Merlin Properties SOCIMI, S.A. and Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2018 and Consolidated Directors' Report, together with Independent Auditor's Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails. (see Notes 2 and 26)

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails. (see Notes 2 and 26)

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Merlin Properties SOCIMI, S.A.,

Opinion

We have audited the consolidated financial statements of Merlin Properties SOCIMI, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

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

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

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

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Compliance with the REIT tax regime

Description

On 22 May 2014, the Parent applied to be included in the REIT (Spanish "SOCIMI") tax regime, which was applicable from 1 January 2014. Therefore, in 2018 the Merlin Properties SOCIMI, S.A. and subsidiaries Group was regulated by Spanish Real Estate Investment Trusts (SOCIMI) Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December. One of the main characteristics of companies of this nature is that they are subject to an income tax rate of 0%.

The applicability of the REIT tax regime is conditional upon compliance with certain requirements in relation, inter alia, to company name and object, minimum share capital, the obligation to distribute the profit for each year in the form of dividends and the trading of the entity's shares on a regulated market, as well as other requirements such as the investments made and the source of the income earned each year, predominantly, which requires management to make significant judgements and estimates, since failure to comply with any of these requirements will lead to the loss of the special tax regime unless the cause of the non-compliance is rectified the following year.

Accordingly, compliance with the REIT tax regime requirements is a key matter in our audit because the related tax exemption has a significant impact on both the consolidated financial statements and shareholder returns, since the business model of the Parent and its Group is based on continuing to qualify for taxation under the REIT tax regime.

Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with compliance with the REIT tax regime, as well as tests to verify that the aforementioned controls operate effectively.

We obtained and reviewed the documentation prepared by Group management on compliance with the obligations associated with this special tax regime, including the documentation related to the estimate made by the directors in relation to completion of the 2019 income test (see Notes 1 and 24 to the consolidated financial statements), and we involved our internal tax experts, who assisted us in the analysis of both the reasonableness of the information obtained and the completeness thereof in relation to all the aspects provided for in the legislation in force at the analysis date.

Lastly, we verified that Notes 1, 5.12 and 24 to the consolidated financial statements contain the disclosures relating to compliance with the conditions required by the REIT tax regime and other matters associated with the taxation of the Parent and of its subsidiaries.

Valuation of investment property

Description

The Group manages a portfolio of urban property assets earmarked for lease (offices, shopping centres, logistics parks, etc.) located in Spain and Portugal. Investment property is stated at its fair value at the reporting date and is not depreciated. At 31 December 2018, the portfolio of investment property was valued at EUR 11,740 million.

The Group periodically uses third parties independent of the Group as experts to determine the fair value of its property assets. The aforementioned experts have substantial experience in the markets in which the Group operates and employ valuation methodologies and standards widely used in the market.

The valuation of the real estate portfolio is a key audit matter, since it requires the use of estimates with a significant degree of uncertainty. Specifically, the discounted cash flow method is generally applied to the valuation of the rental property assets, which requires estimates of:

- the future net revenue from each property based on available historical information and market surveys;
- the internal rate of return or opportunity cost used when discounting;
- the residual value of the assets at the end of the projection period (exit yield).

In addition, small percentage changes in the key assumptions used for the valuation of the property assets could give rise to significant changes in the consolidated financial statements.

Therefore, we considered this matter to be a key matter in our audit.

Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the valuation of investment property, as well as tests to verify that the aforementioned controls operate effectively. In particular, those used by the directors to supervise and approve the hiring of and work performed by the experts employed for this purpose, and to ensure no influence is exercised over the findings and conclusions of those experts.

We obtained the valuation reports of the experts engaged by the Group to value the entire real estate portfolio and assessed the competence, capability and objectivity of the experts and the adequacy of their work for use as audit evidence. In this connection, with the assistance of our internal valuation experts, we:

- analysed and concluded on the reasonableness of the valuation procedures and methodology used by the experts engaged by Group management;
- performed an independent valuation based on a sample of assets, taken on a selective basis, taking into consideration available industry information and transactions with property assets similar to those in the Group's real estate portfolio. Also, we performed substantive analytical procedures analysing those the changes in which might show an atypical characteristic with respect to the available market information and the other property assets;
- assessed, in conjunction with our internal experts, the most significant assessed risks, including the occupancy rates and expected returns on the property assets.

Lastly, we also checked that the disclosures made by the Group in relation to these matters, which are included in Note 8 to the consolidated financial statements for 2018, contain the information required in this connection by the applicable financial reporting framework.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2018, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated directors' report. Our responsibility relating to the information contained in the consolidated directors' report is defined in the audit regulations in force, which establish two distinct levels of responsibility in this regard:

a) A specific level that applies to certain information included in the Annual Corporate Governance Report, as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the consolidated directors' report and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the consolidated directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the consolidated financial statements, based on the knowledge of the Group obtained in the audit of those consolidated financial statements and excluding any information other than that obtained as evidence during the audit, as well as evaluating and reporting on whether the content and presentation of this section of the consolidated directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we have checked that the information described in section a) above is provided in the consolidated directors' report and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2018 and its content and presentation are in conformity with the applicable regulations.

Responsibilities of the Directors and the Audit Committee of the Parent for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the Group's consolidated equity, consolidated financial position and consolidated results in accordance with EU-IFRSs and the other provisions of the regulatory 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent'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's audit committee is responsible for overseeing the process involved in the preparation and presentation of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix I to this auditor's report. This description, which is on the following pages, forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit committee dated 27 February 2019.

Engagement Period

The Annual General Meeting held on 7 May 2018 appointed us as auditors for a period of one year from the year ended 31 December 2017.

Previously, we were designated pursuant to a resolution of the General Meeting for the period of one year and have been auditing the consolidated financial statements uninterruptedly since the year ended 31 December 2014.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Antonio Sánchez-Covisa Martín-González
Registered in ROAC under no. 21251

27 February 2019

Appendix I to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

As part of an audit in accordance with the audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

We communicate with the Parent'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's audit committee with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

From the matters communicated with the Parent's audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

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

Merlin Properties SOCIMI, S.A. and Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2018
prepared in accordance with International Financial Reporting Standards (IFRSs)
as adopted by the European Union and
Consolidated Directors' Report.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 26). In the event of a discrepancy, the Spanish-language version prevails.

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018
(Thousand euros)

ASSETS	Notes	31/12/2018	31/12/2017	EQUITY AND LIABILITIES	Notes	31/12/2018	31/12/2017
NON-CURRENT ASSETS				**EQUITY:**	Note 14		
Concession projects	Note 7	-	242,166	Share capital		469,771	469,771
Other intangible assets		941	584	Share premium		3,858,624	3,970,842
Property, plant and equipment		3,267	3,879	Reserves		1,416,773	330,232
Investment property	Note 8	11,740,461	10,352,415	Other equity holder contributions		540	540
Investments accounted for using the equity method	Note 10	169,133	371,408	Valuation adjustments		(36,906)	(35,806)
Non-current financial costs	Note 11	212,248	275,882	Treasury shares		(68,322)	(24,881)
Derivatives		123,087	207,274	Interim dividend		(93,522)	(93,457)
Other financial assets		89,161	68,608	Profit for the period attributable to equity holders of the Parent		854,878	1,100,418
Deferred tax assets	Note 18	88,415	144,127	Equity attributable to equity holders of the Parent		6,401,836	5,717,659
Total non-current assets		12,214,465	11,390,461	Non-controlling interests		-	6,124
				Total equity		6,401,836	5,723,783
				NON-CURRENT LIABILITIES:			
				Debt instruments and other marketable securities	Note 15	3,225,540	3,221,317
				Non-current bank borrowings	Note 15	1,932,468	2,032,678
				Other financial liabilities	Note 16	113,297	88,194
				Deferred tax liabilities	Note 16 y 18	666,563	592,418
				Provisions	Note 16	56,441	72,382
				Total non-current liabilities		5,994,309	6,006,989
				CURRENT LIABILITIES:			
				Provisions	Note 16	867	867
CURRENT ASSETS				Debt instruments and other marketable securities	Note 15	34,007	34,007
Inventories		1,286	1,997	Bank borrowings	Note 15	42,802	144,191
Trade and other receivables	Notes 11 y 12	167,481	78,533	Other current financial liabilities	Note 16	6,175	18,807
Other current financial assets	Note 11	8,888	73,454	Trade and other payables	Note 17	69,383	65,484
Other current assets		11,552	6,558	Current tax liabilities	Notes 18	16,036	1,762
Cash and cash equivalents	Note 13	169,025	454,036	Other current liabilities	Note 16	7,282	9,149
Total activo corriente		358,232	614,578	**Total current liabilities**		176,552	274,267
TOTAL ASSETS		12,572,697	12,005,039	**TOTAL EQUITY AND LIABILITIES**		12,572,697	12,005,039

The accompanying explanatory Notes 1 to 26 and Appendix I are an integral part of the consolidated statement of financial position as at 31 December 2018.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 26). In the event of a discrepancy, the Spanish-language version prevails.

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE PERIOD ENDED ON DECEMBER 31 2018

(Thousand euros)

	Notes	Current Period 2018	Previous Period 2017
CONTINUING OPERATIONS:			
Revenue	Notes 6 y 19	590,431	463,294
Other operating income		6,978	4,289
Personal expenses	Note 19.c	(73,941)	(71,759)
Other operating expenses	Note 19.b	(56,274)	(51,994)
Gains/(losses) on disposals of assets	Note 8	6,815	236
Depreciation and amortisation		(1,572)	(10,379)
Provision surpluses		13,554	(3,791)
Impairment of goodwill:		-	(9,839)
Absorption of the revaluation of investment property		-	(9,839)
Change in fair value of investment property	Note 8	629,184	897,401
Negative difference on business combinations	Note 3	(20,523)	(1,775)
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES		1,094,652	1,215,683
Change in fair value of financial instruments		(80,750)	2,576
Change in fair value of financial instruments - Embedded derivative	Note 11	(61,960)	92
Change in fair value of financial instruments - Other	Notes 11 y 16	(18,790)	2,484
Finance income	Note 19.d	511	468
Gains or losses on disposals of financial instruments		4,198	1,050
Finance expenses	Note 19.d	(115,503)	(122,541)
Share in profit/(loss) of companies accounted for using the equity method	Note 10	9,916	16,233
PROFIT/(LOSS) BEFORE TAX		913,024	1,113,469
Income tax	Note 18	(58,146)	(12,941)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		854,878	1,100,528
Attributable to shareholders of the Parent		854,878	1,100,418
Attributable to non-controlling interests	Note 14	-	110
EARNINGS PER SHARE (in euros)		1.83	2.35
BASIC EARNINGS PER SHARE (in euros)		1.83	2.35
DILUTED EARNINGS PER SHARE (in euros)		1.82	-

The accompanying explanatory Notes 1 to 26 and Appendix I are an integral part of the consolidated statement of profit or loss for the period ended December 31 2018

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED DECEMBER 31 2018

(Thousand euros)

	Notes	Current Period 2018	Previous Period 2017
PROFIT/(LOSS) FOR THE PERIOD (I)		854,878	1,100,528
OTHER COMPREHENSIVE INCOME:			
Income and expenses recognised directly in equity-			
From cash flow hedges		(19,618)	4,184
From translation differences			
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY (II)		(19,618)	4,184
Amounts transferred to income statement		18,518	7,592
TOTAL AMOUNTS TRANSFERRED TO INCOME STATEMENT (III)		18,518	7,592
TOTAL COMPREHENSIVE INCOME (I+II+III)		853,778	1,112,304
Attributable to equity holders of the Parent		853,778	1,112,194
Attributable to non-controlling interests		-	110

The accompanying explanatory Notes 1 to 26 and Appendix I are an integral part of the consolidated statement of comprehensive income for the period ended December 31 2018

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

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

(Thousand euros)

	Share capital	Share premium	Reserves	Shareholder contributions	Profit / (loss) for the year	Interim dividend	Valuation adjustments	Translation differences	Treasury shares	Equity attributed to the Parent Company	Non-controlling intersts	Total Equity
Balances as of 31 December 2016	**469,771**	**4,017,485**	**(143,537)**	**540**	**582,645**	**(59,759)**	**(47,582)**	**-**	**(105)**	**4,819,458**	**21,311**	**4,840,769**
Consolidated comprehensive profit/(loss) 2017	-	-	-	-	1,100,418	-	11,776		-	1,112,194	110	**1,112,304**
Distribution of 2016 profit	-	-	522,886	-	(582,645)	59,759	-	-	-	-	-	-
Transactions with shareholders-												
Distribution of dividends		(46,643)	(47,310)	-	-	(93,457)	-	-	-	(187,410)	-	**(187,410)**
Changes in perimeter	-	-	648	-	-		-	-	-	648	(15,297)	**(14,649)**
Acquisition of treasury shares	-	-		-	-	-	-	-	(35,393)	(35,393)	-	**(35,393)**
Recognition of share-based payments	-	-	15,738	-	-	-	-	-		15,738	-	**15,738**
Delivery of shares - 2016 stock plan	-	-	(19,660)	-	-	-	-	-	10,617	(9,043)	-	**(9,043)**
Other transactions	-	-	1,467	-	-	-	-	-	-	1,467	-	**1,467**
Balances as of 31 December 2017	**469,771**	**3,970,842**	**330,232**	**540**	**1,100,418**	**(93,457)**	**(35,806)**	**-**	**(24,881)**	**5,717,659**	**6,124**	**5,723,783**
NIIF 9 - Transition impact	-	-	30,592	-	-	-	-	-	-	30,592	**-**	**30,592**
NIIF 16 - Transition impact	-	-	39,756	-	-	-	-	-	-	39,756	**-**	**39,756**
Balances as of 1 January 2018	**469,771**	**3,970,842**	**400,580**	**540**	**1,100,418**	**(93,457)**	**(35,806)**	**-**	**(24,881)**	**5,788,007**	**6,124**	**5,794,131**
Consolidated comprehensive profit/(loss) 2018	-	-	-	-	854,878	-	(1,100)	-	-	853,778	-	**853,778**
Distribution of 2017 profit	-	-	1,006,961	-	(1,100,418)	93,457	-	-	-	-	-	-
Transactions with shareholders-	-											
Distribution of dividends	-	(112,218)	(9,624)	-	-	(93,522)	-	-	-	(215,364)	-	**(215,364)**
Acquisition of trasury shares	-	-	-	-	-	-	-	-	(56,048)	(56,048)	-	**(56,048)**
Recognition of share-based payments	-	-	48,255	-	-	-	-	-	-	48,255	-	**48,255**
Delivery of shares - 2016 stock plan	-	-	(24,340)	-	-	-	-	-	12,607	(11,733)	-	**(11,733)**
Other transactions (Note 3)	-	-	(5,059)	-	-	-	-	-	-	(5,059)	(6,124)	**(11,183)**
Balances as of 31 December 2018	**469,771**	**3,858,624**	**1,416,773**	**540**	**854,878**	**(93,522)**	**(36,906)**	**-**	**(68,322)**	**6,401,836**	**-**	**6,401,836**

The accompanying explanatory Notes 1 to 26 and Appendix I are an integral part of the consolidated statement of changes in equity as of 31 December 2018

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED DECEMBER 31 2018

(Thousand euros)

	Notes	Current Period 2018	Previous Period 2017
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES:		**254,437**	**695,830**
Profit/(loss) for the period before tax		**913,024**	**1,113,469**
Adjustments for-		**(498,170)**	**(712,741)**
Depreciation and amortisation		1,572	10,379
Changes in fair value of investment property	**Note 8**	(629,184)	(897,401)
Changes in provisions		45,153	61,685
Gains/(losses) on disposals of assets		(11,013)	(1,286)
Finance income		(511)	(468)
Finance expenses		115,503	122,541
Changes in fair value of financial instruments		80,750	(2,576)
Share in profit/(loss) of investments accounted for using the equity method	**Note 10**	(9,916)	(16,233)
Impairment of goodwill		-	9,839
Other income and expenses		(111,047)	(996)
Negative difference on business combinations		20,523	1,775
Changes in working capital-		**(30,027)**	**403,473**
Inventories		(711)	(941)
Trade and other receivables		27,093	461,206
Other current assets		(5,598)	749
Trade and other payables		(8,980)	(51,328)
Other assets and liabilities		(41,831)	(6,214)
Other cash flows from/(used in) operating activities-		**(130,390)**	**(108,371)**
Interest paid		(121,681)	(125,164)
Interest received		511	468
Income tax paid		(9,220)	16,325
CASH FLOWS FROM INVESTING ACTIVITIES:		**(100,163)**	**(476,013)**
Payments for investments-		**(623,066)**	**(505,256)**
Net cash outflow from business acquisitions	**Note 3**	(427,209)	(86,680)
Investment property		(191,930)	(355,158)
Property, plant and equipment		(1,427)	(1,006)
Intangible assets		(473)	(5,570)
Financial assets		(2,027)	(56,842)
Proceeds from sales of investments-		**522,903**	**29,243**
Financial assets		186,737	-
Investment property		270,996	29,096
Property, plant and equipment		-	147
Otros activos financieros		65,170	-
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES:		**(439,285)**	**(12,862)**
Proceeds and payments from equity instruments-		**(271,412)**	**(222,804)**
Trarsuary stock acquisitions	**Note 14**	(56,048)	(35,393)
Dividends paid	**Note 4**	(215,364)	(187,411)
Proceeds and payments from financial liabilities-		**(167,873)**	**209,942**
Bank debt issuance		350,000	-
Debt instruments issuance		-	890,256
Bank debt repayment		(517,873)	(680,314)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(285,011)**	**206,955**
Cash and cash equivalents at beginning of period		454,036	247,081
Cash and cash equivalents at end of period		169,025	454,036

The accompanying explanatory Notes 1 to 26 and Appendix I are an integral part of the consolidated statement of cash flows for the period ended 31 December 2018.

Merlin Properties SOCIMI S.A. and Subsidiaries

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

1. Nature and activity of the Group

Merlin Properties SOCIMI, S.A. (the "Parent") was incorporated in Spain on 25 March 2014 under the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*). On 22 May 2014, the Parent requested to be included in the tax regime for SOCIMIs, effective from 1 January 2014.

On 27 February 2017, the Parent changed its registered office from Paseo de la Castellana 42 to Paseo de la Castellana 257, Madrid.

The Parent's corporate purpose, as set out in its Articles of Association, is as follows:

- The acquisition and development of urban real estate for subsequent leasing, including the refurbishment of buildings as per Spanish Law 37/1992, of 28 December, on Value-Added Tax (Spanish VAT Act [*Ley 37/1992, de 28 de diciembre, del Impuesto sobre el Valor Añadido*]);
- The holding of equity interests in real estate investment trusts ("SOCIMIs") or in other non-resident entities in Spain with the same corporate purpose and that operate under a similar regime as that established for SOCIMIs with regard to the mandatory profit distribution policy enforced by law or by the Articles of Association.
- The holding of equity interests in other resident or non-resident entities in Spain whose corporate purpose is to acquire urban real estate for subsequent leasing, and that operate under the same regime as that established for SOCIMIs with regard to the mandatory profit distribution policy enforced by law or by the Articles of Association, and that fulfil the investment requirements stipulated for these companies; and
- The holding of shares in collective real estate investment undertakings regulated by Spanish Law 35/2003, of 4 November, on collective investment undertakings, or any Act that may replace it in the future.

In addition to the economic activity deriving from the main corporate purpose, the Parent may also carry on any other complementary activities; these being any that generate income representing less than 20%, taken as a whole, of its income in each tax period, or any that can be classified as complementary in accordance with the legislation that applies at any given time.

The activities included in the Parent's corporate purpose may be indirectly carried on, either wholly or in part, through the ownership of shares in Spanish public or private limited liability companies with a similar or identical corporate purpose.

The direct and, where applicable, indirect performance of any activities that are reserved under special legislation are excluded. If the law prescribes the need for a professional qualification, prior administrative authorisation, entry in a public registry, or any other requirement for the purpose of exercising any of the activities within the corporate purpose, no such activity can be exercised until all the applicable professional or administrative requirements have been met.

Merlin Properties SOCIMI, S.A. and Subsidiaries ("the Group") engage mainly in the acquisition and management (through leasing to third parties) of offices, industrial buildings, logistic centres, local premises and shopping centres, and they may also invest to a lesser extent in other assets for lease.

On 30 June 2014, the Parent was floated on the Spanish stock market through the issuance of EUR 125,000 thousand shares, with a share premium of EUR 1,125,000 thousand. Merlin Properties SOCIMI, S.A.'s shares/securities have been listed on the electronic trading system of the Spanish stock exchanges since 30 June 2014.

The Parent and the majority of its subsidiaries are governed by Spanish Law 11/2009, of 26 October, as amended by Spanish Law 16/2012, of 27 December, regulating SOCIMIs (*Ley 16/2012, de 27 de diciembre, por la que se* *regulan las Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario*). section 3 of the law sets out the investment requirements for these types of companies, namely:

1. At least 80% of an SOCIMI's assets must be invested in urban real estate for leasing purposes and/or in land to be developed for leasing purposes provided such development starts within three years of acquisition, along with investments in the capital or equity of other entities referred to in section 2.1 of the aforementioned Act.

   The value of the assets will be determined based on the average of the individual balance sheets for each quarter of the year, whereby the SOCIMI may opt to calculate such value by taking into account the market value of the assets included in such balance sheets instead of their carrying amount, in which case that value would apply to all balance sheets for 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 section 6 of the aforementioned Act has expired.

2. Furthermore, at least 80% of the income for the tax period, excluding income from transfer of equity investments and real estate that are earmarked for pursuit of the principal corporate purpose, once the holding period referred to in the following paragraph has elapsed, must arise from lease of investment property and from dividends or profit shares obtained from those holdings.

   This percentage is calculated based on consolidated profit if the company is a Parent of a group, as defined in section 42 of the Spanish Commercial Code (*Código de Comercio*), irrespective of the place of residence and the obligation to prepare consolidated financial statements. This group will be formed only by SOCIMIs and the other entities referred to in section 2.1 of this law.

3. The SOCIMI's real estate assets must be leased for at least three years. The time that the properties have been offered for lease, up to a maximum of one year, will be included for the purposes of this calculation.

   This period will be calculated:

   a) In the case of properties that are included in the SOCIMI's assets before it avails itself of the regime, from the date of commencement of the first tax period in which the special tax regime set forth in this Act is applied, provided that the property is leased or offered for lease at that date. Otherwise, the provisions of the following paragraph will apply.

   b) In the case of properties developed or acquired subsequently by the SOCIMI, from the date on which they were leased or offered for lease for the first time.

   c) In the case of shares or investments in entities referred to in section 2.1 of this Act, they must be held as assets of the SOCIMI for at least three years from acquisition or, where applicable, from the commencement of the first tax period in which the special tax regime set forth in this Act is applied.

   As established in transitional provision one of Spanish Law 11/2009, of 26 October, as amended by Spanish Law 16/2012, of 27 December, regulating SOCIMIs, these companies may opt to apply the special tax regime pursuant to section 13 of this Act, even when the requirements stipulated therein are not fulfilled, under the condition that such requirements are met within two years of the date application of the SOCIMI tax regime is sought.

   SOCIMIs are taxed at a rate of 0% for income tax. However, where dividends distributed to an equity holder owning at least 5% of the SOCIMI's share capital are exempt from taxation or taxed below 10%, such SOCIMI will be subject to a special charge of 19% of the dividends distributed to the equity holder, in respect of corporate income tax. If deemed applicable, this special charge will be paid by the SOCIMI within two months after the dividend distribution date.

The transitional period in which the Company had to meet all requirements of this tax regime ended in 2017. On 31 December 2018, the Parent met the requirements established in the legislation in force, except requirements related to the income test, which it did not meet as a result of an exceptional situation that arose from cancellation of the service provision agreement the Parent had with Testa Residencial SOCIMI, S.A. and the profit obtained by the Group due to the sale of that company. In accordance with section 13 of the Spanish SOCIMI Act, the Parent has the year following the breach to remedy the situation. In this regard, the Directors have prepared the financial statements for 2018 under the premise that the Parent will remain subject to the SOCIMI Regime and will meet all the legal requirements in 2019 and, therefore, the Parent will continue to apply the SOCIMI Regime.

The consolidated financial statements of the Group and the separate financial statements of the Parent for 2018 prepared by its Directors, have not yet been approved by the shareholders at the General Meeting. However, the Parent's directors consider that the aforementioned financial statements will be approved without any material changes.

Furthermore, the financial statements for the companies making up the Group for the year 2018 are still being drawn up by their respective Managers and need to be approved by their respective Genral Shareholders Meetings within the statutory time limits laid down in the applicable legislation.

The separate and consolidated financial statements of Merlin Properties, SOCIMI, S.A. for 2017 prepared by its directors were approved by the shareholders at the Annual General Meeting on 07 May 2018.

The 2017 separate financial statements of the Group companies, which were prepared by their respective Directors, were approved by their shareholders at the respective Annual General Meetings within the periods established under the applicable legislation.

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

2. Basis of presentation of the consolidated financial statements and basis of consolidation

2.1 Regulatory framework

The regulatory financial reporting framework applicable to the Group consists of the following:

- The Spanish Commercial Code and all other Spanish commercial and corporate law,

- International Financial Reporting Standards (IFRSs) as adopted by the European Union pursuant to Regulation (EC) No 1606/2002 of the European Parliament and Spanish Law 62/2003, of 30 December, on tax, administrative and social security measures (*Ley 62/2003, de 30 de diciembre, de medidas fiscales, administrativas y de orden social*), as well as applicable rules and circulars of the Spanish National Securities Market Commission (CNMV);

- Spanish Law 11/2009, of 26 October, as amended by Spanish Law 16/2012, of 27 December, regulating SOCIMIs and other commercial and corporate law.

- Other applicable Spanish accounting legislation.

2.2 Basis of presentation of the consolidated financial statements

The consolidated financial statements for 2018 were obtained from the accounting records of the Parent and consolidated companies, and have been prepared in accordance with the regulatory financial reporting framework described in Note 2.1 above and, accordingly, they present fairly the Group's consolidated equity and financial position at 31 December 2018 and the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

Given that the accounting policies and measurement bases applied in preparing the Group's consolidated financial statements for 2018 may differ from those applied by some of the Group companies, the necessary adjustments and reclassifications were made on consolidation to unify these policies and bases and to make them compliant with IFRSs as adopted by the European Union.

In order to uniformly present the various items composing the consolidated financial statements, the accounting policies and measurement bases used by the Parent were applied to all the consolidated companies.

2.2. 1 Adoption of Financial Reporting Standards and Interpretations effective as from 1 January 2018

In 2018 the following standards, amendments and interpretations came into force, which, where applicable, were used by the Group in preparing these financial statements:

Standards, amendments and interpretations	**Description**	**Obligatory application in the years beginning on or after**:
IFRS 15, Revenue from Contracts with Customers (issued in May 2014) and its clarifications (issued in April 2016)	New revenue recognition standard, replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31.	1 January 2018
IFRS 9, Financial Instruments (issued in July 2014)	Replaces the IAS 39, requirements relating to the classification, measurement, recognition and derecognition of financial assets and liabilities, hedge accounting and impairment.	1 January 2018
Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (issued in June 2016)	These are limited amendments that clarify specific matters such as the accounting for the effects of vesting conditions on cash-settled share-based payment transactions, the classification of share-based payment transactions with net settlement features and certain aspects of the modifications to the type of share-based payment.	1 January 2018
Amendments to IFRS 4, Insurance Contracts (issued in June 2016)	Provides entities with the option of applying the overlay approach (IFRS 9) or the deferral approach, within the scope of IFRS 4.	1 January 2018
Amendments to IAS 40, Reclassification of Investment Property (issued in December 2016)	The amendment clarifies that a reclassification of an investment as investment property will only be permitted when it can be demonstrated that there has been a change in use.	1 January 2018
Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards (issued in December 2016)	Deleted certain short-term exemptions (Improvements to IFRS 2014–2016 Cycle).	1 January 2018
Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures (issued in October 2016)	Clarification in relation to the election to measure at fair value (Improvements to IFRS 2014-2016 Cycle)	1 January 2018
Amendments to IFRIC 22, Foreign Currency Transactions and Advance Consideration (issued in December 2016)	This interpretation establishes "the date of transaction" for the purpose of determining the exchange rate in transactions with advance consideration in a foreign currency.	1 January 2018

IFRS 15: Revenue from contracts with customers

IFRS 15 is the standard that addresses the recognition of revenue from customers and that replaces the following standards and interpretations currently in force. IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue — Barter Transactions Involving Advertising Services. The revenue model is applicable to all contracts with customers except for leases, insurance contracts and financial instruments that are regulated in other IFRSs.

The Group’s main activity is the operation of real estate held for lease, whereby rental income represents its main source of revenue and, therefore, since contracts with customers relating to leases are excluded from IFRS 15 (IAS 17 / IFRS 16), the impact of its application is not significant.

The rest of the Group's revenue comes from property asset management services provided to third parties. This revenue represents a single performance obligation and, therefore, the point in time at which revenue is recognised is consistent with the current standard.

The Group applied IFRS 15 retrospectively, without restating the comparative information.

IFRS 9: Financial instruments

IFRS 9 replaces IAS 39 for periods beginning on or after 1 January 2008. The Group applied IFRS 9 retrospectively, without restating the comparative information.

Classification and measurement

The assets classified as loans to third parties, loans to associates and accounts receivable at amortised cost, the amounts of which are detailed Note 11, are held within a business model whose objective is to collect contractual cash flows that are solely payments of principal and interest on the outstanding principal. Consequently, these financial assets will continue to be measured at amortised cost in accordance with the application of IFRS 9.

The available-for-sale assets of listed companies detailed in Note 11 are classified at fair value through profit or loss.

All other financial assets and financial liabilities will continue to be measured using the same bases currently adopted in IAS 39.

IFRS 9 also sets out a new method for measuring hedge accounting whereby certain transactions which under the previous standards did not meet requirements to be regarded as hedges are now defined as hedging transactions. No new transactions that should be considered a hedges under IFRS 9 have been identified having in mind the type of financial instruments used by the Group to mitigate the financial risks to which it is exposed.

Impairment

For impairment loss, the new standards provide for measurement based on the expected credit loss instead of on the incurred credit loss. The impact of this for the Group is not significant, since the balance of accounts receivable is not material the risk of default is less than 1% of billings, and the Group has the security deposits given by the tenants to secure their loan.

Unsubstantial modifications of financial liabilities

At 1 January 2018, first-time application of IFRS 9 "Financial Instruments" led to an increase in reserves and a decrease in debt amounting to EUR 30,592 thousand arising from the differences that IFRS 9 introduces to the accounting model for non-substantive changes to financial liabilities, in relation to the agreement for the modifying novation of the senior syndicated loan agreement signed on 29 July 2010 by the subsidiary Tree Inversiones Inmobiliarias SOCIMI, S.A. and novated on 30 December 2014 (see Note 2.2.3). In turn, the effect of the changes arising from the application of IFRS 9 on the consolidated income statement for 2018 was to increase finance costs by EUR 10,083 thousand.

On the other hand, it is worth noting that in November 2018, a second amendment was made to the aforementioned loan (see Note 15), which had a positive impact on the consolidated income statement for 2018 of EUR 26,099 thousand recognised under "Finance Costs" in the accompanying consolidated income statement.

The other standards and amendments did not have a material impact.

2.2.2 Standards applied early in 2018

In 2018 the Group applied IFRS 16 early. Application of this standard will be obligatory beginning from 2019.

This standard, which replaces IAS 17, establishes a single lessee accounting model, which will include all leases on the balance sheet (with specific exceptions) as if they were financed purchases, i.e., with an impact similar to that of the financial leases. Otherwise, lessors will continue to use a dual model, similar to that currently set forth in IAS 17.

As a result of the early adoption of IFRS 16, IAS 40 (Investment Property) was amended such that the rights of use that the Group operates under leases and that under the previous standard were classified as intangible assets and measured at cost, will be classified and measured starting from 1 January 2018 like other investment property (at fair value). The Group amended its accounting policies and updated the classification and measurement of concession projects under "Investment Property" and applied the same measurement criteria detailed in Notes 5.1. It was applied retrospectively, without restating the comparative information, recognising the cumulative effect of first-time application as an adjustment to the opening balance at 1 January 2018.

At 1 January 2018, the Group is the holder of the right of use (through the corresponding administrative concession or surface right granted by a government agency) of a series of real estate assets that it operates under leases to third parties unrelated to the Group. The carrying amount of the assets that have been reclassified amounted to EUR 242 million at 1 January 2018. Specifically, it has the rights of use to the following assets:

- La Fira Shopping Centre (Reus),
- Offices and logistics warehouses in the duty-free zone of Barcelona
- Logistics warehouses in the Port of Seville.

the aforementioned rights are outside of the scope of IFRIC 12 – Service Concession Arrangements, because the grantors do not control, among other aspects, the price that the Merlin Group obtains for the lease of the assets.

In this regard, the Group understands that the definition of investment property included in IAS 40 (amended) is applicable to the rights of use included under "Concession Projects":

- because it has a right to use real estate assets (land and buildings), in accordance with that detailed above,

- because it operates them to obtain rental income.

On the other hand, the aforementioned assets must be measured at fair value because paragraph 34 of IFRS 16 applies to them.

The method used to calculate the market value of the buildings of the “Intangible Concession Projects” involves drawing up ten-year projections of income and expenses for each asset, adjusted at the reporting date using a market discount rate. Since the concessions or rights of use have a limited duration, the valuation method takes this circumstance into account, applying a cap rate that is adjusted with regard to what would be a cap rate if the land concession did not expire. The market values obtained are analysed by calculating and assessing the capitalisation of the returns implicit in these values. The projections are designed to reflect the best estimate of future income and expenses from the investment properties. Both the exit yield and discount rate are determined taking into account the local market and institutional market conditions.

The main assumptions used in the measurement of the "Concession Projects" were as follows:

	31/12/2018		31/12/2017	
	Discount rate	Exit Cap Rate (a)	Discount rate	Exit Cap Rate (a)
Concession projects	7.00%-9.50%	6.00%-6.50%	7.00%-9.75%	5.75%-6.50%

(a) In the information on the exit cap rate, the concessions with a remaining useful life of less than 15 years that distort the information detailed above have been excluded. Where applicable, the Exit Cap rate for the aforementioned concessions would be approximately 15%.

The concession agreement for the rights of use for the logistics warehouses in Barcelona and Seville make provision for payment of a yearly fee of approximately EUR 1,894 thousand and EUR 532 thousand, respectively, for the duration of the concession. In this respect, as of 1 January 2018, the Group has registered liabilities totalling EUR 24,518 thousand under this item as required by IFRS 16.

Finally, the last of the impacts identified as a result of the change to IAS 40 on applying IFRS 16 relates to its effect on accounting standardisation of the financial statements for the associate Centro Intermodal de Logística, S.A. (Cilsa). Cilsa holds a right of use (for an administrative concession granted by the port authority of Barcelona) over parcels located in the Port of El Prat de Llobregat's ZAL [Logistics Activities Zone] by leasing them as properties for logistics purposes and office space. Accordingly, as part of the standardisation required by IAS 28, as of 1 January 2018 the Group has changed the criterion of amortised cost used to measure the fair value of the right of use, which has been determined on the basis of an appraisal by an independent expert. The valuation method and standard employed are similar to that described above in this note for other rights of use held by the Group. As of 1 January 2018 the impact increased the ownership interest in Cilsa by EUR 13,010 thousand.

The impact of IFRS 16 on the profit and loss account for 2018 has been to increase the profits from operations by EUR 2,230 thousand, increase stakes according to the equity method by EUR 12,395 thousand, and increase finance costs by EUR 2,230 thousand.

In relation to the adoption of IFRS 16, the Group has not identified any impacts in addition to those described above.

2.2.3 Impact on the consolidated financial statements of the adoption of the new standards in 2018

The impact of the early application of IFRS 16 and the application of IFRS 9 on each line item in the Statement of Financial Position at 1 January 2018 is as follows:

Thousands of euros	Thousands of euros			
	Balance Sheet 01/01/2018	**Application IFRS 16**	**Application IFRS 9**	**Balance Sheet at 01/01/2018 Post IFRS 9 and 16**
Total Assets	**12,005,039**	**67,582**	**-**	**12,072,621**
Concession projects	242,166	(242,166)	-	-
Investment property	10,352,415	296,738	-	10,649,153
Investments accounted for using the equity method	-	13,010	-	13,010
Total non-current assets	11,390,461	67,582	-	11,458,043
Equity attributable to the Parent	**5,723,783**	**39,756**	**30,592**	**5,794,131**
Other financial liabilities	88,194	22,092	-	110,286
Deferred tax liabilities (a)	592,418	3,308	-	595,726
Long-term bank borrowings	2,032,678	-	(30,592)	2,002,086
Other current financial liabilities	18,807	2,426	-	21,233
Total net assets and liabilities	**12,005,039**	**67,582**	**-**	**12,072,621**

(a) Tax effect arising from the recognition at fair value of the Parc Logistic de la Zona Franca, S.A. "PLZF" concession asset since the subsidiary does not apply the SOCIMI regime.

2.2.4 Standards not yet in force in 2018

The following standards were not yet in force in 2018, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union.

Standards, amendments and interpretations	**Description**	**Obligatory application in the years beginning on or after**:
Amendments to IFRS 9, Prepayment features with negative compensation	This amendment will allow instruments with symmetric prepayment options to be measured at amortised cost for an amount lower than the outstanding principal and interest on the aforementioned principal.	1 January 2019
IFRIC 23, Uncertainty over Income Tax Treatments	This interpretation clarifies how to apply the accounting policies and measurement bases under IAS 12 when there is uncertainty whether a certain tax treatment used by an entity is accepted by the taxation authorities.	1 January 2019

Standards, amendments and interpretations	Description	Obligatory application in the years beginning on or after:
Amendments to IAS 28, Long-term interests in associates and joint ventures	Clarifying that IFRS 9 must be applied to long-term interest in an associate the joint venture if the equity method is not applied.	1 January 2019 (1)
Improvements to IFRS 2015--2017 Cycle	Amendments to certain standards.	1 January 2019 (1)
Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement	Clarifying how to calculate the service cost for the current period and the net interest for the rest of an annual period when there is an amendment, curtailment or settlement of a defined benefit plan.	1 January 2019 (1)
Amendments to IFRS 3, Definition of a Business	Clarifying the definition of a business	1 January 2020 (1)
Amendments to IAS 1 and IAS 8, Definition of Materiality	Amendments to IAS 1 and IAS 8 to align the definition of materiality used in the conceptual framework and the standards themselves	1 January 2020 (1)
IFRS 17, Insurance Contracts	It will replace IFRS 4. It includes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.	1 January 2021 (1)

(1) Pending adoption by the European Union

Except for that indicated in IFRS 16 - Leases (see Note 2.2.2), the Group is currently assessing the impact of the future application of the standards that must be applied beginning from 1 January 2019 might have on the consolidated financial statements once they enter into force. Until the analysis is complete, it is impossible to reasonably estimate their effects.

2.3 Functional currency

These consolidated financial statements are presented in euros, since the euro is the functional currency in the area in which the Group operates.

2.4 Comparative information

The information relating to 2017 contained in these notes to the consolidated financial statements is presented solely for comparison purposes with similar information relating to the year ended 31 December 2018.

2.5 Responsibility for the information and use of estimates

The information in these consolidated financial statements is the responsibility of the Parent's directors.

In the Group's consolidated financial statements for 2018 estimates were occasionally made by the senior executives of the Group and of the consolidated companies, later ratified by the directors, in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

1. The market value of the net assets acquired in business combinations (see Note 3)
2. The market value of the Group's property assets (see Note 5.1). The Group obtained valuations from independent experts at 31 December 2018.
3. The fair value of certain financial instruments (see Notes 5.4 and 5.5).
4. The assessment of provisions and contingencies (see Note 5.10)
5. Management of financial risk and, in particular, of liquidity risk (see Note 24).
6. The recovery of deferred tax assets and the tax rate applicable to temporary differences (see Note 5.12).

7. Definition of the transactions carried out by the Group as a business combination in accordance with IFRS 3 or as an acquisition of assets (see Note 3).

8. Compliance with the requirements that govern Real Estate Investment Trusts (Note 1).

Changes in estimates:

Although these estimates were made on the basis of the best information available at 31 December 2018, future events may require these estimates to be modified prospectively (upwards or downwards), in accordance with IAS 8. The effects of any change would be recognised in the corresponding consolidated income statement.

2.6 Basis of consolidation

All companies over which effective control is exercised by virtue of holding of a majority of the voting rights in their representation and decision-making bodies and the power to determine the company's financial and operational policies were fully consolidated; and companies in which the Group owns more than a 20% interest and exercises significant influence without holding a majority of the voting rights were accounted for using the equity method (see Note 10).

A number of adjustments have been made in order to bring the accounting principles and measurement bases of Group companies into line with those of the Parent, including the application of International Financial Reporting Standards measurement bases to all Group companies and associates.

It was not necessary to unify accounting periods since the balance sheet date of all the Group companies and associates is 31 December of each year.

2.6.1 Subsidiaries

Subsidiaries are considered to be those companies over which the Parent directly or indirectly exercises control through subsidiaries. The Parent has control over a subsidiary when it is exposed or has rights to variable returns from its involvement with the subsidiary, and when it has the ability to use its power to affect its returns. The Parent has power when the voting rights are sufficient to give it the ability to direct the relevant activities of the subsidiary. The Parent is exposed or has rights to variable returns from its involvement with the subsidiary when its returns from its involvement have the potential to vary as a result of the subsidiary's performance.

The financial statements of the subsidiaries are fully consolidated with those of the Parent. Accordingly, all material balances and effects of the transactions between consolidated companies are eliminated on consolidation.

Third party interests in the Group's equity and profit or loss are recognised under "Non-controlling interests" in the consolidated statement of financial position and "Result attributable to non-controlling interests" in the consolidated income statement and consolidated comprehensive income statement, respectively.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statements from the effective date of acquisition or until the effective date of disposal, as appropriate.

2.6.2 Associate

The companies listed in Appendix I, over which Merlin Properties, SOCIMI, S.A. does not exercise control but rather has a significant influence, are included under "Investments accounted for using the equity method" in the accompanying consolidated statement of financial position and are measured using the equity method, which consists of the value of the net assets and any goodwill of the associate. The share of these companies' net profit or loss for the year is included under "Share of results of associates accounted for using the equity method" in the accompanying consolidated income statement.

2.6.3 Transactions between Group companies

Gains or losses on transactions between consolidated companies are eliminated on consolidation and deferred until they are realised with third parties outside the Group. The capitalised expenses of Group work on non-current assets are recognised at production cost, and any intra-Group results are eliminated. Receivables and payables between consolidated Group companies and any intra-Group income and expenses were eliminated.

2.6.4 First-time consolidation differences

At the date of an acquisition, the assets and liabilities of a subsidiary are measured at their fair values at that date. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If a deficiency of the acquisition cost below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is disclosed, the measurements of the net assets are reviewed and, where appropriate, the deficiency is credited to profit or loss in the period in which the acquisition is made.

2.6.5 Business combinations

The Group accounts for business combinations using the purchase method. The date of acquisition is the date on which the Group takes control of the acquiree.

The consideration paid is calculated at the date of acquisition as the sum of the fair values of the assets delivered, the liabilities incurred and assumed and the equity instruments issued by the Group in exchange for control of the business acquired. Acquisition costs, such as professional fees, do not form part of the cost of the business combination, but are taken directly to the consolidated income statement.

Where applicable, the contingent consideration is recognised at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration are taken to the consolidated income statement unless this change arises within the period of 12 months established as the provisional accounting period, in which case the change is recognised in the business combination.

Goodwill is calculated as the excess of the aggregate of the consideration transferred, any non-controlling interests, and the fair value of any previously acquired interest less the net identifiable assets acquired.

If the acquisition cost of the identifiable net assets is more than their fair value, the related difference is recognised in the consolidated income statement for the year.

2.6.6 Scope of consolidation

The companies composing the Merlin Group at 31 December 2018, along with information relating to the consolidation method, are listed in Appendix I of the consolidated financial statements.

3. Changes in the scope of consolidation

2018

Business combinations

1) *Torre Dos Oceanus Investimentos Imobiliàrios, S.A.*

The Parent acquired 100% of the ownership interest in Torre Dos Oceanus Investimentos Imobiliàrios, S.A., the share capital of which amounted to EUR 50,000, and is fully paid and represented by 50,000 shares of EUR 1 par value each for EUR 15,912 thousand. At the time of the purchase, the business acquired had a loan with the previous owner amounting to EUR 17,294 thousand, which was paid simultaneously with the purchase price.

	Main line of business	Date of acquisition	Percentage of ownership acquired (voting rights)	Consideration transferred (thousands of euros)
Torre Dos Oceanus Investimentos Imobiliàrios, S.A.	Acquisition and development of urban properties for subsequent management and lease	17/04/2018	100%	33,206 (a)

(a) Consideration transferred taking into account settled loans of the former owner. There are no contingent consideration assets or liabilities related to this business combination.

	Thousands of euros		
	Carrying adjustment	Valuation Fair	amount value
Investment property	19,445	15,929	35,374
Non-current assets	352	(352)	-
Current assets	1,349	(321)	1,028
Non-current and current liabilities	(811)	-	(811)
Deferred tax liabilities	-	(2,846)	(2,846)
Total net assets	**20,335**	**12,410**	**32,745**
Consideration transferred			33,206
Loss incurred on the business combination			**(461)**

The main line of business of the acquired company is the lease of offices. Its sole asset is the Torre Zen building in Lisbon that is 100% leased and has a surface area of 10,207 square meters. Its fair value according to an independent appraiser was EUR 35,374 thousand. The purpose of this business combination is to increase the Group's presence in the office market in Lisbon.

To determine the fair value of the property, the Group used the appraisal made by independent experts.

The method used to calculate the market value involved drawing up projections of income and expenses, adjusted at the date of the business combination using a market discount rate. The residual value was obtained by applying a cap rate to the net income results of the last year projected of the net income in year 11.

The main assumptions used in the calculation were a discount rate of 6.75% and a cap rate of 6.0%.

To determine the fair value of the various assets and liabilities acquired, the Group first identified them. In relation to the assets and liabilities acquired, except for the office building, the Group did not identify any significant differences with regard to the carrying amounts at which they were recognised in the financial statements of the business is acquired. No contingent liability was recognised in the business combination.

The fair value of the receivables acquired, which are mainly trade receivables, is EUR 29 thousand and does not differ from the gross contractual amounts. When determining the fair value of these receivables, the Group individually analysed them to determine if there were any indications of impairment. The Parent's directors do not consider that at the acquisition date there were any indications that these receivables would not be collected in full.

The valuation adjustment to liabilities of EUR 2,846 thousand corresponds mainly to the deferred tax liability associated with the valuation adjustments.

The net result and income generated in 2018 and included in the consolidated income statement for 2018 amounted to EUR 3,057 thousand and EUR 1,409 thousand, respectively.

Had the acquisition taken place on 1 January 2018, the net result would have increased by EUR 126 thousand and the income contributed to the Group would have been approximately EUR 553 thousand higher compared to the figures recognised in these consolidated financial statements. When calculating these amounts, the directors considered that the revenue generated and expenses incurred between 1 January 2018 and the acquisition date, along with the acquisition costs, did not vary.

Net cash flow from the acquisition-

	Thousands of euros
Cash paid	33,206
Less: cash and cash equivalents	(903)
Total	**32,303**

2) Forum Almada-Gestao de Centro Comercial, Sociedade Uniperssoal, Lda

The Parent acquired 100% of the ownership interest in Forum Almada-Gestao de Centro Comercial, Sociedade Uniperssoal, Lda, the share capital of which amounted to EUR 5,000, and is fully paid and represented by 5,000 shares of EUR 1 par value each. This company has an ownership interest in Forum Almada II, S.A., the share capital of which amounted to EUR 10,000 thousand and is fully paid and represented by 10,000,000 shares of the EUR 1 par value each, in this document referred to as the Almada Group for a total of EUR 31,533 thousand. At the time of the purchase, the business acquired had a loan with the previous owner amounting to EUR 375,118 thousand, which was paid simultaneously with the purchase price.

	Main line of business	Date of acquisition	Percentage of ownership acquired (voting rights)	Consideration transferred (thousands of euros)
Forum Almada-Gestao de Centro Comercial, Sociedade Uniperssoal, Lda,	Acquisition and development of urban properties for subsequent management and lease	20/07/2018	100%	406,651 (a)

(a) Consideration transferred taking into account settled loans of the former owner. There are no contingent consideration assets or liabilities related to this business combination.

	Thousands of euros		
	Carrying amount	Valuation adjustment	Fair value
Investment property	362,624	110,133	472,757
Non-current assets	3,258	(3,153)	105
Current assets	17,558	(1,394)	16,164
Non-current and current liabilities	(9,324)	1,729	(7,595)
Deferred tax liabilities	-	(95,321)	(95,321)
Total net assets	**374,116**	**11,994**	**386,110**
Consideration transferred			406,651
Loss incurred on the business combination			**(20,541)**

The main line of business of the Almada Group is the lease of shopping centres. It is the owner of the Almada shopping centre in in Lisbon that is 98% leased and has a surface area of 60,049 square meters. Its fair value according to an independent appraiser was EUR 472,757 thousand. The purpose of this business combination is to acquire a share for the Group in the shopping centre segment in Lisbon.

To determine the fair value of the property, the Group used the valuation made by independent experts.

The method used to calculate the market value involved drawing up projections of income and expenses, adjusted at the date of the business combination using a market discount rate. The residual value was obtained by applying a cap rate to the net income results of the last year projected of the net income in year 11.

The main assumptions used in the calculation were a discount rate of 7.00% and a cap rate of 5.0%.

To determine the fair value of the various assets and liabilities acquired, the Group first identified them. In relation to the assets and liabilities acquired, except for the shopping centre, the Group did not identify any significant differences with regard to the carrying amounts at which they were recognised in the financial statements of the business is acquired. No contingent liability was recognised in the business combination.

The fair value of the receivables acquired, which are mainly trade receivables, is EUR 4,460 thousand and does not differ from the gross contractual amounts. When determining the fair value of these receivables, the Group individually analysed them to determine if there were any indications of impairment. The Parent's directors do not consider that at the acquisition date there were any indications that these receivables would not be collected in full.

The valuation adjustment to liabilities of EUR 95,321 thousand corresponds mainly to the deferred tax liability associated with the valuation adjustments.

The net loss and income generated in 2018 and included in the consolidated income statement for 2018 amounted to EUR 14,095 thousand and EUR 9,341 thousand, respectively.

Had the acquisition taken place on 1 January 2018, the net result would have increased by EUR 7,423 thousand and the income contributed to the Group would have been approximately EUR 13,023 thousand higher compared to the figures recognised in these consolidated financial statements. When calculating these amounts, the directors considered that the revenue generated and expenses incurred between 1 January 2018 and the acquisition date, along with the acquisition costs, did not vary.

Net cash flow from the acquisition-

	Thousands of euros
Cash paid	406,651
Less: cash and cash equivalents	(11,745)
Total	**394,906**

The business combinations described above revealed differences between the considerations transferred and the fair value of the assets acquired. The aforementioned positive differences arose mainly from the recognition of the tax effect of the adjustments to the fair value of the net assets acquired. In accordance with current expectations with regard to the real estate market's performance, the absence of evidence of the materialization of synergies in the assets acquired, as well as the business plans prepared, the Group does not consider that the recovery of the aforementioned goodwill is adequately demonstrated and, therefore, following a conservative approach, it has adjusted its value in the business combination.

3) Corporate restructuring of subsidiaries and acquisitions

On 27 June 2018, the Management Bodies of the acquiring and acquired companies approved the project for the merger by absorption of the following companies belonging to the Merlin Group:

- Metropolitana Castellana, S.L.U., Merlin Properties Adequa, S.L.U. and Belkyn West Company, S.L.U. by Merlin Oficinas, S.L.U.

- Obraser, S.A.U by Merlin Retail, S.L.U.

- Merlin Logistica II, S.L.U. By Merlin Logística I, S.L.U.

The aforementioned processes were finalised in 2018 and do not have an effect on the consolidated financial statements of the Group.

On 29 November 2018, the Group acquired 26,168 shares representing 10% of the share capital in the subsidiary Parc Logistic de la Zona Franca, S.A. "PLZF", for EUR 10,900 thousand, thus giving the Group a 100% interest in the share capital of this company. The acquisition of the additional interest did not have any effect on the consolidation method, given that the Group has exercised control over this company since 31 December 2017. The change in the ownership interest over this subsidiary gave rise to a decrease in non-controlling interests and the difference with regard to the price paid was recognised under reserves.

In 2018 the Group companies Gesfitesta S.L., Acoghe S.L. and Inmobiliaria Metrogolf, S.A. were dissolved and this did not have any impact on the consolidated financial statements of the Group. In 2018 the Group also sold the 50% ownership interest it held in Inversiones 22, S.L. and this did not have any impact on the consolidated financial statements of the Group.

2017

The changes in the scope of consolidation in 2017 were as follows:

Business combinations

1) Promosete Investimentos Imobiliarios, S.A.

The Parent acquired 100% of the ownership interest in Promosete Investimentos Imobiliarios, S.A., the share capital of which amounted to EUR 200,000, and is fully paid and represented by 200,000 shares of EUR 1 par value each for EUR 11,704 thousand. At the time of the purchase, the business acquired had a loan with the previous owner amounting to EUR 17,833 thousand, which was paid simultaneously with the purchase price.

	Main line of business	Date of acquisition	Percentage of ownership acquired (voting rights)	Consideration transferred (thousands of euros)
Promosete Investimentos Imobiliarios, S.A	Acquisition and development of urban properties for subsequent management and lease	07/04/2017	100%	29,537 (a)

(a) Consideration transferred taking into account settled loans of the former owner. There are no contingent consideration assets or liabilities related to this business combination.

	Thousands of euros		
	Carrying amount	Valuation adjustment	Fair value
Investment property	26,765	4,226	30,991
Non-current assets	181	-	181
Current assets	317		317
Non-current and current liabilities	(1,630)	841	(789)
Deferred tax liabilities	(1,881)	(1,057)	(2,938)
Total net assets	**23,752**	**4,010**	**27,762**
Consideration transferred			29,537
Loss incurred on the business combination			**(1,775)**

The main line of business of the acquired company is the lease of offices. Its sole asset is the Central Office Building in Lisbon that is 100% leased and has a surface area of 10,310 square meters. Its appraised value according to an independent appraiser was EUR 30,991 thousand. The purpose of this business combination was to increase the Group's presence in the office property market in Lisbon.

To determine the fair value of the property, the Group used the appraisal made by independent experts.

The method used to calculate the market value involved drawing up projections of the asset's income and expenses, adjusted at the date of the business combination using a market discount rate. The residual value was obtained by applying a cap rate to the net income results of the last year projected of the net income in year 11.

The main assumptions used in the calculation were a discount rate of 8.00% and a cap rate of 6.0%.

To determine the fair value of the various assets and liabilities acquired, the Group first identified them. In relation to the assets and liabilities acquired, except for the office building, the Group did not identify any significant differences with regard to the carrying amounts at which they were recognised in the financial statements of the business is acquired. No contingent liability was recognised in the business combination.

The fair value of the receivables acquired, which are mainly trade receivables, was EUR 265 thousand and does not differ from the gross contractual amounts. When determining the fair value of these receivables, the Group individually analysed them to determine if there were any indications of impairment. The Parent's directors did not consider there to be any indications at the date of acquisition that these receivables would not be collected in full.

The valuation adjustment to liabilities of EUR 1,057 thousand corresponded mainly to the deferred tax liability associated with the valuation adjustments.

The net result and income generated in 2017 and included in the consolidated income statement for 2017 amounted to EUR 5,370 thousand and EUR 1,701 thousand, respectively.

Had the acquisition taken place on 1 January 2017, the net result for 2017 would have increased by EUR 292 thousand and the income contributed to the Group would have been approximately EUR 525 thousand higher compared to the figures recognised in the consolidated financial statements 2017. When calculating these amounts, the directors considered that the revenue generated and expenses incurred between 1 January 2017 and the acquisition date, along with the acquisition costs, did not vary.

Net cash flow from the acquisition-

	Thousands of euros
Cash paid	29,537
Less: cash and cash equivalents	(67)
Total	**29,470**

2) *Praça do Marqués-Serviços auxiliares, S.A.*

The Parent acquired 100% of the ownership interest in Praça do Marqués Serviços auxiliares, S.A., the share capital of which amounts to EUR 15,893 thousand and is fully paid and represented by 3,185,000 shares of EUR 4.99 par value each, for a total of EUR 60,382 thousand.

	Main line of business	Date of acquisition	Percentage of ownership acquired (voting rights)	Consideration transferred (thousands of euros)
Praça do Marqués-Serviços auxiliares, S.A.	Acquisition and development of urban properties for subsequent management and lease	28/09/2017	100%	60,383

	Thousands of euros		
	Carrying amount	Valuation adjustment	Fair value
Investment property	59,222	6,099	65,321
Current assets	3,971	478	4,449
Non-current and current liabilities	(498)	(178)	(676)
Deferred tax liabilities	(6,772)	(1,939)	(8,711)
Total net assets	**55,923**	**4,460**	**60,383**
Consideration transferred			60,383

The main line of business of the acquired company is the lease of urban properties. Its sole asset is an office building in Lisbon that is 63% leased and has a surface area of 12,460 square meters. Its appraised value according to an independent appraiser was EUR 65,321 thousand. The purpose of this business combination was to increase the Group's presence in the office property market in Lisbon.

To determine the fair value of the property, the Group used the appraisal made by independent experts.

The method used to calculate the market value involved drawing up projections of the asset's income and expenses, adjusted at the date of the business combination using a market discount rate. The residual value was obtained by applying a cap rate to the net income results of the last year projected of the net income in year 11.

The main assumptions used in the calculation were a discount rate of 5.50% and a cap rate of 5.0%.

To determine the fair value of the various assets and liabilities acquired, the Group first identified them. In relation to the assets and liabilities acquired, except for the office building, the Group did not identify any significant differences with regard to the carrying amounts at which they were recognised in the financial statements of the business is acquired. No contingent liability was recognised in the business combination.

The fair value of the receivables acquired, which are mainly trade receivables, was EUR 664 thousand and does not differ from the gross contractual amounts. When determining the fair value of these receivables, the Group individually analysed them to determine if there were any indications of impairment. The Parent's directors did not consider there to be any indications at the date of acquisition that these receivables would not be collected in full.

The valuation adjustment to liabilities of EUR 1,939 thousand corresponded mainly to the deferred tax liability associated with the valuation adjustments.

The net profit and income generated in 2017 and included in the consolidated income statement for 2017 amounted to EUR 121 thousand and EUR 633 thousand.

Had the acquisition taken place on 1 January 2017, the net result for 2017 would have increased by EUR 1,099 thousand and the income contributed to the Group would have been approximately EUR 1,844 thousand higher compared to the figures recognised in the consolidated financial statements 2017. When calculating these amounts, the directors considered that the revenue generated and expenses incurred between 1 January 2017 and the acquisition date, along with the acquisition costs, did not vary.

Net cash flow from the acquisition-

	Thousands of euros
Cash paid	60,382
Less: cash and cash equivalents	(3,102)
Total	**57,280**

The business combinations described above revealed a difference between the considerations transferred and the fair value of the assets acquired. The aforementioned difference arose mainly from the recognition of the tax effect of the adjustments to the fair value of the net assets acquired. In accordance with current expectations with regard to the real estate market's performance, the absence of evidence of the materialization of synergies in the assets acquired, as well as the business plans prepared, the Group did not consider that the recovery of the aforementioned goodwill was adequately demonstrated and, therefore, following a conservative approach, it decided to adjust its value in the business combination.

3) Corporate restructuring of subsidiaries and acquisitions

On 27 June 2017, the Parent's Board of Directors approved the start of the merger between Explotaciones Urbanas Españolas, S.L.U. and Centros Comerciales Metropolitanos, S.A.U., both wholly owned by the Parent. The aforementioned process, which began on 29 August 2017, did not affect the Group's consolidated financial statements.

On 21 December 2017, the Group acquired 37,660 shares representing 14.39% of the share capital in the subsidiary Parc Logistic de la Zona Franca, S.A. "PLZF", for EUR 11,800 thousand, thus giving the Group a 90% interest in the share capital of this company. Merlin Parques Logísticos, S.A. also acquired a 10% interest in Sevisur Logística, S.A. 28 July 2017 (reaching a 100% shareholding) for a total of EUR 2,828 thousand.

The acquisitions of the additional interest did not have any effect on the consolidation method, given that the Group has exercised control over this company since 31 December 2016. The changes in the ownership interest over these subsidiaries gave rise to a decrease in non-controlling interests and the difference with regard to the price paid was recognised under reserves.

In 2017, the Group companies, Metrovacesa Mediterranée; S.A.S, Metrovacesa France, S.A.S and Metrovacesa Access Tower GmbH were dissolved and this did not have any impact on the consolidated financial statements of the Group

4. Distribution of the profit of the Parent

The distribution of profit proposed by the Parent's directors for approval by its shareholders at the Annual General Meeting is as follows:

	Thousands of euros
Profit/(Loss) for the period	208,572
Distribution:	
Legal reserve	20,857
Interim dividend	93,522
Dividends	94,193

Interim dividend

On 9 October 2018, the Parent's Board of Directors resolved to distribute EUR 93,522 thousand as an interim dividend with a charge to profit for 2018. This interim dividend was paid to shareholders on 25 October 2018.

The provisional accounting statement prepared in accordance with legal requirements evidencing the existence of sufficient liquidity for the distribution of the dividends was as follows:

	Thousands of euros
Profit before tax at 30 September 2018	109,156
Less: required transfer to the legal reserve	(10,916)
Profit that may be distributed with a charge to income for 2018	98,240
Interim dividend to be distributed	**93,522**
Forecast of cash for the period from 30 September 2018 to 30 September 2019:	
- Cash balance at 30 September 2018	101,953
- Projected proceeds	800,479
- Projected payments, including the interim dividend.	(728,675)
Projected cash balance	**173,757**

Other dividends distributed

On 7 May 2018, the shareholders at the Annual General Meeting approved the distribution of a dividend amounting to EUR 9,624 thousand with a charge to 2017 profit, as well as the distribution of an additional dividend with a charge to the share premium amounting to EUR 112,218 thousand.

5. Accounting policies

The main accounting policies and measurement bases applied in preparing the Group's consolidated financial statements, which comply with the IFRSs in force as at that date, are as follows:

5.1 Investment property

Investment property comprises buildings under construction and development for use as investment property maintained (by the owner or by the lessee as right-of-use asset), which are partially or fully held to generate revenue, profits or both, rather than for use in the production or supply of goods or services, or for the Group's administrative purposes or sale in the ordinary course of business.

All the assets and rights of use (through the corresponding administrative concession or surface right granted by a government agency) classified as investment property are being operated with various tenants. These properties are earmarked for leasing to third parties. The Parent's directors do not plan to dispose of these assets within 12 months and have therefore decided to recognise them as investment property in the consolidated statement of financial position.

Investment property is carried at fair value at the reporting date and is not depreciated. Investment property includes land, the rights of use of the concession projects, buildings or other constructions held to earn rentals or for the obtainment of gains on the sale as a result of future increases in the respective market prices.

Gains or losses arising from changes in the fair value of investment property are included in the income statement for the year in which they arise.

While construction work is in progress, the costs of construction work and finance costs are capitalised. The aforementioned assets are recognised at fair value when they become operational.

In accordance with IAS 40, the Group periodically determines the fair value of its investment property so that the fair value reflects the actual market conditions of the investment property items at that date. This fair value is determined on half-yearly basis based on the appraisals undertaken by independent experts.

The market value of the Group's investment property at 31 December 2018, calculated on the basis of appraisals carried out by Savills and CBRE, independent appraisers not related to the Group, amounted to EUR 11,824,199 thousand (see Note 8).

5.2 Investments accounted for using the equity method

At 31 December 2018, this heading in the consolidated statement of financial position included the amount corresponding to the percentage of shareholders' equity of the investee relating to the Parent and accounted for using the equity method. In addition, and after accounting for these investments using the equity method, the Group decides whether or not an additional impairment loss needs to be recognised with regard to the Group's net investment in the associate.

5.3 Leases

At the beginning of an arrangement, the Group assesses whether it is or contains a lease. An agreement is or contains a lease if it transfers the right to control the use of an asset identified by a period of time in exchange for consideration.

The Group once again assesses if an agreement is or contains a lease only if the terms and conditions of the agreement change.

5.3.1 Lessee

For an agreement that contains a lease component and one or more additional lease components or other components that are not leases, the Group will distribute the consideration for the agreement to each component of the lease based on the independent relative price of the lease component and the independent aggregate price of the components that are not leases.

The independent relative price of the lease components and the components that are not leases will be determined based on the price that the lessor or a similar supplier, would charge an entity separately for that component or one that is similar. If there is no independent observable price easily available, the Group will estimate the independent price, maximising the use of observable information.

The Group opted not to apply the subsequent recognition and measurement requirements indicated in IFRS 16 to short-term leases and those in which the underlying asset has a low value, recognising the lease payments associated with the leases as an expense on a straight-line basis over the lease term.

Initial recognition

At the commencement date a lessee recognises a right-of-use asset and a lease liability.

At the commencement date a lessee measures a right-of-use asset at cost. The cost of the right of use asset includes:

(a) the initial measurement of the lease liability measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee will use their incremental borrowing rate.

(b) the lease payments made before or after commencement, less the lease incentives received;

(c) any initial direct costs incurred by the lessee; and

(d) an estimate of the costs incurred by the lessee upon disassembling and eliminating the underlying asset, restoring the place where it was located or restoring the underlying asset to the condition required by the terms of the lease, unless it incurs these costs to produce inventories. The lessee may incur obligations as a result of these costs either at the commencement date or as a result of having used the underlying asset during a specific period.

Subsequent measurement of the right of use asset

After the commencement date, the Group measures its right-of-use asset using a cost model unless it applies the fair value model under IAS 40 "Investment Property" to its investment property and rights of use that meets the definition of investment properties (see Note 5.1). If the right of use asset relates to a class of property, plant and equipment to which the lessee applies IAS 16's revaluation model, the lessee may opt to use that revaluation model for all right-of-use asset's of assets related to this class of property, plant and equipment.

Subsequent measurement of the lease liability

After the commencement date, the Measures a lease liability:

(a) increasing the carrying amount to reflect the interest on the lease liability;

(b) reducing the carrying amount to reflect the lease payments made; and

(c) measuring the carrying amount again to reflect the new measurements or changes in the lease and also to reflect the in-substance fixed lease payments that have been reviewed.

5.3.2 Lessor

Lessors will classify each lease as an operating lease or finance.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Finance leases

At the commencement of the lease term, the Group recognises finance leases in the consolidated statement of financial position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. To calculate the present value of the lease payments the interest rate stipulated in the finance lease is used.

The cost of assets acquired under finance leases is presented in the consolidated statement of financial position on the basis of the nature of the leased asset. These assets relate in full to investment property and are measured in accordance with that established in Note 5.1.

Operating leases

A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

The Group recognises the costs, including depreciation, incurred to obtain the lease income as an expense. In addition, it adds the initial direct costs incurred to obtain an operating lease to the carrying amount of the underlying asset and recognises the aforementioned costs as an expense over the lease term, on the same basis as the lease income.

5.4 Financial instruments

Financial instruments are recognised when the Group converts an obligation of a contract or legal transaction in accordance with the provisions thereof. As of 1 January 2018 the Group has classified its financial assets as specified in IFRS 9 "Financial Instruments".

The classification criteria for financial assets depend both on how an entity manages its financial instruments (its business model) and on the existence and characteristics of contractual cash flows for the financial assets. On that basis, an asset is measured by amortised cost, fair value through other comprehensive income, or fair value through profit or loss for the period, in the following manner:

- If the objective of the business model is to hold a financial asset in order to collect contractual cash flows and, depending on the terms of the contract, cash flows that are solely payments of principal and interest on the principal amount outstanding are received on specified dates, the financial asset is measured at amortised cost.

- If the objective of the business model is both to collect contractual cash flows and sell financial assets and, depending on the terms of the contract, cash flows that are solely payments of principal and interest on the principal amount outstanding are received on specified dates, the financial asset is measured at fair value through other comprehensive income (equity).

Any assets not meeting the above criteria will be measured at fair value through profit or loss. All equity instruments (e.g., shares), are measured according to this category by default. This is because its contractual flows do not fulfil the characteristic of being solely payments of principal and interest. Financial derivatives are also classified as financial assets at fair value through other comprehensive income unless they have been designated as hedging instruments.

For measurement purposes, financial assets are to be classified in one of the following categories according to the accounting policies indicated for each below.

1. Financial assets at amortised cost: after being initially recognised, these assets are subsequently measured at amortised cost by the effective interest method. The amortised cost is reduced by any impairment loss. They will be recognised in the consolidated profit and loss account for the period in which the financial asset is derecognised or has become impaired, or due to exchange rate differences. Interest calculated using the effective interest method are recognised in the profit and loss account under the item "finance income".

2. Financial assets at fair value through other comprehensive income: financial assets at fair value through other comprehensive income are recognised initially and subsequently at fair value not including transaction costs, which are charged to the profit and loss account. Gains and losses arising from changes in fair value are recognised in the consolidated income statement under the item "Changes in fair value of finance instruments" in the period in which they accrued. Any dividends or interest are also posted to the net financial statement.

3. Debt instruments at fair value through other comprehensive income: They are subsequently entered at their fair value, changes in fair value being recognised under "Other comprehensive income". Interest income, impairment losses, and exchange rate differences are recognised in the consolidated profit and loss account. When sold or derecognised, cumulative adjustments to fair value recognised under "Other comprehensive income" are included in the profit and loss account as "other finance income/(expenses)".

4. Equity instruments at fair value through other comprehensive income: They are subsequently measured at fair value. Dividends are posted only to the results, unless the dividends clearly represent recovery of the investment cost. Other profit and loss is posted to "Other comprehensive income" and is never reclassified to results.

Impairment of financial assets

The impairment model applies to the financial assets valued at amortized cost that include “Client and trade receivables”.

The impairment model is applicable to financial assets valued at amortised cost included under the item "Trade and other receivables". The impairment loss model is based on a dual measurement approach where a provision is made for impairment based on expected losses in the next 12 months or based on expected losses or over an asset's entire lifetime. The first approach is changed to the second approach if there is a significant decrease in creditworthiness.

There has been no significant impairment of the Group's receivables, having in mind that the risk of default is less than 1% of billings and that the Group has security deposits given by the tenants to secure their loan.

Financial liabilities

The main financial liabilities held by the Group companies are held-to-maturity financial liabilities, which are measured at amortised cost. The financial liabilities held by the Group companies are classified as:

1. Bank and other loans: these are recognised at the proceeds received, net of transaction costs. They are subsequently measured at amortised cost. Borrowing costs are recognised in the consolidated income statement on an accrual basis using the effective interest method and are added to the carrying amount of the liability to the extent that they are not settled in the period in which they arise.

   Financial borrowing is subsequently measured at amortised cost. Any difference between the income earned (net of transaction costs) and the repayment value is recognised in the results over the lifetime of the debt on the basis of the effective interest method.

   Financial debt is removed from the consolidated financial statement when the obligation specified in the contract has been paid or cancelled or has expired. The difference between the carrying amount of a financial liability that has been cancelled or assigned to a third party and the consideration paid, including any assigned asset other than cash or the assumed liability, is recognised as other finance income or expenses in the results for the financial period.

Exchanges of debt instruments between the Group and the counterparty or substantial changes in the liabilities initially recognised are booked as cancellation of the original financial liability with recognition of a new financial liability whenever the terms of the instruments differ substantially. The Group considers terms to be substantially different where the current value of the discounted cash flows under the new conditions, including any fee paid net of any fee collected, using the original effective interest rate to determine the discount differs by at least 10% from the current discounted value of the remaining cash flows for the original financial liability.

Where an exchange is recognised as cancellation of the original financial liability, the costs or fees are recognised in and make up a part of the consolidated profit and loss account. Otherwise, the modified flows are discounted at the original effective interest rate, any difference from the previous carrying amount being recognised in the results. Further, the carrying amount of financial liabilities are adjusted for costs and fees, which are amortised by the amortised cost method over the remaining lifetime of the modified liability.

The Group recognises the difference between the carrying amount of the financial liability or of a part of that liability cancelled or assigned to a third party and the consideration paid, including any assigned asset other than cash or the assumed liability in the results.

The Group will book exchanges of debt instruments with a lender as a cancellation of the original financial liability and resulting recognition of a new financial liability whenever the terms of the instruments differ substantially. Similarly, a substantial change to the terms of an existing financial liability or to part of that financial liability will be booked as a cancellation of the original financial liability and resulting recognition of a new financial liability. The difference between the carrying amount of a financial liability that has been cancelled and the consideration paid, including any assigned asset other than cash or any assumed liability, will be recognised in the results for the financial period.

Where the new terms of or changes to a financial liability are determined not to differ substantially, and hence the change is determined not to be a substantial one, the existing financial liability will not be derecognised. The Group will recalculate the gross carrying amount of the financial liability and will recognise it in the results for the financial period as a loss or a gain from modification. The gross carrying amount of the financial liability will be recalculated as the current value of the renegotiated or modified discounted contractual cash flows at the original effective interest of the financial liability.

2. Trade and other payables: trade payables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method.

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

5.5 Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge the risks to which its future activities, transactions and cash flows are exposed. Basically, these risks relate to changes in interest rates. The Group arranges hedging instruments in this connection.

Derivatives are initially recognised at their fair value on the date on which the derivative contract is signed, and their fair value is subsequently reassessed on the date of each balance sheet. Subsequent changes to the fair value are booked according to whether the derivative has been designated as a hedging instrument, and in that case depending the type of item that is being hedged.

At the start of the hedge relationship, the Group documents the economic relationship between the hedging instruments and the items hedged, including whether the changes in the cash flows of the hedging instruments are expected to offset the changes in the cash flows of the hedged items. The Group documents its risk management objective and the strategy for making its hedging arrangements.

The effective portion of changes in the fair value of derivatives designated as cash flow hedges are recognised in the net equity in the cash flow hedge reserve. Any loss or gain associated with the ineffective portion is recognised immediately in the consolidated profit and loss for the financial year as other gains/(losses).

Gains or losses corresponding to the effective portion of the change in the inherent value of options contracts are recognised in the net equity in the cash flow hedge reserve. Changes in the time value of options contracts associated with the hedged item ("aligned time value") are recognised in the net equity in other comprehensive income in the hedge reserve costs.

When forward contracts are used to hedge planned transactions, the Group ordinarily designates only the change in the fair value of the forward contract associated with the cash component as the hedging instrument. Gains or losses associated with the effective portion of the change in the cash component of forward contracts are recognised in the net equity in the cash flow hedge reserve. Changes in the forward element of contracts associated with the hedged item are recognised in the net equity in other comprehensive income in the hedge reserve costs. In some cases the gains or losses corresponding to the effective portion of the change in the fair value of the full forward contract are recognised in the net equity in the cash flow hedge reserve.

- Cash flow hedges: In hedges of this nature, the portion of the gain or loss on the hedging instrument that has been determined to be an effective hedge is recognised temporarily in equity and is recognised in the income statement in the same period during which the hedged item affects profit or loss, unless the hedge relates to a forecast transaction that results in the recognition of a non-financial asset or a non-financial liability, in which case the amounts recognised in equity are included in the initial cost of the asset or liability when it is acquired or assumed.

- Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the consolidated statement of comprehensive income.

The fair value of the various derivative financial instruments is calculated in accordance with the valuation techniques described in Note 5.6 below.

5.6 Valuation techniques and applicable assumptions to measure fair value

The fair value of financial assets and liabilities is calculated as followed:

The fair value of financial assets and liabilities with standard terms and conditions and that are traded on active, liquid markets is calculated by reference to prices quoted in the market.

The fair value of financial assets and liabilities (except derivative instruments) is calculated in accordance with the generally accepted valuation models on the basis of discounted cash flows using the prices of observable market transactions and the contributor prices of similar instruments.

The fair value of interest rate swaps is calculated by discounting future settlements between fixed and floating interest rates to their present value, in line with implicit market interest rates, obtained from long-term interest rate swap curves. Implicit volatility is used to calculate the fair values of caps and floors using option valuation models.

Consideration must be given when valuing financial derivative instruments that the derivative must also effectively offset the exposure inherent to the hedged item or position throughout the expected term of the hedge, and there must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this effectiveness was intended to be achieved and measured. Moreover, pursuant to IFRS 13 and due to the inherent risk, the credit risk of the parties to the contract (both their own risk and that of the counterparty) must be included in the valuation of the derivatives. The Group applied the discounted cash flow method, considering a discount rate affected by the Merlin Group’s own credit risk.

In particular, the Group estimated the value of the embedded derivative of the rent based on an estimate of total future cash flows from the contract adjusted for counterparty credit risk. Future rental income was estimated based on the inflation swaps of the eurozone (HICP in the eurozone excluding tobacco) at the time of analysis and takes into account the corresponding counterparty credit risk. The measurement approach used was based on the discounted cash flow model.

To determine the value of the implicit derivative of the rent (Note 11) the following information is used:

- Forward curve of the Harmonised Index of Consumer Prices (HICP) excluding tobacco in the eurozone.

- The volatility of the HICP to calculate the value of the land (0%) recognised in the lease agreements.

- EUR discount factors to calculate the present value of the future lease payments (sum of the components of the future lease payments and the value of the land)

- Credit risk rates (Credit Default Swap) to calculate the credit valuation adjustment (CVA) for counterparty credit risk.

HICP forward curve

To build the curve, the zero coupon swap up to 30 years is used. Year to year, the annual rates are integrated and interpolated applying seasonal adjustments to obtain the forward curve.

HICP Volatility

As initial data 0% is taken as the land premium. Subsequently, the volatility of each future settlement or year-on-year forward (floorlet) is calculated Once the volatilities and forwards are obtained, the land component amount is determined.

EUR discount factors

Given that the market standard requires that swaps be discounted at the Overnight Indexed Swap (OIS) rate, both Euribor and Eonia rates are included in the yield curve data. In this connection, the yield curve data used for the calculations are:

Deposit rates: 1D, 2D, 3D

Euribor Fixing: 1M, 3M and 6M

Euribor Futures: between 6M and 2Y

Euribor Swap Rates: from 2Y to 30Y

Base EONIA Swap Rates: up to 30Y

Credit Default Swap (CDS) rates

We use CDS market data and interpolate for the specific terms or periods of the leases. We use the Current Exposure Method to calculate the CVA.

Financial instruments measured subsequent to initial recognition at fair value are grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1: those measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: those measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: those measured using valuation techniques, including inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's financial assets and liabilities measured at fair value were as follows at 31 December 2018:

2018

	Thousands of euros			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments (Note 15.3)	-	(40,930)	-	(40,930)
Embedded derivative (Note 11)	-	123,087	-	123,087
Available-for-sale financial assets (Note 11)	17,938	-	-	17,938
	17,938	**82,157**	**-**	**100,095**

2017

	Thousands of euros			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments (Note 15.3)	-	(36,912)	-	(36,912)
Embedded derivative (Note 11)	-	207,274	-	207,274
	-	**170,362**	**-**	**170,362**

Note 8 also provides information on calculating the fair value of investment property.

5.7 Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of the Parent after deducting all of its liabilities.

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

The Parent's equity instruments acquired by the Group are recognised separately at cost and deducted from equity in the consolidated statement of financial position, regardless of why they were acquired. No gains or losses from transactions involving own equity instruments are recognised in the consolidated income statement.

If the Parent's own equity instruments are subsequently retired, capital is reduced by the nominal amount of these treasury shares and the positive or negative difference between the acquisition price and nominal amount of the shares is debited from or credited to reserves.

The transaction costs related to own equity instruments are recognised as a decrease in equity, net of any related tax effect.

5.8 Distributions to shareholders

Dividends are paid in cash and recognised as a reduction in equity when the pay-outs are approved by shareholders at the Annual General Meeting.

The Parent is subject to the special regime for SOCIMIs. As established in section 6 of Spanish Law 11/2009, of 26 October, as amended by Spanish Law 16/2012, of 27 December, the SOCIMIs opting to pay tax under the special tax regime are required to distribute the profit generated during the year to shareholders as dividends. Once the corresponding commercial and corporate obligations have been fulfilled, the distribution must be agreed within six months from year end, and the dividends paid within 30 days from the date on which the pay-out is agreed.

Moreover, as specified in Spanish Law 11/2009, of 26 October, as amended by Spanish Law 16/2012, of 27 December, the Parent must distribute the following as dividends:

- 100% of the profit from dividends or shares in profits distributed by the entities referred to in section 2.1 of Spanish Law 11/2009.

- At least 50% of the profits arising from the transfer of the properties, shares or ownership interests referred to in subsection 1, section 2 of Spanish Law 11/2009, of 26 October, subsequent to expiry of the time limits referred to in subsection 3, section 3 of Spanish Law 11/2009, which are used for pursuit of the entities' principal corporate purpose. The rest of the profit must be reinvested in other properties or shares subject to compliance with this purpose, within a period of three years following the date of transfer. Failing this, the profit must be distributed in full together with, if applicable, the profit generated during the year in which the reinvestment period ends. If the items to be reinvested are transferred prior to the end of the holding period, that profit must be distributed in full together with, if applicable, the profit generated during the year in which the items were transferred. The obligation to distribute profit does not apply to the portion of the profit attributable to prior years in which the Company was not included under the special tax regime established in this Act.

- At least 80% of the remaining profits obtained. When dividend distributions are charged to reserves generated from profits in a year in which the special tax regime applied, the distribution must necessarily be approved as set out above.

5.9 Cash and cash equivalents

The Group includes under this heading cash and short-term highly liquid investments maturing in less than three months that are readily convertible to cash and that are subject to an insignificant risk of changes in value. The interest income associated with these transactions is recognised as income when accrued while unmatured interest is presented in the consolidated statement of financial position as an addition to the balance of the aforementioned heading.

5.10 Provisions

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

- Provisions: credit balances covering present obligations arising from past events, the settlement of which is likely to give rise to an outflow of resources, but that are uncertain as to their amount and/or timing.

- 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 Group's control.

The consolidated financial statements include all the provisions with regard to which it is likely that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements but rather are disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow in settlement is considered to be remote.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences. Where discounting is used, adjustments made to provisions are recognised as finance cost on an accrual basis.

The compensation receivable from a third party on settlement of the obligation is recognised as an asset, provided there is no doubt that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalised, as a result of which the Group is not liable, in which case, the compensation will be taken into account when estimating, if appropriate, the amount of the related provision.

5.11 Revenue recognition

Revenue and expenses are generally 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. Rental income is measured at the fair value of the consideration received, net of discounts and taxes.

Discounts (rent waivers and rebates) granted to lessees are recognised as a reduction in rental income when it is probable that conditions precedent will be fulfilled requiring them to be granted.

Discounts are recognised by expensing the total rent waiver or rebate on a straight-line basis over the term of the lease agreement in force. If a lease agreement is cancelled earlier than expected, any outstanding rent waiver or rebate is recognised in the last period prior to the end of the agreement.

Leasing of investment property to third parties

The Group companies' principal activity comprises the acquisition and leasing of primarily shopping malls, logistics units and offices. The Group's ordinary income is generated from the leasing of this investment property to third parties.

Ordinary income from the leasing of investment property is recognised taking into account the stage of completion of the transaction at the reporting date, provided the result of the transaction can be reliably estimated. Income from the Group's leases is recognised by Group companies on a monthly basis pursuant to the conditions and amounts agreed with the lessees in the various agreements. This income is only recognised when it can be measured reliably and it is probable that the economic benefits from the lease will be received.

Where the outcome of services rendered cannot be measured reliably, revenue is recognised to the extent that the expenses incurred are deemed recoverable.

Service charges rebilled to lessees are recognised net of other operating expenses.

5.12 Income tax

5.12.1 General regime

Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

The current income tax expense is the amount payable by the Group as a result of income tax settlements for a given year. Tax credits and other tax benefits, excluding tax withholdings and pre-payments, and tax loss carryforwards from prior years effectively offset in the current year reduce the current income tax expense.

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

Deferred tax liabilities are recognised for all taxable temporary differences, unless the temporary difference arises from the initial recognition of goodwill, goodwill for which amortisation is not deductible for tax purposes or the initial recognition of other assets and liabilities in a transaction that affects neither accounting profit (loss) nor taxable profit (tax loss).

Deferred tax assets are recognised for temporary differences to the extent that it is considered probable that the consolidated companies will have sufficient taxable profits in the future against which the deferred tax asset can be utilised, and the deferred tax assets do not arise from the initial recognition of other assets and liabilities in a transaction that affects neither accounting profit (loss) nor taxable profit (tax loss). The other deferred tax assets (tax loss, temporary differences and tax credit carryforwards) are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which they can be utilised.

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 to the extent that it has become probable that they will be recovered through future taxable profits.

5.12.2 SOCIMI regime

The special tax regime for SOCIMIs, as amended by Spanish Law 16/2012, of 27 December, is based on the application of a 0% income tax rate, provided certain requirements are met. Particularly noteworthy amongst those conditions is that at least 80% of income must come from urban real estate used for leasing purposes and acquired in full ownership or through holdings in Spanish or foreign companies, regardless of whether or not they are listed on organised markets, that meet the same investment and profit distribution requirements. Likewise, the main sources of income for these entities must come from the real estate market, either through leasing the properties, their subsequent sale after a minimum lease period, or the income generated from holdings in entities with similar characteristics. However, tax is accrued in proportion to the dividend distributed. Dividends received by the shareholders are exempt, unless the recipient is a legal person subject to corporate income tax or a permanent establishment of a foreign entity, in which case a deduction in the tax liability is established, so that these earnings are taxed at the shareholder's rate. However, the remaining earnings will not be taxed so long as they are not distributed to shareholders.

As established in Transitional Provision Nine of Spanish Law 11/2009, of 26 October, as amended by Spanish Law 16/2012, of 27 December, regulating SOCIMIs, the company will be subject to a special tax rate of 19% on the total dividends or shares in profit distributed to shareholders that have an ownership interest in the company's share capital equal to or greater than 5%, when these dividends, in reference to the shareholders, are exempt or are taxed at a rate less than 10%. Accordingly, the Group has established a procedure that guarantees confirmation by shareholders of their tax status, and withholds, where appropriate, 19% of the dividend distributed to shareholders that do not meet the aforementioned tax requirements.

5.13 Share-based payments

The Parent recognises, on the one hand, the goods and services received as an asset or as an expense, depending on their nature, when they are received and, on the other, the related increase in equity, if the transaction is equity-settled, or the related liability if the transaction is settled with an amount based on the value of the equity instruments.

In the case of equity-settled transactions, 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. In the case of cash-settled share-based payments, the goods and services received and the related liability are recognised at the fair value of the latter, by reference to the date on which the requirements for recognition are met.

In 2016 the Parent had a commitment to award an annual variable remuneration incentive to the management team, as determined by the Appointments and Remuneration Committee that compensates senior management and executive directors based on the returns obtained by the Group's shareholders (the "2016 Share Plan"). In accordance with the terms and conditions of this plan, members of senior management must remain at the Group and provide their services for a period of three years, whereby the shares will be delivered on the fifth year.

In addition, at the Annual General Meeting held on 26 April 2017, the shareholders approved a new remuneration plan for the management team and other important members of the Group's workforce (which includes among others the Executive Directors and Senior Management), the measurement period of which is from 1 January 2017 to 31 December 2019 ("2017-2019 Incentive Plan"). In accordance with that established in the aforementioned plan, beneficiaries may be entitled to receive (i) a certain monetary amount based on the increase in the share price and (ii) shares of the Parent, provided that they meet certain objectives.

Vesting of the incentive will be conditional upon, independently, the total rate of return obtained by the shareholder during the three-year period due to:

- the increase in the quoted price of the Parent's share plus the dividends distributed to shareholders by the company during the measurement period; and

- the increase in the EPRA NAV per share of the Parent plus the dividends distributed to shareholders by the company during the measurement period.

In order for the right to the share-based incentive and to the EPRA NAV-based incentive to be vested, the total shareholder rate of return (TSR) must be at least 24%, as detailed below:

TSR NAV/TSR share price	Percentage assigned to Beneficiaries ("PR")	Percentage assigned to Shareholders
< 24%	0%	100%
≥ 24% and < 36%	6%	94%
≥ 36%	9%	91%

In order to calculate the TSR (i) the percentage assigned to Beneficiaries in accordance with the above table is applied to the result of multiplying the TSR by the Share Price multiplied by the number of Shares of the Company at 31 December 2019; (ii) the result of the aforementioned operation is balanced, through a mechanism of adjustments on behalf of the Beneficiaries,in that once a minimum return has been attained, the Beneficiaries will be entitled to the assigned percentage of the total return from the start.

The date of calculation of the amount of the NAV-based incentive and the amount of the share-based incentive will be 31 December 2019. The maximum amount to be received for the incentive tied to the quoted price from 2017 to 2019 will amount to EUR 37.5 million. If the incentive is larger than the aforementioned limit, it will supplement the NAV-based incentive — if the latter is lower than the maximum amount established. Likewise, the maximum amount of the EPRA NAV-based incentive will be EUR 75 million, for which a maximum of 6,000,000 shares has been earmarked for that payment. Lastly, if the value of the maximum number of shares allocated to the plan were below the aforementioned incentive tied to the EPRA NAV, the difference would be paid in cash.

5.14 Employee obligations

Under current labour legislation, the Group companies are required to pay termination benefits to employees terminated under certain conditions.

When a restructuring plan is approved by the directors, made public and communicated to employees, the Group recognises the provisions required to meet any future payments resulting from their application. These provisions are calculated in accordance with the best estimates available of the foreseeable costs.

At 31 December 2018, the Group had no commitments in this connection and there was no Collective Redundancy plan in force.

5.15 Current assets and liabilities

The Group classifies its assets and liabilities as current and non-current in the consolidated statement of financial position. To this end, current assets and current liabilities are those that meet the following criteria:

- Assets are classified as current when they are expected to be realised, or are intended for sale or consumption, during the course of the Group’s normal operating cycle, when they are held primarily for the purpose of being traded, when they are expected to be realised within twelve months after the reporting date, or when they constitute cash or a cash equivalent, unless they are restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

- Liabilities are classified as current when they are expected to be settled during the course of the Group’s normal operating cycle, when they are held primarily for the purpose of being traded, when they are expected to be settled within twelve months after the reporting date, or when the Group does not have an unconditional right to defer repayment of the liability for at least twelve months after the reporting date.

- Derivative financial instruments not held for trading are classified as current or non-current based on the period of maturity or periodic settlement.

5.16 Segment reporting

The Group groups its segments based on the nature of the assets in the various areas in which it develops and strategy. In this regard, each operating segment is a component of the Group that carries out business activities from which it can obtain ordinary income and incur expenses. The profit or loss from operations for each segment is regularly reviewed by the Group's management to decide what resources should be allocated to each segment, to assess their performance and in relation to which it has separate financial information.

5.17 Earnings per share

Basic earnings per share are calculated by dividing net profit or loss attributable to the Parent by the weighted average number of ordinary shares outstanding during the year, excluding the average number of shares of the Parent held by the Group companies.

The Group calculates diluted earnings per share amounts for profit or loss attributable to ordinary equity holders of the Parent and, if presented, profit or loss from continuing operations attributable to those equity holders.

For the purpose of calculating diluted earnings per share, the Group takes the profit or loss attributable to ordinary equity holders of the Parent, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

5.18 Environmental matters

The Group carries out activities whose primary purpose is to prevent, mitigate or repair environmental damage caused by its operations.

Expenses incurred in connection with these environmental activities are recognised as other operating expenses in the year in which they are incurred. However, because of their nature, the Group's business activities do not have a significant environmental impact.

5.19 Consolidated statement of cash flows

The consolidated statements of cash flows have been prepared using the indirect method and the terms used are defined as follows:

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

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

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

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

6. Segment reporting

a) Basis of segmentation

Group management has segmented its activities into the business segments detailed below based on the type of assets acquired and managed:

- Office buildings.
- High Street retail assets.
- Shopping centres.
- Logistics assets.
- Other.

Any revenue or expense that cannot be attributed to a specific line of business or relate to the entire Group are attributed to the Parent as a "Corporate unit/Other", as are the reconciling items arising from the reconciliation of the result of integrating the financial statements of the various lines of business (prepared using a management approach) and the Group's consolidated financial statements.

The profits of each segment, and each asset within each segment, are used to measure performance as the Group considers this information to be the most relevant when evaluating the segments' results compared to other groups operating in the same businesses.

The Group carried out its business activities in Spain and Portugal in the year ended 31 December 2018.

b) Basis and methodology for segment reporting

The segment information below is based on monthly reports prepared by Group management, which are generated using the same computer application that prepares all the Group's accounting information. The accounting policies applied to prepare the segment information are the same as those used by the Group, as described in Note 5.

Segment revenue relates to ordinary revenue directly attributable to the segment plus the proportion of the general revenue of the Group that may be reasonably allocable to it. Ordinary revenue of each segment does not include interest or dividend income, gains on the disposal of investment property, debt recoveries or cancellation.

Segment expenses are calculated as the directly attributable expenses incurred in the operating activities, plus the corresponding proportion of the expenses that are reasonably allocable to the segment.

The segment profit or loss is shown before any adjustment for non-controlling interests.

The assets and liabilities of the segments are those that are directly related to their operations plus those that can be directly attributed to them on the basis of the aforementioned allocation system and include the proportional part of joint ventures.

Segment reporting

Segment information about these businesses at 31 December 2018 is presented below:

2018	Thousands of euros						
	Office building	High Street Retail	Shopping centres	Logistics	Other	Corporate unit	Group total
Rental income	210,394	106,187	98,508	46,598	13,959	-	475,646
Revenue from the rendering of services	-	-	298	-	18	114,469	114,785
Revenue	**210,394**	**106,187**	**98,806**	**46,598**	**13,977**	**114,469**	**590,431**
Other operating income	352	2	2,517	46	32	4,029	6,978
Staff costs	-	-	-	-	-	(73,941)	(73,941)
Operating expenses	(21,950)	(3,720)	(15,213)	(2,545)	(1,471)	(11,375)	(56,274)
Gains or losses on disposals of non-current assets	-	7,859	(116)	786	(1,712)	(2)	6,815
Depreciation and amortisation charge	-	(2)	(57)	(4)	(10)	(1,499)	(1,572)
Excessive provisions	5	-	-	-	-	13,549	13,554
Change in fair value of investment property	319,237	180,831	20,373	94,140	14,603	-	629,184
Negative goodwill on business combinations	19	-	(20,542)	-	-	-	(20,523)
Profit from operations	**508,057**	**291,157**	**85,768**	**139,021**	**25,419**	**45,230**	**1,094,652**
Change in the fair value of financial instruments-							
Change in fair value of financial instruments - Embedded derivative	-	(61,960)	-	-	-	-	(61,960)
Change in fair value of financial instruments - Other	(2)	(7,235)	-	(405)	-	(11,148)	(18,790)
Finance income	3	-	23	-	12	473	511
Gains or losses on disposals of financial instruments	(25)	-	(22)	(36)	(9)	4,290	4,198
Finance costs	(527)	(13,863)	(3,946)	(4,611)	-	(92,556)	(115,503)
Share of results of companies accounted for using the equity method	-	-	-	-	-	(9,916)	(9,916)
Profit/(Loss) before tax	**507,506**	**208,099**	**81,823**	**133,969**	**25,422**	**(43,795)**	**913,024**
Income tax	(18,950)	(10,732)	(1,631)	(2,418)	(6,239)	(18,176)	(58,146)
Profit/(Loss) for the period	**488,556**	**197,367**	**80,192**	**131,551**	**19,183**	**(61,971)**	**854,878**

At 31 December 2018	Thousands of euros						
	Office Offices	High Street Retail	Shopping centres	Logistics	Other	Corporate unit	Group total
Investment property	5,872,677	2,096,982	2,265,318	971,008	534,476	-	11,740,461
Non-current financial investments-	30,354	138,701	12,372	6,267	1,237	23,317	212,248
Derivatives	-	123,087	-	-	-	-	123,087
Other financial assets	30,354	15,614	12,372	6,267	1,237	23,317	89,161
Deferred tax assets	85	4,207	793	453	3,226	79,651	88,415
Other non-current assets	-	4	183	17	927	172,210	173,341
Non-current assets	**5,903,116**	**2,239,894**	**2,278,666**	**977,745**	**539,866**	**275,178**	**12,214,465**
Trade receivables	8,844	1,623	6,748	5,164	3,659	141,443	167,481
Other current financial assets	178	1,170	132	1,704	26	5,678	8,888
Other current assets	18,452	15,009	29,718	13,467	718	104,499	181,863
Current assets	**27,474**	**17,802**	**36,598**	**20,335**	**4,403**	**251,620**	**358,232**
Total assets	**5,930,590**	**2,257,696**	**2,315,264**	**998,080**	**544,269**	**526,798**	**12,572,697**
Long-term bank borrowings and debt instrument issues	20,026	719,544	131,599	69,901	-	4,216,938	5,158,008
Other non-current liabilities	304,928	83,382	203,024	63,750	3,730	177,487	836,301
Non-current liabilities	**324,954**	**802,926**	**334,623**	**133,651**	**3,730**	**4,394,425**	**5,994,309**
000Current liabilities	**30,620**	**18,876**	**22,777**	**33,275**	**2,366**	**68,639**	**176,552**
Total liabilities	**355,574**	**821,802**	**357,400**	**166,926**	**6,095**	**4,463,064**	**6,170,861**

Segment information about these businesses at 31 December 2017 is presented below:

2017	Thousands of euros						
	Office building	High Street Retail	Shopping centres	Logistics	Other	Corporate unit	Group total
Rental income	208,675	104,048	88,738	38,289	12,901	-	452,651
Revenue from the rendering of services	-	2,048	-	-	17	8,578	10,643
Revenue	**208,675**	**106,096**	**88,738**	**38,289**	**12,918**	**8,578**	**463,294**
Other operating income	131	33	393	228	-	3,504	4,289
Staff costs	-	-	-	-	-	(71,759)	(71,759)
Operating expenses	(16,167)	(1,934)	(13,257)	(4,422)	(2,218)	(13,996)	(51,994)
Gains or losses on disposals of non-current assets	45	488	417	-	(714)	-	236
Depreciation and amortisation charge	-	(5)	(1,821)	(7,349)	(19)	(1,185)	(10,379)
Excessive provisions	310	-	1,883	-	-	(5,984)	(3,791)
Absorption of the revaluation of investment property	-	-	-	-	(9,839)	-	(9,839)
Change in fair value of investment property	553,672	141,534	91,910	82,456	27,829	-	897,401
Negative goodwill on business combinations	(1,775)	-	-	-	-	-	(1,775)
Profit/(Loss) from operations	**744,891**	**246,212**	**168,263**	**109,202**	**27,957**	**(80,842)**	**1,215,683**
Changes in fair value of financial instruments							
Changes in fair value of financial instruments – Embedded derivative	-	92	-	-	-	-	92
Changes in fair value of financial instruments – Other	(1,695)	(980)	-	60	-	5,099	2,484
Finance income	(76	-	5	-	3	384	468
Gains or losses on disposals of financial instruments	116	(10)	1,075	17	(6)	(142)	1,050
Finance costs	(3,611)	(23,652)	(3,965)	(2,807)	(17)	(88,489)	(122,541)
Share of results of companies accounted for by the equity method	-	-	-	-	-	16,233	16,233
Profit/(Loss) before tax	**739,777**	**221,662**	**165,378**	**106,757**	**27,937**	**(147,757)**	**1,113,469**
Income tax	(10,077)	(2,132)	(10,141)	(1,017)	(1,322)	11,748	(12,941)
Profit/(Loss) for the period	**729,700**	**219,530**	**155,237**	**105,455**	**26,615**	**(136,009)**	**1,100,528**

	Thousands of euros						
At 31 December 2017	Office Offices	High Street Retail	Shopping centres	Logistics	Other	Corporate unit	Group total
Investment property	5,187,207	2,140,262	1,661,845	624,097	739,004	-	10,352,415
Non-current financial investments-	19,363	222,083	8,963	5,680	1,626	18,167	275,882
Derivatives	-	*207,274*	-	-	-	-	*207,274*
Other financial assets	*19,363*	*14,809*	*8,963*	*5,680*	*1,626*	*18,167*	*68,608*
Deferred tax assets	23	7,079	808	553	9,572	126,092	144,127
Other non-current assets	-	6	85,518	156,110	915	375,488	618,037
Non-current assets	**5,206,593**	**2,369,430**	**1,757,134**	**786,440**	**751,117**	**519,747**	**11,390,461**
Trade receivables	8,649	1,589	2,368	5,334	7,258	53,335	78,533
Other current financial assets	47	405	17	1,408	17	71,560	73,454
Other current assets	26,257	59,583	45,593	17,196	1,822	312,140	462,591
Current assets	**34,953**	**61,577**	**47,978**	**23,938**	**9,097**	**437,035**	**614,578**
Total assets	**5,241,546**	**2,431,007**	**1,805,112**	**810,378**	**760,214**	**956,782**	**12,005,039**
Long-term bank borrowings and debt instrument issues	20,844	948,049	131,152	96,264	-	4,057,686	5,253,995
Other non-current liabilities	323,312	91,797	112,331	42,127	3,502	179,925	752,994
Non-current liabilities	**344,156**	**1,039,846**	**243,483**	**138,391**	**3,502**	**4,237,611**	**6,006,989**
Current liabilities	**41,774**	**12,783**	**9,338**	**10,597**	**8,415**	**191,360**	**274,267**
Total liabilities	**385,930**	**1,052,629**	**252,821**	**148,988**	**11,917**	**4,428,971**	**6,281,256**

a) Geographical segment reporting

For the purposes of geographical segment reporting, segment revenue is grouped based on the geographical location of the assets. Segment assets are also grouped based on their geographical location.

The following tables summarises, by geographical area, the revenue and non-current investment property for each of the assets held by the Group:

2018

	Thousands of euros			
	Rental income	%	Investment property (a)	%
Autonomous Community of Madrid	226,133	18%	6,276,467	53%
Catalonia	85,198	18%	2,038,456	17%
Autonomous Community of Valencia	23,059	5%	387,793	3%
Galicia	21,747	5%	405,478	3%
Andalusia	20,844	4%	417,424	4%
Basque Country	20,491	4%	386,653	3%
Castilla-La Mancha	14,614	3%	354,385	3%
Rest of Spain	39,485	8%	767,828	7%
Portugal	24,075	5%	829,064	7%
Total	**475,646**	**100%**	**11,863,548**	**100%**

(a) Also includes the amount of the embedded derivative described in Note 11.

2017

	Thousands of euros			
	Rental income	%	Investment property (a)	%
Madrid	222,681	49%	5,921,608	55%
Catalonia	82,644	18%	1,793,210	17%
Autonomous Community of Valencia	22,730	5%	421,745	4%
Galicia	21,178	5%	434,525	4%
Andalusia	20,410	5%	402,565	3%
Basque Country	20,513	5%	409,118	4%
Castilla y León	11,956	3%	303,815	3%
Rest of Spain	39,730	9%	842,781	8%
Portugal	10,809	1%	272,489	2%
Total	**452,651**	**100%**	**10,801,855**	**100%**

(a) Also includes the amount of the concession projects and the amount of the embedded derivative described in Note 11.

b) Main customers

The table below lists the main lessees at 31 December 2018, and the primary characteristics of each of them:

2018

Position	Name	Type	% of total rental income	% accumulated	Maturing in
1	BBVA	High street retail	15.3%	15.3%	2029-2040
2	Endesa	Offices	4.2%	19.5%	2020-2028
3	Inditex	Shopping centres	3.1%	22.6%	2019-2021
4	Técnicas Reunidas	Offices	2.1%	24.7%	2019
5	PricewaterhouseCoopers, S.L.	Offices	1.5%	26.2%	2022
6	Hotusa + WTC	Hotel	1.5%	27.7%	2024
7	Caprabo	High street retail	1.3%	29.0%	2025
8	Indra Sistemas, S.A.	Offices	1.3%	30.3%	2024
9	Madrid	Offices	1.2%	31.5%	2019
10	XPO	Logistics	1.0%	32.5%	2020-2028

2017

Position	Name	Type	% of total rental income	% accumulated	Maturing in
1	BBVA	High street retail	19.6%	19.6%	2029-2040
2	Endesa	Offices	4.6%	24.3%	2020-2028
3	Inditex	Shopping centres	2.8%	27.1%	2018
4	Técnicas Reunidas	Offices	2.3%	29.4%	2019
5	PricewaterhouseCoopers, S.L.	Offices	1.7%	31.1%	2022
6	Caprabo	High street retail	1.5%	32.6%	2023
7	Indra Sistemas, S.A.	Offices	1.5%	34.1%	2024
8	Hotusa + WTC	Hotel	1.4%	35.5%	2021
9	Madrid	Offices	1.4%	36.9%	2019
10	XPO	Logistics	1.1%	38.1%	2020

7. Concession projects

The changes in concession projects at year end 2018 are as follows:

	Thousands of euros
Balance at 31 December 2016	**245,744**
Additions	5,570
Depreciation and amortisation charge	(9,148)
Balances at 31 December 2017	**242,166**
Reclassification “Investment property”	(242,166)
Balances at 31 December 2018	**-**

As indicated in Note 2.2.2 on first-time application of IFRS 16, which was applied early effective from 1 January 2018, the Group has amended its accounting policy, reclassifying concession projects under "Investment Property" and measuring them in accordance with the measurement bases indicated in Note 8.

8. Investment property

The breakdown of and changes in items included under “investment Property” in the consolidated statement of financial position in 2018 and 2017 are as follows:

	Thousands of euros	
	2018	2017
Beginning balance	10,352,415	9,027,184
Additions due to business combinations (Note 3)	508,131	96,312
Early application of IFRS 16 (Note 2.2.3)	296,738	-
Additions during the period	191,930	356,854
Disposals	(237,937)	(25,336)
Change in value of the investment property	629,184	897,401
Final balance	**11,740,461**	**10,352,415**

Investment property is recognised at fair value. Income recognised in the consolidated income statement for 2018 from measuring investment property at fair value amounted to EUR 629,184 thousand (EUR 897,401 thousand in 2017).

Investment property mainly includes real estate assets in the office, high street retail, shopping centre and logistics segments.

Additions and assets acquired in 2018 are as follows:

	Thousands of euros	
Type of asset	2018	2017
Business combination		
Offices	35,374	96,312
Shopping centres	472,757	-
	508,131	96,312
Acquisitions:		
Logistics	74,698	87,303
Offices	37,509	146,111
Shopping centres	809	42,148
Improvements to assets	78,914	81,291
	191,930	356,853
	700,061	**453,165**

The main asset additions in 2018 relate to the business combinations described in Note 3.

The other asset additions in 2018 relate mainly to the turnkey handover of a logistics park in Gavilanes (Madrid) amounting to EUR 29 million, the acquisition of three warehouses in Vitoria and Guadalajara amounting to EUR 21 million and the acquisition of plots for the development of logistics warehouses in Seseña amounting to EUR 4 million, and the acquisition of an office building in Madrid amounting to EUR 28 million.

The other additions in the period relate to the improvement and adaptation work carried out on certain buildings owned by the Group, as well as the development of Torre Chamartín, Torre Glóries, and certain logistics buildings.

The disposals in 2018 relate mainly to the sale of a group of branches of BBVA, whereby the profit did not have a significant impact on the consolidated income statement for 2018.

The main acquisition of assets in 2017 corresponded to the Torre Glóries building located in Barcelona, the acquisition price of which amounted to EUR 142 million. Likewise, the Group acquired 4 logistics warehouses in Cabanillas (Guadalajara) for EUR 62 million and various premises located in shopping centres owned by the Group amounting to EUR 42 million.

The other additions in 2017 related to the improvement and adaptation work carried out on certain buildings owned by the Group, as well as the development of sites such as Torre Chamartín and certain logistics buildings.

At 31 December 2018, the Group had pledged real estate assets totalling EUR 2,441,389 thousand (EUR 2,602,235 thousand in 2017) to secure various loans and derivative financial instruments, the balances of which at 31 December 2018 amounted to EUR 984,075 thousand and EUR 34,564 thousand (EUR 1,165,623 thousand and EUR 32,285 thousand in 2017), respectively (see Note 15). The Group holds no rights of use, seizure or similar situations with regard to its investment property.

On 13 February 2018, the Parent cancelled the financial leases it held at the end of 2017.

All properties included under “Investment Property” were insured at 31 December 2018.

At 31 December 2018, the Group had firm purchase commitments for investment property amounting to EUR 25,492 thousand. In 2018 and 2017 no significant finance costs were capitalised in the cost of constructing the properties.

Fair value measurement and sensitivity

All investment property leased or earmarked for lease through operating leases (rental property business segment) is classified as investment property.

In accordance with IAS 40, the Group periodically determines the fair value of its investment property so that the fair value reflects the actual market conditions of the investment property items at that date. This fair value is determined each year based on the appraisals undertaken by independent experts.

The market value of the Group's investment property at 31 December 2018 and 2017, calculated on the basis of appraisals carried out by Savills Consultores Inmobiliarios, S.A. and CBRE Valuation Advisory, S.A., independent appraisers not related to the Group, amounted to EUR 11,824,199 thousand (EUR 10,537,395 thousand in 2017). This valuation includes the value of the embedded derivative of the rent in the lease agreement with BBVA amounting to EUR 123,087 thousand and EUR 207,274 thousand in 2018 and 2017, respectively, does not include prepayments made by the Group to third parties for the purchase of assets in the amount of EUR 15,027 thousand (EUR 22,294 thousand in 2017), and does not include the value of the rights of use recognised by early application of IFRS 16 amounting to EUR 24,322 thousand (see Note 2.2.3). The valuation was carried out in accordance with the Appraisal and Valuation Standards issued by the Royal Institute of Chartered Surveyors (RICS) of the United Kingdom and the International Valuation Standards (IVS) issued by the International Valuation Standards Committee (IVSC).

The method used to calculate the market value of investment property, except the BBVA portfolio, involves drawing up ten-year projections of income and expenses for each asset, adjusted at the reporting date using a market discount rate. The residual amount at the end of year 10 is calculated by applying an exit yield or cap rate to the net income projections for year 11. The market values obtained are analysed by calculating and assessing the capitalisation of the returns implicit in these values. The projections are designed to reflect the best estimate of future income and expenses from the investment properties. Both the exit yield and discount rate are determined taking into account the national market and institutional market conditions.

The method used by CBRE to value the BBVA portfolio analyses each property individually, without making any adjustments for inclusion in a large portfolio of properties. For each property, a capitalisation rate has been assumed for the estimated market rent and subsequently adjusted on the basis of the following parameters:

- Term of the lease agreement and creditworthiness of the lessee.
- Location of the premises within the municipality (central area, metropolitan area or suburbs).
- Immediate vicinity of the property.
- Level of upkeep of the property (outside and inside).
- Above and below-ground distribution of the floor area.
- Façade on one street or more than one (corner, three-sided).
- Lease situation with regard to current market rent.

In any event, the situation of the rental property market could lead to material differences between the fair value of the Group's investment property and their effective realisable values.

Fees paid by the Group to valuers for appraisals conducted up to 31 December 2018 and 2017 were as follows:

	Thousands of euros	
	2018	2017
Valuation services	650	635
Total	**650**	**635**

Breakdown of fair value of investment property

The detail of assets measured at fair value by their level in the fair value hierarchy is as follows:

2018

Fair value measurement	Thousands of euros			
	Total	Level 1	Level 2	Level 3
Investment property				
Offices				
- Land	2,077,683			2,077,683
- Buildings	3,794,994			3,794,994
High Street Retail				
- Land	550,842			550,842
- Buildings	1,546,140			1,546,140
Shopping centres				
- Land	472,124			472,124
- Buildings	1,793,194			1,793,194
Logistics				
- Land	209,312			209,312
- Buildings	761,696			761,696
Other				
- Land	298,292			298,292
- Buildings	236,184			236,184
Total assets measured at fair value	11,740,461			11,740,461

2017

Fair value measurement	Thousands of euros			
	Total	Level 1	Level 2	Level 3
Investment property				
Offices				
- Land	2,017,076			2,017,076
- Buildings	3,388,229			3,388,229
High Street Retail				
- Land	586,566			586,566
- Buildings	1,553,696			1,553,696
Shopping centres				
- Land	420,482			420,482
- Buildings	1,241,363			1,241,363
Logistics				
- Land	176,523			176,523
- Buildings	447,574			447,574
Other				
- Land	276,252			276,252
- Buildings	244,654			244,654
Total assets measured at fair value	10,352,415			10,352,415

No assets were reclassified from one level to another during 2018 or 2017.

At 31 December 2018, the gross surface areas and occupancy rates of the assets were as follows:

2018	Square metres (*)										Occupancy rate (%)
	Gross leasable area										
	Autonomous Community of Madrid	Catalonia	Autonomous Community of Valencia	Galicia	Andalusia	Basque Country	Castilla-La Mancha	Rest of Spain	Portugal	Total	
Offices	967,610	214,532	-	-	15,078	-	-	4,488	70,324	1,272,032	90.0
High street retail	93,288	111,106	27,459	17,217	27,976	24,100	8,354	86,291	-	395,791	99.2
Shopping centres	26,883	93,137	72,151	100,242	37,822	24,323	-	81,386	65,593	501,537	91.0
Logistics	278,791	185,785	26,613	-	114,128	99,491	354,093	42,342	-	1,101,243	98.2
Other	54,601	46,249	-	5,898	-	46	-	-	-	106,794	74.0
Total surface area	**1,421,173**	**650,809**	**126,223**	**123,357**	**195,004**	**147,960**	**362,447**	**214,507**	**135,917**	**3,377,397**	
% weight	42.10%	19.30%	3.70%	3.70%	5.80%	4.40%	10.70%	6.30%	4.00%	100.00%	

(*) Square metres of projects in progress and land not included

2017	Square metres (+)										
	Gross leasable area										Occupancy rate (%)
	Autonomous Community of Madrid	Catalonia	Autonomous Community of Valencia	Galicia	Andalusia	Basque Country	Castilla la Mancha	Rest of Spain	Portugal	Total	
Offices	973,129	214,532	-	-	15,078	-		4,488	60,117	1,267,344	88.2
High Street Retail	95,006	112,985	40,456	26,910	31,839	31,789	12,624	108,372	-	159,981	99.4
Shopping centres	26,857	93,155	69,272	100,207	40,805	24,323	-	80,766	5,495	440,880	89.4
Logistics	168,383	202,543	26,613	-	108,728	72,717	339,499	42,342	-	960,825	98.5
Other	54,601	55,137	-	5,898	-	46		-	-	115,682	76.7
Total surface area	**1,317,976**	**678,352**	**136,341**	**133,015**	**196,450**	**128,875**	**352,123**	**235,124**	**65,612**	**3,244,712**	
% weight	40.60%	20.90%	4.20%	4.10%	6.10%	4.00%	10.90%	7.20%	2.00%	100.00%	

(*) Square metres of projects in progress and land not included

Assumptions used in the measurement

The material unobservable inputs used to measure the fair value of investment property corresponded to the lease payments, exit yields and the rate used for discounting the cash flows of the projections. The following is quantitative information on the material unobservable inputs used for measuring the fair value.

2018

	Exit yield	Discount rate
Offices	3.50% - 8.00%	4.00% - 9.00%
High Street Retail	3.50% - 7.00% (*)	5.50% - 9.00% (*)
Shopping centres	4.50% - 7.50%	6.00% - 10.50%
Logistics	5.25% - 7.50%	7.25% - 16.00%
Other	5.00% - 8.50%	4.00% - 16.00%

(*) This does not apply to BBVA because they are measured by directly capitalising the rent.

2017

	Exit yield	Discount rate
Offices	3.75% - 8.00%	4.00% - 8.00%
High street retail	4.00% - 7.00% (*)	5.00% - 9.00% (*)
Shopping centres	4.75% - 7.50%	6.25% - 10.00%
Logistics	5.75% - 7.50%	7.25% - 16.00%
Other	4.75% - 10.0%	5.00% - 16.00%

(*) This does not apply to BBVA because they are measured by directly capitalising the rent.

In relation to the rents, the amounts per meter squared utilised in the measurement varied from between EUR 2.65 and EUR 71.78, depending on the asset type and location. The growth rates of the rents used in the projections are based mainly on the CPI.

Analysis of sensitivity of assumptions

The effect of one quarter, one half or one point change in the required rates of return, calculated as income, on the market value of the assets, on investment property in consolidated assets and in the consolidated income statement, would be as follows:

	Thousands of euros					
	31/12/2018					
	Asset			Consolidated profit/(loss) before tax		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Increase in the rate of return	(535,204)	(1,025,118)	(1,890,274)	(535,204)	(1,025,118)	(1,890,274)
Decrease in the rate or return	587,080	1,233,963	2,747,831	587,080	1,233,963	2,747,831

	Thousands of euros					
	31/12/2017					
	Asset			Consolidated profit/(loss) before tax		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Increase in the rate of return	(511,059)	(978,158)	(1,801,366)	(511,059)	(978,158)	(1,801,366)
Decrease in the rate or return	561,532	1,181,402	2,636,737	561,532	1,181,402	2,636,737

The effect of a 1%, 5% and 10% change in the rents considered on the investment property in consolidated assets and in the consolidated income statement would be as follows:

	Thousands of euros					
	31/12/2018					
	Asset			Consolidated profit/(loss) before tax		
	1%	5%	10%	1%	5%	10%
Increase in the rents	71,507	357,536	715,071	71,507	357,536	715,071
Decrease in the rents	(71,507)	(357,536)	(715,071)	(71,507)	(357,536)	(715,071)

	Thousands of euros					
	31/12/2017					
	Asset			Consolidated profit/(loss) before tax		
	1%	5%	10%	1%	5%	10%
Increase in the rents	65,869	329,346	658,692	65,869	329,346	658,692
Decrease in the rents	(65,869)	(329,346)	(658,692)	(65,869)	(329,346)	(658,692)

The effect of a one-quarter, one half or one point change in the exit yields considered on the investment property, based on the assumption that it is calculated as the product of dividing the net operating income of the last year of the period analysed by the estimated exit yield, in consolidated assets and in the consolidated income statement would be as follows:

	Thousands of euros			
	31/12/2018			
	Asset		Consolidated profit/(loss) before tax	
	0.25%	0.50%	0.25%	0.50%
Increase in the exit yield	(320,990)	(613,961)	(320,990)	(613,961)
Decrease in the exit yield	353,230	743,815	353,230	743,815

	Thousands of euros			
	31/12/2017			
	Asset		Consolidated profit/(loss) before tax	
	0.25%	0.50%	0.25%	0.50%
Increase in the exit yield	(266,588)	(511,018)	(266,588)	(511,018)
Decrease in the exit yield	291,904	612,908	291,904	612,908

Details of “Changes in value of investment property” in the consolidated income statement are as follows:

Type of asset	Thousands of euros	
	2018	2017
Offices	319,237	553,672
High street retail	180,831	141,534
Shopping centres	20,373	91,910
Logistics	94,140	82,456
Other	14,603	27,829
	629,184	**897,401**

Accordingly, the impact on the consolidated income statement of the revaluations of the Group's real estate assets in 2018, taking into consideration all headings affected in the consolidated income statement, is as follows:

	Thousands of euros	
	2018	2017
Changes in fair value of investment property	629,184	897,401
Change in the fair value of the embedded derivative	(61,960)	92
Absorption of the increase in value of the investment property of Testa Inmuebles en Renta	-	(9,839)
Effect on the income statement	**567,224**	**887,654**

9. Operating leases

9.1 Operating leases – Lessee

As lessee the Group only holds leases that are short-term and have low value that, after the analysis of the application of IFRS 16, it recognises as a straight-line expense over the lease term.

9.2 Operating leases - Lessor

The occupancy rates of the leased buildings at 31 December 2018 were as follows:

	% occupancy	
	2018	2017
Offices	90.0	88.2
High street retail	99.2	99.4
Shopping centres	91.0	89.4
Logistics	98.2	98.5
Other	74.0	76.7

At 31 December 2018, the gross lease income from and the fair value of each of the assets were as follows:

2018

	Thousands of euros	
	Gross rents (a)	Fair value (b)
Offices	224,395	5,872,677
High street retail	106,651	2,220,069
Shopping centres	103,554	2,265,318
Logistics	50,327	971,008
Other	14,781	534,476
Total	**499,708**	**11,863,548**

(a) The gross rents indicated in the above table refer to the lease income (Note 6) of the properties accrued from their own corporation into the Group, without taking into account the rebates or straight-line recognition of rents.

(b) It includes investment properties, concession projects, and the embedded derivative.

2017

	Thousands of euros	
	Gross rents (a)	Fair value (b)
Offices	217,473	5,303,437
High street retail	104,119	2,347,536
Shopping centres	92,821	1,747,189
Logistics	41,283	664,689
Other	13,709	739,004
Total	**469,405**	**10,801,855**

(a) The gross rents indicated in the above table refer to the lease income (Note 6) of the properties accrued from their integration into the Group, without taking into account the rebates or straight-line recognition of rents.

(b) It includes investment properties, concession projects and the embedded derivative.

The lease agreements entered into between the Group and its customers include a fixed rent and, where applicable, a variable rent linked to the lessee’s performance.

At 31 December 2018, future minimum lease payments under non-cancellable operating leases (calculated at the nominal amount) are as follows:

	Thousands of euros	
	2018	2017
Within one year	475,065	429,472
Between one and five years	1,228,127	1,169,986
After five years	1,247,161	1,519,017
	2,950,352	**3,118,476**

9.3 Finance leases

On 13 February 2018, the Parent cancelled the financial leases it held at the end of 2017.

10. Investments accounted for using the equity method

The changes in 2018 in investments in companies accounted for using the equity method are as follows:

	Thousands of euros	
	2018	2017
Beginning balance	371,408	319,697
Early application IFRS 16 (Note 2.2.3)	13,010	-
Additions made during the year	91,747	39,050
Disposals/impairment losses	(316,329)	(3,433)
Dividends	(619)	(139)
Profit/(Loss) for the period	(9,916)	16,233
Ending balance	**169,133**	**371,408**

The main changes in 2018 were as follows:

On 19 January 2018, cancelled the service agreement signed with the Parent early. In accordance with the terms of the aforementioned agreement, the Parent had the right, in the event that a situation like that described above were to occur, to receive compensation, the amount of which was to be determined based on the annual management fee and the remaining years of validity. As a result of the termination of the agreement, the Parent earned income amounting to EUR 89,721 thousand that was settled in full with the delivery of 640,693,342 shares issued in the share capital increase carried out in relation thereto by Testa Residencial SOCIMI, S.A.

The share capital increase in the investee Testa Residencial SOCIMI, S.A. was approved by the shareholders at the Annual General Meeting of 26 March 2018, giving the Parent an ownership interest of 16.95%.

On 14 September 2018, the Parent formalised a sale agreement for its entire ownership interest in Testa Residencial SOCIMI, S.A. The price of the sale amounted to EUR 321.2 million and formalisation of the sale was pending compliance with certain conditions with such compliance ultimately occurring in December 2018. As a result of the sale, the Group obtained profit before tax amounting to EUR 4,497 thousand recognised under "Gains or Losses on Disposal of Financial Instruments" in the consolidated income statement for 2018.

At 31 December 2018, EUR 134 million scheduled to mature in 2019 had not been collected and is recognised under "Trade and Other Receivables" in the consolidated statement of financial position for 2018.

The Parent also acquired 1,500 shares of the share capital of G36 Development, S.L. for EUR 1,500 corresponding to a 50% of the share capital.

On 1 October 2018, the Parent subscribed the share capital increase of G36 Development, S.L., subscribing 202,500 additional shares of EUR 1 par value each for a nominal value of EUR 2,025 (this amount includes the share premium). At year end they were fully subscribed and paid.

The additions in 2017 related to the increase in ownership interest in Centro Intermodal de Logística, S.A. (Cilsa). On 20 December 2017, the Parent acquired 1,287 class B shares of this company's share capital for a total of EUR 8,350 thousand, corresponding to a 5% interest.

In addition, on 21 December 2017 the shareholders at Annual General Meeting of Centro Intermodal de Logística, S.A. (Cilsa) approved a capital increase by offsetting the participating loans with other loans existing at that date. This increase enabled the Parent to acquire a total of 15,268 shares, representing 11.5% of the company's share capital, which represents an increase in the cost of the investee of EUR 30,700 thousand. At 31 December 2017 and 2018, the Parent had a 48.50% ownership interest in Centro Intermodal de Logística, S.A.

The disposals/impairment losses for 2017 related mainly to the impairment of the entire financial investment that the Group has in Pazo de Congresos de Vigo, S.L., company in liquidation.

The detail of investments in companies accounted for using the equity method and the profit or loss attributable to the Group at 31 December 2018 is as follows:

2018

Associate	Line of business	Registered office	Percentage - Ownership interest	Thousands of euros	
				Investment	Profit/(Loss) Attributable to the Group
Testa Residencial, Socimi, S.A.	Residential lease	Madrid	-	-	(15,520)
Centro Intermodal de Logística, S.A.	Management of the port concession of the logistics activity area	Barcelona	48.50%	121,087	12,395
Paseo Comercial Carlos III, S.A.	Shopping centre lease	Madrid	50%	36,769	12,361
Provitae Centros Asistenciales, S.L.	Healthcare services	Madrid	50%	4,106	(371)
Other investments	-	-		7,171	1,051
				169,133	**9,916**

All companies detailed in the table above are accounted for using the equity method.

2017

Associate	Line of business	Registered office	Percentage - Ownership Interest	Thousands of euros	
				Investment	Profit/(Loss) Attributable to the Group
Testa Residencial, Socimi, S.A.	Residential lease	Madrid	12.72%	242,109	10,200
Centro Intermodal de Logística, S.A.	Management of the port concession of the logistics activity area	Barcelona	48.50%	96,272	2,951
Paseo Comercial Carlos III, S.A.	Shopping centre lease	Madrid	50%	24,408	1,367
Provitae Centros Asistenciales, S.L.	Healthcare services	Madrid	50%	4,477	(26)
Other investments	-	-		4,142	1,741
				371,408	**16,233**

All companies detailed in the table above are accounted for using the equity method.

The key business indicators for the Group's associates (standardised using the regulatory framework applicable to the Group) are as follows:

2018

	Thousands of euros			
	Provitae Centros Asistenciales, S.L.	Paseo Comercial Carlos III, S.A.	Centro Intermodal de Logítica, S.A.	Other
Non-current assets	11,250	153,069	397,653	33,015
Current assets	3	4,654	19,779	3,168
Non-current liabilities	988	81,966	151,685	14,402
Current liabilities	2,054	2,219	16,080	1,989
Revenue	-	8,364	50,062	2,613
Profit/(loss) from continuing operations	(742)	24,723	25,557	3,252

2017

	Thousands of euros				
	Testa Residencial SOCIMI, S.A.	Provitae, S.L.	Paseo Comercial Carlos III, S.A.	Centro Intermodal de Logística, S.A.	Other
Non-current assets	4,566,972	11,000	141,690	369,257	24,214
Current assets	72,593	6	2,912	10,774	2,699
Non-current liabilities	947,505	925	73,022	148,493	13,450
Current liabilities	14,050	2,006	8,800	11,444	1,866
Revenue	52,943	-	8,487	44,472	2,528
Profit/(loss) from continuing operations	70,146	872	12,722	638,853	1,682

11. Current and non-current financial assets

The breakdown, by type of the balance of this heading in the consolidated statement of financial position at 31 December 2018 is as follows:

Classification of financial assets by category:

	Thousands of euros	
	2018	2017
Non-current:		
At fair value-		
Derivative embedded in BBVA lease agreement	123,087	207,274
Available-for-sale assets	18,121	-
At amortised cost-		
Equity instruments	2,223	873
Loans to third parties	1,040	1,488
Loans to associates	625	-
Deposits and guarantees	67,152	66,247
	212,248	**275,882**
Current:		
At amortised cost-		
Investments in associates	1,141	66,340
Other financial assets	7,747	7,114
Trade and other receivables	167,481	78,533
	176,369	**151.987**

The carrying amount of financial assets recognised at amortised cost does not differ significantly from their fair value.

Derivatives

“Derivatives” includes the value of the embedded derivative corresponding to the inflation multiplier included in the lease agreement with BBVA to revise rents annually (see Note 8). The negative change in the value of the aforementioned derivative in 2018 amounted to EUR 84,187 thousand (positive variation of EUR 92 thousand in 2017). Of the aforementioned change, EUR 22,227 thousand Relates to the amount charged by the Group as part of the sale of BBVA branches carried out in 2018. The rest of the change, amounting to EUR 61,960 thousand, was recognised under “Change in Fair Value of Financial Instruments” in the accompanying consolidated income statement for 2018. The measurement approach used is described in Note 5.6 and is applicable to Level two of the fair value measurement hierarchy established in IFRS 7, as observable inputs but not quoted prices are reflected.

Sensitivity to fluctuations of percentage points in the inflation curves is analysed below:

2018

	Thousands of euros	
Scenario	Asset	Consolidated profit/(loss) before tax
+50 bps	37,394	37,394
-50 bps	(25,484)	(25,484)

2017

Scenario	Thousands of euros	
	Asset	Consolidated profit/(loss) before tax
+50 bps	60,655	60,655
-50 bps	(45,631)	(45,631)

Available-for-sale assets

The ownership interests held by the Group in companies excluded from the scope of consolidation because they are less than 20% and have no material influence are recognised under “Available-for-Sale Assets”.

At 31 December 2018 "Available-for-Sale Assets) includes an ownership interest in Aedas Homes, S.A. amounting to EUR 18,121 thousand, equivalent to 1.7% of its share capital. The negative change in 2018 in the fair value of this ownership interest (hierarchical level 1, see Note 5.6) amounting to EUR 4,121 thousand is recognised under "Change in Fair Value of Financial Instruments".

The corporate purpose of Aedas Homes, S.A. is the acquisition, promotion, and renovation of real property of all kinds for holding, enjoyment, sale, and lease; acquisition, holding, enjoyment, swapping, sale, and management of Spanish and foreign securities and rights and titles of all kinds, such as stakeholdings in limited liability companies.

At 31 December 2018 the Parent holds 817,727 shares of Aedas Homes, S.A., 1.7% of the share capital.

This company is traded on the Madrid Stock Exchange's electronic trading system.

Deposits and guarantees

“Deposits and guarantees” primarily includes the guarantees provided by lessees as security amounting to EUR 66,776 thousand (EUR 64,049 thousand at 31 December 2017), which the Group has deposited with the housing authority (Instituto de la Vivienda) in each region. At 31 December 2018, guarantees provided by lessees as security amounted to EUR 73,686 thousand (EUR 71,782 thousand at 31 December 2017) and were recognised under “Non-current liabilities – Other financial liabilities” on the liability side of the accompanying consolidated statement of financial position for 2018 (see Note 16).

Investments in associates

The decrease in “Current Investments in Associates” is due to the collection in November 2018 of the loan granted by the Parent to Paseo Comercial III, S.A.

Classification of financial assets by maturity:

The classification of financial assets by maturity at 31 December 2018 and 2017 is as follows:

2018

	Thousands of euros				
	Less than 1 year	1 to 5 Years	More than 5 years	Undetermined	Total
Derivative embedded in BBVA lease agreement	-	-	123,087	-	123,087
Available-for-sale assets	-	17,938	-	-	17,938
Equity instruments	-	-	-	2,406	2,406
Loans to third parties and associates	-	625	1,040	-	1,665
Deposits and guarantees	-	-	-	67,152	67,152
Investments in Group companies and associates	1,141	-	-	-	1,141
Other financial assets	7,747	-	-	-	7,747
Trade and other receivables	167,481	-	-	-	167,481
Total financial assets	**176,369**	**18,563**	**124,127**	**69,558**	**388,617**

2017

	Thousands of euros				
	Less than 1 year	1 to 5 Years	More than 5 years	Undetermined	Total
Derivative embedded in BBVA lease agreement	-	-	207,274	-	207,274
Equity instruments	-	-	-	873	873
Loans to third parties and associates	-	-	1,488	-	1,488
Deposits and guarantees	-	-	-	66,247	66,247
Investments in Group companies and associates	66,340	-	-	-	66,340
Other financial assets	7,114	-	-	-	7,114
Trade and other receivables	78,533	-	-	-	78,533
Total financial assets	**151,987**	**-**	**208,762**	**67,120**	**427,869**

12. Trade and other receivables

“Trade and other receivables” included the following items at 31 December 2018:

	Thousands of euros	
	2018	2017
Trade and notes receivable	26,179	23,659
Trade receivables for sales	136,380	51,578
Associates	1,255	2,376
Sundry receivables	2,832	1,106
Employee receivables	184	184
Current tax assets	-	555
Other receivables from public authorities (Note 19)	12,575	10,404
Impairment of trade receivables	(11,924)	(11,329)
	167,481	**78,533**

“Trade and Notes Receivable” in the accompanying consolidated statement of financial position at 31 December 2018 mainly include the balances receivable from leasing investment property. In general these receivables are interest free and the terms of collection range from immediate payment on billing to payment at 30 days, while the average collection period is approximately 5 days (5 days in 2017).

The balance of "Trade Receivables for Sales" includes EUR 134,470 thousand related to the amount deferred of the sale price of Testa Residencial SOCIMI, S.A., maturity of which is set for 2019. In 2018, the Group received EUR 50.8 million corresponding to the last payment of the deferred sale price of the hotel assets sold in 2016.

The analysis of the age of the past-due balances that were not considered to have become impaired at 31 December 2018 is as follows:

	Thousands of euros	
	2018	2017
Less than 30 days	3,423	2,706
31 to 60 days	1,659	2,209
61 to 90 days	668	879
More than 90 days	769	1,809
	6,519	**7,603**

At 31 December 2018 and 2017, no collection rights had been transferred to credit institutions.

In accordance with IFRS 9 (Note 2.2.1), the Group periodically analyses the risk of insolvency of its accounts receivable by updating the related provision for impairment losses. The Group's directors consider that the amount of trade and other receivables approximates their fair value.

The changes in the impairment losses and bad debt in 2018 and 2017 were as follows:

	Thousands of euros
Balance at 31 December 2016	**(16,826)**
Changes in the scope of consolidation	(99)
Charges for the year	(2,174)
Reversals/amounts used	3,236
Other	4,534
Balance at 31 December 2017	**(11,329)**
Changes in the scope of consolidation	(2,355)
Charges for the year	(1,359)
Reversals/amounts used	3,385
Other	(266)
Balance at 31 December 2018	**(11,924)**

Losses from bad debts in 2018 came to EUR 2,450 thousand.

The majority of impaired receivables are overdue by more than 6 months.

Details of the concentration of customers (customers that account for a significant share of business) are included in the segment information in Note 6.

13. Cash and cash equivalents

"Cash and cash equivalents" includes the Group's cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets does not differ from their fair value.

At 31 December 2018 and 2017, the balance of "Cash and Cash Equivalents" is freely available, except for EUR 6,743 thousand and EUR 9,235 thousand, respectively, which are included in a reserve account mainly, to cover payment, of a quarterly instalment of the senior syndicated mortgage loan.

14. Equity

The detail of equity and of the changes therein is presented in the consolidated statement of changes in equity.

14.1 Share capital

At 31 December 2018, the share capital of Merlin Properties SOCIMI, S.A., amounted to EUR 469,771 thousand, represented by 469,770,750 fully subscribed and paid shares of EUR 1 par value each, all of which are of the same class and confer the holders thereof the same rights.

All the Parent’s shares are admitted to official listing on the Madrid, Barcelona, Bilbao and Valencia stock exchanges. The market price of the Parent’s shares at 31 December 2018 and the average market price for the fourth quarter amounted to EUR 10.79 and EUR 11.15 per share, respectively.

At 31 December 2018, the significant shareholders of Merlin Properties SOCIMI, S.A. with direct or indirect ownership interests exceeding 3% of share capital, are as follows:

	Shares			% of capital
	Direct	Indirect	Total	
Banco Santander, S.A.	78,437,100	26,172,125	104.609.225	22.27%
BlackRock, INC	-	18,773,897	18,773,897	3.99%

14.2 Share premium

The consolidated text of the Spanish Corporate Enterprises Act expressly permits the use of the share premium to increase capital and establishes no specific restrictions as to its use.

This reserve is unrestricted so long as its allocation does not lower equity to below the amount of share capital. In this connection, in 2018 the shareholders at the Annual General Meeting approved the distribution of dividends totalling EUR 112,218 thousand with a charge to the share premium.

14.3 Other reserves

The detail of reserves at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Legal reserve	26,336	14,883
Reserves of consolidated companies	1,354,992	303,819
Other reserves	35,445	11,530
Total other reserves	**1,416,773**	**330,232**

Legal reserve

The legal reserve will be established in accordance with section 274 of the consolidated text of the Spanish Corporate Enterprises Act which stipulates, in all cases, that 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

This reserve cannot be distributed, and if it is used to offset losses, in the event no other reserves are available for this purpose, it must be restored with future profits.

At 31 December 2018, the Group had not yet reached the legally required minimum established in the consolidated text of the Spanish Corporate Enterprises Act.

The legal reserve of companies that have chosen to avail themselves of the special tax regime established in Spanish Law 11/2009, regulating SOCIMIs, must not exceed 20% of share capital. The Articles of Association of these companies may not establish any other type of restricted reserves.

Reserves of consolidated companies

The detail of the reserves of consolidated companies is as follows:

	Thousands of euros	
	2018	2017
Merlin Properties SOCIMI, S.A.	334,099	(191,602)
Tree Inversiones Inmobiliarias, SOCIMI, S.A.	476,377	314,709
Merlin Retail, S.L.U.	108,701	79,902
Merlin Oficinas, S.L.U.	169,571	48,353
Merlin Logística, S.L.U.	129,448	41,903
Merlin Logística II, S.L.U.	-	4,725
Obraser, S.A.U.	-	(1,332)
Merlin Properties Adequa, S.L.	-	(14,826)
Merlin Parques Logísticos, S.L.U.	9,945	8,913
Varitelia Distribuciones, S.L.	36,121	12,076
Metroparque, S.A.	46,019	10,098
Metropolitana Castellana, S.L.	-	754
La Vital Centro Comercial y de Ocio, S.L.	11,402	298
Global Carihuela Patrimonio Comercial, S.A.	326	451
Sadorma 2003, S.L.	(5,447)	(4,458)
Parques Logísticos de la Zona Franca, S.A.	(7,543)	(11,096)
Sevisur Logística, S.A.	12,182	(418)
Belkyn West Company, S.L.	-	(9)
Desarrollo Urbano de Patraix, S.A.	(6,809)	-
Holding Jaureguizahar 2002, S.A.	(3)	-
Acoghe, S.L.	-	(4)
Global Murex Iberia, S.L.	(12)	(10)
Testa Hoteles, S.A.	13	(4)
Gescentesta, S.L.U.	387	223
Gesfitesta, S.L.	-	(224)
Merlin Properties Monumental, S.A.	17,227	564
Merlin Properties Torre A, S.A.	8,569	55
MPCVI- Compra e venda Imobiliária, S.A.	7,733	3,876
MPEP-Properties Escritórios Portugal, S.A.	(19)	(9)
VFX Logística, S.A.	1,214	939
Inmobiliaria Metrogolf, S.A.	-	(28)
Promosete Investimentos Imobiliarios, S.A.	5,370	-
Praça do Marqués-Serviços auxiliares, S.A.	121	-
	1,354,992	**303,819**

Interim dividend

On 9 October 2018, the Parent’s Board of Directors resolved to distribute EUR 93,522 thousand as an interim dividend with a charge to profit for 2018. This interim dividend was paid to shareholders on 25 October 2018.

Dividends

On 7 May 2018, the shareholders at the Annual General Meeting approved the distribution of a dividend amounting to EUR 9,624 thousand with a charge to 2017 profit, as well as the distribution of an additional dividend with a charge to the share premium amounting to EUR 112,218 thousand.

14.4 Non-controlling interests

The changes in "Non-Controlling Interests" in 2018 and in the profit or loss attributable to non-controlling interests were as follows:

	Thousands of euros	
	2018	2017
Beginning balance	**6,124**	**21,311**
Changes in the scope of consolidation	(6,124)	(15,297)
Profit/(loss) attributable to non-controlling interests	-	110
Ending balance	**-**	**6,124**

In 2018 the Group acquired the remaining 10% of the share capital of the subsidiary, Parc Logistic de la Zona Franca, S.A. — a company over which it already maintained control in 2017 — thereby reducing non-controlling interests by EUR 6,124 thousand (see Note 3).

14.5 Treasury shares

At 31 December 2018, the Parent held treasury shares amounting to EUR 68,322 thousand.

The changes in 2018 were as follows:

	Number of Shares	Thousands of euros
Balance at 1 January 2017	**10,230**	**105**
Additions	3,300,000	35,393
Disposals	(990,000)	(10,617)
Balance at 31 December 2017	**2,320,230**	**24,881**
Additions	5,005,395	56,048
Disposals	(1,175,625)	(12,607)
Balance at 31 December 2018	**6,150,000**	**68,322**

On 27 April 2017, the Shareholders authorise the Board of Directors to acquire the shares of the Parent. The shareholders at the Annual General Meeting held on 7 May 2018 revoked the authorisation granted by the shareholders at the Annual General Meeting of April 2017, to the extent not used, and authorised the acquisition of treasury shares by the Parent itself or by Group companies pursuant to section 146 *et seq*. of the Spanish Corporate Enterprises Act, complying with the requirements and restrictions established in the legislation in force during the five-year period. The authorisation includes the acquisition of shares that, where applicable, must be handed over directly to employees or directors of the Parent or of Group companies as a result of the purchase option they hold or for the settlement and payment of share-based incentive plans of which they are beneficiaries.

In 2018 the Parent had acquired 5,005,935 treasury shares at an average cost of EUR 11.20 per share. At 31 December 2018, the Parent held treasury shares representing 1.3091% of its share capital.

The disposals of treasury shares, amounting to EUR 12,607 thousand (average cost of EUR 10.72 per share), relate to the delivery of shares made to executive directors, senior management and the rest of the management team corresponding to the variable remuneration incentive in the 2016 Share Plan agreed upon therewith (see Note 21).

14.6 Capital management

The Group's capital management objectives are to safeguard its capacity to continue operating as a going concern so that it can continue to provide returns to shareholders and to benefit interest groups, and to maintain an optimum financial structure to reduce the cost of capital.

In line with the practices of other groups present in the sector, the Group controls its capital structure through the leverage ratio, calculated as net debt divided by total capital. Net debt is determined as the sum of financial liabilities less cash and cash equivalents. Total capital is calculated as the sum of equity plus net debt.

	Thousands of euros	
	2018	2017
Total financial debt	5,251,857	5,412,933
Less - Cash and cash equivalents and Other current financial assets (a)	(307,343)	(508,679)
Net debt	4,944,514	4,904,254
Equity	6,401,836	5,723,783
Total capital	**11,346,350**	**10.628.037**
Debt-to-equity ratio	43.58%	46.14%

(a) Total receipts for the sale of the Testa Residencial SOCIMI, S.A. for EUR 134,470 thousand included. Total receipts for the sale of the hotel portfolio for EUR 50,794 thousand included in 2017.

14.7 Earnings per share

Basic

Basic earnings per share are calculated by dividing the net profit attributable to common equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period, excluding treasury shares.

The detail of the calculation of basic earnings per share is as follows:

	2018	2017
Profit for the year attributable to equity holders of the Parent (thousands of euros)	854,878	1,100,418
Weighted average number of shares outstanding (in thousands)	467,812	467,899
Basic earnings per share (euros)	**1.83**	**2.35**

The average number of ordinary shares outstanding is calculated as follows:

	Number of shares	
	2018	2017
Ordinary shares at beginning of period	469,770,750	469,770,750
Treasury shares	(6,150,000)	(2,320,230)
Average effect of outstanding shares	4,191,432	448,606
Weighted average number of ordinary shares outstanding at 31 December (thousands of shares)	**467,812,182**	**467,899,126**

Diluted

According to IAS 33, paragraph 41, potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

As pointed out in Note 22, the Group has granted its executives a variable remuneration scheme that vests in the form of shares if the rate of return obtained by shareholders in the three-year period ending in 2019 reaches a certain level. The amount of this variable compensation is capped at EUR 75 million, payable in the form of a variable number of shares capped at 6 million. Should the maximum amount vest and it is not covered by the shares delivered (share value being determined by the share price), the Group will pay the difference in cash.

In view of fulfilment of the conditions of the scheme on 31 December 2018 and having in mind the characteristics of the scheme (described in Note 22), the scheme will have a dilutive effect on earnings per share. At 31 December 2017 it did not have dilutive effect, in that the conditions for issuing the shares and the minimum targets set by the scheme had not been met on that date.

Diluted earnings per share are calculated by adjusting the profit attributable to equity holders of the Parent by the weighted average ordinary shares outstanding after adjusting for the dilutive effects of potential ordinary shares, i.e., as if all potentially dilutive ordinary shares had been converted.

As indicated in IAS 33, paragraph 46, in determining the potential ordinary shares for the variable remuneration scheme, the scheme is treated as if part of a contract to issue a certain number of ordinary shares at their average market price during the period, which shares are not dilutive, and a contract to issue the remaining ordinary shares for no consideration.

The calculation of the diluted earnings per share is set out below:

	2018		
	Thousands of euros	Thousands of shares	Earnings per share
Profits for the period attributed to holders of net equity instruments of the Parent (thousands of euros)	854,878		
Weighted average number of outstanding shares (in thousands)	-	467,812	1.83
Weighted average number of potential ordinary shares deliverable under the variable remuneration scheme.	-	6,000	
Weighted average number of potential ordinary shares not provided at the market price	-	(3,730)	
Diluted Earnings per share (euros)	**854,878**	**470,082**	**1.82**

14.8 Valuation adjustments

This heading of the consolidated statement of financial position includes changes in the value of financial derivatives designated as cash flow hedges. The changes in the balance of this heading in 2018 are as follows:

	Thousands of euros
Balance at 31 December 2016	**(47,582)**
Changes in the fair value of hedges in the year	11,776
Balance at 31 December 2017	**(35,806)**
Changes in the fair value of hedges in the year	**(1,100)**
Balance at 31 December 2018	**(36,906)**

15. Current and non-current financial liabilities

The detail of current and non-current liabilities at 31 December 2018 is as follows:

	Thousands of euros	
	2018	2017
Non-current:		
Measured at amortised cost		
Syndicated loan	841,905	868,653
Syndicated loan arrangement costs	(3,858)	(5,643)
Total syndicated loan	**838,047**	**863,010**
Senior syndicated mortgage loan (Tree)	707,975	889,149
Syndicated mortgage loan arrangement costs (Tree)	(63,695)	(16,281)
Total senior syndicated mortgage loan (Tree)	**644,280**	**872,868**
Revolving credit facility	150,000	-
Mortgage loans	264,066	267,181
Loan arrangement costs	(3,732)	(4,559)
Total other loans	**410,334**	**262,622**
Debt instruments and bonds	3,250,000	3,250,000
Debt instrument issuance costs	(24,460)	(28,683)
Total debt instruments and bonds	**3,225,540**	**3,221,317**
Total amortised cost	**5,118,201**	**5,219,817**
Measured at fair value		
Derivative financial instruments	39,807	34,178
Total at fair value	39,807	**34,178**
Total non-current	**5,158,008**	**5,253,995**
Current:		
Measured at amortised cost		
Syndicated loan	26,879	6,113
Senior syndicated mortgage loan (Tree)	9,544	10,182
Debt instruments and bonds	34,007	34,007
Mortgage loans	4,256	1,494
Leases, credit facilities and loans	-	123,555
Revolving credit facility	1,054	113
Loan arrangement costs	(533)	-
Total amortised cost	**75,687**	**175,464**
Measured at fair value		
Derivative financial instruments	1,123	2,734
Total at fair value	**1,123**	**2,734**
Total current	**76,809**	**178,198**

There is no material difference between the carrying amount and the fair value of financial liabilities at amortised cost.

On 20 April 2016, the Parent obtained a credit rating of "BBB" from Standard & Poor's Rating Credit Market Services Europe Limited with a stable outlook. On 24 May 2018, Standard & Poor's updated this "BBB" rating with a positive outlook. In addition, on 17 October 2016, the Company obtained an investment grade credit rating of "Baa2" from Moody's.

15.1 Loans

The detail of loans at 31 December 2018 is as follows:

	Thousands of euros				
	Bank borrowings				
	Initial borrowing/ Limit	Debt arrangement costs (Note 15.5)	31/12/2018 Non-current	31/12/2018 Current	Short-term interest
Syndicated loans	1,290,000	(911)	841,905	25,877	1,002
Revolving credit facilities	420,000	-	150,000	-	1,054
Senior syndicated mortgage loan (Tree)	716,894	(63,695)	707,975	8,919	625
Mortgage loans - other assets	268,000	(3,732)	264,066	3,115	1,141
Non-mortgage loans	51,000	-	-	-	-
Total	**2,745,894**	**(71,338)**	**1,963,946**	**37,911**	**3,822**

2017

	Thousands of euros				
	Bank borrowings				
	Initial/borrowing/ Limit	Debt arrangement costs	31/12/2017 Non-current	31/12/2017 Current	Short-term interest
Syndicated loans	1,290,000	(5,643)	868,653	5,101	1,012
Revolving credit facilities	420,000	-	-	-	113
Senior syndicated mortgage loan (Tree)	939,756	(16,281)	889,149	8,947	1,235
Mortgage loans - other assets	268,000	(4,559)	267,181	346	1,148
Leases	149,125	-	-	123,555	-
Total	**3,066,881**	**(26,483)**	**2,024,983**	**137,949**	**3,508**

Syndicated loans and revolving credit facilities - Parent

On 24 October 2016, a novation and amendment to the Syndicated financing without a mortgage guarantee was signed, whereby the syndicated financing from Metrovacesa was consolidated with the Parent (without changing the maturity dates or interest rate). At year end 2016, this financing had three tranches:

a) The first tranche consisted of a loan with a corporate guarantee of EUR 850,000 thousand, which matures in June 2021 and has an interest rate of EURIBOR + 160 basis points. At 31 December 2018, EUR 530,000 thousand had been drawn down against this credit facility.

b) The second tranche consisted of a loan of EUR 370,000 thousand, which is expected to mature in April 2021 and has an initial cost of EURIBOR + 170 basis points tied to the company's rating (the spread currently amounts to 155 basis points). At 31 December 2018, EUR 310,000 thousand had been drawn down against this financing.

c) The third tranche consisted of a revolving credit facility in the amount of EUR 100,000 thousand. The credit facility matures in April 2021 and accrues interest at a rate of EURIBOR + 130 basis points tied to the company’s rating (the spread currently amounts to 115 basis points). This financing will be allocated to the acquisition of new property assets. At 31 December 2018, EUR 30,000 thousand had been drawn down against this financing.

In addition, on 21 June 2016 the Parent arranged a revolving credit facility with a group of 12 financial institutions in the amount of EUR 320,000 thousand. The current maturity of this credit facility is June 2021. The credit facility accrues interest at a rate of EURIBOR + 140 basis point. This financing will be allocated to the acquisition of new property assets. At 31 December 2018, EUR 120,000 thousand had been drawn down against this financing.

This secured corporate bank financing has certain disclosure obligations regarding the separate and consolidated financial statements and the budgets. The Group must also comply with certain obligations regarding coverage ratios on a quarterly basis. At year end 2018, the Group complied with the covenants established and the directors consider that they will be met in 2019.

Syndicated loans - Subsidiaries

This heading includes the following financing:

- Syndicated loan without mortgage guarantee arranged by Sevisur Logística, S.A. with a principal of EUR 31,000 thousand and maturing in 2020. This financing consists of two tranches of EUR 25,000 thousand and EUR 6,000 thousand, with a market interest rate of EURIBOR + 125 and 200 basis points, respectively, and an annual repayment of 6.7% of the principal until maturity of both tranches. At 31 December 2018, EUR 3,646 thousand and EUR 800 thousand had been drawn down against these tranches, respectively. At year end 2018, the Group complied with the covenants established in this agreement and the directors consider that they will be met in 2019.

- Syndicated financing without a mortgage guarantee arranged by Parc Logistic de la Zona Franca, S.A. for the first tranche consisting of a loan in the amount of EUR 36,000 thousand and a second tranche for a revolving credit facility with a limit of EUR 3,000 thousand (not drawn down at 31 December 2018), both of which mature in 2019 and have a market interest rate of EURIBOR + 277.5 basis points. The first tranche has an annual repayment schedule of approximately 7% of the principal and 68.6% at its maturity. At 31 December 2018, EUR 23,336 thousand had been drawn down against this financing. At year end 2018, the Group complied with the covenants established in this agreement

Senior syndicated mortgage loan (Tree):

The senior syndicated mortgage loan of the subsidiary Tree Inversiones Inmobiliarias SOCIMI, S.A. was signed on 29 July 2010 and novated, for the first time, on 30 December 2014.

In this connection, and as indicated in Notes 2.2.1 and 2.2.3, at 1 January 2018 the impact recognised in 2018 of the 2014 financing and the first-time application of IFRS 9 "Financial Instruments" gave rise to an increase in reserves and a decrease in debt amounting to EUR 30,592 thousand, as well as an increase in finance costs amounting to EUR 10,083 thousand.

At 29 November 2018, the senior syndicated loan was novated such that the initial maturity scheduled for 2024 was postponed until 31 March 2031, with the possibility of extending the annual maturity in the next three years until 31 March 2034. In addition, the amount drawn down, which amounted to EUR 888,038 thousand at the novation date, decreased to EUR 716,894 thousand as a result of early repayment following the sale of 166 bank branches. This financing accrues interest at a rate of 3-month EURIBOR + 120 basis points.

In accordance with IFRS 9, the Group assessed the nature of the refinancing undertaken in 2018, concluding that it did not represent a substantial modification (10% test). In accordance with IFRS 9, the difference between the value of the old debt at amortised cost and the new debt recalculated at the effective interest rate of the old debt, was recognised as finance income amounting to EUR 26,099 thousand, under "Finance Costs" of the Consolidated Income Statement for 2018. The aforementioned amount will be reversed in the consolidated income statements for the coming years in accordance with the effective interest rate of the debt.

Overall, in accordance with IFRS 9, at the close of 2018 the Group recognised an increase in reserves of EUR 30,592 thousand and finance income of EUR 16,017 thousand.

The financing includes commitments to maintain certain coverage ratios, which are standard in these types of real estate companies, such as the loan-to-value ratio, the ratio of the subsidiary's income used to service the debt (interest coverage ratio, ICR), and a minimum credit rating of BBVA from ratings agencies. The Parent's directors have confirmed that these ratios were met at 31 December 2018 and do not expect that they will not be fulfilled in the coming years.

Leases:

In February 2018, through the execution of the purchase option, the Parent cancelled at maturity the leases associated with the buildings in Ribera del Loira (Madrid), Borbolla (Sevilla) and Escudo del Carmen (Granada) for an amount totalling EUR 123 million.

Mortgage loans - other assets

At 31 December 2018, the Group's subsidiaries had taken out the following mortgage loans:

	Thousands of euros				
Financial institution	Original loan	Long term	Short term	Interest	Guarantee
Allianz Real Estate	133,600	133,600	-	888	Mortgage
Caixabank	21,000	20,160	840	81	Mortgage
Caixabank	45,500	42,406	2,275	169	Mortgage
ING	56,670	56,670	-	2	Mortgage
ING	11,230	11,230	-	1	Mortgage
Total	268,000	264,066	3,115	1,141	

2017:

	Thousands of euros				
Financial institution	Original loan	Long term	Short term	Interest	Guarantee
Allianz Real Estate	133,600	133,600	-	888	Mortgage
Caixabank	21,000	21,000	-	81	Mortgage
Caixabank	45,500	44,681	346	171	Mortgage
ING	56,670	56,670	-	7	Mortgage
ING	11,230	11,230	-	1	Mortgage
Total	268,000	267,181	346	1,148	

On 19 February 2015, the Group entered into a mortgage-backed loan with Allianza Real Estate for the Marineda shopping centre. The principal of the loan taken out amounts to EUR 133,600 thousand, has a term of 10 years, accrues interest at a fixed rate of 2.66% and the principal is repayable in full upon maturity. At year end 2018, the Group complied with the covenants established in this agreement and the directors consider that they will be met in 2019.

On 26 March 2015, the Group subrogated a mortgage-backed loan taken out with Caixabank, S.A. with a mortgage guarantee on the Alcalá 38-40 office building. This loan has a principal of EUR 21,000 thousand, a term of 15 years, an interest rate of 3-month EURIBOR + 150 basis points, a 4-year grace period for the principal, and the principal is repayable in full using the French method over the following 11 years.

On 2 October 2015, the Group took out a first-ranking floating-rate mortgage-backed loan with Caixabank, S.A. on the portfolio made up of 33 property assets in Catalonia. This loan has a principal of EUR 45,500 thousand that will be allocated to finance a portion of the acquisition price of the assets portfolio. It matures in October 2025 and accrues interest tied to 3-month EURIBOR + 150 basis points until the end of the loan, which is payable on a quarterly basis. While the contract is in force, certain ratios relating to debt service coverage and the levels of net debt in relation to GAV of the property assets must be met at the end of the year. At year end 2018, the Group complied with the covenants set forth in this contract and the directors consider that they will be met in 2019.

On 4 December 2015, the Group took out a senior mortgage-backed loan with ING Bank N.V. on a portfolio made up of 7 logistics assets. It also arranged a senior pledge on the collection rights arising from the loan accounts, the lease agreements and the insurance policies. At the same time as it signed this contract, it also entered into an interest rate swap agreement and took out a second-ranking mortgage on the properties and a second-ranking pledge on the collection rights arising from the lease agreements and insurance policies, as collateral for the obligations of the hedging agreement.

This loan has two tranches with a principal of EUR 56,670 thousand and EUR 11,230 thousand, respectively, matures on 4 December 2020, and accrues interest at a rate tied to 3-month EURIBOR + 150 basis points until the end of the loan, which is payable on a quarterly basis. While the contract is in force, certain ratios relating to debt service coverage and the levels of net debt in relation to GAV of the property assets must be met every six months and on an annual basis. At year end 2018, the Group complied with the covenants set forth in this contract and the directors consider that they will be met in 2019.

On 20 December 2018 the Parent arranged a loan not secured by a mortgage with the European Investment Bank for EUR 51,000 thousand maturing in 10 years. This financing will be used to invest in logistics assets in the Castilla La Mancha region. As of 31 December 2018, there had been no drawdown.

Maturity of debt

The detail, by maturity, of these loans is as follows:

2018

	Thousands of euros				
	Syndicated loans	Senior syndicated mortgage loan Tree	Mortgage loans	Revolving credit facility	Total
2019	25,877	8,919	3,115	-	37,911
2020	1,905	8,808	71,874	-	82,587
2021	840,000	8,699	5,384	150,000	1,004,083
2022	-	10,299	5,877	-	16,176
2023	-	10,145	6,372	-	16,517
More than 5 years	-	670,023	174,559	-	844,582
	867,782	**716,893**	**267,181**	**150,000**	**2,001,856**

2017

	Thousands of euros					
	Syndicated loans	Senior syndicated mortgage loan Tree	Mortgage loans	Leases	Revolving credit facility	Total
2018	5,101	8,947	346	123,555	-	137,949
2019	26,748	11,062	3,115	-	-	40,925
2020	1,905	10,925	71,869	-	-	84,699
2021	840,000	10,789	5,375	-	-	856,164
2022	-	12,773	5,876	-	-	18,649
More than 5 years	-	843,600	180,946	-	-	1,024,546
	873,754	**898,096**	**267,527**	**123,555**	-	**2,162,932**

The Group had undrawn loans and credit facilities at 31 December 2018 with a number of financial institutions totalling EUR 284 million (EUR 423 million at 31 December 2017).

None of the Group's debt was denominated in non-euro currencies at 31 December 2018 or 2017.

There are no significant differences between the fair values and carrying amounts of the Group's financial liabilities.

The finance cost for interest on the loans totalled EUR 36,343 thousand in 2018 (EUR 40,025 thousand in 2017) and is recognised in the accompanying consolidated income statement for 2018.

At 31 December 2018 and 2017, the debt arrangement expenses had been deducted from the balance of "Bank borrowings". In 2018 and 2017, the Group recognised EUR 7,489 thousand and EUR 9,998 thousand, respectively, associated with the debt under "Finance costs" in the accompanying consolidated income statement (see Note 19.d).

15.2 Debt instrument issues

On 12 May 2017, the Parent subscribed a Euro Medium Term Notes (EMTN) issue programme of up to EUR 4,000 million, which replaced the original bond issue programme and its supplement subscribed on 25 April 2016 and 14 October 2016, respectively, for an overall maximum amount of EUR 2,000 million.

On 18 May 2018, the Parent expanded the Euro Medium-Term Notes issue programme up to EUR 5,000 million.

The terms and conditions of the bonds issued by the Group are governed and interpreted in accordance with English law and are listed on the Luxembourg Stock Exchange. The bond issue programme has the same guarantees and ratio compliance obligations as the syndicated loan and the revolving credit facility. At year end 2018, the Group complied with the covenants set forth in this contract and the directors consider that they will be met in 2019.

The detail at 31 December 2018 of the bonds issued by Parent is as follows (in thousands of euros):

Maturing in	Face value (Millions of euros)	Coupon	Listed price	Return	Market
May 2022	700	2.375%	MS + 124 bp	1.27%	Ireland (a)
April 2023	850	2.225%	MS + 145 bp	1.55%	Luxembourg
May 2025	600	1.750%	MS + 192 bp	2.31%	Luxembourg
November 2026	800	1.875%	MS + 199 bp	2.56%	Luxembourg
September 2029	300	2.375%	MS + 223 bp	3.09%	Luxembourg
	3,250	**2.097%**			

(a) Due to the business combination with Metrovacesa carried out in 2016, the Group recognised a bond issue launched by Metrovacesa for EUR 700 million. The terms and conditions of the bonds abide by UK laws and are traded on the Irish Stock Exchange. This issue also includes a series of compliance obligations and guarantees, which is common in these types of transactions. At year end 2018, the Group complied with the covenants established in this agreement and the directors consider that they will be met in 2019.

The finance cost for interest on the debenture issues amounted to EUR 68,163 thousand (EUR 58,916 thousand in 2017) and is recognised in the accompanying consolidated income statement for 2018. The accrued interest payable at 31 December 2018 amounted to EUR 34,007 thousand (EUR 34,007 thousand in 2017). Debt arrangement expenses taken to the consolidated income statement in 2018 amounted to EUR 4,222 thousand (EUR 3,702 thousand in 2017).

15.3 Derivatives

The detail of derivative financial instruments at 31 December 2018 is as follows:

	Thousands of euros	
	2018	2017
Non-current		
Interest rate derivatives	39,807	34,178
Total non-current	**39,807**	**34,178**
Current		
Interest rate derivatives	1,123	2,734
Total current	**1,123**	**2,734**

To determine the fair value of the interest rate and, the Group discounts the cash flows based on the embedded derivatives determined by the euro interest rate curve in accordance with market conditions on the measurement date.

These financial instruments were classified as Level 2 as per the calculation hierarchy established in IFRS 7.

The detail of the derivative financial instruments in the consolidated statement of financial position at 31 December 2018 is as follows:

2018

	Thousands of euros	
	Financial liability	Financial liability
Non-current		
Interest rate derivatives	-	39,807
Derivative embedded in	-	-
BBVA lease agreement (Note 11)	123,087	-
Current		
Interest rate derivatives	-	1,123
Total derivatives recognised	**123,087**	**40,930**

2017

	Thousands of euros	
	Financial liability	Financial liability
Non-current		
Interest rate derivatives	-	36,912
Derivative embedded in	-	-
BBVA lease agreement (Note 11)	207,274	-
Total derivatives recognised	**207,274**	**36,912**

At 2018 year end the hedging instruments related, mainly, to the corporate syndicated loan that was drawn down in 2016, as well as the syndicated mortgage financing of the subsidiary Tree Inversiones Inmobiliarias SOCIMI, S.A.

On 29 November 2018, after the early repayment of the loan taken out by TREE Inversiones Inmobiliarias SOCIMI, S.A. following the sale of 166 bank branches, the notional amount of the interest rate hedge was partially cancelled early and was decreased to EUR 716,894 thousand. The cost of the cancellation was a EUR 6,797 thousand, included in the attached consolidated profit and loss account under the item "finance costs". In addition, following novation of the loan, a new interest swap was arranged on 18 December 2018 to hedge the extension of the mortgage loan's maturity date from 2024 to 2031. The contractual notional amount totalled EUR 662,514 thousand and a cost of 1.693%.

The derivatives arranged by the Group and their fair values are as follows (in thousands of euros):

2018

		Thousands of euros					
			Notional amount each year				
Interest rate	Interest rate arranged	Fair value	2018	2019	2020	2021	Subsequent years
Parent Syndicated	0.0981% - (0.12%)	(5,241)	840,000	840,000	840,000	-	-
Tree Inversiones (end 2024)	0.959%	(29,130)	716,894	707,553	698,213	688,405	677,196
Tree Inversiones (beginning 2024)	1.693%	(4,368)	-	-	-	-	662,514
Other subsidiaries	2.085% - 0.25%	(1,068)	115,081	110,306	-	-	-
		(39,807)	**1,671,975**	**1,657,859**	**1,538,213**	**688,405**	**1,339,710**

2017

		Thousands of euros					
			Notional amount each year				
Interest rate	Interest rate arranged	Fair value	2017	2018	2019	2020	Subsequent years
Parent Syndicated	0.0981% - (0.12%)	(1,371)	840,000	840,000	840,000	840,000	-
Leases	3.974%	(444)					
Tree Inversiones	0.959%	(31,148)	901,578	889,831	878,084	865,750	851,654
Other subsidiaries	2.085% - 0.25%	(1,215)	115,081	110,306	-	-	-
		(34,178)	**1,856,659**	**1,840,137**	**1,718,084**	**1,705,750**	**851,654**

The Group has opted for hedge accounting, suitably designating the hedging relationships in which these financial instruments are hedging instruments of the financing used by the Group. In this manner, the Group has neutralised flow variations stemming from interest payments and fixed the rate to be paid for the financing. For certain derivatives, these hedging relationships have been highly effective, prospectively and retrospectively, on a cumulative basis, since their date of designation.

The Group recognised the fair value of the derivatives that meet the requirements for effectiveness without taking into consideration any tax effect under "Equity" subsequent to application of the SOCIMI regime. The Group has recognised negative EUR 80,750 thousand in 2018 (positive EUR 2,576 thousand in 2017) under "Change in Fair Value of Financial Instruments" of the consolidated income statement as a result of the derivative financial instruments that did not meet the hedging requirements due to inefficacy (negative EUR 18,790 thousand in 2018 and positive EUR 2,484 thousand in 2017) and the impact of the embedded derivative on income (negative EUR 61,960 thousand in 2018 and positive EUR 92 thousand in 2017).

On adopting IFRS 13, the Group adjusted the measurement techniques for calculating the fair value of its derivatives. The Group includes a bilateral credit risk adjustment to reflect both the own credit risk and the counterpart party risk in the measurement of the fair value of the derivatives. The Group applied the discounted cash flow method, considering a discount rate affected by its own credit risk.

In order to calculate the fair value of the financial derivatives, the Group used generally accepted measurement techniques in the market, which account for current and future expected exposure, adjusted by the probability of default and the potential loss given default affecting the contract. The credit value adjustment (CVA) or counterparty credit risk and debt value adjustment (DVA) or own credit risk were therefore estimated.

Current and expected exposure in the future is estimated using simulations of scenarios of fluctuations in market variables, such as interest rate curves, exchange rates and volatilities as per market conditions at the measurement date.

Furthermore, for the credit risk adjustment, the Group's net exposure has been taken into account with regards to each of the counterparties, if the financial derivatives arranged with them are within a financial transaction framework agreement that provides for netting positions. For counterparties for whom credit information is available, credit spreads have been obtained from the credit default swaps (CDS) quoted in the market; whereas for those with no available information, references from peers have been used. The Group hired Chatham Financial Europe Ltd. to measure the fair value of the derivatives.

The impact on liabilities and profit or loss before tax of a 50 basis point fluctuation in the estimated credit risk rate at 31 December 2018 and 2017 would be as follows:

2018

Scenario	Thousands of euros		
	Liability	Equity	Consolidated profit/(loss) before tax
5% rise in credit risk rate	(48,569)	37,060	11,509
5% reduction in credit risk rate	51,257	(32,990)	(18,267)

2017

Scenario	Thousands of euros		
	Liability	Equity	Consolidated profit/(loss) before tax
5% rise in credit risk rate	(43,948)	27,758	16,190
5% reduction in credit risk rate	45,434	(21,790)	(23,644)

15.4 Reconciliation of the carrying amount of the liabilities arising from financing activities

The breakdown of the financing activities and their impact on the Group’s cash flows in 2018 was as follows:

Thousands of euros						
			No impact on cash			
	31/12/2017	Cash flows from financing activities	Debt reclassifications	Interest accrued	Other adjustments	31/12/2018
Long-term loans	2,024,984	(173,126)	(37,911)	-	-	1,813,946
Short-term loans	17,789	(47,882)	37,911	32,861	-	40,679
Long-term revolving credit facilities	-	150,000	-			150,000
Short-term revolving credit facilities	113	(2,460)	-	3,401	-	1,054
Short-term leases	123,555	(123,578)	-	12	11	-
Bonds	3,284,007	(68,163)	-	68,163		3,284,007
	5,450,448	**(265,209)**	**-**	**104,437**	**11**	**5,289,686**

Thousands of euros						
			No impact on cash			
	31/12/2016	Cash flows from financing activities	Debt reclassifications	Non-controlling accrued	Other adjustments	31/12/2017
Long-term loans	2,510,865	(471,488)	(14,394)	-	-	2,024,984
Short-term loans	20,918	(54,647)	14,394	37,231	(106)	17,789
Long-term revolving credit facilities	180,000	(180,000)	-	-	-	-
Short-term revolving credit facilities	225	(2,631)	-	2,403	116	113
Long-term leases	124,911	(965)	(123,555)	-	(391)	-
Short-term leases	10,849	(11,240)	123,555	391	-	123,555
Bonds	2,375,629	839,718	-	58,916	9,744	3,284,007
	5,223,397	**118,748**	**-**	**98,941**	**9,754**	**5,450,448**

	Thousands of euros	
	31/12/2018	31/12/2017
Long-term loans	1,813,946	2,024,984
Short-term loans	40,679	17,789
Long-term revolving credit facilities	150,000	-
Short-term revolving credit facilities	1,054	113
Short-term leases	-	123,555
Bonds	3,284,007	3,284,007
	5,289,686	**5,450,448**
Non-current derivatives	39,807	34,178
Current derivatives	1,123	2,734
Loan arrangement costs		
Syndicated loan	(3,911)	(5,643)
Senior syndicated mortgage loan	(63,695)	(16,281)
Issue of debt instruments	(24,460)	(28,683)
Other	(3,732)	(4,560)
Total current and non-current liabilities	**5,234,818**	**5,432,193**

Furthermore, in the framework of the interest rate hedge arrangements made (see Note 15.3), the net balance of settlements totalled EUR 24,347 thousand (including EUR 6,797 thousand from partial early cancellation of the Tree Inversiones Inmobiliarias SOCIMI S.A. derivative) in 2018 (EUR 33,651 thousand in 2017).

15.5 Debt arrangement costs

Changes in debt arrangement costs in 2018 and 2017 are summarised below:

	Thousands of euros					
	31 Dec 2017	Charge to the profit and loss account – Amortised cost	Impact profit and loss account IFRS 9	Impact Reserves IFRS 9 (Note 2.2.3)	Accrual arrangement costs	31 Dec 2018
Syndicated loans	5,643	(1,732)	-	-	-	3,911
Senior syndicated loan (Tree)	16,281	(4,931)	16,016	30,592	5,735	63,695
Mortgage loans – other assets	4,559	(827)	-	-	-	3,732
Debt instruments and bonds	28,683	(4,222)	-	-	-	24,460
	55,166	**(11,711)**	**16,016**	**30,592**	**5,735**	**95,797**

	Thousands of euros			
	31 Dec 2016	Charge to the profit and loss account – Amortised cost	Other/Accrual arrangement costs	31 Dec 2017
Syndicated loans	12,421	(5,286)	(1,492)	5,643
Senior syndicated loan (Tree)	18,871	(2,590)	-	16,281
Mortgage loans – other assets	6,914	(2,122)	(234)	4,559
Debt instruments and bonds	22,655	(3,702)	9,730	28,683
	60,861	**(13,700)**	**8,004**	**55,166**

16. Other current and non-current liabilities

The detail of these headings at 31 December 2018 is as follows:

	Thousands of euros			
	2018		2017	
	Non-current	Current	Non-current	Current
Other provisions	56,441	867	72,382	867
Guarantees and deposits received	88,400	787	85,194	340
Deferred tax liabilities	666,563	-	592,418	-
Other debts	24,897	5,388	3,000	18,467
Payable to associates	-	-	-	-
Other current liabilities	-	7,282	-	9,149
Total	**836,301**	**14,324**	**752,994**	**28,823**

"Other provisions" includes mainly the provision for the variable remuneration indicated in Note 21 amounting to EUR 46,253 thousand (EUR 44,490 thousand in 2017) and that will be paid in the long term.

It also includes provisions for the measurement of risk associated with a number of lawsuits and claims filed by third parties arising from the Group's activity, which were recognised in accordance with the best existing estimates.

This heading also includes liabilities for tax debts for which there are uncertainties as to their amount or timing, whereby it is likely that the Group may have to dispose of resources to cancel these obligations as the result of a present obligation.

“Guarantees and deposits received” primarily includes the amounts deposited by lessees to secure leases and that will be returned at the end of the lease term.

The Parent and the majority of its subsidiaries are subject to the SOCIMI tax regime. Under this regime, gains from the sale of assets are taxed at 0%, provided that certain requirements are met (basically, the assets must have been owned by the SOCIMI for at least three years). Any gains from the sale of assets acquired prior to qualifying for the SOCIMI tax regime will be distributed on a straight-line basis (unless proven to be distributed otherwise) over the period during which the SOCIMI owned them. Gains generated in years prior to qualifying for the SOCIMI tax regime will be taxed at the general rate, however the tax rate for all other years will be 0%. In this connection, the Parent's Directors estimated the tax rate applicable to the tax gain on the assets acquired prior to qualifying for the SOCIMI tax regime (calculated based on the assets' fair value obtained from appraisals at the date of the business combination and at 31 December 2018), and recognised the corresponding deferred tax liability.

The Parent's directors do not envisage disposing of any of the investment property acquired after the Parent and its subsidiaries qualified for the SOCIMI tax regime within three years and, therefore, have not recognised the deferred tax liability corresponding to the changes in fair value since the assets were acquired as the applicable tax rate is 0%.

17. Trade and other payables

The detail of trade and other payables at 31 December 2018 is as follows:

	Thousands of euros	
	2018	2017
Current		
Payable to suppliers	41,173	37,244
Sundry accounts payable	5,195	6,915
Remuneration payable	8,900	8,052
Other accounts payable to public authorities (Note 18)	13,379	13,081
Customer advances	736	192
Total	**69,383**	**65,484**

The carrying amount of the trade payables is similar to their fair value.

Information on the average period of payment to suppliers. Final provision two of Spanish Law 31/2014, of 3 December:

The information required by Additional Provision Three of Spanish Law 15/2010, of 5 July (modified by Final Provision Two of Spanish Law 31/2014, of 3 December) prepared in accordance with the Spanish Institute of Accountants and Auditors’ Resolution of 29 January 2016 on information to be included in the notes to the financial statements with regard to the average supplier payment period for commercial transactions is detailed below.

	2018	2017
	Days	Days
Average period of payment to suppliers	47.0	38.7
Ratio of transactions paid	46.7	38.7
Ratio of transactions payable	52.9	39.1
	Thousands of euros	
Total payments made	179,583	245,441
Total payments pending	7,452	19,776

In accordance with the ICAC Resolution, the average period of payment to suppliers was calculated by taking into account the commercial transactions corresponding to the delivery of goods or provision of services that took place from the date of entry into force of Spanish Law 31/2014, of 3 December.

For the exclusive purpose of providing the information envisaged in this Resolution, payable to suppliers are considered trade payables for debts with suppliers of goods and services, included under "Trade and other payables" under current liabilities in the balance sheet.

"Average period of payment to suppliers" is understood as the time elapsed between the date the supplier delivers the goods or provides the services and the date of actual payment.

The maximum legal period applicable to the Group in accordance with Spanish Law 11/2013, of 26 July was 30 days following the publication of the aforementioned Act to date (unless the conditions established therein are met that would enable the aforementioned maximum period to be extended up to 60 days).

18. Tax matters

a) Tax receivables and tax payables

The detail of the main tax receivables and payables at 31 December 2018 is as follows:

2018

	Thousands of euros			
	Tax assets		Tax liabilities	
	Non-Current	Current	Non-Current	Current
Tax withholdings and other tax-related	-	5,528	-	3,385
VAT refundable/payable	-	6,930	-	9,790
Tax assets	88,415	-	-	-
Current tax refundable/payable	-	-	-	16,036
Accrued social security taxes payable	-	-	-	205
Deferred tax liabilities	-	-	666,563	-
	88,415	**12,458**	**666,563**	**29,416**

2017

	Thousands of euros			
	Tax assets		Tax liabilities	
	Non-Current	Current	Non-Current	Current
Tax withholdings	-	3,179	-	4,650
VAT refundable/payable	-	7,225	-	8,252
Tax assets	144,127	-	-	-
Current tax refundable/payable	-	555	-	1,762
Accrued social security taxes payable	-	-	-	179
Deferred tax liabilities	-	-	592,418	-
	144,127	**10,959**	**592,418**	**14,843**

b) Reconciliation of the accounting profit to the taxable profit

At 31 December 2018, the taxable profit was calculated as the accounting profit for the year plus the effect of changes in the fair value of investment property, and temporary differences due to the existing limitations. At the reporting date of these financial statements, the Group did not recognise any deferred tax assets in this regard, as it is generally subject to a tax rate of 0% as the Parent and the majority of the subsidiaries adhere to the SOCIMI regime.

The reconciliation of the accounting profit to consolidated income tax expense for the year at 31 December 2018 is as follows:

	Thousands of euros	
	2018	2017
Profit before tax	913,024	1,113,469
Permanent differences:		
- Negative goodwill on business combinations	20,523	1,775
- Absorption of goodwill	-	9,839
- Consolidation adjustments to profit or loss	193,135	105,963
- Tax adjustments to operating profit or loss	85,486	22,797
- Non-deductible finance costs	23,842	30,725
- Comprehensive income by the equity method	(9,916)	(16,233)
- Financial adjustments other than asset sales	(15,748)	-
- Other permanent differences	61,960	-
Temporary differences:		
- Change in value of the investment property	(629,184)	(897,401)
- Adjustments to depreciation and amortisation	(72,866)	13,818
Offset of tax losses	(29,675)	(5,159)
Adjusted taxable profit	**540,581**	**379,593**

The Parent and a significant portion of its subsidiaries are subject to the SOCIMI tax regime. As indicated in Note 5.12, the taxation of this regime is based on a rate of 0%, provided that certain requirements are met.

“Permanent Differences – Consolidation Adjustments to Profit or Loss”, mainly includes the results of companies accounted for using the equity method, as well as the depreciation expenses of the investment property not recognised under Profit before Tax of the accompanying consolidated financial statements.

Temporary differences arose from the change in value of investment property (IAS 40 - Fair value model). In this regard, it should be noted that since the Parent's directors consider and state that investment property acquired by subsidiaries that already adhere to the SOCIMI regime will not be sold within three years, the fair value adjustment carried out in 2018 and 2017 should be taxed at 0% and, therefore, the deferred tax liability is also zero.

c) Reconciliation of accounting profit to tax expense

	Thousands of euros	
	2018	2017
Expense for increase in value of investment property (a)	(19,029)	(12,046)
Expense for disposal of properties within the SOCIMI regime (b)	(10,732)	-
Expense for disposal of properties outside the SOCIMI regime (c)	(22,360)	-
Income from amortisation adjustment 2016	-	(609)
Expense for gain/(loss) at standard rate	(4,430)	(438)
Income from prior years' results adjustment	-	1,578
Expense for taxable profit	-	(1,222)
Adjustment for deferred tax assets and liabilities (d)	(1,503)	-
Other items	(92)	(204)
Total tax expense	**(58,146)**	**(12,941)**

(a) They relate to the increase in the value of the assets of Tree Inversiones Inmobiliarias, SOCIMI, S.A. (assets acquired prior to joining the SOCIMI regime) and the non-SOCIMI subsidiaries (residents in Portugal that meet the requirements established in section 2.1.c) of the Spanish SOCIMI Act to be considered qualifying assets for the purposes of the aforementioned regime). The amount is the result of applying the tax rate that the directors consider will be applicable to the gain to the increase in value.

(b) Adjustment corresponding to the profit arising from the separate financial statements of Tree Inversiones Inmobiliarias, SOCIMI, S.A., as a result of the sale of the real estate assets (BBVA branches, see Note 8).

(c) Adjustment corresponding to the sale of Testa Residencial SOCIMI, S.A. (see Note 10).

(d) In 2018 the Group conducted a detailed analysis of the deferred tax assets and liabilities recognised, regular arising those it considered would not be recoverable or enforceable at year end.

d) Deferred tax assets recognised

The detail of the tax loss carryforwards at 31 December 2018 is as follows:

2018

	Thousands of euros	
	Recognised Tax base	Tax loss carryforwards
Tax losses:		
2010	139,041	34,760
2011	7,516	1,879
2012	110,268	27,568
Total tax losses	**256,825**	**64,207**
Other deferred taxes recognised	**96,834**	**24,208**
Total deferred tax assets capitalised	**353,659**	**88,415**

"Other Deferred Taxes Recognised" includes mainly the temporary differences arising from the restriction on the amortisation of assets from the acquisition of the Testa and Metrovacesa subgroup, and unused tax credits, mainly, due to reinvestment.

The deferred tax assets indicated above were recognised in the consolidated statement of financial position because the Group's directors considered that, based on their best estimate of the Group's future earnings, including certain tax planning measures, it is probable that these assets will be recovered.

The detail of the tax assets not recognised at 31 December 2018 is as follows:

	Thousands of euros
	Not recognised Tax base
Tax losses:	
2009	52,766
2010	5,673
2011	45,174
2012	5,417
2013	440
2014	31,935
2015	284
2017	1,763
Total tax losses	**143,452**

e) Deferred tax liabilities

As indicated above, the deferred tax liabilities arose, mainly, from the business combinations carried out in recent years and the increase in the value of the assets of Tree Inversiones Inmobiliarias, SOCIMI, S.A. (assets acquired prior to joining the SOCIMI regime) and the non-SOCIMI subsidiaries (residents in Portugal that meet the requirements established in section 2.1.c) of the Spanish SOCIMI Act to be considered qualifying assets for the purposes of the aforementioned regime).

The changes at 31 December 2018 are as follows:

	Thousands of euros
Total deferred tax liabilities at 31 December 2016	**556,771**
Increase in value of investment property	12,447
Additions due to business combinations	8,653
Temporary differences	1,222
Other	13,325
Total deferred tax liabilities at 31 December 2017	**592,418**
Increase in value of investment property	19,029
Additions due to business combinations (Note 3)	98,167
Temporary differences	(2,710)
Adjustment for deferred liabilities (Note 18-c)	(40,341)
Total deferred tax liabilities at 31 December 2018	**666,563**

As stipulated in Note 18.b, the increase in value of investment property acquired by subsidiaries subject to the SOCIMI tax regime generate temporary differences at a tax rate of 0%, whereby no deferred tax liability has been recognised.

f) Years open for review and tax audits

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired. At 2018 year end, the Parent and certain of its subsidiaries had all years since their incorporation open for review for all the taxes applicable to them. The rest of the subsidiaries had 2014 to 2017 open for review for income tax and 2015 to 2018 open for review for the other taxes applicable to them. The Parent's directors consider that the tax returns for the aforementioned taxes have been filed correctly and, therefore, even in the event of discrepancies in the interpretation of current tax legislation in relation to the tax treatment afforded to certain transactions, such liabilities as might arise would not have a material effect on the accompanying consolidated financial statements. Also, Spanish Law 34/2015, of 21 September, partially amending Spanish Law 58/2003, of 17 December, on General Taxation establishes the right of the tax authorities to initiate a review and investigation procedure of the tax losses offset or carried forward or tax credits taken or carried forward, which will become statute barred after ten years from the day on which the regulatory period established for filing the tax return or self-assessment relating to the year or the tax period in which the right to offset the tax loss or to apply the tax credits arose.

The Parent, as the successor of the commercial property business of Metrovacesa, S.A. was the focus of a general tax audit for all taxes between 2012 and 2014. The aforementioned audit was completed with the signature of tax assessments on an uncontested basis in February 2018 and did not have a material impact on these consolidated financial statements.

g) Disclosure requirements arising from SOCIMI status, Spanish Law 11/2009, as amended by Spanish Law 16/2012

The disclosure requirements arising from the Parent and certain subsidiaries being considered SOCIMIs are included in the related notes of the separate financial statements.

19. Revenue and expense

a) Revenue

At 31 December 2018, the detail of the Group's ordinary income is as follows:

	Thousands of euros	
	2018	2017
Rental income	475,646	455,081
Revenue from the rendering of services	114,785	8,213
Total	**590,431**	**463,294**

The Group maintained an agreement for management services with Testa Residencial SOCIMI, S.A. Pursuant to the aforementioned agreement, on 3 January 2018, the aforementioned company, in accordance with those contractual terms, notify the Parent of its early cancellation effective 19 January 2018. In this connection, the Group recognised revenue from the rendering of services amounting to EUR 89,721 thousand and an account receivable amounting to EUR 108,562 thousand (which includes EUR 18,841 thousand of output VAT). The aforementioned account receivable was settled in full with the delivery of EUR 640,693,342 shares issued in the share capital increase carried out in relation to by Testa Residencial SOCIMI, S.A., which was approved by the shareholders at the Annual General Meeting on 26 March 2018, giving the Parent an ownership interest of 16.95%, which was sold at 2018 year end (Note 11).

In addition, under the terms of the service agreement between the Parent and Castlelake, the Parent had earned income of EUR 22,242 thousand in 2018. This income was paid by Castlelake in the form of shares in Aedas Homes, S.A. (See Note 11) and was linked to Castlelake's obtaining gains from its investment property portfolio, for which the Parent provided management services.

b) Other operating expenses

The detail of other operating expenses in the consolidated income statement at 31 December 2018 is as follows:

	Thousands of euros	
	2018	2017
Non-recoverable expenses of leased properties	41,749	35,564
General expenses		
Professional services	6,093	6,690
Travel expenses	700	843
Insurance	181	167
Other	2,207	2,067
Costs associated with asset acquisitions, sales and financing	4,802	4,110
Losses on, impairment of and change in provisions	424	1,851
Other expenses	118	702
Total	**56,274**	**51,994**

c) Staff costs and average headcount

The detail of staff costs at 31 December 2018 is as follows:

	Thousands of euros	
	2018	2017
Wages, salaries and similar payments	28,092	25,721
Termination benefits	98	140
Social security costs	1,962	1,981
Other employee benefit costs	354	79
Long-term incentive plan	43,435	43,838
Total	**73,941**	**71.759**

The average number of employees at the various Group companies in 2018 was 171 (155 in 2017).

The detail of the headcount at 2018 and 2017 year end, by category, is as follows:

2018

	Women	Men	Total
Executive directors	-	2	2
Senior executives	-	6	6
Management team	1	4	5
Middle management	4	33	37
Other employees	68	58	126
Total	**73**	**103**	**176**

2017

	Women	Male	Total
Executive Directors	-	2	2
Senior executives	-	6	6
Management team	1	4	5
Middle management	7	25	32
Other employees	61	56	117
Total	**69**	**93**	**162**

The average number of employees at the Group in 2018 with a disability equal to or greater than 33%, by category, was as follows:

Category	2018	2017
Senior executives	-	-
Line personnel and middle management	-	-
Clerical staff	5	5
Total	**5**	**5**

d) Finance income and costs

The breakdown of these items in the consolidated income statement is as follows:

	Thousands of euros	
	2018	2017
Finance income:		
Interest on deposits and current accounts	511	468
	511	468
Finance costs:		
Interest from loans and other credits	(112,756)	(121,235)
Other finance costs	(2,747)	(1,306)
	(115,503)	(122,541)
Financial loss	**(114,992)**	**(122,073)**

Finance costs include mainly the interest corresponding to the bank borrowings and obligations detailed in the Note 15 amounting to EUR 36,343 thousand and EUR 68,163 thousand, respectively. The aforesaid amounts also include the repayment of the debt arrangement expenses amounting to EUR 11,711 thousand, applying the effective interest rate to the financial debt, as well as other finance costs amounting to EUR 12,556 thousand.

e) Contribution to consolidated profit

The contribution of each company included in the scope of consolidation to profit for 2018 was as follows:

Parent	Thousands of euros	
	2018	2017
Full consolidation:		
Merlin Properties SOCIMI, S.A.	437,461	597,798
Tree Inversiones Inmobiliarias, SOCIMI, S.A.	116,481	134,647
Merlin Retail, S.L.	23,787	20,834
Merlin Oficinas, S.L.	64,097	48,493
Merlin Logística, S.L.	93,880	80,747
Merlin Logística II, S.L.	-	3,187
Obraser, S.A.	-	9,544
Merlin Properties Adequa, S.L.	-	55,983
Merlin Parques Logísticos, S.A.	(5,695)	(1,296)
Varitelia Distribuciones, S.L.U.	26,202	24,045
Metroparque, S.A.	32,068	37,207
Metropolitana Castellana, S.L.	-	31,181
La Vital Centro Comercial y de Ocio, S.L.	5,086	11,127
Global Carihuela Patrimonio Comercial, S.L.U.	2,062	(125)
Sadorma 2003, S.L.	61	(989)
Parques Logísticos de la Zona Franca, S.A.	11,689	993
Sevisur Logística, S.A.	6,953	1,525
Promosete Invest. Inmobiliaria, S.A.	3,541	5,370
Praça do Marqués - Servicios auxiliares, S.A.	7,980	121
MPCVI - Compra e Venda Imobiliária, S.A.	2,286	4,332
MPEP - Properties Escritórios Portugal, S.A	(12)	(10)
MP Monumental, S.A.	20,130	17,408
MP Torre A, S.A.	1,268	8,514
Forum Almada – Gestao Centro Comercial, Lda	(14,095)	-
Torre dos Oceanus Investimentos Inmobiliarios, S.A.	3,057	-
Other companies	6,675	(6,451)
Equity method:		
Testa Residencial SOCIMI, S.A.	(15,520)	10,200
Paseo Comercial Carlos III, S.A.	12,361	1,367
Centro Intermodal de Logística, S.L.	12,395	2,951
Provitae, S.L.	(371)	(26)
Other investments	1,051	1,741
Total	**854,878**	**1,100,418**

20. Related-party transactions

In addition to subsidiaries, associates and joint ventures, the Group's "related parties" are considered to be the Company's shareholders, "key management personnel" (members of the Board of Directors and executives, along with their close relatives), and the entities over which key management personnel may exercise significant influence or control.

The detail of transactions that are significant in amount or material carried out between the Parent or Group companies and related parties are as follows:

2018

Related party	Nature of the relationship	Thousands of euros			
		Income	Expense	Asset	Liability
Banco Santander, S.A. (a)	Borrowings	4	5,054	-	142,358
Banco Santander, S.A. (a)	Cash on hand	-	-	97,227	-
Banco Santander, S.A. (a)	Notional derivatives	-	-	-	402,235
Banco Santander, S.A. (b)	Lease	1,894	-	-	243
Banco Santander, S.A. (b)	Services	-	54	-	-
Banco Santander, S.A. (c)	Asset purchase	-	-	28,000	-
Testa Residencial, SOCIMI, S.A. (d)	Services	89,973	-	-	-
Testa Residencial, SOCIMI, S.A. (d)	Other services	80	-	-	-
Testa Residencial, SOCIMI, S.A. (d)	Dividends	-	-	170,677	-
Pº Comercial Carlos III, S.A. (e)	Borrowings	114	-	-	-
G36 Developments S.L. (f)	Borrowings	-	-	625	-
Total		**92,065**	**5,108**	**296,529**	**544,836**

2017

Related party	Nature of the relationship	Thousands of euros			
		Income	Expense	Asset	Liability
Banco Santander, S.A.	Borrowings	103	7,475	-	290,869
Banco Santander, S.A.	Cash on hand	-	-	287,866	-
Banco Santander, S.A.	Notional derivatives	-	-	-	354,951
Banco Santander, S.A.	Lease	1,410	239	-	271
Banco Santander, S.A.	Services	173	1,177		-
Banco Bilbao Vizcaya Argentaria, S.A. (*)	Borrowings	-	42	-	-
Banco Bilbao Vizcaya Argentaria, S.A. (*)	Cash on hand	-	-	5,349	-
Banco Bilbao Vizcaya Argentaria, S.A. (*)	Lease	93,729	159		14,756
Magic Real Estate, S.L.	Sublease	39	-	-	-
Testa Residencial, SOCIMI, S.A.	Services	7,725	-	-	-
Testa Residencial, SOCIMI, S.A.	Lease	57	-	-	2
Pº Comercial Carlos III, S.A.	Borrowings	152	-	65,168	-
Total		**103,388**	**9,092**	**358,383**	**660,849**

(*) Related party in 2017 as it was a shareholder of the Parent until December 2017

Transactions with significant shareholders

In 2018 the only shareholder considered a significant shareholder in 2018 pursuant to the legislation in force was Banco Santander, S.A.

(a) Financing transactions

- At 31 December 2018, the Group has loans from its shareholder Banco Santander, S.A. amounting to EUR 142,358 thousand. Likewise, the notional amount of the derivatives arranged that are currently in force totalled EUR 402,235 thousand.

- The Group has bank balances deposited at Banco Santander, S.A. amounting to EUR 97,227 thousand (which includes EUR 20 thousand in the accounts under the name of the associate, Paseo Comercial Carlos III, S.A.).

- In 2018 the finance costs incurred in transactions with Banco Santander, S.A. amounted to EUR 5,054 thousand, which included EUR 83 thousand in finance costs for guarantee fees and EUR 8 thousand in finance costs for current accounts. The finance income obtained in 2018 amounted to EUR 4 thousand.

- The Group has been extended guarantee by the shareholder, Banco Santander, S.A., amounting to EUR 7,172 thousand (amounting to EUR 5,606 thousand extended to MERLIN Properties SOCIMI, S.A. and EUR 1,566 thousand extended to the associate Paseo Comercial Carlos III, S.A.).

(b) Transactions for the rendering of services.

- The Group has 7 leases with Banco Santander, S.A. in various buildings. The terms of the leases range from 2 to 7 years and in 2018 they gave rise to income amounting to EUR 1,894 thousand, which includes lease income, as well as income from parking spaces and the assignment of space for ATMs in shopping centres. The guarantees provided to secure the aforementioned agreements total EUR 243 thousand.

- Additionally, the Group has procured organisation services for the Annual General Meeting and for registering shareholders amounting to EUR 54 thousand.

(c) Asset acquisition transactions.

- In October 2018, the Group acquired a property located at calle Costa Brava, 6-8 in Madrid from Project Quasar Investments 2017, S.L., a company in which Banco Santander holds a 49% ownership interest and that shares directors with MERLIN Properties SOCIMI, S.A. The amount of the acquisition was EUR 28,000 thousand.

Transactions carried out with companies accounted for using the equity method

(d) Testa Residencial, SOCIMI, S.A.

- The Group maintained an agreement for management services with this associate. Pursuant to the aforementioned agreement, on 3 January 2018, in accordance with those contractual terms, Testa Residencial SOCIMI, S.A. notified the Parent of its early cancellation effective 19 January 2018. In this connection, the Group recognised revenue from the rendering of services amounting to EUR 89,721 thousand and an account receivable amounting to EUR 108,562 thousand (which includes EUR 18,841 thousand of output VAT). Likewise, and for the days between 1 January and 19 January 2018, the Group received a consideration of the EUR 252 thousand.

- From 19 January 2018 and throughout 2018, the Group provided technology infrastructure services to Testa Residencial SOCIMI, S.A. for which it received income of EUR 80 thousand, having cancelled the aforementioned agreement at year end.

- On 14 September 2018, MERLIN signed a sale agreement with Tropic Real Estate Holding, S.L., a company managed by Blackstone real estate investment funds pursuant to which the Company transferred to the aforementioned company all the shares it held in Testa Residencial SOCIMI, S.A. Pursuant to the aforementioned sale agreement, on 21 December 2018, MERLIN received an extraordinary dividend of EUR 170,677 thousand from Testa Residencial Socimi, S.A., in accordance with the resolution of its shareholders at the Annual General Meeting of 18 December 2018.

(e) Paseo Comercial Carlos III, S.A.

- In October 2018, the associate Paseo Comercial Carlos III cancelled a loan for EUR 65,168 thousand of principal granted to MERLIN Properties SOCIMI, S.A. and for which the Parent recognised finance income amounting to EUR 114 thousand in the year.

(f) G36 Developments S.L.

- On 1 October 2018, MERLIN Properties, Socimi, S.A. cancelled a loan for EUR 625 thousand extended to the associate G36 Developments, S.L. — a company dedicated to the management of co-working spaces.

<u>Dividends and other profit distributed to related parties</u>

	2018	2017
Significant shareholders	**48,470**	**52,547**
Banco Santander, S.A.	48,470	41,683
Banco Bilbao Vizcaya Argentaria, S.A.	-	10,864
Directors and executives	**1,618**	**970**
Directors	1,013	661
Executives	605	309
Total	**50,088**	**53,517**

21. Information Relating to Directors

The Directors of the Parent and their related parties have not been in a position involving a conflict of interest that required reporting under section 229 of the consolidated text of the Spanish Corporate Enterprises Act.

Remuneration and other benefits of the Board of Directors

At 31 December 2018 and 2017 salaries, per diem attendance fees and remuneration of other kinds earned by members of the Parent's governing bodies totalled EUR 5,623 thousand and EUR 6,078 thousand, respectively, as detailed below:

	Thousands of euros	
	2018	2017
Fixed and variable remuneration	5,610	6,067
Articles of Association-stipulated emoluments	-	-
Termination benefits	-	-
Per diem attendance Fees	-	-
Life and health insurance	13	11
Total	**5,623**	**6,078**

At 31 December 2018, the variable remuneration received by executive directors amounted to EUR 2,725 thousand (EUR 3,050 thousand in 2017). The first 50% of this amount is paid ten days after the Group's financial statements are authorised for issue by the Board Directors. The other 50% will be paid two years after the Company's financial statements were authorised for issue. In this regard, EUR 1,525 thousand corresponding to the bonuses accrued in previous years were paid in 2018.

At 31 December 2018, the amount of variable remuneration paid over the long term amounts to EUR 6,668 thousand, and is recognised under "Long-term provisions" in the accompanying balance sheet

Likewise, as indicated below in this Note, as members of the management team, executive directors have been awarded a share remuneration plan if they meet certain conditions linked to shareholder return ("2016 Share Plan").

In this regard, at 31 December 2018, the conditions envisaged in the plan were met in order for executive directors to receive an additional 750,000 shares, equivalent to EUR 8,006 thousand (750,000 shares in 2017). The remuneration policy approved at the General Shareholders' Meeting held on 26 April 2017 stipulates that shares may be delivered early on the dates of the vesting period.

Lastly, as members of the management team, executive directors are entitled to receive compensation under the new 2017-2019 remuneration plan granted to the management team in 2017, which is described below.

The breakdown, by board member, of the amounts disclosed above is as follows:

Director		Thousands of euros	
		2018	2017
Remuneration of board members			
Javier García Carranza Benjumea	Chairman - Proprietary Director		
Ismael Clemente Orrego	CEO	2,375	2,550
Miguel Ollero Barrera	Executive Director	2,350	2,500
Maria Luisa Jordá Castro	Independent Director	117	120
Ana García Fau	Independent Director	115	115
Alfredo Fernández Agras	Independent Director	35	100
George Donald Johnston	Independent Director	112	115
John Gómez Hall	Independent Director	100	100
Fernando Ortiz Vaamonde	Independent Director	113	110
Ana de Pro	Independent Director	-	32
Juan María Aguirre Gonzalo	Independent Director	118	115
Pilar Cavero Mestre	Independent Director	110	110
Francisca Ortega Hernández Agero	Proprietary director	-	-
José Ferris Monera	Proprietary director	-	100
Emilio Novela Berlín	Independent Director	65	-
Total		**5,610**	**6,067**

The Company has granted no advances, loans or guarantees to any members of the Board of Directors.

The Directors of the Parent are covered by the "Corporate Third-Party Liability Insurance Policies for Directors and Officers" arranged by the Parent to cover possible damages claimed from them and that become apparent as a result of management errors made by its Directors or officers, as well as those of its subsidiaries while performing their duties. The premium amounted to an annual total of EUR 130 thousand (EUR 129 thousand in 2017).

Remuneration and other benefits of Senior Executives

The remuneration of the Parent's senior executives, excluding those who are simultaneously members of the Board of Directors (whose remuneration is disclosed above), in 2018 and 2017 is summarised as follows:

2018

Thousands of euros			
Number of people	Fixed and variable remuneration	Other remuneration	Total
6 (*)	5,557	41	5,598

(*) Includes the Internal Audit Manager

2017

Thousands of euros			
Number of people	Fixed and variable remuneration	Other remuneration	Total
6 (*)	5,376	36	5,412

(*) Includes the Internal Audit Manager

At 31 December 2018, the variable remuneration received by senior executives amounted to EUR 3,455 thousand (EUR 3,360 thousand in 2017). The first 50% of this amount is paid ten days after the Group's financial statements are authorised for issue by the Board Directors. The other 50% will be paid two years after the Company's financial statements were authorised for issue. In this regard, EUR 1,680 thousand corresponding to the bonuses accrued in previous years were paid in 2018. At 31 December 2018, the amount of variable remuneration to be paid over the long term amounted to EUR 6,822 thousand and is recognised under "Long-Term Provisions" in the accompanying consolidated statement of financial position.

The Parent also had a commitment to award an additional annual variable remuneration incentive to the management team as determined by the Appointments and Remuneration Committee, linked to the Parent's shares, which compensates the Parent's management team based on the returns obtained by the Company's shareholders (the "2016 Share Plan"). In accordance with the terms and conditions of this plan, members of senior management must remain at the Group and provide their services for a period of three years, whereby the shares will be delivered on the fifth year.

In this regard, at 31 December 2018, the conditions envisaged in the plan were met in order for senior executives to receive an additional 623,334 shares, equivalent to EUR 6,654 thousand (623,334 shares in 2017).

The "2016 Share Plan" stipulates that the management team will be entitled to receive a maximum of 6,000,000 shares, provided that they continue to provide services to the Group over the next three years following the date the incentives granted. Furthermore, the right to receive two thirds of these shares is conditional on the Parent's financial solvency over the next two years. At 31 December 2018, the Group recognised the expense incurred with a charge to equity in the amount of EUR 15,738 thousand, corresponding to the portion accrued in the 2016 Share Plan, as this obligation must be met with the delivery of the Parent's shares.

The shareholders at the Annual General Meeting held on 26 April 2017 authorised the delivery of the shares corresponding to the "2016 Share Plan" on the dates of the vesting period.

Lastly, at the Annual General Meeting held on 26 April 2017, the shareholders approved a new remuneration plan for the Group's management team. The measurement period for this plan is 1 January 2017 to 31 December 2019 ("2017-2019 Incentive Plan"). Based on the aforementioned plan, members of the management team may have the right to: (i) a certain monetary amount based on the increase in the share price and (ii) shares of the Parent, provided that certain objectives are met.

Vesting of the incentive will be conditional upon, independently, the total rate of return obtained by the shareholder during the three-year period due to:

- the increase in the quoted price of the Parent's share plus the dividends distributed to shareholders during the measurement period; and

- the increase in the EPRA NAV per share of the Parent plus the dividends distributed to shareholders during the measurement period.

In order for the right to the share-based incentive EPRA NAV-based incentive to be vested, the total rate of return for the shareholder (RTA) must be at least 24%.

TSR NAV/TSR share price	Percentage assigned to Beneficiaries ("PR")	Percentage assigned to Shareholders
< 24%	0%	100%
≥ 24% and < 36%	6%	94%
≥ 36%	9%	91%

In order to calculate the TSR (i) the percentage assigned to Beneficiaries in accordance with the above table is applied to the result of multiplying the TSR by the Share Price multiplied by the number of Shares of the Company at 31 December 2019; (ii) the result of the aforementioned operation is balanced, through a mechanism of adjustments on behalf of the Beneficiaries, in that once a minimum return has been attained, the Beneficiaries will be entitled to the assigned percentage of the total return from the start.

The date of calculation of the amount of the NAV-based incentive and the amount of the share-based incentive will be 31 December 2019. The maximum amount to be received for the incentive tied to the quoted price from 2017 to 2019 will amount to EUR 37.5 million. If the incentive is larger than the aforementioned limit, it will supplement the NAV-based incentive — if the latter is lower than the maximum amount established. Likewise, the maximum amount of the EPRA NAV-based incentive will be EUR 75 million, for which a maximum of 6,000,000 shares has been assigned for payment thereof. Lastly, if the value of the maximum number of shares allocated to the plan were below the aforementioned incentive tied to the EPRA NAV, the difference would be paid in cash.

In this regard, at 31 December 2018 the Group recognised the expense amounting to EUR 27,697 thousand, corresponding to the vested portion of the 2017-2019 Incentive Plan.

Lastly, as regards "golden parachute" clauses for executive directors and other senior executives of the Company or its Group in the event of dismissal or takeover, these clauses provide for compensation that represented a total commitment of EUR 14,150 thousand at 31 December 2018.

22. Auditors' remuneration

The fees for financial audit services provided to the various companies composing the Merlin Group and subsidiaries by the principal auditor, Deloitte, S.L., and entities related to the principal auditor and other auditors is as follows:

	Thousands of euros	
Description	2018	2017
Audit services	555	402
Other audit-related services:		
Other attest services	107	225
Total audit and related services	**662**	**627**
Tax advisory services	12	12
Total other services	**12**	**12**
Total	**674**	**639**

"Other audit-related services" includes the attest services carried out by the auditor in the process of issuing bonds, agreed-upon procedures related to compliance with covenants and the limited review of the half-yearly financial information.

23. Environmental disclosures

Given the activity in which the Group engages, it has no environmental liabilities, expenses, assets, provisions or contingencies that could have a material impact on its equity, financial position and results of its operations.

Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements.

24. Risk exposure

Financial risk factors

The Group's activities are exposed to various financial risks: market risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's global risk management programme focuses on the uncertainty of the financial markets and aims to minimise the potential adverse effects on the Group's financial returns.

Risk management is controlled by the Group's senior management in accordance with the policies established by the Board of Directors. Senior management identifies, assesses and hedges financial risks in close cooperation with the Group's operating units. The Board provides written policies for global risk management, and specific subjects such as market risk, interest rate risk, liquidity risk and investment of surplus liquidity.

Market risk

The Group's activities are exposed to various financial risks: market risk, credit risk, liquidity risk and cash flow interest rate risk.

These measures are applied pursuant to the results of sensitivity analyses carried out by the Group on a regular basis. These analyses take into account:

- Economic environment in which the Group operates: Design of different economic scenarios and modifying the key variables potentially affecting the Group (interest rates, share price, occupancy rate of investment property, etc.). Identification of interdependent variables and the extent of their relationship.

- Time frame over which it is making the assessment: The time horizon of the analysis and the possible deviations are taken into account.

Credit risk

Credit risk is defined as the risk of financial loss to which the Group is exposed if a customer or counterparty does not comply with its contractual obligations.

In general, the Group holds its cash and cash equivalents at banks with high credit ratings.

Except in the case of the lease of offices to BBVA, the Group does not have significant concentrations of credit risk. The Group regularly reviews the credit rating and thus the creditworthiness of BBVA in relation to the branches leased to this bank. The Group also pays close attention to this situation, given that its financing is dependent on this credit rating being maintained. The Parent's directors do not consider that there is any material credit risk with regard to its accounts receivable due from this lessee.

With respect to other customers, the Group has policies in place to limit the volume of risks posed by customers. Exposure to the risk of being unable to recover receivables is mitigated in the normal course of business through funds or guarantees deposited as collateral.

The Group has formal procedures to identify any impairment of trade receivables. Delays in payment are detected through these procedures and individual analysis by business area and methods are established to estimate impairment loss.

The estimated maturities of the Group's financial assets in the consolidated statement of financial position at 31 December 2018 are detailed below. The tables present the results of the analysis of the maturities of its financial assets at 31 December 2018:

2018

	Thousands of euros				
	Less than 3 months	More than 3 months and less than 6 months	More than 6 months and less than 1 year	More than 1 year	Total
Loans to third parties	-	-	-	1,609	1,609
Guarantees and deposits	-	-	-	67,152	67,152
Trade and other receivables	79,592	2,028	85,861	-	167,481
Other current financial assets	7,747	-	1,141	-	8,888
Cash and cash equivalents	169,025	-	-	-	169,025
Total	**256,364**	**2,028**	**87,002**	**68,761**	**414,155**

2017

	Thousands of euros				
	Less than 3 months	More than 3 months and less than 6 months	More than 6 months and less than 1 year	More than 1 year	Total
Loans to third parties	-	-	-	1,488	1,488
Guarantees and deposits	-	-	-	66,247	66,247
Trade and other receivables	27,739	-	50,794	-	78,533
Other current financial assets	7,114	-	66,340	-	73,454
Cash and cash equivalents	454,036	-	-	-	454,036
Total	**488,889**	**-**	**117,134**	**67,735**	**673.758**

Cash and cash equivalents

The Group has cash and cash equivalents of EUR 169,025 thousand, which represents its maximum exposure to the risk posed by these assets.

Cash and cash equivalents are deposited with banks and financial institutions.

Liquidity risk

Liquidity risk is defined as the risk of the Group encountering difficulties meeting its obligations regarding financial liabilities settled in cash or with other financial assets.

At 31 December 2018, the Group's working capital amounted to EUR 181,680 thousand.

The Group conducts prudent management of liquidity risk by maintaining sufficient cash to meet its payment obligations when they fall due, both in normal and stressed conditions, without incurring unacceptable losses or risking the Group's reputation.

The Group's exposure to liquidity risk at 31 December 2018 is detailed below. The tables below reflect the analysis, by maturity, of the financial liabilities in accordance with the existing agreements.

2018

	Thousands of euros				
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Total
Bank borrowings	5,816	44,044	26,950	-	76,810
Other non-current liabilities - Guarantees	-	-	-	88,400	88,400
Trade and other payables (excluding balances with public authorities)	736	14,094	41,174	-	56,004
Total	**6,552**	**58,138**	**68,124**	**88,400**	**221,214**

2017

	Thousands of euros				
	Less than 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Total
Bank borrowings	2,847	129,917	45,434	-	178,198
Other non-current liabilities - Guarantees	-	-	-	85,194	85,194
Trade and other payables (excluding balances with public authorities)	12,307	11,188	28,908	-	52,403
Total	**15,154**	**141,105**	**74,342**	**85,194**	**315,795**

Cash flow and fair value interest rate risk

The Group manages its interest rate risk by borrowing at fixed and floating rates of interest. The Group's policy is to ensure non-current net financing from third parties is at a fixed rate. To achieve this objective, the Group enters into interest rate swaps that are designated as hedges of the respective loans. The impact of interest rate fluctuations is explained in Note 15.3.

Foreign currency risk

The Group is not exposed to exchange rate fluctuations as all its operations are in its functional currency.

Tax risk

As stated in Note 1, the Parent and a portion of its subsidiaries qualified for the special tax regime for real estate investment trusts (SOCIMIs). The transitional period for the Parent ended in 2017 and, therefore, compliance with all requirements established by the regime (see Notes 1 and 5.12) became mandatory. Some of the more formal obligations that the Parent must meet involve the inclusion of the term SOCIMI in its company name, the inclusion of certain information in the notes to its separate financial statements, the share price on the stock market, etc., and other obligations that require estimates to be made and judgements to be applied by management that may become fairly complex, especially considering that the SOCIMI regime is relatively recent and was developed by the Directorate-General of Taxes mainly in response to the queries posed by various companies. In this regard, management, with the support of its tax advisors, assessed compliance with the requirements of the regime, concluding that such requirements except the income test were met at 31 December 2017. In the opinion of the Group's Directors, this breach is an exceptional situation ensuing from cancellation of the service provision agreement the Parent had with Testa Residencial SOCIMI, S.A. and the profit obtained by the Group for the sale of Testa. In this regard, and as established in section 8 of the Spanish SOCIMI Act, which allows for the remedy of this type of breach in the following year, the Directors consider that the Group will meet the level required by law in relation to the income test in 2019 and, therefore the Parent will continue to apply the SOCIMI regime, a situation which has been taken into account in the preparation of the consolidated financial statements for 2018.

Accordingly, and also for the purpose of taking into consideration the financial effect of the regime, it should be noted that, as established in section 6 of Spanish Law 11/2009, of 26 October, as amended by Spanish Law 16/2012, of 27 December, SOCIMIs that have opted for the special tax regime are required to distribute the profit generated during the year to their shareholders in the form of dividends in the proportions laid down by the Law, once the related corporate obligations have been met. This distribution must be approved within six months from each year end, and the dividends paid in the month following the date on which the pay-out is agreed (see Note 5.12).

If the Parent does not comply with the requirements established in the regime or if the shareholders at the General Meetings of these companies do not approve the dividend distribution proposed by the Board of Directors, calculated in accordance with the requirements of this Act, it would not be complying therewith and, accordingly, tax would have to be paid under the general regime, not the regime applicable to SOCIMIs.

25 Events after the reporting period

On 17 January 2019, the Parent acquired EDIFICIO 160ARTS, S.A. and EDIFICIO048MAGELLEXPO, S.A., owners of 2 office buildings, the Art building and the Torre Fernando de Magallanes building, respectively, located in the Campo de las Naciones district of Lisbon, with a gross leasable area of 22,150 m2 and 7,835 m2, respectively and combined annualised rents of EUR 6.1 million. The sale prices of the asset amounted to EUR 112.2 million, having been financed by the Parent with a charge to cash. The Art building is 97% leased and the Torre Fernando de Magallanes building is fully leased.

26. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2.1). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules

APPENDIX I - Group companies and associates 2018

			Thousands of euros									
				Profit/(Loss)		Other	Total	Dividends	Carrying amount		Consolidation	
Parent	Line of business / Location	Ownership interest	Share capital	From operations	Net	shareholders' equity	equity	received	Cost	Impairment losses	method	Auditor
Tree Inversiones Inmobiliarias, SOCIMI, S.A.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	9,323	198,512	151,517	74,395	201,957	3,570	657,984	-	Full consolidation	Deloitte
Merlin Oficinas, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	29,674	12,499	12,132	713,453	755,258	353	771,345	-	Full consolidation	Deloitte
Merlin Retail, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	17,963	18,995	13,858	230,775	262,333	247	251,408	-	Full consolidation	Deloitte
Merlin Logística, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	28,166	17,298	15,368	267,340	310,571	3531,113	292,304	-	Full consolidation	Deloitte
Merlin Parques Logisticos, S.A.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	69,802	3,156	(3,727)	10,330	76,404	-	118,310	-	Full consolidation	Deloitte
Varitelia Distribuciones, S.L.	Acquisition and development of property assets for lease / C. Quintavides, 13, Madrid	100%	15,443	25,908	23,224	1,956	40,623	-	154,400	(113,777)	Full consolidation	Deloitte
Metroparque, S.A.	Acquisition and development of property assets for lease / C. Quintanavides, 13, Madrid	100%	56,194	9,524	9,747	29,240	95,181	1,286	231,557	-	Full consolidation	Deloitte

Parent	Line of business / Location	Ownership interest	Thousands of euros: Share capital	Profit(Loss): From operations	Profit(Loss): Net	Other shareholders equity	Total equity	Dividends received	Carrying amount: Cost	Carrying amount: Impairment losses	Consolidation method	Auditor
La Vital Centro Comercial y de Ocio, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana, 257, Madrid	100%	14,846	2,758	2,759	17,418	35,024	22	56,788	-	Full consolidation	Deloitte
Global Carihuela, Patrimonio Comercial S.A.	Acquisition and development of property assets for lease / Paseo de la Castellana, 257, Madrid	100%	1,603	(1,104)	(1,373)	11,802	12,032	-	17,102	-	Full consolidation	N/A
Sadorma 2003, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana, 257, Madrid	100%	73	78	300	19,914	20,287	-	25,485	(5,197)	Full consolidation	N/A
Parques Logísticos de la Zona Franca, S.A. (1)	Acquisition and development of property assets for lease Avda. 3 del Parc Logístic, no. 26, Barcelona	100%	15,701	5,982	3,772	10,005	29,469	2,329	34,571	-	Full consolidation	Deloitte
Sevisur Logística	Urban development, construction and operation of buildings for logistics purposes and shared services Ctra. de la Esclusa, 15, 41011, Seville.	100%	17,220	2,570	2,403	8,107	27,730	223	37,628	-	Full consolidation	Deloitte
Desarrollo Urbano de Patraix, S.A.	Land management / Avda. Barón de Carcer, 50, Valencia	100%	2,790	7,099	7,045	15,491	25,326	-	25,090	-	Full consolidation	N/A
Holding Jaureguizahar 2002, S.A.	Inactive / Paseo de la Castellana, 257, Madrid	100%	1,481	(1)	(59)	(6,725)	(5,304)	-	-	(5,304)	Full consolidation	N/A
Global Murex Iberia, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana, 257, Madrid	100%	14	(1)	38	(15,549)	(15,497)	-	-	(15,497)	Full consolidation	N/A

Parent	Line of business / Location	Ownership interest	Thousands of euros: Share capital	Profit(Loss): From operations	Profit(Loss): Net	Other shareholders equity	Total equity	Dividends received	Carrying amount: Cost	Carrying amount: Impairment losses	Consolidation method	Auditor
Testa Hoteles, S.A.	Inactive / Paseo de la Castellana, 257, Madrid	100%	180	(1)	49	4,120	4,349	-	4,287	-	Full consolidation	N/A
Gescentesta, S.L.U.	Provision of services / Paseo de la Castellana, 257, Madrid	100%	3	225	202	348	553	-	3	-	Full consolidation	N/A
MP Monumental, S.A.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	100%	50	2,901	295	11,497	11,841	745	20,348	-	Full consolidation	Deloitte
MP Torre A, S.A.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	100%	50	1,557	(407)	1,118	761	-	10,186	-	Full consolidation	Deloitte
MPCVI – Compra e Venda Imobiliária, S.A.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	100%	1,050	1,248	411	5,915	7,376	475	6,418	-	Full consolidation	Deloitte Portugal
MPEP – Properties Escritórios Portugal, S.A.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	100%	50	(12)	(12)	16	54	-	85	(31)	Full consolidation	Deloitte Portugal
VFX Logística, S.A.	Acquisition and development of property assets for lease. Av. Fontes Pereira de Melo, 51, Lisbon	100%	5,050	(390)	(425)	12,587	17,213	-	17,763	(550)	Full consolidation	Deloitte Portugal
Promosete, Invest. Inmobil. SA.	Acquisition and development of property assets for lease. Av. Fontes Pereira de Melo, 51, Lisbon	100%	200	1,410	108	6,048	6,357	-	11,245	-	Full consolidation	Deloitte Portugal

			Thousands of euros										
				Profit/(Loss)		Other	Total	Dividends	Carrying amount		Consolidation	
Parent	Line of business / Location	Ownership interest	Share capital	From operations	Net	shareholders' equity	equity	received	Cost	Impairment losses	method	Auditor
Praça Do Marquês serviços Auxiliares, SA	Acquisition and development of property assets for lease. Av. Fontes Pereira de Melo, 51, Lisbon	100%	15,893	1,556	8,953	40,867	65,713	-	56,361	-	Full consolidation	Deloitte Portugal
Torre Dos Oceanus Investimentos Inmobiliarios,S.A.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	100%	50	1,040	59	2,866	2,975	-	15,913	-	Full consolidation	Deloitte Portugal
Forum Almada II, S.A. (1)	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	100%	10,000	12,000	7,788	30,754	48,543	-	289,302	-	Full consolidation	Deloitte Portugal
Forum Almada – Gestão Centro Comercial Sociedade Unipessoal, Lda.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	100%	5	12,400	5,765	(403)	5,367		31,533		Full consolidation	Deloitte Portugal
Paseo Comercial Carlos III, S.A.	Acquisition and development of property assets for lease / Avda. San Martín Valdeiglesias, 20 - 28922 Madrid	50%	8,698	2,478	704	24,800	34,203		25,668		Equity method	Morison ACPM
Provitae Centros Asistenciales, S.L.	Acquisition and development of property assets for lease / C. Fuencarral, 123. Madrid	50%	6,314	(46)	(52)	(1,014)	5,249		5,061	(462)	Equity method	N/A
G36 Development, S.L.	Acquisition and development of property assets for lease / Avda. San Martín Valdeiglesias, 20 - 28922 Madrid	50%	405	(21)	(21)	3,648	4,032	-	2,027	-	Equity method	N/A
Pazo de Congresos de Vigo, S.A.	Project for the execution, construction and operation of the Vigo Convention Centre / Avda. García Barbón, I, Vigo	44%	Not avail.	Not avail.	Not avail.	Not avail.	Not avail.	Not avail.	3,600	(3,600)	Equity method	Not avail.
PK. Hoteles 22, S.L.	Acquisition and development of property assets for lease / C. Príncipe de Vergara, 15. Madrid	33%	5,801	499	233	(456)	5,579		2,467		Equity method	Not avail.
Parking del Palau, S.A.	Acquisition and development of property assets for lease / Paseo de la Alameda, s/n. Valencia	33%	1,698	239	178	378	2,254	30	2,137	-	Equity method	BDO
Araba Logística, S.A. (1)	Acquisition and development of property assets for lease	25%	1,750	(790)	(1,366)	(239)	145		20,669	(20,669)	Equity method	Deloitte
Centro Intermodal de Logística S.A. (CILSA)	Development, management, and performance of logistics activities in a port system / Avenida Ports d'Europa 100, Barcelona	49%	18,920	13,213	9,096	101,054	129,070	590	95,688	-	Equity method	EY

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Parent	Line of business / Location	Ownership interest	Thousands of euros: Share capital	Profit/(Loss): From operations	Profit/(Loss): Net	Other shareholders' equity	Total equity	Dividends received	Carrying amount: Cost	Carrying amount: Impairment losses	Consolidation method	Auditor
Tree Inversiones Inmobiliarias, SOCIMI, S.A.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	9,323	79,191	42,460	35,605	56,857	50,669	657,984	-	Full consolidation	Deloitte
Merlin Oficinas, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	19,699	11,735	6,541	172,029	198,269	5,605	196,959	-	Full consolidation	Deloitte
Metropolitan Castellana, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	172,343	2,565	2,562	34,887	39,792	2,390	90,859	-	Full consolidation	Deloitte
Properies Adequa, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	5,075	8,285	8,404	269,761	283,240	7,860	379,560	-	Full consolidation	Deloitte
Belkyn West Company, S.A.	Acquisition and development of property assets for lease / Av. Fontes Pereira de Melo, 51, Lisbon	100%	4337	(6)	(129)	2,998	3,206	-	3,343	(137)	Full consolidation	N/A
Merlin Retail, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	17,963	15,771	10,859	157,372	185,782	10,939	179,608	-	Full consolidation	Deloitte
Obraser, S.A.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	4,121	3,405	3,376	32,805	40,303	6,156	71,800	-	Full consolidation	N/A
Merlin Logística, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	24,418	9,425	8,236	216,201	248,394	6,685	244,153	-	Full consolidation	Deloitte
Merlin Logistics II, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana, 257, Madrid	100%	300	765	531	3,748	4,487	624	10,671	-	Full consolidation	Deloitte

			Thousands of euros									
				Profit/(Loss)		Other	Total	Dividends	Carrying amount		Consolidation	
Parent	Line of business / Location	Ownership interest	Share capital	From operations	Net	shareholders' equity	equity	received	Cost	Impairment losses	method	Auditor
Merlin Parques Logisticos, S.A.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	69,802	2,159	7,965	2,554	80,326	-	118,310	-	Full consolidation	Deloitte
Varitelia Distribuciones, S.L.	Acquisition and development of property assets for lease / C. Quintanavides, 13, Madrid	100%	15,443	33,388	34,245	(32,289)	17,399	29,680	154,400	(137,001)	Full consolidation	Deloitte
Metroparque, S.A:	Acquisition and development of property assets for lease / C. Quintanavides, 13, Madrid	100%	56,194	11,458	11,670	18,856	86,719	8,050	231,557	-	Full consolidation	Deloitte
Merlin Properties Adequa, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	5,075	8,285	8,404	269,761	283,240	7,860	379,560	-	Full consolidation	Deloitte
La Vital Centro Comercial y de Ocio, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	14,846	2,901	2,941	14,500	32,287	2,330	56,788	-	Full consolidation	Deloitte
Global Carihuela, Patrimonio Comercial S.A.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	1,603	(1,468)	(1,482)	13,285	13,405	-	17,102	-	Full consolidation	N/A
Sadorma 2003, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	73	624	218	19,696	19,987	-	25,485	(5,498)	Full consolidation	N/A
Parques Logísticos de la Zona Franca, S.A. (1)	Acquisition and development of property assets for lease, Avda. 3 del Parc Logístic, no. 26, Barcelona	90%	15,701	4,948	2,889	9,718	28,248	-	23,671	-	Full consolidation	Deloitte
Sevisur Logística	Urban development, construction and operation of buildings for logistics purposes and shared services Ctra. de la Esclusa, 15, 41011, Seville.	100%	17,220	1,766	1,550	6,651	25,420	1,120	37,628	-	Full consolidation	Deloitte
Desarrollo Urbano de Patraix, S.A.	Land management / Avda. Barón de Carcer, 50, Valencia	100%	2,790	(6,527)	(6,809)	22,300	18,281	-	25,090	(6,809)	Full consolidation	N/A
Holding Jaureguizahar 2002, S.A.	Inactive / Paseo de la Castellana, 257, Madrid	100%	1,481	(3)	(3)	(6,722)	(5,244)	-	-	(5,244)	Full consolidation	N/A
Global Murex Iberia, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana, 257, Madrid	100%	14	(1)	(1)	(15,547)	(15,535)	-	-	(15,535)	Full consolidation	N/A

			Thousands of euros									
Parent	Line of business / Location	Ownership interest	Share capital	Profit/(Loss)		Other shareholders' equity	Total equity	Dividends received	Carrying amount		Consolidation method	Auditor
				From operations	Net				Cost	Impairment losses		
Testa Hoteles, S.A.	Inactive / Paseo de la Castellana, 257, Madrid	100%	180	0	18	4,102	4,300	-	4,287	-	Full consolidation	N/A
Gescentesta, S.L.U.	Provision of services / Paseo de la Castellana, 257, Madrid	100%	3	185	165	224	392	-	3	-	Full consolidation	N/A
MP Monumental, S.A.	Acquisition and development of property assets for lease Av. Fontes Pereira de Melo, 51, Lisbon	100%	3	185	165	224	392	-	20,348	-	Full consolidation	N/A
MP Torre A, S.A.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	100%	50	1,977	111	1,558	1,719	-	10,186	-	Full consolidation	Deloitte Portugal
MPCVI – Compra e Venda Imobiliária, S.A.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	100%	1,050	1,360	500	5,890	7,440	-	6,418		Full consolidation	Deloitte Portugal
MPEP – Properties Escritórios Portugal, S.A.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	100%	50	(10)	(10)	(9)	31	-	50	(19)	Full consolidation	Deloitte Portugal
VFX Logística, S.A.(1)	Acquisition and development of property assets for lease Av. Fontes Pereira de Melo, 51, Lisbon	100%	5,050	852	812	17,783	23,644	-	50,188	(26,565)	Full consolidation	Deloitte Portugal
Promosete, Invest. Inmobil, S.A.	Acquisition and development of property assets for lease Av. Fontes Pereira de Melo, 51, Lisbon	100%	200	621	40	6,008	6,248	-	11,704	-	Full consolidation	Deloitte Portugal
Praça Do Marquês Serviços Auxiliares, S.A.	Acquisition and development of property assets for lease Av. Fontes Pereira de Melo, 51, Lisbon	100%	15,893	1,452	3,037	41,922	60,852	-	60,382	-	Full consolidation	Victor Olivera
Inmobiliaria Metrogolf, S.A.	Inactive / Alameda das Linhas de Torres, 152, Lisbon	100%	1,000	(53)	(53)	2,681	3,628	-	3,709	(85)	Full consolidation	PKF & Asociados SROC

			Thousands of euros									
Parent	Line of business / Location	Ownership interest	Share capital	Profit/(Loss) From operations	Profit/(Loss) Net	Other shareholders' equity	Total equity	Dividends received	Carrying amount Cost	Carrying amount Impairment losses	Consolidation method	Auditor
Acoghe, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	400	(13)	(6)	(104)	290	-	300	(10)	Full consolidation	N/A
Gesfitesta, S.L. (formerly Itaceco, S.L.U.)	Inactive / Paseo de la Castellana, 257, Madrid	100%	6	(46)	(71)	(270)	(335)	-	6	(341)	Full consolidation	N/A
Testa Residencial, Socimi, S.A.	Acquisition and development of property assets for lease / Paseo de la Castellana 83-85, Madrid	12.72%	125,863	4,573	(3,212)	1,413,469	1,535,785	-	144,369	-	Equity method	Deloitte
Paseo Comercial Carlos III, S.A.	Acquisition and development of property assets for lease / Avda. San Martín Valdeiglesias, 20 - 28922 Madrid	50%	8,698	3,809	2,734	21,839	33,271		25,668		Equity method	Morison ACPM
Provitae Centros Asistenciales, S.L.	Acquisition and development of property assets for lease / C. Fuencarral, 123. Madrid	50%	6,314	(43)	(53)	(961)	5,300	-	5,061	(511)	Equity method	N/A
Centro Intermodal de Logística S.A. (CILSA)	Development, management and performance of logistics activities in a port system / Avenida Ports d'Europa 100, Barcelona	48.50%	18,920	10,759	6,085	90,880	121,290	-	95,688	-	Equity method	KPMG
Pazo de Congresos de Vigo, S.A.	Project for the execution, construction and operation of the Vigo Convention Centre / Avda. García Barbón, I, Vigo	44%	11,100	(966)	(1,015)	(1,153)	8,932	-	-	(3,600)	Equity method	EY
PK. Hoteles 22, S.L.	Acquisition and development of property assets for lease / C. Príncipe de Vergara, 15. Madrid	32.50%	5,801	503	298	(680)	5,423	-	2,467	(633)	Equity method	N/A
Parking del Palau, S.A.	Acquisition and development of property assets for lease / Paseo de la Alameda, s/n. Valencia	33%	1,998	223	167	322	2487	40-	2,137	-	Equity method	N/A
Araba Logística, S.A. (1)	Acquisition and development of property assets for lease	25.14%	1,750	(569)	(3,761)	2,186	175	-	20,669	(20,669)	Equity method	Deloitte
PK. Inversiones 22, S.L.	Provision of services / C. Príncipe de Vergara, 15. Madrid	50%	60	-	-	(24)	36	-	30	(13)	Equity method	N/A

(1) Indirect ownership interest

MERLIN PROPERTIES, SOCIMI, S.A.

Preparation of the Consolidated Financial Statements and Consolidated Directors' Report for 2018

On 26 February 2019, the directors of the Parent MERLIN PROPERTIES, SOCIMI, S.A., in compliance with section 253.2 of the Revised Text of the Spanish Corporate Enterprises Act and section 37 of the Spanish Commercial Code, authorised for issue the consolidated financial statements and consolidated directors' report for the year ended 31 December 2018. The consolidated financial statements consist of the attached documents preceding this page.

In Madrid, on 26 February 2019

Javier García-Carranza Benjumea Chairman of the Board of Directors	Ismael Clemente Orrego Deputy-chairman of the Board of Directors
Francisca Ortega Hernández Agero Member	John Gómez Hall Member
María Luisa Jordá Castro Member	Pilar Cavero Mestre Member
Juan María Aguirre Gonzalo Member	Miguel Ollero Barrera Member
Fernando Javier Ortíz Vaamonde Member	Ana María García Fau Member
Emilio Novela Berlín Member	George Donald Johnston Member
Mónica Martín de Vidales Secretary of the Board of Directors	Ildefonso Polo del Mármol Deputy Secretary of the Board of Directors

MERLIN PROPERTIES

MANAGEMENT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED ON DECEMBER 31, 2018

ANNUAL REPORT

2018

MERLIN PROPERTIES

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2018 consolidated financial statements

IN **2018** THE COMPANY **FOCUSED ON GENERATING RECURRING RETURN TO SHAREHOLDERS** AND ON THE VALUE ENHANCEMENT OF ITS PORTFOLIO THROUGH ASSET ROTATION AND CONSOLIDATION OF PORTUGAL FOOTPRINT.

2018 has been key to strengthen the leadership of **MERLIN Properties** in the Iberian real estate market.

A year of seizing opportunities to maximise the operational efficiency and return on assets.

01 EXECUTIVE SUMMARY

AT A GLANCE

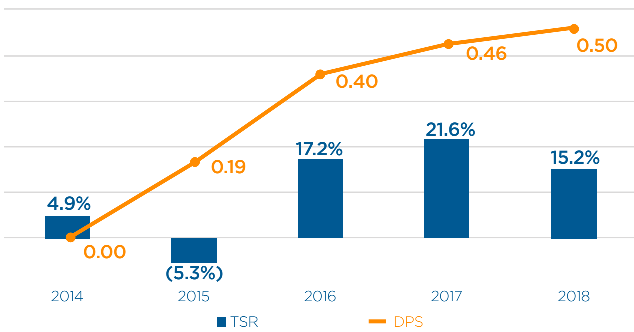
In 2018 MERLIN Properties has reported an **excellent cash flow and a sound net asset revaluation,** pushing **shareholder return above 15%**

TOTAL SHAREHOLDER RETURN (TSR)

Double digit TSR achieved in the period

€ 0.50 per share (+9% YoY)
Dividends of the period

15.2%
TSR rate

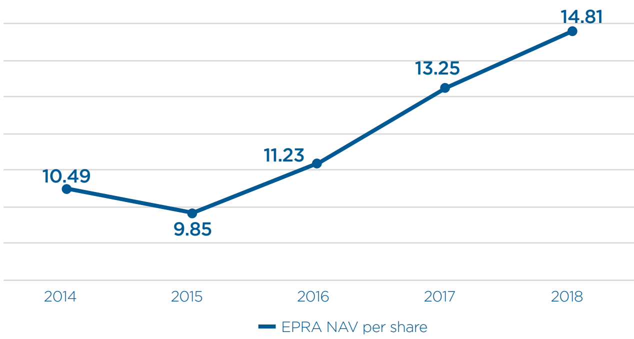


NAV PER SHARE

Strong growth in assets revaluation

€ 14.81 (+11.7% YoY)
EPRA NAV per share increase

6.1%
LfL GAV growth

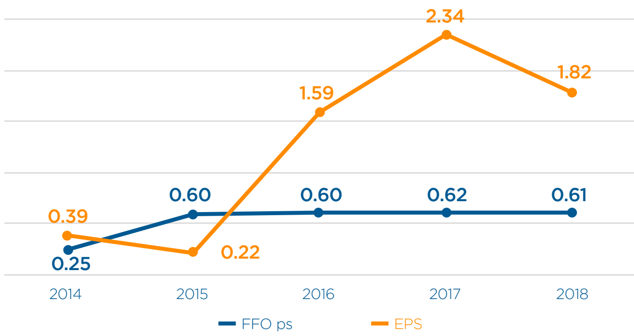


FFO PER SHARE / AFFO PER SHARE

Excellent year in cash flow generation, meeting guidance and overcoming the drag effect of the cancellation of the service contract with Testa Residencial

€ 0.61
FFO ps

€ 0.58
AFFO ps

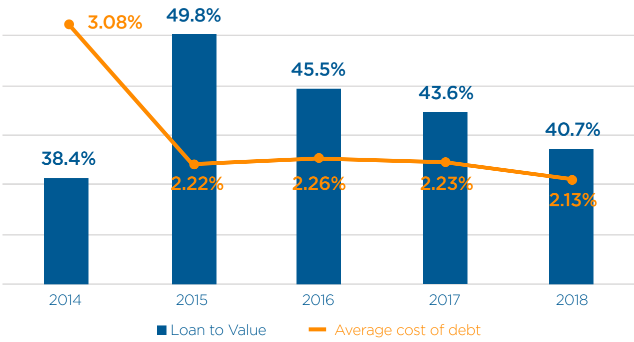


FINANCIAL DEBT

Proactive management of the debt side resulting in significant reduction of leverage, reduced cost of debt and exposure to interest rate fluctuations

40.7%
Loan to Value

2.13%
Average cost of debt



CONSOLIDATED PERFORMANCE

+6.5%
Gross rents YoY

+2.8%
EBITDA YoY

+11.7%
EPRA NAV YoY

- **Excellent business performance in 2018,** with positive LfL, release spread and occupancy growth across the board
- **FFO** per share **(€ 0.61)** and **AFFO** per share **(€ 0.58) meeting FY 2018 guidance**

(€ million)	FY18	FY17	YoY
Total revenues	509.5	484.3	+5.2%
Gross rents	499.7	469.4	+6.5%
Gross rents after incentives	475.6	452.7	+5.1%
Net rents after propex	433.5	415.2	+4.4%
Gross-to-net margin	91.1%	91.7%	
EBITDA[1]	403.7	392.6	+2.8%
Margin	*80.8%*	*83.6%*	
FFO[2]	286.9	289.2	(0.8%)
AFFO	270.5	270.9	(0.2%)
Net earnings	854.9	1,100.4	(22.3%)

(€ per share)	FY18	FY17	YoY
FFO	0.61	0.62	(0.8%)
AFFO	0.58	0.58	(0.2%)
EPS	1.82	2.34	(22.3%)
EPRA NAV	14.81	13.25	+11.7%

BUSINESS PERFORMANCE

+3.1%
Rents like-for-like[3] YoY

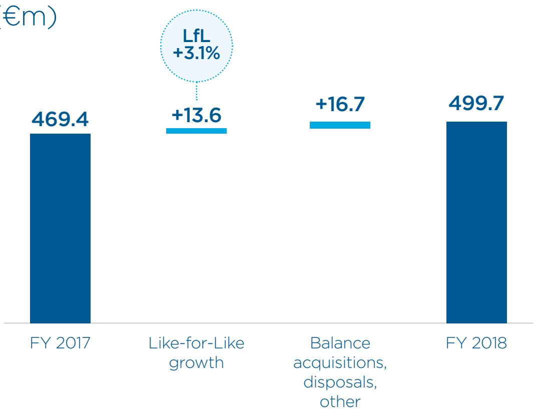
+6.5% | **+3.5%** | **+9.2%**
Office | S. Centers | Logistics
Release spread

+80 bps → **93.4%**
Occupancy vs 31/12/17

- **Office:** 300,707 sqm contracted. **LfL[3]** of **+1.2%** and **release spread** of **+6.5%**
- **Shopping centers:** 93,918 sqm contracted. **LfL[3]** of **+4.1%** and r**elease spread** of **+3.5%**
- **Logistics:** 402,196 sqm contracted. **LfL[3]** of **+6.3%** and **release spread** of **+9.2%**

	Contracted	Rent		Leasing activity	Occ. vs 31/12/18
	sqm	€ m	LfL change	Release spread	Bps
Offices	300,707	224.4	+1.2%	+6.5%	+179
Shopping centers	93,918	103.6	+4.1%	+3.5%	+164
High street retail	n.a.	106.7	+4.0%	n.m.	(22)
Logistics	402,196	50.3	+6.3%	+9.2%	(27)
Other	n.a.	14.8	+12.4%	n.m.	(267)[4]
Total	**796,821**	**499.7**	**+3.1%**		**+80**

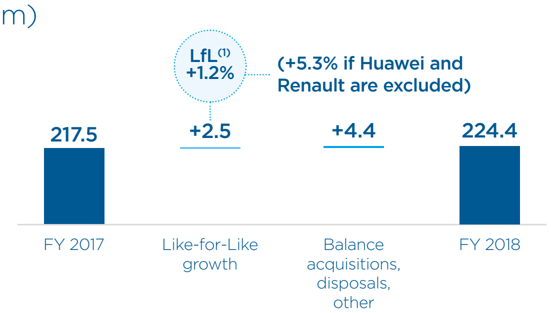
Gross rents bridge
(€m)



[1] Excludes non-overhead costs items (€ 5.0m), Aedas service fee (€ 22.2m), Testa Residencial net gain (€ 53.0m) and LTIP accrual (€ 43.4m)
[2] FFO equals EBITDA less net interest payments, less minorities, less recurring income taxes plus share in earnings of equity method
[3] Portfolio in operation for FY17 (€ 443.4m of GRI) and for FY18 (€457.0m of GRI)
[1] Decrease in occupancy due to the disposal of Sant Boi de Llucanes

OFFICES

Gross rents bridge
(€m)



Rents breakdown

	Gross rents FY18 (€ m)	Passing rent (€/sqm/m)	WAULT (yr)
Madrid	173.0	17.0	2.8
Barcelona	34.2	14.5	3.7
Lisbon	14.3	19.4	3.5
Other	2.9	10.8	7.3
Total	**224.4**	**16.5**	**3.1**

Leasing activity

- **Significant acceleration of rental growth in 2018,** delivering +6.5% release spread on average (vs +3.4% in FY17)
- **4Q leasing activity highlights:**
  - 8,494 sqm new lease with Media Markt in Muntadas I, Barcelona
  - 1,789 sqm new lease (expansion) with American Express in Partenon 12-14, Madrid
  - 1,188 sqm new lease with Tecnicas Reunidas (expansion) in Adequa 3, Madrid
  - 1,160 sqm new lease with Construcia in PE Via Norte, Madrid
  - 5,934 sqm renewed with Capgemini in Diagonal 199, Barcelona
  - 1,800 sqm renewed with TBWA in Juan Esplandiu 11-13, Madrid

	Contracted Sqm	Out	In	Renewals(2)	Net	Release spread	# Contracts
Madrid	191,085	(82,729)	95,652	95,433	12,923	+4.3%	135
Barcelona	79,298	(15,417)	42,264	37,033	26,487	+14.1%	54
Lisbon	30,324	(2,086)	3,908	26,416	1,822	+7.4%	24
Total	**300,707**	**(100,230)**	**141,824**	**158,883**	**41,592**	**+6.5%**	**213**

Occupancy

- **Excellent performance in the year, accelerated in the second half,** having increased occupancy by 216 bps as compared to 6M18 (+179 bps vs FY17)
- **Steady growth in Madrid** (+86 bps vs FY17) overcoming Huawei departure
- **Outstanding performance in Barcelona (+519 bps) and Lisbon (+ 483 bps)**
- **Barcelona has experienced an intense lease activity in 4Q18,** with the leases signed in Muntadas I and Muntadas II

Stock	1,272,032 sqm
WIP	117,811 sqm
Stock incl. WIP	1,389,843 sqm

	Occupancy rate(3)		
	31/12/18	31/12/17	Change bps
Madrid	88.6%	87.8%	+86
Barcelona	94.2%	89.0%	+519
Lisbon	93.1%	88.2%	+483
Other	100.0%	100.0%	-
Total	**90.0%**	**88.2%**	**+179**

(1) Office portfolio in operation for FY17 (€ 215.8m of GRI) and for FY18 (€ 218.3m of GRI)
(2) Excluding roll-overs totalling 82,007 sqm
(3) MERLIN policy: buildings under complete refurbishment are excluded from stock up until 12 months after completion of works. Buildings excluded this period are Torre Chamartin, Torre Glories, Adequa (2 land plots for development and a small building under full refurbishment) and the recently acquired Costa Brava 6-8

OFFICES (CONT.)

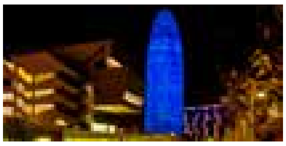
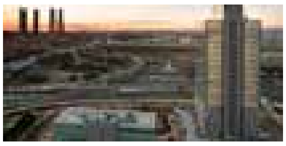
INVESTMENTS, REFURBISHMENTS AND DEVELOPMENTS

Investments

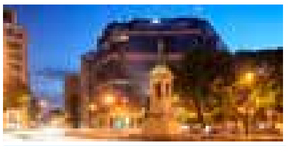
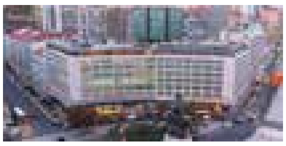
		GLA (sqm)	GRI	YoC	Acquisition
	**Zen Tower**	10,207	€ 2.1m	6.4%	€ 33.2m
	**Costa Brava 6-8**	14,000	n.a	n.a	€ 28.0m

WIP

2018 planned works **executed on time and budget. Increased scope of works** in (i) Glòries now includes amenities & flex space plus the observation area, (ii) Torre Chamartin now includes new parking plus the works to provide direct access to the A-1

		GLA (sqm)	Scope	Acquisition	Capex	% executed	Delivery
	**Torre Glòries**	37,614	Development	€ 142m	€ 27m	Phase I 100% Phase II 10% Observation area	Q3-18 Q2-19 Q2-20
	**Torre Chamartín**	18,295	Development	€ 31m	€ 38m	Phase I 100% Phase II 36%	Q2-18 Q3-19

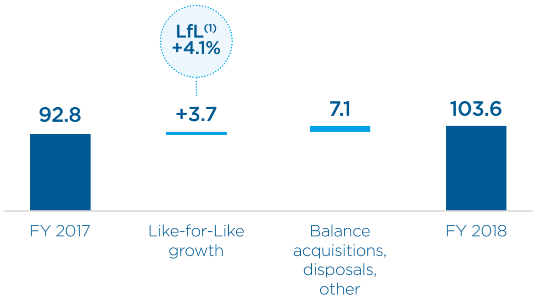
Landmark Plan I (on-going)

		GLA (sqm)	Scope	Budget
	**Monumental**	22,387	Full refurb (incl. SC)	€ 28.9m
	**Castellana 85**	15,254	Full refurb	€ 25.2m
	**Marqués de Pombal**	12,460	Lobby + common areas + exterior terrace	€ 1.6m
	**Diagonal 605**	14,795	Double height lobby + common areas + new retail sapce	€ 8.6m

SHOPPING CENTERS

Gross rents bridge

(€m)



Rents breakdown

	Gross rents FY18 (€ m)	Passing rent (€/sqm/m)	WAULT (yr)
MERLIN	103.6	20.7	2.5

Footfall and tenant sales

	FY18 LTM	YoY
Tenant sales	€ 1,123m	+1.2%
Footfall	108m	(1.2%)
OCR	12.8%	

Leasing activity

- **Rental growth continues, delivering a positive release spread of +3.5% in the year**
- **4Q leasing activity highlights:**
  - 1,349 sqm new lease with Worten in Larios
  - 1,107 sqm new lease with MGI in Vilamarina
  - 825 sqm new lease with A Loja do Gato Preto in Almada
  - 2,740 sqm renewal with Casino Mallorca in Porto Pi

	Contracted	Out	In	Renewals[2]	Net	Release spread	# Contracts
Total	93,918	(24,387)	30,852	63,066	6,465	+3.5%	173

Occupancy

- **Excellent growth in occupancy** (+164 bps), driven by LfL growth (+ 51 bps) and Almada very high occupancy (+ 113 bps). Voluntary vacancy due to Flagship Plan amounts to 3,616 sqm in aggregate
- **Best performers** in 2018 have been Larios and Vilamarina

Stock	501,537 sqm
X-Madrid+Tres Aguas[3]	115,115 sqm
Stock with X-Madrid+Tres Aguas	616,652 sqm

Occupancy rate

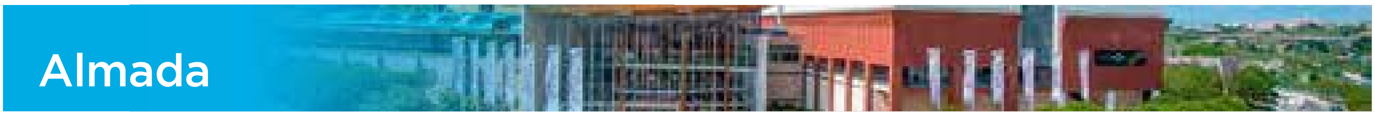
	31/12/18	31/12/17	Change bps
Total	91.0%	89.4%	+164

[1] Shopping centers portfolio in operation for FY17 (€ 89.2m of GRI) and for FY18 (€ 92.9m of GRI)
[2] Excluding roll-overs totalling 86,701 sqm
[3] Tres Aguas at 100% allocation

SHOPPING CENTERS (CONT.)

INVESTMENTS, REFURBISHMENTS AND DEVELOPMENTS

Investments

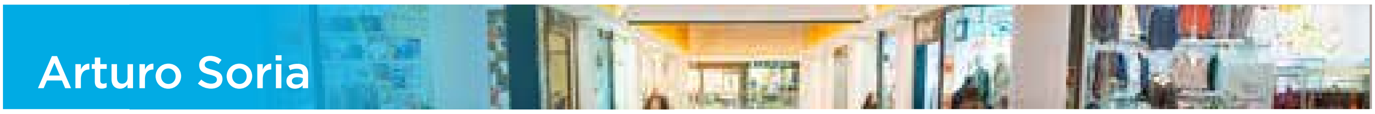


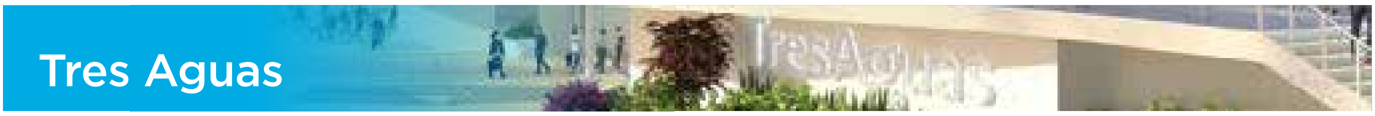
	GLA(1) (sqm)	GRI	YoC	Acquisition
Almada	81,951	€ 24.0m	5.9%	€ 406.7m

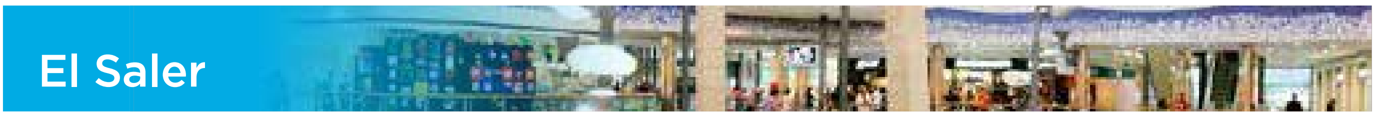
WIP

	Scope	Budget	GLA (sqm)	Delivery	Pre-let
X-Madrid	Full revamp	€ 35.2m	47,424	Q3-19	85%

Flagship Plan(1)







	Scope	Budget(2)	GLA(1) (sqm)	Delivery
Arturo Soria	Façade, accesses, installations, terraces, floors. Increased scope: parking	€ 5.4m	6,959	Q3-19 Phase II
Larios	Full refurb	€ 28.1m	45,076	Q2-19
Tres Aguas	Common areas, exterior plaza, restaurants area	€ 20.2m	67,690	Q4-19
El Saler	Increased scope: full refurb	€ 25.1m	47,013	Q2-20
Porto Pi	Full refurb	€ 21.1m	58,779	Q1-21

(1) GLA includes 100% of the asset, regardless of the stake owned by MERLIN in the owners' community
(2) MERLIN share with the exception of Treas Aguas (100%)

LOGISTICS

Gross rents bridge

(€m)

Rents breakdown

	Gross rents FY18 (€ m)	Passing rent (€/sqm/m)	WAULT (yr)
Madrid	26.2	3.9	4.4
Barcelona	12.3	5.5	2.9
Other	11.8	3.6	5.1
Total	**50.3**	**4.1**	**4.0**

Leasing activity

- **Outstanding performance in the year, with virtual full occupancy bringing strong pricing tension**
- **Excellent release spread (+9.2%)** in all markets, with Barcelona being the top performer (+12.2%)
- **4Q leasing activity highlights:**
  - 2,275 sqm new lease with Luis Simoes in PLZF, Barcelona
  - 14,911 sqm renewal with Reckitt Beckinser in PLZF, Barcelona
  - 4,520 sqm renewal with HVM in Sevilla-ZAL

	Contracted	Out	In	Renewals(2)	Net	Release spread	# Contracts
Madrid	229,135	(18,907)	113,258	115,877	94,351	+8.0%	13
Barcelona	85,784	(26,825)	27,338	58,446	513	+12.2%	10
Other	87,277	(11,814)	27,885	59,392	16,071	+8.3%	12
Total	**402,196**	**(57,546)**	**168,481**	**233,714**	**110,936**	**+9.2%**	**35**

Occupancy

- **Portfolio enjoying virtual full occupancy**

Stock	1,101,243 sqm
WIP	493,210 sqm
Stock incl. WIP	1,594,453 sqm
ZAL Port	468,743 sqm
ZAL Port WIP	250,632 sqm
Stock managed	2,313,827 sqm

	Occupancy rate		
	31/12/18	31/12/17	Change bps
Madrid	97.4%	100.0%	(257)(3)
Barcelona	99.6%	99.4%	+22
Other	99.1%	94.7%	+437
Total	**98.2%**	**98.5%**	**(27)**

(1) Logistics portfolio in operation for FY17 (€ 35.1m of GRI) and for FY18 (€ 37.3m of GRI)
(2) Excluding roll-overs totalling 37,376 sqm
(3) Mainly due to the insolvency of one tenant, Souto

LOGISTICS (CONT.)

INVESTMENTS, REFURBISHMENTS AND DEVELOPMENTS

Investments

	GLA (sqm)	GRI (annual)	YoC	Investment
Vitoria-Jundiz II + Guadalajara-Cabanillas II	41,850	€ 1.4m	6.9%	€ 20.9m

WIP

	GLA (sqm)	GRI (annual)	YoC	Investment
Guadalajara-Cabanillas III	21,544	€ 0.9m	7.4%	€ 11.8m
Toledo-Seseña	28,541	€ 1.2m	7.6%	€ 15.2m

WIP Delivered in FY18

	GLA (sqm)	GRI (annual)	YoC	Investment
Madrid-Meco II	59,814	€ 2.6m	8.9%	€ 29.4m
Sevilla ZAL I	5,400	€ 0.2m	7.9%	€ 2.7m
Madrid-Getafe (Gavilanes)	39,415	€ 2.6m	8.1%	€ 32.6m
Madrid-San Fernando I	11,165	€ 0.7m	7.5%	€ 9.9m

Best II (as from 31/12/18)

	GLA (sqm)	ERV (€m)	Investment (€m)	ERV YoC
Madrid-Pinto II B	29,473	1.2	13.7	8.5%
Madrid-San Fernando II	34,244	1.9	21.6	8.9%
Guadalajara-Azuqueca II	98,000	4.5	51.2	8.7%
Guadalajara-Azuqueca III	51,000	2.3	30.1	7.5%
Guadalajara-Cabanillas Park I F	19,750	0.8	10.7	7.6%
Guadalajara-Cabanillas Park II	210,678	8.5	112.4	7.5%
Guadalajara-Cabanillas III	21,544	0.9	11.8	7.4%
Toledo-Seseña	28,541	1.2	15.2	7.6%
Total	**493,210**	**21.1**	**266.6**	**7.9%**

BALANCE SHEET

- The Company continues deleveraging having achieved a **reduction** of 290 bps in the period, ending with a **LTV of 40.7%**
- The Company has actively managed its balance sheet resulting in **the improvement of all financial ratios and cost of debt**

	€ million
GAV	12,041
Gross financial debt	5,252
Cash[(1)]	(350)
Net financial debt	4,902
NAV	6,956

Ratios	31/12/2018	31/12/2017
LTV	40.7%	43.6%
Av. interest rate	2.13%	2.23%
Av. Maturity (years)	5.9	6.1
Unsecured debt to total debt	81.3%	78.5%
Interest rate fixed	96.3%	98.6%
Liquidity position[(2)] (€m)	634	929

Corporate rating		Outlook
S&P Global	BBB	Positive
Moody's	Baa2	Stable

VALUATION

- **€ 12,041m of GAV. +6.1% LfL growth,** showing a sound revaluation in the year
- By asset category, **+6.7% Lfl** growth in **office, +2.3%** in **shopping centers, +5.7%** in **high street retail** and **+12.4%** in **logistics**

	GAV	LfL Growth	Gross yield	Yield compression
Offices	5,513	+6.7%	4.1%	(5) bps
Shopping centers	2,265	+2.3%	5.2%	(8) bps
Logistics	830	+12.4%	6.2%	(50) bps
High street retail	2,220	+5.7%	4.3%	(9) bps
WIP & land	589	n.a.	n.a.	
Other	422	+3.4%	4.4%	(2) bps
Equity method	201	+11.2%	n.a.	
Total	**12,041**	**+6.1%**	**4.6%**	**(9) bps**

(1) Includes cash, pending receivable of Testa Residencial (€ 121.1m) and treasury stock (€ 56.0m)
(2) Includes available cash plus pending receivable of Testa Residencial, treasury stock and unused credit facilities (€ 284m)

INVESTMENTS, DIVESTMENTS AND CAPEX

- **€ 569.5m acquisitions and € 594.4m divestments** in the year, thus exceeding the target for the year
- The three plans of the Company, Landmark I, Flagship and Best II **continue progressing properly**

	Offices	Retail	Logistics	€ million
Acquisitions(1)	Endesa leasings Zen Tower Costa Brava 6-8	Almada Porto Pi unit	Vitoria-Jundiz II Guadalajara-Cabanillas II	569.5
Development & WIP	Torre Chamartin Torre Glòries	X-Madrid	Madrid-Getafe (Gavilanes) Madrid-San Fernando I Madrid-Meco II Guadalajara-Cabanillas III Toledo-Seseña Guadalajara-Cabanillas Park I F Sevilla Zal I	88.7
Refurbishment	Balmes Adequa 1 Juan Esplandiu Princesa 5 Eucalipto 33	Larios Arturo Soria Porto Pi		27.4
Like-for-like portfolio (Defensive Capex)(2)				19.5
Total				**705.2**

- **Successful divestments in the period:** € 594.4m sales proceeds, delivering a **3.1% premium**

Asset	Sales price (€ m)	Latest GAV	Premium
Testa Residencial	321.2	316.3	1.5%
Tree portfolio	258.9	246.5	5.0%
Miscellaneous non-core(3)	14.3	13.7	4.9%
Total	**594.4**	**576.5**	**3.1%**

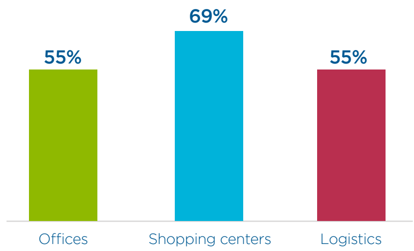
(1) Excluding the acquisition of 10% of PLZF shares (€ 10.9m) to own 100% of the subsidiary. The acquisitions of Madrid-Getafe (Gavilanes) and Madrid-San Fernando I have been reclassified to Development and WIP
(2) € 16.4m capitalized in balance sheet and € 3.1m expensed in P&L
(3) Including Granada del Penedés (logistics) and Sant Boi de Llucanes (other)

SUSTAINABILITY

- **Excellent progression of the portfolio certification program,** having obtained **33 new LEED/ BREEAM** certificates in 2018
- Out of the 22 of the LEED certificates obtained, **2 are Platinum and 18 are Gold**

Torre Chamartín	Avenida de Europa	Madrid-Getafe (Gavilanes)	El Saler
Platinum	Platinum	Gold	Good

% GAV certified

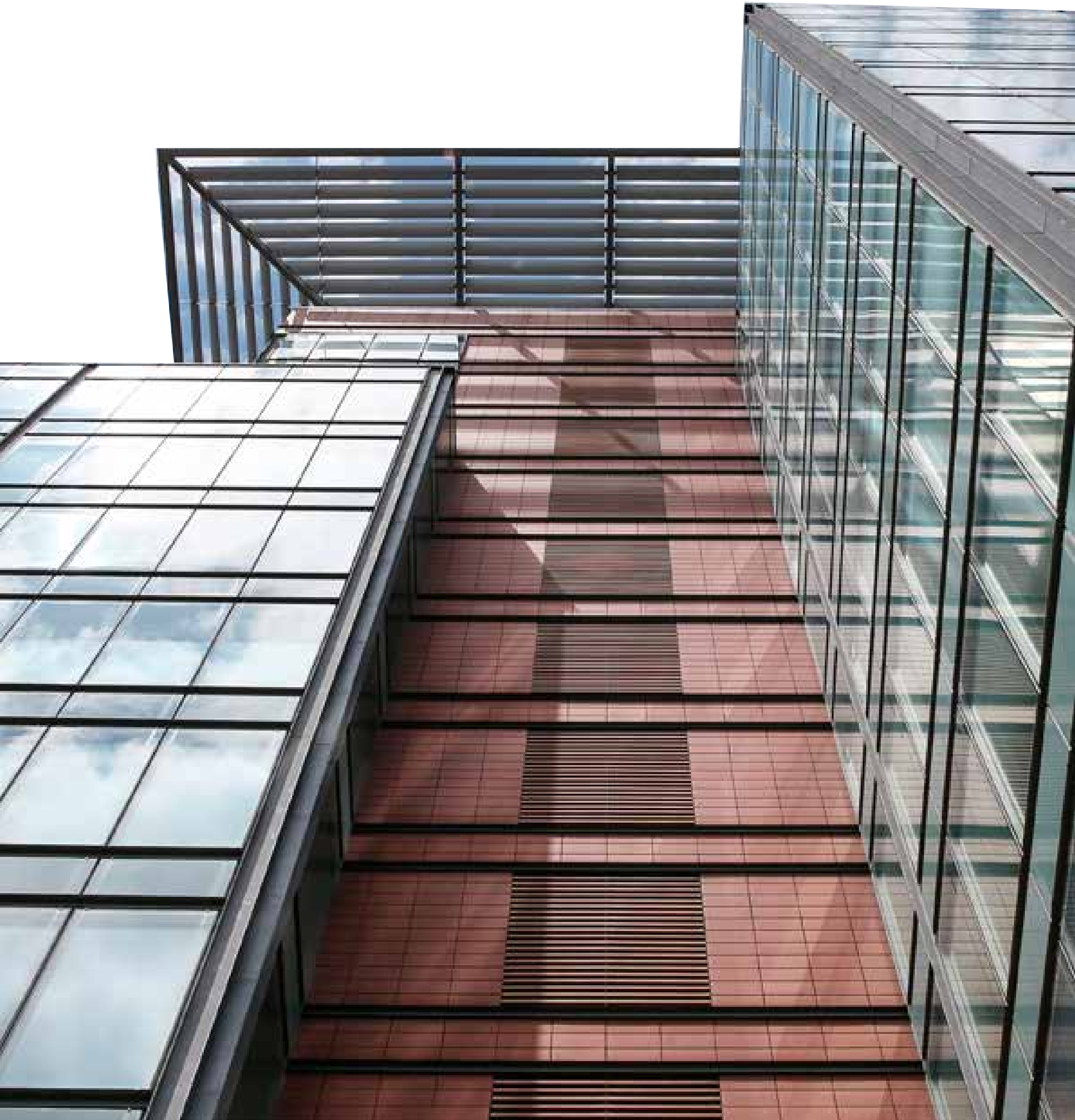


POST CLOSING

- On January 17, MERLIN completed the **acquisition of the Art and TFM buildings in Lisbon.** The assets, located in Dom Joao II, the main avenue in Parque das Nações, comprise 29,985 sqm of gross lettable area, featuring grade A specifications and 3 meters floor-to-ceiling height. The acquisition price amounts to € 112.2 million representing a 5.4% gross yield over the passing € 6.1m gross rents, with strong reversionary potential delivering an **ERV yield of 6.2%**
- In February, MERLIN has signed the **renewal of Tecnicas Reunidas** in Adequa, totalling **43,515 sqm.** The contract has been renewed until 2022, at the same rent

02

ORGANIZATION AND STRUCTURE



Organization and structure

Strategy

MERLIN Properties Socimi, S.A. ("MERLIN", "MERLIN Properties" or the "Company") is a company devoted to delivering sustainable return to shareholders through the acquisition, active management and selective rotation of high quality commercial real estate assets in the "Core" and "Core plus" segments.

1. CORE & CORE PLUS SPAIN & PORTUGAL

2. INVESTMENT GRADE CAPITAL STRUCTURE

3. DIVIDEND POLICY: 80% OF AFFO

4. ONE OF THE WORLD'S MOST COST EFFICIENT REIT'S

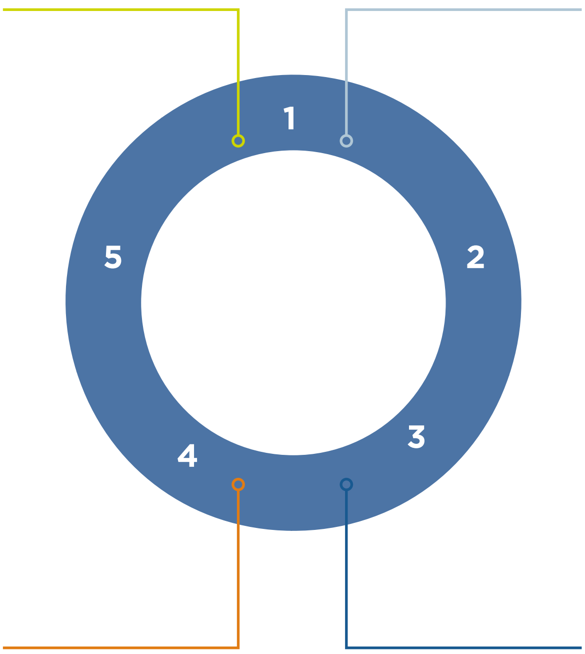
5. BEST GOVERNANCE PRACTICES

40%

Offices
Breadth of prime space Madrid, Barcelona and Lisbon

20%

Shopping Centers
Urban or Dominant National scale



20%

Logistics
National footprint "One-stop shop" solution for 3PL

20%

High Street Retail
High triple net cash flow Inflation multiplier

Positioning



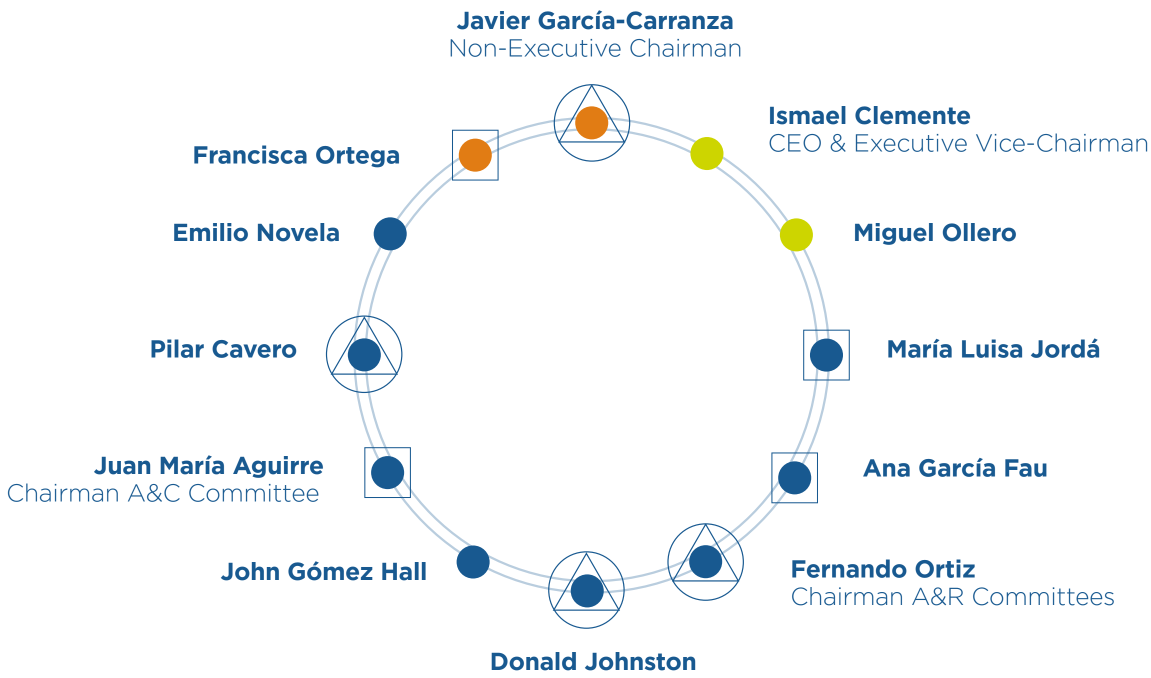

	#1 Offices	#1 Shopping Centers	#1 Logistics	#1 High Street retail
	• Flexibility to offer multitenant or headquarter buildings • Capacity to adapt to the needs of the tenant	• Mainly urban footprint in high GDP/ capita areas in Spain • Critical mass with retail brands	• "One-stop-shop" solution for logistics operators wishing to operate across Spain • Big footprint to match the rapid development of 3PL activity	• Excellent conditions of BBVA lease agreement triple net lease with 1.5x HICP annual uplift • Optimization of retail space in office buildings
Full Consolidation[1]	Existing **140** ASSETS **1,272K** SQM **€ 5,513M** GAV **€ 226M** GRI	**18** ASSETS **549K** SQM **€ 2,265M** GAV **€ 116M** GRI	Existing **46** ASSETS **1,101K** SQM **€ 830M** GAV **€ 51M** GRI WIP **8** PROJECTS **493K** SQM **€ 267M** GAV[3] **€ 21M** GRI[3]	**760** ASSETS **396K** SQM **€ 2,220M** GAV **€ 95M** GRI
Equity method[2]		**Tres Aguas 50%** **1** ASSET **67K** SQM **€ 9M** GRI	**Zal Port 48.5%** **50** ASSETS **469K** SQM (+251K SQM WIP) **€ 32M** GRI[4]	

[1] Not including other and non-core land
[2] Data for minority stakes are reported for 100% of the subsidiary
[3] Total expected investment and gross rent
[4] Gross annual rent as of 31/12/18, deducting ground lease expenses

Composition

The internal management organization structure can be summarized as follows:

- Board of Directors: consisting of twelve directors, advised by the Audit and Control Committee, the Appointments Committee and the Remuneration Committee.
- Chief Executive Officer: reporting directly to the Board of Directors and forming part of it.
- Investment Committee: reporting to the CEO and consisting of the executive team, with a right of veto by the Chief Investment Officer.



- Independent Directors
- Executive Director
- Proprietary Director

- Audit and Control Committee
- Appointments Committee
- Remuneration Committee

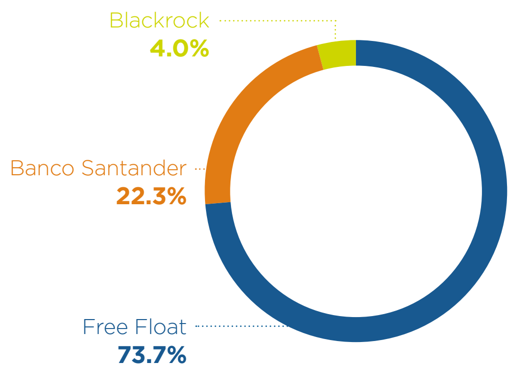
Mónica Martín de Vidales
Secretary

Ildefonso Polo del Mármol
Vice-Secretary

Capital structure key data

Number of ordinary shares	**469,770,750**
Number of weighted shares	**467,812,182**
Total equity (€m)	**6,402**
GAV (€m)	**12,041**
Net debt (€m)	**4,902**
Net debt / GAV	**40.7%**

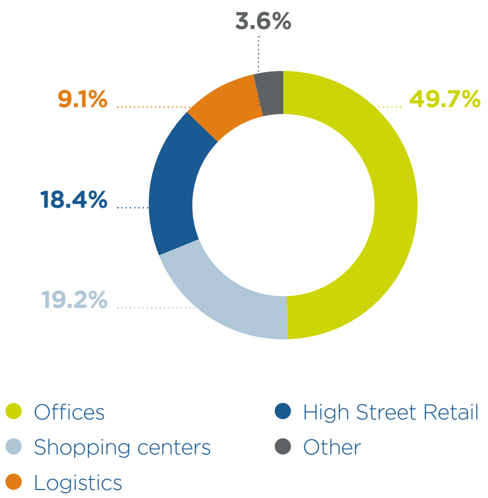
Data as of 26 February 2019, according to the communications made to the CNMV



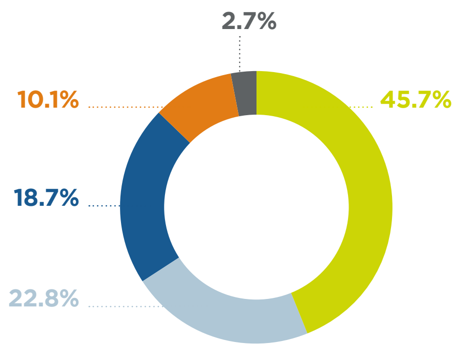
03

BUSINESS PERFORMANCE

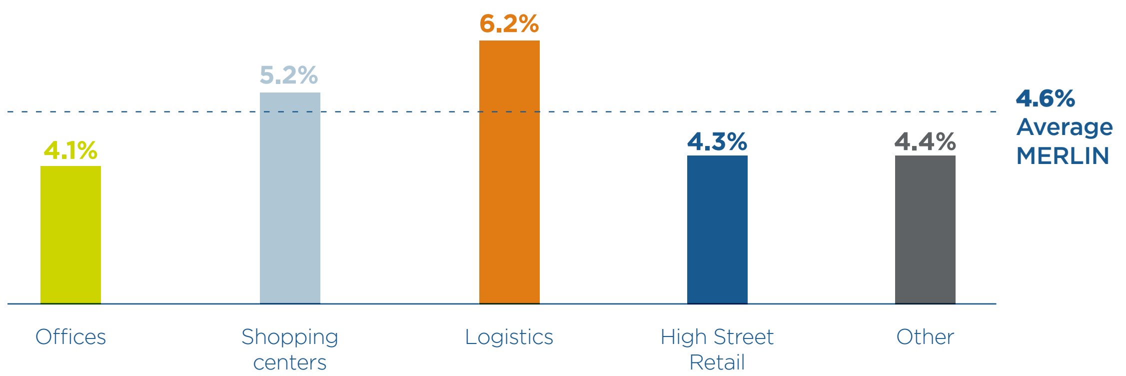
GAV PER ASSET CLASS[1]



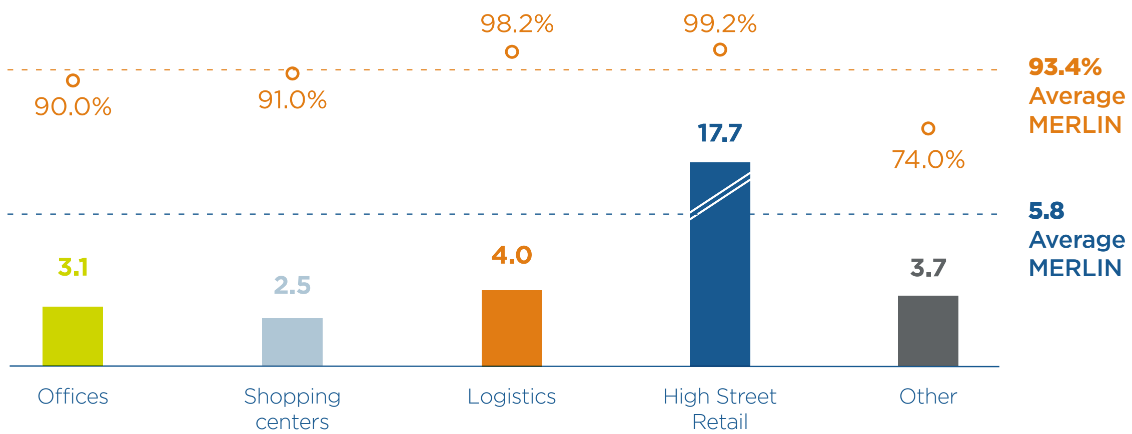
GROSS RENTS PER ASSET CLASS[2]



GROSS YIELD PER ASSET CLASS



OCCUPANCY AND WAULT (YEARS) PER ASSET CLASS



[1] GAV of land under development and NAV of equity method included in its respective category (offices, shopping centers and logistics)
[2] Gross annualized rent on full consolidated assets

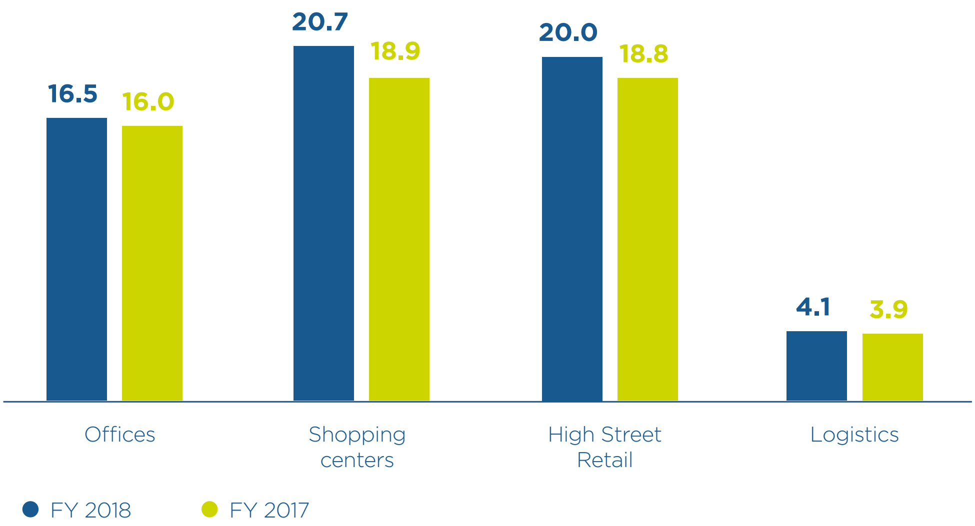
RENTS

Gross rents in the period amount to € 499,708 thousand with respect to € 469,405 thousand in FY17.

GROSS RENTS BREAKDOWN

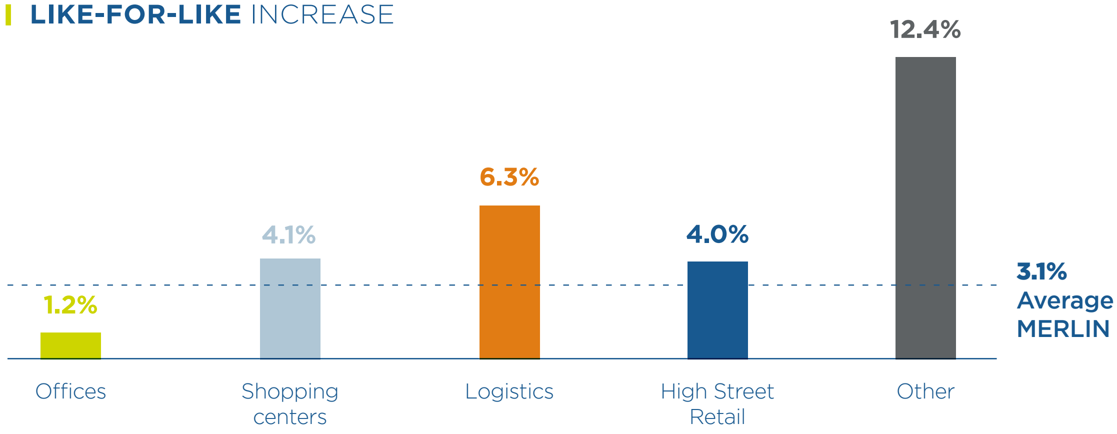
	FY18	FY17	YoY (%)
Offices	224,395	217,473	3.2%
Shopping centers	103,553	92,820	11.6%
Logistics	50,327	41,283	21.9%
High street retail	106,651	104,119	2.4%
Other	14,781	13,709	7.8%
Total	**499,708**	**469,405**	**6.5%**

AVERAGE PASSING RENT (€/SQM/MONTH)



Gross rents have increased by 3.1% on a like-for-like basis. Per asset category the like-for-like evolution is shown below:

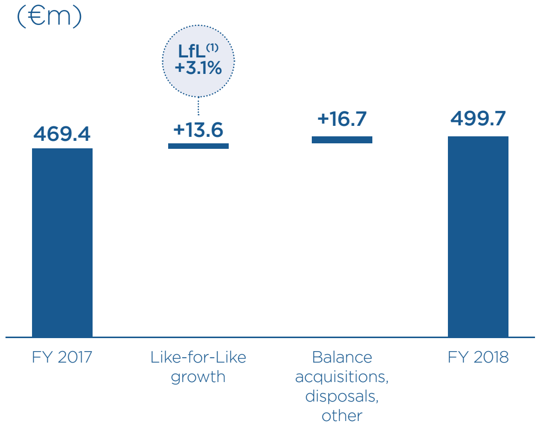
LIKE-FOR-LIKE INCREASE



Bridge of FY17 gross rents to FY18, for MERLIN and by asset category:

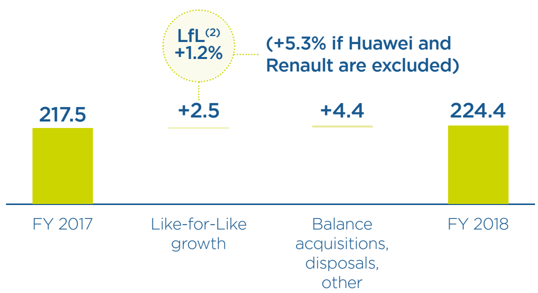
MERLIN

(€m)



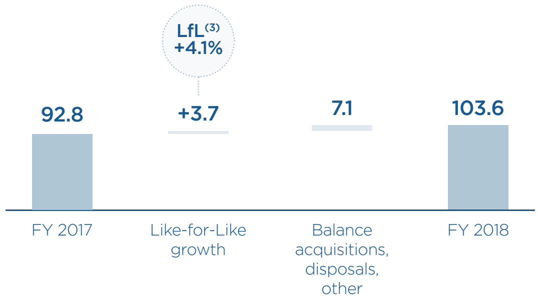
Offices

(€m)



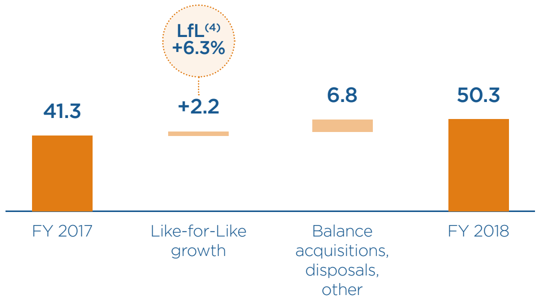
Shopping centers

(€m)



Logistics

(€m)



(1) Portfolio in operation for FY17 (€443.4m of GRI) and for FY18 (€ 457.0m of GRI)
(2) Office portfolio in operation for FY17 (€ 215.8m of GRI) and for FY18 (€ 218.3m of GRI)
(3) Shopping centers portfolio in operation for FY17 (€ 89.2m of GRI) and for FY18 (€ 92.9m of GRI)
(4) Logistics portfolio in operation for FY17 (€ 35.1m of GRI) and for FY18 (€ 37.3m of GRI)

OCCUPANCY

Stock G.L.A. in operations of MERLIN as of 31 December 2018 amounts to 3,379,177 sqm. Stock G.L.A. in operations as of 31 December 2017 amounted to 3,246,491 sqm, resulting in a net increase of the stock during the period of 132,686 sqm.

Occupancy rate as of 31 December 2018 is 93.4%[1].

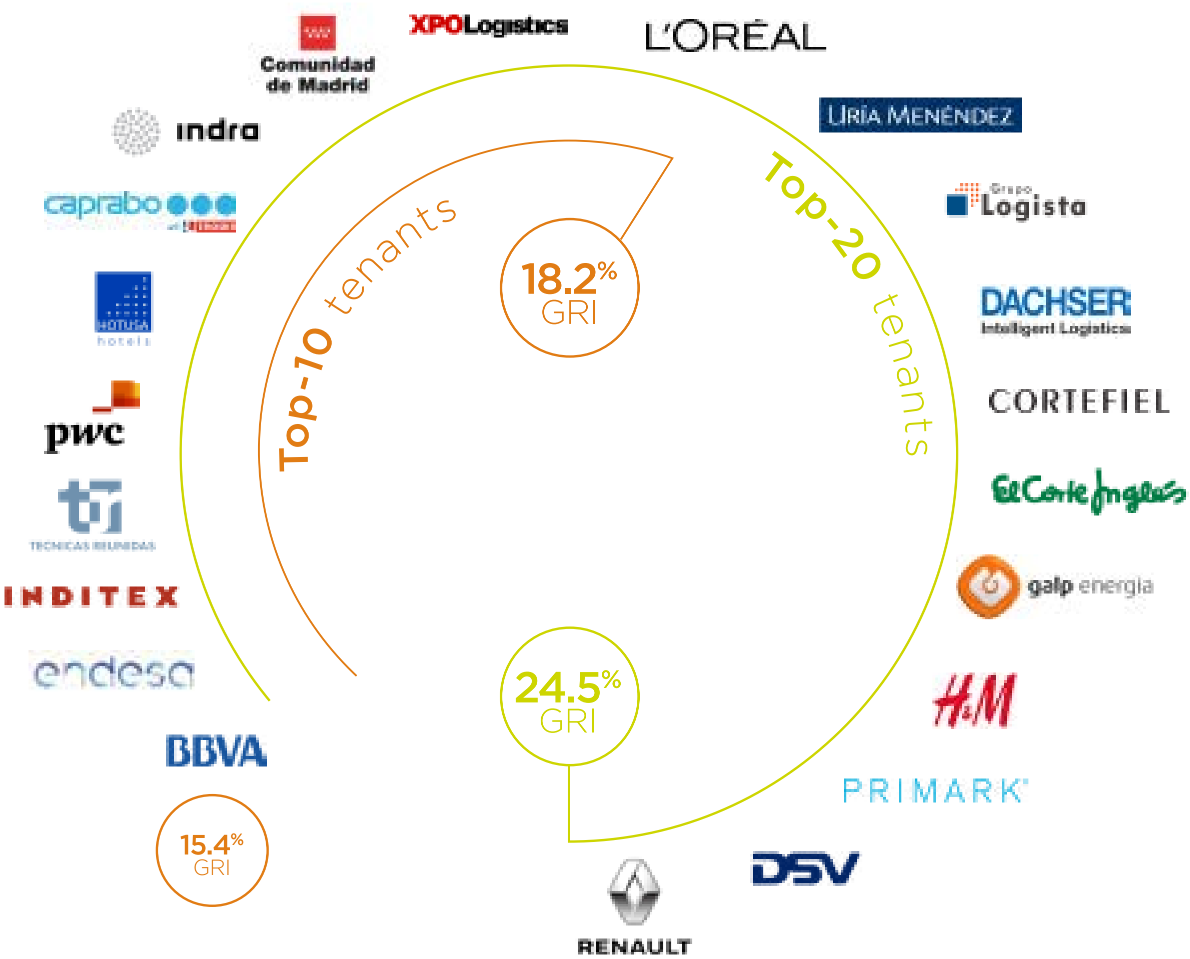
	31/12/2018	31/12/2017	Change YoY Bps
Offices[1]			
Total G.L.A. (sqm)	1,272,032	1,267,344	
G.L.A. occupied (sqm)	1,144,983	1,118,106	
Occupancy rate (%)[1]	90.0%	88.2%	+179
Shopping centers			
Total G.L.A. (sqm)[2]	501,537	440,880	
G.L.A. occupied (sqm)	444,620	379,398	
Occupancy rate (%)[3]	91.0%	89.4%	+164
Logistics			
Total G.L.A. (sqm)	1,101,243	960,825	
G.L.A. occupied (sqm)	1,081,808	946,448	
Occupancy rate (%)	98.2%	98.5%	(27)
High Street retail			
Total G.L.A. (sqm)	395,791	459,981	
G.L.A. occupied (sqm)	392,578	457,264	
Occupancy rate (%)	99.2%	99.4%	(22)
Other[4]			
Total G.L.A. (sqm)	108,574	117,462	
G.L.A. occupied (sqm)	80,378	90,099	
Occupancy rate (%)	74.0%	76.7%	(267)
MERLIN			
Total G.L.A. (sqm)	**3,379,177**	**3,246,491**	
G.L.A. occupied (sqm)	**3,144,368**	**2,991,316**	
Occupancy rate (%)[1]	**93.4%**	**92.6%**	**+80**

(1) Excluding assets being or to be developed (Torre Chamartin, Torre Glòries, Adequa 2, 4, 7 and Costa Brava 6-8)
(2) Excluding X-Madrid currently under development
(3) Excluding vacant units acquired (13,026 sqm) currently being refurbished
(4) Including an asset under property, plant and equipment

TENANTS

MERLIN enjoys a high quality tenant base, broadly diversified. Top 10 tenants represent a 18.2% of the gross annualized rents (plus an additional 15.4% from BBVA), while top 20 tenants represent a 24.5% of gross annualized rents (excluding BBVA).

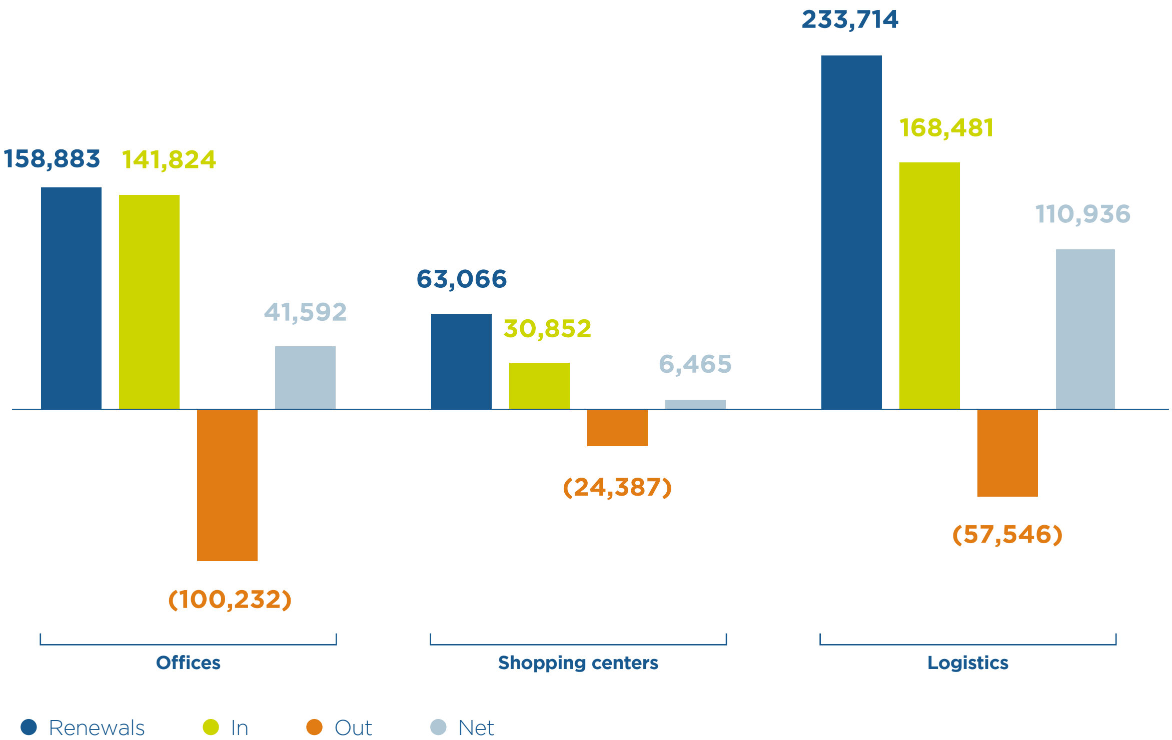
Tenant	Years as tenant
BBVA	10
Endesa	16
Inditex	28
Técnicas Reunidas	13
PWC	9
Hotusa	18
Caprabo	27
Indra	17
Comunidad de Madrid	17
XPO Logistics	9



LEASING ACTIVITY

Since the beginning of 2018, or since the acquisition date for the assets acquired during the year, until 31 December 2018, MERLIN has signed lease agreements amounting to 796,821 sqm, out of which 341,157 sqm corresponds to new leases and 455,664 sqm to renewals.

The total of contracts with break option in the period amounts to 843,912 sqm, of which 661,748 have been renovated or released (including 206,085 sqm of roll-overs), therefore the retention ratio in the period amounts to 78.4%. The breakdown per asset category is as follows:



OFFICES

Total take-up amounts to 300,707 sqm out of which 141,824 sqm correspond to new contracts (including contracts signed in Torre Glòries and Torre Chamartin, still not forming part of the inventory) and 158,883 sqm to renewals.

Exits amounted to 100,232 sqm, and therefore the net take up is positive by 41,593 sqm. Main contracts signed in 2018 are the following:

Asset	Tenant	G.L.A. (sqm)
Trianon	Intecsa	14,249
PE Poble Nou 22@	Schneider	11,007
Alcalá 40	Government of Spain	9,315
Torre Glòries	Facebook (CCC)	9,135
Torre Glòries	Oracle	3,385
PE San Chinarro	Técnicas Reunidas	8,595
Torre Chamartin	Deloitte	6,046
Avda Burgos 210	Allfunds Bank	6,176
Partenon 12-14	Publicis	5,356
Atica	Phone House	5,243
Muntadas I	Madia Markt	8,494
Central Office	Sitel	3,456

The release spread achieved in the contracts renewed or relet in the period amount to 6.5%, mainly driven by the excellent performance of our core markets, Madrid, Barcelona and Lisbon.

	Release spread	# contracts
Madrid	4.3%	135
Barcelona	14.1%	54
Lisbon	7.4%	24
Total	**6.5%**	**213**

SHOPPING CENTERS

Total take-up amounts to 93,918 sqm out of which 30,852 sqm correspond to new contracts and 63,067 sqm renewals.

Exits amounted to 24,387 sqm, and therefore the net take-up is 6,465 sqm. Main new contracts signed are the following:

Asset	Tenant	G.L.A. (sqm)
Larios	Zara	4,425
Porto Pi	Zara	3,761
Artea	Yelmo	3,693
La Fira	H&M	3,110
Thader	Ozone	2,420
Vilamarina	Mercadona	2,597
Arenas	FNAC	2,051
Larios	Worten	1,349
Marineda	Lefties	1,264
Arenas	Musealia	1,533

The release spread achieved in the contracts renewed or relet in the period amount to 3.5%. Top performers in the period have been Larios and Vilamarina.

LOGISTICS

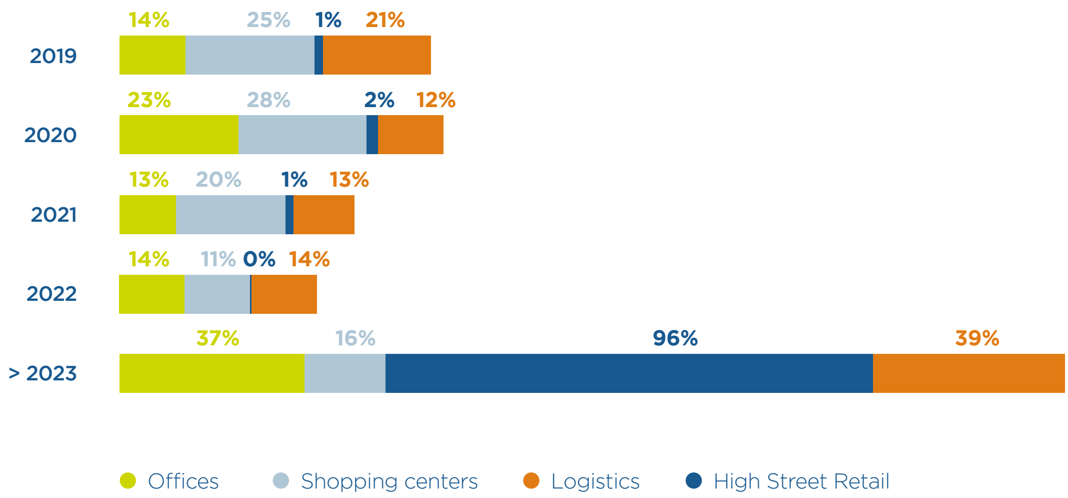
Total take-up amounts to 402,196 sqm out of which 168,481 sqm correspond to new contracts and 233,714 sqm to renewals.

Exits amounted to 57,546 sqm, and therefore the net take up is positive by 110,936 sqm. Main contracts signed in 2018 are the following:

Asset	Tenant	G.L.A. (sqm)
Madrid-Meco II	Leroy Merlin	59,814
Barcelona-Lliça del Vall	Reckitt Benckiser	14,911
Madrid-San Fernando I	GLS	11,179
Madrid-Coslada Complex	UPS	7,171
Barcelona-PLZF	Molenbergnatie	6,859
Sevilla-ZAL	Rhenus Logística	4,320
Madrid-Coslada complex	Pikolin	2,850

The release spread achieved in the contracts renewed or relet in the period amount to 9.2%, driven by an excellent performance in all markets.

	Release spread	# contracts
Madrid	8.0%	13
Barcelona	12.2%	10
Other	8.3%	12
Total	**9.2%**	**35**



04

ACQUISITIONS, REFURBISHMENTS AND DEVELOPMENTS

Acquisitions, refurbishments and **developments**

2018 has been an intense year in extracting value from the portfolio of assets. The activity has been focused in expanding the exposure in Portugal, the growth of the logistics footprint propelled by the WIP program in place (Best II) and the implementation of the Landmark and Flagship refurbishment programs.

	Offices	Retail	Logistics	€ million
Acquisitions[1]	Endesa leasings Zen Tower Costa Brava 6-8	Almada Porto Pi unit	Vitoria-Jundiz II Guadalajara-Cabanillas II	569.5
Development & WIP	Torre Chamartin Torre Glòries	X-Madrid	Madrid-Getafe (Gavilanes) Madrid-San Fernando I Madrid-Meco II Guadalajara-Cabanillas III Toledo-Seseña Guadalajara-Cabanillas Park I F Sevilla Zal I	88.7
Refurbishment	Balmes Adequa 1 Juan Esplandiu Princesa 5 Eucalipto 33	Larios Arturo Soria Porto Pi		27.4
Like-for-like portfolio (Defensive Capex)[2]				19.5
TOTAL				**705.2**

[1] Excluding the acquisition of 10% of PLZF shares (€ 10.9m) to own 100% of the subsidiary. The acquisitions of Madrid-Getafe (Gavilanes) and Madrid-San Fernando I have been reclassified to Development and WIP
[2] € 16.4m capitalized in balance sheet and € 3.1m expensed in P&L

ACQUISITIONS

OFFICE

Acquisition of Zen Tower

On 17 April, MERLIN completed the acquisition of ZEN Tower. The asset, located in Dom Joao II, the main avenue in Parque das Nações in Lisbon, comprises 10,207 sqm of lettable area in 13 floors plus 5 floors for parking (331 spaces). With a unique glass curtain wall design, the property features raised floors, two terraces and excellent views over the river Tagus. The asset is 100% let to best-in-class companies such as Danone, Avigilon (Motorola Solutions) and the global engineering company Subsea7.

The acquisition price amounts to € 33.2 million representing a 6.4% gross yield over € 2.1 million of gross rents.

	ZEN TOWER
Acquisition Price (€ thousand)	33,206
Asset debt outstanding as of the date of purchase (€ thousand)	-
Equity disbursement (€ thousand)	33,206
% Debt to acquisition Price of the asset	0%
Annualized gross rent 2018 (€ thousand)	2,119
Gross yield[1]	6.4%
Total G.L.A. (sqm)	**10,207**

[1] Calculated as Annualized gross rent divided by acquisition price

SHOPPING CENTERS

Acquisition of Almada

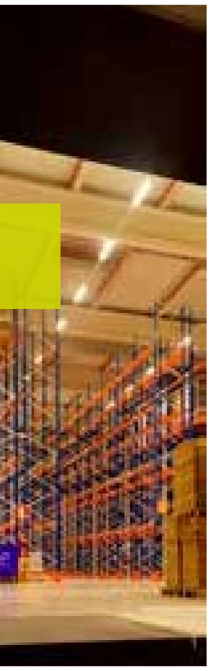
On 20 July, MERLIN completed the acquisition of Almada shopping center in Lisbon. Almada is the undisputed dominant shopping and leisure destination in the south bank of the Tagus river, receiving more than 14.4 million visitors per annum. The popularity of the complex in terms of visitors goes hand in hand with its commercial success, currently nearing full occupancy (98% of GLA let). Due to its excellent connections to the centre of Lisbon, to the A-2 motorway connecting Lisbon to the southern regions of Portugal and to the IC20 connecting Lisbon to the popular beaches of Costa da Caparica, the catchment area covers a population of almost 2.8 million people.

This dominant shopping centre features an attractive and superbly balanced retail mix which includes prestigious operators such as Inditex Group's brands, Primark, H&M, C&A, SportZone, FNAC and NOS Cinemas.

With annual gross rents of € 24 million, the asset offers potential for future rental growth through improvements in the management, variable rents and focused capex on selected areas.

The acquisition price amounts to € 406.7 million representing a 5.9% gross yield over € 24.0 million of gross rents.

	ALMADA
Acquisition Price (€ thousand)	406,651
Asset debt outstanding as of the date of purchase (€ thousand)	-
Equity disbursement (€ thousand)	406,651
% Debt to acquisition Price of the asset	0%
Annualized gross rent 2018 (€ thousand)	24,000
Gross yield	5.9%
Total G.L.A. (sqm)	**60,049**



LOGISTICS

Acquisition of Vitoria-Jundiz II & Guadalajara-Cabanillas II

Portfolio of 3 assets totaling 41,852 sqm of GLA, including:

- 2 warehouses totalling 26,774 sqm located in Júndiz (Vitoria), the main logistics hub in the region. The warehouses are fully let to DHL, under a procurement contract with Mercedes-Benz.
- 1 warehouse with 15,078 sqm located in Cabanillas (Guadalajara), one of the fastest growing area within the Corredor de Henares logistics axis. The asset is fully let to Jaguar Land Rover.

	VITORIA-JUNDIZ II GUADALAJARA-CABANILLAS II
Acquisition Price of the asset[1] (€ thousand)	20,900
Asset debt outstanding as of the date of purchase (€ thousand)	-
Equity disbursement (€ thousand)	20,900
Estimated Capex (€ thousand)	0%
Annualized gross rent 2018 (€ thousand)	1,400
Gross yield	6.9%
Total G.L.A. (sqm)	**41,852**

[1] Excluding transaction costs

Acquisition of Guadalajara-Cabanillas III

Land plot located in Guadalajara-Cabanillas for the construction of a ready-to-build 21,544 sqm logistics facility. The warehouse will feature 2 modules and will be suitable for 3PL operators, including 23 loading docks and 10m clear height. Cabanillas is located in the third logistics ring of Madrid (50 kms. From city center), which covers cross-national activity. The plot is located close to MERLIN Cabanillas I asset (let to Logista) and enjoys excellent access to the N-320 road connecting the A-2 to the R-2.

	CABANILLAS III
G.L.A. (sqm)	21,544
Acquisition price[1] (€ thousand)	4,240
Estimated Capex (€ thousand)	7,524
Total cost (€ thousand)	**11,764**
ERV (€ thousand)	869
ERV yield[2]	7.4%
Delivery date	**4Q 2019**

[1] Excluding transaction costs
[2] Calculated as ERV divided by acquisition price plus estimated Capex

Acquisition of Toledo-Seseña

Land plot for the development of a 28,541 sqm warehouse in the A-4 corridor, in an area with a clear deficit of modern logistics space suitable for 3PL operators.

The plot is located 36 kms from Madrid city centre, in Toledo-Seseña, in a very convenient location for the distribution of goods from Madrid to the south of Spain.

	TOLEDO-SESEÑA
G.L.A. (sqm)	28,541
Acquisition price[1] (€ thousand)	3,979
Estimated Capex (€ thousand)	11,251
Total cost (€ thousand)	**15,230**
ERV (€ thousand)	1,159
ERV yield[2]	7.6%
Delivery date	**3Q 2019**

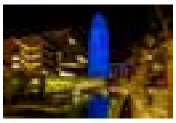
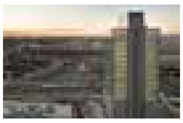
[1] Excluding transaction costs
[2] Calculated as ERV divided by acquisition price plus estimated Capex

REFURBISHMENTS AND DEVELOPMENTS

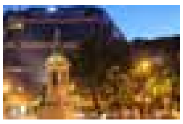
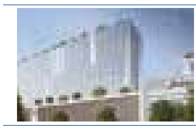
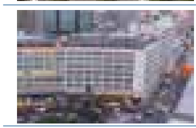
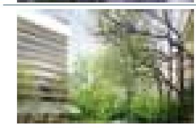
LANDMARK I PLAN (OFFICE)

WIP

2018 planned works executed on time and budget. Increased scope of works in (i) Glòries now includes amenities & flex space plus the observatorium, (ii) Torre Chamartin now includes a new parking plus the works to connect directly with the A-1

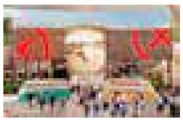
		GLA (sqm)	Scope	Acquisition	Capex	% executed	Delivery
	**Torre Glòries**	37,614	Development	€ 142m	€ 27m	Phase I 100% Phase II 10% Observatorium	Q3-18 Q2-19 Q2-20
	**Torre Chamartín**	18,295	Development	€ 31m	€ 38m	Phase I 100% Phase II 36%	Q2-18 Q3-19

LANDMARK PLAN I (ON-GOING)

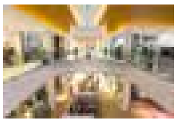
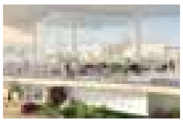
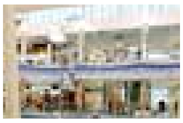
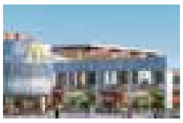
		GLA (sqm)	Scope	Budget
	**Monumental**	22,387	Full refurb (incl. SC)	€ 28.9m
	**Castellana 85**	15,254	Full refurb	€ 25.2m
	**Marqués de Pombal**	12,460	Lobby + common areas + exterior terrace	€ 1.6m
	**Diagonal 605**	14,795	Double height lobby + common areas + new retail space	€ 8.6m

FLAGSHIP PLAN (SHOPPING CENTRES)

WIP

		Scope	Budget	% executed	GLA (sqm)	Delivery
	X-Madrid	Full revamp	€ 35.2m	28%	47,424	Q3-19

FLAGSHIP PLAN[1]

		Scope	Budget	GLA (sqm)	Delivery
	Arturo Soria	Façade, accesses, installations, terraces, floors. Increased scope: parking	€ 5.4m	6,959	Q3-19 Phase II
	Larios	Full refurb	€ 28.1m	45,076	Q2-19
	Tres Aguas	Common areas, exterior plaza, restaurants area	€ 20.2m	67,690	Q4-19
	El Saler	Increased scope: full refurb	€ 25.1m	47,013	Q2-20
	Porto Pi	Full refurb	€ 21.1m	58,779	Q1-21

BEST II PLAN (LOGISTICS)

MERLIN continues expanding its logistics footprint trough the developments / WIP program in logistics. As of 31 December 2018, main assets under Best II Plan are the following:

	GLA (sqm)	ERV (€m)	Investment (€m)	ERV YoC
Madrid-Pinto II B	29,473	1.2	13.7	8.5%
Madrid-San Fernando II	34,244	1.9	21.6	8.9%
Guadalajara-Azuqueca II	98,000	4.5	51.2	8.7%
Guadalajara-Azuqueca III	51,000	2.3	30.1	7.5%
Guadalajara-Cabanillas Park I F	19,750	0.8	10.7	7.6%
Guadalajara-Cabanillas Park II	210,678	8.5	112.4	7.5%
Guadalajara-Cabanillas III	21,544	0.9	11.8	7.4%
Toledo-Seseña	28,541	1.2	15.2	7.6%
Total	**493,210**	**21.1**	**266.6**	**7.9%**

[1] GLA and Capex budget for shopping centers refurbishments include 100% of the asset, regardless of the stake owned by MERLIN in the owners' community

05 PORTFOLIO VALUATION

Portfolio valuation

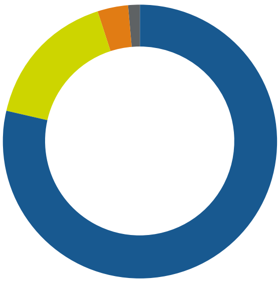
MERLIN portfolio has been appraised by CBRE and Savills, for a total GAV of € 12,041 million. GAV breakdown is the following:

	GAV	LfL Growth	Gross yield	Yield compression
Offices	5,513	+6.7%	4.1%	(5) bps
Shopping centers	2,265	+2.3%	5.2%	(8) bps
Logistics	830	+12.4%	6.2%	(50) bps
High street retail	2,220	+5.7%	4.3%	(9) bps
WIP & Land	589	n.a.	n.a.	
Other	422	+3.4%	4.4%	(2) bps
Equity method	201	+11.2%	n.a.	
Total	**12,041**	**+6.1%**	**4.6%**	**(9) bps**

A broader analysis of the asset portfolio by valuation in the different categories is shown below:

OFFICES (BY GAV)

By geography



- Madrid **77%**
- Barcelona **16%**
- Lisbon **6%**
- Other Spain **1%**

By location

- Prime + CBD **39%**
- NBA **49%**
- Periphery **12%**

By product

- Multi tenant **66%**
- Single tenant **34%**

SHOPPING CENTERS (BY GAV)

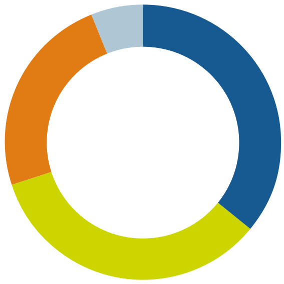
By geography

- Lisbon **21%**
- Madrid **15%**
- Catalonia **14%**
- Galicia **14%**
- Valencia **11%**
- Andalusia **7%**
- Other **18%**

By type

- Urban **51%**
- Dominant **34%**
- Secondary **15%**

By size



- Large **36%**
- Extra-large **34%**
- Medium **24%**
- Small **6%**

LOGISTICS (BY GAV)

By geography

- Madrid **56%**
- Catalonia **29%**
- Seville **6%**
- Basque Country **5%**
- Other **4%**

By reach

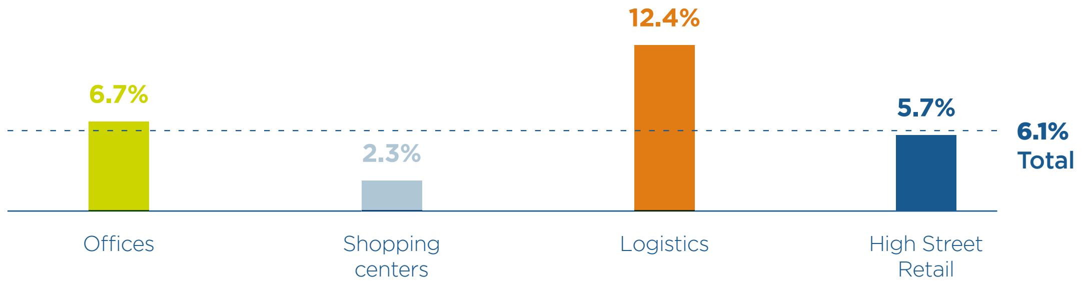
- National **39%**
- Ports **31%**
- Regional **25%**
- Production related **5%**

By tenant type

- 3PL mono-client **48%**
- 3PL multi-client **32%**
- End user **20%**

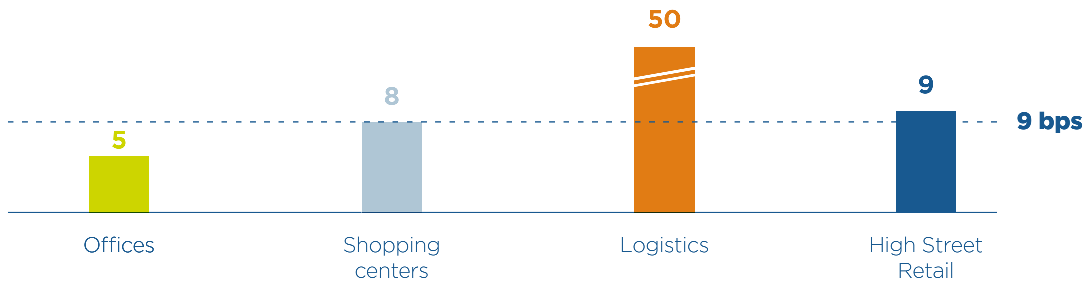
GAV EVOLUTION

GAV has increased by € 787 million, raising from a GAV of € 11,254 million as of 31 December 2017 to € 12,041 million. The like-for-like increase of GAV from 31 December 2017 is +6.1%.



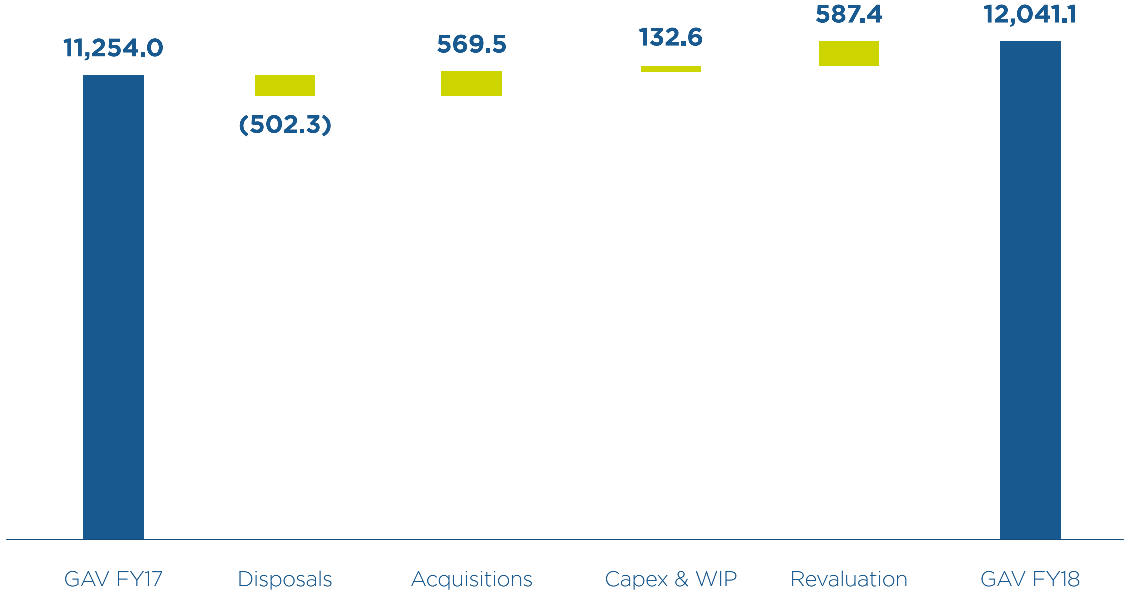
YIELD COMPRESSION

Yields have compressed by 9 bps since December 2017.



GAV BRIDGE

(€ millions)



06

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

(€ thousand)	31/12/18	31/12/17
Gross rents	**499,708**	**469,405**
Offices	224,395	217,473
Shopping centres	103,553	92,820
Logistics	50,327	41,283
High street retail	106,651	104,119
Other	14,781	13,709
Other income	**9,800**	**14,932**
Total revenues	**509,508**	**484,337**
Incentives	(24,062)	(16,754)
Collection loss	(424)	(1,851)
Total operating expenses	**(129,790)**	**(121,901)**
Propex	(41,748)	(35,564)
Personnel expenses	(30,408)	(27,780)
Opex general expenses	(9,181)	(9,767)
Opex non-overheads	(5,018)	(4,951)
LTIP Provision	(43,435)	(43,839)
EBITDA	**355,232**	**343,831**
Depreciation	(1,572)	(10,379)
Gain / (losses) on disposal of assets	6,815	236
Provision surpluses	13,554	(3,791)
Absorption of the revaluation of investment property	-	(9,839)
Change in fair value of investment property	629,184	897,401
Negative difference on business combination	(20,523)	(1,775)
EBIT	**982,690**	**1,215,684**
Net interest expense	(119,298)	(108,374)
Debt amortization costs	4,306	(13,700)
Gain / (losses) on disposal of financial instruments	4,198	1,050
Change in fair value of financial instruments	(80,750)	2,576
Share in earnings of equity method investees	46,610	16,233
Testa Residencial cancellation	53,027	
Aedas service fee	22,242	
PROFIT BEFORE TAX	**913,025**	**1,113,469**
Income taxes	(58,146)	(12,941)
PROFIT (LOSS) FOR THE PERIOD	**854,879**	**1,100,528**
Minorities	-	110
PROFIT (LOSS) FOR THE PERIOD ATTRIBUTABLE	**854,879**	**1,100,418**

NOTES TO THE CONSOLIDATED INCOME STATEMENT

Gross rents (€ 499,708 thousand) less incentives and collection loss (€ 24,486 thousand) equals to gross rents net of incentives and collection loss of € 475,222 thousand. After deducting portfolio operating expenses not rechargeable to tenants (€ 41,748 thousand) the resulting amount is € 433,474 thousand of net rents.

The total amount of operating expenses of the Company in the period is € 88,042 thousand, with the following breakdown:

i. € 30,408 thousand correspond to personnel expenses.

ii. € 9,181 of general expenses.

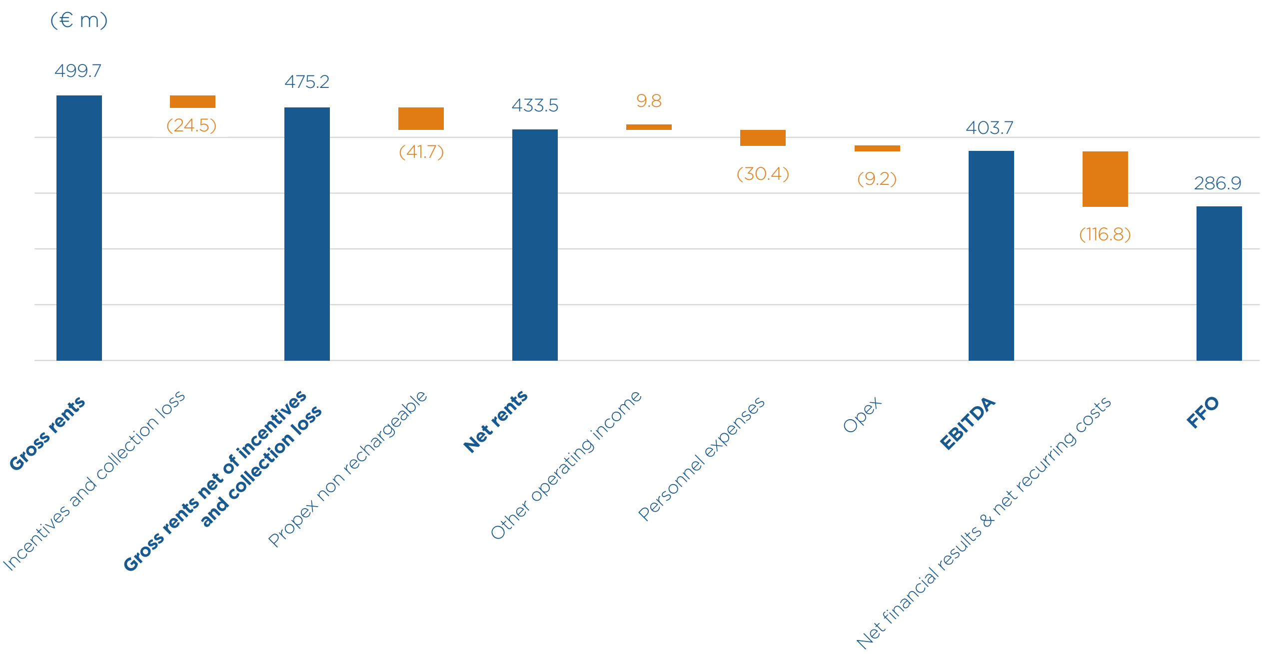
iii. € 43,435 thousand corresponding to the long-term incentive plan (LTIP) accrued: (i) 25% of the 2016 incentive awarded in 2016 (€ 15,738 thousand), and (ii) a total provision of € 27,697 thousand for the 2017-2019 incentive plan. This amount as per the Spanish GAAP is booked under personnel expenses too.

iv. € 5,018 thousand of non-overheads operating expenses. They correspond mainly to expenses for bonds, expenses for the acquisition of Portuguese companies and Tree branches disposals ancillary expenses.

The sum of the personnel expenses (excluding the amount accrued for the LTIP) and the operating expenses of the Company (excluding non-overheads) are within the threshold of overheads of the Company, prevailing this period the 0.575% of the EPRA NAV of the Company.

Extraordinary net gain arising from the early cancellation of Testa Residencial service level agreement (€ 53,027 thousand) is the result of a penalty of € 89,721 thousand partially offset by the impairment of the equity value in Testa (€ 36,694 thousand). Aedas service fee correspond to a one-off fee received for the services rendered for the setup and assistance to the company prior to its IPO (€ 22,242 thousand).

The reconciliation between gross rents of the period and FFO is as follows:



CONSOLIDATED BALANCE SHEET

(€ thousand)

ASSETS	31/12/18	EQUITY AND LIABILITIES	31/12/18
NON CURRENT ASSETS	**12,214,465**	**EQUITY**	**6,401,836**
Intangible assets	941	Subscribed capital	469,771
Property, plant and equipment	3,267	Share premium	3,858,624
Investment property	11,740,461	Reserves	1,416,773
Investments in group companies	625	Treasury stock	(68,322)
Investments accounted for using the equity method	169,133	Other equity holder contributions	540
Non-current financial assets	211,623	Interim dividend	(93,522)
Deferred tax assets	88,415	Profit for the period	854,878
		Valuation adjustments	(36,906)
		Minorities	-
		NON CURRENT LIABILITIES	**5,994,309**
		Long term debt	5,271,305
		Long term provisions	56,441
		Deferred tax liabilities	666,563
CURRENT ASSETS	**358,232**	**CURRENT LIABILITIES**	**176,552**
Trade and other receivables	168,767	Short term debt	82,984
Short term investments in group companies and associates	1,141	Short term provisions	867
Short term financial assets	7,747	Trade and other payables	85,419
Cash and cash equivalents	169,025	Accruals and deferreals	7,282
Accruals and deferrals	11,552		
TOTAL ASSETS	**12,572,697**	**TOTAL EQUITY AND LIABILITIES**	**12,572,697**

NOTES TO THE CONSOLIDATED BALANCE SHEET

Fair value of the portfolio corresponds to the appraisal value delivered by CBRE and Savills as of 31 December 2018, It is important to note that in accordance with accounting regulations the increase of value in equity method is not reflected in the financial statements. The referred appraisal value is reflected in the following accounting Items:

€ million	
Investment property	11,740.5
Derivatives (in non-current financial assets)	123.1
Equity method	169.1
Non-current assets	0.9
Total balance sheet items	**12.033.6**
IFRS-16 (concessions)	(24.3)
Equity method adjustment	31.5
Non-current assets adjustment	0.3
Total valuation	**12,041.1**

FINANCIAL DEBT

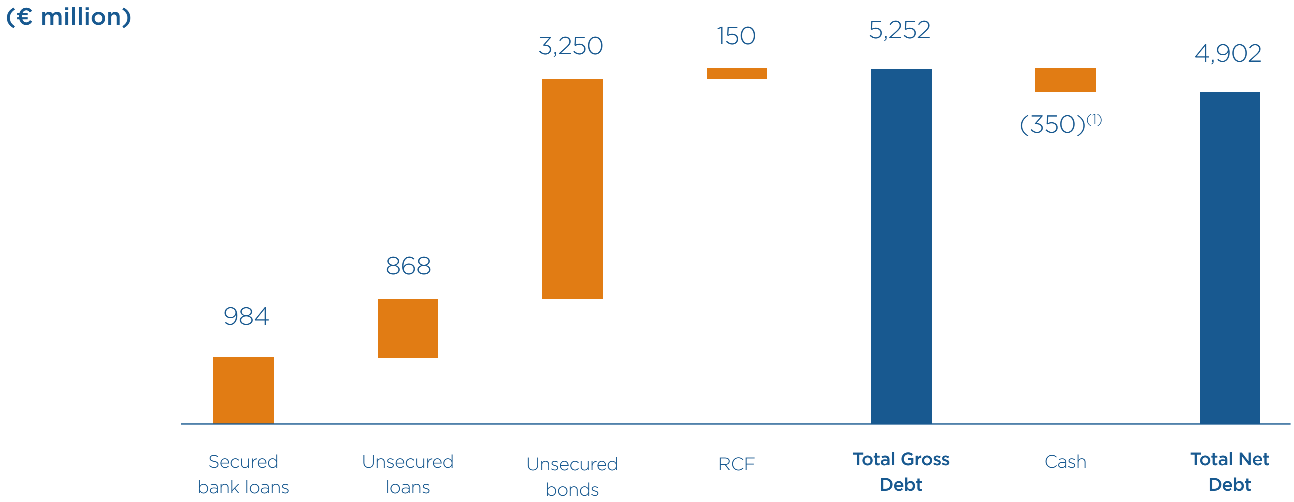
During the period, MERLIN has refinanced the Tree portfolio mortgage loan for an aggregate amount of € 716.9 million. This refinancing has extended the maturity from 30 September 2024 to 31 March 2031 plus 3 extensions of one year. The interest margin has been reduced by 55 bps to 1.20% over reference rate.

The balance of long term debt and short term debt includes Company's outstanding financial debt, mark-to-market of interest-rate and inflation hedging contracts and other financial liabilities, corresponding to guarantees and legal deposits received. The breakdown of gross financial debt is as follows:

FINANCIAL DEBT BREAKDOWN

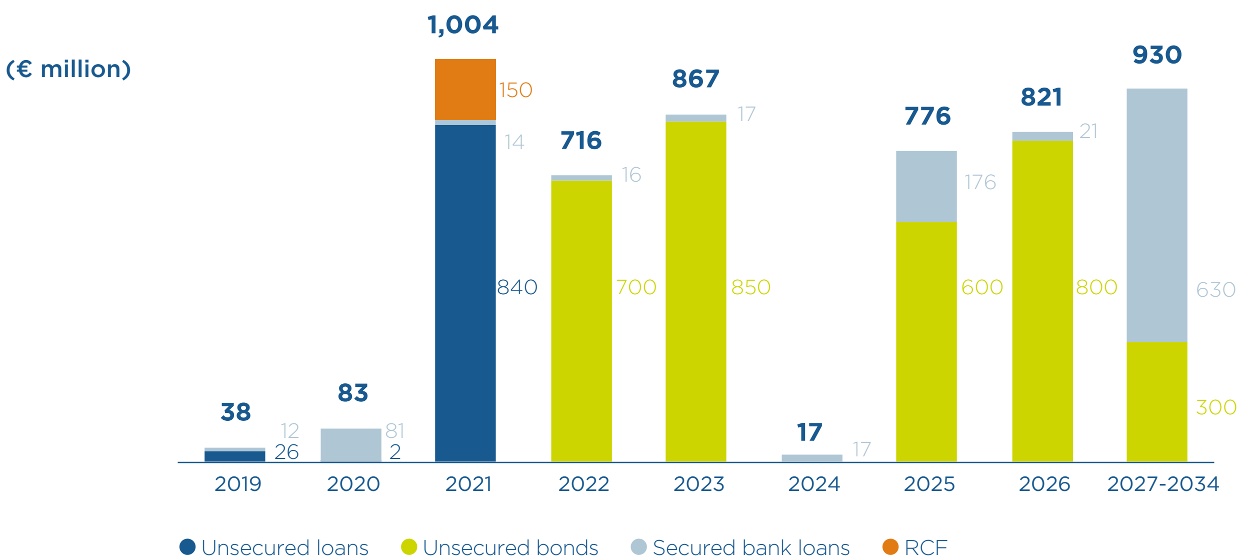
€ Thousand	Long term	Short term	Total
Financial debt	5,213,946	37,911	5,251,857
Loan arrangement costs	(95,745)	(53)	(95,799)
Debt interest expenses	-	37,829	37,829
Mark-to-market of interest-rate hedging contracts	39,807	1,123	40,930
Other financial liabilities (i.e. legal deposits)	113,297	6,174	119,471
Total debt	**5,271,305**	**82,983**	**5,354,288**

MERLIN's net financial debt as of 31 December is € 4,901,784 thousand. This implies a Loan To Value of 40.7%, which represents a reduction of 290 bps since 31/12/2017 (43.6%).
The breakdown of MERLIN's debt is the following:



	Secured bank loans	Unsecured loans	Unsecured bonds	RCF	Total Gross Debt
% Gross financial debt	18.7%	16.5%	61.9%	2.9%	**100.0%**
Average cost (%)	2.5%	2.0%	2.1%	1.4%	**2.1%**
% interest rate hedged	97.9%	97.1%	100.0%	-	**96.3%**

MERLIN'S debt has an average maturity period of 5.9 years. The chart with debt maturity is the following:

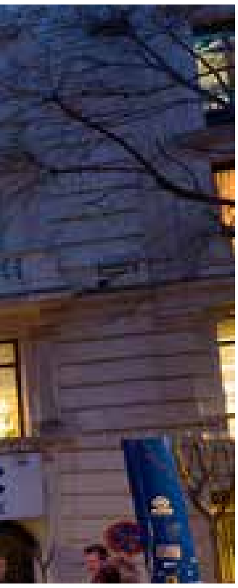


(1) Cash balance including the deferred payment receipt from the sale of Testa Residencial (€ 121.2m), treasury shares (€ 56.0m) and debt securities (€ 3.8m)

MERLIN's debt as of 31 December has an average cost of 2.13% (spot 1.84% plus derivatives cost). Nominal debt with interest rate hedged amounts to 96.3%. Key debt ratios are shown below:

€ thousand	31/12/2018	31/12/2017
Gross financial debt	5,251,857	5,412,933
Cash[(1)]	350,073	508,647
Net financial debt	4,901,784	4,904,286
GAV	12,041,138	11,253,954
LTV	40.7%	43.6%
Average cost	2.13%	2.23%
Hedged debt[(2)]	96.3%	98.6%
Average maturity (years)	5.9	6.1
Liquidity[(3)]	634,073	928,679
Non-mortgage debt	81.3%	78.5%

[(1)] Including cash, pending receivable of Testa Residencial (€ 121.1m) and treasury stock (€ 56.0m)
[(2)] If RCF was excluded, the % hedged would increase to 99.1% in FY18
[(3)] Including available cash plus pending receivable of Testa Residencial, treasury stock and unused credit facilities (€ 284m)



SHAREHOLDERS RETURN

The Shareholder Return for a given year is equivalent to the sum of (a) the change in the EPRA NAV per share of the Company during such year; and (b) the total dividends per share (or any other form of remuneration or distribution to the Shareholders) that are paid in such year (the "Shareholder Return").

The Shareholder Return Rate is defined as the Shareholder Return for a given year divided by the EPRA NAV of the Company as of 31 December of the immediately preceding year (the "Shareholder Return Rate"). In accordance with these definitions, the Shareholder Return in 2018 amounts to € 2.02 per share (or € 947 million of value created in absolute terms) and the Shareholder Return Rate amounts to 15.2%.

	Per share (€)	€ thousand
EPRA NAV 31/12/2017	**13.25**	**6,224,741**
NAV growth in 2018	1.56	731,126
EPRA NAV 31/12/2018	**14.81**	**6,955,867**
DPS	0.46	216,095
NAV growth + DPS (Shareholder Return)	2.02	947,221
Shareholder Return Rate	**15.2%**	**15.2%**

07

EPRA METRICS

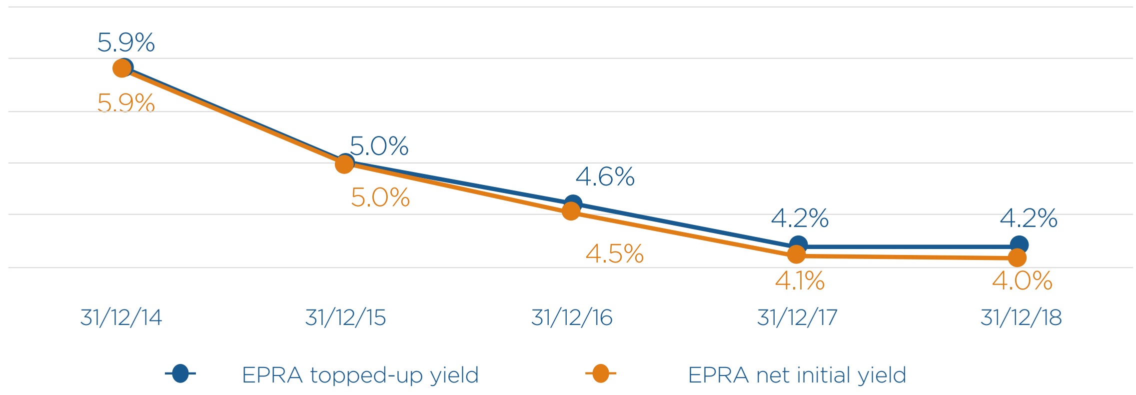
EPRA metrics

Performance Measure	Definition	31/12/2018	
		€ thousand	€ per share
EPRA Earnings (€ thousand)	Earnings from core operational activities	286,857	0.61
EPRA NAV (€ thousand)	EPRA Net Asset Value (EPRA NAV) is calculated based on the consolidated shareholders' equity of the Group adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model, as per EPRA's recommendations	6,955,867	14.81
EPRA NNNAV (€ thousand)	EPRA NAV adjusted to include the fair value of financial instruments, debt and deferred taxes	6,433,710	13.70
EPRA Net Initial Yield	Annualized rental income based on the cash passing rents at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with acquisition costs	4.0%	
EPRA "topped-up" NIY	Adjustment to the EPRA Net Initial Yield in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents)	4.2%	
EPRA vacancy rate	Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio	6.6%	
EPRA costs	Running costs of the Company divided by rents net of incentives	18.2%	
EPRA costs (excluding non-overhead costs)	Running costs of the Company divided by rents net of incentives	17.2%	

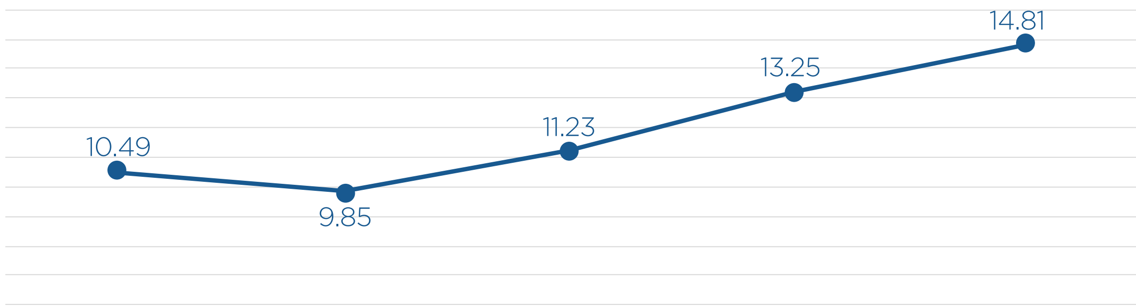
MERLIN Properties has been awarded by EPRA with the gold award of best practices in financial reporting. It is the highest recognition for an outstanding compliance with the best practices.

The evolution of EPRA metrics from 31 December 2014 has been the following:

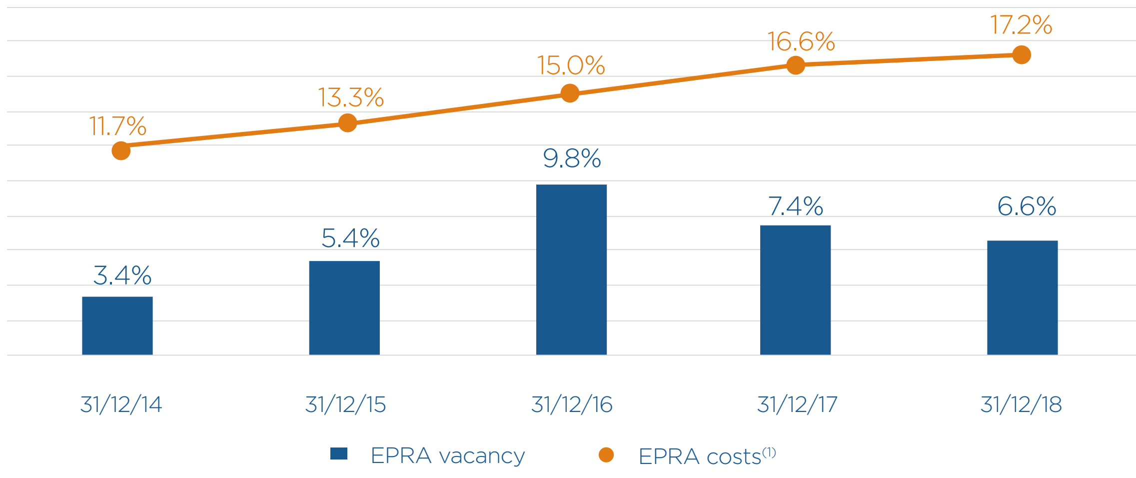
EPRA YIELDS



EPRA NAV/SHARE



EPRA VACANCY/COSTS



(1) EPRA costs excluding non recurring costs. Past reported has been rebased in order to deduct incentives from gross rents

08

EVENTS
POST-CLOSING

Post-closing

- On January 17, MERLIN completed the acquisition of the Art and TFM buildings in Lisbon. The assets, located in Dom Joao II, the main avenue in Parque das Nações, comprise 29,985 sqm of gross lettable area, featuring grade A specifications and 3 meters floor-to-ceiling height. The acquisition price amounts to € 112.2 million representing a 5.4% gross yield over the passing € 6.1 million gross rents, with strong reversionary potential delivering an ERV yield of 6.2%.

- In February, MERLIN has signed the renewal of Tecnicas Reunidas in Adequa, totalling 43,515 sqm. The contract has been renewed until 2022, at the same rent.

09 STOCK EXCHANGE EVOLUTION

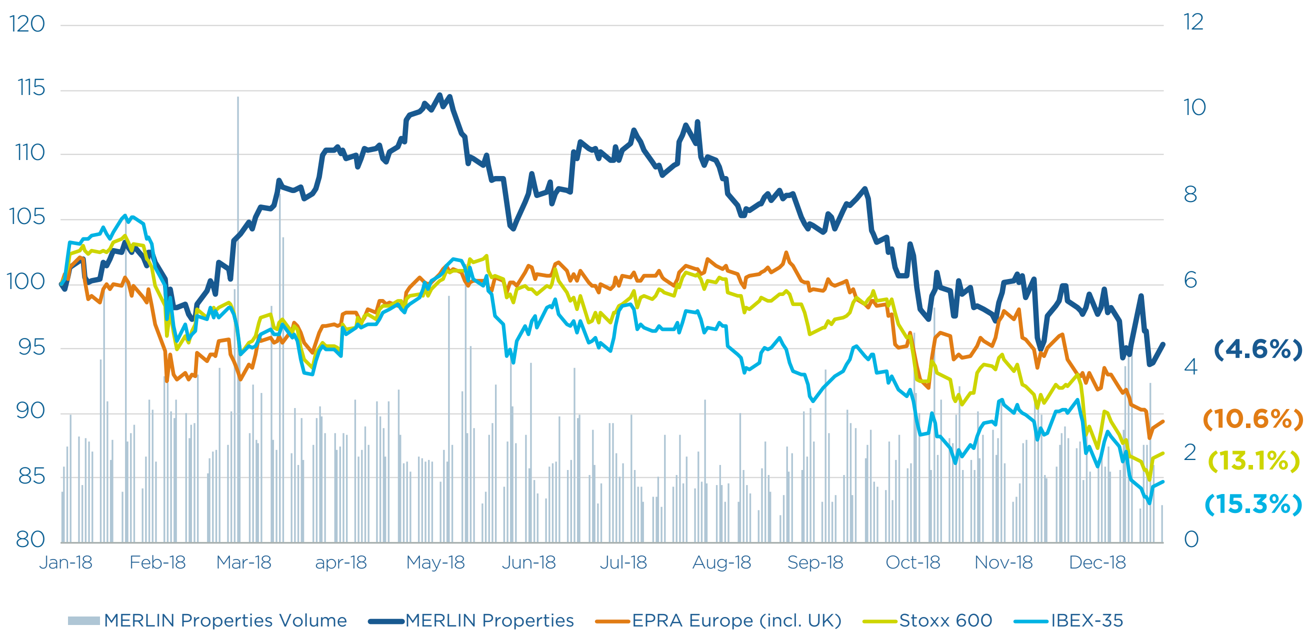
Stock exchange **evolution**

MERLIN shares closed on 31 December 2018 at € 10.78, a decrease of 4.6% versus 31 December 2017 closing price (€ 11.30).

The share has outperformed the sectorial EPRA Europe reference index (-10.6%), IBEX - 35 (-15.3%) and Euro Stoxx 600 (-13.1%).

MERLIN SHARE PRICE PERFORMANCE VS REFERENCE INDICES

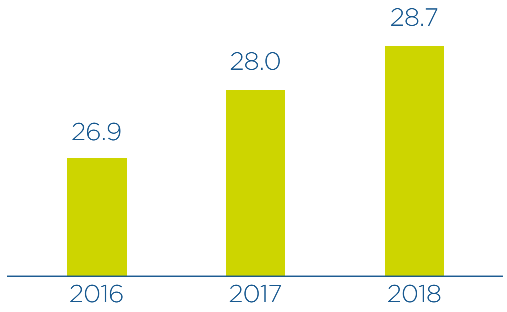
From 1st January 2018 to 31st December 2018, Rebased to 100



Source: Bloomberg
Adjusted for any equity dilutive transactions

AVERAGE DAILY TRADING VALUE (€ M)

Average daily trading volume during the period has been € 28.7 million, which represent a 0.5% of the average market capitalization of 2018.



As of the date of this report, MERLIN is covered by a wide variety of 25 equity research houses. Consensus target price is € 13.36.

TARGET PRICES AND ANALYST RECOMMENDATIONS

Broker	Report date	Recommendation	Target price
Societe Generale	04-02-19	Neutral	11.30
JB Capital Markets	24-01-19	Buy	15.20
Goldman Sachs	24-01-19	Sell	10.00
Citi	24-01-19	Sell	9.60
Fidentiis	17-01-19	Buy	14.50
Green Street	07-01-19	Neutral	14.90
Barclays	21-11-18	Neutral	10.80
Renta 4	19-11-18	Buy	14.16
Morgan Stanley	07-11-18	Buy	15.00
Intermoney	29-10-18	Buy	13.50
Alantra	29-10-18	Buy	13.85
BBVA	21-09-18	Buy	13.60
Kepler Cheuvreux	17-09-18	Buy	14.30
Exane BNP Paribas	03-09-18	Buy	13.90
ING	08-08-18	Buy	13.30
GVC Gaesco Beka	31-07-18	Buy	14.49
Credit Suisse	31-07-18	Buy	13.50
Mirabaud	31-07-18	Neutral	13.09
Kempen	31-07-18	Neutral	13.40
JP Morgan	31-07-18	Buy	14.00
Bankinter	23-07-18	Buy	12.82
Banco Sabadell	18-07-18	Buy	14.43
BPI/Caixa	13-06-18	Neutral	13.35
Natixis	29-03-18	Buy	14.00
UBS	09-03-18	Buy	13.00
Average			**13.36**

10

DIVIDEND POLICY

Dividend policy

The Company maintains a dividend policy that takes into account sustainable levels of distributions, and shows the Company's forecast in relation to obtaining recurring profits. The Company does not intend to create reserves that cannot be distributed to the shareholders, other than those required by law.

According to the Spanish regime for REIT's, the Company will be obligated to adopt agreements to distribute the profits obtained in this financial year in the form of dividends to shareholders, after complying with any relevant requirement of the Spanish Corporation Law. The Company will be obligated to agree its distribution within six months of the close of each financial period, in the following manner: (i) at least 50% of the profits derived from the transfer of real properties, shares, or shareholdings in qualified affiliates, provided that the remaining profits are reinvested in other real estate assets within a maximum period of three years from the date of transmission or, if not, 100% of the profits must be distributed as dividends at the end of this three year period; (ii) 100% of the profits obtained by receiving dividends paid by qualified subsidiaries; (iii) at least 80% of the rest of the obtained profits. If the dividend distribution agreement is not adopted within the legal timeframe, the Company will lose its REIT status during the financial year to which the dividends refer.

In accordance with the Prospectus, MERLIN Properties targets to deliver a dividend yield of between 4% and 6% over the initial IPO price. The Company's dividend policy is established as the distribution of a minimum of the 80% cash flow from operations less the payment of interests and less the payment of recurring expenses of maintaining assets (AFFO). The distributions to MERLIN's shareholders during 2018 are shown in the chart. The Board of Directors of MERLIN Properties agreed to distribute a dividend on account of 2018 results for a gross amount of € 0.20 per share paid on October 25 2018. The management team of MERLIN Properties will propose a complimentary dividend on account of 2018 results, being subject to the 2019 General Shareholders Meeting. The complimentary dividend would be a gross amount of 0.30 euros per share, expected to be distributed in May 2019, for a total of 0.50 euros per share versus 0.46 euros per share in 2017.

Type	Date	Concept	€ per share
Interim 2015	28-oct-15	Dividend	0.0775
Final 2015	27-apr-16	Dividend	0.005692
Final 2015	27-apr-16	Share premium distribution	0.102608
Total 2015			**0.19**
Interim 2016	25-oct-16	Dividend	0.185
Interim 2016	25-oct-16	Share premium distribution	0.02
Final 2016	18-may-17	Dividend	0.10071014
Final 2016	18-may-17	Share premium distribution	0.09928767
Total 2016			**0.40**
Interim 2017	25-oct-17	Dividend	0.20
Final 2017	25-may-18	Dividend	0.02053654
Final 2017	25-may-18	Share premium distribution	0.23946346
Total 2017			**0.46**
Interim 2018	25-oct-18	Dividend	0.20
Final 2018	Pending AGM approval		0.30
Total 2018			**0.50**

11

MAIN RISKS AND UNCERTAINTIES

Main risks **and uncertainties**

The policies of financial risk management within the commercial real estate sector deal mainly with the analysis of investment projects, the management of the building's occupation and the situation of the financial markets:

- Credit risk: credit risk relating to the Company's ordinary business is not significant because the contracts signed with the tenants require payment in advance of most sums. These contracts also require the tenant to provide legal and additional financial guarantees or deposits to cover possible nonpayment of the rent. This risk is also mitigated by the diversification of the type of product in which the Company invests and consequently the typology of clients.

- Liquidity risk: The Company, in order to manage liquidity risk and to meet the needs of funds, uses an annual budget and monthly forecast of the liquid assets. This monthly forecast is detailed and updated on a daily basis. The main liquidity risk is due to the potential for negative working capital resulting from short term debt. The factors mitigating liquidity risk include the following: (i) cash generated in the ordinary course of business is very stable; and (ii) the company's liabilities are largely long-dated and the high quality of the assets provides ample ability to obtain new sources of funding. When formulating consolidated annual accounts, the Company had already covered all of its funding requirements, enabling it to meet its commitments with providers, employees and the Public Sector, according to the cash flow for FY2018. Furthermore, given the type of industry in which the Company operates, the investments, the financing for such investments, the stable EBITDA generated and the high occupancy rate of properties is more likely to produce surplus cash. The company's policy is to invest this cash in short-term investments and liquid deposits with highly rated institutions. The acquisition of options or futures on stocks, or any other high-risk activities as a means of investing its cash surplus are not considered by the Company.

- Interest rate risk: in order to minimize the Company's exposure to this risk, financial hedges, such as interest rate swaps, have been executed. Total interest rate hedged amount to 96.3% of total debt.

- Exchange rate risk: the Company's policy is to contract debt only in the same currency as that of the cash flows of each business. Therefore, the Company is currently not exposed to exchange rate risk. Within this type of risk, it is noted the fluctuation of the exchange rate in the conversion of the financial statements of the foreign companies whose functional currency is other than euro.

- Market risk: MERLIN Properties is exposed to market risk from potential downward movement in rental rates when current contracts terminate. This risk could negatively affect the cash flow and valuation of the assets of the Company. However, the market risk is mitigated by policies of attracting and selecting new high quality clients and negotiating compulsory lease terms that maximize the length of the lease term. For this reason, on 31 December 2018, the occupancy rate of the Company's assets is 93.4%, with a weighted average unexpired lease term of 5.8 years (weighted by gross rents).

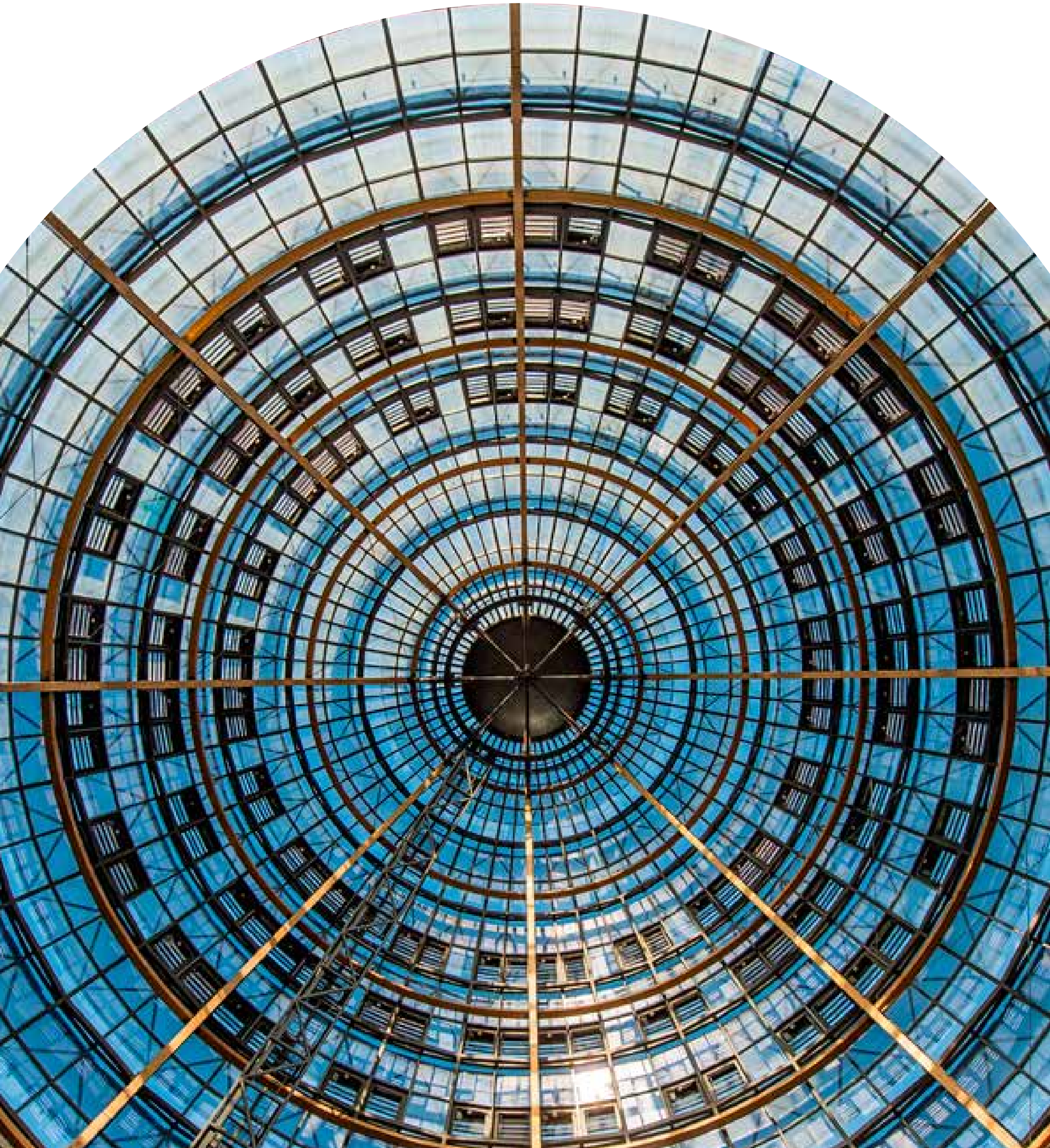
- Tax risk: The Parent and a portion of its subsidiaries qualified for the special tax regime for real estate investment trusts (SOCIMI). The transitional period for the Parent ended in 2017 and, therefore, compliance with all requirements established by the regime became mandatory. Some of the more formal obligations that the Parent must meet involve the inclusion of the term SOCIMI in its company name, the inclusion of certain information in the notes to its separate financial statements, the share price on the stock market, etc., and other obligations that require estimates to be made and judgements to be applied by management (calculation of taxable rental income, testing rental income, testing assets, etc.) that may become fairly complex, especially considering that the SOCIMI regime is relatively recent and was developed by the Directorate-General of Taxes mainly in response to the queries posed by various companies. In this regard, management, with the support of its tax advisors, assessed compliance with the requirements of the regime, concluding that such requirements except the income test were met at 31 December 2018. In the opinion of the Directors, this breach is an exceptional situation mainly due to the profit obtained by the Group on the sale of Testa Residencial SOCIMI, S.A. In this regard, and as established in section 8 of the Spanish REIT Act, which allows for the remedy of this type of breach in the following year, the Directors consider that it is highly likely that the Group will meet the level required by law in relation to the income test in 2019 and, therefore the Parent will continue to apply the REIT regime, a situation which has been taken into account in the preparation of the consolidated financial statements for 2018.

Accordingly, and also for the purpose of taking into consideration the financial effect of the regime, it should be noted that, as established in section 6 of Spanish Law 11/2009, of 26 October, as amended by Spanish Law 16/2012, of 27 December, REITs that have opted for the special tax regime are required to distribute the profit generated during the year to their shareholders in the form of dividends, once the related corporate obligations have been met. This distribution must be approved within six months from each year end, and the dividends paid in the month following the date on which the pay-out is agreed.

If the Parent does not comply with the requirements established in the regime or if the shareholders at the General Meetings of these companies do not approve the dividend distribution proposed by the Board of Directors, calculated in accordance with the requirements of this Act, it would not be complying therewith and, accordingly, tax would have to be paid under the general regime, not the regime applicable to REITs.

12

TREASURY SHARES



Treasury **shares**

As of 31/12/2017 the Company owned 2,320,230 treasury shares. During 2018, the following events have occurred in relation to the treasury stock:

- In accordance with the delivery conditions of the 2016 long term incentive plan, 1,175,625 shares have been delivered to the beneficiaries on March.
- The Company has acquired a total of 5,005,394 shares in 2018.

Below we show a breakdown of the variations during the year of the balance of treasury shares.

	Acquisitions	Disposals	Total
31/12/2017 Balance			**2,320,230**
March-2018		(1,175,625)	(1,175,625)
October 2018	1,017,850		1,017,850
November 2018	2,178,170		2,178,170
December 2018	1,809,374		1,809,374
31/12/2018 Balance			**6,150,000**
% Total shares			**1.3%**

13 OUTLOOK / R+D INFORMATION / OTHER

Outlook / R+D information / other

In 2019, MERLIN expects to continue with high occupancy rates and the maintenance of strong cash flow due to the long remaining lease period (5.8 years from 31 December 2018, weighted by each tenant rents)

The Company also expects to continue with the acquisition of assets that fit within its investment strategy. To this end, it holds a cash position of € 350.1 million. In this regard, in 2018, in accordance to our best estimates, average payment period to suppliers was 47 days.

The Company has not developed any research and development activities during 2018.

The Company uses interest rates hedging financial instruments to manage the exposure to the interest rates fluctuation in its financing. The Company Policy consists of maintaining the net non-current financial debt from third parties at fix rate.

To achieve the target, the Company operates with interest rates swaps that hedge their corresponding loans.

14 CORPORATE RESPONSIBILITY

Sustainability

MAIN INDICATORS FOR THE YEAR

	2018[1]	EVOLUTION 2017-2018[1]
Energy consumption in GJ	402,888 (137,091)	+7% (+2%)
Greenhouse gas emissions (tCO_2eq)	26,778 (9,271)	-6% (-10%)
LEED / BREEAM Certifications investment (m€)	1,641	-10%
% of portfolio (in GAV terms) LEED or BREEAM certified	66%	+ 18 percentage points
Purchases made from approved suppliers	78 M€	+113%

SUSTAINABLE CONSTRUCTION CERTIFICATION PLAN

Building certification under the leading sustainable construction standards endorses the assets' construction quality and guarantees that their design and operation include features and systems that allow maximum environmental efficiency.

As regards to certification standards, MERLIN has chosen LEED and BREEAM, the most appropriate alternative being selected based on the characteristics of the building or its tenants.

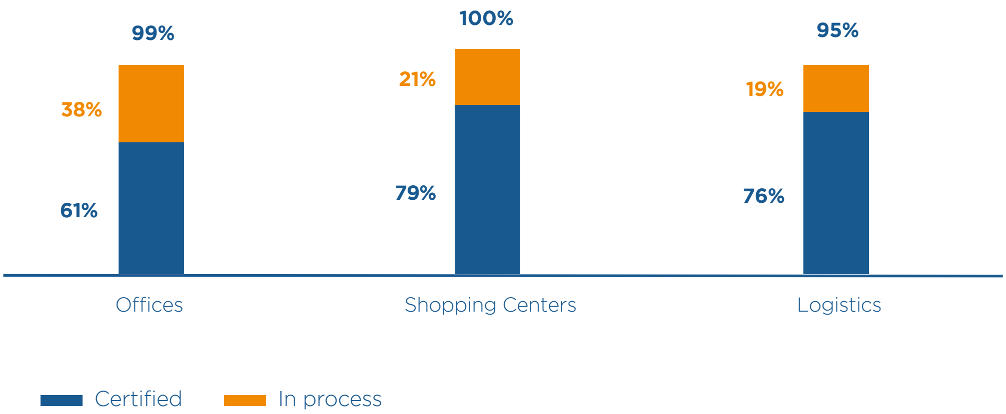
Within this context, the Company has continued to implement in 2018 the Certification Plan under which it aspires to have 98.4% (by GAV, excluding commercial premises) of its properties certified.

At today's date, certified properties account for 66% (by GAV, excluding commercial premises) of the total portfolio.

MERLIN has also registered the rest of its buildings for the certification process. Within the framework of its Certification Plans 2016-2019, MERLIN Properties will invest more than € 6 million in the certification of 98.4% (by GAV, excluding commercial premises) of its portfolio under BREEAM or LEED standards.

[1] In brackets, value expressed in like for like terms

MERLIN's asset Certification Plan 2016-2019 (% GAV)



CONSUMPTION MANAGEMENT

Energy (electricity and fuel) and water consumption are two of the main environmental aspects associated with a building's operation. MERLIN monitors and assesses on an on-going basis those operating assets with control over management, defining and implementing several measures to maintain them at efficient levels.

Additionally, the company has information regarding energy and water consumption of other assets without management control. These assets have not been included as part of the Company's environmental performance since MERLIN does not have control over their performance or any room to introduce measures for improvement.

Assets in which MERLIN has collected information on the environmental performance

OFFICES

	Area[1] (sqm)
Torre Castellana 259[2]	21,390
Castellana 280	16,918
Castellana 93	11,650
Castellana 83-85[2]	15,254
Sollube	31,576
Alfonso XI	9,945
Pedro de Valdivia 10[2]	6,721
PE Churruca (4 buildings)	16,979
Princesa 3 [2]	17,810
Princesa 5 [2]	5,788
Ventura Rodriguez 7 [2]	10,071
Juan Esplandiu 11-13 [2]	28,008
Eucalipto 33	7,185
Eucalipto 25	7,368
Santiago de Compostela 94	13,130
PE Alvento (2 buildings)	32,928
Cristalia	11,712
Trianon (4 buildings)	18,400
PE Puerta de las Naciones (4 buildings)	39,150
Partenón 12-14	19,609
Partenón 16-18[2]	18,343
Arturo Soria 128	3,206
Elipse	7,515
Fuente de la Mora	4,482
Aquamarina[2]	10,856
Parque Empresarial (PE) Via Norte (6 buildings)	37,224
PE Sanchinarro (2 buildings)	17,191
PE Las Tablas (3 buildings)	27,073
Vegacinco 2	5,496
PE Minipark Alcobendas 1 (4 buildings)	9,195
PE Minipark Alcobendas 2	3,347
Avenida de Bruselas 24[2]	9,164
Callao	1,987
Adequa 2	5,013
Adequa 3	15,937

	Area[1] (sqm)
Adequa 5	13,790
Adequa 6	13,789
Costa Brava 2-4[2]	16,000
Avenida de Aragon 334	3,890
Atica 1	7,080
Atica 2	5,644
Atica 3	5,746
Atica 4	4,936
Atica 5	9,526
Atica 6	3,790
PE Atica XIX (3 buildings)	15,411
PE Cerro Gamos (5 buildings)	35,498
Plantio 6 G	1,780
Plantio 8 F	1,723
Plantio 10 E	1,749
Plantio 12 D	1,816
Al-Andalus	5,972
PE Alvia (3 buildings)	23,567
PE Euronova (8 buildings)	32,665
Diagonal 605[2]	14,795
Diagonal 514[2]	9,664
Diagonal 458	4,174
E-Forum	5,190
Citypark Cornella (5 buildings)	12,916
WTC6[2]	14,461
WTC8[2]	14,542
PE Poble Nou 22@	31,337
Muntadas I[2]	24,380
Muntadas II[2]	3,783
Sant Cugat I[2]	15,379
Sant Cugat II[2]	10,008
Monumental	16,892
Central Office Building	10,310
Marques de Pombal	12,460

	Area (sqm)	Number of assets
Portfolio included in environmental performance	922,188	106
Total office portfolio	**1,272,032**	**140**

[1] Gross leasable area
[2] Like for like portfolio

SHOPPING CENTERS

	Area[1] (sqm)
Marineda[2]	100,207
Arturo Soria	5,974
Centro Oeste[2]	10,876
Larios[2]	40,805
Porto Pi[2]	32,119
Arenas	31,918

	Area[1] (sqm)
El Saler	26,262
Artea	24,323
Thader	48,646
Vilamarina	32,224
La Vital	20,868
La Fira	29,013
Bonaire	17,559

	Area (sqm)	Number of assets
Portfolio included in environmental performance	420,794	13
Total shopping centre portfolio	**616,652**	**19**

LOGISTICS ASSETS

	Area[1] (sqm)
Madrid-Coslada Complex[2]	36,234
Valencia-Almussafes[2]	26,612

	Area (sqm)	Number of assets
Portfolio included in environmental performance	62,846	2
Total logistics asset portfolio	**1,101,243**	**47**

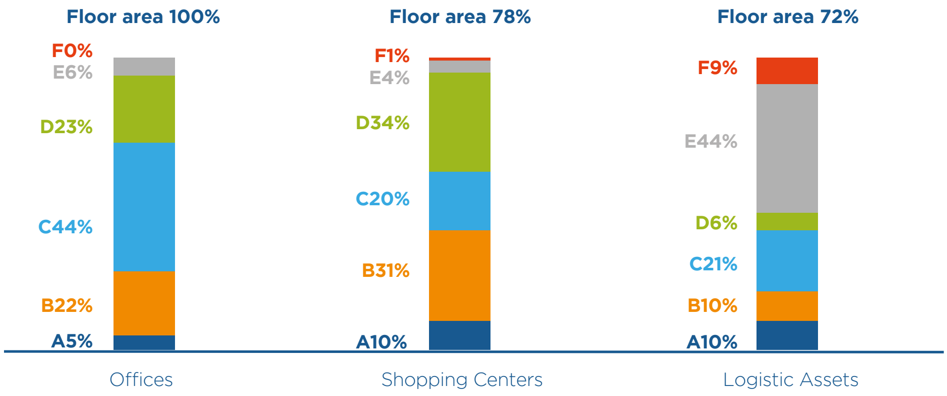
ENERGY CONSUMPTION IN MERLIN'S PORTFOLIO

Energy consumption is closely related to the assets' characteristics and occupancy level.

MERLIN, as the property owner, has an energy classification for 87% of its portfolio. This provides an indication of the energy characteristics of buildings and serves as a basis for an improvement strategy.

[1] Gross leasable area
[2] Like for like portfolio

ENERGY CLASSIFICATION OF MERLIN`S ASSETS (% OF TOTAL AREA)[1]



For assets in the operating phase, MERLIN works constantly on implementing best management practices, enabling to improve its assets' environmental performance.

Within this context, the Company has continued the process to implement an Energy Management System and its certification under ISO 50001. In 2018 3 new assets were certified: Avenida Partenón 12-14, Alvento business park and Arturo Soria Plaza shopping centre. Thanks to this, MERLIN has increased the total floor area certified under this standard to 163,707 m^2, which represents, approximately, a 10% of the offices and shopping centers portfolio[2].

Energy consumption in MERLIN's assets relates primarily in the three portfolios (offices, shopping centres and logistics assets) to electricity consumption. Offices and shopping centres, in addition, use gasoil and natural gas.

Energy consumption in absolute terms in 2018 rose to 402,888 GJ, including offices (60.4% of the total), shopping centres (39.4%) and logistics assets (0.2%). This represents an increase of 7% compared to 2017.

Energy consumption in MERLIN's office portfolio was equal to 243,353 GJ. This consumption related mainly to electricity (73%) and, to a lesser extent, natural gas (23%) and gas oil (4%). Energy consumption in this portfolio has experimented an increase of 9% compared to the previous year.

The increase in absolute energy demand in office buildings was mainly due to the inclusion in the reporting perimeter of three new assets located in Portugal, as well as the completion of the refurbishments that took place in the buildings of Vegacinco 2 and Partenón 12-14. To a lesser extent, this increase is as well linked to higher thermal requirements in 2018 and to the opening of a new gym in Cristalia's office building.

In the shopping centres portfolio, energy consumption rose to 158,795 GJ. In this portfolio, energy consumption relates to electricity consumption (91%). The remaining 9% relates to fuel consumption, specifically natural gas. Compared to the previous year, there is a 3% growth in energy consumption.

Although electricity consumption remained stable at 2017 levels, fuel consumption has increased due to the inclusion of more reporting months in Arturo Soria Plaza and also linked to the higher thermal requirements in 2018.

[1] Tree and Caprabo assets (High Street retail) excluded from the calculation
[2] In area terms

Finally, as regards to logistics assets, energy consumption is associated only with electricity, as there is not fuel consumption in this portfolio. In 2018 this consumption amounted to 740 GJ. Both in absolute and like for like terms, this represents an increase of 11% compared to 2017.

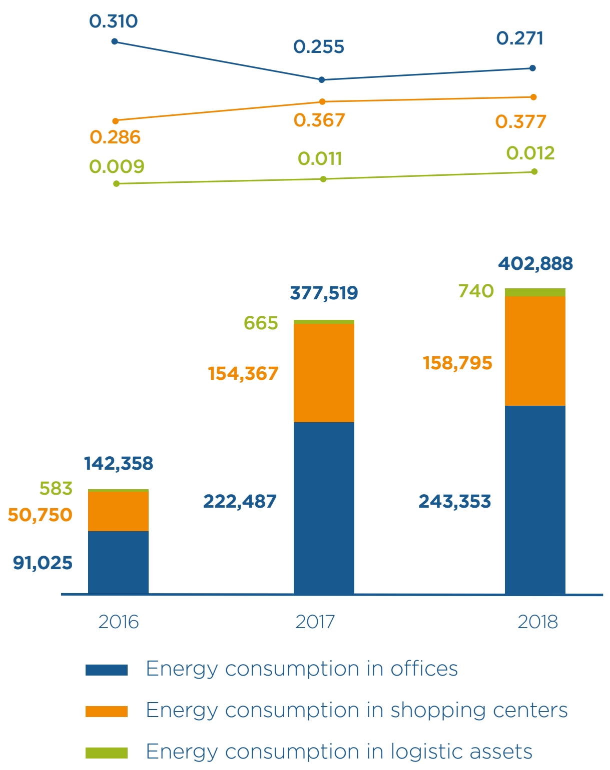
For the like for like portfolio, total energy consumption rose to 137,091 GJ. This consumption includes offices (64.3%), shopping centres (35.1%) and logistics assets (0.6%). This energy consumption means an increase of 2% compared to 2017.

Regarding the office portfolio's like for like performance, energy consumption rose to 88,173 GJ. This consumption relates mainly to electricity (70%) and, to a lesser extent, natural gas (19%) and gas oil (11%). Energy consumption in this portfolio has experienced an increase of 4% compared to the previous year, linked to an increase in fuel consumption, since electricity consumption has been reduced by 1.5%. The increase in fuel consumption is linked to the lower temperatures in 2018 and as well to the increase in occupancy in WTC6 building.

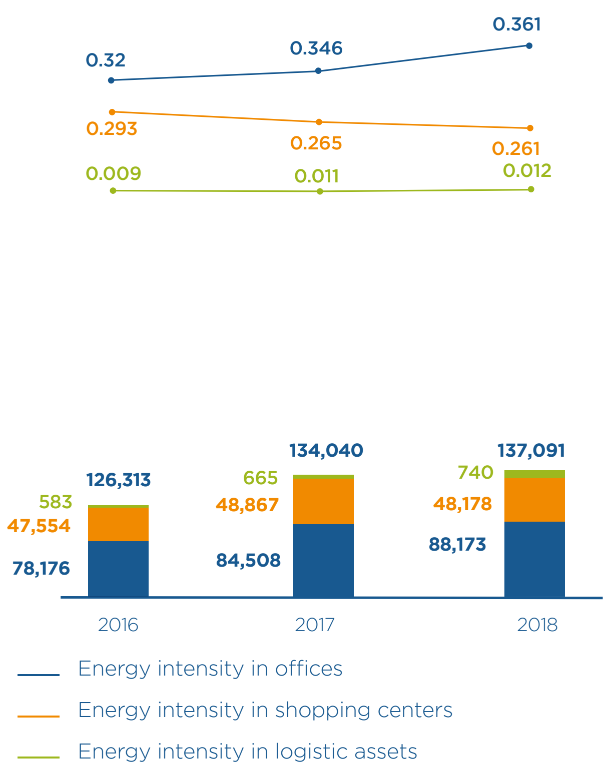
As regards to shopping centres like for like portfolio, consumption decreased to 48,178 GJ, a reduction in consumption of 1% compared to the previous year. Shopping centers in the like for like portfolio do not have fuel consumption.

ENERGY CONSUMPTION IN MERLIN'S ASSETS[1]

Absolute energy consumption (GJ) and absolute energy intensity[2] (GJ/m²)

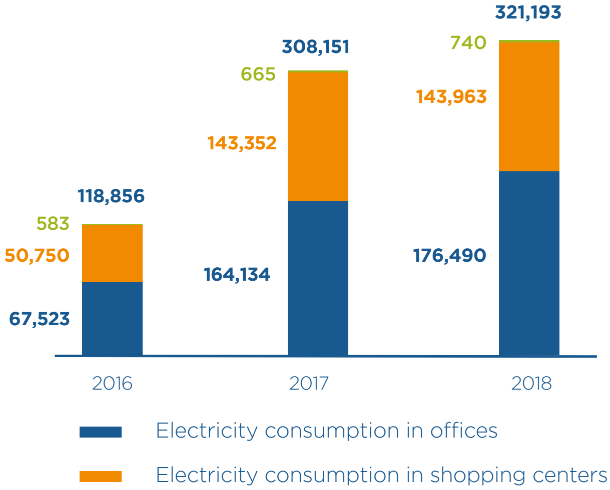


Like for like energy consumption (GJ) and like for like energy intensity[2] (GJ/m²)

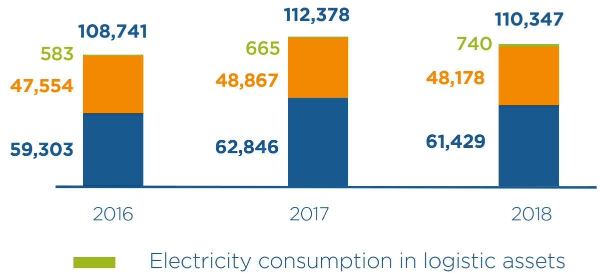


[1] Energy consumption reported relates to the assets with management control (included in the table at the beginning of this chapter). The scope of this consumption may include common areas and/or services shared with tenants (e.g. air conditioning), depending on the asset
[2] Energy intensity has been calculated based on the total floor area of the assets

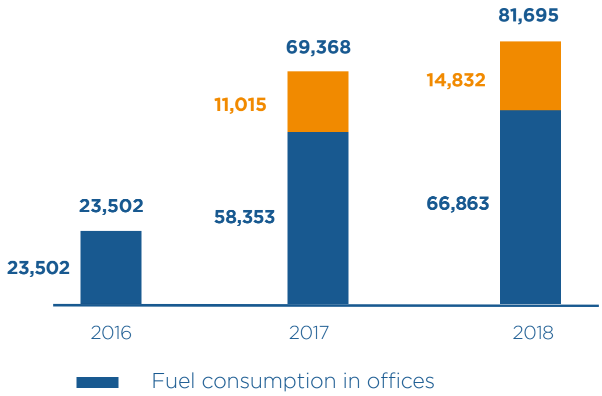
Absolute electricity consumption by asset category (GJ)



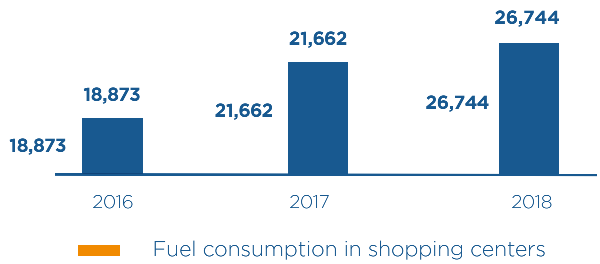
Like for like electricity consumption by asset category (GJ)



Absolute fuel consumption by asset category (GJ)



Like for like fuel consumption by asset category (GJ)



Generation of photovoltaic electricity in MERLIN's assets

MERLIN has photovoltaic panels at three of its assets through which it jointly generated 2,113 GJ in renewable energy in 2018. This electricity is self-consumed in the three assets and also in one of them is exported to the grid.

Electricity consumption at MERLIN Properties' headquarters

Employees are distributed between MERLIN's headquarters in Madrid and Barcelona, which account for 71% and 11% of the Group's total workforce. Given that most professionals are concentrated at the Company's corporate headquarters, this section will only take into account consumption associated with MERLIN's Madrid offices.

All MERLIN employees in Madrid work at a single corporate headquarters, occupying two floors of an office building. These floors have a total floor area of 1,855 m^2. Electricity consumption on these floors amounted to 767 GJ in 2018, entailing energy intensity of 0.41 GJ/m^2. This consumption represents an increase of 35% compared to the previous year, mainly due to the fact that MERLIN moved to its new headquarters in late March 2017, and headcount increased during 2018.

Water consumption[1]

Water consumption in MERLIN's portfolio derives from the municipal supply network. None of the assets reported consumes water from alternative sources.

Overall water consumption rose to 863,469 m^3. This consumption is concentrated basically in offices (62%) and shopping centres (38%). Logistics assets account only for 1% of the total. This consumption represents an increase of 21% compared to 2017.

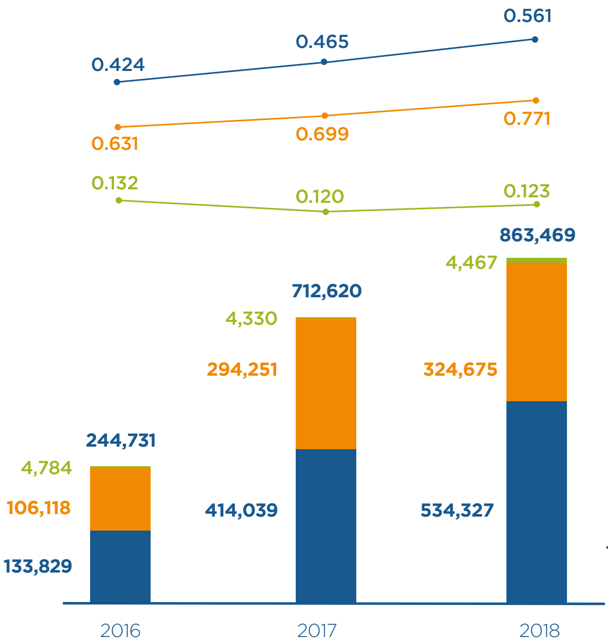
For offices portfolio, water consumption rose to 534,327 m^3, that represent an increase of 30% compared to 2017. This increase is mainly due to the addition of three assets located in Portugal to the reporting scope, which amounted 147,728 m^3.

For shopping centres and logistics assets, consumption rose compared to 2017, by 10% and 3%, respectively. The increase in absolute water consumption in shopping centres is due to the increase in the reporting perimeter of several assets, from reporting consumption in common areas to including consumption in tenant space.

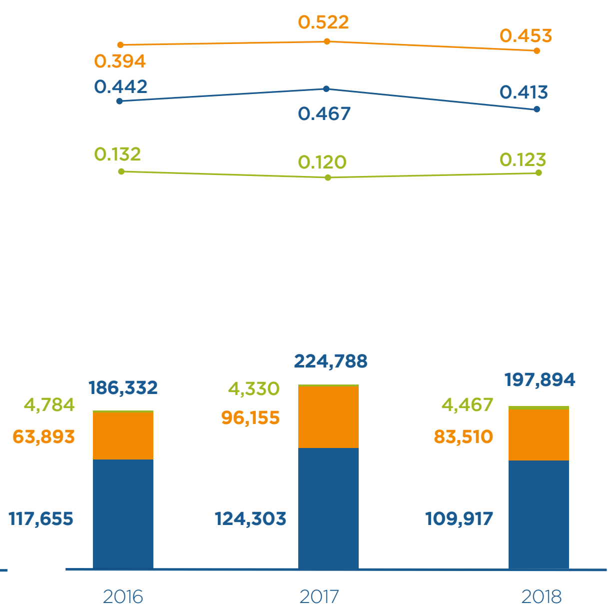
In like for like terms, water consumption amounted to 197,894 m^3. This consumption includes offices (56%), shopping centres (42%) and logistics assets (2%). This represents an 11% reduction with regards to 2017. With respect to like for like office portfolio, water consumption has been 109,917 m^3, a 10% reduction compared to 2017. Water consumption of the like for like shopping centre portfolio also experienced a notable reduction with respect to 2017 levels, falling to 83,510 m^3 in 2018. This represents a 21% decrease with respect to the previous year's consumption.

WATER CONSUMPTION IN MERLIN'S ASSETS[1]

Absolute consumption by asset category (m^3) and absolute water intensity[2] (m^3/m^2)



Like for like consumption by asset category (m^3) and like-for-like water intensity (m^3/m^2)



Water consumption in offices
Water consumption in shopping centers
Water consumption in logistic assets

Water intensity in offices
Water intensity in shopping centers
Water intensity in logistic assets

[1] Water consumption reported relates to the assets in which MERLIN controls management (included in blue the table at the start of this chapter). The scope of this consumption may include common areas and tenant space, depending on the asset
[2] Intensity has been calculated on the total floor area of the assets

Greenhouse gas emissions

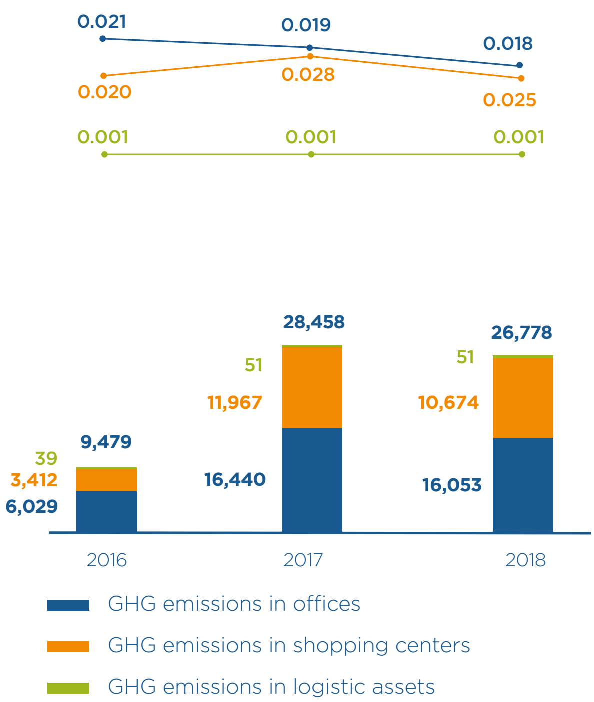
The consumption of non-renewable energy in MERLIN's assets (electricity and fuel) has greenhouse gas emissions associated. Within this context, in 2018 total emissions in absolute terms fell to 26,778 tonnes of CO_2, a fall of 6% on the previous year. This fall is largely due to the reduction in the electricity mix emission factor in Spain[1].

Broken down by scope, emissions from the consumption of gas oil and natural gas (scope 1 emissions) amounted to 4,829 tonnes of CO_2 eq, while emissions from electricity consumption (scope 2 emission) fell markedly to 21,949 t CO_2 eq as explained above.

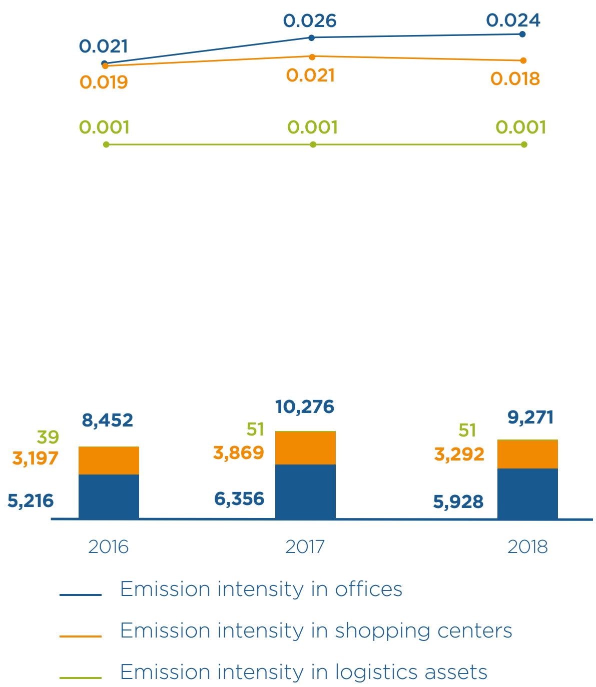
For the like for like portfolio, total greenhouse gas emission decreased to 9,271 t CO_2 eq, 10% compared to 2017. Broken down by scope, a total of 1,731 t CO_2 eq were derived from fuel consumption in the Company's assets, while the remaining 7,541 t CO_2 eq were emitted as a result of the electricity consumption produced by the Company's assets.

GREENHOUSE GAS EMISSIONS (GHG) FROM MERLIN'S ASSETS[2]

GHG emissions by asset category (t CO_2eq) and intensity[3] of absolute emissions (t CO_2eq/m²)



GHG emissions by asset category (t CO_2eq) and like for like intensity[3] of emissions (t CO_2eq/m²)

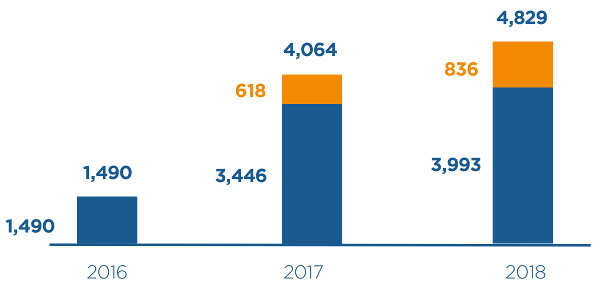


[1] The electricity mix emission factor is the value that expresses CO_2 emissions associated with the generation of electricity consumed and is therefore an indicator of the energy sources used to produce electricity. The lower the factor, the higher the contribution from low-carbon energy sources

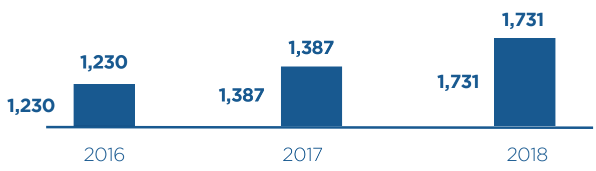
[2] The emission factors recommended by the Ministry of Agriculture and Fisheries, Food and Environment for gas-oil and natural gas were used to calculate Scope 1 GHG emissions. The emission factor recommended by Red Eléctrica de España was used to calculate Scope 2 GHG emissions for each year

[3] Intensity has been calculated as the total floor area of the assets

Absolute GHG Scope 1 emissions by asset category (t CO_2eq)



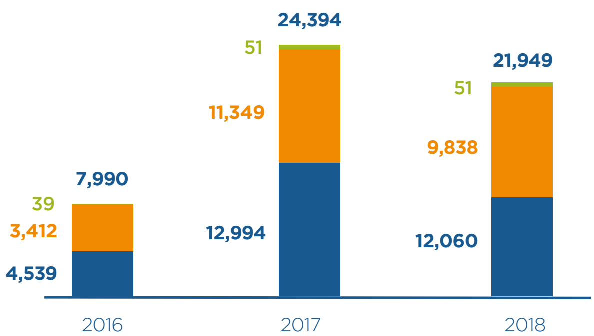
Like for like GHG Scope 1 emissions by asset category (t CO_2eq)



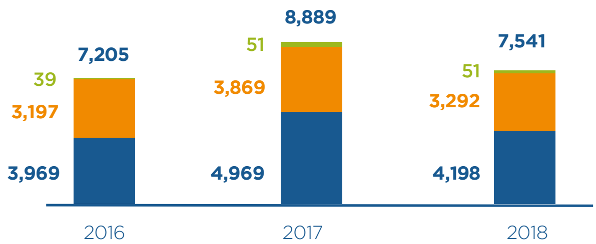
Scope 1 emissions in offices

Scope 1 emissions in shopping centres

Absolute GHG Scope 2 emissions by asset category (t CO_2eq)



Like for like GHG Scope 2 emissions by asset category (t CO_2eq)



Scope 2 emissions in offices

Scope 2 emissions in shopping centres

Scope 2 emissions in logistics assets

Promotion of electric mobility in MERLIN's assets

MERLIN commits to a model of sustainable eco-friendly mobility and has therefore installed charging stations for all new generation electrical vehicles at its shopping centres.

The Company wants to enlarge this project to its office portfolio, with the goal of installing 5 charging stations per building before 2020. There are already 82 charging stations either installed or in process of installation.

In addition to its efforts made to cut energy consumption and greenhouse gas emissions, MERLIN has launched initiatives to partially offset emissions.

For LEED and BREEAM certification purposes, MERLIN cooperates, through the association REFORESTA, in forest recovery and the fight against desertification, while mitigating emissions from its assets. In 2018 the Company invested €17,500.

MERLIN also purchases renewable energy certificates (REC) to offset emissions derived from power consumption in its buildings. This ensures offsetting emissions linked to electricity consumption through the generation of the same quantity of renewable energy. In 2018 MERLIN purchased 178,362 GJ in renewable energy.

GHG emissions associated with electricity consumption at MERLIN Properties' headquarters

Electricity consumption at MERLIN'S headquarters generated GHG Scope 2 emissions equivalent to 52 t CO_2 eq (0.026 t CO_2eq/m²), 15% more than 2017.

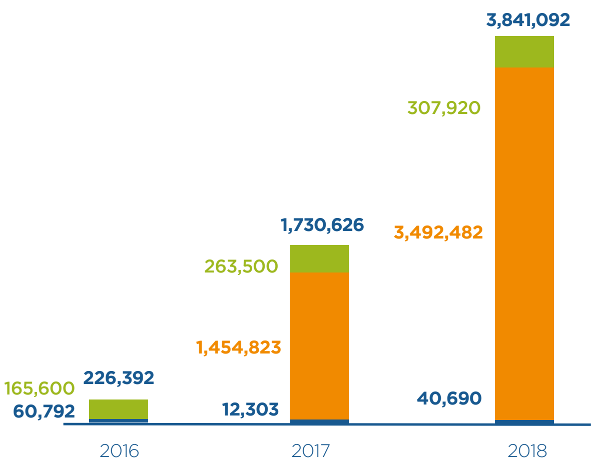
Waste management

MERLIN currently controls the generation of hazardous and non-hazardous waste of 30 of its assets. They are all included in the ISO 14001 corporate environmental management system.

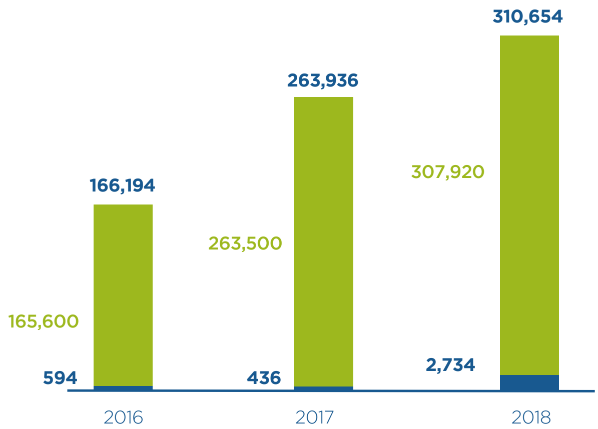
These assets generated total waste of 2018 amounting to 3,841 tonnes, representing an increase of 122% compared to waste generated in 2017, due to the inclusion of new properties in the reporting, mainly the shopping centers Marineda, La Vital and Arturo Soria Plaza. Virtually all waste under control (90.9%) is generated in shopping centres while logistic assets and offices account for the remaining 8% and 1.1%. By nature, practically 100% of waste generated is non-hazardous.

In like for like terms[(1)], there has been a 17% increase associated to Coslada logistic asset generation. This increase is due to the activity carried out by the new tenant, that produces more waste than the previous ones.

Absolute waste generation by asset category (kg generated)



Like for like waste generation by asset category (kg generated)



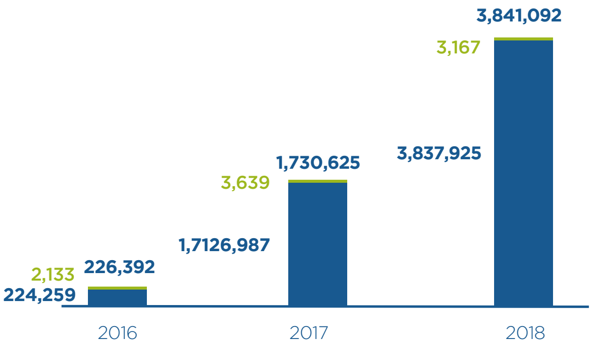
Waste generation in offices

Waste generation in shopping centres

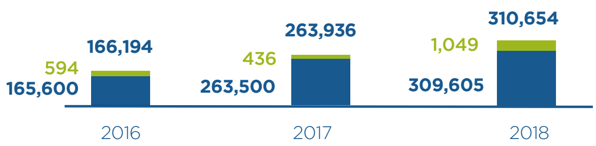
Waste generation in logistic assets

(1) Although there is waste generation information available from Marineda shopping center as well as from Sant Cugat II and Bruselas 24 offices, they have been excluded from the like for like report because they have not reported this information for previous years

Absolute waste generation by type (kg generated)

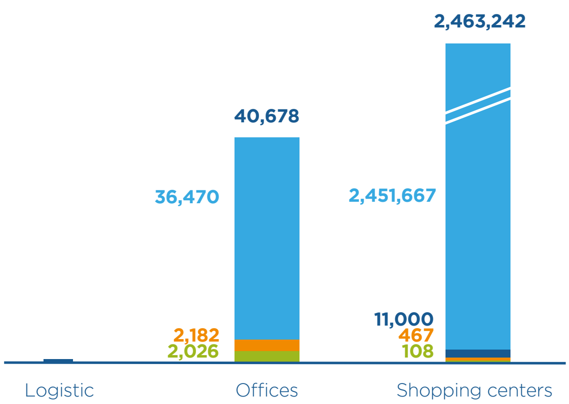


Like for like waste generation by type (kg generated)

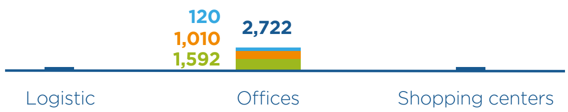


Additionally, MERLIN has information on the final destination of 65% of the waste generated in its reported assets.

Absolute total weight of waste by disposal route (kg generated)



Like for like total weight of waste by disposal route (kg generated)



Elimination Energy Recovery Recovery Recycling

15 STAFF

Staff

MAIN INDICATORS FOR THE YEAR

	2018	Evolution 2017-2018
Number of employees	176[1]	9%
% women in the workforce	41.5%	-1.1 percentage points
Employees with permanent contract	99.4%	=

2018 Milestones	• Broadening of the scope of training provided, making it available to more Company employees. • Implementation of new IT tools for the on-line management of holidays and leave. • First meeting of the entire MERLIN Group in Madrid. • Update the Welcome Guide for all new hirings.
Future challenges	• Initiatives to encourage employees of MERLIN to get involved in voluntary actions. • Development of a consolidated Human Resources Procedures Manual. • Inviting employees to present training proposals.

[1] MERLIN Group includes employees both in MERLIN Properties and its subsidiaries: MERLIN Parques Logísticos, S.A.; GESCENTESTA S.L.; METROPARQUE, S.A.; Parc Logístic de la Zona Franca; SEVISUR Logística, S.A.; VFX Logística.

Distinctive aspects of MERLIN's human capital[1]

Human capital is a key, distinctive factor at MERLIN. All the Group's employees have considerable experience, are skilled, qualified and trained to carry out their functions and have a recognised high capacity for work and commitment, as well as honesty in the performance of their duties.

Despite their varied origins, all the workers share the Company's philosophy and are perfectly aligned to achieve its objectives.

20.5
years of average employee experience

Excellence

MERLIN has a first-rate team, made up of highly skilled professionals with extensive experience in the real estate sector in both Spain and Portugal.

68M€
GAV per employee

Efficiency

MERLIN's professionals manage a volume of assets which is 2.8 times greater than that managed by similar companies, in accordance with its philosophy, which is based on both growth and efficiency.

1.14%
rotation rate

Commitment to the organisation

The Company's professionals are firmly committed to a business project which has resulted in MERLIN becoming the leading Spanish REITs and one of the key players in the European market.

71%
of employees have received training

Independence

The Company has a team of proactive, responsible professionals who are provided with the necessary skills and independence to make decisions.

[1] MERLIN Group includes employees both in MERLIN Properties and its subsidiaries: MERLIN Parques Logísticos, S.A.; GESCENTESTA S.L.; METROPARQUE, S.A.; Parc Logístic de la Zona Franca; SEVISUR Logística, S.A.; VFX Logística.

Workforce composition

MERLIN's professionals are the Company's main asset. MERLIN's Group human capital is currently composed of 176 professionals divided into only two categories (executives, comprising 7% of employees, another employees, the remaining 93%), in line with the Company's horizontal structure strategy.

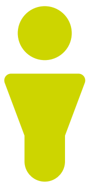
- Management Team. This team is made up of 12 employees (7% of the total headcount), led by CEO Ismael Clemente. They have a wealth of experience in the real estate business and expert knowledge of the Spanish and Portuguese markets, characterized by the pursuit of operational efficiency and impressive track record in terms of value creation.

- Other professionals. Composed of 164 employees. It is a team of highly qualified professionals with considerable experience in the sector, who are firmly committed to and focused on the Company's objectives.

		2018		2017		2016	
		Men	Women	Men	Women	Men	Women
Management team	<30 years	-	-	-	-	-	-
	30-50 years	7	1	8	1	8	1
	>50 years	4	-	3	-	3	-
Other professionals	<30 years	4	4	4	5	4	4
	30-50 years	67	54	58	51	60	76
	>50 years	21	14	20	12	27	15
Total		**176**		**162**		**198**	

Current profile of MERLIN Properties employees[1]

- I represent **41%** of the workforce
- I represent **40%** of recruits in 2018
- I am between **30 and 50 years old** (75% of women)
- I have a **permanent** contract (99%)
- I received 17.6 hours of **training** in 2018



- I represent **59%** of the workforce
- I represent **60%** of recruits in 2018
- I am between **30 and 50 years** old (72% of men)
- I have a **permanent** contract (100%)
- I received 14.1 hours hours of **training** in 2018

[1] As at 31 December 2018

The Relocation Plan has been successfully completed in 2018, with 100% of the employees who signed up for it having been relocated.

Diversity and equal opportunities

As reflected in the Company's Code of Conduct, MERLIN promotes equal opportunity and non-discrimination in all phases of the working relationship with employees, regarding access to employment, training, promotion and working conditions.

MERLIN is also firmly committed to the social inclusion and integration into the labour market of people with disabilities.

The Company has 5 employees with disabilities on its workforce, currently accounting for 3% of its headcount, all of whom are on permanent part-time contracts. These professionals are fully integrated and perform necessary and valuable activities for the Company.

MERLIN therefore exceeds the requirements of the current legislation in this respect (the LGD, the General Law on Disability, formerly the LISMI) through direct hirings.

Talent attraction and retention

When hiring employees, MERLIN guarantees equal opportunity and transparency, selecting new professionals based on their skills, knowledge and alignment with corporate values and objectives.

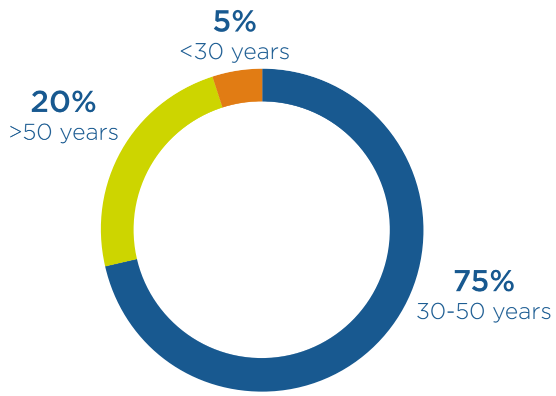
MERLIN has taken on 20 new employees during 2018, 40% of whom are female.

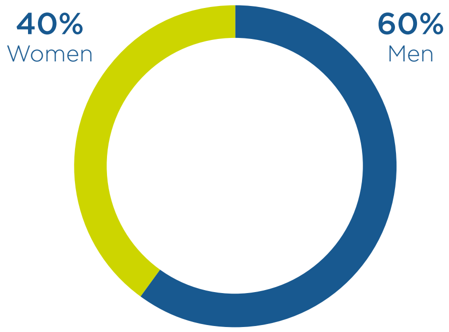
In order to attract new talent, the Company signs collaboration agreements with top educational institutions to both favour the integration of new job seekers and identify the highest academic achievers. MERLIN currently has agreements with the following institutions: Universidad Autónoma de Madrid, Universidad Carlos III, Universidad Pontificia de Comillas and Universidad de Navarra.

In the framework of these agreements, MERLIN has been supported by two interns in 2018.

For talent retention purposes, MERLIN analyses ways to motivate and reward its professionals for their involvement and commitment. Four key mechanisms are now used for this purpose: remuneration, professional development, flat organization and social benefits.

Profile of MERLIN's hirings in 2018





Talent retention. Main tools

26% of employees currently participating in the Company's Long-Term Incentive Plan

REMUNERATION

Remuneration is a key tool to attract and retain the best talent. The Company's remuneration system includes three distinctive features:

- Flattest pay slope in the entire IBEX-35.
- Highest average salary of the entire IBEX-35.
- Prioritisation of performance over any other variable when determining remuneration. Continuous monitoring of the employees' evolution.

The Long-term Incentive Plan for employees has been consolidated during 2018. There are currently 45 employees participating in the LTIP.

100% employees with access to social benefits and full medical insurance

FLEXIBLE REMUNERATION AND FRINGE BENEFITS

In addition to MERLIN's remuneration system, the Company provides fringe benefits and alternative remuneration schemes for all its employees.

In 2018, MERLIN has continued to standardize the conditions and fringe benefits of all its personnel. MERLIN has equalized and improved the provision of life insurance policy to all its employees, with the Company assuming the full cost of this.

Similarly, all employees have access to the flexible remuneration schemes made available by the Company (training, kindergarten vouchers, transport cards and restaurant vouchers).

2,738 h training to employees

PROFESSIONAL DEVELOPMENT

The proactiveness of MERLIN's professionals is the key to their progress.

The Company's horizontal structure and youth allows its professionals to define the pace and direction of development based on their capabilities and aspirations. During their time at the Company, all professionals have the opportunity to move between different positions and take on new responsibilities.

MERLIN also offers its employees on-the-job training, to reinforce their professional development. This training comprises three strands:

- Language training plan: MERLIN has extended its language training, now being offered to both the employees at the Company's headquarters and to its employees in Barcelona, as a result of which the number employees who are able to sign up for it has increased by 16%.
- Focused training: MERLIN enables its employees to select the courses best suited to their specific needs.
- Shared knowledge: Over its 20 years' experience, the workforce at MERLIN has built up considerable knowledge on the management tools developed by its work teams and procedures, and the Company views the reinforcement and transfer of such knowledge as a priority. The Company therefore provides annual "internal training" courses which are given by members of MERLIN's own personnel to their colleagues. During 2018, the training of this type provided has consisted of courses on Office and new digitization tools such as Power BI.

In addition, all new employees receive training in the Prevention of Occupational Risks when they join the Company.

MERLIN will carry out a new employee satisfaction survey in 2019.

COMMUNICATION

One of the main reasons for MERLIN's desire to keep its current structure is related to the effectiveness of its communication with the employees. The Company is well aware of the importance of having communication channels in place to ensure staying informed regarding the concerns and opinions of its employees.

MERLIN has therefore focused part of its efforts on the development of new communication channels and the reinforcement of existing channels:

- In 2018, the Company held the Group's first global meeting in Madrid, attended by all the company's employees from different geographies.
- MERLIN celebrated again the annual asset management meeting, in which 73 employees participated, including senior management, the asset managers of different portfolios and different corporate departments. The aim was to favour the adoption of a culture common to all the various teams, and give the participants first-hand knowledge of the assets and see the synergies existing between them.

MERLIN continues to work on improving its communications channels. As part of it, MERLIN will carry out a new employee satisfaction survey in 2019.

Employee involvement with the community

MERLIN knows that its professionals value being part of an organisation aware of the problems and needs of the communities where its activities are developed and uses available tools and resources to help improve it.

In this respect, the Company has further consolidated those programs which aim to reinforce the involvement of both MERLIN and its employees with the wider community.

THE MERLIN CORPORATE SOCIAL RESPONSIBILITY PLAN

50
foundations benefited

17%
employees involved

>320 k€
in donations

The Company, within the framework of its CSR Plan - whereby it undertakes to allocate a percentage of its revenues (up to 0.1% of the gross rental income) to social projects and programmes - has donated almost €220,000.

Complementary to these corporate contributions, the CSR Plan looks to duplicate employees, directors or executives contributions to social projects, by MERLIN. Donations corresponding to this second strand of the Plan - under which the contributions made may be either financial or consist of volunteer work - amounted a total of more than 100,000 euros.

Total number of foundations with which MERLIN has colaborated amount to 50.

Also within the context of this same initiative, MERLIN's employees were given the opportunity to see for themselves the work carried out by "Empieza por Educar", one of the associations with which MERLIN has collaborated within the framework of this Plan.

VOLUNTARY TRAINING BY MERLIN PROFESSIONALS

94
hours devoted to teaching

Twenty one MERLIN professionals have voluntarily delievered training as part of the university degree "Intensificación en Planificación y Gestión Inmobiliaria" of the Quantity Surveyor's School of the Universidad Politécnica de Madrid, donating the associated course fees to academic grants for the course's best students

MERLIN's aim, through initiatives such as this, is to encourage its employees involvement in the communities, fostering their development and supporting the most disadvantaged groups.

APPENDIX

EPRA METRICS

EPRA EARNINGS

(€ thousand)

Consolidated net profit in accordance with IFRS	**854,879**
Adjustments to calculate EPRA earnings	(594,233)
(i) changes in value of investment properties	(641,166)
(ii) gain/(losses) on disposal of assets	(6,815)
(iii) absorption of revaluation on investment properties	-
(iv) one-off taxes	53,629
(v) share in equity method investees	(92,650)
(vi) negative difference in business combination	20,523
(vii) changes in fair value of financial instruments and cancellation costs	76,444
(viii) impairment of fiscal credit	-
(ix) gain/(losses) on disposal of financial instruments	(4,198)
Minority interests in respect of previous adjustments	-
EPRA net earnings pre-specific adjustments	**260,646**
EPRA net earnings per share pre-specific adjustments (weighted)	**0.55**
EPRA net earnings per share pre-specific adjustments	**0.55**
Company specific adjustments:	26,211
(i) LTIP provision	43,435
(ii) non overhead general expenses	5,018
(iii) one-off service fees	(22,242)
Minority interests in respect of previous adjustments	-
EPRA net earnings post-specific adjustments	**286,857**
EPRA net earnngs per share post-specific adjustments (weighted)	**0.61**
EPRA net earnngs per share post-specific adjustments	**0.61**

EPRA NAV

(€ thousand)

Equity in balance sheet		**6,401,836**
Derivatives Mark-to-market		39,807
Deferred taxes Mark-to-market:		578,149
Deffered tax assets	(88,415)	
Deffered tax liabilities	666,563	
Cost of debt		(95,799)
Revaluations not recorded in the financial statements		31,874
Adjustment in tangible assets	339	
Adjustment in equity method	31,535	
EPRA NAV		**6,955,867**
Shares		**469,770,750**
EPRA NAV/ share		**14.81**

EPRA YIELDS

(€ thousand)	Offices	Shopping centers	Logistics
Gross asset value	5,513,077	2,265,318	830,481
Exclude:			
WIP & Land			
Commercial property portfolio GAV	5,513,077	2,265,318	830,481
Gross rents annualized	**232,511**	**116,048**	**51,145**
Exclude:			
Propex not recharged to tenants	(20,857)	(12,964)	(3,607)
"Topped-up" net rents annualized	**211,654**	**103,083**	**47,538**
Exclude:			
Incentives	(11,418)	(4,444)	(2,337)
Net rents annualized	**200,236**	**98,640**	**45,201**
EPRA "topped-up" yield	**3.8%**	**4.6%**	**5.7%**
EPRA net initial yield	**3.6%**	**4.4%**	**5.4%**

High Street Retail	Other	WIP	TOTAL
2,220,070	422,404	589,120	11,840,470
	(105,063)	(589,120)	(694,183)
2,220,070	317,341	-	11,146,288
95,043	**13,994**	-	**508,740**
(1,539)	(1,174)	-	(40,140)
93,504	**12,820**	-	**468,600**
(538)	(251)	-	(18,987)
92,966	**12,570**	-	**449,613**
4.2%	**4.0%**		**4.2%**
4.2%	**4.0%**		**4.0%**

EPRA COST RATIO

(€ thousand)	31/12/18
Property expenses not recharged to tenants	(41,748)
Collection loss	(424)
Personnel expenses	(73,843)
Opex general expenses	(9,181)
Opex non-overhead general expenses	(5,018)
LTIP accrual	43,435
Exclude:	
Investment property depreciation	-
Ground rent costs	-
Service charge recovered through rents but not invoiced separately	-
Expenses related to 3rd party asset management services	-
EPRA cost ratio (including direct vacancy costs)	**(86,779)**
Gross rents	499,708
Less: incentives	(24,062)
Less: service fee if part of gross rents	-
Add: income o Joint-Ventures	-
Gross rental income	**475,646**
EPRA Cost ratio	**18.2%**
EPRA Cost ratio (excluding non-overhead general expenses)	**17.2%**

ALTERNATIVE PERFORMANCE MEASURES

In accordance with the recommendations issued by the European Securities and Markets Authority (ESMA), the alternative performance measures ("APM") are described as follows.

GLOSSARY

Average debt maturity (years)

This APM represents the average debt duration of the Company until maturity.

It is a relevant metric as it provides the investor with the relevant information about the repayment commitments of the financial liabilities.

It is calculated as the addition of the pending years to maturity of each loan multiplied by its outstanding loan amount and divided by the total outstanding amount of all loans.

Given the nature of the metric, it is not possible to reconcile it with the Group financial statements but the main information is available in note 15 of the consolidated financial statements.

Average passing rentt

It represents the rent per square meter per month at which an asset or category of assets are rented at a moment in time.

The average passing rent is a relevant performance metric as it shows the implied rents of all the prevailing lease contracts of the company at a moment in time per square meter and per month enabling the comparison with market rents.

Given the nature of the metric, it is not possible to reconcile it with the financial statements.

Release spread

Difference between the new rent signed and the old prevailing rent on renewals (same space, same tenant) or relets (same space, different tenant) during last twelve months.

The release spread provides the investor with a view on the prospective rental behaviour when negotiating with the tenants.

It is calculated on a lease by lease basis and therefore it is not possible to reconcile it with the financial statements.

Rents Like-for-like

Amount of the gross rents (note 9.2 of consolidated financial statements) comparable between two periods. It is calculated on an asset by asset basis excluding from both periods the rents derived from acquisitions or disposals executed in such periods as well as other adjustments like early termination penalties from lease contracts.

We consider the rental like-for-like growth a relevant metric to understand the evolution of rents os an asset or an asset category.

It is calculated on an asset by asset basis and therefore it is not possible to reconcile it with the financial statements.

Gross annualized rents

Passing rent as of the balance sheet date multiplied by 12.

We consider the gross annualized rents a relevant performance metric as it represents the total amount of rents of the prevailing lease contracts at a given time enabling the calculation of the return of each asset (Gross yield).

Given the nature of the metric, it is not possible to reconcile it with the financial statements.

GAV

The GAV is the Gross Asset Value as of the latest available valuation report plus the advanced payments of turn-key projects and developments at cost.

The GAV is a standard valuation metric for comparison purpose, recognized on a global basis in the real estate sector, and performed by an independent external appraisal.

The reconciliation with the financial statements appears in Section 6 of this report (Notes to the consolidated balance sheet).

Gross yield
It represents the return of an asset or category of assets. It is calculated by dividing the annualized gross rent between the latest available GAV.

Wault
Weighted average unexpired lease term, calculated as the number of years of unexpired lease term, as from the date balance sheet, until the lease contract first break weighted by the gross rent of each individual contract.

We consider the Wault a relevant metric as it provides the investor with the average term of secured leases and gives a sense of risk or opportunity to renegotiate the prevailing lease contracts.

Given the nature of the metric, it is not possible to reconcile it with the Group financial statements.

Revenues
Is the addtion of the total gross rent income (€ 499.7m), note 9.2 of the consolidated financial statements, and the other operating income excluding extraordinaries (€ 9.8m).

The reconciliation with IFRS appears in the table thereafter.

Accounting EBITDA
The accounting EBITDA is calculated as the net operating income before net revaluations, amortizations, provisions, interest and taxes.

The accounting EBITDA is a performance metric widely used by investors to value companies, as well as the rating agencies and creditors to evaluate the level of indebtedness.

The reconciliation with IFRS metrics appears in the table hereafter.

EBITDA
The EBITDA is calculated as the Accounting EBITDA deducting the "non-overheads" costs and the LTIP Provision.

The EBITDA is a very useful metric as it excludes the impact of atypical costs incurred in the period. The atypical costs or "non-overheads" costs are the ones related to the acquisition and disposal of assets and indemnities among others (as described in the IPO prospectus).

The reconciliation with IFRS metrics appears in the table hereafter.

Accounting FFO and FFO
Accounting FFO or Accounting Funds From Operations is calculated as EBITDA less debt interest expenses and recurring taxes (excluding taxes from disposals or other extraordinary events).

FFO is calculated deducting the non-overheads costs of the company from the Accounting FFO.

It is a relevant performance and liquidity metric recognized on a global basis in the real estate sector.

MERLIN Properties, as a member of EPRA (European Public Real Estate Association), follows EPRA's best practices reporting standards which enables the investor to better compare certain performance metrics that are specific to the real estate sector. This metrics are released on a semi-annual basis and detailed in the management report.

EPRA costs
It is calculated as total operating costs of the company divided by the gross rents net of incentives.

This performance metric shows the operating efficiency on a recurring basis.

The reconciliation with the Financial Statements appears in the Appendix of this report and relates to the notes 19b, 19c and 9.2 of the consolidated financial statements.

EPRA Earnings
Earnings from core operational activities as per EPRA's recommendations.

The reconciliation with the Financial Statements appears in the Appendix of this report and relates to the Income statement and notes 10, 15e and 19a of the consolidated financial statements.

EPRA NAV and EPRA NNNAV
EPRA Net Asset Value is calculated based on the consolidated shareholders' equity of the Group adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long term investment property business model, as per EPRA's recommendations.

EPRA NNNAV: is the EPRA NAV adjusted to include the fair value of financial instruments, debt and deferred taxes. Corresponds to the liquidation value of a real estate company, as per EPRA's recommendations.
EPRA NAV is the reference performance metric to compare the fundamental value of a real estate company with its trading price.

The reconciliation with the Financial Statements appears in the Appendix of this report and relates to the Balance Sheet and notes 15.3 and 15.5, 7 and 14.1 of the consolidated financial statements.

EPRA Yields
Net Initial Yield: Annualised rental income based on the passing rents at the balance sheet date, less non recoverable property operating expenses, divided by the market value of the property (GAV) increased with acquisition costs.

EPRA "Topped-up" NIY: Adjustment to the EPRA Net Initial Yield in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and step rents).

These are two relevant performance metrics widely used to compare the return of the real estate assets in the portfolio, based on the prevailing lease contracts at a given date regardless of the financial structure of the company as per EPRA's recommendations.

The calculation is provided in the Appendix of this report.

Given the nature of the metric, it is not possible to reconcile it with the Group financial statements.

EPRA Vacancy Rate
Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio.

Given the nature of the metric, it is not possible to reconcile it with the Group financial statements.

RECONCILIATION OF THE ALTERNATIVE PERFORMANCE MEASURES WITH CONSOLIDATED FINANCIAL STATEMENTS

(€ thousand)	Notes	2018	2017
Total revenues	19a	590,431	463,294
Other operating income	Consolidated income statement	6,978	4,289
Personal expenses	19c	(73,941)	(71,759)
Other operating expenses	19b	(56,274)	(51,994)
Extraordinary income (Testa Residencial)	19a	(89,721)	-
Extraordinary income (Aedas)	19a	(22,242)	-
Accounting EBITDA		**355,232**	**343,830**
Costs related to acquisition and disposals	19b	4,802	4,110
Other costs	19b	118	702
Severances	19c	98	140
Non-overhead costs	19b y 19c	5,018	4,952
Long term incentive plan	19c	43,435	43,839
EBITDA		**403,685**	**392,621**
Financial expenses excluding debt arrangement costs	19d y 15.5	(119,298)	(108,374)
Equity method net income	n/d	6,987	7,398
Minorities	Balance Sheet	-	(110)
Current taxes	n/d	(4,517)	(2,369)
FFO		**286,857**	**289,167**
Non-overhead costs	19b y 19c	(5,018)	(4,952)
Accounting FFO		**281,839**	**284,215**

(€ thousand)	Notes	2018	2017
Gross rental income	9,2	499,708	469,405
Revenue from rendering of services	19a	114,758	8,213
Extraordinary income (Testa Residencial)	19a	(89,721)	-
Extraordinary income (Aedas)	19a	(22,242)	-
Other operating income	Consolidated Income statement	6,978	4,289
Additional income within the total revenues	n/d	27	2,430
Revenues		**509,508**	**484,337**

LIST OF ASSETS

Asset	Location	G.L.A sqm AG
Torre Castellana 259	Madrid	21,390
Castellana 280	Madrid	16,918
Castellana 278	Madrid	14,468
Castellana 93	Madrid	11,650
Castellana 83	Madrid	15,254
Plaza Pablo Ruíz Picasso	Madrid	31,576
Alcala 40	Madrid	9,315
Principe de Vergara 187	Madrid	10,732
Alfonso XI	Madrid	9,945
Pedro de Valdivia 10	Madrid	6,721
Beatriz de Bobadilla 14	Madrid	16,979
Princesa 3	Madrid	17,810
Princesa 5	Madrid	5,788
Ventura Rodriguez 7	Madrid	10,071
Juan Esplandiu 11-13	Madrid	28,008
Eucalipto 33	Madrid	7,185
Eucalipto 25	Madrid	7,368
Santiago de Compostela 94	Madrid	13,130
Parking Princesa*	Madrid	-
Total Madrid Prime + CBD		**254,330**
Ulises 16-18	Madrid	9,576
Josefa Valcarcel 48	Madrid	19,893
Alvento	Madrid	32,928
Cristalia	Madrid	11,712
Trianon	Madrid	18,400
Ribera del Loira 36-50	Madrid	39,150
Ribera del Loira 60	Madrid	54,960
Partenon 12-14	Madrid	19,609
Partenon 16-18	Madrid	18,343
Arturo Soria 128	Madrid	3,206
Total Madrid NBA A2		**227,778**

*Below ground surface has not been taken into account for G.L.A. purposes.

Asset	Location	G.L.A sqm AG
Torre Chamartin*	Madrid	18,295
Arturo Soria 343	Madrid	6,615
Manoteras 18	Madrid	7,515
Fuente de la Mora	Madrid	4,482
Aquamarina	Madrid	10,856
Via Norte	Madrid	37,224
María de Portugal 9-13	Madrid	17,191
Las Tablas	Madrid	27,073
Avenida de Burgos 210	Madrid	6,176
Manuel Pombo Angulo 20	Madrid	3,623
Miniparc Alcobendas I	Madrid	9,195
Miniparc Alcobendas II	Madrid	3,347
Avenida de Bruselas 24	Madrid	9,164
Avenida de Bruselas 26	Madrid	8,895
Avenida de Bruselas 33	Madrid	33,718
Avenida de Europa 1A	Madrid	12,605
Avenida de Europa 1B	Madrid	12,606
Maria de Portugal T2	Madrid	17,139
Adequa 1	Madrid	27,399
Adequa 2*	Madrid	5,013
Adequa 3	Madrid	15,937
Adequa 5	Madrid	13,790
Adequa 6	Madrid	13,789
Adequa 4*	Madrid	14,926
Adequa 7*	Madrid	26,744
Total Madrid NBA A1		**364,367**
Francisco Delgado 9A	Madrid	5,496
Francisco Delgado 9B	Madrid	5,400
Costa Brava 2-4	Madrid	16,000
Costa Brava 6-8*	Madrid	14,000
Avenida de Aragon 334	Madrid	3,890
Atica 1	Madrid	7,080
Atica 2	Madrid	5,644
Atica 3	Madrid	5,746
Atica 4	Madrid	4,936
Atica 5	Madrid	9,526
Atica 6	Madrid	3,790
Atica XIX	Madrid	15,411
Cerro Gamos 1	Madrid	35,498
El Plantío 6 G	Madrid	1,780

*Project under development

Asset	Location	G.L.A sqm AG
El Plantío 8 F	Madrid	1,723
El Plantío 10 E	Madrid	1,749
El Plantío 12 D	Madrid	1,816
Copenhague 4-8	Madrid	5,972
Alvia	Madrid	23,567
Euronova	Madrid	32,665
Total Madrid Periphery		**201,333**
Diagonal 605	Catalonia	14,795
Diagonal 514	Catalonia	9,664
Diagonal 458	Catalonia	4,174
Balmes 236-238	Catalonia	6,187
Vilanova 12-14	Catalonia	16,494
Gran Vía Cortes Catalanas 385	Catalonia	5,190
Total Barcelona Prime + CBD		**56,504**
Citypark Cornella	Catalonia	12,916
WTC6	Catalonia	14,461
WTC8	Catalonia	14,542
Av. Parc Logistic 10-12 (PLZFA)	Catalonia	11,411
Av. Parc Logistic 10-12 (PLZFB)	Catalonia	10,652
Total NBA WTC		**63,982**
Diagonal 211 (Torre Glòries)*	Catalonia	37,614
Diagonal 199	Catalonia	5,934
Llull 283 (Poble Nou 22@)	Catalonia	31,337
Total NBA 22@		**74,884**
Muntadas I	Catalonia	24,380
Muntadas II	Catalonia	3,783
Sant Cugat I	Catalonia	15,379
Sant Cugat II	Catalonia	10,008
Total Periphery		**53,548**
Monumental	Lisbon	16,892
Marques de Pombal 3	Lisbon	12,460
Total Lisbon Prime + CBD		**29,352**

*Project under development

Asset	Location	G.L.A sqm AG
Lisboa Expo	Lisbon	6,740
Torre Lisboa	Lisbon	13,715
Central Office	Lisbon	10,310
Torre Zen	Lisbon	10,207
Total Lisbon NBA		**40,972**
Lerida - Mangraners	Catalonia	3,228
Zaragoza - Aznar Molina	Zaragoza	4,488
Sevilla - Borbolla	Andalusia	13,037
Granada - Escudo del Carmen	Andalusia	2,041
TOTAL OFFICES		**1,389,843**
Marineda	Galicia	100,207
Arturo Soria	Madrid	5,974
Centro Oeste	Madrid	10,876
Tres Aguas	Madrid	67,009
Leroy Merlin Getafe	Madrid	10,007
X-Madrid*	Madrid	47,424
Larios	Andalusia	40,805
Porto Pi	Mallorca	32,119
Artea	Basque Country	24,323
Arenas	Catalonia	31,918
Vilamarina	Catalonia	32,224
La Fira	Catalonia	29,013
El Saler	Valencian C.	26,262
La Vital	Valencian C.	20,868
Bonaire	Valencian C.	17,559
Medianas Bonaire	Valencian C.	4,584
Thader	Murcia	48,646
Monumental SC	Lisbon	5,495
TOTAL SHOPPING CENTERS		**555,313**

*Project under development

Asset	Location	G.L.A sqm AG
Madrid-Coslada	Madrid	28,491
Madrid-Coslada Complex	Madrid	36,234
Madrid-Getafe	Madrid	16,242
Madrid-Getafe (Los Olivos)	Madrid	11,488
Madrid-Meco I	Madrid	35,285
Madrid-Pinto I	Madrid	11,099
Madrid-Pinto II A	Madrid	29,544
Madrid-Pinto II B	Madrid	29,473
Madrid-Getafe (Gavilanes)	Madrid	39,576
Madrid-Meco II	Madrid	59,891
Madrid-San Fernando I	Madrid	11,165
Madrid-San Fernando II*	Madrid	34,224
Guadalajara-Alovera	Castilla La Mancha	38,763
Guadalajara-Azuqueca I	Castilla La Mancha	27,995
Guadalajara-Azuqueca II*	Castilla La Mancha	98,000
Guadalajara-Azuqueca III*	Castilla La Mancha	51,000
Guadalajara-Cabanillas I	Castilla La Mancha	70,134
Guadalajara-Cabanillas II	Castilla La Mancha	15,078
Guadalajara-Cabanillas Park I A	Castilla La Mancha	38,054
Guadalajara-Cabanillas Park I B	Castilla La Mancha	17,917
Guadalajara-Cabanillas Park I C	Castilla La Mancha	48,952
Guadalajara-Cabanillas Park I D	Castilla La Mancha	47,892
Guadalajara-Cabanillas Park I E	Castilla La Mancha	49,793
Guadalajara-Cabanillas Park I F*	Castilla La Mancha	15,000
Guadalajara-Cabanillas Park II*	Castilla La Mancha	210,678
Barcelona-ZAL Port	Catalonia	719,377
Barcelona-Lliça del Vall	Catalonia	14,911
Barcelona-Sant Esteve	Catalonia	16,811
Barcelona- Castellbisbal	Catalonia	21,508
Barcelona-PLZF	Catalonia	132,554
Zaragoza-Pedrola	Zaragoza	21,579
Zaragoza-Plaza	Zaragoza	20,764
Zaragoza Plaza - logistics*	Zaragoza	11,262
Valencia-Almussafes	Valencian C.	26,613
Vitoria-Jundiz	Basque Country	72,717
Vitoria-Jundiz II	Basque Country	26,774
Sevilla Zal	Andalusia	114,128
SPL	Lisbon	-
TOTAL LOGISTICS		**2,313,827**

*Project under development

Asset	Location	G.L.A sqm AG
Tree		365,916
Caprabo	Catalonia	64,252
Plaza de los Cubos	Madrid	13,479
Callao 5	Madrid	11,629
Torre Madrid locales	Madrid	4,393
Locales Plaza Castilla	Madrid	311
TOTAL HIGH STREET RETAIL		**459,980**
Eurostars Torre Castellana 259	Madrid	31,800
General Ampudia 12*	Madrid	-
Yunque	Madrid	1,780
San Francisco de Sales	Madrid	171
Amper	Madrid	22,510
Torre Madrid residencial	Madrid	120
Novotel Diagonal 199	Catalonia	15,332
Jovellanos 91	Catalonia	4,519
Rambla Salvador Sama 45-47-49	Catalonia	1,140
CIM Valles	Catalonia	25,724
Hotel Marineda	Galicia	5,898
Parking Palau*	Valencian C.	-
Bizcargi 1 1D	Basque Country	46
Arapiles 8	Madrid	n.a.
Valdebebas - office land	Madrid	n.a.
Zaragoza - residencial land	Zaragoza	n.a.
Navalcarnero	Madrid	n.a.
TOTAL OTHER		**108,574**

*Belongs ground surface has not been taken into account for G.L.A. purposes

MERLIN
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MERLIN PROPERTIES, SOCIMI, S.A.
Formulación de las Cuentas Anuales Consolidadas e Informe de Gestión Consolidado correspondientes al ejercicio finalizado el 31 de diciembre de 2018.

En cumplimiento de lo dispuesto en los artículos 365 y 366 del Reglamento del Registro Mercantil, en relación con el artículo 253, apartado primero, de la vigente Ley de Sociedades de Capital, el Consejo de Administración de MERLIN Properties, SOCIMI, S.A. (la "**Sociedad**") formula las cuentas anuales consolidadas y el informe de gestión consolidado correspondientes al ejercicio social finalizado el 31 de diciembre de 2018 que anteceden a la presente diligencia, y constan extendidas las primeras en [hay número] folios de papel común, y el Informe de Gestión (junto con su documentación complementaria y/o anexa) en [hay número] folios de papel común (sin incluir el Informe Anual de Gobierno Corporativo).

Asimismo, mediante la suscripción y firma del presente folio de firmas, y en cumplimiento de lo dispuesto en el apartado segundo del mencionado artículo 253, los miembros que integran el Consejo de Administración de la Sociedad declaran firmados de su puño y letra todos y cada uno de los citados documentos, que han sido rubricados en todas sus páginas por el Vice-Secretario no consejero a los solos efectos de su identificación.

D. Javier Garcia-Carranza Benjumea (Presidente)	D. Ismael Clemente Orrego (Vicepresidente)
Dña. Francisca Ortega Hernández-Agero (Vocal)	D. John Gómez-Hall (Vocal)
Dña. María Luisa Jorda Castro (Vocal)	Dña. Pilar Cavero Mestre (Vocal)
D. Juan María Aguirre Gonzalo (Vocal)	D. Miguel Ollero Barrera (Vocal)
D. Fernando Javier Ortiz Vaamonde (Vocal)	Dña. Ana María García Fau (Vocal)
D. Emilio Novela Berlin (Vocal)	D. George Donald Johnston (Vocal)

Madrid, a 26 de febrero de 2019.

DILIGENCIA DEL VICE-SECRETARIO DEL CONSEJO DE ADMINISTRACIÓN para hacer constar que las cuentas anuales consolidadas (junto con su informe de gestión) de MERLIN Properties, SOCIMI, S.A. no han sido firmadas por (i) D. George Donald Johnston y (ii) Dña. Ana María García Fau, por no haber asistido personalmente a la reunión del Consejo de Administración en la que se han formulado dichas cuentas anuales. Sin perjuicio de lo anterior, dichos Consejeros (a) han mostrado expresamente su conformidad con su contenido y voto a favor de las mismas, y (b) D. George Donald Johnston ha facultado expresamente al Consejero D. Juan María Aguirre Gonzalo y Dña. Ana María García Fau ha facultado expresamente a la consejero Dña. Marisa Jordá Castro para que en su nombre, firmen los referidos estados financieros

Ildefonso Polo
Vice-Secretario del Consejo de Administración
Fecha: 26 de febrero de 2019

MERLIN Properties, SOCIMI, S.A.
DECLARACIÓN DE RESPONSABILIDAD DE LAS CUENTAS ANUALES 2018

Los miembros del Consejo de Administración de MERLIN Properties, SOCIMI, S.A. declaran que, hasta donde alcanza su conocimiento, las cuentas anuales individuales de MERLIN Properties, SOCIMI, S.A., así como las consolidadas con sus sociedades dependientes, correspondientes al ejercicio social cerrado a 31 de diciembre de 2018, formuladas por el Consejo de Administración en su reunión de 26 de febrero de 2019 y elaboradas conforme a los principios de contabilidad que resultan de aplicación, ofrecen la imagen fiel del patrimonio, de la situación financiera y de los resultados de MERLIN Properties, SOCIMI, S.A., así como de las sociedades dependientes comprendidas en la consolidación, tomadas en su conjunto, y que los informes de gestión complementarios de las cuentas anuales individuales y consolidadas (junto con la documentación anexa y/o complementaria a los mismos) incluyen un análisis fiel de la evolución y los resultados empresariales y de la posición de MERLIN Properties, SOCIMI, S.A. y de las sociedades dependientes comprendidas en la consolidación, tomadas en su conjunto, así como la descripción de los principales riesgos e incertidumbres a que se enfrentan.

D. Javier Garcia-Carranza Benjumea (Presidente)	D. Ismael Clemente Orrego (Vicepresidente)
Dña. Francisca Ortega Hernández-Agero (Vocal)	D. John Gómez-Hall (Vocal)
Dña. María Luisa Jorda Castro (Vocal)	Dña. Pilar Cavero Mestre (Vocal)
D. Juan María Aguirre Gonzalo (Vocal)	D. Miguel Ollero Barrera (Vocal)
D. Fernando Javier Ortiz Vaamonde (Vocal)	Dña. Ana María García Fau (Vocal)
D. Emilio Novela Berlin (Vocal)	D. George Donald Johnston (Vocal)

En Madrid, a 26 de febrero de 2019.

DILIGENCIA DEL VICE-SECRETARIO DEL CONSEJO DE ADMINISTRACIÓN para hacer constar que las cuentas anuales individuales y consolidadas (junto con sus informes de gestión) de MERLIN Properties, SOCIMI, S.A. (y la presente declaración de responsabilidad) no han sido firmadas por (i) D. George Donald Johnston y (ii) Dña. Ana María García Fau, por no haber asistido personalmente a la reunión del Consejo de Administración en la que se han formulado dichas cuentas anuales. Sin perjuicio de lo anterior, dichos Consejeros (a) han mostrado expresamente su conformidad con su contenido y voto a favor de las mismas, y (b) D. George Donald Johnston ha facultado expresamente al Consejero D. Juan María Aguirre Gonzalo y Dña. Ana María García Fau ha facultado expresamente a la consejero Dña. Marisa Jordá Castro para que en su nombre, firmen los referidos estados financieros y la declaración de responsabilidad sobre el contenido de los mismos.

Ildefonso Polo
Vice-Secretario del Consejo de Administración
Fecha: 26 de febrero de 2019