javier López Casado.

22.2 Remuneration of the Board of Directors

The remuneration accrued in 2022 and 2021 by the Parent's Board of Directors, classified by item, was as follows:

	Thousands of euros					
	31 December 2022			31 December 2021		
	Parent company	Other Group companies	Total	Parent company	Other Group companies	Total
Remuneration accrued by executive directors (*):	**6,313**	**--**	**6,313**	**3,541**	**113**	**3,654**
Non-executive directors per diems:	**831**	**27**	**858**	**871**	**45**	**916**
Attendance fees of Executive Directors (*):	**--**	**--**	**--**	**--**	**46**	**46**
Fixed remuneration for non-executive directors:	**1,105**	**25**	**1,130**	**778**	**40**	**818**
Directors' remuneration	838	25	863	525	40	565
Additional compensation audit and control committee	117	--	117	150	--	150

Additional remuneration appointments and remuneration committee	150	--	150	103	--	103
Remuneration executive directors (*):	**--**	**--**	**--**	**--**	**50**	**50**
Total	**8,249**	**52**	**8,301**	**5,190**	**294**	**5,484**

Amount of the remuneration obtained by the executive directors (*):	6,313	--	6,313	3,541	209	3,750

(*) The amount corresponding to the accrued expense associated with the long-term incentive plan described in Note 20 is not included.

At 31 December 2022 and 2021, the Parent had taken out a civil liability insurance policy that covers all the directors, members of senior management and employees of the Parent, with a premium amounting to 620 thousand euros and 500 thousand euros, respectively. The aforementioned amount includes, for both years, the civil liability insurance premium paid for damages caused by acts or omissions.

The Annual General Meeting held on 28 June 2016 approved granting the executive directors a defined contribution scheme that covers retirement contingencies and, where appropriate, disability and death. At 31 December 2022 and 2021, the Parent recognised 150 thousand euros and 225 thousand euros, respectively, in this regard under “Staff costs” in the consolidated income statement.

In addition to that stated in the previous paragraph, the Group has not been awarded loans or taken out pension plans or life insurance for the previous and current members of the Board of Directors of the parent company.

At 31 December 2022 one member 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 (two members of the Board of Directors at 31 December 2021).

On 30 April 2022, Juan José Brugera Clavero's employment relationship with the Parent was terminated, resulting in the payment of an indemnity of 3,000 thousand euros, which is included under the heading “Remuneration accrued by executive directors”.

Likewise, in 2022 and 2021, there were no terminations, modifications or early terminations of contracts beyond the ordinary business activities between the Parent and the members of the Board of Directors or any person acting on their behalf.

22.3 Compensation to senior management

The senior management of the Parent, excluding the Chief Executive Officer and other executive directors whose remuneration is included in the remuneration of the members of the board of directors, consists of all senior executives and other persons other than the Chief Executive Officer who, reporting directly to the Chief Executive Officer, assume the management of the Parent. At 31 December 2022, senior management comprised three men and three women (three men and two women at 31 December 2021).

Monetary remuneration received by senior management in 2022 amounted to 2,375 thousand euros (1,629 thousand euros in 2021). Furthermore, in 2021, they received 988 thousand euros corresponding to the long-term incentives plan.

The Board of Directors held on 27 July 2016 approved awarding a member of senior management a defined contribution scheme that covers retirement contingencies and, where appropriate, disability and death. At 31 December 2022 and 2021, the Parent recognised 67 thousand euros and 63 thousand euros, respectively, in this regard under “Staff costs” in the consolidated income statement.

At 31 December 2022 and 2021, a member of senior management had signed a guarantee or golden parachute clause for certain cases of dismissal or change of control.

23 Assets classified as held for sale and liabilities associated with assets classified as held for sale

23.1 Assets classified as held for sale

The movements in this section of the statement of financial position have been the following:

	Note	Thousands of euros	
		Investment property	
		31 December 2022	31 December 2021
Beginning balance		**27,000**	**281,959**
Additions for subsequent capitalised disbursements		35	180
Transfers	9 and 12.3	489,994	62,050
Sale or disposal by other means		(50,549)	(320,281)
Net gain/(loss) from fair value adjustments	19.7	--	3,092
Ending balance		**466,480**	**27,000**

23.1.1 Movements 2022 -

In 2022, Le Vaisseau in Paris, owned by SFL, was sold for a total of 26,872 thousand euros. The Group recorded a loss of 441 thousand euros in the consolidated income statement, including indirect costs of sale (note 19.5).

In 2022, the Group transferred 8 assets from the consolidated statement of financial position heading “Investment property” for 489,205 thousand euros and from “Trade and other receivables” corresponding to the accrual of lease incentives for 789 thousand euros. These transfers have been approved by the respective boards of directors.

In addition, in October 2022, the Parent Company disposed of a property located in Madrid, Sagasta, 27, for a sale price of 23,514 thousand euros. The Group recorded a profit of 841 thousand euros in the consolidated income statement, including indirect costs of sale (note 19.5).

23.1.2 Movements in 2021 -

In 2021, the Parent transferred 61,503 thousand euros from “Investment property” in the consolidated balance sheet (Note 7) and 550 thousand euros from “Trade and other receivables” that corresponded to the accrual of lease incentives.

In 2021, SFL disposed of two properties, Wagram and Percier, both located in Paris, for a sale price of 120,500 thousand euros and 143,500 thousand euros, respectively. The Parent also disposed of a logistics asset and a property for a total sale price of 58,397 thousand euros.

Of the total number of properties disposed of, the Group recorded a loss of 595 thousand euros in the consolidated income statement, including indirect costs of sale.

23.1.3 Changes in the value of investment property classified as held for sale -

The “Changes in value of investment property” heading in the consolidated income statement includes the revaluation results of assets classified as held for sale according to independent expert valuations (Note 4.4), as well as additional information available at year-end.

23.2 Liabilities associated with assets classified as held for sale

One of the assets transferred from the consolidated statement of financial position heading “Investment property” to “Non-current assets classified as held for sale” is associated with a mortgage loan amounting to 75,700 thousand euros and, therefore, in 2022, this debt was transferred from “Bank borrowings and other financial liabilities” under non-current liabilities (Note 14.7) to “Liabilities associated with assets classified as held for sale” in the consolidated statement of financial position.

		Thousands of euros	
		Mortgage loan	
	Note	31 December 2022	31 December 2021
Beginning balance		**--**	**--**
Transfer from “Bank borrowings and other financial liabilities”	14.7	75,700	--
Ending balance		**75,700**	**--**

24 Remuneration to auditors

Fees incurred for auditing services in 2022 and 2021 provided to the various companies composing the Colonial Group by the principal auditor and other auditors are set forth below:

	Thousands of euros					
	2022			2021		
	Main auditor	Other companies in the PwC network	Other auditors	Main auditor	Other companies in the PwC network	Other auditors
Audit services	335	359	307	304	349	284
Other verification services	99	--	4	141	25	29
Total audit and related services	**434**	**359**	**311**	**445**	**374**	**313**
Tax advice services	--	--	170	--	--	179
Other services	68	86	349	55	37	115
Total professional services	**68**	**86**	**519**	**55**	**37**	**294**

The principal auditor of the Group for 2022 and 2021 is PricewaterhouseCoopers Auditores, S.L.

The principal auditor's fees for other assurance services include 99 thousand euros and relate to services provided to the Group for limited reviews, issuance of comfort letters and agreed-upon procedures reports on ratios linked to financing contracts (141 thousand euros in 2021).

At 31 December 2022,the principal auditor's fees for other professional services rendered to the Group amount to 68 thousand euros and correspond to reviews of ESG indicators contained in the integrated Annual Report, the Green Bonds report, and the Greenhouse Gas Inventory (55 thousand euros as at 31 December 2021).

In addition, the companies of the PwC Network have provided other professional services to the Group for a total amount of 86 thousand euros corresponding to technical reviews of cybersecurity, as well as reviews of English translations of corporate information (37 thousand euros at 31 December 2021).

The principal auditor’s fees represent less than 1% of the Group's billings in Spain.

25 Events after the reporting date

From 31 December 2022 to the date on which these consolidated financial statements were authorised for issue, no significant events took place with the exception of:

- On 19 January 2023, the Parent signed a contract for the sale of three properties located in Madrid for a total sale price of 315 million euros.
- In January 2023, the Group repaid two loans drawn down for 100 million euros and 76 million euros respectively, reducing the financial liabilities indexed to ESG indicators to 0.4%.
- On 31 January 2023, SFL signed a promise of sale agreement for the Hanovre property.

Appendix

Companies included in the scope of consolidation At 31 December 2022 and 2021, the fully consolidated subsidiaries and the information thereon were as follows:

Spanish subsidiaries

	% shareholding				Shareholder	Activity
	Direct		Indirect			
	2022	2021	2022	2021		
Colonial Tramit, S.L.U.	100%	100%	-	-	Inmobiliaria Colonial, SOCIMI, S.A.	Real estate
Avda. Diagonal 532 08006 Barcelona (Spain)						
Inmocol Torre Europa, S.A. (*)	50%	50%	-	-	Inmobiliaria Colonial, SOCIMI, S.A.	Real estate
Avda. Diagonal 532 08006 Barcelona (Spain)						
Wittywood, S.L.	100%	50%	-	-	Inmobiliaria Colonial, SOCIMI, S.A.	Real estate
Avda. Diagonal 532 08006 Barcelona (Spain)						
Inmocol One, S.A.U.	100%	100%	-	-	Inmobiliaria Colonial, SOCIMI, S.A.	Real estate
Pº de la Castellana, 52 28046 Madrid (Spain)						
Inmocol Two, S.L.U.	100%	100%	-	-	Inmobiliaria Colonial, SOCIMI, S.A.	Real estate
Pº de la Castellana, 52 28046 Madrid (Spain)						
Inmocol Three, S.L.U.	100%	100%	-	-	Inmobiliaria Colonial, SOCIMI, S.A.	Real estate
Pº de la Castellana, 52 28046 Madrid (Spain)						
Peñalvento, S.L.U.	100%	100%	-	-	Inmobiliaria Colonial, SOCIMI, S.A.	Real estate
Pº de la Castellana, 52 28046 Madrid (Spain)						
Utopicus Innovación Cultural, S.L. (*)	100%	100%	-	-	Inmobiliaria Colonial, SOCIMI, S.A.	Co-working
Príncipe de Vergara, 112 28002 Madrid (Spain)						

French subsidiaries

	% shareholding				Shareholder	Activity
	Direct		Indirect			
	2022	2021	2022	2021		
SA Société Foncière Lyonnaise (SFL) 42, rue Washington 75008 Paris (France)	98.33%	98.33%	-	-		Real estate
SNC Condorcet Holding (**) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SNC Condorcet Propco (**) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SNC Condorcet Holding	Real estate
SCI Washington (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI 103 Grenelle (*) 42, rue Washington 75008 Paris (France)	-	-	51%	51%	SFL	Real estate
SCI Paul Cézanne (*) 42, rue Washington 75008 Paris (France)	-	-	51%	51%	SFL	Real estate
SA Segpim (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Marketing of real estate and provision of services
SAS Locaparis (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	Segpim	Marketing of real estate and provision of services
SAS Maud (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SAS SB2 (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SAS SB3 (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI SB3 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SAS Parholding (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SAS 92 Champs-Elysées (**) 42, rue Washington 75008 Paris (France)	-	-	51%	51%	SFL	Real estate
SAS Cloud (**) 42, rue Washington 75008 Paris (France)	-	-	51%	51%	SFL	Real estate
SCI Pasteur 123 (**) 42, rue Washington 75008 Paris (France)	-	-	100%	-	SFL	Real estate
SC Parchamps (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate
SC Pargal (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate
SC Parhaus (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate

* Company audited in 2022 by PricewaterhouseCoopers

** Company audited in 2022 by Deloitte & Associés

At 31 December 2022 and 2021, the Group companies were audited by PricewaterhouseCoopers Auditores, S.L., except the SFL Group, which was jointly audited by Deloitte and PricewaterhouseCoopers.

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Consolidated management report for the year ended 31 December 2022

1. Group Status

Rental Market Situation

Barcelona

Take-up in the Barcelona office market stood at 331,000 sqm in 2022, in line with the last 10-year average. Demand polarization for city centre products has decreased the CBD vacancy rate to 5.4%. Demand continues to be led by technology and professional services sector, capturing 50% of the market. Prime rents remained at a high of €28/sqm/month.

In Barcelona, the investment volume reached 1,100 million euros, with 80% of the transactions taking place in 22@. High economic uncertainty has pushed prime yields to 4%.

Madrid

In the office market in Madrid, 507,000 sqm were signed in 2022, up +23% compared to the previous year. More than 50% of the contracts were signed on assets in city centre locations, within the M-30. This dynamic has reduced the vacancy rate to 11.3% (12.3% in December 2021). The vacancy rate in the CBD decreased to 5.5% and for Grade A product it was down to 1.9%. This high volume and number of letting transactions in the CBD has settled prime rents at €37/sqm/month in 2022.

In Madrid investment increased by +99% in 2022 compared to 2021, reaching €1,188m. Prime yields stood at 4%.

Paris

In the Paris office market, take-up in 2022 reached 2,108,300 sqm, an increase of +10% compared to 2021. Demand in the city centre leads the growth, increasing +19% compared to the previous year. The vacancy rate in the CBD remains low levels at 2.5% and Grade A availability is stable at 0.4%. In 2022 prime rents increased to €1,000/sqm/year.

The investment volume in the office market of Paris reached 10,456 million euros in 2022: 50% of the transactions were carried out in the city centre and Paris CBD by domestic investors, comprising 75% of the total invested. Prime yields stood at 3.25%.

Organisational structure and operation

Colonial is the benchmark SOCIMI in the quality office market in Europe and since the end of June 2017 it has been a member of the IBEX 35, which is the reference index of the Spanish stock market.

The company has a market capitalisation of approximately 3,300 million euros with a free float of around 60% and manages an asset volume of more than 13,000 million euros.

The company's strategy focuses on building industrial value through creating the highest quality prime product through real estate transformation and repositioning of the assets.

In particular, the strategy is based on the following pillars:

- A business model focused on the transformation and creation of high-quality offices in prime locations, mainly central business districts (CBD).
- Maximum commitment in creating offices that respond to the best demands in the market, with special emphasis on efficiency and sustainability.

- A diversified pan-European strategy in the Barcelona, Madrid and Paris office markets.
- An investment strategy that combines core acquisitions with prime factory acquisitions and value-added components.
- A clearly industrial real estate approach to capture above-market-average value creation.

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.

Likewise, it has adopted a comprehensive approach to all areas of Corporate Social Responsibility, aiming at the highest standards of (1) sustainability and energy efficiency, (2) corporate governance and transparency, as well as (3) excellence in HR and social actions and making them an integral part of the Group's strategy.

In recent years, the Colonial Group has made significant divestments of non-core assets for more than 2 billion euros, with ongoing valuation premiums.

Furthermore, as part of the improvement of the Group's Prime portfolio, Colonial has acquired more than 4,000 million euros of core CBD properties since 2015, identifying assets with added value potential in market segments with solid fundamentals.

At the end of 2022, the Colonial Group has a robust capital structure with a solid "Investment Grade" rating. The Group's LTV (Loan to value) is 38.7% at December 2022 (36.9% post divestments).

The company's strategy is to consolidate itself as the leader of prime offices 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.
- An attractive return for the shareholder based on a recurring return combined with creating real estate value from value-added initiatives.

Staff management

Colonial professionals are the Group's main asset. At year end 2022, the Colonial Group team comprised a total of 243 employees, divided into 4 categories.

The number of people employed by the Group, as well as the average number of employees during the year distributed by categories and gender, was as follows:

	No. employees				Average 2022		Average 2021	
	2022		2021					
	Men	Women	Men	Women	Men	Women	Men	Women
General and Area Management	11	8	11	8	11	8	11	9
Qualified technicians and middle managers	39	45	33	45	36	43	37	43
Office clerks	36	98	29	95	34	94	29	92
Other	5	1	5	1	5	1	5	1
Total employees by gender	**91**	**152**	**78**	**149**	**86**	**146**	**82**	**145**
Total Group employees	**243**		**227**		**232**		**227**	

Of the total number of employees of the Group, the number of employees with a disability of 33% or more as at 31 December 2022 is 4 (2021:1).

2. Business performance and results

Introduction

At 31 December 2022, the Group's turnover was 362 million euros, of which 354 million euros correspond to Analytical Rental Income (APM).

The revaluation in investment property and assets classified as held for sale, in accordance with the independent valuation carried out by CB Richard Ellis and Cushman & Wakefield in Spain and France at year-end, as well as on the basis of additional information available at year-end, was (147) million euros. The change in value, which occurred in both France and Spain, does not represent a cash outflow.

Net financial profit was (86) million euros.

Profit/(loss) before tax and non-controlling interests at the end of 2022 amounted to 42 million euros.

Lastly, after subtracting profit attributable to non-controlling interests (42) million euros, and income tax of 8 million euros, the profit after tax attributable to the Parent amounted to 8 million euros.

2022 results

Recurring net income (APM) per share of 29.8 cents of euro exceeding the upper range of guidance

1. Recurring net income (APM) of 161 million euros, +26% compared to the previous year

The Colonial Group closed 2022 with a strong increase in the recurring results driven by the double-digit growth in rental income.

- Analytical rental income of 354 million euros, +13% over the previous year.
- Recurring net income of 161 million euros, +26% compared to the previous year.
- Recurring net income per share of €29.8cts, +21% compared to the previous year.

The significant increase in the Recurring Net Profit is mainly due to the growth in rental income driven by Colonial's asset portfolio. Thanks to its prime positioning, it is able to capture the indexation impacts, as well as a growth in rental prices on signed contracts. In addition, the successful project delivery has enabled the Company to obtain significant additional income.

The efficient management of operating costs has resulted in an EBITDA growth of +14% year-on-year which, together with controlled financial costs, has led to an increase of +26% in the net recurring profit, reaching 161 million euros for 2022.

The Gross Asset Value amounted to 13,005 million euros at 31 December 2022 and remained stable in like-for-like terms (1+% like-for-like), consequently the net profit of the Colonial Group amounted to 8 million euros.

2. Analytical rental income of 354 million euros, +13% vs last year

Colonial closes 2022 with Analytical Rental Income of 354 million euros, +13% vs 2021 thanks to the high Pricing Power of the Colonial portfolio and the successful delivery of projects together with a clear Prime focus on quality in Paris, Madrid and Barcelona.

Income growth: Pricing Power & Projects

Three growth drivers delivered +56 million euros in additional rents compared to 2021, contributing +18% to income growth:

1. Pricing Power - contribution of +6% to overall growth
   The Core portfolio contributed +20 million euros to income growth based on a solid like-for-like growth of +7% due to the strong Pricing Power, enabling to fully capture the indexation impact and to achieve maximum market rents.

2. Projects delivered - contribution of +7% to overall growth
   Project deliveries and the renovation program have contributed +22 million euros to income growth (a contribution of +7% to overall growth). Highlighted is the income contribution from Marceau and Biome in Paris, as well as from Velázquez 86D, Miguel Ángel 23 and Ortega & Gasset in Madrid.

3. Acquisition of Prime Assets – a contribution of +4% to global growth
   The acquisitions of the Amundi headquarters in Paris and the Danone headquarters in the CBD of Barcelona have contributed +14 million euros to income growth.

4. Disposal program - Flight to Quality
   The disposal of non-strategic assets and other non-comparable impacts have led to a (5%) decrease year-on-year in the rental income of 2022.

Income growth: Polarization and Prime Pan-European Positioning

The Group's annual revenue growth is solid both in total terms with +13%, as well as in comparable terms with an increase of +7% like-for-like demonstrating the strength of Colonial's positioning.

The like-for-like revenue increase of +7% is among the highest in the sector and is a clear reflection of the polarisation of the market towards the best branch product.

1. The largest growth in rental income was in the Paris market, with an increase of +17% in total terms and +8% like-for-like. This increase is mainly due to the higher rents and occupancy levels in the Édouard VII, #Cloud and Washington Plaza assets, as well as higher rents in the 92 Champs Elysées asset.

2. In the Madrid portfolio, the rental revenue increased +8% in absolute terms. The comparable perimeter of assets registered an increase of +6% like-for-like. This like-for-like increase is mainly due to the José Abascal 45, Castellana 163, Serrano 73 and Estébanez Calderón assets, based on a combination of higher rents and higher occupancy levels.

3. In Barcelona, the rental revenue increased +8% for the entire portfolio, driven by a strong increase of +9% like-for-like, mainly due to higher rents on the Parc Glories, Diagonal 609-615, Dau Retail, Diagonal 682 and Diagonal 197 assets.

3. Disposal program of more than 500 million euros – Flight to Quality

At the closing date of this document, the Colonial Group is finalizing a disposal program of more than 500 million euros with prices in line with the appraisal.

Of the total disposal program, 84 million euros was made in 2022. Additionally, during the first half of 2023, the disposal of 6 assets is expected to be finalized amount 420 million euros. It is important to highlight that 3 of the assets have already been sold and the rest of the disposals program is expected to be finalized during the 1H 2023.

The disposal program includes 10 assets with a total surface area of 98,215 sqm with no further value creation potential. Of the almost 100,000 sqm of the disposal program, 27% corresponds to land plots of land and/or non-strategic assets with high vacancy levels, another 35% to buildings in secondary locations and the rest correspond to mature assets without long-term value creation potential.

The sale price of the program implies an initial yield (EPRA Net Initial Yield) below 2.5% and the CBD assets in Madrid were disposed of for a capital value of more than €9,000/sqm

The disposal program is part of the flight to quality strategy, which, through the active management of the portfolio, divests mature and/or non-strategic assets in order to recycle capital for new opportunities of value creation and to continually improve the risk return profile of the Group.

4. Resilient asset values - Polarization & Prime Positioning

The gross asset value of the Colonial Group at the close of 2022 amounted to 13,005 million euros (13,727 million euros including transfer costs), showing an increase of +5% compared to the previous year. In like-for-like terms, Colonial's portfolio was revalued by +1% compared to the previous year.

Polarization & Prime Pan-European Positioning

In a highly volatile environment with interest rate hikes, the value of the asset portfolio has shown defensive performance, thanks to its Pan-European Prime Positioning. The Colonial Group's successful bet on Paris is reflected in the solid results. The Paris portfolio has registered the best growth in the Group's portfolio with year-on-year growth of +2% like-for-like. Madrid and Barcelona have remained stable thanks to the focus in CBD and city centre locations, which have shown a much more defensive nature than secondary areas.

Alpha Value Creation: "Pricing Power" & Projects

In a market environment of interest rate hikes, the valuation of Colonial's assets have been impacted by an expansion in the valuation yields1 (24bps1 in 12 months). However, it is important to highlight that those impacts have been offset by two Alpha value creation drivers: (1) Pricing Power: the improvement in the cash flows due to the capture of the indexation impact, as well as higher market rents (ERVs) and (2), the successful delivery and progress of projects that have enabled the crystallization of double-digit value creation margins.

Resilient Net Asset Value (NAV)

The Net Asset Value as of 31 December 2022 amounted to €6,384 million euros corresponding to €11.83/share. Including the dividend paid of €0.24/share, the Net Asset Value for Colonial's shareholders was €12.07/share, in line with the NTA 2021 of €12.04/share.

In an environment with high volatility and an energy crisis, the quality positioning together with the active management of Alpha value creation has enabled Colonial to maintain a stable Net Asset Value.

Significant acceleration in the operating fundamentals

1. Record take-up volume – Polarization and greater market

At the close of 2022, the Group has signed more than 176,000 sqm, reaching the second highest take-up volume in its history and exceeding by +4% the previous year, which already was a record year in letting activity.

The solid results are a clear evidence of the polarization trend in the office markets, characterized by a demand that prioritizes top-quality Grade A products in the best locations. Colonial's prime portfolio clearly benefits in this context and is capturing additional market share in the rental markets in which it operates.

In economic terms (sqm signed multiplied by signed rents), contracts were signed for an annualized rent amount of 75 million euros.

61% of the total letting activity (107,419 sqm) corresponds to new contracts signed, spread across the three markets in which the Group operates. Regarding contract renewals, a total of 69,476 sqm were signed, highlighting 54,443 sqm renewed in Madrid.

2. Sound occupancy levels

The occupancy of the Colonial Group stands at 96%. Of special mention is the Paris market with almost full occupancy at 99.8%.

A large part of the current office vacancy corresponds to the recently delivered renovation programs and the corresponding entries into operation, highlighting in Barcelona the Torre Marenostrum and Diagonal 530 assets. At the current date, advanced conversations are taking place for various floors plant in the Diagonal 530 building, one of the best assets in the Barcelona market.

3. Rent Increases - Polarisation & Pricing Power

Pricing Power – Capturing the highest rental prices on the market

In an environment of rental demand polarization and given the scarcity of Grade A product, Colonial's prime portfolio attracts clients that sign at maximum rental prices.

The maximum rents signed in the portfolio of the Group reached €1,000/sqm/year in Paris, as well as €40/sqm/month in Madrid and €28/sqm/month in Barcelona.

With these pricing levels, Colonial's portfolio clearly sets the benchmark for prime assets in each of the markets in which it operates.

Pricing Power - Indexation captured in all contracts with an average growth of +5%

The Colonial Group's asset portfolio captures the impact of the indexation on rents: The Colonial Group has applied in all the contracts the corresponding indexation of the rental price. As a result of the indexation on the contract portfolio in 2022, the annualized passing rents of the corresponding contracts have increased by +5% (+7% in Spain and +3% in Paris).

These results show the strong Pricing Power of Colonial's Prime portfolio. Both the quality of the clients and the nature of the Colonial Group's contracts enable the full indexation impact to be captured, providing clear protection over the cash flow of the assets in an inflationary environment such as the current one.

Pricing Power – Rental income growth above market rents

The Colonial Group closed 2022 with a growth of +5% in rental prices compared to the market rents (ERV) as of December 2021.

The greatest increases in rental prices were signed on the Paris portfolio with a +5% increase (+6% for the office portfolio), and in Madrid, prices were signed +5% higher than the market rents of 31/12/21.

Pricing Power - Increase in rent renewals, release spreads of +6%

Rent increases in renewals: Colonial has increased the rents with current clients by +6% compared to the previous rents (release spreads). These ratios highlight the reversionary potential of Colonial's contract portfolio with significant room for improvement on the current rents.

The increases compared to the previous rents (release spreads) were significant in the three markets in which the Group operates. Worth mentioning are the asset portfolios in Madrid and Paris, with a release spread of +6%. In Barcelona, the release spread was at +5%.

These increases highlight the pricing power of Colonial's assets to unlock the reversionary potential of Colonial's contract portfolio.

Project Pipeline and Renovation Program

1. Pipeline of projects practically delivered and pre-leased

The Colonial Group has a project pipeline of 184,455 sqm across 8 assets.

At the date of publication of these results, the pre-let levels and the levels of project delivery on the pipeline were both very high:

1. High level of pre-letting of the portfolio: 7 of 8 projects

- Of the 8 projects of the project pipeline, 7 are already pre-let (6 projects at 100% and Velázquez at 86%), with the Campus in Méndez Álvaro being the only asset pending to be pre-let. At the end of 2022, the commercialization of this unique project began generating high interest in the Madrid market.
- In Barcelona, an agreement has been reached to rent 100% of the Plaza Europa 34 asset.
- The current pre-let volume is at 55 million euros, corresponding to 67% of the total income from the project portfolio, amounting to 82 million euros. These pre-lets ensure significant future income increases that will be completely crystallized in the profit and loss accounts of 2023 and 2024.

2. High degree of progress in delivery/entry into operation

   The degree of progress in the project portfolio is very high; to date, 6 out of 8 projects are all practically delivered.

- Marceau and Diagonal 525 were delivered at the end of 2021.
- Velázquez 86D and Miguel Angel 23 in Madrid & Biome in Paris entered into operation by the end of 2022.
- In the coming weeks, the Plaza Europa 34 project in Barcelona will be delivered.
- The Méndez Álvaro and Louvre Saint Honoré projects are progressing according to the expected timeline.

2. Renovation program successfully executed

The Colonial Group’s renovation program counts on 108,294 sqm spread over 9 assets, 4 assets located in Paris (103 Grenelle, Charles de Gaulle, Washington Plaza and Cézanne St. Honoré), 2 assets in Madrid (Cedro and Ortega y Gasset) and 3 assets in Barcelona (Torre Marenostrum, Diagonal 530 and Parc Glories II).

Of the entire renovation program, 8 assets (with a total surface area of 90,434 sqm) have been delivered and pre-let with significant rental price increases. The project portfolio in renovation has potential rents of 46 million euros.

The renovation program on the Parc Glories II building in Barcelona is currently under analysis.

Capital structure

1. A strong balance sheet for future growth

At the close of 2022, the Colonial Group had a solid balance sheet, both in terms of LTV and liquidity, specifically taking into account the disposal program.

Including the disposal program impact for more than 500 million euros, the debt profile of the Colonial Group considerably improves in all metrics:

- Net debt would be reduced by 421 million euros to 4,934 million euros and liquidity would increase to 2,645 million euros.
- Pro forma LTV would decrease by (180bp) to 36.9% (post divestments).

The current liquidity, between cash and undrawn credit lines, enables the Colonial Group to cover all their debt maturities until 2027.

Likewise, the Colonial Group’s debt has a high level of interest rate coverage thanks to a high volume of fixed-rate bonds together with hedging instruments contracted for long-term maturities.

- 100% of the Group’s net debt is a fixed interest rate (post disposals).
- 70% of the Colonial Group’s debt has maturities from 2025 onwards.
- 53% of the future issues of the Group’s debt have interest rate pre-hedging instruments at a 0.6% strike rate, significantly limiting the impact of the interest rate hikes after the bond maturities.

- At the close of 2022, the market value (Mark-to-Market) of the interest rate coverage contracted by the Colonial Group amounts to 277 million euros.

Thanks to the successful hedging strategy, the Colonial Group closed the year with a Net Disposal Value (NDV) of 6,862 million euros corresponding to 12.72 euros/share, an increase of +15% vs the previous year, driven by the positive mark-to-market impact in the debt.

The Group's strong financial profile is reflected in a BBB+ credit rating from Standard & Poor's, the highest in the Spanish real estate sector.

3. Liquidity and capital resources

See “Capital management and risk management policy” section of Note 14.14 of the consolidated financial statements for the year ended 31 December 2022.

The Average Payment Period (APP) of the Group's Spanish companies to their suppliers for 2022FY1 was 41 days. In relation to payments made outside the maximum legal term set, these correspond mainly to payments related to contracting works and real estate renovation, which are paid within the term established in the corresponding contracts signed with the contractors.

The Group has set two payment days per month to comply with the requirements established under Law 11/2013 of 26 July. In this regard, the dates of entry are on the 5th and 20th of each month and the corresponding payments are made on the 5th and 20th of the following month.

4. Objective and risk management policies

Asset management is exposed to various internal and external risks and uncertainties that can impact Colonial's activity. Therefore, Colonial aims to create sustainable value by optimising the constantly evolving ratio between profitability and risk in financial, environmental, social and economic areas, among others. This balance, together with a holistic and dynamic vision of risk, reinforces Colonial's leadership in the sector and consolidates its position in the long term. Risk management is a key aspect in Colonial's organisational culture, and for this reason, the Group has developed the Risk Control and Management System (hereinafter, RCMS), which establishes a basis for efficient and effective management of the risks throughout the organisation.

To meet these corporate objectives, the risks to which Colonial is exposed are identified, analysed, evaluated, managed, controlled and updated. With the objective of maintaining an effective and updated RCMS, Colonial has prepared a corporate risk map, which identifies the main risks that affect the Group, and evaluates them in terms of impact and probability of occurrence. This map is reviewed and updated periodically every year, with the aim of having an integrated and dynamic risk management tool, which evolves with changes in the environment in which the company operates and changes in the organisation itself.

The main responsibilities in relation to the RMCS correspond to the board of directors, the audit and control committee and the internal audit unit. The RCMS also explicitly determines the responsibilities of senior management, operational management and risk owners in relation to risk management.

The Board of Directors is assigned the function of determining the risk control and management policy, including tax policies, identifying the main risks of the Group and implementing and supervising the internal information and control systems, in order to ensure future viability. and competitiveness of the Group, adopting the most relevant decisions for its best development. For the management of this function, it has the support of the audit and control committee, which performs, among others, the following functions related to the field of control and risk management:

- Submit a report on risk policy and risk management to the board for approval.
- Periodically review the control and risk management systems, so that the main risks are identified, managed and adequately disclosed.
- Oversee the process of preparing, the integrity and presentation of mandatory (financial and non-financial) public information.

Additionally, Colonial has the regulatory compliance unit and the internal audit unit as tools to reinforce said objective. The regulatory compliance unit is responsible for ensuring adequate compliance with the norms and laws that may affect it to undertake its activity, and the internal audit function is responsible for carrying out the necessary supervision activities, contemplated in its annual plans approved by the Audit and Control Committee, to evaluate the effectiveness of the risk management processes and the action plans and controls implemented by the corresponding management teams to mitigate said risks.

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

- External risks: risks related to the environment in which Colonial carries out its activity and that influence and condition the company's operations.
- Internal risks: risks originated from the company's own activity and its management team.

The main external risks that Colonial faces to achieve its objectives include:

- Economic risks arising from the political and macroeconomic climate in the countries in which it operates and changes in investors' own expectations and capital markets.
- Market risks, derived from transformation in the industry and the business model itself, the greater complexity to develop the investment/divestment strategy, and the fluctuation of the real estate market with an impact on the valuation of real estate assets.
- Financial risks, related with restrictions on capital markets, fluctuating interest rates, the impact of changes in tax regulations and those of the counterparty of the main clients.
- Environmental risks, such as those related to crisis management, those arising from regulation and more stringent ESG demands, and mainly those related to physical and transition risks caused by climate change with consequences for the Group's activity.

The main internal risks that Colonial faces to achieve its objectives include:

- Strategic risks in relation with the Group's size and diversification, with the asset portfolio breakdown.
- Diverse operating risks related with the maintenance of occupancy levels of properties and the level of rental agreements, with the cost of the works projects, as well as the timeframe for their execution, with the management of debt levels and the current credit rating, with cyberattacks or failures in reporting systems, together with those specific to the management of the organisational structure and talent.
- Risks arising from compliance with all applicable regulations and contractual obligations, including tax risks related to the loss of the status of REIT by Colonial and the loss by its French subsidiary Société Foncière Lyonnaise of its status as a Real Estate Investment Trust (REIT).

With regard to the main materialised risks to be highlighted in 2022, in which the effects of the pandemic began to stabilise, the outbreak of the war in Ukraine and the prolongation of this conflict has generated a high level of uncertainty in the economic environment worldwide and especially in Europe. Against this geopolitical and macroeconomic backdrop, the risk linked to the fluctuation of the real estate cycle has been highly impacted, mainly from the second half of the year, as a result of the historic increase in interest rates with the aim of trying to contain the high inflation that has characterised this year of 2022. In addition, given this context, the complexity of divestment operations of non-strategic assets remained high this year, as well as investment operations in new assets with attractive profitability, given that investment market strategies have been paralysed.

As a consequence of this sharp rise in interest rates, and in view of the uncertainty of a possible economic recession, the management of debt levels has continued to be a priority this year, with the aim of improving the levels of loan-to-value levels and to have a stronger financial structure to face the next financial year and to increase investment capacity in the face of opportunities that may arise in the sector.

Likewise, the increase in raw material, fuel and supply prices has had a significant impact worldwide and also on the real estate sector, especially on the execution and development of the Group's construction projects.

The physical and transitional risks linked to climate change have led to the implementation of climate change policies and strategies, with specific actions aimed at improving the quality of buildings and measuring their energy consumption levels, as well as optimising their environmental impact. Adaptation to the growing non-financial reporting requirements of the various stakeholders has led to a review of compliance with these requirements and the definition and implementation of control systems to respond to this increasingly demanding environment with the objective of the Group's commitment and compliance in this area.

Finally, regulatory risks, which are always present, have increased significantly, particularly in the ESG area, given the uncertainty generated by the impact of the European taxonomy.

In this complex context, the Group has reviewed and monitored the evolution of these risks, showing a high level of resilience, particularly in the strategic, operational and financial areas, and the proper functioning of the control systems in place, which has enabled it to manage and mitigate these risks adequately and to guarantee operations and preserve the Group's value.

5. Events after the reporting date

From 31 December 2022 to the date on which these consolidated financial statements were authorised for issue, no significant events took place with the exception of:

- On 19 January 2023, the Parent signed a contract for the sale of three properties located in Madrid for a total sale price of 315 million euros.
- In January 2023, the Group repaid two loans drawn down for 100 million euros and 76 million euros respectively, reducing the financial liabilities indexed to ESG indicators to 0.4%.
- On 31 January 2023, SFL signed a promise of sale agreement for the Hanovre property.

6. Outlook

This year has been characterised by an economic context marked by high inflation and uncertainty. The conflict between Russia and Ukraine together with the energy crisis, among other factors, have led to an economic downturn in 2022, although the second half of the year was more resilient than expected. The outlook for 2023 is weaker for growth and lower dynamics are expected than those observed during 2022.

Barcelona and Madrid-

As far as the office market in Barcelona and Madrid is concerned, the prime market remains stable and the secondary and peripheral areas show a weak profile. The demand for quality assets in prime locations continues to be the most sought after by companies, basically due to the need to attract talent in companies with high added value, to offer the best working environment to their employees and to have the best mobility options.

Regarding rents, increases are observed in the city centre. In Barcelona, the prime rental benchmark has risen slightly to €28/m^2/month. In Madrid, Prime rent has surpassed the pre-Covid levels of late 2019, standing at €37/m^2/month.

The high uncertainty in the economic environment has put upward pressure on prime yields, with yields in Madrid and Barcelona reaching 4% in 2022.

Paris-

The Paris market is one of the most important worldwide and has a high level of liquidity.

As of today, the availability of office space in the city's best Grade A areas stands at 0.4%. The lack of product combined with the high demand from companies for prime products means that consultants expect office rents to remain high. In this regard, at the end of the second half of 2022, prime rents have increased to levels of €1,000/m²/year.

Future strategy-

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

7. Research and development activities

As a result of the Group's own characteristics, its activities and its structure, research and development activities are not usually carried out at Inmobiliaria Colonial, SOCIMI, S.A.

8. Treasury Shares

At 31 December 2022, the Parent had 8,218,370 treasury shares with a nominal value of 20,546 thousand euros, which represents 1.52% of the Parent's share capital.

9. Other significant information

On 10 December 2015, the Board of Directors of the Parent agreed to adhere to the Code of Best Tax Practices ("CBPT" hereinafter). This agreement was communicated to management on 8 January 2016. During 2022, the Parent presented the Annual Tax Transparency Report for companies adhering to the CBPT for 2021, following the proposal for the reinforcement of good corporate tax transparency practices for companies adhering to the Code of Good Tax Practices, approved at the plenary session of 20 December 2016.

10. Annual corporate governance report and annual remuneration report

Pursuant to Article 538 of the Spanish Limited Liability Companies Law, it is hereby noted that the annual corporate governance report and annual remuneration report for 2022 are included in this Management Report in a separate section.

Alternative Performance Measures (European Securities and Markets Authority)

Below follows an explanatory glossary of the Alternative Performance Measures, including their definition and relevance for Colonial, in accordance with the recommendations of the European Securities and Markets Authority (ESMA) published in October 2015 (ESMA Guidelines on Alternative Performance Measures). These Alternative Performance Measures have not been audited or revised by the Parent's auditor (Deloitte, S.L.).

Alternative Performance Measure	Form of calculation	Definition/Relevance
Market Value including transaction costs or *GAV including Transfer costs*	Valuation of all assets in the Group's portfolio made by appraisers outside the Group, before subtracting transaction costs or transfer costs.	Standard analysis ratio in the real estate sector.
Market Value excluding transaction costs or *Gross Asset Value (GAV) excluding Transfer costs*	Valuation of all assets in the Group's portfolio made by appraisers outside the Group, deducting transaction costs or transfer costs.	Standard analysis ratio in the real estate sector.
***Like-for-like* Valuation**	Amount of market valuation excluding transaction costs or market valuation including transaction costs comparable between two periods. In order to obtain it, income from rentals from investments or divestitures made between both periods is excluded from both periods.	This makes it possible to compare, on a like-for-like basis, the change in the portfolio's market valuation.
EPRA[1] NTA (EPRA Net Tangible Assets)	This is calculated on the basis of Equity attributable to equity holders of the Parent and adjusted for certain items in accordance with EPRA recommendations.	Standard analysis ratio in real estate and recommended by EPRA.
EPRA[1] NDV (EPRA Net Disposal Value)	Calculated by adjusting the following items in the EPRA NTA: the market value of the financial instruments, the market value of the financial debt, the taxes that would accrue on the sale of the assets at their market value, applying the tax credits available to the Group on a going concern basis.	Standard analysis ratio in real estate and recommended by EPRA.
Gross Financial Debt (GFD)	Calculated as the sum of the items *"Bank borrowings and other financial liabilities"*, *"Issuance of bonds and other similar securities"*, and *"Promissory notes"* excluding *"Interest"* (accrued), *"Arrangement expenses"*, *"Other financial liabilities"* and *"Liabilities associated with assets classified as held for sale"* in the consolidated statement of financial position.	Relevant indicator for analysing the Group's financial position.
Net Financial Debt (NFD)	Calculated by adjusting in *gross financial debt (GFD)* the item *"Cash and cash equivalents"*.	Relevant indicator for analysing the Group's financial position.

[1] EPRA (European Public Real Estate Association) which recommends the standards for best practices to follow in the property sector. The calculation of these APMs follows the instructions set by EPRA.

Alternative Performance Measure	Form of calculation	Definition/Relevance
Loan to Value **Group or LtV Group**	Calculated as the result of dividing *"Net financial debt (NFD)"* by the sum of the "*Market Valuation including transaction costs of the Group's asset portfolio"* plus the *"Parent's treasury shares valued at EPRA NTA"*.	This makes it possible to analyse the relationship between net financial debt and the valuation of assets in the Group's portfolio.
Holding Company LtV or Colonial LtV	Calculated as the result of dividing "*Gross financial debt"* minus the amount of the item *"Cash and cash equivalents"* of the Parent and *the wholly-owned Spanish subsidiaries,* adjusted by the amount of the commitments for *"deferrals for real estate asset purchase and sale transactions",* between the sum of "*the Market Valuation including transaction costs of the asset portfolio of the Group's parent company and wholly-owned Spanish subsidiaries", "treasury shares of the parent company" and the EPRA NTA of the remaining financial holdings in subsidiaries*".	This makes it possible to analyse the relationship between net financial debt and the valuation of assets in the Group's parent company.
Like-for-like **Rental Income**	Amount of rental income for rentals included in "*Revenue*" comparable between two periods. In order to obtain this amount, income from investments or divestitures made between both periods, those from assets included in the project and renovation portfolio, as well as other atypical adjustments (for example, compensation for early termination of rental agreements) are excluded from both periods.	This makes it possible to compare, on a like-for-like basis, the change in rental income of an asset or group of assets.
Analytical EBITDA **(*Earnings Before Interest, Taxes, Depreciation and Amortisation*)**	Calculated as "*Operating profit*" adjusted for "*Depreciation and amortisation", "Variations in value of investment property", "Net change in provisions" and "Gains/(losses) on changes in value of assets due to impairment", as well as expenses incurred in "Depreciation and amortisation" and "Net finance income/(expense)" arising from the recording of "IFRS 16 finance leases", associated with the flexible business (co-working).*	Indicator of the Group's capacity to generate profits considering only its productive activity, eliminating depreciation allowances, the effect of indebtedness and the tax effect.
EBITDA income	Calculated by adjusting to the *analytical EBITDA* the "*general expenses" and "extraordinary expenses" not associated with the operation of property.*	Indicator of the Group's earning capacity considering only its leasing activity, before depreciation, provisions, the effect of indebtedness and the tax effect.

Alternative Performance Measure	Form of calculation	Definition/Relevance
Other analytical income	Calculated as *“Other revenue”* in the condensed consolidated income statement and adjusted by *“Other revenue relating to the corporate segment”, “Revenue, Personnel expenses and Other operating expenses eliminated on consolidation associated with the flexible business”, “Revenue eliminated on consolidation associated with the flexible business”, “Depreciation and amortisation arising from the recognition in line with the IFRS 16 Finance lease standard”* and *“Financial profit arising from the recognition in line with the IFRS 16 Finance lease standard”.*	Relevant magnitude for analysing the Group's results.
Spending structure analytics	Calculated as the sum of items *“Other revenue”, “Personnel expenses”* and *“Other operating expenses”* in the condensed consolidated income statement and adjusted by *“Analytical net operating expenses”*, *“Personnel expenses and Other operating expenses associated with the generation of flexible business income”*, *“Personnel expenses and Other operating expenses not associated with flexible business”, “Personnel expenses and Other extraordinary operating expenses”*, *“Net change in provisions”*, *“Other operating expenses eliminated on consolidation associated with the flexible business*” and *“Other revenue associated with the leasing business”.*	Relevant magnitude for analysing the Group's results.
Analytical extraordinary expenses	Calculated as the sum of items *“Personnel expenses”* and *“Other operating expenses”* in the condensed consolidated income statement for the six months ended 30 June 2022 and adjusted by *“Analytical net operating expenses”, “Personnel expenses and Other operating expenses associated with the corporate segment”*, *“Personnel expenses and Other operating expenses not associated with flexible business”, “Other operating expenses eliminated on consolidation associated with the flexible business*” and *“Net change in provisions”.*	Relevant magnitude for analysing the Group's results.
Revaluations and sales margin of analytical properties	Calculated as the sum of the items “*Net gains on sales of assets” and “Changes in value of investment property” in the consolidated income statement.*	Relevant magnitude for analysing the Group's results.

Alternative Performance Measure	Form of calculation	Definition/Relevance
Analytical depreciation and provisions	Calculated as the sum of *"Depreciation and amortisation"* and *"Gains/(losses) on changes in value of assets due to impairment"* in the consolidated income statement and adjusted by *"Depreciation and amortisation arising from the recognition in line with the IFRS 16 Finance lease standard"* and *"Net change in provisions"*.	Relevant magnitude for analysing the Group's results.
Analytical financial result	Calculated as the sum of *"Finance income"* and *"Finance costs"* in the consolidated income statement and adjusted by *"Financial profit arising from the recognition in line with the IFRS 16 Finance lease standard".*	Relevant magnitude for analysing the Group's results.
EPRA Earnings and Recurring net income	Calculated in accordance with EPRA recommendations, adjusting certain items to the net profit for the year attributable to the parent company.	Standard analysis ratio in real estate and recommended by EPRA.

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

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

Market Value including transaction costs or GAV including Transfer costs

Market Value including transaction costs or GAV including Transfer costs	Millions of Euros	
	2022	2021
Total Market Value excluding transaction costs	13,005	12,436
Plus: transaction costs	722	655
Total Market Value including transaction costs	**13,727**	**13,091**
Spain	4,904	4,953
France	8,823	8,138

Market Value excluding transaction costs or GAV excluding Transfer costs

Market Value excluding transaction costs or GAV excluding Transfer costs	Millions of Euros	
	2022	2021
Barcelona	1,261	1,423
Madrid	2,733	2,518
Paris	7,525	6,633
Leased out	**11,519**	**10,574**
Projects	1,466	1,843
Other	20	20
Total Market Value excluding transaction costs	**13,005**	**12,436**
Spain	4,759	4,830
France	8,246	7,606

Like-for-like Valuation

Like-for-like Valuation	Millions of Euros	
	2022	2021
Valuation at 1 January	12,436	12,020
Like for like Spain	(21)	292
Like for like France	179	411
Acquisitions and divestitures	412	(288)
Valuation at 31 December	**13,005**	**12,436**

EPRA NTA (EPRA Net Tangible Assets)

EPRA NTA (EPRA Net Tangible Assets)	Millions of Euros	
	2022	2021
“Net equity attributable to the parent company's shareholders”	**6,159**	**5,999**
Includes/Excludes:		
Adjustments from (i) to (v) with respect to strategic alliance interests	--	--
Diluted NTA	**6,159**	**5,999**
Incluye:		
(ii.a) Revaluation of investment assets	--	--
(ii.b) Revaluation of assets under development	--	--
(ii.c) Revaluation of other investments	147	149
(iii) Revaluation of finance leases	--	--
(iv) Stock revaluation	14	12
Diluted NTA at Fair Value	**6,321**	**6,160**
Excluye:		
(v) Deferred taxes	339	351
(vi) Market value of financial instruments	(276)	(15)
EPRA NTA	**6,384**	**6,496**
Number of shares (millions)	539.6	539.6
EPRA NTA per share	11.83	12.04

EPRA NDV (Net Disposal Value)

EPRA NDV (EPRA Net Disposal Value)	Millions of Euros	
	2022	2021
“Net equity attributable to the parent company's shareholders”	**6,159**	**5,999**
Includes/Excludes:		
Adjustments from (i) to (v) with respect to strategic alliance interests	--	--
Diluted NDV	**6,159**	**5,999**
Incluye:		
(ii.a) Revaluation of investment assets	--	--
(ii.b) Revaluation of assets under development	--	--
(ii.c) Revaluation of other investments	147	149
(iii) Revaluation of finance leases	--	--
(iv) Stock revaluation	14	12
Diluted NDV at Fair Value	**6,321**	**6,160**
Excluye:		
(v) Deferred taxes	--	--
(vi) Market value of financial instruments	--	--
Incluye:		
(ix) Market value of debt	541	(203)
EPRA NDV	**6,862**	**5,957**
Number of shares (millions)	539.6	539.6
EPRA NDV per share	12.72	11.04

Loan to Value Group or LtV Group

Loan to Value Group or LtV Group	Millions of Euros	
	2022	2021
Gross financial debt	5,515	4,935
Commitments of deferrals for transactions selling real estate assets	-	--
Less: “Cash and cash equivalents”	(160)	(219)
(A) Net financial debt	**5,355**	**4,716**
Market Value including transaction costs	13,727	13,091
Plus: Shares in treasury stock of the parent company valued at EPRA NTA	98	98
(B) Market Value including transaction costs and Parent's treasury shares	**13,825**	**13,189**
Loan to Value Group (A)/(B)	**38.7%**	**35.8%**

Holding Company LtV or Colonial LtV

Holding Company LtV or Colonial LtV	Millions of Euros	
Holding Company	2022	2021
Gross financial debt	2,988	3,028
Commitments of deferrals for transactions selling real estate assets	--	--
Less: "Cash and cash equivalents" of the parent company and the fully-owned Spanish subsidiaries	(85)	(101)
(A) Net financial debt	**2,903**	**2,927**
(B) Market Value including transaction costs	**9,971**	**10,036**
Loan to Value Holding (A)/(B)	**29.1%**	**29.2%**

Like-for-like Rental Income

Like-for-like Rental Income	Millions of Euros			
	Barcelona	**Madrid**	**Paris**	**Total**
2021 Rental Income	**44**	**95**	**175**	**314**
Like for like	4	5	12	20
Projects and inclusions	(1)	7	7	13
Investments and divestitures	1	(3)	11	9
Other and compensation	--	(1)	--	(1)
2022 Rental Income	**48**	**102**	**205**	**354**

Analytical EBITDA

Analytical EBITDA	Millions of euros	
	31/12/2022	31/12/2021
Operating profit	128	674
Adjustments: "*Depreciation and amortisation*"	9	8
Adjustments: "*Net gains on sales of assets*"	(6)	1
Adjustments: "*Net change in provisions*"	1	1
Adjustments: "*Changes in value of investment property*"	147	(444)
Adjustments: "*Gains/(losses) on changes in value of assets due to impairment*"	1	1
Adjustments: "Extraordinary Income"	6	10
Adjustments: "*Depreciation and amortisation arising from the recognition in line with the IFRS 16 Finance lease standard*"	(3)	(2)
Adjustments: "*Financial profit arising from the recognition in line with the IFRS 16 Finance lease standard*"	(1)	(1)
Analytical EBITDA	**282**	**248**

EBITDA income

EBITDA income	Millions of euros	
	31/12/2022	31/12/2021
Net turnover amount	362	317
Adjustments: "*Flexible business income*"	(14)	(9)
Adjustments: "*Revenue eliminated on consolidation associated with the flexible business*"	7	6
Analytical rental income	**354**	**314**
Staff costs	(36)	(37)
Other operating expenses	(55)	(44)
Adjustments: "*Personnel expenses and Other operating expenses not associated with the corporate segment*"	49	43
Adjustments: "*Personnel expenses and Other operating expenses not associated with the flexible business*"	6	5
Adjustments: "*Personnel expenses and Other extraordinary operating expenses not associated with the flexible business*"	6	10
Adjustments: "Other operating expenses eliminated on consolidation associated with the flexible business"	2	1
Adjustments: "*Net change in provisions*"	1	1
Analytical net operating expenses	**(28)**	**(21)**
EBITDA income	**326**	**293**

Other analytical income

Other analytical income	Millions of euros	
	31/12/2022	31/12/2021
Otros ingresos	9	5
Adjustments: "*Other corporate segment revenues*"	(3)	(2)
Adjustments: "*Net turnover amount and Personnel expenses and Other operating expenses eliminated on consolidation associated with the flexible business*"	10	6
Adjustments: "*Revenue eliminated on consolidation associated with the flexible business*"	(9)	(7)
Adjustments: "*Depreciation and amortisation arising from the recognition in line with the IFRS 16 Finance lease standard*"	(3)	(2)
Adjustments: "*Financial profit arising from the recognition in line with the IFRS 16 Finance lease standard*"	(1)	(1)
Other analytical income	**4**	**(1)**

Spending structure analytics

Spending structure analytics	Millions of euros	
	31/12/2022	31/12/2021
Otros ingresos	9	5
Staff costs	(36)	(37)
Other operating expenses	(55)	(44)
Adjustments: *"Analytical net operating expenses"*	28	21
Adjustments: "*Personnel expenses and Other operating expenses eliminated on consolidation associated with the flexible business*"	4	3
Adjustments: "*Personnel expenses and Other extraordinary operating expenses not associated with the flexible business*"	6	10
Adjustments: "*Net change in provisions*"	1	1
Adjustments: "Other operating expenses eliminated on consolidation associated with the flexible business"	2	1
Adjustments: "*Other revenue associated with the leasing business*"	(6)	(3)
Spending structure analytics	**(48)**	**(43)**

Analytical extraordinary expenses

Analytical extraordinary expenses	Millions of euros	
	31/12/2022	31/12/2021
Staff costs	(36)	(37)
Other operating expenses	(55)	(44)
Adjustments: *"Analytical net operating expenses"*	28	21
Adjustments: "*Personnel expenses and Other operating expenses associated with the corporate segment*"	49	43
Adjustments: "*Personnel expenses and Other operating expenses eliminated on consolidation associated with the flexible business*"	6	5
Adjustments: "Other operating expenses eliminated on consolidation associated with the flexible business"	2	1
Adjustments: "*Net change in provisions*"	1	1
Analytical extraordinary expenses	**(6)**	**(10)**

Revaluations and sales margin of analytical properties

Revaluations and sales margin of analytical properties	Millions of euros	
	31/12/2022	31/12/2021
Net gains on sales of assets	6	(1)
Changes in value of investment property	(147)	444
Revaluations and sales margin of analytical properties	**(142)**	**443**

Analytical depreciation and provisions

Analytical depreciation and provisions	Millions of euros	
	31/12/2022	31/12/2021
Depreciation and amortisation	(9)	(8)
Gains/(losses) on changes in value of assets due to impairment	(1)	(1)
Adjustments: "*Depreciation and amortisation arising from the recognition in line with the IFRS 16 Finance lease standard*"	3	2
Adjustments: "*Net change in provisions*"	(1)	(1)
Analytical depreciation and provisions	**(8)**	**(8)**

Analytical financial result

Analytical financial result	Millions of euros	
	31/12/2022	31/12/2021
Finance income	1	9
Finance cost	(87)	(120)
Adjustments: "*Financial profit arising from the recognition in line with the IFRS 16 Finance lease standard*"	1	1
Analytical financial result	**(85)**	**(110)**

EPRA Earnings and Recurring Net Income

EPRA Earnings and Recurring Net Income	Millions of Euros	
	2022	2021
Resultado neto atribuible al Grupo	**8**	**474**
Net profit/(loss) attributable to the Group - Cts€/share	***1.48***	***91.10***
Includes/(excludes):		
(i) Changes in value of investments, investment projects and other interests	148	(443)
(ii) Beneficios o pérdidas de ventas de activos, proyectos de inversión y otros intereses	(6)	1
(iii) Beneficios o pérdidas de ventas de activos mantenidos para la venta incluyendo cambios de valor de dichos activos	--	--
(iv) Tax for sale of assets	--	--
(v) Deterioro de valor del Fondo de Comercio	--	--
(vi) Changes in the value of financial instruments and cancellation costs	4	30
(iv) Deferred tax for considered EPRA adjustments	(13)	(9)
(ix) Adjustments from (i) to (viii) regarding strategic alliances (except if included by proportional integration)	--	--
(x) Minority interests with respect to previous items	13	66
EPRA Earnings (pre ajustes específicos compañía)	**155**	**120**
Ajustes específicos compañía:		
(a) Extraordinary contingencies and charges	6	10
(b) Non-recurring profit/(loss)	--	--
(c) Tax credits	--	--
(d) Minority interests in respect of the above items	--	(2)
Recurring Net Income (post company specific adjustments)	**161**	**128**
Average number of shares (millions)	539.6	520.1
Recurring Net Income (post company specific adjustments) - Cts€/share	***29.84***	***24.59***