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

Audit Report,
Consolidated Annual Accounts and
Directors' Report
as at 31 December 2019

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

# Independent auditor´s report on the consolidated annual accounts

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

## Report on the consolidated annual accounts

### Opinion

We have audited the consolidated annual accounts of Inmobiliaria Colonial, SOCIMI, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2019, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at 31 December 2019, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

### Basis for opinion

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

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

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

### Key audit matters

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

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of Investment Property** | |
| Colonial Group has real estate assets which are recognised in Investment property amounting to Euro 11,797,117 thousand at 31 December 2019 under the fair value model in accordance with NIC 40, that represent 94% of total assets. Also, the variation in value in investment property in 2019 amounts to Euro 842,657 thousand, representing 83% of the consolidated profit before taxes for the year. Notes 4.c), 10 and 20.f) to the accompanying consolidated annual accounts contains information on the assets included in this heading.<br><br>In order to obtain the fair value of these assets, the Group commissions valuations that are carried out by independent third-party experts. Fair value is determined using the discounted cash flow methodology, in accordance with standard market practice. Such valuations are based on a series of significant judgements and estimates.<br><br>We have therefore focused on this area due to the materiality of this heading with respect to the Company's total assets and the significant judgment required on the part of Management. Changes in these assumptions could lead to a significant variation in the fair value of such assets and their impact on the consolidated comprehensive income statement and consolidated statement of financial position. | We obtained the year-end valuations of these assets by independent experts and we assessed that these experts meet the requirements of competence and independence, finding no exceptions.<br><br>We determined that the valuations were performed in accordance with the Valuation Rules of the Royal Institution of Chartered Surveyors (RICS), included in the so-called "Red Book" - valuation manual. In this respect, we held meetings with the valuers together with our internal experts and verified for a representative sample of these valuations the reasonability of the variables used, such as final profitability, term of the rental contracts, the type and age of the properties, their location and occupancy rate and the discount rate used. Also, for a sample of assets, we verified, through the relevant purchase deeds, the technical specifications used by the independent experts in determining the fair value of those assets.<br><br>Lastly, we assessed the relevant disclosures in Notes 4.c), 10 and 20.f) to the accompanying consolidated annual accounts.<br><br>We consider that we have obtained sufficient audit evidence in the course of our work to corroborate the reasonableness of the valuation of investment property. |

## Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2019 financial year, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.

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

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

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

On the basis of the work performed, as described above, we have verified that the information mentioned in section a) above is provided in the consolidated management report and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2019 financial year, and its content and presentation are in accordance with the applicable regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Report on other legal and regulatory requirements

### Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated 27 February 2020.

### Appointment period

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

### Services provided

Services provided to the Group for services other than the audit of the accounts, are indicated in the Note 25 to the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
Mireia Oranias Casajoanes (20973)

February 27, 2020

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

Consolidated financial statements for the year ended 31 December 2019, prepared in accordance with International Financial Reporting Standards and consolidated management report

Translation of Consolidated financial statements for the year ended 31 December 2019, 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.

Translation of Consolidated financial statements for the year ended 31 December 2019, 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**
**(COLONIAL GROUP)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

(Thousands of euros)

| ASSETS | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| Goodwill | 7 | - | 62.225 |
| Intangible assets | | 4.900 | 3.759 |
| Right-of-use assets | 8 | 12.787 | - |
| Property, plant and equipment | 9 | 50.900 | 43.332 |
| Investment property | 10 | 11.797.117 | 11.083.133 |
| Financial assets at amortised cost | 11 | 33.585 | 31.863 |
| Derivative financial instruments | 16 | 25.379 | 591 |
| Non-current deferred tax assets | 19 | 448 | 411 |
| Other non-current assets | | 8.233 | - |
| **NON-CURRENT ASSETS** | | **11.933.349** | **11.225.314** |
| Inventories | 12 | 48.196 | 46.587 |
| Trade and other receivables | 13 | 117.095 | 99.972 |
| Financial assets at amortised cost | | 90 | 1.300 |
| Deferred tax assets | 19 | 9.566 | 19.757 |
| Cash and cash equivalents | 15 | 216.781 | 68.293 |
| **CURRENT ASSETS** | | **391.728** | **235.909** |
| **Assets classified as held for sale** | 24 | **176.434** | **26.091** |
| **TOTAL ASSETS** | | **12.501.511** | **11.487.314** |

| EQUITY AND LIABILITIES | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| Share capital | | 1.270.287 | 1.270.287 |
| Share premium | | 1.513.749 | 1.578.439 |
| Reserves of the Parent | | 186.822 | 215.990 |
| Consolidated reserves | | 1.735.202 | 1.223.497 |
| Valuation adjustments recognised in equity – financial instruments | | 22.403 | (2.078) |
| Other equity instruments | | 9.515 | 6.017 |
| Treasury shares | | (6.179) | (5.606) |
| Profit/(loss) for the year | | 826.799 | 524.763 |
| **Equity attributable to shareholders of the Parent company** | | **5.558.598** | **4.811.309** |
| **Non-controlling interests** | | **1.401.899** | **1.290.486** |
| **EQUITY** | 14 | **6.960.497** | **6.101.795** |
| Bank borrowings and other financial liabilities | 15 | 442.358 | 720.710 |
| Bonds and similar securities issued | 15 | 3.781.442 | 3.776.866 |
| Derivative financial instruments | 16 | 2.782 | 3.218 |
| Lease liabilities | 8 | 12.262 | - |
| Non-current deferred tax liabilities | 19 | 381.701 | 374.882 |
| Non-current provisions | 18 | 1.499 | 1.380 |
| Other non-current liabilities | 17 | 79.940 | 66.333 |
| **NON-CURRENT LIABILITIES** | | **4.701.984** | **4.943.389** |
| Bank borrowings and other financial liabilities | 15 | 3.247 | 8.627 |
| Bonds and similar securities issued | 15 | 647.726 | 284.242 |
| Derivative financial instruments | 16 | 675 | 473 |
| Lease liabilities | 8 | 2.131 | - |
| Trade and other payables | 17 | 158.578 | 114.779 |
| Deferred tax liabilities | 19 | 19.085 | 16.349 |
| Current provisions | 18 | 7.588 | 17.660 |
| **CURRENT LIABILITIES** | | **839.030** | **442.130** |
| **TOTAL EQUITY AND LIABILITIES** | | **12.501.511** | **11.487.314** |

The accompanying Notes 1 to 26 and the Appendix are an integral part of the consolidated statement of financial position at 31 December 2019.

Translation of Consolidated financial statements for the year ended 31 December 2019, 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 (COLONIAL GROUP)

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(Thousands of euros)

| **Income statement** | **Note** | **2019** | **2018** |
|---|---|---|---|
| Revenue | 20-a | 354.514 | 348.273 |
| Other income | 20-b | 9.617 | 5.677 |
| Staff costs | 20-c | (29.916) | (29.138) |
| Other operating expenses | 20-d | (55.094) | (60.094) |
| Depreciation and amortisation | | (6.940) | (3.353) |
| Net change in provisions | 20-e | 6.960 | 2.436 |
| Net gains/(losses) on sales of assets | 20-g | 19.924 | 11.721 |
| **Operating profit** | | **299.065** | **275.522** |
| Changes in fair value of investment property | 20-f | 873.699 | 701.952 |
| Gains/(losses) on changes in value of assets and impairment | 20-f | (61.894) | (131.390) |
| Finance income | 20-h | 7.298 | 7.831 |
| Finance costs | 20-h | (103.386) | (149.433) |
| Impairment of financial assets | 20-h | - | (143) |
| **Profit before tax** | | **1.014.782** | **704.339** |
| Income tax expense | 19 | (22.259) | (26.230) |
| **Consolidated net profit** | | **992.523** | **678.109** |
| Net profit for the year attributable to the Parent | | 826.799 | 524.763 |
| Net profit attributable to non-controlling interests | 14 | 165.724 | 153.346 |
| Basic earnings per share (euros) | 5 | 1,63 | 1,17 |
| Diluted earnings per share (euros) | 5 | 1,63 | 1,17 |

| **Statement of comprehensive income** | | | |
|---|---|---|---|
| **Consolidated net profit** | | **992.523** | **678.109** |
| **Other components of comprehensive income recognised directly in equity** | | **23.801** | **(53.854)** |
| Gains/(losses) on hedging instruments | 14 and 16 | 23.583 | 956 |
| Gains/(losses) on available-for-sale financial assets | 11 | - | (54.777) |
| Tax effect on prior years' profit or loss | 14 and 16 | 218 | (33) |
| **Transfers to comprehensive income** | | **2.166** | **(2.429)** |
| Gains/(losses) on hedging instruments | 14 and 16 | 2.713 | (2.472) |
| Tax effect on prior years' profit or loss | 14 and 16 | (547) | 43 |
| **Consolidated comprehensive income** | | **1.018.490** | **621.826** |
| Comprehensive income for the year attributable to the Parent | | 851.888 | 468.467 |
| Comprehensive income attributable to non-controlling interests | | 166.602 | 153.359 |
| Comprehensive basic earnings per share (euros) | | 1,68 | 1,05 |
| Comprehensive diluted earnings per share (euros) | | 1,68 | 1,05 |

The accompanying Notes 1 to 26 and the Appendix are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2019.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED
31 DECEMBER 2019

(Thousands of euros)

| | Note | Share capital | Share premium | Reserves of the Parent | Reserves at consolidated companies | Hedging derivatives | Financial assets at fair value with changes in equity | Other equity instruments | Treasury shares | Result | Equity attributable to shareholders of the Parent | Non-controlling interests | Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2017** | **14** | **1.088.293** | **1.126.248** | **245.118** | **406.366** | **(559)** | **70.415** | **4.686** | **(31.262)** | **682.523** | **3.591.828** | **2.087.870** | **5.679.698** |
| Total comprehensive income for the year | | - | - | - | - | (1.519) | (54.777) | - | - | 524.763 | 468.467 | 153.359 | **621.826** |
| Transactions with shareholders: | | | | | | | | | | | | | |
| Capital increases | | 181.994 | 463.517 | (1.149) | - | - | - | - | - | - | 644.362 | - | **644.362** |
| Treasury share portfolio | | - | - | 7.332 | - | - | - | - | 22.754 | - | 30.086 | - | **30.086** |
| Distribution of 2017 results (dividends) | | - | (11.326) | (33.798) | 650.026 | - | - | - | - | (682.523) | (77.621) | (52.273) | **(129.894)** |
| Share-based remuneration payments | | - | - | (1.513) | - | - | - | 1.667 | 2.902 | - | 3.056 | 358 | **3.414** |
| Changes in scope | | - | - | - | 151.426 | - | - | - | - | - | 151.426 | (899.425) | **(747.999)** |
| Other changes | | - | - | - | 15.679 | - | (15.638) | (336) | - | - | (295) | 597 | **302** |
| **Balance at 31 December 2018** | **14** | **1.270.287** | **1.578.439** | **215.990** | **1.223.497** | **(2.078)** | **-** | **6.017** | **(5.606)** | **524.763** | **4.811.309** | **1.290.486** | **6.101.795** |
| Change of accounting policy (Note 2-g) | | - | - | - | (887) | - | - | - | - | - | (887) | (104) | **(991)** |
| **Balance at 1 January 2019** | | **1.270.287** | **1.578.439** | **215.990** | **1.222.610** | **(2.078)** | **-** | **6.017** | **(5.606)** | **524.763** | **4.810.422** | **1.290.382** | **6.100.804** |
| Total comprehensive income for the year | | - | - | - | - | 25.089 | - | - | - | 826.799 | 851.888 | 166.602 | **1.018.490** |
| Transactions with shareholders: | | | | | | | | | | | | | |
| Capital increases | | - | - | - | - | - | - | - | - | - | - | - | - |
| Treasury share portfolio | | - | - | - | - | - | - | - | (3.395) | - | (3.395) | - | **(3.395)** |
| Distribution of 2018 results (dividends) | | - | (64.690) | (569) | 488.455 | - | - | - | - | (524.763) | (101.567) | (30.744) | **(132.311)** |
| Share-based remuneration payments | | - | - | (1.131) | - | - | - | 3.498 | 2.822 | - | 5.189 | 417 | **5.606** |
| Changes in scope | | - | - | (27.468) | 25.733 | (608) | - | - | - | - | (2.343) | (26.182) | **(28.525)** |
| Other changes | | - | - | - | (1.596) | - | - | - | - | - | (1.596) | 1.424 | **(172)** |
| **Balance at 31 December 2019** | **14** | **1.270.287** | **1.513.749** | **186.822** | **1.735.202** | **22.403** | **-** | **9.515** | **(6.179)** | **826.799** | **5.558.598** | **1.401.899** | **6.960.497** |

The accompanying Notes 1 to 26 and the Appendix are an integral part of the consolidated statement of changes in equity at 31 December 2019.

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019
(Thousands of euros)

| | Note | 2019 | 2018 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATIONS** | | | |
| **1. CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit from operations | | 299.065 | 275.522 |
| Adjustments to profit | | | |
| Depreciation and amortisation (+) | | 6.940 | 3.353 |
| Net change in provisions (+/-) | 20-e | (6.960) | (2.436) |
| Other | | 3.870 | 3.489 |
| Gains / (losses) on sale of investment property (+/-) | 20-g | (19.924) | (11.721) |
| Adjusted profit | | 282.991 | 268.207 |
| Taxes recovered (paid) (+/–) | | (2.549) | (11.834) |
| Interest received (+) | | 2.232 | 2.460 |
| Increase/(decrease) in current assets and liabilities | | | |
| Inventories (+/-) | | (1.425) | - |
| Increase / (decrease) in receivables (+/-) | | (3.178) | 15.279 |
| Increase / (decrease) in payables (+/-) | | 40.656 | (107.866) |
| Increase / (decrease) in other assets and liabilities (+/-) | | 3.080 | 11.107 |
| **Total net cash flows in operating activities** | | **321.807** | **177.353** |
| **2. CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Investments in (-) | | | |
| Intangible assets | | (4.456) | (2.973) |
| Property, plant and equipment | 9 | (9.133) | (4.063) |
| Investment property | 10 | (249.017) | (307.661) |
| Non-current financial assets and others | | (30.247) | (216.776) |
| Business combinations | 2-f | - | (843.149) |
| Cash and cash equivalents acquired in a business combination | | - | 160.157 |
| | | (292.853) | (1.214.465) |
| Disposals of (+) | | | |
| Investment property and assets classified as held for sale | 10 and 24 | 272.149 | 378.959 |
| | | 272.149 | 378.959 |
| **Total net cash flows in investing activities** | | **(20.704)** | **(835.506)** |
| **3. CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividends paid (-) | 14 | (132.311) | (129.894) |
| Repayment of bank borrowings (-) | 15 | (361.042) | (955.744) |
| Repayment of debts with bondholders (-) | 15 | - | (675.000) |
| Interest paid (+/-) | 20-h | (88.437) | (142.723) |
| Redemption of financial instruments (-) | 20-h | (4.743) | - |
| Treasury share transactions (+/-) | 14 | (3.395) | (58) |
| | | (589.928) | (1.903.419) |
| New bank borrowings obtained (+) | 15 | 75.000 | 120.440 |
| New bondholder borrowings obtained (+) | 15 | 363.500 | 1.412.500 |
| Expenses associated with capital increases | 14 | - | (1.149) |
| Other proceeds/(payments) for current financial investments and other (+/–) | | (1.187) | (6.527) |
| | | 437.313 | 1.525.264 |
| **Total net cash flows in financing activities** | | **(152.615)** | **(378.155)** |
| **4. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS** | | | |
| **Cash flow for the year** | | **148.488** | **(1.036.308)** |
| **Cash or cash equivalents at beginning of year** | **15** | **68.293** | **1.104.601** |
| **Cash or cash equivalents at end of year** | **15** | **216.781** | **68.293** |

The accompanying Notes 1 to 26 and the Appendix are an integral part of the consolidated statement of cash flows at 31 December 2019.

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

Notes to the consolidated financial statements for the year ended 31 December 2019

## 1. Colonial Group Business Activity

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

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

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

The parent Company's purpose, as set out in its bylaws, is as follows:

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

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

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

All activities included in the corporate purpose will be carried out as authorised by current legislation at any given time, expressly excluding its own activities that are exclusively granted by prevailing legislation to natural persons or legal persons other than this parent 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") carries out its activities in Spain (mainly in Barcelona and Madrid) and in France (Paris) through the group of which the parent is Société Foncière Lyonnaise, S.A ("SFL subgroup" or "SFL" for the subsidiary).

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

In 2019, the Parent maintains the credit rating obtained from *Standard & Poor's Rating Credit Market Services Europe Limited* at "BBB+" long-term credit rating and an "A-2" short-term credit rating, both with a stable outlook. In addition, the Parent retains the rating obtained from Moody's "Baa2" with a stable outlook. In 2019, the subsidiary SFL maintained its credit rating of "BBB+" with a stable outlook, and the "A-2" short-term credit rating.

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

### a) Basis of presentation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (EU-IFRSs) as adopted by the European Union, taking into account all mandatory accounting policies and rules and measurement bases, the Spanish Code of Commerce, the Spanish Limited Liability Companies Law, the Spanish Securities Markets Law and other applicable company law, as well as regulations laid down by the Spanish National Securities Market Commission (CNMV), to present a true and fair view of the Colonial Group's consolidated equity and financial position at 31 December 2019 and of the comprehensive income from its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended.

The consolidated financial statements of Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries for the year ended 31 December 2019 were prepared on the basis of the accounting records kept by the Parent and by the other companies comprising the Colonial Group, and were authorised for issue by the Parent's directors at the Board of Directors meeting held on 27 February 2020.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements at 31 December 2019 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 2018 were approved by the shareholders at the Parent's Annual General Meeting held on 14 June 2019.

### b) 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.

Standards and interpretations effective this year

New accounting standards came into force in 2019 and were accordingly taken into account when preparing these consolidated financial statements. These new standards are as follows:

- IFRS 16, "Leases"
- IFRS 9 (Amendment), "Prepayment features with negative compensation"

- IFRIC 23, "Uncertainty over Income Tax Treatments"
- NIC 28 (Amendment) “Long-term interests in associates and joint ventures”
- IAS 19 (Amendment), "Plan amendment, curtailment or settlement"
- Annual improvements to IFRS. 2015-2017 cycle: The amendments affect IFRS 3, IFRS 11, IAS 12 and IAS 23 and apply to annual periods beginning on or after 1 January 2019. The main changes are:
    - IFRS 3, "Business combinations": A previously held interest in a joint venture is re-measured when control of the business is obtained.
    - IFRS 11, "Joint arrangements": A previously held interest in a joint venture is not re-measured when joint control of the business is obtained.
    - IAS 12, "Income tax": All tax consequences of dividend payments are accounted for in the same way.
    - IAS 23, "Borrowing costs": Any specific loan originally made to develop a qualifying asset is considered part of the generic loans when the asset is ready for use or sale.

These standards were taken into account with effect from 1 January 2019, and their impact on these consolidated financial statements was not material, except for IFRS 16 "Leases" (Note 2-g).

Standards and interpretations issued but not yet effective -

At the date of authorisation for issue of these consolidated financial statements, the following standards, amendments or interpretations were published by the IASB and the *IFRS Interpretations Committee* but had not yet come into force, and are subject to adoption by the European Union.

IFRS 10 (Amendment) and IAS 28 (Amendment), "Sales or contributions of assets between an investor and its associate/joint venture"

- IFRS 17, "Insurance contracts"
- IFRS 3 (Amendment), "Definition of a business"
- IAS 1 (Amendment) and IAS 8 (Amendment) "Definition of material"
- IFRS 9 (Amendment), IFRS 7 (Amendment) and IAS 39 (Amendment) "Interest rate benchmark reform"

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.

### c) 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.

### d) 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. These estimates and criteria relate to the following:

- The market value of properties for own use, investment properties and inventories (Notes 9, 10 and 12). The market value was obtained from the appraisals periodically made by independent experts. These valuations were performed at 31 December 2019 and 2018 in accordance with the methods described in Notes 4-b, 4-c and 4-t.
- Classification, measurement and impairment of financial investments (Note 4-e).
- Estimation of the appropriate provisions for bad debts (Note 13).
- Measurement of deferred tax liabilities recognised on the consolidated statement of financial position (Notes 4-m and 19).
- Measurement of assets classified as held for sale (Notes 4-s and 24).
- The measurement and impairment of goodwill (Note 7).
- The market value of certain financial assets (Note 11), including derivative financial instruments (Note 16).
- Evaluation of litigation and commitments at year-end.

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.

## e) 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 by it, whose financial statements were prepared by the management of each Group company. 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.

The interest of non-controlling shareholders is established in proportion to 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.

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 statement of comprehensive income (details of the companies consolidated at 31 December 2019 and 2018 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.

## f) Changes in the scope of consolidation

The following changes occurred in the scope of consolidation in 2019:

- On 20 February 2019, the subsidiary Utopicus Innovación Cultural, S.L. increased capital by offsetting the loan signed on 8 October 2018 with the Parent through the issue of 4,547 shares of 1 euro par value each, plus a share premium of 4,995 thousand euros. The capital increase was fully subscribed by the Parent for an amount of 4,999 thousand euros. As a result of the transaction, the Parent now holds 89.48% of the capital of Utopicus.

- On 30 April 2019, the Parent acquired 45% of the share capital of the subsidiary Torre Marenostrum, S.L. ("Torre"), owner of an office building located in Barcelona. Prior to this acquisition, the Parent held 55% of Torre's shares and with this operation it became the sole shareholder of Torre. The acquisition cost amounted to 28,525 thousand euros.
- On 29 July 2019, the subsidiary Utopicus Innovación Cultural, S.L. carried out two capital increases, (i) the first by offsetting the loan signed on 29 July 2019 through the issue of 8,986 shares of 1 euro par value each plus a share premium of 4,991 thousand euros and (ii) a second capital increase through the issue of 19,770 shares of 1 euro par value each plus a share premium of 10,980 thousand euros. Both capital increases were fully subscribed by the Parent for 5,000 thousand euros and 11,000 thousand euros, respectively. As a result of these operations, the Parent has acquired 96.81% of the share capital of the subsidiary.

Also, in 2019 the Parent carried out the merger by absorption of Axiare Properties, S.L.U., Axiare Investigación, Desarrollo e Innovación, S.L.U., Chamaleon (CEDRO), S.L.U., Venusaur, S.L.U., Colonial Invest, S.L.U., Hofinac Real Estate, S.L.U., Fincas y Representaciones, S.A.U., Colonial Arturo Soria, S.L.U. and LE Offices Egeo, S.A.U., Danieltown Spain, S.L.U., Moorage Inversiones 2014, S.L.U., Almacenes Generales Internacionales, S.A.U., Soller, S.A.U. and Axiare Investments, S.L.U. and Torre Marenostrum, S.L.U.

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

- On 16 January 2018, the Parent acquired 100% of the share capital of the Spanish company LE Offices Egeo, S.A.U. (Egeo), owner of an office building located in Madrid. The acquisition cost amounted to 49,098 thousand euros, including related costs. In addition, in 2018 the loan held by Egeo with a financial institution for 30,182 thousand euros, including interest, was paid off early.
- On 20 March 2018, the subsidiary Utopicus increased its share capital by 4 thousand euros, corresponding to 3,638 shares with a par value of 1 euro each, plus a share premium, which was subscribed for and paid in full by the Parent.
- On 7 May 2018, the Parent acquired all the shares of the subsidiary Peñalvento, S.L.U. from the subsidiary Almacenes Generales Internacionales, S.A.U. for 20,755 thousand euros.
- On 16 November 2018, the Parent acquired 10,323,982 shares of the subsidiary SFL from Qatar Holding, LLC and DIC Holding, LLC through (i) the Parent’s contribution of 7,136,507 shares of the subsidiary as consideration for the subscription of the 53,523,803 new shares of the Company (Note 14-a), (ii) the exchange of 400,000 shares of the subsidiary SFL for 3,000,000 shares of the Parent that it held as treasury shares (Note 14-f), and (iii) the sale to the Parent of 2,787,475 shares of the subsidiary SFL for 203,486 thousand euros.
- On 29 November 2018, the Parent acquired 281,022 shares in the subsidiary SFL for 18,969 thousand euros.
- In addition, the Parent acquired 441,000 shares of the subsidiary SFL through the exchange of 315,000 shares of the Parent held as treasury shares (Note 14-f) and 8,442 thousand euros.

Friendly takeover bid for Axiare Patrimonio SOCIMI, S.A. -

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

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

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

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

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

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

Reason for the business combination -

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

Net assets acquired and cost of business combination -

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

| | Thousands of euros | | |
|---|---|---|---|
| | Carrying amount | Value adjustment | Fair value |
| Investment property | 1.734.566 | (3.193) | 1.731.373 |
| Other non-current assets | 32.662 | - | 32.662 |
| Current assets | 180.414 | 9.969 | 190.383 |
| Non-current liabilities | (645.213) | - | (645.213) |
| Current liabilities | (116.181) | (3.999) | (120.180) |
| Total net assets | 1.186.248 | 2.777 | 1.189.025 |
| Consideration paid on the investment (*) | | | 1.207.645 |
| Capital increase as a result of the merger | | | 157.909 |
| **Positive combination difference (Goodwill)** | | | **176.529** |

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

These initial estimates were provisional. They are now final.

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

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

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

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

Allocation to the cash-generating unit and impairment of goodwill

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

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

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

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

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

At 31 December 2019, the subsidiaries Colonial Tramit, S.L.U., SAS SB2, SAS SB3 and SCI SB3 were dormant. At 31 December 2018, the subsidiaries Colonial Invest, S.L.U. and Axiare Properties, S.L.U. were also dormant.

## g) Comparison of information

The information relating to 2019 included in these notes to the consolidated financial statements is presented, for comparison purposes, with the information relating to 2018.

The Group adopted IFRS 16 retrospectively from 1 January 2019, although it has not restated the comparative figures for 2018, as permitted under the specific transitional provisions of the standard. Reclassifications and adjustments arising from the new lease rules are therefore recognised in the opening consolidated statement of financial position at 1 January 2019.

With the adoption of IFRS 16, the Group recognised lease liabilities in respect of leases previously classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted to present value using the tenant's incremental borrowing rate at 1 January 2019. The weighted average incremental rate of lessee indebtedness applied to lease liabilities at 1 January 2019 was 5.158%.

The new values of lease liabilities were recognised as adjustments to the corresponding right-of-use assets immediately after the initial date of application.

| | Thousands of euros |
|---|---|
| | 1 January 2019 |
| Operating lease commitments presented at 31 December 2018 | 22.591 |
| Discounted to present value using the lessee's incremental borrowing rate on the initial application date | 17.914 |
| Lease liabilities recognised at 1 January 2019 | 17.914 |
| Of which: | |
| Current lease liabilities | 2.298 |
| Non-current lease liabilities | 15.616 |

Right-of-use assets associated with property leases were measured retrospectively as if the rules had always applied. Recognised right-of-use assets relate to the following types of assets:

| | Thousands of euros |
|---|---|
| | 1 January 2019 |
| Properties | 16.593 |
| Total right-of-use assets | 16.593 |

The change in accounting policy affected the following items in the consolidated statement of financial position at 1 January 2019:

- Right-of-use assets - increase of 16,593 thousand euros (Note 8).
- Deferred and non-current tax assets - increase of 330 thousand euro (Notes 8 and 19-e)
- Lease liabilities - increase of 17,914 thousand euros (Note 8).

The net impact on consolidated reserves and non-controlling interests at 1 January 2019 was a decrease of 887 thousand euros and 104 thousand euros, respectively.

Earnings per share at 31 December 2019 did not change significantly as a result of the adoption of IFRS 16.

When applying IFRS 16 for the first time, the Group used the following practical solutions permitted by the standard:

- use of a single discount rate for a portfolio of leases with reasonably similar characteristics,
- confidence in prior determinations of whether leases are onerous,
- accounting for operating leases with a remaining lease term of less than 12 months at 1 January 2019 as short-term leases,
- exclusion of initial direct costs in measurement of a right-of-use asset at the date of initial application, and
- retrospective determination of the term of the lease when the contract contains options to extend or terminate the lease.

The Group chose not to reassess whether a contract is, or contains, a lease on the date of initial application. Instead, for contracts signed before the transition date, the Group relies on its assessment under IAS 17 and IFRIC 4 Determining whether an Arrangement Contains a Lease.

### h) Aggregation of items

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

### i) Correction of errors

No significant errors were detected in the preparation of the accompanying consolidated financial statements that would have made it necessary to restate the amounts included in the consolidated financial statements for 2018.

### j) Negative working capital

At 31 December 2019, the Group had a negative working capital of 270,868 thousand euros, however, the Group has sufficient undrawn lines of financing to cover this amount (Note 15).

## 3. Distribution of the Parent's profit

The distribution of profit for 2019 proposed by the Board of Directors of the Parent and that will be submitted for approval at the Annual General Meeting is as follows:

| | Thousands of euros |
|---|---|
| Profit for the year of the Parent | 87.867 |
| To legal reserve | 8.787 |
| To dividends | 79.080 |
| Total distributed | 87.867 |

The Parent's board of directors will submit for approval at the annual general meeting a proposed distribution of dividends totalling 0.22 euros per share, which would give rise to a total maximum dividend of 111,785 thousand euros based on the current number of outstanding shares. The definitive amount of the dividend, as well as the nature of the reserves to be distributed, will be determined prior to its distribution based on the treasury shares held by the Parent (Note 14-f).

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

| Thousands of euros | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Dividends distributed | - | 47.833 | 62.749 | 77.219 | 101.567 |

## 4. Measurement bases

The main accounting policies and measurement bases 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:

### a) Business combinations and intangible assets

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.

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.

Impairment of goodwill -

Goodwill is not subject to amortisation and is tested annually for impairment, or more frequently in the event of supervening facts or changes in circumstances indicating that it may have become impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and value in use. For the purposes of assessing impairment losses, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

### b) Property, plant and equipment (Note 9)

Property for own use, in addition to other property, plant and equipment, are recognised at acquisition cost less any accumulated depreciation and any impairment.

Historical cost includes expenses directly attributable to the acquisition of the properties. Possible impairment losses on properties are recorded in accordance with the same valuation assumptions as those described in Note 4-c.

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

Group companies depreciate property, plant and equipment for own use and other items using the straight-line method, and distribute asset costs throughout the estimated useful life. The breakdown of the useful life of property for own use located in Spain and France is as follows:

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

Gains or losses arising on the disposal (Note 20-g) or derecognition of an asset (Note 18-f) from this heading are determined as the difference between the sale price and its carrying amount and are recognised in the consolidated income statement.

### c) Investment property (Note 10)

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

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

Profit or loss arising from changes in the fair value of investment property is included in income in the same period in which it occurs and recognised under “Changes in fair value of investment property” in the consolidated income statement (Note 20-f). These gains or losses are not included in operating profit as the changes in value are not directly within the control of the Group’s management.

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

When the Group recognises as an increase in fair value of an investment property the cost of an asset that replaces another already included in such amount, the Group reduces the value of the property by the fair value of the asset replaced, recognising the impact under “Gains/(losses) on changes in value of assets and impairment” in the consolidated income statement (Note 20-f). If the fair value of the assets replaced cannot be reliably determined, the cost of the replacement is included in the carrying amount of the property, whose fair value is later reassessed periodically on the basis of appraisals performed by independent experts.

In accordance with IAS 40, the Group calculates the fair value of its investment property on a regular basis. Fair value is determined based on valuations performed by independent third-party experts at the date of preparation of the consolidated statement of financial position (Jones Lang LaSalle and CB Richard Ellis Valuation in Spain for both 2019 and 2018 and in France for 2019, CB Richard Ellis Valuation and Cushman & Wakefield and for 2018, Jones Lang LaSalle and Cushman & Wakefield), so that at the end of each period the fair value reflects market conditions for the investment property items 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 2019 and 2018.

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 for the determination of fair value, are not considered to be key and, therefore, no quantitative information is included, nor is their sensitivity measured.

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

The yields and other assumptions used in determining future cash flows in 2019 and 2018 are set out in the tables below:

| | Gross | |
|---|---|---|
| Yields (%) – Offices | 31 December 2019 | 31 December 2018 |
| Barcelona – Prime Yield | | |
| Leased out | 4,35 | 4,72 |
| Total portfolio | 4,37 | 4,75 |
| Madrid – Prime Yield | | |
| Leased out | 4,27 | 4,53 |
| Total portfolio | 4,30 | 4,51 |
| Paris – Prime Yield | | |
| Leased out | 3,14 | 3,23 |
| Total portfolio | 3,02 | 3,24 |

| Assumptions made at 31 December 2019 | | | | | |
|---|---|---|---|---|---|
| Rent increases (%) – Offices | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 and thereafter |
| Barcelona – | | | | | |
| Leased out | 3,0 | 3,0 | 3,0 | 3,0 | 2,25 |
| Total portfolio | 3,0 | 3,0 | 3,0 | 3,0 | 2,25 |
| Madrid – | | | | | |
| Leased out | 3,0 | 3,0 | 3,0 | 3,0 | 2,5 |
| Total portfolio | 3,0 | 3,0 | 3,0 | 3,0 | 2,5 |
| Paris – | | | | | |
| Leased out | 1,5 | 1,5 | 1,5 | 1,5 | 1,5 |
| Total portfolio | 1,5 | 1,5 | 1,5 | 1,5 | 1,5 |

| Assumptions made at 31 December 2018 | | | | | |
|---|---|---|---|---|---|
| Rent increases (%) – Offices | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 and thereafter |
| Barcelona – | | | | | |
| Leased out | 3,0 | 3,0 | 3,0 | 3,0 | 2,25 |
| Total portfolio | 3,0 | 3,0 | 3,0 | 3,0 | 2,25 |
| Madrid – | | | | | |
| Leased out | 3,0 | 3,0 | 3,0 | 3,0 | 2,5 |
| Total portfolio | 3,0 | 3,0 | 3,0 | 3,0 | 2,5 |
| Paris – | | | | | |
| Leased out | 0,5 | 1,0 | 1,5 | 1,5 | 1,5 |
| Total portfolio | 0,5 | 1,0 | 1,5 | 1,5 | 1,5 |

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.

A change of one-quarter of one point in yields would have the following impact on the valuations used by the Group at 31 December 2019 and 2018 to determine the value of its investment property: property, plant and equipment for own use, investment property, inventories and assets classified as held for sale:

| | Thousands of euros | | |
|---|---|---|---|
| Sensitivity of valuations to a change of one quarter of a point in yields | Assessment | Decrease of one quarter of a point | Increase of one quarter of a point |
| December 2019 | 12.196.429 | 878.506 | (755.998) |
| December 2018 | 11.348.133 | 776.117 | (671.522) |

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

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| *Headings of the consolidated statement of financial position -* | | |
| Property, plant and equipment - Own use | 36.973 | 34.734 |
| Investment property (Note 10) | 11.796.117 | 11.083.133 |
| Inventory (Note 12) | 48.196 | 46.587 |
| Assets classified as held for sale (Note 24) | 176.434 | 26.091 |
| Trade and other receivables – Lease incentives (Note 13) | 86.733 | 88.061 |
| Trade and other receivables – Lease rights acquired | 3.994 | - |
| **Total headings of the consolidated statement of financial position** | **12.148.447** | **11.278.606** |
| Unrealised gains on assets recognised under IAS 16 | 37.726 | 31.614 |
| Unrealised gains on other assets | 4.256 | 11.913 |
| Payments outstanding | 6.000 | 26.000 |
| **Valuation** | **12.196.429** | **11.348.133** |

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

The income earned in 2019 and 2018 from the lease of investment properties amounted to 354,514 thousand euros and 348,273 thousand euros, respectively (Note 20-a) and is recognised under “Revenue” in the accompanying consolidated statement of comprehensive income.

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

### d) Impairment of property, plant and equipment

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

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

## e) Investments and other financial assets

Classification

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

- assets 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 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 under financial expenses and impairment charges are presented as a separate line item in the 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 gain 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 income statement within financial expenses in the year 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 financial expenses in the income statement where 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.

Impairment losses

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 recognised 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 estimated that the expected impairment of these financial assets is immaterial.

### f) Receivables (Note 13)

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

### g) Cash and cash equivalents (Note 15-k)

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

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

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

### h) Own equity instruments (Note 14)

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.

### i) Provisions and contingent liabilities (Note 18)

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 18.

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

### j) Employee benefits

Termination benefits -

Under current 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 2019 and 2018, the Parent has not recorded any provision for this item.

Pension obligations -

In 2019 and 2018 the Parent assumed a commitment with executive directors and one member of senior management to make a defined contribution to an external pension plan that meets the requirements established by Royal Decree 1588/1999, of 15 October.

At 31 December 2019 and 2018, the SFL subgroup had several defined benefit pension plans. Defined benefit obligations are calculated on a regular basis by independent actuarial experts. The actuarial assumptions used to calculate these liabilities are adapted to the situation and to applicable French legislation, in accordance with IAS 19. The actuarial cost recorded in the consolidated statement of comprehensive income in relation to these plans is the sum of the service costs for the period, the interest expense and actuarial gains and losses. At 31 December 2019, net liabilities for defined benefits amounted to 1,018 thousand euros (902 thousand euros at 31 December 2018).

Share-based payments (Note 21) -

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

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

### k) Derivative financial instruments (Note 16)

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 2019 and 2018).

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 other consolidated comprehensive income, under "Gains/(losses) on hedging instruments", until the underlying or expected transaction occurs, at which point they are reclassified, where appropriate, to "Finance costs" or "Finance income" in the consolidated income statement. 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.

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

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

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

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

### l) Current/non-current

The 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 primary business is the lease of assets and its normal business cycle is the calendar year. Therefore, assets and liabilities maturing in one year or less are classified as current assets and those maturing in more than one year are classified as non-current assets, except for receivables arising from the recognition of lease incentives (Notes 4-n and 13-c), which are applied on a straight-line basis over at least the term of the lease agreement and are considered to be current assets.

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

### m) Income tax (Note 19)

General regime -

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

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

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

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, 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 income statement 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 2019. 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.

REIT regime -

Effective as of 1 January 2017 (Note 1), the tax regime 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 companies (REITs). Article 3 establishes the investment requirements of this type of company, namely:

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

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

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

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

This percentage must be calculated 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 corporate income tax charge, on the amount of the dividend distributed to these shareholders. If applicable, this special charge must be paid by the REIT within two months after the dividend distribution date.

SIIC regime – SFL subgroup

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

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

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

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

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

### n) Revenue and expenses (Note 20)

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

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

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

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

Property leases -

In accordance with IFRS 16, leases are classified as finance leases whenever their terms imply that substantially all the risks and rewards incidental to ownership of the leased asset have been transferred to the lessee. Other leases are classified as operating leases. At 31 December 2019 and 2018, all of the Group's leases qualified as operating leases.

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.

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.

Property leases - Lessee

Until 2018, property, plant and equipment rentals were classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) were charged to profit or loss on a straight-line basis over the term of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and the corresponding liability 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.

### o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of investment property or inventory (Notes 10 and 12), which require preparation during a significant period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

### p) Consolidated statement of cash flows (indirect method)

The 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.

### q) 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 amount passed on for these items in 2019 and 2018 was 64,155 thousand euros and 65,341 thousand euros, respectively.

Direct operating expenses associated with investment properties that generated rental income in 2019 and 2018, included under “Operating profit” in the consolidated income statement, amounted to 91,726 thousand euros and 91,780 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.

### r) Related-party transactions

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.

### s) Assets classified as held for sale (Note 24)

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

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

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

### t) Inventories

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

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

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

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

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

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) Fair value hierarchy

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

- Level 1: Inputs are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs are based on quoted prices for similar assets or liabilities in active markets (not included in level 1), prices quoted for identical or similar assets or liabilities in markets that are not active, techniques based on valuation models for which all relevant inputs are observable in the market or can be corroborated by observable market data.
- Level 3: In general, inputs are unobservable and reflect estimates based on market assumptions to determine the price of the asset or liability. Unobservable data used in the valuation models are significant in the fair values of the assets and liabilities.

In accordance with IFRS 13, the Group estimated the bilateral credit risk in order to reflect both its own risk, as well as counterparty risk in the fair value of its derivatives (Note 4-k). Credit risk at 31 December 2019 and 2018 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 2019 | Thousands of euros | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| Assets | | | |
| Derivative financial instruments: | | | |
| Classified as hedges | - | 25.379 | - |
| Not classified as hedges | - | - | - |
| Total assets (Note 16) | - | 25.379 | - |
| Liabilities | | | |
| Derivative financial instruments: | | | |
| Classified as hedges | - | 1.792 | - |
| Not classified as hedges | - | 1.665 | - |
| Total liabilities (Note 16) | - | 3.457 | - |

| 31 December 2018 | Thousands of euros | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| Assets | | | |
| Derivative financial instruments: | | | |
| Not classified as hedges | - | 591 | - |
| Total assets (Note 16) | - | 591 | - |
| Liabilities | | | |
| Derivative financial instruments: | | | |
| Classified as hedges | - | 2.650 | - |
| Not classified as hedges | - | 1.041 | - |
| Total liabilities (Note 16) | - | 3.691 | - |

## 5. Earnings per share

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

At 31 December 2019 and 2018, there were no instruments that may have had a diluting effect on the Parent's average number of ordinary shares.

| | Thousands of euros | |
|---|---|---|
| | 2019 | 2018 |
| Consolidated profit for the year attributable to shareholders of the Parent: | 826.799 | 524.763 |
| | No. of shares | No. of shares |
| Weighted average number of ordinary shares (in thousands) | 507.661 | 448.214 |
| | Euros | Euros |
| Basic earnings per share: | 1,63 | 1,17 |
| Diluted earnings per share: | 1,63 | 1,17 |

## 6. Segment reporting

### a) 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 Colonial Group's organisational structure at 31 December 2019 and 2018, which has been used by the Group's management to analyse the financial performance of the various operating segments.

### b) Basis and methodology for business segment reporting

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

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

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

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

Segment information for these businesses is as follows:

| **2019 segment reporting** | Thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Equity | | | | | | |
| | Barcelona | Madrid | Paris | Remainder | Total equity | Corporate unit | Total Group |
| Income | | | | | | | |
| Revenue (Note 20-a) | 48.248 | 101.290 | 198.710 | 6.266 | 354.514 | - | 354.514 |
| Other income (Note 20-b) | 6 | 53 | 7.403 | - | 7.462 | 2.155 | 9.617 |
| Net gains/(losses) on sales of assets (Note 20-g) | 3.949 | 9.569 | - | 6.406 | 19.924 | - | 19.924 |
| Operating profit/(loss) | 47.209 | 94.669 | 195.773 | 12.093 | 349.744 | (50.679) | 299.065 |
| Changes in fair value of investment property (Note 20-f) | 171.813 | 176.502 | 526.889 | (1.505) | 873.699 | - | 873.699 |
| Gains/(losses) on changes in value of assets and impairment (Note 20-f) | (27) | (236) | (3) | - | (266) | (61.628) | (61.894) |
| Financial profit/(loss) (Note 20-h) | - | - | - | - | - | (96.088) | (96.088) |
| Profit before tax | - | - | - | - | - | 1.014.782 | 1.014.782 |
| Consolidated net profit | - | - | - | - | - | 992.523 | 992.523 |
| Net profit/(loss) attributable to non-controlling interests (Note 20-j) | - | - | - | - | - | (165.724) | (165.724) |
| Net profit/(loss) attributable to shareholders of the Parent (Note 5) | - | - | - | - | - | 826.799 | 826.799 |

There were no significant inter-segment transactions in 2019.

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

| | Thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Equity | | | | | Corporate unit | Total Group |
| | Barcelona | Madrid | Paris | Remainder | Total equity | | |
| Assets | | | | | | | |
| Goodwill | - | - | - | - | - | - | - |
| Intangible assets, property, plant and equipment, investment property, assets classified as held for sale and inventories (Notes 8, 9, 10, 12 and 24) | 1.534.678 | 3.416.824 | 7.046.253 | 49.576 | 12.047.331 | 43.003 | 12.090.334 |
| Financial assets | 2.098 | 5.691 | 8.225 | (314) | 15.700 | 260.135 | 275.835 |
| Other non-current assets | - | - | - | - | - | 8.681 | 8.681 |
| Trade receivables and other current assets | - | - | - | - | - | 126.661 | 126.661 |
| **Total assets** | **1.536.776** | **3.422.515** | **7.054.478** | **49.262** | **12.063.031** | **438.480** | **12.501.511** |

| | Thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Equity | | | | | Corporate unit | Total Group |
| | Barcelona | Madrid | Paris | Remainder | Total equity | | |
| Liabilities | | | | | | | |
| Bank borrowings and other financial liabilities (Notes 15 and 16) | - | - | - | - | - | 449.062 | 449.062 |
| Bonds and similar securities issued (Note 15) | - | - | - | - | - | 4.429.168 | 4.429.168 |
| Lease liabilities (Note 8) | - | - | - | - | - | 14.393 | 14.393 |
| Operating liabilities (suppliers and payables) | - | - | - | - | - | 158.578 | 158.578 |
| Other liabilities | - | - | - | - | - | 489.813 | 489.813 |
| **Total liabilities** | **-** | **-** | **-** | **-** | **-** | **5.541.014** | **5.541.014** |

| | Thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Equity | | | | | Corporate unit | Total Group |
| | Barcelona | Madrid | Paris | Remainder | Total equity | | |
| Other information | | | | | | | |
| Investments in intangible assets,property, plant and equipment, investment property and inventories | 131.825 | 71.439 | 60.297 | 622 | 264.183 | 3.396 | 267.579 |
| Depreciation and amortisation | (609) | (3.646) | (492) | - | (4.747) | (2.193) | (6.940) |
| Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year: | | | | | | | |
| - Changes in provisions (Note 20-e) | 25 | 235 | 47 | (2) | 305 | 6.655 | 6.960 |
| - Changes in fair value of investment property (Note 20-f) | 171.813 | 176.502 | 526.889 | (1.505) | 873.699 | - | 873.699 |
| - Gains/(losses) on changes in value of assets and impairment (Note 20-f) | (27) | (236) | (3) | - | (266) | (61.628) | (61.894) |

| 2018 segment reporting | Thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Equity | | | | | Corporate unit | Total Group |
| | Barcelona | Madrid | Paris | Remainder | Total equity | | |
| Income | | | | | | | |
| Revenue (Note 20-a) | 41.629 | 106.144 | 193.509 | 6.757 | 348.039 | 234 | 348.273 |
| Other income (Note 20-b) | 20 | 281 | 3.943 | - | 4.244 | 1.433 | 5.677 |
| Net gains/(losses) on sales of assets (Note 20-g) | - | 11.745 | 21 | (45) | 11.721 | - | 11.721 |
| Operating profit/(loss) | 38.802 | 105.522 | 185.577 | 6.466 | 336.367 | (60.845) | 275.522 |
| Changes in fair value of investment property (Note 20-f) | 180.263 | 237.583 | 289.014 | (4.908) | 701.952 | - | 701.952 |
| Gains/(losses) on changes in value of assets and impairment (Note 20-f) | (15.610) | (10) | - | - | (15.620) | (115.770) | (131.390) |
| Financial profit/(loss) (Note 20-h) | - | - | - | - | - | (141.745) | (141.745) |
| Profit before tax | - | - | - | - | - | 704.339 | 704.339 |
| Consolidated net profit | - | - | - | - | - | 678.109 | 678.109 |
| Net profit/(loss) attributable to non-controlling interests (Note 20-j) | - | - | - | - | - | (153.346) | (153.346) |
| Net profit/(loss) attributable to shareholders of the Parent (Note 5) | - | - | - | - | - | 524.763 | 524.763 |

There were no significant inter-segment transactions in 2018.

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

| | Thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Equity | | | | | Corporate unit | Total Group |
| | Barcelona | Madrid | Paris | Remainder | Total equity | | |
| Assets | | | | | | | |
| Goodwill | - | - | - | - | 62.225 | - | 62.225 |
| Intangible assets, property, plant and equipment, investment property, assets classified as held for sale and inventories (Notes 8, 9, 10, 12 and 24) | 1.246.581 | 3.344.285 | 6.459.341 | 111.540 | 11.161.747 | 41.155 | 11.202.902 |
| Financial assets | 2.468 | 3.714 | 820 | 2 | 7.004 | 95.043 | 102.047 |
| Other non-current assets | - | - | - | - | - | 411 | 411 |
| Trade receivables and other current assets | - | - | - | - | - | 119.729 | 119.729 |
| **Total assets** | **1.249.049** | **3.347.999** | **6.460.161** | **111.542** | **11.230.976** | **256.338** | **11.487.314** |

| | Thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Equity | | | | | Corporate unit | Total Group |
| | Barcelona | Madrid | Paris | Remainder | Total equity | | |
| Liabilities | | | | | | | |
| Bank borrowings and other financial liabilities (Notes 15 and 16) | - | - | - | - | - | 733.028 | 733.028 |
| Bonds and similar securities issued (Note 15) | - | - | - | - | - | 4.061.108 | 4.061.108 |
| Operating liabilities (suppliers and payables) | - | - | - | - | - | 114.779 | 114.779 |
| Other liabilities | - | - | - | - | - | 476.604 | 476.604 |
| **Total liabilities** | **-** | **-** | **-** | **-** | **-** | **5.385.519** | **5.385.519** |

| | Thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Equity | | | | | | |
| | Barcelona | Madrid | Paris | Remainder | Total equity | Corporate unit | Total Group |
| Other information | | | | | | | |
| Investments in intangible assets, property, plant and equipment and investment property | 82.105 | 104.899 | 50.667 | 871 | 238.542 | 1.918 | 240.460 |
| Depreciation and amortisation | (62) | (302) | (468) | - | (832) | (2.521) | (3.353) |
| Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year: | | | | | | | |
| - Changes in provisions (Note 20-e) | (95) | 266 | (660) | - | (489) | 2.925 | 2.436 |
| - Changes in fair value of investment property (Note 20-f) | 180.263 | 237.583 | 289.014 | (4.908) | 701.952 | - | 701.952 |
| - Gains/(losses) on changes in value of assets and impairment (Note 20-f) | (15.610) | (10) | - | - | (15.620) | (115.770) | (131.390) |

## 7. Goodwill

The changes in this caption in the statement of financial position are shown in the table below:

| | Thousands of euros |
|---|---|
| **Balance at 31 December 2017** | **-** |
| Business combination (Note 2-f) | 176.529 |
| Impairment of goodwill (Note 20-f) | (114.304) |
| **Balance at 31 December 2018** | **62.225** |
| Impairment of goodwill (Note 20-f) | (62.225) |
| **Balance at 31 December 2019** | **-** |

The goodwill recognised at 31 December 2018 arose from the business combination with Axiare Patrimonio SOCIMI, S.A. and its subsidiaries (see Note 2-f) and was allocated to a single cash-generating unit, the structured portfolio of property assets thus acquired.

The Parent considers that the change in value recorded for the structured portfolio acquired through the business combination with Axiare Patrimonio SOCIMI, S.A. after the date of the acquisition of control represents the materialisation of the expectations existing at the date of this business combination.

The Parent's directors considered that the most reasonable way to measure the cash flows relating to the structured portfolio of assets acquired (property assets) and compare them on a like-for-like basis with the valuations of the properties performed by independent expert appraisers was to use the same time horizon as that used by the appraisers to value the properties, i.e., a time horizon of 10 years in accordance with standard market practice. The value expectations of the Parent's directors are based on their extensive experience in the real estate industry and on the high quality of the assets in the portfolio and of its customers, which translates into high levels of occupancy and loyalty, thus enabling them to make reasonable estimates over a ten-year period.

In 2018, the amount of goodwill was reduced in line with the revaluation of investment property arising from the business combination.

In 2019 the amount of goodwill was fully impaired in line with the revaluation of the investment property arising from the business combination with Axiare Patrimonio SOCIMI, S.A.

## 8. Leases

The subsidiary Utopicus rents several offices. 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.

Following the entry into force of IFRS 16 "Leases" on 1 January 2019 (see Note 2-g), the related changes in the consolidated statement of financial position in 2019 were as follows:

### a) Right-of-use assets

| | Thousands of euros | |
|---|---|---|
| | 31 December 2019 | 1 January 2019 (Note 4-n) |
| Property, plant and equipment | 12.787 | 16.593 |
| **Right-of-use assets** | **12.787** | **16.593** |

### b) Deferred taxes relating to rights of use

| | Thousands of euros | |
|---|---|---|
| | 31 December 2019 | 1 January 2019 (Note 4-n) |
| Deferred tax assets relating to rights of use | 369 | 330 |
| **Deferred tax relating to rights of use (Note 19)** | **369** | **330** |

### c) Lease liabilities

| | Thousands of euros | |
|---|---|---|
| | 31 December 2019 | 1 January 2019 (Note 4-n) |
| Non-current lease liabilities | 12.262 | 15.616 |
| Current lease liabilities | 2.131 | 2.298 |
| **Lease liabilities** | **14.393** | **17.914** |

### d) 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 | |
|---|---|---|
| | 2019 | 2018 |
| Up to 12 months | 2.152 | 2.141 |
| Between 1 and 5 years | 5.150 | 7.038 |
| More than 5 years | 276 | 347 |
| **Total minimum operating lease payments - as lessee** | **7.578** | **9.526** |

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

### e) Reconciliation of lease liabilities to minimum operating lease payments

The reconciliation of the two figures is shown in the table below:

| | 31 December 2019 |
|---|---|
| Lease liabilities | 14.393 |
| Additional minimum lease payments at nominal value | -9.768 |
| Future CPI increases | -292 |
| Discount effect | 3.245 |
| **Total minimum operating lease payments - as lessee** | **7.578** |

## 9. Property, plant and equipment

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

| | Thousands of euros | | |
|---|---|---|---|
| | Properties for own use | Other property, plant and equipment | Total |
| **Balance at 31 December 2017** | **33.769** | **5.600** | **39.369** |
| *Acquisition cost* | *42.697* | *12.814* | *55.511* |
| *Accumulated depreciation and amortisation* | *(4.000)* | *(7.214)* | *(11.214)* |
| *Accumulated impairment* | *(4.928)* | - | *(4.928)* |
| Additions | 2.947 | 977 | 3.924 |
| Additions to scope (Note 2-f) | 131 | 505 | 636 |
| Depreciation charge | (575) | (1.063) | (1.638) |
| Disposals | (270) | (330) | (600) |
| Transfers (Note 10) | - | 11 | 11 |
| Impairment (Note 20-f) | 1.630 | - | 1.630 |
| **Balance at 31 December 2018** | **37.632** | **5.700** | **43.332** |
| *Acquisition cost* | *44.789* | *13.553* | *58.342* |
| *Accumulated depreciation and amortisation* | *(3.859)* | *(7.853)* | *(11.712)* |
| *Accumulated impairment* | *(3.298)* | - | *(3.298)* |
| Additions | 6.657 | 2.476 | 9.133 |
| Depreciation charge | (1.079) | (1.392) | (2.471) |
| Disposals | (187) | (115) | (302) |
| Transfers | 70 | (70) | - |
| Impairment (Note 20-f) | 1.208 | - | 1.208 |
| **Balance at 31 December 2019** | **44.301** | **6.599** | **50.900** |
| *Acquisition cost* | *51.280* | *15.684* | *66.964* |
| *Accumulated depreciation and amortisation* | *(4.889)* | *(9.085)* | *(13.974)* |
| *Accumulated impairment* | *(2.090)* | - | *(2.090)* |

At 31 December 2019 and 2018, 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 2019, it was necessary to recognise a reversal of the impairment of assets amounting to 1,208 thousand euros, determined on the basis of valuations by independent experts (see Note 4-b). In 2018, an impairment loss of 1,630 thousand euros was reversed.

## 10. Investment property

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

| | Thousands of euros | | | |
|---|---|---|---|---|
| | Investment property | Investment property in progress | Prepayments for assets | Total |
| **Balance at 31 December 2017** | **8.545.388** | **247.008** | **-** | **8.792.396** |
| Additions | 106.450 | 127.148 | - | 233.598 |
| Additions to scope (Note 2-f) | 1.700.094 | 110.616 | - | 1.810.710 |
| Disposals (Note 20-g) | (358.466) | (24.368) | - | (382.834) |
| Transfers (Notes 9, 12 and 24) | (147.292) | 74.603 | - | (72.689) |
| Changes in fair value (Note 20-f) | 651.382 | 50.570 | - | 701.952 |
| **Balance at 31 December 2018** | **10.497.556** | **585.577** | **-** | **11.083.133** |
| Additions | 155.137 | 97.761 | 1.000 | 253.898 |
| Disposals (Note 20-g) | (641) | (17.321) | - | (17.962) |
| Transfers (Note 24) | (567.859) | 203.250 | - | (364.609) |
| Changes in fair value (Note 20-f) | 831.407 | 11.250 | - | 842.657 |
| **Balance at 31 December 2019** | **10.915.600** | **880.517** | **1.000** | **11.797.117** |

Movements in 2019 -

In 2019 the Parent acquired a property in Barcelona and a floor of a building in Madrid for a total of 108,868 thousand euros. It also signed two purchase options for two floors on the same building in Madrid, which has resulted in a prepayment of 1,000 thousand euros.

The other additions in 2019 related to investments in property assets, both in development and in operation, amounting to 144,030 thousand euros, including 4,882 thousand euros of capitalised finance costs.

Disposals in 2019, totalling 22,950 thousand euros, gave rise to a gain of 3,873 thousand euros, including indirect costs of sale (see Note 20-g). The main transactions were sale of premises in Madrid, premises in Tenerife and land in Barcelona.

In addition, in 2019 there were disposals due to replacement for a total amount of 62 thousand euros.

In 2019, 19 properties were reclassified from "Investment property" to "Assets held for sale" in the consolidated statement of financial position, for a total of 364,609 thousand euros (Note 24).

Movements in 2018 -

In 2018 the Parent acquired property assets in Barcelona and Madrid for a total of 73,230 thousand euros.

The other additions in 2018 related to investments in property assets, both in development and in operation, amounting to 160,368 thousand euros, including 5,307 thousand euros of capitalised finance costs.

Additionally, as mentioned in Note 2-f, in 2018 an interest was acquired in the subsidiary Egeo and the business combination between the Parent and Axiare Patrimonio, SOCIMI, S.A. was recognised, giving rise to a total scope of consolidation of 1,810,710 thousand euros.

Disposals in 2018 amounted to 389,189 thousand euros, including indirect selling costs (Note 20-g). The main transactions were various properties located in Madrid, including a shopping centre, as well as a flat in Tenerife.

In addition, in 2018 there were disposals due to replacement for a total amount of 15,618 thousand euros.

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

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

## a) Changes in fair value of investment property

“Changes in fair value of investment property” in the consolidated income statement includes the profit from the revaluation of investment property for 2019 and 2018, in the amount of 842,657 thousand euros and 701,952 thousand euros (Note 20-f), respectively, in accordance with the appraisals of independent experts at 31 December 2019 and 2018 (Note 4-c).

## b) Capitalised borrowing costs

Capitalised borrowing costs are itemised in the following table (Note 20-h):

| | Thousands of euros | |
|---|---|---|
| | Capitalised in the period | Average interest rate |
| 2019: | | |
| SFL subgroup | 4.882 | 1,44% |
| **Total 2019:** | **4.882** | |
| 2018: | | |
| Inmobiliaria Colonial, SOCIMI, S.A. | 755 | 2,44% |
| Moorage inversions 2014, S.L.U. | 297 | 2,44% |
| SFL subgroup | 4.255 | 1,72% |
| **Total 2018:** | **5.307** | |

### c) 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 2019 | 31 December 2018 | 31 December 2019 | 31 December 2018 | 31 December 2019 | 31 December 2018 |
| Barcelona (*) | 407.916 | 356.486 | 25.179 | 60.220 | 433.095 | 416.706 |
| Madrid | 554.978 | 562.419 | 166.556 | 55.066 | 721.534 | 617.485 |
| Rest of Spain | 199.159 | 492.324 | 24.741 | 83.399 | 223.900 | 575.723 |
| Paris (*) | 356.215 | 362.742 | 86.003 | 78.292 | 442.218 | 441.034 |
| | 1.518.268 | 1.773.971 | 302.479 | 276.977 | 1.820.747 | 2.050.948 |

(*) For 2019, figure includes 100% of the surface area of Washington Plaza (property belonging to the SCI Group company Washington, a company in which SFL has a 66% interest), of the Haussmann, Champs Élysées, 82-88 and Champs Élysées, 90 properties (belonging to the Parholding subgroup, in which SFL has a 50% interest), and of the Torre Europa, 46-48 property (belonging to Inmocol Torre Europa, S.A., in which the Parent has a 50% interest). In addition, in 2018 the figure also included 100% of the surface area of the Torre del Gas property (belonging to Torre Marenostrum, S.L., in which the Parent has a 55% interest).
(**) The surface area of 20,275 $m^2$ of the subsidiary Peñalvento is not included since the asset is classified under "Inventories" (see Note 12) and 99,153 $m^2$ of real estate assets are recorded under "Assets classified as held for sale".

At 31 December 2019, the Group has pledged assets as collateral for mortgage loans with a carrying amount of 1,189,474 thousand euros to secure debts amounting to 274,860 thousand euros (Note 15-g). At 31 December 2018, the above amounts amounted to 1,826,491 thousand euros and 515,642 thousand euros, respectively.

## 11. 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 2018 | Inclusions | Disposals | 31 December 2019 |
| Deposits and guarantees given | 31.863 | 1.722 | - | 33.585 |
| **Total financial assets at amortised cost** | **31.863** | **1.722** | **-** | **33.585** |

| | Thousands of euros | | | |
|---|---|---|---|---|
| | 31 December 2017 | Additions to scope (Note 2-f) | Disposals | 31 December 2018 |
| Deposits and guarantees given | 23.589 | 12.886 | (4.612) | 31.863 |
| **Total financial assets at amortised cost** | **23.589** | **12.886** | **(4.612)** | **31.863** |

| | | | | |
|---|---|---|---|---|
| Available-for-sale financial assets | 419.277 | - | (419.277) | - |
| **Total financial assets at fair value with changes in equity** | **419.277** | **-** | **(419.277)** | **-** |

## a) Deposits and guarantees given

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

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

In 2016 and 2017 the Parent acquired 22,762,064 shares of Axiare Patrimonio SOCIMI, S.A. for a total of 348,862 thousand euros, representing 28.79% of the share capital of Axiare Patrimonio SOCIMI, S.A.

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

At 31 December 2017, the Parent's directors determined that there was no significant influence over Axiare Patrimonio SOCIMI, S.A., despite the assumption provided for in the regulations when the ownership interest in the share capital of the investee exceeds 25%. There was no such significant influence since:

- The Parent never held a majority of the voting rights or the possibility of appointing a majority of the members of the Board of Directors of Axiare Patrimonio SOCIMI, S.A. Since the Parent could not appoint any representatives, its involvement in the running of Axiare Patrimonio SOCIMI, S.A. was only through the exercise of its rights as a shareholder.
- The Parent did not participate or intervene in the financial or operating policy of Axiare Patrimonio SOCIMI, S.A., since it did not have any representatives on the Board of Directors. There is no evidence that the financial or operating policy of Axiare Patrimonio SOCIMI, S.A. was submitted for a decision by the shareholders at the Annual General Meeting at which the Parent could exercise its voting rights.
- Following the acquisition by the Parent of an interest that gave it more than 20% of the voting rights of Axiare Patrimonio SOCIMI, S.A., and since it did not have any representatives on its Board of Directors, the Parent did not intervene directly in the general policies and, in particular, in the dividends of Axiare Patrimonio SOCIMI, S.A. At that time, no general meeting of Axiare Patrimonio SOCIMI, S.A. was held and, therefore, the Parent was not able to exercise any influence through its voting rights.
- There were no significant transactions between the two companies, or any exchange of management personnel or provision of essential technical information since the acquisition by the Parent of over 20% of the share capital of Axiare Patrimonio SOCIMI, S.A.

Consequently, from the situation of the Parent in relation to its ownership interest in the share capital of Axiare Patrimonio SOCIMI, S.A., it can be concluded that there was no group of companies, nor was there any direct or indirect control or significant influence over the entity. In view of the foregoing, the financial stake in the capital of Axiare Patrimonio SOCIMI, S.A. was considered to be a financial investment.

In 2018, until the date on which control was obtained over Axiare Patrimonio SOCIMI, S.A., the Parent continued to recognise changes in the fair value of the ownership interest directly under "Changes in the fair value of available-for-sale financial assets" in consolidated equity.

Once control of the investee had been obtained, the cost of the investment became part of the cost of the business combination achieved in stages described in Note 2-f.

## 12. Inventories

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

| | Thousands of euros |
|---|---|
| **Balance at 31 December 2017** | **-** |
| Transfers (Note 10) | 46.587 |
| **Balance at 31 December 2018** | **46.587** |
| Additions | 1.609 |
| **Balance at 31 December 2019** | **48.196** |

Inventory costs are determined by specific identification and include the cost of acquisition, development and borrowing costs incurred during development.

Inventories correspond to the office building that the Group is developing for a third party. The Group received a total of 21,215 thousand euros in prepayments (see Note 17).

The capitalised borrowing cost in 2019 amounted to 184 thousand euros, at an average interest rate of 2.12% (see Note 20-h). In 2018, no amount was recorded under this heading.

## 13. Trade and other receivables

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

| | Thousands of euros | |
|---|---|---|
| | 31 December 2019 | 31 December 2018 |
| Trade receivables for sales and services | 14.403 | 14.881 |
| Trade receivables for sale of properties | 14.070 | 146 |
| Accrual of lease incentives | 86.733 | 88.061 |
| Other receivables | 91.034 | 85.704 |
| Other current assets | 318 | 1.277 |
| Impairment of receivables - | | |
| - Trade receivables for sales and services | (3.990) | (4.624) |
| - Other receivables | (85.473) | (85.473) |
| **Total trade and other receivables** | **117.095** | **99.972** |

### a) Trade receivables for sales and services

This item mainly includes amounts receivable from customers of the Group's rentals business, with monthly, quarterly or annual billing periods, with no significant overdue balances at 31 December 2019 and 2018.

### b) Trade receivables for sale of properties

This item basically includes the deferred payment for the sale of an asset amounting to 13,750 thousand euros, which will be paid by the purchasers to the Parent by 30 March 2020 at the latest. This amount is secured by the purchasers through the granting of a first-ranking mortgage in favour of the Parent.

### c) Accrual of lease incentives (Note 4-n)

This includes the amount of the incentives in the operating lease agreements (rent-free periods, etc.) that the Group offers its customers, which are recognised in the consolidated income statement during the minimum lease term. Of this amount, 66,210 thousand euros mature in more than one year (68,014 thousand euros at 31 December 2018).

### d) Other receivables

At 31 December 2019 and 2018, "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, totalling 85,473 thousand euros.

Nozar, S.A. is still in insolvency proceedings. Consequently, at 31 December 2019 and 2018, the accompanying statement of financial position includes the impairment loss for the entire amount of trade receivables due from that company.

## 14. Equity

### a) Share capital

Share capital at 31 December 2017 comprised 435,317,356 fully subscribed and paid up shares with a par value of 2.5 euros each.

During the year 2018 the following capital increases took place:

- On 4 July 2018, the merger deed executed on 2 July 2018 between Inmobiliaria Colonial, SOCIMI, S.A. and Axiare Patrimonio SOCIMI, S.A. was registered with the Madrid Mercantile Registry. In this respect, to cover the exchange of the merger, the Parent issued 19,273,622 new ordinary shares with a par value of 2.5 euros each of the same class and series as those currently in circulation, representing 4.43% of the share capital of Colonial prior to the merger, to be delivered to Axiare's shareholders in accordance with the exchange rules and procedures established for this purpose. The total amount of the increase amounted to 157,909 thousand euros, of which 48,184 thousand euros are related to share capital and 109,725 thousand euros to share premium. The new shares were admitted to trading on 9 July 2018.
- On 16 November 2018, the issue of 53,523,803 new shares of 2.5 euros par value each, totalling 487,602 thousand euros, was registered at the mercantile registry, resulting in a share capital increase of 133,810 thousand euros plus a share premium of 353,792 thousand euros. This capital increase is linked to the acquisition of shares in the subsidiary from Qatar Holding, LLC and DIC Holding, LLC as described in Note 1.

Therefore, share capital at 31 December 2018 comprised 508,114,781 fully subscribed and paid up shares with a par value of 2.5 euros each.

The Parent's share capital underwent no changes in 2019.

Based on the reports on the number of corporate investments to the Spanish National Securities Markets Commission, CNMV, the Parent's indirect and direct significant shareholders at 31 December 2019 and 2018 are as follows:

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Number of shares* | % ownership | Number of shares* | % ownership |
| Name or corporate name of the shareholder: | | | | |
| Qatar Investment Authority (**) | 102.675.757 | 20,21% | 102.675.757 | 20,21% |
| Finaccess Group | 80.028.647 | 15,75% | 80.028.647 | 15,75% |
| Inmo S.L. | 29.002.980 | 5,71% | 20.011.190 | 3,94% |
| Aguila Ltd. | 28.880.815 | 5,68% | 28.800.183 | 5,67% |
| PGGM Vermongensbeheer B.V. | 25.438.346 | 5,01% | - | - |
| BlackRock Inc | 15.343.358 | 3,02% | 15.256.886 | 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 2019, 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. At 31 December 2018 BlackRock Inc. held 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 shareholders at the Annual General Meeting held on 24 May 2018 resolved to authorise the Board of Directors to issue, on behalf of the Parent and on one or more occasions and for a maximum period of 5 years, bonds convertible into new shares of the Parent or other similar securities that may give the right, directly or indirectly, to subscribe the Parent's shares, with the express power to exclude the pre-emption right of the shareholders up to a maximum of 20% of the share capital, and to increase share capital by the amount necessary to meet the conversion. The total maximum amount of the issue or issues of the securities that may be performed under this authorisation may not exceed a combined amount of 500,000 thousand euros or its equivalent in another currency.

Additionally, on 14 June 2019, the shareholders at the Parent's Annual General Meeting resolved to authorise the Board of Directors, in accordance with Article 297.1 b) of the Spanish Companies Law, to increase the share capital through monetary contributions by up to half the amount of the share capital, within a maximum period of five years, on one or more occasions and at the time and by the amount it deems appropriate. Within the maximum amount indicated, the Board of Directors is empowered to exclude the pre-emption right up to a maximum of 20% of the share capital.

### b) Share premium

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

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

On 14 June 2019, at the Annual General Meeting the shareholders resolved to pay out dividends charged to the share premium in the amount of 64,690 thousand euros.

### c) 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.

At 31 December 2017, the legal reserve amounted to 39,099 thousand euros. Taking into account the allocation to the legal reserve included in the distribution of the Parent's profit for 2017 approved at the Annual General Meeting on 29 June 2018, the legal reserve at 31 December 2018 amounted to 42,349 thousand euros.

At 31 December 2019, taking into account the allocation to the legal reserve included in the distribution of the Parent's profit for 2018 approved by the shareholders at the Annual General Meeting held on 14 June 2019, the legal reserve amounted to 45,980 thousand euros, although at the date of authorisation for issue of these consolidated financial statements it had not yet been fully funded.

### d) Other reserves of the Parent

The shareholders at the Annual General Meeting held on 29 June 2018 approved, among other resolutions, the distribution of a dividend of 37,048 thousand euros with a charge to reserves as part of the distribution of profit for 2017.

The shareholders at the Annual General Meeting held on 14 June 2019 approved, among other resolutions, the distribution of a dividend of 4,200 thousand euros with a charge to reserves as part of the distribution of profit for 2018.

As a result of the capital increases described in Note 14-a, costs of 1,149 thousand euros were reported in 2018 under "Reserves of the Parent" in consolidated equity.

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

The income generated from the delivery of treasury shares to the beneficiaries of the long-term incentives plan (Note 21-a), calculated as the difference between the carrying amount of the shares delivered and the amount of the obligation assumed by the Parent (Note 4-j), which amounted to a loss of 1,131 thousand euros in 2019 (1,513 thousand euros in 2018) was also recognised in the Parent's reserves.

At 31 December 2019, the Parent had 169,439 thousand euros of restricted reserves.

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

This heading in the consolidated statement of financial position includes the net amount of the changes in fair value of the efficient financial derivatives designated as hedging instruments in cash flow hedges (see Note 16).

The changes in this heading are as follows:

| | Thousands of euros | |
|---|---|---|
| | 31 December 2019 | 31 December 2018 |
| Beginning balance | (2.078) | (559) |
| Changes in the fair value of hedges in the year | 22.335 | (3.890) |
| Transfers to consolidated net profit | 2.146 | 2.371 |
| **Ending balance** | **22.403** | **(2.078)** |

In 2018 the Group transferred 2,371 thousand euros to consolidated net profit due to the cancellation of derivatives arising mainly from the business combination with Axiare Patrimonio SOCIMI, S.A. (Note 2-f).

### f) Treasury shares of the Parent

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

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | No. of shares | Thousands of euros | No. of shares | Thousands of euros |
| Beginning balance | 543.260 | 3.748 | 4.279.940 | 29.421 |
| Buyback plan 16 October 2017 | - | - | - | 41 |
| Buyback plan 2019 | 300.000 | 3.375 | - | - |
| Delivery of incentives plan shares (Note 21) | (493.894) | (2.822) | (421.813) | (2.902) |
| Other acquisitions | - | - | 133 | - |
| Other disposals | - | - | (3.315.000) | (22.812) |
| **Ending balance** | **349.366** | **4.301** | **543.260** | **3.748** |

Share buyback plan of the Parent -

On 10 December 2019, the Parent decided to carry out a share buyback programme. A maximum of 300,000 shares could be acquired, equivalent to 0.659% of the Parent's share capital as of that date. On 18 December 2019 the Parent terminated the share buyback programme early.

Deliveries of Parent company shares deriving from the long-term incentives plan (Note 21-d) -

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

Other disposals -

On 16 November 2018, the Parent exchanged 3,000,000 treasury shares for 400,000 shares of the subsidiary SFL (Note 2-f). In December 2018 a total of 315,000 shares of the Parent were exchanged for 42,000 additional shares of the subsidiary SFL.

## g) Liquidity contracts

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

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

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | No. of shares | Thousands of euros | No. of shares | Thousands of euros |
| Beginning balance | 229.500 | 1.858 | 229.500 | 1.841 |
| Liquidity contract dated 11 July 2017 | - | 20 | - | 17 |
| **Ending balance** | **229.500** | **1.878** | **229.500** | **1.858** |

Liquidity contract dated 11 July 2017 -

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

## i) Non-controlling interests

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

| | Thousands of euros | | | | | |
|---|---|---|---|---|---|---|
| | Torre Marenostrum, S.L. | Inmocol Torre Europa, S.A. | Utopicus subgroup | SFL subgroup | Axiare subgroup (*) | Total |
| **Balance at 31 December 2017** | **24.351** | **11.037** | **26** | **2.052.456** | **-** | **2.087.870** |
| Profit/(loss) for the year | 2.831 | 563 | (478) | 147.971 | 2.459 | 153.346 |
| Dividends and other | (619) | - | 12 | (50.711) | - | (51.318) |
| Changes to scope (Note 2-f) | - | - | 645 | (897.611) | (2.459) | (899.425) |
| Financial instruments | 13 | - | - | - | - | 13 |
| **Balance at 31 December 2018** | **26.576** | **11.600** | **205** | **1.252.105** | **-** | **1.290.486** |
| Change of accounting policy (Note 2-g) | - | - | (104) | - | - | (104) |
| **Balance at 1 January 2019** | **26.576** | **11.600** | **101** | **1.252.105** | **-** | **1.290.382** |
| Profit/(loss) for the year | 314 | 10 | (435) | 165.835 | - | 165.724 |
| Dividends and other | - | 1.000 | 365 | (30.268) | - | (28.903) |
| Changes to scope (Note 2-f) | (26.726) | - | 544 | - | - | (26.182) |
| Financial instruments | (164) | - | - | 1.042 | - | 878 |
| **Balance at 31 December 2019** | **-** | **12.610** | **575** | **1.388.714** | **-** | **1.401.899** |

(*) Non-controlling interests in the Axiare subgroup from the date on which control was obtained until the date of the merger (see Note 2-f).

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

| | Thousands of euros | |
|---|---|---|
| | 31 December 2019 | 31 December 2018 |
| Dividend paid by the SFL subgroup to non-controlling interests | (22.445) | (44.089) |
| Dividend paid by Washington Plaza to non-controlling interests | (8.299) | (6.921) |
| Dividend paid by Torre Marenostrum to non-controlling interests | - | (618) |
| Other | 1.841 | 310 |
| Total | (28.903) | (51.318) |

The SFL subgroup has the following shareholders agreements with Prédica:

- Agreement at SCI Washington, in which SFL holds 66%. In the event of a change of control of SFL, Prédica may consent to the change of control, or acquire or sell all of the shares and current accounts held by SFL in the common subsidiary, at a price agreed between the parties or at market value.
- Agreement at Parholding, in which SFL holds 50%. In the event of a change of control of SFL, Prédica may consent to the change of control, or acquire or sell all of the shares and current accounts held by SFL in the common subsidiary, at a price agreed between the parties or at market value.

## 15. 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 2019** | 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 |
| Debts with credit institutions: | | | | | | | | |
| Loans | 2.080 | 2.080 | 195.000 | 75.700 | 125.000 | - | 397.780 | 399.860 |
| Interest | 895 | - | - | - | - | - | - | 895 |
| Debt arrangement costs | (2.242) | (2.179) | (1.618) | (1.227) | (264) | - | (5.288) | (7.530) |
| Total debts with credit institutions | 733 | (99) | 193.382 | 74.473 | 124.736 | - | 392.492 | 393.225 |
| Other financial liabilities: | | | | | | | | |
| Current accounts | - | 49.866 | - | - | - | - | 49.866 | 49.866 |
| Current account interest | 23 | - | - | - | - | - | - | 23 |
| Other financial liabilities | 2.491 | - | - | - | - | - | - | 2.491 |
| Total other financial liabilities | 2.514 | 49.866 | - | - | - | - | 49.866 | 52.380 |
| **Total debts with credit institutions and other financial liabilities** | **3.247** | **49.767** | **193.382** | **74.473** | **124.736** | **-** | **442.358** | **445.605** |
| Issue of debentures and similar securities: | | | | | | | | |
| Issue of bonds and promissory notes | 626.000 | 350.000 | 350.000 | 500.000 | 600.000 | 2.000.000 | 3.800.000 | 4.426.000 |
| Interest | 26.302 | - | - | - | - | - | - | 26.302 |
| Debt arrangement costs | (4.576) | (4.542) | (4.220) | (3.672) | (3.303) | (2.821) | (18.558) | (23.134) |
| **Total issue of debentures and similar securities** | **647.726** | **345.458** | **345.780** | **496.328** | **596.697** | **1.997.179** | **3.781.442** | **4.429.168** |
| **Total** | **650.973** | **395.225** | **539.162** | **570.801** | **721.433** | **1.997.179** | **4.223.800** | **4.874.773** |

| 31 December 2018 | 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 |
| Debts with credit institutions: | | | | | | | | |
| Loans | 7.494 | 10.721 | 62.186 | 268.265 | 90.282 | 176.955 | 608.409 | 615.903 |
| Syndicated loans | - | - | - | 20.000 | 50.000 | - | 70.000 | 70.000 |
| Interest | 1.313 | - | - | - | - | - | - | 1.313 |
| Debt arrangement expense | (2.711) | (2.645) | (2.472) | (1.761) | (1.237) | (1.830) | (9.945) | (12.656) |
| Total debts with credit institutions | 6.096 | 8.076 | 59.714 | 286.504 | 139.045 | 175.125 | 668.464 | 674.560 |
| Other financial liabilities: | | | | | | | | |
| Current accounts | - | 52.246 | - | - | - | - | 52.246 | 52.246 |
| Current account interest | 40 | - | - | - | - | - | - | 40 |
| Other financial liabilities | 2.491 | - | - | - | - | - | - | 2.491 |
| Total other financial liabilities | 2.531 | 52.246 | - | - | - | - | 52.246 | 54.777 |
| **Total debts with credit institutions and other financial liabilities** | **8.627** | **60.322** | **59.714** | **286.504** | **139.045** | **175.125** | **720.710** | **729.337** |
| Issue of debentures and similar securities: | | | | | | | | |
| Issuing bonds | 262.500 | - | 350.000 | 350.000 | 500.000 | 2.600.000 | 3.800.000 | 4.062.500 |
| Interest | 26.310 | - | - | - | - | - | - | 26.310 |
| Arrangement costs | (4.568) | (4.576) | (4.542) | (4.220) | (3.672) | (6.124) | (23.134) | (27.702) |
| **Total issue of debentures and similar securities** | **284.242** | **(4.576)** | **345.458** | **345.780** | **496.328** | **2.593.876** | **3.776.866** | **4.061.108** |
| **Total** | **292.869** | **55.746** | **405.172** | **632.284** | **635.373** | **2.769.001** | **4.497.576** | **4.790.445** |

The changes in net financial debt during 2019, arising from cash flows and others, are presented in the following table:

| | Thousands of euros | | |
|---|---|---|---|
| | 31 December 2018 | Cash flows | 31 December 2019 |
| Loans | 615.903 | (216.043) | 399.860 |
| Syndicated loans | 70.000 | (70.000) | - |
| Issuing promissory notes | 262.500 | 363.500 | 626.000 |
| Issuing bonds | 3.800.000 | - | 3.800.000 |
| **Gross financial debt (nominal gross debt)** | **4.748.403** | **77.457** | **4.825.860** |
| Cash and cash equivalents | (68.293) | (148.488) | (216.781) |
| **Net financial debt** | **4.680.110** | **(71.031)** | **4.609.079** |

### a) Issues of standard debentures by the parent company

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

| | | | | Thousands of euros | | |
|---|---|---|---|---|---|---|
| Issue | Duration | Maturity | Fixed coupon payable annually | Issue amount | 31 December 2019 | 31 December 2018 |
| 05/06/2015 | 8 years | 05/06/2023 | 2,728% | 500.000 | 500.000 | 500.000 |
| 28/10/2016 | 8 years | 28/10/2024 | 1,450% | 600.000 | 600.000 | 600.000 |
| 10/11/2016 | 10 years | 10/11/2026 | 1,875% | 50.000 | 50.000 | 50.000 |
| 28/11/2017 | 8 years | 28/11/2025 | 1,625% | 500.000 | 500.000 | 500.000 |
| 28/11/2017 | 12 years | 28/11/2029 | 2,500% | 300.000 | 300.000 | 300.000 |
| 17/04/2018 | 8 years | 17/04/2026 | 2,000% | 650.000 | 650.000 | 650.000 |
| **Total issues** | | | | | **2.600.000** | **2.600.000** |

Debentures have been admitted for trading in the Main Securities Market of the Irish Stock Exchange.

At 31 December 2019 and 2018, the fair value of the bonds issued by the parent company is 2,784,774 and 2,557,454 thousand euros, respectively.

European Medium Term Note Programme -

On 5 October 2016, the parent company registered an EMTN (European Medium Term Note) programme on the Irish Stock Exchange amounting to 3,000,000 thousand euros, extendable to 5,000,000 thousand euros, with a validity of 12 months. On 19 December 2019, the CNMV approved the registration of the renewal and extension to 5,000,000 thousand euros in the official records of the Fixed Income Base Prospectus (Euro Medium Term Note Programme) of the parent company.

Compliance with financial ratios -

The standard debentures currently in force establish the need for compliance, at 30 June and 31 December of each year, of a financial ratio by virtue of which the value of the Colonial Group's unsecured assets in the consolidated statement of financial position on each of the dates will have to be at least equal to the unsecured financial debt. At 31 December 2019 and 2018, the aforementioned ratio has been met.

## b) Issuance of standard debentures by SFL

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

| | | | | Thousands of euros | | |
|---|---|---|---|---|---|---|
| Issue | Duration | Maturity | Fixed coupon payable annually | Issue amount | 31 December 2019 | 31 December 2018 |
| 20/11/2014 | 7 years | 26/11/2021 | 1,875% | 500.000 | 350.000 | 350.000 |
| 16/11/2015 | 7 years | 16/11/2022 | 2,250% | 500.000 | 350.000 | 350.000 |
| 29/05/2018 | 7 years | 29/05/2025 | 1,500% | 500.000 | 500.000 | 500.000 |
| **Total issues** | | | | | **1.200.000** | **1.200.000** |

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

At 31 December 2019 and 2018, the fair value of the bonds issued by SFL is 1,254,542 and 1,222,330 thousand euros, respectively.

## c) Issue of promissory notes by the parent company

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. At 31 December 2019, the current issues amount to 239,500 thousand euros, while at 31 December 2018 there were no outstanding issues under the programme.

## d) Issuing promissory notes by SFL

In September 2018, the subsidiary company SFL, registered a short-term promissory note issuance program (NEU CP) for a maximum amount of 500,000 thousand euros, with the issues in effect at 31 December 2019 and 2018 of 386,500 and 262,500 thousand euros, respectively.

## e) Syndicated financing of the parent company

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

| Thousands of euros | Maturity | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|---|
| | | Limit | Nominal Drawn | Limit | Nominal Drawn |
| Credit policy | December 2023 | 500.000 | - | 500.000 | 50.000 |
| Credit policy | March 2022 | 375.000 | - | 375.000 | 20.000 |
| **Total parent company syndicated financing** | | **875.000** | **-** | **875.000** | **70.000** |

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

Compliance with financial ratios -

At 31 December 2019 and 2018, the parent company complies with all financial ratios.

### f) SFL syndicated financing

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

| Thousands of euros | Maturity | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|---|
| | | Limit | Nominal Drawn | Limit | Nominal Drawn |
| Credit policy | June 2024 | 390.000 | - | 250.000 | - |
| **Total SFL syndicated financing** | | **390.000** | **-** | **250.000** | **-** |

During June 2019, SFL has renewed the credit policy, increasing the limit and improving the margin and its maturity.

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

Compliance with financial ratios -

At 31 December 2019 and 2018, SFL complies with financial ratios provided in its respective financing contracts.

### g) Secured mortgage loans

The details of secured mortgage loans that the Group holds on certain real estate investments is presented in the following table:

| | Thousands of euros | | | |
|---|---|---|---|---|
| | 31 December 2019 | | 31 December 2018 | |
| | Mortgage debt | Asset market value | Mortgage debt | Asset market value |
| Investment property (Note 10) | 274.860 | 1.194.435 | 515.642 | 1.828.786 |
| **Total secured mortgage loans** | **274.860** | **1.194.435** | **515.642** | **1.828.786** |

During the first half of 2019, the parent company cancelled 205,782 thousand euros of mortgage debt from the business combination with Axiare and 31,722 thousand euros from the subsidiary Torre Marenostrum.

One of these mortgage loans, for an amount of 75,700 thousand euros, is considered a "sustainable loan" since its margin will vary according to the rating that the parent company obtains in ESG (environment, social and corporate governance) by the GRESB sustainability agency. Additionally, there is a derivative financial instrument that covers 75% of the nominal amount of said loan.

Additionally, the SFL subgroup holds fixed-rate mortgage debt at 31 December 2019 and 2018 for 199,160 and 201,240 thousand euros, respectively.

*Compliance with financial ratios -*

The Group's secured mortgage loans are subject to compliance with various financial ratios. At 31 December 2019 and 2018, the Group complies with the financial ratios demanded in their mortgage contracts.

## h) Other loans

At 31 December 2019, the Group holds bilateral loans that are not secured by a mortgage that must comply with various ratios. The total limits and balances provided are detailed below:

| Thousands of euros | Company | Maturity | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|---|---|
| | | | Limit | Nominal Drawn | Limit | Nominal Drawn |
| BECM | SFL | July 2023 | 150.000 | - | 150.000 | - |
| Banco Sabadell | SFL | June 2020 | - | - | 70.000 | - |
| BNP Paribas | SFL | May 2021 | 100.000 | - | 150.000 | 50.000 |
| CADIF | SFL | June 2023 | 175.000 | - | 175.000 | - |
| Banque Postale | SFL | June 2024 | 75.000 | - | 75.000 | - |
| Société Générale | SFL | October 2024 | 100.000 | - | 100.000 | - |
| Bankinter | Colonial | July 2024 | 50.000 | 50.000 | 50.000 | 50.000 |
| CaixaBank | Colonial | July 2024 | 75.000 | 75.000 | - | - |
| **Total other loans** | | | **725.000** | **125.000** | **770.000** | **100.000** |

During the first half of 2019, the parent company formalised a bilateral loan with CaixaBank amounting to 75,000 thousand euros with a five-year maturity that has the status of "sustainable loan" since its margin will vary according to the rating that the parent company obtains in ESG (environmental, social and corporate governance) from the GRESB sustainability agency.

Likewise, in 2019 the subsidiary company SFL, repaid its loan with Banco Sabadell early, which was due in June 2020.

Finally, the companies of the Utopicus subgroup have repaid the loans they had drawn at 31 December 2018 for a total amount of 261 thousand euros.

Compliance with financial ratios

All loans are subject to compliance with certain financial ratios, on a quarterly basis for the parent company and semi-annually for the subsidiary SFL.

At 31 December 2019 and 2018, the parent company and the subsidiary SFL comply with the financial ratios provided in their respective financing contracts.

## i) Other financial liabilities - Current accounts

At 31 December 2019, the subsidiary company SCI Washington holds a current account of 49,866 thousand euros (52,246 thousand euros at 31 December 2018). This current account accrues an additional margin over the three-month Euribor.

## j) Guarantees delivered

The parent company has guarantees granted to official bodies, customers and suppliers at 31 December 2019 for 55,271 thousand euros (24,155 thousand euros at 31 December 2018). Of these, there is a guarantee amounting to 30,300 thousand euros delivered in deferred payment guarantee derived from a real estate investment purchase operation during 2019 (Note 17-b).

Additionally, various guarantees have been set up for 18,259 thousand euros in guarantee of various commitments acquired by the parent company for the amounts received in relation to an operation to sell several real estate investments (Note 24).

Of the remaining amount, the main guarantee granted is 4,946 thousand euros, corresponding to commitments acquired by the company Asentia. In this regard, the parent company and the aforementioned company have signed an agreement whereby, if any of the guarantees are executed, Asentia must compensate the parent company for any loss incurred within a maximum period of 15 days.

During 2019, two bank guarantees have been cancelled for a total amount of 14,250 thousand euros, corresponding to customers for sales and services.

### k) Cash and cash equivalents

At 31 December 2019 and 2018, said heading includes cash and cash equivalents amounting to 216,781 and 68,293 thousand euros, respectively, 1,777 thousand euros of which, at 31 December 2019 and 2018, are restricted or were pledged.

### l) Debt arrangement costs

During 2019 and 2018, the Group recorded 5,569 and 6,384 thousand euros in the consolidated income statement, respectively, corresponding to the amortised costs during the year.

### m) Financing interest

The average interest rate of the Group in 2019 was 1.75% (2.00% in 2018) or 2.02% incorporating the accrual of commissions (2.28% in 2018). The average interest rate of the Group's debt in effect at 31 December 2019 (spot) is 1.63% (1.77% at 31 December 2018).

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

| | Thousands of euros | |
|---|---|---|
| | 31 December 2019 | 31 December 2018 |
| Obligations | 26.302 | 26.310 |
| Debts with credit institutions | 895 | 1.313 |
| Other financial liabilities - Current accounts | 23 | 40 |
| Total | 27.220 | 27.663 |

### n) 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.

### o) 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 2019, the percentage of debt covered or at a fixed rate over total debt, stands at 87% in Spain and 90% in France (90% and 93%, respectively, at 31 December 2018).

- 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 2019, 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 risks: 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 parent company periodically analyses the exposure of its accounts receivable to the risk of default, carrying out a follow-up of the credit settlement and, where appropriate, of the record of credit impairments for which it is estimated that there is a risk of default.

## 16. 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) |
|---|---|---|---|---|---|---|
| Swap | SFL | CA-CIB | 0,23% | 2022 | 100.000 | (1.665) |
| *Cash flow hedges-* | | | | | | |
| Collar | SFL | Société Générale | -0,7525% / 0% | 2026 | 100.000 | 1.404 |
| Swap | Colonial* | Deutsche Bank | 0,43% | 2023 | 57.000 | (1.792) |
| *Cash flow hedges of planned future transactions -* | | | | | | |
| Swap | SFL | CA-CIB | -0,3475% | 2026 | 100.000 | 1.877 |
| Swap | SFL | CIC | -0,4525% | 2026 | 100.000 | 2.416 |
| Swap | Colonial | Natwest | 0,0835% | 2032 | 350.000 | 13.818 |
| Swap | Colonial | Natwest | 0,0935% | 2032 | 110.000 | 4.242 |
| Swap | Colonial | CA-CIB | 0,098% | 2032 | 40.000 | 1.622 |
| **Total 31 December 2019** | | | | | **957.000** | **21.922** |

* From the business combination with Axiare Patrimonio SOCIMI, S.A. described in Note 2-f.

| | Company | Counterparty | Interest rate | Maturity | Nominal (Thousands of euros) | Fair value - Assets / (Liabilities) |
|---|---|---|---|---|---|---|
| Swap | SFL | CA-CIB | 0,23% | 2022 | 100.000 | (1.041) |
| CAP | SFL | CADIF | 0,25% | 2022 | 100.000 | 591 |
| *Cash flow hedges-* | | | | | | |
| Swap | Colonial* | Santander | 0,25% | 2022 | 18.000 | (205) |
| Swap | Colonial* | ING | 0,95% | 2022 | 18.650 | (823) |
| Swap | Colonial* | DB | 0,27% | 2022 | 18.650 | (230) |
| Swap | Venusaur* | DB | 0,43% | 2023 | 57.000 | (899) |
| Vanilla swap | Torre Marenostrum | Caixabank | 0,94% | 2032 | 26.197 | (493) |
| **Total 31 December 2018** | | | | | **338.497** | **(3.100)** |

* From the business combination with Axiare Patrimonio SOCIMI, S.A. described in Note 2-f.

During the second half of 2019, the Group formalised various instruments to cover cash flows from planned operations in order to cover interest rates on future debt issues amounting to 700,000 thousand euros. They all comply with the provisions of hedge accounting standards, whose market valuation is recorded directly in equity.

In September 2019, the subsidiary SFL made an early cancellation of the CAP that it had arranged with CADIF with a nominal amount of 100,000 thousand euros and maturity in 2022. The impact has been recorded under the "Financial expenses" heading of the consolidated income statement.

With the business combination between the parent company and Axiare Patrimonio SOCIMI, S.A., the parent company integrated the subsidiary's derivative financial instrument contracts, for a nominal amount of 394,249 thousand euros. Subsequent to the date of the business combination, several financial instruments were cancelled, generating a financial expense of 3,267 thousand euros. This was recorded under the "Financial expenses" heading of the consolidated income statement for 2018.

The impact on the consolidated income statement for posting derivative financial instruments has amounted, for 2019 and 2018, to 2,807 and 6,345 thousand euros of net financial expense, respectively (Note 20-h).

### a) Hedge accounting

At 31 December 2019, the parent company and the subsidiary SFL apply hedge accounting to various derivative financial instruments. At 31 December 2018, only the parent company and Marenostrum Tower applied hedge accounting.

At 31 December 2019, the cumulative impact recognised in the consolidated statement of financial position for hedge accounting amounted to a credit balance of 22,403 thousand euros, once the tax impact and consolidation adjustments were recognised. At 31 December, 2018, the impact recorded in the consolidated statement of financial position amounted to 2,078 thousand euros of debit balance (Note 14).

### b) 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 2019, 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 16,913 and -16,922 thousand euros, respectively.

## 17. 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 2019 | | 31 December 2018 | |
| | Current | Non-Current | Current | Non-current |
| Trade and other payables | 38.202 | - | 45.219 | - |
| Creditors for real estate purchases | 50.170 | - | 32.676 | - |
| Advances | 41.471 | 21.215 | 22.748 | 14.142 |
| Guarantees and deposits received | 14.425 | 58.547 | 2.207 | 51.710 |
| Debts with Social Security | 1.863 | - | 1.782 | - |
| Advanced income | 458 | - | 564 | - |
| Other creditors and liabilities | 11.989 | 178 | 9.583 | 481 |
| Total | 158.578 | 79.940 | 114.779 | 66.333 |

### a) Trade and other payables

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

### b) Creditors for real estate purchases

Collects debts derived from acquisitions of shares and/or real estate. At 31 December 2019, the amount included in this item corresponds, basically, to deferred payments of purchases of real estate made by the parent company during 2019, amounting to 30,300 thousand euros, and refurbishment or reform works of various properties undertaken by SFL, for 19,870 thousand euros (19,996 thousand euros at 31 December 2018). The effect of updating deferred payments is not significant.

### c) Advances

Current advances mainly correspond to amounts paid in advance by lessees for bimonthly or quarterly leases, except for the 18,259 thousand euros registered by the parent company in the context of purchase options sold on seven logistic assets (Note 24).

Non-current advances include the amount of 21,215 thousand euros (14,142 thousand euros at December 31, 2018) on account of the price of the asset that the group is promoting under the purchase agreement subject to suspensive conditions signed by the parent company and a third party (Note 12).

### d) Guarantees and deposits received

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

### e) 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.

### f) 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.

| | 2019 | 2018 |
|---|---|---|
| | Days | Days |
| Average period of payment to suppliers | 23 | 32 |
| Ratio of transactions paid | 22 | 32 |
| Ratio of outstanding transactions | 41 | 48 |
| | Amount (Thousands of euros) | |
| Total payments made | 183.911 | 221.716 |
| Total outstanding payments | 22.531 | 8.205 |

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 creditors 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.

## 18. Provisions and contingent assets and liabilities

The movement for 2019 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 provisions | | Current provisions |
| | Staff provisions | Provisions for risks and other provisions | Provisions for risks and other provisions |
| Balance at 31 December 2018 | 1.291 | 89 | 17.660 |
| Provisions | 819 | 11 | - |
| Provisions against equity | 57 | - | - |
| Disposals (Note 20-e) | - | - | (7.552) |
| Other disposals | (35) | - | (874) |
| To be applied | (12) | (73) | (2.294) |
| Transfers | (648) | - | 648 |
| **Balance at 31 December 2019** | **1.472** | **27** | **7.588** |

### a) Non-current provisions

Personal provision –

Includes amounts corresponding to retirement compensation and seniority bonuses for SFL employees (Note 4-j).

### b) Current provisions

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

## 19. Tax situation

### a) Option for the SOCIMI Fiscal Regime and break up of the tax Group, both effective 1 January 2017

Until 31 December 2016, the parent company had been the head of a group of companies under the tax consolidation regime since 1 January 2008. This regime included only companies in Spain, directly or indirectly, in at least 75% of its capital, or 70% in the case of listed companies and those with the majority of voting rights.

The composition of the tax consolidation group for 2016 included, in addition to the parent company, Danieltown Spain, S.L.U., Colonial Invest, S.L.U. and Colonial Tramit, S.L.U.

On 30 June 2017, the parent company opted for the SOCIMI tax regime (Note 1). The adoption of said tax regime meant the break up of the tax group in force at 31 December 2016 with effect 1 January 2017, and the recovery of the tax group's adjustments pending recovery.

### b) Balances held with public administrations

The details of the "Tax assets" heading of the consolidated statement of financial position is as follows:

| | Thousands of euros | | | |
|---|---|---|---|---|
| | Current | | Non-current | |
| | 31 December 2019 | 31 December 2018 | 31 December 2019 | 31 December 2018 |
| Public Treasury, debtor for tax concepts | 5 | 19 | - | - |
| Public Treasury, debtor for corporate taxes | 1.044 | 1.555 | - | - |
| Public Treasury, VAT debtor | 8.517 | 18.183 | - | - |
| Deferred tax assets | - | - | 448 | 411 |
| **Total** | **9.566** | **19.757** | **448** | **411** |

The detail of the "Tax liabilities" heading of the consolidated statement of financial position is as follows:

| | Thousands of euros | | | |
|---|---|---|---|---|
| | Current | | Non-current | |
| | 31 December 2019 | 31 December 2018 | 31 December 2019 | 31 December 2018 |
| Public Treasury, company tax credit | 540 | 422 | - | - |
| Public Treasury, creditor for tax concepts | 6.261 | 3.428 | - | - |
| Public Treasury, creditor for exit tax (SFL Group) | 8.450 | 9.242 | 5.141 | 13.368 |
| Public Treasury, VAT creditor | 3.834 | 3.257 | - | - |
| Deferred tax liabilities | - | - | 376.560 | 361.514 |
| **Total** | **19.085** | **16.349** | **381.701** | **374.882** |

## c) Reconciliation of income tax results

Corporation tax -

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 with a turnover 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 SOCIMI regime, the results derived from the SOCIMI activity are taxed at a rate of 0% as long as the requirements for this are met (Note 4-m).

The detail of the "Income tax" heading of the statement of comprehensive income is as follows:

| | Thousands of euros | |
|---|---|---|
| | 2019 | 2018 |
| Income tax expense | (7.239) | (7.397) |
| Deferred tax revaluation assets at fair value (IAS 40) | (11.657) | (10.488) |
| Other non-main components | (3.363) | (8.345) |
| **Income tax** | **(22.259)** | **(26.230)** |

## d) Reconciliation between income tax expense and prima facie tax

| | Thousands of euros | |
|---|---|---|
| | 2019 | 2018 |
| Profit from continuing activities before tax | 1.014.782 | 704.339 |
| Profit from interrupted activities before tax | - | - |
| | 1.014.782 | 704.339 |
| Tax at the Spanish 25% tax rate (2018: 25%) | 253.695 | 176.085 |
| Tax effect of amounts that are not deductible (taxable) in the calculation of the tax benefit: | | |
| IAS 40 application (revaluations and redemptions of depreciation) | (228.601) | (169.789) |
| Impairment of goodwill | 15.556 | 27.655 |
| Other adjustments | 589 | 7.010 |
| Subtotal | 41.239 | 40.961 |
| Difference in tax rates by SOCIMI and SIIC regime | (25.842) | (22.003) |
| Difference in foreign tax rates | 5.950 | 3.622 |
| Adjustments to current tax for previous years | - | - |
| Unrecognised tax losses previously used to reduce deferred tax expense | 808 | 3.510 |
| Unrecognised tax losses previously recovered now to reduce current tax expense | - | (213) |
| Tax losses for the year not recognised in accounting | 104 | 353 |
| **Income tax expense** | **22.259** | **26.230** |

## e) Deferred tax assets

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

| | Thousands of euros | | | | |
|---|---|---|---|---|---|
| | Recognised in accounting | | | | |
| Deferred tax assets | 31 December 2018 | Change of accounting policy (Note 2-g) | Inclusions | Write-offs | 31 December 2019 |
| Valuation of financial instruments | 329 | - | - | (329) | - |
| For leases (Note 8) | - | 330 | 39 | - | 369 |
| Other | 82 | - | - | (3) | 79 |
| **Total** | **411** | **330** | **39** | **(332)** | **448** |

Negative tax bases of previous years to be offset -

The Corporation Tax effective as of 1 January 2016 establishes that the negative tax bases of previous years can be offset in future years without any time restriction, although it generally establishes a limitation to the offsetting of 70% of the positive tax base, with a minimum of 1 million euros. Additionally, in the event that the net amount of the turnover of the company, or the tax group, is between 20 and 60 million euros, such offsetting is limited to 50% of the positive tax base, while if the net amount of the turnover is equal to or greater than 60 million euros, the offsetting limit is reduced to 25% of the positive tax base.

As indicated above, certain companies in the group were part of the 6/08 tax consolidation group; therefore, certain transactions between companies included in the tax consolidation group were eliminated from the aggregate of individual tax bases, with their inclusion in the consolidated tax base being deferred until the result materialises vis-à-vis third parties. Likewise, the tax consolidation regime allowed companies with positive tax bases to benefit from the negative tax bases of other companies in the group's tax consolidation.

After the tax group broke up on 31 December 2016, with effect 1 January 2017, the pending adjustments for operations between companies of the former tax consolidation group were recovered, and the resulting negative tax bases were assigned to each of the group's companies depending on how they had contributed to them being generated.

The accumulated negative tax bases to be offset by Spanish companies at 31 December 2019 amount to 5,414,083 thousand euros.

Deferred assets for tax credits through deductions -

The Group has various deductions pending application at 31 December 2019 due to a shortfall for a total amount of 19,054 thousand euros.

## f) Deferred and non-current tax liabilities

The details of the "Deferred and non-current tax liabilities" heading of the non-current liability of the consolidated statement of financial position is presented in the following table:

| | Thousands of euros | |
|---|---|---|
| | 31 December 2019 | 31 December 2018 |
| Deferred tax liabilities | 376.560 | 361.514 |
| Non-current tax liabilities | 5.141 | 13.368 |
| | 381.701 | 374.882 |

Non-current tax liabilities correspond to the SFL exit tax accrued by the option under the SIIC regime (Note 4-m) of various properties. During 2017, the subsidiary SFL acquired the property Emile Zola, which entered into the SIIC regime in December 2017, generating an exit tax amounting to 21,138 thousand euros, and which must be paid in four instalments between 2018 and 2021. In addition, during 2016, SFL executed the option to purchase the financial lease contract for the property Wagram, 131. This asset is subject to the SIIC regime and generates the corresponding obligation to pay the exit tax, amounting to 13,012 thousand euros, which must be paid to the French tax administration in four instalments between 2017 and 2020.

The details of deferred tax liabilities along with their movements is detailed in the following table:

| | Thousands of euros | | | |
|---|---|---|---|---|
| Deferred tax liabilities | 31 December 2018 | Inclusions | Write-offs | 31 December 2019 |
| Asset revaluation | 356.069 | 15.234 | - | 371.303 |
| Asset revaluation-Spain- | 151.007 | (1.275) | - | 149.732 |
| Asset revaluation-France- | 205.062 | 16.509 | - | 221.571 |
| Deferral for reinvestment | 4.970 | - | (188) | 4.782 |
| Other | 475 | - | - | 475 |
| | 361.514 | 15.234 | (188) | 376.560 |

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.

After the adoption of the SOCIMI tax regime, the movements in deferred taxes recorded during 2017 correspond, essentially, to the properties owned by the companies that have not opted for said regime, i.e. Torre Marenostrum, S.L. and Inmocol Torre Europa, S.A., and to certain adjustments derived from corporate operations. In this respect, the deferred taxes associated with the real estate investments of the entities of Grupo Colonial, fully owned by the parent company, were recorded at an effective rate of 18.75% (25% tax rate with a limit to the compensation of 25% negative tax bases). Consequently, in calculating deferred tax liabilities, the Group considers the application of 49,712 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 -

The item "Asset revaluation-France-" includes the amount of deferred taxes associated with the Group's real estate investments located in France, which would accrue if said assets were transferred. It should be recalled that almost all assets in France are subject to the SIIC regime (Note 4-m), so they will not generate additional tax at the time of transmission. At 31 December 2019 and 2018, only the assets of the member companies of the Parholding subgroup were left out of said tax regime.

### g) 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. In 2016, the parent company made complementary settlements of the Corporation Tax for 2011 to 2014, which were outside the statute of limitations for these years.

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

### h) Information requirements arising from the status of SOCIMI, Law 11/2009, as amended by Law 16/2012

The information requirements derived from the condition of SOCIMI of the parent company and its subsidiaries (Note 19-a) are included in the corresponding reports of the individual annual financial statements.

### i) Adherence to the code of good tax practices

On 10 December 2015, the Board of Directors of the parent company agreed to adhere to the code of good tax practices. Said agreement was communicated to the administration on 8 January 2016.

## 20. Income and expense

### a) Net amount of turnover

The net amount of turnover 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:

| Equity segment | Thousands of euros | |
|---|---|---|
| | 2019 | 2018 |
| Barcelona | 48.248 | 41.629 |
| Madrid | 101.290 | 106.144 |
| Rest of Spain | 6.266 | 6.991 |
| Paris | 198.710 | 193.509 |
| **Total** | **354.514** | **348.273** |

The income for 2019 and 2018 includes the effect of rental incentives throughout the minimum duration of the contract (Note 4-n). It also includes the accrual of amounts received as entry fees (Note 17-e). At 31 December 2019, the impact of previous accruals has entailed a decrease in turnover of 228 thousand euros (for 2018 it represented an increase of 536 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 by CPI or future income updates based on contractually agreed market parameters is the following:

| | Thousands of euros | |
|---|---|---|
| | Nominal Value | |
| | 31 December 2019 | 31 December 2018 |
| Less than one year | 323.839 | 313.327 |
| Spain | 140.254 | 131.841 |
| France | 183.585 | 181.486 |
| Between one and five years | 737.988 | 639.112 |
| Spain | 264.306 | 206.842 |
| France | 473.682 | 432.270 |
| More than five years | 470.139 | 151.105 |
| Spain | 45.478 | 68.163 |
| France | 424.661 | 82.942 |
| **Total** | **1.531.966** | **1.103.544** |
| Spain | 450.038 | 406.846 |
| France | 1.081.928 | 696.698 |

## b) Other operating income

They correspond, fundamentally, to the provision of real estate services. At 31 December 2019 and 2018, the amount is 9,617 and 5,677 thousand euros, respectively.

## c) Employee costs

The "Personnel expenses" heading of the accompanying comprehensive consolidated income statement is as follows:

| | Thousands of euros | |
|---|---|---|
| | 2019 | 2018 |
| Wages and salaries | 18.126 | 19.688 |
| Social Security expenses borne by the Company | 5.750 | 6.935 |
| Other welfare expenses | 6.839 | 3.013 |
| Contributions to defined benefit plans | 244 | 242 |
| Internal reallocation | (1.043) | (740) |
| **Total Employee costs** | **29.916** | **29.138** |
| Spain | 16.234 | 16.350 |
| France | 13.682 | 12.788 |

The "Other welfare expenses" heading includes the amounts corresponding to the accrual during 2019 derived from the cost of the parent company's long-term compensation plan (Note 21-a) and the SFL options plan described in the Note 21-c, amounting to 5,309 thousand euros (3,406 thousand euros in 2018).

The contributions to defined benefit plans made by the parent company in 2019 and 2018 amount to 244 and 242 thousand euros, respectively, and are recognised under the "Personnel Expenses" heading of the consolidated income statement. 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 2019 | | Average 2018 | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | | | | |
| | Men | Women | Men | Women | Men | Women | Men | Women |
| General and Area Management | 13 | 7 | 14 | 7 | 14 | 7 | 16 | 7 |
| Qualified technicians and middle managers | 44 | 49 | 34 | 40 | 42 | 46 | 36 | 41 |
| Office clerks | 29 | 85 | 26 | 73 | 26 | 77 | 21 | 64 |
| Other | 6 | 1 | 5 | 1 | 6 | 1 | 5 | 2 |
| **Total people employed** | **92** | **142** | **79** | **121** | **88** | **131** | **78** | **114** |

### d) Other operating expenses

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

| | Thousands of euros | |
|---|---|---|
| | 2019 | 2018 |
| External services and other expenses | 30.816 | 30.726 |
| Taxes | 24.278 | 29.368 |
| **Total Other operating expenses** | **55.094** | **60.094** |

### e) Net variation of provisions

The movement of the "Net change in provisions" heading of the consolidated income statement during the year is as follows:

| | Thousands of euros | |
|---|---|---|
| | 2019 | 2018 |
| Net application of operating provisions (Note 18) | 7.552 | 3.389 |
| Net provision for insolvencies and other provisions | (314) | (953) |
| Other provision allowances | (278) | - |
| **Total Net variation of provisions** | **6.960** | **2.436** |

### f) Variations in value of real estate investments and Result due to variation in value of assets and impairment

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 | |
|---|---|---|
| | 2019 | 2018 |
| Investment property (Note 10) | 842.657 | 701.952 |
| Assets classified as held for sale - Real estate investments (Note 24) | 31.042 | - |
| **Variations in property investment value** | **873.699** | **701.952** |
| Spain | 346.810 | 412.938 |
| France | 526.889 | 289.014 |

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 | |
|---|---|---|
| | 2019 | 2018 |
| Impairment of goodwill (Note 7) | (62.225) | (114.304) |
| Impairment / (Reversal) of real estate for own use (Note 9) | 1.208 | 1.630 |
| Other impairments | (339) | (447) |
| Substitute write-offs | (538) | (18.269) |
| **Result due to variation in asset value and impairment** | **(61.894)** | **(131.390)** |

### g) Net results from asset sales

The composition of the Group's net results from asset sales (Notes 10 and 24), as well as their geographical distribution, are detailed below:

| | Thousands of euros | | | | | |
|---|---|---|---|---|---|---|
| | Spain | | France | | Total | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Sale price | 294.860 | 388.930 | - | 260 | 294.860 | 389.190 |
| Asset write-offs | (263.208) | (366.986) | - | (230) | (263.208) | (367.216) |
| Write-off of waiting periods | (683) | - | - | - | (683) | - |
| Indirect and other costs | (11.045) | (10.244) | - | (9) | (11.045) | (10.253) |
| **Net result from asset sales** | **19.924** | **11.700** | **-** | **21** | **19.924** | **11.721** |

### h) Income and financial expenses

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

| | Thousands of euros | |
|---|---|---|
| | 2019 | 2018 |
| Financial income: | | |
| Income from shareholdings | - | 71 |
| Other interests and similar income | 2.232 | 2.389 |
| Income from derivative financial instruments (Note 16) | - | 64 |
| Capitalised financial costs (Notes 10 and 12) | 5.066 | 5.307 |
| **Total Financial Income** | **7.298** | **7.831** |
| Financial expenses: | | |
| Financial expenses and similar expenses | (89.129) | (104.687) |
| Financial expenses per update (Notes 8 and 19) | (1.138) | (548) |
| Financial expenses associated with loan cancellation | (4.743) | (6.946) |
| Financial expenses associated with repurchase of debentures | - | (24.459) |
| Financial expenses associated with arrangement expenses (Note 15-l) | (5.569) | (6.384) |
| Expenses from derivative financial instruments (Note 16) | (2.807) | (6.409) |
| **Total Financial Expenses** | **(103.386)** | **(149.433)** |
| | | |
| **Result for impairment of the value of financial assets** | **-** | **(143)** |
| | | |
| **Total Financial Result (Loss)** | **(96.088)** | **(141.745)** |

### i) Transactions with related parties

The main transactions with related parties were the following:

| | Thousands of euros | |
|---|---|---|
| | 2019 | 2018 |
| | Building leases | Building leases |
| Gas Natural, SDG, S.A. (*) | 1.508 | 5.300 |
| Total | 1.508 | 5.300 |

(*) Gas Natural, SDG, S.A. was the partner of the parent company in the subsidiary Torre Marenostrum, S.L. On 30 April 2019, the parent company acquired the non-controlling interest held by Gas Natural, S.D.G., S.A. in the parent company (Note 2-f).

On 16 November 2018, the parent company purchased 10,323,982 shares in the subsidiary SFL from Qatar Holding, LLC and DIC Holding, LLC through (i) the parent company's contribution of 7,136,507 shares in the subsidiary in consideration for the subscription of 53,523,803 new shares in the parent company (Note 14-a), (ii) the exchange of 400,000 shares in the subsidiary SFL for 3,000,000 shares in the parent company that it held in treasury stock (Note 14-f), and (iii) the sale to the parent company of 2,787,475 shares in SFL for 203,486 thousand euros.

### j) 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 income for the year attributed to the parent company | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Inmobiliaria Colonial, SOCIMI, S.A. | 348.110 | 120.534 | (314) | (2.699) | 347.796 | 117.835 |
| SFL subgroup | 647.720 | 384.646 | (165.835) | (147.971) | 481.885 | 236.675 |
| Inmocol Torre Europa, S.A. | 20 | 1.125 | (10) | (563) | 10 | 562 |
| Peñalvento, S.L.U. | (332) | 10.243 | - | - | (332) | 10.243 |
| Colonial Tramit, S.LU | (3) | (2) | - | - | (3) | (2) |
| Utopicus Innovación Cultural, S.L. (*) | (2.992) | (2.766) | 435 | 476 | (2.557) | (2.290) |
| Zincshower, S.L.U. (*) | - | (13) | - | 2 | - | (11) |
| Colaboración e Innovación Virtual, S.L.U. (*) | - | (1) | - | - | - | (1) |
| Torre Marenostrum, S.L. (**) | - | 6.291 | - | (2.831) | - | 3.460 |
| Danieltown Spain, S.LU. (**) | - | 15.424 | - | - | - | 15.424 |
| Moorage Inversiones 2014, S.L.U. (**) | - | 70.351 | - | - | - | 70.351 |
| Hofinac Real Estate, S.L.U. (**) | - | 31.152 | - | - | - | 31.152 |
| Fincas y representaciones, S.A.U. (**) | - | 10.879 | - | - | - | 10.879 |
| Colonial Arturo Soria, S.L.U. (**) | - | 2.589 | - | - | - | 2.589 |
| LE Offices Egeo, S.A.U. (**) | - | 6.071 | - | - | - | 6.071 |
| Agisa, S.A.U. (**) | - | 6.731 | - | - | - | 6.731 |
| Soller, S.A.U. (**) | - | 5.628 | - | - | - | 5.628 |
| Axiare Investments, S.L.U. (**) | - | (3.197) | - | 206 | - | (2.991) |
| Axiare Properties, S.L.U. (**) | - | (4) | - | - | - | (4) |
| Axiare I+D+i, S.L.U. (**) | - | (835) | - | 10 | - | (825) |
| Venusaur, S.L.U. (**) | - | 10.370 | - | 94 | - | 10.464 |
| Chameleon (Cedro), S.L.U. (**) | - | 2.895 | - | (70) | - | 2.825 |
| Colonial Invest, S.L.U. (**) | - | (2) | - | - | - | (2) |
| **Total** | **992.523** | **678.109** | **(165.724)** | **(153.346)** | **826.799** | **524.763** |

(*) During 2018, the Utopicus subgroup was made up of the companies Utopicus Innovación Cultural, S.L., Zincshower, S.L.U. and Colaboración e Innovación Virtual, S.L.U.
In December 2019, the merger by absorption of the subsidiary Utopicus Innovación Cultural, S.L. was carried out (absorbing company and owner of the entire share capital) with the subsidiaries Zincshower S.L.U. and Colaboración e Innovación Virtual, S.L.U. (absorbed companies). This merger is registered in the Mercantile Registry of Madrid.
(**) During 2019, the parent company absorbed various subsidiaries through mergers by absorption. All mergers are registered in the corresponding mercantile registry.

# 21. Stock option plans

## a) Long-term compensation plan linked to compliance with various management indicators

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.

Between 1 and 15 April of each of the following tax years, the Board of Directors, at the proposal of the appointments and remuneration committee, will determine the number of shares that, depending on how the previous year indicators had been fulfilled, it has corresponding to each of the beneficiaries of the plan. The corresponding shares will be delivered to the beneficiaries between 15 and 30 April each year.

Shares received in execution of this plan may not be disposed of or transmitted by the beneficiaries thereof until three years have elapsed from the date of delivery, except those required to pay the taxes derived from their accrual.

The delivery of the resulting shares will include a final adjustment so that the equivalent of the monetary value of the delivered share is in no case higher than 150% of the average price of the Colonial share in November 2013.

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

During 2019 and 2018, the "Personal expenditure - Other welfare expenses" heading of the consolidated statement of income 2,978 and 1,454 thousand euros, respectively, has been recorded to cover said incentive plan (Note 20-c).

On 30 April 2019, the parent company settled the outstanding obligations corresponding to the fulfilment of the plan, once the Board of Directors determined the number of shares to be delivered to the plan beneficiaries according to the degree of compliance with the indicators for 2018, which stood at 493,894 shares (Note 14-f). On that date, the shares were delivered to their beneficiaries. Of these, 219,767 shares were delivered to the members of the Board of Directors and 172,675 to members of senior management, at a market value at the time of delivery of 2,109 and 1,657 thousand euros, respectively.

On 25 April 2018, the parent company settled the outstanding obligations corresponding to the fulfilment of the plan, once the Board of Directors determined the number of shares to be delivered to the plan beneficiaries according to the degree of compliance with the indicators for 2017, which stood at 421,813 shares (Note 14-f). On that date, the shares were delivered to their beneficiaries. Of these, 195,100 shares were delivered to the members of the Board of Directors and 153,294 to members of senior management, at a market value at the time of delivery of 1,828 and 1,436 thousand euros, respectively.

### b) Extension of the duration of the long-term compensation plan linked to compliance with various management indicators

On 29 June 2017, the Annual General Meeting approved extending the duration of the application of the share delivery plan approved by the annual general meeting dated 21 January 2014 for a period of two additional years under the same terms and conditions.

### c) SFL stock option plans

The subsidiary company SFL maintains two free share allocation plans at 31 December 2019, the details of which are as follows:

| | Plan 4 | Plan 5 | Plan 5 |
|---|---|---|---|
| Meeting date | 13.11.2015 | 20.04.2018 | 20.04.2018 |
| Board of Directors Date | 03.03.2017 | 20.04.2018 | 15.02.2019 |
| Initial target number | 33.376 | 33.592 | 32.948 |
| % initially expected | 70,83% | 100% | 100% |
| Number initially expected | 23.640 | 33.592 | 32.948 |
| Value per share (euros) | 42,61 | 48,64 | 54,00 |
| Options cancelled / outflows | (2.380) | (1.640) | (212) |
| % expected at closing | 150% | 100% | 100% |
| Estimated number at closing | 46.494 | 31.952 | 32.736 |

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.

During the first half of 2019, 46,302 free shares from Plan 4 from 2016 were delivered.

At 31 December 2019 and 2018, the amount recorded in the consolidated statement of income corresponding to said plans for the free allocation of shares amounts to 2,331 and 1,952 thousand euros (Note 20-c).

## 22. Balances with related parties and associated companies

At 31 December 2019 and 2018, the Group does not hold any balances with related parties and associated companies.

## 23. Remuneration and other benefits to the Board of Directors and members of senior management

### a) Composition of the Board of Directors of the Parent Company

At 31 December 2019, the Board of Directors of the parent company consists of 10 males and 3 females, while at December 31 2018, it was made up of 10 males and 1 female.

At 31 December 2019 the composition of the board of directors of the parent company is as follows:

| Director | Position | Director Type |
|---|---|---|
| Mr. Juan José Brugera Clavero | Chairman | Executive |
| 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. Javier López Casado | Director | Proprietary |
| Mr. Juan Carlos García Cañizares | Director | Proprietary |
| Mr. Carlos Fernández-Lerga Garralda | Lead Director | Independent |
| Ms. Silvia Alonso-Castrillo Allain | Director | Independent |
| Mr. Javier Iglesias de Ussel Ordís | Director | Independent |
| Mr. Luis Maluquer Trepat | Director | Independent |
| Ms. Ana Lucrecia Bolado Valle | Director | Independent |
| Ms. Ana Cristina Peralta Moreno | Director | Independent |

On 14 May 2019, the Annual General Meeting appointed new independent directors Ms. Ana Lucrecia Bolado Valle and Ms. Ana Cristina Peralta Moreno.

On 24 January 2019, Ms. Ana Sainz de Vicuña left. On the same date, new Independent Director Ms. Silvia Mónica Alonso-Castrillo Allain was appointed.

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

In accordance with the provisions of article 229 of the Corporate Enterprises Act, the administrators have communicated that there is no direct or indirect conflict situation that they or persons linked to them may have in the interest of the parent company.

### b) Remuneration of the Board of Directors

The remuneration accrued during 2019 and 2018 by the members of the Board of Directors of the parent company classified by concept have been the following:

| | Thousands of euros | | |
|---|---|---|---|
| **31 December 2019** | Parent company | Other Group companies | Total |
| **Remuneration accrued by executive directors (*):** | **2.520** | **150** | **2.670** |
| **Non-executive directors per diems:** | **619** | **60** | **679** |
| **Executive directors per diems:** | **-** | **48** | **48** |
| **Fixed remuneration for non-executive directors:** | **864** | **80** | **944** |
| Directors compensation | 580 | 40 | 620 |
| Additional compensation audit and control committee | 123 | 40 | 163 |
| Additional remuneration appointments and remuneration committee | 161 | - | 161 |
| **Remuneration of executive directors.** | **-** | **70** | **70** |
| **Total 2019** | **4.003** | **408** | **4.411** |

| | | | |
|---|---|---|---|
| Amount of the remuneration obtained by the executive directors (*): | 2.520 | 268 | 2.788 |

(*) The amount corresponding to the accrued expense associated with the long-term incentive plan described in Note 21 is not included.

| | Thousands of euros | | |
|---|---|---|---|
| **31 December 2018** | Parent company | Other Group companies | Total |
| **Remuneration accrued by executive directors (*):** | **3.347** | **150** | **3.497** |
| **Non-executive directors per diems:** | **561** | **80** | **641** |
| **Executive directors per diems:** | **-** | **45** | **45** |
| **Fixed remuneration for non-executive directors:** | **780** | **100** | **880** |
| Directors compensation | 505 | 60 | 565 |
| Additional compensation audit and control committee | 125 | 40 | 165 |
| Additional remuneration appointments and remuneration committee | 150 | - | 150 |
| **Remuneration of executive directors.** | **-** | **70** | **70** |
| **Total 2018** | **4.688** | **445** | **5.133** |

| | | | |
|---|---|---|---|
| Amount of the remuneration obtained by the executive directors (*): | 3.347 | 265 | 3.612 |

(*) The amount corresponding to the accrued expense associated with the long-term incentive plan described in Note 21 is not included.

At 31 December 2019 and 2018, the parent company has taken out civil liability insurance that covers all the directors, members of senior management and employees of the parent company, with a premium amounting to 270 and 369 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 2019 and 2018, the parent company registered 182 and 180 thousand euros, respectively, for said item in the "Personnel expense" section of 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 2019 and 2018, two members of the Board of Directors have signed guarantee or shield clauses for certain cases of dismissal or change of control, which have all been approved at the Annual General Meeting.

In addition, during 2019 and 2018, there have been no terminations, modifications or early terminations of contracts outside ordinary business activities between the parent company and the members of the Board of Directors or any person acting on their behalf.

### c) Compensation to senior management

The parent company's senior management is made up of all those senior executives and other persons who, reporting directly to the CEO, manage the parent company. At 31 December 2019 and 2018, senior management consists of two males and two females.

The monetary remuneration received by senior management during 2019 amounts to 1,275 thousand euros. Additionally, they received 1,657 thousand euros corresponding to the long-term incentive plan (1,505 and 1,436 thousand euros, respectively, during 2018).

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 2019 and 2018, the parent company registered 62 and 62 thousand euros, respectively, for this item in the "Personnel expense" heading of the comprehensive consolidated income statement.

At 31 December 2019 and 2018, a member of senior management had signed a guarantee or shield clause for certain cases of dismissal or change of control.

## 24. Assets classified as held for sale

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

| | Thousands of euros |
|---|---|
| | Investment property |
| **Balance at 31 December 2017** | **-** |
| Transfers (Note 10) | 26.091 |
| **Balance at 31 December 2018** | **26.091** |
| Transfers (Note 10) | 364.609 |
| Disposals (Note 20-g) | (245.308) |
| Value variation (Note 20-f) | 31.042 |
| **Balance at 31 December 2019** | **176.434** |

Movements in 2019 -

During 2019, the parent company has transferred 19 properties from the heading of the consolidated statement of financial position "Real estate investments", amounting to 364,609 thousand euros.

Of the total transferred property, the parent company has disposed of a hotel in Madrid and 11 logistics assets for a total sale amount of 271,910 thousand euros, including indirect costs of the sale.

Of the remaining transferred properties, two purchase options were signed on 7 August 2019, for seven logistic assets, amounting to 18,259 thousand euros, which are registered under the customer advances heading of the consolidated statement of financial position and for the amount of which guarantees have been established in favour of the applicant (Note 17-c). The execution date of these options will be on 31 March and 31 December 2020 at the latest.

The "Variations in value in real estate investments" heading of the consolidated statement of income includes the results for revaluating the assets classified as held for sale for 2019, for an amount of 31,042 thousand euros of loss (Note 20-f), according to independent expert assessments at 31 December 2019 (Note 4-c).

Movements in 2018 -

During 2018, the parent company transferred a property from the "Real estate investments" heading of the consolidated statement of financial position, amounting to 26,091 thousand euros (Note 10).

## 25. Remuneration to auditors

The fees accrued for account auditing services corresponding to 2019 and 2018 of the different companies making up the Colonial Group, provided by the main auditor and other auditors, have amounted to the following:

| | Thousands of euros | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Main auditor | Other auditors | Main auditor | Other auditors |
| Audit services | 667 | 241 | 756 | 237 |
| Other verification services | 143 | 19 | 176 | 25 |
| Total audit and related services | 810 | 260 | 932 | 262 |
| Tax advice services | - | 29 | - | 18 |
| Other services | 53 | 282 | 47 | 717 |
| Total professional services | 53 | 311 | 47 | 735 |

The main auditor of Grupo Colonial for 2019 and 2018 is PricewaterhouseCoopers Auditores, S.L.

The fees for other verification services include 141 thousand euros corresponding to services provided to the Company for limited revisions, issuance of comfort letters and reports of agreed procedures on ratios linked to financing contracts and a report of agreed procedures on the net asset value (149 thousand euros in 2018). Additionally, the Company's auditor has performed services to subsidiaries on agreed procedures on ratios linked to financing contracts amounting to 2 thousand euros (2 thousand euros in 2018). The main auditor's fees represent less than 1% of its turnover in Spain.

## 26. Subsequent events

Since 31 December 2019 and up to the date these consolidated annual financial statements were prepared, no significant events have occurred.

# APPENDIX

## Companies included in the scope of consolidation

At 31 December 2019 and 2018, the subsidiaries consolidated by global integration and the information related to them is as follows:

| | % shareholding | | | | Shareholder | Activity |
|---|---|---|---|---|---|---|
| | Direct | | Indirect | | | |
| | 2019 | 2018 | 2019 | 2018 | | |
| **Torre Marenostrum, S.L. (*)**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | merged | 55% | - | - | | Inmobiliaria |
| **Colonial Invest, S.L.U.**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | merged | 100% | - | - | | Inmobiliaria |
| **Colonial Tramit, S.L.U.**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | 100% | 100% | - | - | | Inmobiliaria |
| **Danieltown Spain, S.L.U.**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | merged | 100% | - | - | | Inmobiliaria |
| **Moorage Inversiones 2014, S.L.U.**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | merged | 100% | - | - | | Inmobiliaria |
| **Hofinac Real Estate, S.L.U.**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | merged | 100% | - | - | | Inmobiliaria |
| **Fincas y representaciones, S.A.U.**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | merged | 100% | - | - | | Inmobiliaria |
| **Inmocol Torre Europa, S.A. (*)**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | 50% | 50% | - | - | | Inmobiliaria |
| **Colonial Arturo Soria, S.L.U.**<br>Avda. Diagonal 532<br>08006 Barcelona (Spain) | merged | 100% | - | - | | Inmobiliaria |
| **LE Offices Egeo, S.A.U.**<br>Pº de la Castellana, 52<br>28046 Madrid (Spain) | merged | 100% | - | - | | Inmobiliaria |
| **Chameleon (Cedro), S.L.U.**<br>Avda. Diagonal, 532<br>08006 Barcelona (Spain) | merged | 100% | - | - | | Inmobiliaria |
| **Venusaur, S.L.U.**<br>Avda. Diagonal, 532<br>08006 Barcelona (Spain) | merged | 100% | - | - | | Inmobiliaria |
| **Axiare Investments, S.L.U.**<br>Pº de la Castellana, 52<br>28046 Madrid (Spain) | merged | 100% | - | - | | Inmobiliaria |
| **Axiare Properties, S.L.U.**<br>Pº de la Castellana, 52<br>28046 Madrid (Spain) | merged | 100% | - | - | | Inmobiliaria |
| **Axiare Investigación, Desarrollo e Innovación, S.L.U.**<br>Pº de la Castellana, 52<br>28046 Madrid (Spain) | merged | 100% | - | - | | Inmobiliaria |
| **Almacenes Generales Internacionales, S.A.U.**<br>Pº de la Castellana, 52<br>28046 Madrid (Spain) | merged | 100% | - | - | | Inmobiliaria |
| **Soller, S.A.U.**<br>Pº de la Castellana, 52<br>28046 Madrid (Spain) | merged | 100% | - | - | | Inmobiliaria |
| **Peñalvento, S.L.U.**<br>Pº de la Castellana, 52<br>28046 Madrid (Spain) | 100% | 100% | - | - | | Inmobiliaria |

| | % shareholding | | | | Shareholder | Activity |
|---|---|---|---|---|---|---|
| | Direct | | Indirect | | | |
| | 2019 | 2018 | 2019 | 2018 | | |
| **Utopicus Innovación Cultural, S.L.**<br>Príncipe de Vergara, 112<br>28002 Madrid (Spain) | 96,81% | 83,47% | - | - | | Co-working |
| **Zincshower, S.L.U.**<br>Colegiata, 9<br>28012 Madrid (Spain) | merged | - | - | 100% | Utopicus Innovación Cultural, S.L. | Co-working |
| **Colaboración e Innovación Virtual, S.L.U.**<br>Duque de Rivas, 5<br>28012 Madrid (Spain) | merged | - | - | 100% | Utopicus Innovación Cultural, S.L. | Co-working |
| **SA Société Foncière Lyonnaise (SFL)**<br>42, rue Washington<br>75008 Paris (France) | 81,71% | 81,71% | - | - | | Inmobiliaria |
| **SNC Condorcet Holding (**)**<br>42, rue Washington<br>75008 Paris (France) | - | - | 100% | 100% | SFL | Inmobiliaria |
| **SNC Condorcet Propco (**)**<br>42, rue Washington<br>75008 Paris (France) | - | - | 100% | 100% | SNC Condorcet Holding | Inmobiliaria |
| **SCI Washington (*)**<br>42, rue Washington<br>75008 Paris (France) | - | - | 66% | 66% | SFL | Inmobiliaria |
| **SCI 103 Grenelle (*)**<br>42, rue Washington<br>75008 Paris (France) | - | - | 100% | 100% | SFL | Inmobiliaria |
| **SCI Paul Cézanne (*)**<br>42, rue Washington<br>75008 Paris (France) | - | - | 100% | 100% | SFL | Inmobiliaria |
| **SA Segpim (*)**<br>42, rue Washington<br>75008 Paris (France) | - | - | 100% | 100% | SFL | Marketing real estate and service provision |
| **SAS Locaparis (*)**<br>42, rue Washington<br>75008 Paris (France) | - | - | 100% | 100% | Segpim | Marketing real estate and service provision |
| **SAS Maud (*)**<br>42, rue Washington<br>75008 Paris (France) | - | - | 100% | 100% | SFL | Inmobiliaria |
| **SAS Société Immobilière Victoria (*)**<br>42, rue Washington<br>75008 Paris (France) | - | - | merged | 100% | SFL | Inmobiliaria |
| **SAS SB2 (*)**<br>42, rue Washington<br>75008 Paris (France) | - | - | 100% | 100% | SFL | Inmobiliaria |
| **SAS SB3 (*)**<br>42, rue Washington<br>75008 Paris (France) | - | - | 100% | 100% | SFL | Inmobiliaria |
| **SCI SB3**<br>42, rue Washington<br>75008 Paris (France) | - | - | 100% | 100% | SFL | Inmobiliaria |
| **SAS Parholding (*)**<br>42, rue Washington<br>75008 Paris (France) | - | - | 50% | 50% | SFL | Inmobiliaria |
| **SC Parchamps (*)**<br>42, rue Washington<br>75008 Paris (France) | - | - | 100% | 100% | SAS Parholding | Inmobiliaria |
| **SC Pargal (*)**<br>42, rue Washington<br>75008 Paris (France) | - | - | 100% | 100% | SAS Parholding | Inmobiliaria |
| **SC Parhaus (*)**<br>42, rue Washington<br>75008 Paris (France) | - | - | 100% | 100% | SAS Parholding | Inmobiliaria |

* Company audited in 2019 by PricewaterhouseCoopers
** Company audited in 2019 by Deloitte & Associés

At 31 December 2019 and 2018, the Group companies were audited by PricewaterhouseCoopers Auditores, SL, except for the SFL Group, which was jointly audited by Deloitte and PricewaterhouseCoopers.

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

# Consolidated management report corresponding to the year ended on 31 December 2019

## *1. Group Status*

Rental Market Situation

Barcelona

The office market in Barcelona closed 2019 with a record cumulative take-up in the historical series of 410,000 sqm, +12% higher than the figure in 2018. The vacancy rate continued on a downward trend to stand at 5% for the entire market, at its lowest in the last decade. In the CBD, the vacancy rate continued to reduce to 1.7%. A lack of future supply together with the strong demand is driving up prime rents to €27.5/sqm/month, which represents an annual increase of +9%. Long-term forecasts continue with growth perspectives, based on the fact that currently 35% of the demand is for new occupancy and 30% of the future supply is already taken up.

Madrid

During 2019, more than 600,000 sqm were signed in the office market in Madrid. This figure is above the average over the last five years. This high demand positioned the vacancy rate at 8.5%, a 17% decrease compared to the previous year. In turn, the CBD in Madrid had the highest demand, with 35% of the total, resulting in a low vacancy rate of 6.5% in the CBD. A lack of quality product in the City Center continued to put upward pressure on rental prices, resulting in prime rents continuing to rise to a value of €36.50/sqm/month. Likewise, it is worth mentioning that Madrid remains a robust market with a stable net absorption, enabling it to be one of the cities with the greatest rent growth in Europe.

París

In the office market in Paris, take-up in 2019 reached a total of 2,317,000 sqm, a figure higher than the average over the last 10 years. Likewise, it is worth mentioning that 50% of the take up was in spaces in Paris City Centre. Vacancy in the entire market reached an all-time low over the last 10 years to stand at 5%. In the CBD, a lack of supply continued to decrease to reach 2,718,000 sqm, positioning the vacancy rate at 1.0%. As a consequence, prime rents continued to increase, reaching levels above €800/sqm/year.

*Sources: Reports by Jones Lang Lasalle, Cushman & Wakefield, CBRE & Savills*

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 5,800 million euros with a free float of around 60% and manages an asset volume of more than 12,000 million euros.

The company's strategy focuses on 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 transformation and creation of top quality offices in prime locations, mainly the CBD (Central Business District).
- 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 the European company with the greatest focus on city centre areas and leads the Spanish real estate market in terms of quality, sustainability and efficiency of its office portfolio.

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 Colonial has successfully implemented the objective of organic investment announced to the capital market: asset acquisitions prioritising off-market operations, identifying properties with added value potential in market segments with sound fundamentals. For this reason, there have been significant investments and divestitures in the Colonial Group since 2015.

At the end of 2019, the Colonial Group has a robust capital structure with a solid "Investment Grade" rating. The Group's LTV stands at 36% in December 2019.

The parent 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 vocation to maintain 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.

## 2. *Development and result of business*

*Introduction*

At 31 December 2019, the Group's turnover was 355 million euros.

The operating profit was 299 million euros.

The revaluation of real estate investments, in accordance with the independent appraisal carried out by Jones Lang Lasalle and CB Richard Ellis, in Spain, and Cushman & Wakefield and CB Richard Ellis, in France at year end, was 874 million euros. This adjustment, registered in both France and Spain, is the result of an increase in value in homogeneous terms of 9% compared to December 2018 (16% in Barcelona, 6% in Madrid and 9% in France).

The net financial cost amounted to 96 million euros.

Finally, after deducting the minority interest of 166 million euros, the profit attributable to the Group amounted to 827 million euros in profit.

Annual Results

*Double-digit value creation for shareholders*

Colonial closed 2019 with an EPRA Net Asset Value of €11.5/share, in a year-on-year increase of +14%, which, together with the dividend paid of €0.20 per share, led to a total shareholder return of +16%.

In absolute terms, the EPRA NAV amounts to 5,825 million euros.

The outstanding value creation for the shareholders relies on an industrial real estate strategy with a high Alpha returns component. The main aspects are the following:

- Successful management of the project portfolio: Projects completed as well as the signing of important pre-lettings in the project pipeline and in the renovation program.
- Capturing of important rental growth thanks to excellent fundamentals in the CBD, where Colonial has a unique exposure of 76%.
- A compression of prime office yields, due to an increased demand of the investment market on a framework of decreasing interest rates and scarce supply in CBD.

*Significant increase in value of the real estate portfolio*

The gross asset value of the Colonial Group at the close of 2019 amounted to 12,196 million euros (12,807 million euros including transfer costs), with a like-for-like increase of +9% compared to the previous year (+5% like-for-like in the second half).

The offices portfolio in Barcelona, with an excellent positioning in the CBD and 22@, reached a like-for-like growth of +16% in 2019 (+7% in the second half) with important growth in all the assets due to a combination of increases in rental prices, the successful delivery of the Pedralbes Centre and Gala Placidia, as well as yield compression .

Madrid increased +6% like-for-like in 2019 (+3% in the second half), due to its strong positioning in the City Centre and the CBD in combination with the successful delivery and management of the Discovery, The Window and Avenida Bruselas projects in recent months, which have enabled the signing of rental contracts at prices at the high end of the market with top tier clients.

The Paris portfolio increased +9% like-for-like in 2019 (+5% like-for-like in the second half) which is underpinned by a high global appeal of the CBD market in Paris in combination with the successful pre-letting of the Louvre St. Honoré project and the Haussmann renovation program.

*Significant increase in net recurring profit and net earnings per share*

The Colonial Group closed 2019 with a net profit of 827 million euros, an increase of +302 million euros, up +58% compared to the previous year and with a net recurring profit of 139 million euros, an increase of +39 million euros, up +38% compared to the previous year.

Net recurring EPS amounted to €27.4cts per share, resulting in an increase of +23% versus the previous year.

The increase in the recurring net profit of +39 million euros (+38% vs. the previous year) was driven by:

- An increase in EBITDA of +11 million euros (+3 million euros, after the adjustment of the impact of the disposal on non-strategic assets)
- A reduction in financial costs of 13 million euros
- A higher attributable profit due to the increase in the SFL stake from 59% up to 82%, (acquired at the end of 2018) which is reflected in the line of minority interests

The disposals of non-strategic assets carried out in 2019 have resulted in an impact of lower rents on the recurring profit of 8 million euros. Consequently, the recurring profit per share, excluding the non-strategic asset sales, would have been €29cts/share, an increase of +30% in comparable terms.

Considering the significant growth in the value of the portfolio in 2019, as well as the capital gain on the disposals and deducting all of the non-recurring impacts, the net attributable results amounted to 827 million euros, up +58% compared to the previous year, equivalent to an increase of +302 million euros.

Solid revenue growth in Gross Rental Income

Colonial closed 2019 with 352 million euros of Gross Rental Income, up +1% compared to the previous year. The sale of the logistics portfolio and non-core assets reflects the reduction in rent for the disposals carried out.

In like-for-like terms, the rental income from Colonial's portfolio increased +4% compared to the previous year.

This growth in rental income is based on a significant like-for-like increase across the portfolio in all three markets in which the Colonial Group operates.

This strong like-for-like growth is among the highest in Europe and is mainly due to the capacity of the Colonial Group to capture rental price increases, thanks to its strong positioning in the city center (CBD). Of note is the Madrid market with an increase of +6% like-for-like.

In terms of the breakdown of the contribution of each of the three markets of the Group's portfolio, the main aspects to highlight are the following:

- Barcelona +2.4% like-for-like due to rental price increases across the entire portfolio. Worth highlighting is the increase in rents in the the Avinguda Diagonal 609, Torre BCN, Amigó 11-17, Illacuna and Vía Augusta assets, which are leading the growth in Barcelona.
- Madrid +6% like-for-like. This increase is mainly driven by the market rental review of current prices on the Martínez Villergas, Santa Engracia & Sagasta 31-33 assets, as well as a substantial improvement in occupancy such as in the Egeo & Jose Abascal 56 assets.
- Paris +3% like-for-like. Rental increases rose by 5 million euros. This was due to an increase in prices and new leases, mainly on Cézanne Saint Honoré, Edouard, VII, Washington Plaza and Louvre St. Honoré offices.

Colonial Group rental income was impacted by the disposal of non-strategic assets. These divestments have strengthened the quality of the Group portfolio and correspond to: 1) the of the secondary office portfolio at the end of 2018, 2) the sale of the Centro Norte Hotel and 3) the sale of the logistics portfolio in 2019.

In addition, the rotation of the project portfolio as well as the start of the renovation program in Madrid, resulted in a temporary decrease in rents, specifically due to the start of the projects on the 83 Marceau asset in Paris and the Velázquez and Miguel Ángel 23 assets in Madrid.

*Solid operational fundamentals in all segments*

The Colonial Group's business has performed excellently, with take-up levels moving at a strong pace, achieving levels close to full occupancy.

*Capturing rental price increases*

The Colonial Group's business has performed excellently, with take-up levels moving at a strong pace, achieving levels close to full occupancy. At the close of 2019, the Colonial Group had signed 135 rental contracts on the office portfolio corresponding to 263,301 sqm and annual rents of 93 million euros.

Double digit release spreads:

For the contracts renewed in 2019, the release spread (signed rents vs previous rents) was +14%. Of special mention is the high release spread in the Barcelona portfolio of +31%, as well as a solid increase in Madrid of +9% and in Paris of +7%.

Strong rental growth compared to the market:

Compared with the market rent (ERV) at December 2018, signed rents increased by +6% in 2019.

In Barcelona, rents were signed at +9% above market rent at December 2018, in the Paris portfolio, the increase in ERVs was +7%, and the Madrid portfolio was up +4%.

In the Madrid portfolio, it is important to highlight that the growth of the rental prices in the Madrid CBD was +6%, a percentage much higher than the +3% of the contracts signed outside the M30

Colonial's total letting activity is spread across the three markets in which the Company operates.

In Spain, in 2019, 207,247sqm were signed across 94 contracts.

In the Madrid portfolio, 142,781 sqm were signed across 53 transactions. The largest transaction relates to the renewal of the entire surface area of Santa Hortensia (more than 40,000 sqm) with a multinational technology company. In addition, there are the renewals of 6,000 sqm on the Ramírez Arellano asset, 5,700 sqm on the Josefa Valcarcel 24 asset, José Abascal 56 and Tucumán, as well as 5,200 sqm on the Alfonso XII asset.

In terms of new contracts, noteworthy is the signing in April 2019 of 100% of the project delivered at Avenida Bruselas 38 for the headquarters of MasMovil, an IBEX35 technology company. In addition, there is the signing of 8,700 sqm on the Josefa Valcarcel 40 building with a leading communication group in Spain, a deal that will result in 100% occupancy of the asset. Also noteworthy are the signing of almost 9,000 sqm on the Francisca Delgado 11 building with various tenants, as well as the signing of more than 7,600 sqm on the new project in Castellana 163 (a surface area signed with various tenants).

In the Barcelona office portfolio, 64,466 sqm were signed across 41 transactions. Among the highlights is the pre-letting of the entire Diagonal 525 project, which will house the new headquarters of a prestigious company in the electric and gas industry. Also worth noting is the signing of 6,700 sqm on the Torre Marenostrum asset, as well as the signing of 4,300 sqm on the recently delivered Gala Placidia project.

In terms of renewals, worth mentioning is the renewal of 11,800 sqm on the Diagonal 197 asset and the 5,200 sqm on Paseo de los Tilos, both contracts with prestigious solvent clients. With respect to the signing of new contracts, highlighted are the 4,000 sqm on the Sant Cugat building, 2,400 sqm on the Diagonal 682 building and 2,400 sqm on the Berlín/Numancia building.

In the Paris portfolio, 56,054 sqm were signed across 41 transactions.

Of special mention is the renewal of 2,700 sqm of office space in the Louvre Saint Honoré building. In terms of new leases, worth noting is the signing of 20,000 sqm with the Cartier Foundation with a 20-year minimum fixed term. In addition, there is the signing of 3,500 sqm on the Edouard VII building, the signing of almost 12,000 sqm on the 106 Haussmann building, as well as signing of 4,800 sqm on 103 Grenelle, among others.

*Solid occupancy levels*

The total vacancy of the Colonial Group's portfolio (including all uses: offices, retail and logistics) stood at levels of 2.7% at the close 2019. Noteworthy is the office portfolio in Paris, with a vacancy rate of 1.6%.

The Barcelona office portfolio has a vacancy rate of 2%, a ratio that remains at very low levels, in line with the high quality of the portfolio. The variation compared to the previous quarter is mainly due to the rotation of tenants within the portfolio, freeing up top quality spaces and facilitating future income reversion.

The office portfolio in Madrid has a vacancy rate of 4.3%, improving by +619bps compared to December 2018 and by +307bps compared to the third quarter of 2019. The main new leases signed were on assets such as José Abascal 56, Ramírez Arellano 15, Alfonso XII, Avenida Bruselas 38 & Francisca Delgado 11, among others. The 4% vacancy rate is concentrated mainly on portfolio assets coming from Axiare. In particular, the recently delivered Ribera de Loira project, as well as the Francisca Delgado 11 and Josefa Valcárcel 40bis assets are highlighted.

*Successful delivery of projects – "real estate transformation"*

Project Pipeline:

During 2019, the Colonial Group successfully delivered 3 large projects: Gala Placidia and Pedralbes Centre in Barcelona and Avenida de Bruselas 38 in Madrid, comprising the three benchmark buildings in their area.

Gala Placidia is an asset located in the Barcelona CBD, acquired under the framework of the Alpha III project at the beginning of 2018, which has been completely refurbished with the aim of maximizing coworking initiatives. The asset, which is managed by Utopicus, a company of the Colonial Group dedicated to the management of flexible spaces, has attracted different international companies looking for flexibility in spaces in a CBD location, as well as the community offering and Utopicus services.

Pedralbes Centre was the other large project delivered in Barcelona during 2019. This project has enabled 1) the active space to be reorganized, increasing the GLA (Gross Lettable Area) by +27%, 2) management costs to be optimized and 3) large commercial units to be chosen. This new approach attracted the interest of different top tier tenants, with UNIQLO, a global fashion company, deciding to pre-let the main space at a very attractive rental price.

In Madrid, the Avenida Bruselas 38 asset was delivered, which is a project initiated by Axiare and executed by Colonial. This is a unique, top quality office building, with one of the best micro-locations in the sub-market of Arroyo de la Vega, and has led to the signing of a 7-year contract of mandatory compliance for the headquarters of a top tier technology company, resulting in 100% occupancy.

The delivery of these projects has provided significant value creation for Colonial's shareholders.

Regarding the progress of the projects, a commercial space of 16,000 sqm is being developed in Louvre Saint Honoré. In 2019, two important milestones were reached for the project: 1) a pre-let agreement was signed with the Cartier Foundation with very favorable terms and 2) the work permit was received and the project is now in the execution phase, therefore work will commence during the first half of 2020.

Renovation Program

The Colonial Group counts on a renovation program accelerating client rotations in the spaces to reposition them in the market and capture the maximum rents. The current program has 3 assets in Spain and 2 in France, of which worth noting is the next delivery in France:

The Haussmann 106 building with 12,000 sqm of offices in the center of Paris is already let to WeWork with a turnkey contract for a 12-year period, in effect as of 6 January 2020. This renovation has enabled an increase in the density of the occupancy and an improvement in the image of the building, key factors that have allowed for the capture of maximum market rental prices.

*Active portfolio management*

Completion of the Axiare integration

In 2018, a quick and efficient takeover bid was carried out on Axiare, S.A, which completed with a merger in June 2018.

In 2019, Colonial finalized the integration of this Company: (i) in June 2019 the registered goodwill was fully absorbed just one year after the merger and (ii) in August 2019, Colonial signed an agreement for the sale of 18 logistics assets, managing to successfully dispose of these non-strategic assets.

With the sale of the logistics package, Colonial has completed the integration of Axiare, consolidating its leadership in prime offices in Spain and Europe through the creation of a strong growth platform with unique exposure to the CBD in Europe.

*Disposals of non-strategic assets*

During 2019, Colonial signed an agreement for the sale of 18 logistics assets with a total surface area of 473,000 sqm. At the close of the year, the disposals of 11 facilities materialized immediately, totaling 314,000 sqm. Regarding the rest of the logistics assets, Colonial expects the buyer to exercise the call option on them in the first half of 2020.

In addition, during the first quarter of 2019 the disposal of the Centro Norte Hotel with a GLA (Gross Lettable Area) of more than 8,000 sqm was executed, as well as the sale of the Parc Central plot in the last quarter of the year.

Consequently, Colonial closed the year with disposals for 477 million euros which has enabled 1) the optimization of the business mix, further increasing the focus on offices, which has reached 94% in terms of asset value, as well as 2) an improvement in the quality of returns with a concentration in prime offices.

*Acquisition Program*

In October 2019, Colonial announced that it was analysing a pipeline of acquisitions of 1,000 million euros , of which, at the date of this report, 115 million euros have been executed. These investments, together with the acquisition of the 45% of Torre Marenostrum in the first half of 2019, show that the Colonial Group continues executing its acquisition program, investing more than 160 million euros in prime assets in 2019.

- Torre Marenostrum – Barcelona 22@: At the beginning of 2019, an acquisition was carried out for the remaining 45% of Torre Marenostrum. Full ownership of this unique building located in the 22@ market in Barcelona, a few metres from the beach, has enabled the implementation of a renovation program, creating a "hybrid" complex which integrates an offer of traditional prime offices with more than 3,000 sqm of flexible spaces managed by Utopicus. This renovation and redistribution of space is enabling Colonial to capture important reversionary potential for reformed spaces which are already let (> 7,000 sqm).
- Parc Glories II – Barcelona 22@: In the fourth quarter of 2019, the Colonial Group acquired the Parc Glories II, for an acquisition price of 101 million euros. The building is located in Glories, the best area of the 22@ district in Barcelona, considered to be the new technological CBD of the city. The building has a surface area of 17,860 sqm of offices and stands out architecturally due to its very design-efficient floor plan with more than 2,500 sqm, highly sought after in the market. Parc Glories II is 100% let to a German multinational with a short-term contract and current prices 40% below market rents. This situation highlights the high value creation potential, considering a light capex investment, once the current rents revert to market prices.
- Recoletos 27 – CBD Madrid: In the fourth quarter of 2019 and during the start of 2020, 2,000 sqm of offices were acquired in Recoletos 27, a prime area of the CBD in Madrid. This acquisition corresponds to three floors of 700 sqm with great luminosity in a corner building close to Plaza Colón. The investment includes a partial renovation for a subsequent letting at maximum rental prices in the prime district of Madrid.

*Leadership in ESG*

Colonial pursues a clear leadership in ESG, being a fundamental element of its strategy, prioritizing a sustainable long-term returns, based on a business model of high-quality products.

Colonial's Corporate Strategy is based on pursuing the maximum excellence in the fields of governance, social aspects and sustainable investment.

- The Colonial Group has increased its GRESB scoring by +26% with very high scores in the areas of Monitoring-EMS, Management & Risk-Opportunities.
  Likewise, it is important to mention that the Colonial Group's French subsidiary has received the second best GRESB rating in the offices sector in all of Europe.
- MSCI, main benchmark for listed companies, has rated Colonial with AA on its ESG rating, one of the highest ratings internationally, in particular due to its very high standards in Corporate Governance.
- Colonial has obtained the EPRA Gold sBPR rating for the fourth consecutive year, which certifies the highest reporting standards in ESG.
- Worth highlighting is that Colonial has become part of the ESG Ethibel Sustainability Excellence Europe index, managed by Vigeo Eiris, a clear reference in the financial sector. This index is made up of a group of European companies that show the best performance in the area of corporate social responsibility.
- In relation to energy efficiency, BREAAM/GRESB recognized Colonial as the number one responsible investor in Europe for having an operational portfolio, where 91% of the assets have maximum energy certificates.

Currently 92% of the office portfolio has LEED and BREEAM energy certificates. In particular, €2,011m of the assets have LEED ratings and €9,008m of the assets have BREEAM ratings. This level of certification is above the sector average.

The Colonial Group is clearly committed with climate change and in proof of this, of special mention are the two new certificates that the BIOME building in Paris will receive: 1) The BiodiverCity Excellence stamp which highlights the significant effort that has been made in the revegetation of the place, and 2) The asset will be one of the first buildings in France to obtain the BBCA renovation label (Low Carbon Building) as a result of the efforts made in terms of greenhouse effect gas emissions.

Colonial's leadership in ESG has enabled Colonial to be the first real state company in Spain to sign sustainable loans, formalizing two ESG compliant loans for a total volume of 151 million euros, with ING and CaixaBank.

*Digital Strategy and Co-working*

At the end of 2017, Colonial acquired Utopicus, a startup founded in 2010, pioneer in the coworking sector in Spain. Since then, Colonial has driven the growth and launched different initiatives to convert Utopicus into one of the leading operators of the sector, with 14 centres under management and approximately 40,000 sqm of surface area.

During 2019, Utopicus focused its efforts in two large areas: firstly, in offering innovative content and services from the Colonial Group and secondly, in expanding its presence in Spain through the properties of the Colonial Group, offering a complementary service through accessible spaces to all corporate clients.

Accordingly, in 2018, a new concept for office buildings was launched, taking advantage of the delivery of the new offices project carried out by Colonial, “The Window”. This property combines a center of Utopicus of 4,000 sqm with traditional office space. The result obtained was a success, increasing the occupancy of the building with rents higher than expected, and positioning Window as the benchmark for companies in the Fintech sector in the city of Madrid.

Throughout 2019, Colonial replicated this “hybrid” building concept in other properties of the Group and six buildings already had flexible office spaces. In particular, of special note is the center opened in the Parc Glories building, located in the best area of the 22@ district in Barcelona. The space provides a combination of flexible uses with traditional office space and has more than 2,000 sqm of surface area for 195 workstations.

Likewise, Colonial has developed an application that, together with the prior “sensorization” of the property, will lead to an improvement in the efficiency and energy consumption of the spaces. The application measures different aspects of a building, such as the heating, air quality, lighting intensity and energy consumption, among others, always looking to increase the comfort and well-being of the Colonial Group’s clients. At the close of 2019, the system had already been implemented in six of Colonial’s buildings in Madrid, with the future aim of implementing it in the rest of the portfolio

*A solid capital structure*

*A strong balance sheet*

At 31 December 2019, the Colonial Group had a solid balance sheet with a LTV of 36% (an improvement of 315 bps compared to the end of the previous year) with a Standard & Poor’s rating of BBB+, the highest rating in the Spanish Real Estate sector.

The liquidity of the Group at the close of 2019 amounts to 2,082 million euros. In terms of debt maturity, it is particularly noteworthy that 79% of the Group’s debt will mature from 2023 onwards.

2019 was marked by the completion of the restructuring of the pending debt coming from Axiare, cancelling various bilateral loans amounting to 162 million euros and refinancing two bilateral loans in the amount of €151m, improving margins and cancelling mortgage securities. The refinanced loans are sustainable loans as their margin will vary according to the rating that Colonial obtains with respect to ESG from the sustainability agency GRESB.

As for SFL, it has restructured a syndicate loan of 390 million euros that has resulted in an improvement both in terms of margins as well as maturity. SFL also carried out short-term note issues throughout the year with existing issuances at the end of the year amounting to 387 million euros.

*Solid share price performance*

At the end of 2019, Colonial’s shares closed with a revaluation of +40%, outperforming the EPRA & IBEX35 benchmark indices.

The share price performance reflects the support of capital markets for the successful execution of the Colonial Group’s growth strategy. Colonial’s share price trading stands out compared to its peers as one of the securities that is trading the closest to its fundamental value.

At the beginning of 2020, key analysts in the real estate sector such as Goldman Sachs, Morgan Stanley, Bank of America and JP Morgan have updated their recommendation and target prices on Colonial, up to a range between €13 and €13.5 per share.

*Growth drivers*

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

A. Clear leadership in prime offices
    - Colonial has a high-quality product with an unparalleled exposure to city center locations in Europe with 76% of the portfolio in CBD.
B. An attractive project pipeline: A portfolio of 10 projects corresponding to more than 200,000 sqm to create prime products that offer strong returns and therefore, future value creation with solid fundamentals.
    - At present, several projects (specifically Castellana 163, Diagonal 525 and Louvre SaintHonoré) already have pre-let agreements in favorable terms, significantly increasing the visibility of future cash flow and value creation.
C. A strong prime positioning with an asset portfolio to capitalize on the cycle
    - Once again, 2019 has shown the capacity of the Colonial Group’s contract portfolio to capture maximum market rents and obtain significant rental price increases with double-digit release spreads. In the next 24 months, 66% of the contracts in Madrid and Barcelona and 25% of the contracts in Paris will mature, generating an attractive reversionary potential to capture rental price increases
    - Renovation Program:
    - The Colonial Group counts on a renovation program that is accelerating tenant rotation in the corresponding spaces to maximize growth in rental prices. This renovation program is mainly focused on the adaptation of common areas and updating facilities, with limited investment.
    - The renovation program currently includes the Cedro and Ortega & Gasset buildings in Madrid, the Torre Marenostrum asset in the 22@ technological district in Barcelona and 176 Charles de Gaulle, located in the growing market of Neuilly in Paris.
D. Solid investment markets: the direct investment markets maintain high interest in prime products. In this respect, Colonial’s portfolio offers interesting spreads compared to the benchmark reference rates.
E. Financial discipline in the acquisition and disposal program: Over recent years, Colonial has successfully delivered the organic acquisition targets announced to the capital markets: asset acquisitions, prioritising off-market transactions and identifying properties with value-added potential in market segments with solid fundamentals.

Since 2015, the Colonial Group has carried out significant investments and disposals. The acquisition program has identified and carried out investments for 160 million euros. At the same time, non-strategic product was disposed of for 477 million euros above valuation to optimize the quality of the portfolio returns.

In 2020, Colonial expects to continue with a selective rotation of non-strategic and/or mature assets and at the same time to carry out new acquisitions.

### *3. Liquidity and capital resources*

See "Capital management and risk management policy" section of Note 15-o of the consolidated annual financial statements for the year ended 31 December 2019.

The average payment period (APP) of the Group's Spanish companies to their suppliers for 2019 was 23 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 by 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*

Colonial aims to create sustainable value through optimising the relationship between profitability and the risk of its business activity, which helps to reinforce its leadership in the sector and consolidate its long-term position. 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 assigned in relation to the RCMS 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 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, derived from the political and macroeconomic situation in the countries where it operates, and from changes in investors' own expectations.
- Market risks, derived from changes in the business model itself, the greater complexity to develop the investment strategy, and the fluctuation of the real estate market with an impact on the valuation of real estate assets.
- Financial risks, related to restrictions in capital markets, interest rate fluctuations, the impact of changes in tax regulations (mainly by the SOCIMI regime) and those of the counterparty of the main clients.
- Environmental risks derived from the most demanding demands in ESG, and mainly those related to the impact of climate change on the Group's activity.

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

- Strategic risks in relation to the internationalisation and dimension of the Group, the high concentration of activities for office rental in prime areas of Barcelona, Madrid and Paris, and the strategy in the co-working market.
- Various operational risks related to maintaining occupancy levels in the real estate and the levels of income contracted, undertaking the projects in term and cost, maintaining the real estate assets, managing the level of indebtedness and the current credit rating, cyber attacks or failures in the information systems, as well as those of managing 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 SOCIMI by Colonial and the loss of its French subsidiary Société Foncière Lyonnaise of its status as a Real Estate Investment Trust (REIT).

### *5. Subsequent events*

Since 31 December 2019 and up to the date these consolidated annual financial statements were prepared, no significant events have occurred.

### *6. Foreseeable evolution*

The following are the perspectives of the office market in Madrid, Barcelona and Paris:

Barcelona and Madrid

In the Spanish economy, a positive direction have continued to be shown in recent months of certain aspects that have been drivers of Spanish economic growth in recent years, which are specifically: 1) a favourable evolution of the labour market; 2) foreign surplus and 3) low interest rates.

In the Barcelona market, it should be noted that due to the shortage of offer of large quality spaces, especially in the city centre, the predictions suggest that many projects will be delivered partially or completely pre-rented. Consequently, long-term forecasts of income levels remain bullish, placing Barcelona as one of the cities with the highest expected revenue growth in Europe. Meanwhile, Madrid is positioned as the second European city with the highest forecasted income growth in Europe.

Paris

The Paris market is one of the most important worldwide. Clear indications of improvement in demand have been observed during recent quarters, particularly for the CBD area, where there is a clear shortage of prime products. Today the availability of office space in this area is at a 10-year low.

Consequently, for prime properties in CBD areas, the main consultants foresee a consolidation of the positive trend that has started.

Regarding growth prospects, the French economy is expected to grow for the following years.

Future strategy

The investment market has registered record contracting volumes. In the current environment of low interest rates, high investment interest in the Paris market is expected to continue, as the most important office market in the Eurozone.

In this market context, the parent company is carrying out a selective investment policy in order to maximise shareholder value.

In particular,it focuses its efforts on finding quality products in market areas with potential and assets with the potential of being converted into prime products through repositioning.

### *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.

### *7. Own Actions*

At 31 December 2019, the parent company has 578,866 shares in treasury stock with a nominal value of 1,447 thousand euros and representing 0.11% of the parent company's capital stock.

### 8. *Other relevant information*

On 10 December 2015, the Board of Directors of the parent company agreed to adhere to the code of good tax practices. Said agreement was communicated to the tax administration on 8 January 2016.

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

An explanatory glossary of alternative performance measures is included below , including their definition and relevance for Colonial, in accordance with the recommendations of the European Securities and Markets Authority (ESMA) published in October 2015 (*ESMA Guidelines on Alternative Performance Measures*). These Alternative Performance Measures have not been audited or reviewed by the parent company's auditor.

| **Alternative Performance Measure** | **Form of calculation** | **Definition/Relevance** |
|---|---|---|
| EBIT<br>(Earnings before interest and taxes) | Calculated as the "Operating profit" plus "Changes in the value of property investments" and the "Profit/(loss) due to changes in the value of assets" | Indicates the Group's capacity to generate profits, only taking into consideration its economic activity, less the effect of debt and taxes. |
| EBITDA<br>(Earnings Before Interest, Taxes, Depreciation and Amortization) | Calculated as the "Operating profit" adjusted by "Depreciation/Amortization" and "Net changes in provisions" | Indicates the Group's capacity to generate profits only taking into account its economic activity, eliminating allocations to depreciation/amortization, and the effect of debt and taxes. |
| Gross Financial Debt (GFD) | Calculated as the total of all items under "Bank borrowings and other and other financial liabilities" and "Issues of debentures and similar securities", excluding "Interest (accrued), "Origination fees" and "Other financial liabilities" from the consolidated statement of financial position. | Relevant figure for analysing the financial situation. |
| Net Financial Debt (NFD) | Calculated by adjusting the item "Cash and cash equivalents" in Gross Financial Debt. | Relevant magnitude to analyse the Group's financial situation. |
| EPRA[1] NAV<br>(EPRA Net Asset Value) | Calculated based on the Company's capital and reserves, adjusting certain items in accordance with EPRA recommendations. | Standard analysis ratio in the real estate sector and recommended by EPRA. |
| EPRA[1] NNNAV<br>(EPRA triple net asset value) | Calculated adjusting the following items in the EPRA NAV: the market value of financial instruments, the market value of financial debt, the taxes that would be accrued with the sale of the assets at their market value, applying the tax benefits for reinvestments and the tax credit recognized in the balance sheet, considering a going concern assumption | Standard analysis ratio in the real estate sector recommended by EPRA |
| Market value excluding transaction costs or Gross Asset Value (GAV) excluding Transfer costs | Measurement of the totality of the Group's asset portfolio carried out by independent appraisers of the Group, less transaction or transfer costs. | Standard analysis ratio in the real estate sector. |

[1] EPRA (*European Public Real Estate Association*) or European Association of listed property companies which recommend the standards of best practices to be followed in the real estate sector. The method of calculation of these APMs is carried out following the indications established by EPRA.

| Alternative Performance Measure | Form of calculation | Definition/Relevance |
|---|---|---|
| Market value including transaction costs or GAV including Transfer costs | Measurement of the totality of the Group's asset portfolio carried out by external appraisers of the Group, before deducting the transaction or transfer costs. | Standard analysis ratio in the real estate sector. |
| Like-for-like rental income | Amount of the rental income included in the item "Revenues" comparable between two periods. To obtain the calculation, the income from investments or disposals carried out in both periods are excluded, as well as the income deriving from assets included in the projects and refurbishments portfolio and other atypical adjustments (for example, penalties for early termination of rental contracts). | It enables a homogeneous comparison of the evolution of rental income of an asset or group of assets. |
| Like-for-like measurement | Market measurement (valuation) amount, excluding transaction costs, or market valuation, including transaction costs, comparable between two periods. To obtain the calculation, the rental income coming from investments or disposals carried out between both periods is excluded. | It enables a homogenous comparison of the evolution of the market valuation of the portfolio. |
| *Loan to Value,* Group or LtV Group | Calculated as the result of dividing the Net Financial Debt by the market valuation including the transaction costs of the Group's asset portfolio plus the treasury shares of the Parent Company at Nav value. | It enables the analysis of the ratio between the net financial debt and the valuation of the Group's asset portfolio. |
| LtV Holding or LtV Colonial | Calculated as the result of dividing the Gross Financial Debt less the amount in the item "Cash and cash equivalents" of the Parent Company and 100% owned subsidiary companies by the market valuation, including transaction costs, of the parent company's asset portfolio and the EPRA NAV of all financial stakes in subsidiary companies. | It enables the analysis of the ratio between the net financial debt and the valuation of the parent company's asset portfolio. |

Alternative Performance Measures included in the previous table have their origin in items of the consolidated annual financial statements of Inmobiliaria Colonial or in the breakdowns of the items (sub-items) included in the corresponding explanatory notes of 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.

- EPRA NAV (EPRA *Net Asset Value*)

| EPRA NAV (EPRA *Net Asset Value*) | 31/12/2019 | 31/12/2018 |
|---|---|---|
| | Millions of Euros | |
| "Net equity attributable to the parent company's shareholders" | 5.559 | 4.811 |
| Includes: | | |
| (i.a) Revaluation of investment assets | 21 | 24 |
| (i.b) Revaluation of assets under development | N/A | N/A |
| (i.c) Revaluation of other investments | 24 | 26 |
| (ii) Revaluation of financial leases | N/A | N/A |
| (iii) Stock revaluation | 3 | 7 |
| Excludes: | | |
| (iv) Market value of financial instruments | (21) | 2 |
| (v.a) Deferred taxes | 240 | 228 |
| (v.b) Goodwill as a result of deferred assets | N/A | N/A |
| Includes/excludes: | | |
| Adjustments from (i) to (v) with respect to interests of strategic alliances | N/A | N/A |
| EPRA NAV | 5.825 | 5.098 |

- EPRA NNNAV (EPRA Triple Net Asset Value)

| EPRA NNNAV (EPRA Triple Net Asset Value) | 31/12/2019 | 31/12/2018 |
|---|---|---|
| | Millions of Euros | |
| EPRA NAV | 5.825 | 5.098 |
| Includes: | | |
| (i) Market value of financial instruments | 21 | (2) |
| (ii) Market value of the debt | (258) | (14) |
| (iii) Deferred taxes | (240) | (229) |
| EPRA NNNAV | 5.348 | 4.853 |

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

| Market Value excluding transaction costs or GAV *excluding Transfer costs* | 31/12/2019 | 31/12/2018 |
|---|---|---|
| | Millions of Euros | |
| Barcelona | 1.534 | 1.175 |
| Madrid | 2.543 | 2.511 |
| Paris | 6.502 | 6.256 |
| Leased out | 10.578 | 9.942 |
| Projects | 1.338 | 925 |
| Other | 280 | 481 |
| **Total Market Value excluding transaction costs** | **12.196** | **11.348** |
| Spain | 5.039 | 4.778 |
| France | 7.157 | 6.570 |

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

| Market Value including transaction costs or GAV *including Transfer costs* | 31/12/2019 | 31/12/2018 |
|---|---|---|
| | Millions of Euros | |
| Total Market Value excluding transaction costs | 12.196 | 11.348 |
| Plus: transaction costs | 611 | 567 |
| **Total Market Value including transaction costs** | **12.807** | **11.915** |
| Spain | 5.175 | 4.910 |
| France | 7.632 | 7.005 |

- Like-for-like Rental Income

| Like-for-like Rental Income | Barcelona | Madrid | Logistics | Paris | TOTAL |
|---|---|---|---|---|---|
| | Millions of Euros | | | | |
| **2017 Rental Income** | **35** | **52** | **0** | **196** | **283** |
| Like for like | 1 | 2 | 0 | 9 | 12 |
| Projects and inclusions | 0 | 3 | 0 | (1) | 2 |
| Investments and divestitures | 1 | 4 | 0 | (10) | (5) |
| Axiare | 5 | 32 | 19 | 0 | 56 |
| Others and compensation | 0 | 0 | 0 | 0 | 0 |
| **2018 Rental Income** | **42** | **93** | **19** | **194** | **347** |
| Like for like | 1 | 5 | 0 | 6 | 11 |
| Projects and inclusions | 4 | 0 | 0 | (3) | 1 |
| Investments and divestitures | 2 | (9) | (3) | 0 | (10) |
| Others and compensation | 0 | 0 | 0 | 2 | 3 |
| **2019 Rental Income** | **49** | **89** | **16** | **199** | **352** |

- Like-for-like Valuation

| Like-for-like Valuation | 31/12/2019 | 31/12/2018 |
|---|---|---|
| | Millions of Euros | |
| Valuation at 1 January | 11.348 | 9.282 |
| Like for like Spain | 407 | 381 |
| Like for like France | 588 | 341 |
| Acquisitions and divestitures | (147) | 1.344 |
| **Valuation at 31 December** | **12.196** | **11.348** |

- *Loan to Value* Group or LtV Group

| *Loan to Value* Group or LtV Group | 31/12/2019 | 31/12/2018 |
|---|---|---|
| | Millions of Euros | |
| Gross financial debt | 4.826 | 4.748 |
| Commitments of deferrals for transactions selling real estate assets | 17 | - |
| Less: "Cash and cash equivalents" | (217) | (68) |
| (A) Net financial debt | 4.626 | 4.680 |
| Market Value including transaction costs | 12.807 | 11.915 |
| Plus: Shares in treasury stock of the parent company valued at EPRA NAV | 7 | 8 |
| (B) Market Value including transaction costs and parent company treasury stock | 12.814 | 11.923 |
| ***Loan to Value* Group (A)/(B)** | **36,1%** | **39,3%** |

- Holding Company LtV or Colonial LtV

| Holding Company LtV or Colonial LtV Holding Company | 31/12/2019 | 31/12/2018 |
|---|---|---|
| | Millions of Euros | |
| Gross financial debt | 3.040 | 3.002 |
| Commitments of deferrals for transactions selling real estate assets | 17 | - |
| Less: "Cash and cash equivalents" of the parent company and the fully-owned Spanish subsidiaries | (161) | (41) |
| (A) Net financial debt | 2.896 | 2.961 |
| (B) Market Value including transaction costs | 9.289 | 8.538 |
| ***Loan to Value* Holding (A)/(B)** | **31,2%** | **34,7%** |

### *10. Annual Corporate Governance Report*

In accordance with the provisions of article 538 of the Corporate Enterprises Act, it is noted that the 2019 annual corporate governance report is included in this management report in its corresponding separate section.