

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

Audit Report

Consolidated Annual Accounts as at 31 December 2021

Consolidated Directors' Report



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

Independent auditor's report on the consolidated annual accounts

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

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Inmobiliaria Colonial, SOCIMI, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the financial statement as at 31 December 2021, and the income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at 31 December 2021, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

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

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

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

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter
<p data-bbox="277 470 670 504">Valuation of Investment Property</p> <p data-bbox="277 526 842 996">The Group has real estate assets which are recognized under the heading Investment property, at an amount of EUR 12,183,368 thousand at 31 December 2021, using the fair value model in accordance with IAS 40 Investment property, and represent 96% of total assets. Similarly, in 2021 the heading Variation in value of investment property reflects a profit of EUR 441,134 thousand in respect of these assets, having a significant impact on consolidated results for the year before tax. Information on the assets included in this heading is disclosed in Notes 4.4, 9 and 19.7 to the accompanying consolidated annual accounts.</p> <p data-bbox="277 1019 842 1243">In order to obtain the fair value of these assets, the Group requests independent expert valuations. The fair value is determined according to the discounted cash flow method in accordance with standard market practice. These valuations are based on significant judgements and estimates.</p> <p data-bbox="277 1276 842 1650">We therefore focused on this area given the materiality of investment property with respect to total assets and the effect of its valuation on the Group's results and the significant judgements and estimates assumed by management. Changes in such assumptions could lead to a significant variation in the fair value of those assets and their impact on the consolidated income statement, the consolidated statement of comprehensive income and the consolidated statement of financial position.</p>	<p data-bbox="861 526 1471 683">We obtained the valuations of all investment properties performed at year end by independent experts and assessed them in terms of the requirements of competence and independence and found no exceptions.</p> <p data-bbox="861 716 1471 1332">We checked that the valuations were performed in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors (RICS) of Great Britain and in accordance with the International Valuation Standards (IVS) published by the International Standards Valuation Committee. In this regard, we held meetings with the valuers and our internal experts, verifying for a sample of those valuations the reasonableness of the variables used, such as the discount rate employed and the rental increase considered as well as other variables considered necessary in order to complete the valuations such as the final return, the term of the rental contracts and type and age of the buildings, their location and occupancy rate. Similarly, for a sample of assets, we verified through the sales and purchase deeds, the technical specifications used by the independent experts when determining the fair value of those assets.</p> <p data-bbox="861 1355 1471 1456">Lastly, we assessed the corresponding disclosures in Notes 4.4, 9 and 19.7 to the accompanying consolidated annual accounts.</p> <p data-bbox="861 1478 1471 1601">We consider that we have obtained sufficient audit evidence in the course of our work concerning the reasonableness of the valuation of the Group's investment properties.</p>



Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2021 financial year, the formulation of which is the responsibility of the Parent company's directors and does not form an integral part of the consolidated annual accounts.

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

- a) Verify only that the certain information included in the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration, as referred to in the Auditing Act, has been provided in the manner required by applicable legislation and, if not, we are obliged to disclose that fact.
- b) Evaluate and report on the consistency between the rest of the information included in the consolidated management report and the consolidated annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned financial statements, as well as to evaluate and report on whether the content and presentation of this part of the consolidated management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have verified that the information mentioned in section a) above has been provided in the manner required by applicable legislation and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2021 financial year, and its content and presentation are in accordance with applicable regulations.

Responsibility of the directors and the audit and control commission for the consolidated annual accounts

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

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

The Parent company's audit and control commission is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.



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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company's directors.
- Conclude on the appropriateness of the Parent company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.



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

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

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

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

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

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

Report on other legal and regulatory requirements

European single electronic format

We have examined the digital files of the European single electronic format (ESEF) of Inmobiliaria Colonial, SOCIMI, S.A. and its subsidiaries for the 2021 financial year that comprise an XHTML file which includes the consolidated annual accounts for the financial year and XBRL files with tagging performed by the entity, which will form part of the annual financial report.

The directors of Inmobiliaria Colonial, SOCIMI, S.A. are responsible for presenting the annual financial report for 2021 financial year in accordance with the formatting and markup requirements established in the Delegated Regulation (EU) 2019/815 of 17 December 2018 of the European Commission (hereinafter the ESEF Regulation). In this regard, the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration have been incorporated by reference in the consolidated management report.

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

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



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

Report to the audit and control commission of the Parent company

The opinion expressed in this report is consistent with the content of our additional report to the audit and control commission of the Parent company dated 28 February 2022.

Appointment period

The General Ordinary Shareholders' Meeting held on 30 June 2020 appointed us as auditors of the Group for a period of one year, for the year ended 31 December 2021.

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

Services provided

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

PricewaterhouseCoopers Auditores, S.L. (S0242)

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Original in Spanish signed by
Mireia Oranias Casajoanes (20973)

28 February 2022

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Consolidated financial statements for the year ended 31 December 2021, prepared in accordance with international financial reporting standards and consolidated management report

Translation of Consolidated financial statements for the year ended 31 December 2021, prepared in accordance with international financial reporting standards and consolidated management report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Consolidated financial statements for the year ended 31 December 2021

ASSET	Note	Thousands of Euros	
		31 December 2021	31 December 2020
Intangible assets		5,010	4,633
Right of use assets	7	18,886	10,538
Property, plant and equipment	8	55,162	56,741
Investment property	9	12,183,368	11,516,120
Financial assets at amortised cost	10	26,296	29,047
Derivative financial instruments	15	14,775	287
Non-current deferred tax assets	18	696	418
Other non-current assets	12	55,377	86,635
NON-CURRENT ASSETS		12,359,570	11,704,419
Inventory	11	60,689	52,409
Trade and other receivables	12	37,757	29,693
Financial assets at amortised cost		9	9
Tax assets	18	23,557	17,934
Cash and cash equivalents	14	218,942	268,553
CURRENT ASSETS		340,954	368,598
Assets classified as held for sale	23	27,000	281,959
TOTAL ASSETS		12,727,524	12,354,976

LIABILITIES AND EQUITY	Note	Thousands of Euros	
		31 December 2021	31 December 2020
Share capital		1,349,039	1,270,287
Share premium		1,584,454	1,491,280
Own shares		(66,657)	(24,440)
Other reserves		239,398	244,888
Retained earnings		2,892,540	2,418,533
Equity attributable to shareholders of the Parent		5,998,774	5,400,548
Non-controlling interests		1,185,655	1,432,616
EQUITY	13	7,184,429	6,833,164
Bank borrowings and other financial liabilities	14	71,142	264,342
Bonds and similar securities issued	14	4,284,957	4,068,760
Derivative financial instruments	15	--	19,775
Lease liabilities	7	17,737	10,058
Non-current deferred tax liabilities	18	360,109	366,989
Non-current provisions	17	1,877	1,680
Other non-current liabilities	16	88,175	85,898
NON-CURRENT LIABILITIES		4,823,997	4,817,502
Bank borrowings and other financial liabilities	14	1,129	60,046
Bonds and similar securities issued	14	308,705	272,896
Issuance of promissory notes	14	257,000	235,000
Lease liabilities	7	3,259	1,973
Trade and other payables	16	135,808	115,438
Tax liabilities	18	9,536	14,724
Current provisions	17	3,661	4,233
CURRENT LIABILITIES		719,098	704,310
TOTAL LIABILITIES AND EQUITY		12,727,524	12,354,976

The accompanying Notes 1 to 25 and the Appendix are an integral part of the consolidated statement of financial position for the year ended 31 December 2021.

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Income statement and consolidated statement of comprehensive income for the year ended 31 December 2021

INCOME STATEMENT	Note	Thousands of Euros	
		2021	2020
Revenue	19.1	316,719	341,669
Other income	19.2	5,330	4,982
Personnel expenses	19.3	(37,377)	(31,313)
Other operating expenses	19.4	(44,105)	(45,936)
Depreciation and amortisation charge		(8,112)	(7,142)
Net gains on sales of assets	19.5	(1,261)	1,614
Changes in value of investment properties	19.7	444,226	(79,052)
Gains/(losses) due to changes in value of assets and impairment	19.6	(1,012)	543
Operating profit		674,408	185,365
Finance income	19.8	9,400	1,132
Finance costs	19.8	(120,434)	(121,690)
Profit/(Loss) before tax		563,374	64,807
Income tax expense	18	3,533	(1,990)
Consolidated net profit/(loss)		566,907	62,817
Net profit/(loss) for the year attributable to the Parent	5	473,842	2,387
Net profit attributable to non-controlling interests	13.6	93,065	60,430
Basic earnings per share (Euros)	5	0.92	0.01
Diluted earnings per share (Euros)	5	0.92	0.01

STATEMENT OF COMPREHENSIVE INCOME	Note	Thousands of Euros	
		2021	2020
Consolidated net profit/(loss)		566,907	62,817
Other components of comprehensive income recognised directly in equity		36,720	(42,933)
Gains/(Losses) on financial hedge instruments	13.4 and 15	45,697	(44,609)
Transfer to comprehensive income of gains/(losses) on financial hedge instruments	13.4 and 15	(8,977)	1,676
Consolidated comprehensive income		603,627	19,884
Comprehensive profit/(loss) for the year attributable to the Parent		510,449	(39,473)
Comprehensive profit attributable to non-controlling interests		93,178	59,357

The accompanying Notes 1 to 25 and the Appendix are an integral part of the income statement and consolidated statement of comprehensive income for the year ended 31 December 2021.

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Consolidated statement of changes in equity for the year ended 31 December 2021

	Note	Share capital	Share premium	Own shares	Other reserves	Retained earnings	Equity attributable to shareholders of the Parent	Non-controlling interests	Equity
Balance at 31 December 2019	13	1,270,287	1,513,749	(6,179)	275,229	2,505,512	5,558,598	1,401,899	6,960,497
Total recognised income and expense for the year		--	--	--	(41,860)	2,387	(39,473)	59,357	19,884
Transactions with shareholders:									
Capital increases		--	--	--	--	--	--	--	--
Own share portfolio		--	--	(22,430)	--	--	(22,430)	--	(22,430)
Distribution of profits (dividends)		--	(22,469)	--	8,787	(87,869)	(101,551)	(33,267)	(134,818)
Share-based payment transactions		--	--	4,169	2,732	(1,777)	5,124	598	5,722
Changes in the scope of consolidation		--	--	--	--	--	--	4,053	4,053
Other changes		--	--	--	--	280	280	(24)	256
Balance at 31 December 2020	13	1,270,287	1,491,280	(24,440)	244,888	2,418,533	5,400,548	1,432,616	6,833,164
Total recognised income and expense for the year		--	--	--	36,607	473,842	510,449	93,178	603,627
Transactions with shareholders:									
Capital increases		78,752	204,261	--	--	(1,223)	281,790	--	281,790
Own share portfolio		--	--	(44,351)	--	--	(44,351)	--	(44,351)
Distribution of profits (dividends)		--	(111,087)	--	--	--	(111,087)	(27,773)	(138,860)
Share-based payment transactions		--	--	2,134	1,463	125	3,722	65	3,787
Changes in the scope of consolidation		--	--	--	(42,466)	28	(42,438)	(312,427)	(354,865)
Other changes		--	--	--	(1,094)	1,235	141	(4)	137
Balance at 31 December 2021	13	1,349,039	1,584,454	(66,657)	239,398	2,892,540	5,998,774	1,185,655	7,184,429

The accompanying Notes 1 to 25 and the Appendix are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2021.

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Cash flow statement for the year ended 31 December 2021

	Note	Thousands of Euros	
		2021	2020
CASH FLOWS FROM OPERATIONS			
1. CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated net profit/(loss)		566,907	62,817
Adjustments to profit/(loss)			
Depreciation and amortisation (+)		8,112	7,142
Provisions (+/-)	19.4	(4,103)	4,180
Changes in value of investment property (+/-)	19.7	(444,226)	79,052
Gains/(losses) due to changes in value of assets and impairment (+/-)	19.6	1,012	(543)
Others		14,448	594
Gains/(losses) on sale of investment property (+/-)	19.5	1,261	(1,614)
Net financial profit (+)	19.8	111,034	120,558
Income tax (+/-)	18	(3,533)	1,990
Adjusted profit/(loss)		250,912	274,176
Taxes refunded/(paid) (+/-)		(14,436)	(29,786)
Interest received (+)		488	1,132
Increase/(decrease) in current assets and liabilities			
Inventories (+/-)		(7,813)	(3,753)
Increase/(decrease) in receivables (+/-)		(11,266)	18,190
Increase/(decrease) in payables (+/-)		17,228	(25,793)
Increase/(decrease) in other assets and liabilities (+/-)		32,984	(12,641)
Total net cash flows from/(used in) operating activities		268,097	221,525
2. CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in (-)			
Intangible assets		(2,307)	(2,552)
Property, plant and equipment	8	(2,285)	(7,846)
Investment property	9	(303,958)	(198,571)
		(308,550)	(208,969)
Disposals of (+)			
Investment property and assets classified as held for sale	9 and 23	346,697	299,129
Financial assets	10	2,673	4,784
		349,370	303,913
Total net cash flows from/(used in) investing activities		40,820	94,944
3. CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid (-)	13	(138,860)	(134,818)
Debt repayment (-)	14	(1,311,433)	(1,179,280)
Interest paid (+/-)	19.8	(141,337)	(131,044)
Cancellation of financial instruments (-)	19.8	8,719	(3,147)
Purchase of non-controlling interests (-)		(136,207)	--
	13.4 and		
Own share transactions (+/-)	13.5	(44,351)	(23,050)
Obtainment of new financing (+)	14	1,395,000	1,204,353
Other proceeds/(payments) for current financial assets and others (+/-)		9,941	2,289
Total net cash flows from/(used in) financing activities		(358,528)	(264,697)
4. NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS			
Cash flow for the year	14	(49,611)	51,772
Cash and cash equivalents at beginning of year	14	268,553	216,781
Cash and cash equivalents at end of year	14	218,942	268,553

The accompanying Notes 1 to 25 and the Appendix are an integral part of the consolidated cash flow statement for the year ended 31 December 2021.

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Consolidated report for the year ended
31 December 2021

1 Colonial Group business activity

Inmobiliaria Colonial, SOCIMI, S.A. (hereinafter, "the Parent") was incorporated as holding company in Spain, for an indefinite period of time, on 8 November 1956. Its registered office is Paseo de la Castellana, 52 de Madrid (Spain).

On 29 June 2017, the general shareholders's meeting of the Parent Company resolved to adopt the SOCIMI tax regime. On 30 June 2017, the Parent submitted a request to the tax authorities to be included in the REIT tax regime, applicable as of 1 January 2017.

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

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

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

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

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

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

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

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

In 2021, the Parent maintained the credit rating obtained from *Standard & Poor's Rating Credit Market Services Europe Limited*, "BBB" long-term credit rating and an "A-2" short-term credit rating, both with a stable outlook. In addition, the

Parent obtained a "Baa2" credit rating with a positive outlook from Moody's. In 2021, the subsidiary SFL also maintained its "BBB+" credit rating with a stable outlook and the "A-2" short-term credit rating.

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

2 Basis of presentation of the consolidated financial statements

2.1 Basis of presentation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (EU-IFRSs) as adopted by the European Union, taking into account all mandatory accounting policies and rules and measurement bases, the Spanish Code of Commerce, the Spanish Limited Liability Companies Law, the Spanish Securities Markets Law and other applicable company law, as well as regulations laid down by the Spanish National Securities Market Commission (CNMV), to present a true and fair view of the Group's consolidated equity and financial position at 31 December 2021 and of the comprehensive income from its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended.

The consolidated financial statements of Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries for the year ended 31 December 2021 were prepared on the basis of the accounting records kept by the Parent and by the other companies comprising the Group, and were authorised for issue by the Parent's directors at the Board of Directors meeting held on 28 February 2022.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements at 31 December 2021 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify the policies and bases used and to make them compliant with EU-IFRSs.

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

The Group's consolidated financial statements for the year ended 31 December 2020 were approved by the shareholders of the Parent at the General Meeting held on 30 June 2021.

2.2 Adoption of International Financial Reporting Standards

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

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

2.2.1 Standards and interpretations effective this year -

New accounting standards came into force in 2021 and were accordingly taken into account when preparing these consolidated financial statements. These new standards are as follows:

- IFRS 9 (Amendment), IAS 39 (Amendment), IFRS 7 (Amendment), IFRS 4 (Amendment) and IFRS 16 (Amendment) "Interest Rate Benchmark Reform: Phase 2"
- IFRS 4 (Amendment) "Extension of the temporary exemption from applying IFRS 9".
- IFRS 16 (Amendment) "COVID-19-Related Rent Concessions subsequent to 30 June 2021".

These standards have been taken into account with effect from 1 January 2021 and their impact, which was not material, was reflected in these consolidated financial statements.

2.2.2 Standards and interpretation issued but not in force that may be adopted in advance -

At the date of authorisation for issue of these consolidated financial statements, the following standards, amendments or interpretations were published by the IASB and the *IFRS Interpretations Committee* but had not yet come into force, although early application is permitted:

- IAS 16 (Amendment) "Property, plant and equipment: amounts received before the foreseen use". The effective date of this amendment is 1 January 2022.
- IAS 37 (Amendment) "Onerous Contracts: costs of fulfilling a contract". The effective date of this amendment is 1 January 2022.
- IFRS 3 (Amendment), "References to the Conceptual Framework". The effective date of this amendment is 1 January 2022.
- Annual improvements to IFRSs. 2018-2020 Cycle: The following amendments affect IFRS 1, IFRS 9, IFRS 16 and shall apply to annual periods beginning on or after 1 January 2022:
 - o IFRS 1 "First-time application of IFRS". IFRS 1 permits an exemption if a subsidiary applies IFRSs on a date subsequent to its parent. This amendment allows the entities that have taken this exemption to also measure the cumulative translation differences using the amounts recognised by the Parent, based on the transition date of the latter to IFRSs.
 - o IFRS 9, "Financial instruments". The amendment addressed which costs should be included in the 10% test for the derecognition in financial liability accounts. The costs or fees could be paid to third parties or to the lender. According to the amendment, the costs or fees paid to third parties will not be included in the 10% test.
 - o IAS 41 "Agriculture".
 - o With reference to the IASB's enhancement of IFRS 16 "Leases", this has not been endorsed by the European Union, because Illustrative Example 13 accompanying IFRS 16 has been amended to remove the illustration of lessor payments in relation to leasehold improvements, thus eliminating any possible confusion about the treatment of lease incentives. Illustrative examples accompany, but are not part of, IFRS.
- IFRS 17 "Insurance contracts". The standard is applicable for the years commencing from 1 January 2023, enabling its early application if IFRS 9 "Financial Instruments" is applied on the initial application date of IFRS 17 or before this date.

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

2.2.3 Standards and interpretation issued but not in force and not approved by the European Union -

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

- IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its associate or joint venture".
- IAS 1 (Amendments) "Classification of Liabilities as Current or Non-Current".
- IAS 1 (Amendment) "Breakdown of accounting policies".
- IAS 8 (Amendment) "Definition of accounting estimates".
- IAS 12 (Amendment) "Deferred Tax related to Assets and Liabilities arising from a Single Transaction".
- IFRS17 (Amendment) "Initial Application of IFRS 17 and IFRS 9 - Comparative Information".

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

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

2.3 Functional currency

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

2.4 Responsibility for the information provided and estimates and judgements made

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

- The market value of properties for own use, investment property and inventory (Notes 7, 8 and 11). The market value was obtained from the appraisals periodically made by independent experts. These appraisals were prepared at 31 December 2021 and 2020, applying the methods described in notes 4.3, 4.4 and 4.21.
- Estimated expected credit loss (Notes 4.6.6 and 12).
- Measurement of deferred tax liabilities recognised in the consolidated statement of financial position (Notes 4.14 and 18).
- Measurement of assets classified as held for sale (Notes 4.20 and 23).
- The market value of derivative financial instruments (Notes 4.12, 4.22 and 15).

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

2.5 Basis of consolidation

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

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

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

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

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

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

All the companies comprising the Group have been consolidated using the full consolidation method, the main characteristics of which are detailed below:

- Subsidiaries are fully consolidated and are considered to be all entities in which the Group directly or indirectly controls the financial and operating policies such that power is exercised over the investee. This is generally accompanied by an ownership interest of more than half of an entity's voting rights. In addition, to evaluate whether the Group controls another entity, it considers the power over the investee; the exposure or rights to variable returns of the investment; and the ability to use this power over the investee to affect the amount of the investor's returns. When evaluating whether the Group exercises control over an entity, the existence and

the effect of any potential voting rights, both those held by the Parent and by third parties, are taken into consideration, provided they are of a substantive nature.

- Subsidiaries are accounted for using the acquisition method. The acquisition cost is the fair value of the assets delivered, the equity instruments issued and the liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and identifiable liabilities and contingencies incurred in a business combination are measured initially at fair value at the acquisition date, regardless of the effect of non-controlling interests. When the acquisition cost is higher than the fair value of the Group's interest in the identifiable net assets acquired, the difference is recognised as goodwill. If the acquisition cost is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement (details of the companies consolidated at 31 December 2021 and 2020 are included in the Appendix).

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

2.6 Changes in the scope of consolidation

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

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

The following changes occurred in the scope of consolidation in 2020:

- On 2 July 2020, the Parent Company acquired 50% of the share capital of the subsidiary Wittywood, S.L., owner of a plot of land located in Barcelona, by subscribing to the capital increase carried out by the company, for 3 thousand euros plus a share premium of 4,644 thousand euros. The shares were fully paid up.
- On 29 July 2020, the parent company incorporated and subscribed all the shares of the subsidiary Inmocol One, S.A.U. for 60 thousand euros, as well as the shares of the subsidiaries Inmocol Two, S.L.U. and Inmocol Three, S.L.U. for 3 thousand euros each.

At 31 December 2021 and 2020, the subsidiaries Colonial Tramit, S.L.U., Inmocol One, S.A.U., Inmocol Two, S.L.U., Inmocol Three, S.L.U., SAS SB2, SAS SB3 and SCI SB3 are dormant.

2.7 Comparative information

The information relating to 2021 included in these notes to the consolidated financial statements is presented, for comparison purposes, with the information relating to 2020.

2.8 Grouping of items

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

2.9 Correction of errors

No significant errors have been found in the preparation of the consolidated financial statements that would require a restatement of the amounts included in the consolidated financial statements for 2020.

2.10 COVID-19 health crisis

In 2021, the Group maintained the measures taken in 2020 to strengthen the Group's position in a complex scenario to mitigate the impact of the pandemic on its business and results as far as possible.

The collection rate has been very satisfactory during the year (around 98%), outstanding amounts receivable have been reviewed on a case-by-case basis, recording the appropriate provision for impairment where necessary.

The property sales activity, which had slowed down during the initial phase of the healthcare crisis, made a notable recovery during the second half of 2021, with significant new contracts being closed.

The health crisis has had little impact on the valuation of assets as at 31 December 2021. Offices have shown some resilience to the pandemic, while commercial uses have been more affected by the pandemic context.

2.11 Climate change

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

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

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

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

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

- A positive impact on the valuation of the Group's properties that have been recognised as environmentally friendly (as evidenced by the certifications obtained).
- An increase in the investment and operating costs of property to anticipate regulatory developments and increase customer loyalty. These include, for example, the installation of LED technology in lighting systems, the selection and implementation of more efficient air-conditioning systems and the digitisation of buildings to optimise energy consumption.
- Various expenses, such as the costs of environmental certification of properties, costs linked to the publication of ESG data, and elements of remuneration of certain employees or directors linked to the achievement of ESG objectives.

Other potential impacts on the consolidated accounts

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

- Risks associated with financial instruments (IFRS 7): at the closing date of these consolidated financial statements, the Group had only 1.5% of its outstanding financial liabilities indexed to ESG indicators, the interest rates of which could vary depending on the performance of these indicators. There was no effect on the Group's financing.
- It should be noted in this point that on 17 February 2022, the Parent announced that the bondholders' meetings had approved the conversion of all of the Group's outstanding bonds into green bonds.
- Fees and taxes related to environmental regulation (IAS37): the investments made by the Group have enabled it to be in line with the regulations in force regarding climate change. As a result, the Group has not received any sanctions for non-compliance with these regulations. The Group has also implemented a monitoring system to anticipate regulatory developments in this area and to take the necessary actions to ensure compliance. As at 31 December 2021, no provision has been recorded for penalties for non-compliance with current environmental regulations.
- The depreciation of assets (IAS36) or the re-estimation of the useful lives and residual values of fixed assets (IAS16): the Group's assets are mainly recorded at fair value and therefore the Group's financial statements do not include any significant impact arising from these standards.

3 Distribution of profit of the Parent

The distribution of profit from 2021 proposed by the Board of Directors of the Parent and that will be submitted for approval at the General Annual Meeting is as follows:

	Thousands of Euros
Profit for the year of the Parent	38,726
To the legal reserve	3,873
To dividends	34,853
Total distributed	38,726

Likewise, the proposal to apply the 2020 profit approved by the shareholders' meeting of the Parent Company held on 30 June 2021 was approved without any changes and consisted of its full transfer to the profit/(loss) of previous years.

The Parent's Board of Directors will submit for approval at the Annual General Meeting a proposed distribution of 0.24 euros per share, which would give rise to a total maximum dividend of 129,508 thousand euros based on the current number of issued shares. The definitive amount of the dividend, as well as the nature of the reserves to be distributed, will be determined prior to its distribution based on the treasury shares held by the Parent (Note 13.3-f).

In the past 5 years, the Parent distributed the following amounts:

Thousands of Euros	2016	2017	2018	2019	2020
Dividends distributed	62,749	77,619	101,567	101,551	111,087

4 Accounting policies

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

4.1 Business combinations

The acquisition method of accounting is used for business combinations.

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

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

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

4.2 Intangible assets

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

4.3 Property, plant and equipment

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

Historical cost includes expenses directly attributable to the acquisition of the properties. Any potential impairment losses on the properties are recognised in accordance with the same valuation assumptions described in Note 4.4.

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

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

	Years of estimated useful life	
	Spain	France
Property for own use:		
Buildings	50	50
Installations	10 to 15	10 to 15
Other tangible fixed assets	4 to 10	5 to 50

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

4.4 investment property

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

Investment property is presented at fair value at the end of the reporting period and is not depreciated.

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

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

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

In accordance with IAS 40, the Group calculates the fair value of its investment property on a regular basis. Fair value is determined based on the valuations made by independent experts (hierarchy of fair value level 3) (Jones Lang LaSalle and CB Richard Ellis Valuation in Spain, for both 2021 and 2020, and CB Richard Ellis Valuation and Cushman & Wakefield in France, in both 2021 and 2020) at the date of preparing the consolidated statement of financial position, so that the year-end fair values for investment property items reflect prevailing market conditions. The valuation reports prepared by independent experts contain only the standard warnings and/or disclaimers concerning the scope of the findings of the appraisals carried out, referring basically to the comprehensiveness and accuracy of the information provided by the Group.

The Discounted Cash Flow (hereinafter, “DCF”) method was primarily used to determine the market value of the Group’s investment property in 2021 and 2020.

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

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

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

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

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

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

The most relevant key variables of this method for the purposes of sensitivity analysis are the determination of the net income and the rate of return, especially in the case of a 10-year discounted cash flow model. The other variables considered, although they are taken into account in determining fair value, are not considered to be key, and therefore

no quantitative information is included, nor are they sensitised, since any possible reasonable variations would not entail a significant change in the fair values of the assets.

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

The yields and other assumptions used in determining future cash flows in 2021 and 2020 are set out in the tables below:

Yields (%) - Offices	Gross	
	31 December 2021	31 December 2020
Barcelona – Prime Yield		
Leased out	4.23	4.37
Total portfolio	4.26	4.38
Madrid – Prime Yield		
Leased out	4.12	4.24
Total portfolio	4.17	4.27
Paris – Prime Yield		
Leased out	2.94	3.03
Total portfolio	2.94	3.01

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

Assumptions made at 31 December 2020					
Rent increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	(1.75)	1.0	3.5	4.5	2.75
Total portfolio	(1.75)	1.0	3.5	4.5	2.75
Madrid –					
Leased out	(2.0)	0.75	4.0	5.0	3.0
Total portfolio	(2.0)	0.75	4.0	5.0	3.0
Paris –					
Leased out	0.0	0.5	1.0	1.5	1.5
Total portfolio	0.0	0.5	1.0	1.5	1.5

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

A change of one-quarter of one point in yields has the following impact on the valuations used by the Group at 31 December 2021 and 2020, to determine the value of its property assets (Property, plant and equipment -own use, Investment property, inventories and assets classified as held for sale):

Sensitivity of valuations to a change of one quarter of a point in yields	Thousands of Euros		
	Valuation	Decrease of one quarter of a point	Increase of one quarter of a point
December 2021	12,436,041	960,845	(820,948)
December 2020	12,020,024	912,800	(780,310)

A reconciliation of the valuations used by the Group to the carrying amounts of the statement of financial position in which the appraised assets are located is as follows:

	31 December 2021	31 December 2020
<i>Headings of the consolidated statement of financial position -</i>		
Property, plant and equipment – Own use	37,241	37,494
Investment property (Note 9)	12,210,368	11,515,620
Inventory (Note 11)	60,689	52,409
Current assets classified as held for sale (Note 23)	--	281,959
Lease incentives (Note 12)	76,194	81,493
Trade and other receivables - Acquired lease rights (Note 12)	99	1,002
Total headings of the consolidated statement of financial position	12,384,591	11,969,977
Unrealised gains on assets recognised in property, plant and equipment	39,649	39,568
Unrealised gains on assets recognised in Inventory	11,801	10,479
Valuation	12,436,041	12,020,024

The income earned in 2021 and 2020 from the lease of investment properties amounted to 316.719 and 341.669 miles de euros (Note 19.1), respectively and is recognised under "Revenue" in the accompanying consolidated statement of comprehensive income.

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

4.5 Impairment of property, plant and equipment

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

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

4.6 Investments and other financial assets

4.6.1 Classification

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

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

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

For assets measured at fair value, profit and loss shall be recognised in the income statement or in other comprehensive income. For investments in equity instruments that are not held for trading, this depends on whether the group made an irrevocable election at initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when it changes its business model for managing these assets.

4.6.2 Recognition and derecognition

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

4.6.3 Valuation

On initial recognition, the group measures a financial asset at fair value plus, in the case of a financial asset other than at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recognised as an expense in profit or loss.

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

4.6.4 Debt instruments

The subsequent valuation of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

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

4.6.5 *Equity instruments*

The Group subsequently measures all equity investments at fair value. When group management has elected to present fair value profit and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value profit and loss following derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the company's right to receive the payments is established.

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

4.6.6 *Impairment*

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

For trade receivables, given the breakdown of the Group's lessee portfolio, formed by companies of recognised prestige with proven financial solvency, the scant history of losses from receivable balances in the last 10 years, including the years of the financial crisis, the Group considered that the impairment due to the expected loss from these financial assets is not significant (Note 12).

4.7 Accounts receivable

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

4.8 Cash and cash equivalents

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

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

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

4.9 Own equity instruments

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

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

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

4.10 Provisions and contingent liabilities

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

- Provisions: payables that cover obligations arising as a consequence of past events which could give rise to liabilities at the Group companies, the nature of which is certain but the amount and timing of which cannot be determined, and
- Contingent liabilities: potential liabilities arising as a consequence of past events, the emergence of which depends on the occurrence of one or more future events which are beyond the control of the consolidated companies.

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

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

4.11 Employee benefits

4.11.1 Termination benefits-

Under current legislation, the Group is required to pay severance to employees terminated under certain conditions. Severance payments that can be reasonably quantified are recorded as an expense in the year in which the decision to terminate the contract is taken and a valid expectation regarding termination is transmitted to third parties. At 31 December 2021 and 2020, the Parent did not record any provisions in this connection.

4.11.2 Pension obligations -

In 2021 and 2020 the Parent assumed a commitment with executive directors and one member of senior management to make a defined contribution to an external pension plan that meets the requirements established by Royal Decree 1588/1999, of 15 October.

At 31 December 2021 and 2020, the SFL subgroup had several defined benefit pension plans. Defined benefit obligations are calculated on a regular basis by independent actuarial experts. The actuarial assumptions used to calculate these liabilities are adapted to the situation and to applicable French legislation, in accordance with IAS 19. The actuarial cost recorded in the consolidated income statement in relation to said plans is the sum of the service costs for the period, the interest expense and actuarial gains and losses. At 31 December 2021, net liabilities for defined benefits amounted to 1,346 thousand euros (1,215 thousand euros at 31 December 2020).

4.11.3 Share-based payments -

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

In the case of equity-settled transactions, both the services provided and the increase in equity are measured at the fair value of the services received, unless the fair value of the equity instruments transferred is more reliable, as at the date of the grant agreement. If, on the other hand, they are settled in cash, the goods and services received and the corresponding liability are recognised at the fair value of the goods and services received as of the date on which the recognition requirements are met. In the case of the plans described in Note 20, it has been decided to measure them at the amount of the equity instruments transferred.

4.12 Derivative financial instruments

The Group uses financial derivatives to manage its exposure to variations in interest rates. All derivative financial instruments, whether or not designated as hedging instruments, are carried at fair value: market value in the case of listed securities, or according to option valuation methods or discounted cash flow analysis for non-listed securities. The fair value of the derivative financial instruments is determined based on the valuations made by independent experts (Solventis A.V., S.A., in 2021 and 2020).

The following valuation criteria have been applied for accounting purposes:

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

income. Any valuation gains and losses on the ineffective portion of the hedge are recognised directly as financial profit or loss in the consolidated income statement.

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

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

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

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

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

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

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

4.13 Current / non-current

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

The Group's core business is property, for which the normal cycle of its operations is considered to correspond to the calendar year. Therefore, assets and liabilities maturing in one year or less are classified as current and those maturing in over one year as non-current.

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

4.14 Income tax

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

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

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

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

In accordance with that established in IAS 12, the measurement of the Group's deferred tax liabilities reflects the tax consequences that would follow from the manner in which the carrying amount of its assets is expected to be recovered or settled. In this regard, for deferred tax liabilities that arise from investment properties that are measured using the IAS 40 fair value model, there is a rebuttable presumption that their carrying amount will be recovered through their sale. Consequently, the deferred tax liabilities arising from the Group's investment properties located in Spain were calculated by applying a tax rate of 25%, less any existing tax credits not recognised at 31 December 2021. The effective settlement rate was therefore 18.75%.

Until 31 December 2016, the Parent was the head of a group of companies filing consolidated tax returns under tax group number 6/08.

4.14.1 REIT Regime

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

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

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

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

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

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

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

The period will be calculated:

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

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

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

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

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

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

4.14.2 SIIC regime – SFL subgroup

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

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

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

4.15 Income and expenses

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

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

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

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

4.15.1 *Property leases*

In accordance with NIIF 16, leases are classified as finance leases whenever their terms imply that all risks and rewards inherent to ownership of the leased asset have been substantially transferred to the lessee. All other leases are classified as operating leases. At 31 December 2021 and 2020, all of the Group's leases qualify as operating leases.

4.15.2 *Property leases-Lessor*

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

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

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

4.15.3 *Specific lease terms and conditions: lease incentives*

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

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

4.15.4 *Property leases-Lessee*

Leases have been recognised as a right-of-use asset and the corresponding liability on the date on which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and the financial cost. The financial cost is charged to income during the term of the lease so as to produce a constant periodic interest rate on the remaining balance of the liability for each year. The right-of-use asset is depreciated over the useful life of the asset or the shorter of the two lease terms on a straight-line basis.

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

- fixed payments (including essentially fixed payments), less any lease incentive receivable,
- variable lease payments that depend on an index or rate,
- the amounts expected to be paid by the lessee as guaranteed residual values,
- the exercise price of a purchase option if the lessee is reasonably certain that they will exercise that option, and
- lease termination penalty payments, if the term of the lease reflects the lessee's exercising of that option.

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

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

- the amount of the initial valuation of the lease liability,
- any lease payment made on or before the start date less any lease incentive received,
- any initial direct costs, and
- restoration costs.

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

In connection with the amendment to IFRS 16 arising from the pandemic situation, the Parent Company has treated the aid received from the lessors of the space leased by its subsidiary Utopicus as if it were a variable lease payment, recording its impact directly against the consolidated income statement.

4.16 Borrowing costs

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

4.17 Consolidated statement of cash flows (indirect method)

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

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

4.18 Costs passed on to lessees

In accordance with EU-IFRSs, the Group does not consider the costs incurred by lessees from its investment properties as income and they are recognised, less the corresponding costs, in the consolidated income statement. The amounts passed on for these items in 2021 and 2020 amounted to 58,129 and 63,202, respectively.

Direct operating expenses associated with investment properties which generated rental income in 2021 and 2020, included under "Operating profit" in the consolidated income statement amounted to 82,189 euros and 88,182 thousand euros, respectively, prior to deducting the costs passed on to the lessees. The expenses incurred in connection with investment property that did not generate rental income were not significant.

4.19 Related party transactions

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

4.20 Assets classified as held for sale

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

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

The Colonial Group classifies assets as held for sale when the Board of Directors or Executive Committee has made an official decision in this respect, and the sale is considered highly probable within a period of twelve months.

4.21 Inventory

Inventories, consisting of land, developments in progress and completed developments, are valued at acquisition price or cost of completion.

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

Deliveries on account, resulting from the signing of purchase option contracts, are recorded as advances on inventories and assume the fulfilment of expectations regarding the conditions allowing the exercise thereof.

The Group recognises appropriate impairment losses on inventories when the market value is lower than the carrying amount.

The market value is determined periodically by independent expert valuations (Jones Lang LaSalle) which have been carried out in accordance with the valuation and appraisal standards published by the *Royal Institute of Chartered Surveyors* (RICS) of Great Britain, and in accordance with the International Valuation Standards (IVS) published by the International Valuation Standards Committee (IVSC).

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

4.22 Fair value hierarchy

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

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

In accordance with IFRS 13, the Group estimated the bilateral credit risk in order to reflect both its own risk, as well as counterparty risk in the fair value of its derivatives (Note 4.12). Credit risk at 31 December 2021 and 2020 was not considered to be material.

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

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

31 December 2020	Thousands of Euros		
	Level 1	Level 2	Level 3
Assets			
Derivative financial instruments:			
Classified as hedges	--	287	--
Not classified as hedges	--	--	--
Total assets (Note 15)	--	287	--
Liabilities			
Derivative financial instruments:			
Classified as hedges	--	19,775	--
Not classified as hedges	--	--	--
Total liabilities (Note 15)	--	19,775	--

5 Earnings per share

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

Both at 31 December 2021 and 2020, there were no instruments that may have had a significant diluting effect on the Parent's average number of ordinary shares.

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

	Thousands of Euros	
	2021	2020
Consolidated profit/(loss) attributable to shareholders of the Parent:	473,842	2,387
	No. of shares	No. of shares
Weighted average number of ordinary shares (in thousands)	515,705	507,139
	Euro	Euro
Basic earnings per share:	0.92	0.01
Diluted earnings per share:	0.92	0.01

6 Segment reporting

6.1 Segmentation criteria

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

The business lines described below have been defined in line with the Group's organisational structure at 31 December 2021 and 2020, which has been used by the Group's management to analyse the financial performance of the various operating segments.

The property (or traditional business) segment includes the activity associated with office leasing, while the flexible business segment includes the activity associated with coworking or flexible office space.

6.2 Basis and methodology for business segment reporting

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

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

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

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

Segment information for these businesses is as follows:

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

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

	Thousands of Euros			
	Traditional business	Flexible business	Corporate Unit	Total Group
Revenue				
Revenue	7,290	--	--	7,290
Profit / (Loss) from operations	--	(7,290)	--	(7,290)

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

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

	Thousands of Euros							
	Property rentals (traditional business)					Flexible business	Corporate unit	Total Group
	Barcelona	Madrid	Paris	Remaining	Total Equity			
Liabilities								
Bank borrowings and other financial liabilities (Note 14)	--	--	--	--	--	--	72,271	72,271
Bonds and similar securities issued (Note 14)	--	--	--	--	--	--	4,593,662	4,593,662
Issuance of promissory notes (Note 14)	--	--	--	--	--	--	257,000	257,000
Derivative financial instruments (Note 15)	--	--	--	--	--	--	--	--
Lease liabilities (Note 7)	--	--	--	--	--	--	20,996	20,996
Operating liabilities (suppliers and payables)	--	--	--	--	--	--	135,808	135,808
Other liabilities	--	--	--	--	--	--	463,358	463,358
Total liabilities	--	--	--	--	--	--	5,543,095	5,543,095

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

2020 segment reporting	Thousands of Euros							
	Property rentals (traditional business)					Flexible business	Corporate unit	Total Group
	Barcelona	Madrid	Paris	Remaining	Total Equity			
Revenue								
Revenue (Note 19.1)	46,559	102,952	182,424	2,776	334,711	6,958	--	341,669
Other income (Note 19.2)	4	2	3,999	--	4,005	--	977	4,982
Net gains on sales of assets (Note 19.5)	340	718	--	556	1,614	--	--	1,614
Changes in fair value of investment property (Note 19.7)	(82,232)	(166,993)	176,526	(6,353)	(79,052)	--	--	(79,052)
Gains/(losses) due to changes in value of assets and impairment (Note 19.6)	(248)	(194)	--	--	(442)	(46)	1,031	543
Profit / (Loss) from operations	(38,477)	(72,783)	351,080	(5,958)	233,862	1,360	(49,857)	185,365
Financial profit (Note 19.8)	--	--	--	--	--	--	(120,558)	(120,558)
Profit/(Loss) before tax	--	--	--	--	--	--	64,807	64,807
Consolidated net profit/(loss)	--	--	--	--	--	--	62,817	62,817
Net profit attributable to non-controlling interests (Note 13.6)	--	--	--	--	--	--	(60,430)	(60,430)
Net profit/(loss) attributable to shareholders of the Parent (Note 5)	--	--	--	--	--	--	2,387	2,387

The most significant transactions between segments in 2020 were as follows:

	Thousands of Euros			
	Traditional business	Flexible business	Corporate Unit	Total Group
Revenue				
Revenue	6,917	--	--	6,917
Profit / (Loss) from operations	--	(6,917)	--	(6,917)

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

	Thousands of Euros							
	Property rentals (traditional business)					Flexible business	Corporate unit	Total Group
	Barcelona	Madrid	Paris	Remaining	Total Equity			
Assets								
Goodwill	--	--	--	--	--	--	--	--
Intangible assets, right-of-use assets, property, plant and equipment, investment property, inventories and assets classified as held for sale (Notes 7, 8, 9, 11 and 23)	1,417,910	3,050,837	7,345,231	38,923	11,852,901	24,788	44,711	11,922,400
Financial assets	8,855	17,766	514	313	27,448	1,680	268,768	297,896
Other non-current assets	--	--	--	--	--	--	87,053	87,053
Trade receivables and other current assets	--	--	--	--	--	--	47,627	47,627
Total assets	1,426,765	3,068,603	7,345,745	39,236	11,880,349	26,468	448,159	12,354,976

	Thousands of Euros								
	Property rentals (traditional business)					Total Equity	Flexible business	Corporate unit	Total Group
	Barcelona	Madrid	Paris	Remaining					
Liabilities									
Bank borrowings and other financial liabilities (Note 14)	--	--	--	--	--	--	324,388	324,388	324,388
Bonds and similar securities issued (Note 14)	--	--	--	--	--	--	4,341,656	4,341,656	4,341,656
Issuance of promissory notes (Note 14)	--	--	--	--	--	--	235,000	235,000	235,000
Derivative financial instruments (Note 15)	--	--	--	--	--	--	19,775	19,775	19,775
Lease liabilities (Note 7)	--	--	--	--	--	--	12,031	12,031	12,031
Operating liabilities (suppliers and payables)	--	--	--	--	--	--	115,438	115,438	115,438
Other liabilities	--	--	--	--	--	--	473,524	473,524	473,524
Total liabilities	--	--	--	--	--	--	5,521,812	5,521,812	5,521,812

	Thousands of Euros								
	Property rentals (traditional business)					Total Equity	Flexible business	Corporate unit	Total Group
	Barcelona	Madrid	Paris	Remaining					
Other disclosures									
Investments in intangible assets, property, plant and equipment, investment property, inventories and assets classified as held for sale	34,549	60,166	119,912	1	214,628	6,266	2,816	223,710	223,710
Depreciation and amortisation charge	(29)	(1,516)	--	--	(1,545)	(2,796)	(2,801)	(7,142)	(7,142)
Expenses that do not involve cash outflows other than depreciation and amortisation for the period:									
- Changes in provisions (Note 19.4)	(94)	(151)	(888)	(14)	(1,147)	(419)	2,483	917	917
- Changes in fair value of investment property (Note 19.7)	(82,232)	(166,993)	176,526	(6,353)	(79,052)	--	--	(79,052)	(79,052)
- Gains/(losses) due to changes in value of assets and impairment (Note 19.6)	(248)	(194)	--	--	(442)	(46)	1,031	543	543

7 Leases

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

7.1 Right of use assets

	Thousands of Euros	
	31 December 2021	31 December 2020
Property, plant and equipment	18.886	10,538
Right of use assets	18.886	10,538

In March 2021, a new operating lease contract was signed for the Habana coworking centre, amortisable over 11 years and 6 months, of which 6 years and 6 months are mandatory.

7.2 Deferred right-of-use taxes

	Note	Thousands of Euros	
		31 December 2021	31 December 2020
Deferred tax on rights-of-use assets	18	528	333
Deferred right-of-use taxes		528	333

7.3 Lease liabilities

	Thousands of Euros	
	31 December 2021	31 December 2020
Non-current lease liabilities	17,737	10,058
Current lease liabilities	3,259	1,973
Lease liabilities	20,996	12,031

The increase in lease liabilities corresponds mainly to the recording of the new lease contract described in Note 7.1.

7.4 Operating leases as lessee

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

	Thousands of Euros	
	2021	2020
Less than 12 months	3,181	3,222
1 to 5 years	5,834	8,385
More than 5 years	869	1,172
Total minimum lease payments for operating leases - as lessee	9,884	12,779

These amounts relate to the lease agreements signed by Utopicus for the premises at which it carries out its activity.

7.5 Impacts on the consolidated income statement

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

	Thousands of Euros	
	31 December 2021	31 December 2020
Depreciation and amortisation charge	(2,325)	(1,430)
Restated finance costs	(792)	(622)
Total	(3,117)	(2,052)

8 Property, plant and equipment

The movements in this heading of the consolidated income statement were as follows:

	Note	Thousands of Euros		
		Property for own use	Other tangible fixed assets	Total
Balance at 31 December 2019		44,301	6,599	50,900
Acquisition cost		51,280	15,684	66,964
Accumulated depreciation		(4,889)	(9,085)	(13,974)
Accumulated impairment		(2,090)	--	(2,090)
Additions		5,283	2,542	7,825
Depreciation charge		(1,496)	(1,443)	(2,939)
Withdrawals		(89)	(34)	(123)
Impairment	19,6	1,078	--	1,078
Balance at 31 December 2020		49,077	7,664	56,741
Acquisition cost		56,446	17,864	74,310
Accumulated depreciation		(6,357)	(10,200)	(16,557)
Accumulated impairment		(1,012)	--	(1,012)
Additions		1,280	1,005	2,285
Depreciation charge		(1,689)	(1,394)	(3,083)
Disposals acquisition cost		(239)	(292)	(531)
Disposals accumulated depreciation		48	266	314
Transfers acquisition cost		(1)	(828)	(829)
Transfers accumulated depreciation		--	(4)	(4)
Impairment	19,6	269	--	269
Balance at 31 December 2021		48,745	6,417	55,162
Acquisition cost		57,486	17,749	75,235
Accumulated depreciation		(7,998)	(11,332)	(19,330)
Accumulated impairment		(743)	--	(743)

At 31 December 2021 and 2020, the Group used two floors of the building located at Avenida Diagonal, 530, in Barcelona, one floor of the building located at Paseo de la Castellana, 52, in Madrid and one floor of the building located at 42 rue Washington in Paris for its own use, while the rest of these buildings were destined for leasing purposes. The cost of buildings earmarked for the Group's own use is recognised under "Property for own use".

At 31 December 2021, it became evident that an impairment reversal in the amount of 269 thousand euros had to be recognised, evidenced by the appraisals performed by independent experts (Note 4.3). In 2020, an impairment loss of 1,078 thousand was recognised on the value of the assets.

In 2021, assets amounting to 217 thousand euros were recognised due to being replaced.

9 Investment property

The movements in this heading of the financial statement were as follows:

	Note	Thousands of Euros			
		investment property	Property, plant and equipment in the course of construction	Advances on property, plant and equipment	Total
Balance at 31 December 2019		10,915,600	880,517	1,000	11,797,117
Additions		40,187	162,251	--	202,438
Additions to the scope of consolidation	2,6	--	4,157	--	4,157
Withdrawals	19,5	(131,918)	--	(500)	(132,418)
Transfers	23	(259,011)	(18,481)	--	(277,492)
Change in fair value	19,7	(35,520)	(42,162)	--	(77,682)
Balance at 31 December 2020		10,529,338	986,282	500	11,516,120
Additions		98,959	217,262	--	316,221
Withdrawals	19,5	(28,104)	--	(500)	(28,604)
Transfers	23	183,579	(245,082)	--	(61,503)
Change in fair value	19,7	346,467	94,667	--	441,134
Balance at 31 December 2021		11,130,239	1,053,129	--	12,183,368

9.1 Movements 2021 -

In 2021, the Parent acquired a property in Barcelona for 47,454 thousand euros, including purchase costs. It has also executed the third and last purchase option for the acquisition of one floor of a building in Madrid for a total amount of 5,107 thousand euros, including purchase costs, which has led to a reduction of 500 thousand euros of the advance recorded in previous years.

The remaining additions in 2021 related to investments in property assets, both under development and operation, for an amount of 263,660 thousand euros, including 11,937 thousand euros in capitalised finance costs.

In 2021, an office building was disposed of for a total sales price of 27,200 thousand euros, which resulted in a loss of 1,567 thousand euros, including indirect sale costs, being recognised in the consolidated income statement. Furthermore, assets amounting to a total of 1,023 thousand euros were derecognised.

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

9.2 Movements 2020 -

In 2020, the Parent exercised one of the purchase options on a floor of a building in Madrid for a total amount of 5,086 thousand euros, including expenses, resulting in a derecognition of the advance recorded in 2019 for 500 thousand euros.

The remaining additions in 2020 related to investments in property assets, both under development and operation, for an amount of 197,352 thousand euros, including 10,047 thousand euros in capitalised finance costs.

On 2 July 2020, the Parent acquired 50% of the share capital of the subsidiary Wittywood, S.L., which entailed an addition in the scope of consolidation of 4,157 thousand euros.

Disposals in 2020 for a total amount of 146,800 thousand euros resulted in a profit of 8,478 thousand euros, including indirect costs of disposal. The operations carried out were the sale of a flat and a property in Madrid, two properties in Barcelona and a hotel in Almería.

In 2020, assets amounting to 439 thousand euros were recognised due to being replaced.

In 2020, 3 properties were reclassified to the "Assets classified as held for sale" heading in the condensed consolidated statement of financial position, for a total of 277,492 thousand euros.

9.3 Changes in value of investment property

The "Changes in value of investment property" heading in the consolidated income statement includes the results from the revaluation of investment property, which gave rise to a profit of 441,134 thousand euros in 2021 (loss of 77,682 thousand euros in 2020) (Note 19.7), respectively, according to valuations by independent experts at 31 December 2021 and 2020 (Note 4.4).

9.4 Capitalised borrowing costs

The details of borrowing costs plus cost of investment property is shown in the following table (Note 19.8):

	Thousands of Euros	Average interest rate
	Amount capitalised during the period	
2021		
Inmobiliaria Colonial, SOCIMI, S.A.	5,879	2.28%
SFL subgroup	6,058	1.45%
Total 2021	11,937	
2020		
Inmobiliaria Colonial, SOCIMI, S.A.	4,570	2.22%
SFL subgroup	5,477	1.43%
Total 2020	10,047	

9.5 Other disclosures

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

	Total surface area (m ²) of investment property					
	investment property		Assets under construction (**)		Total	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Barcelona (*)	332,666	365,412	55,879	47,196	388,545	412,608
Madrid	601,938	592,013	196,643	210,391	798,581	802,404
Rest of Spain	16,901	63,150	23,557	23,557	40,458	86,707
Paris (*)	341,634	344,291	79,687	84,489	421,321	428,780
	1,293,139	1,364,866	355,766	365,633	1,648,905	1,730,499

(*) For 2021 and 2020, 100% of the surface area of the properties whose companies have been consolidated using the full consolidation method is included.

(**) They do not include 20,276 m² of surface area of the subsidiary Peñalvento, since the asset is classified under "Inventories" (Note 11), and the areas of 8,347 m² and 39,879 m², relating to 2021 and 2020, respectively, of property assets recorded under "Assets classified as held for sale" (Note 23).

As at 31 December 2021, the Group has pledged an asset to secure a mortgage loan with a carrying amount of 169,961 thousand euros, as security for a debt of 75,700 thousand euros (Note 14.7). At 31 December 2020, the corresponding balances were 1,176,881 thousand euros and 272.780 miles de euros, respectively.

In September 2021, the SFL subgroup made an early repayment of three loans with mortgage guarantee for a total outstanding amount of 195,520 thousand euros (Note 14.7).

10 Non-current financial assets

The movements in this heading of the consolidated income statement were as follows:

	Thousands of Euros			
	31 December 2020	Increase	Withdrawals	31 December 2021
Deposits and guarantees given	29,047	--	(2,751)	26,296
Total financial assets at amortised cost	29,047	--	(2,751)	26,296

	Thousands of Euros			
	31 December 2019	Increase	Withdrawals	31 December 2020
Deposits and guarantees given	33,585	1,496	(6,034)	29,047
Total financial assets at amortised cost	33,585	1,496	(6,034)	29,047

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

11 Inventory

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

	Thousands of Euros	
	31 December 2021	31 December 2020
Opening balance	52,409	48,196
Additions	8,280	4,213
Closing balance	60,689	52,409

Inventories relate to the office building that the Group is developing for a third party. The Group received a total of 28,287 thousand euros in payments on account (Note 16).

The financial cost capitalised in 2021 amounted to 467 thousand at an average interest rate of 2.28% (460 thousand euros at an average rate of 2.22% in 2020).

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

12 Trade and other receivables

The detail of heading of current assets of the consolidated statement of financial position is as follows:

	Note	Thousands of Euros			
		31 December 2021		31 December 2020	
		Current	Non-current	Current	Non-current
Trade receivables for sales and services		17,306	--	12,945	--
Trade receivables for property sales		849	--	648	--
Accrual of lease incentives	12.3	20,817	55,377	21,690	59,803
Other receivables	12.4	89,104	--	90,380	--
Other assets		3,029	--	138	26,832
Impairment of receivables -					
- Trade receivables from sales and services		(7,875)	--	(10,635)	--
- Other receivables	12.4	(85,473)	--	(85,473)	--
Total trade and other receivables		37,757	55,377	29,693	86,635

12.1 Trade receivables for sales and services

This mainly includes the amounts receivable from customers, fundamentally from the Group's rentals business, that are billed monthly, quarterly or yearly with no significant overdue amounts as at 31 December 2021 and 2020.

At year-end 2021 and 2020 there are no significant unprovisioned past due balances.

12.2 Trade receivables for property sales

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

12.3 Accrual of lease incentives

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

In 2021, 547 thousand euros relating to the accrual of rental incentives for a property classified as held for sale was transferred to "Assets classified as held for sale" in the consolidated income statement (2020: 5,823 thousand euros) (Note 23).

12.4 Other receivables

At 31 December 2021 and 2020, "Other receivables" mainly included amounts owed by Nozar, S.A., resulting from the cancellation of the purchase agreements entered into in July 2007 as a result of failing to comply with the conditions precedent, and including accrued interest.

Nozar, S.A. is currently involved in bankruptcy proceedings; consequently, at 31 December 2021 and 2020, the consolidated statement of financial position included an impairment loss for the entire amount of this company's trade receivables.

13 Equity

13.1 Share capital

At 31 December 2020 and 2019, the share capital comprised 508,114,781 shares with a par value of 2.5 euro each, which had been fully subscribed and paid.

On 28 June 2021, the extraordinary general meeting of shareholders of the Parent Company resolved to authorise the board of directors, in accordance with the provisions of article 297.1 b) of the Corporate Enterprises Act, to increase the share capital by means of non-monetary contributions and exclusion of the pre-emptive subscription right corresponding to the process of the agreements reached between the subsidiary Société Foncière Lyonnaise, S.A. and the parent (hereinafter SFL) and Predica Prévoyance Dialogue du Crédit Agricole (hereinafter Predica):

- On 5 August 2021, a capital increase was registered in the commercial register of the Parent Company through the issue of 22,494,701 new shares with a par value of 2.50 euros per share, plus a share premium, amounting to a total of 201,553 thousand euros according to the share price. The capital increase was fully subscribed by Predica, through the non-monetary contribution of 2,328,644 shares in the subsidiary SFL. The exchange ratio of Predica's contribution has been set at 9.66 Colonial shares.
- On 6 September 2021, a takeover bid for all the shares of SFL held by shareholders other than Colonial and Predica was registered in the commercial register of the Parent Company for mixed consideration in cash and shares. The exchange equation of the bid was set at 46.66 euros and five shares of Colonial, with a par value of 2.50 euros each, for each SFL share. On 20 July 2021, the French financial markets authority approved the bid. On 28 June 2021, the general shareholders' meeting approved the corresponding resolution to increase capital. On 30 August 2021, the French financial markets authority announced the result of the bid, which reached 4.2% of the shares targeted. As such, the Parent Company acquired 1,801,231 shares of the subsidiary SFL, by issuing 9,006,155 new shares of the Parent Company for a par value of 2.50 euros, plus a share premium, for a total amount of 81,461 thousand euros, according to the share price, and cash payments amounting to 84,045 thousand euros.

As a result, the Company's share capital at 31 December 2021 was represented by 539,615,637 fully subscribed and paid up shares with a par value of 2.50 euros each.

Based on the notifications regarding the number of company shares to the Spanish National Securities Market Commission (CNMV), the shareholders owning significant direct or indirect interests in the Parent as at 31 December 2021 and 2020 were as follows:

	31 December 2021		31 December 2020	
	Number of shares*	% ownership	Number of shares*	% ownership
Name or corporate name of the shareholder:				
Qatar Investment Authority (**)	102,675,757	19.03%	102,675,757	20.21%
Finaccess Group	80,028,647	14.83%	80,028,647	15.75%
Inmo S.L.	29,002,980	5.37%	29,002,980	5.71%
Aguila Ltd.	28,880,815	5.35%	28,880,815	5.68%
Credit Agricole, S.A.	22,494,701	4.17%	--	--
BlackRock Inc	16,182,616	3.00%	15,343,358	3.02%
PGGM Vermogensbeheer B.V. (***)	--	--	25,438,346	5.01%

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

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

*** The shareholding of PGGM Vermogensbeheer B.V. as at 31 December 2021 was reduced to under 3%.

At 31 December 2021 and 2020, Aguila Ltd. and Blackrock Inc. formally obtained financial instruments associated with the Parent's shares that, in the event the instruments are exercised, could give rise to an additional interest in the share capital of Colonial. These financial instruments do not imply, and may not imply in the future, the issuance of new shares of the Parent.

The Parent has no knowledge of other significant equity interests.

The Annual General Meeting held on 30 June 2021 resolved to authorise the Board of Directors to issue, on behalf of the Parent and on one or more occasions and for a maximum period of five years, bonds convertible into new shares of the Parent or other similar securities that may give the right, directly or indirectly, to subscribe shares of the Parent, with the express power to exclude the pre-emptive subscription right of the shareholders up to a maximum of 20% of the share capital, and to increase the capital by the amount necessary to meet the conversion. The total maximum amount of the issue or issues of the securities that may be performed under this authorisation may not exceed a combined amount of 500,000 thousand euros or its equivalent in another currency.

On 30 June 2021, the Annual General Meeting resolved to authorise the Board of Directors, in accordance with article 297.1 b) of the Spanish Companies Act, to increase the share capital through monetary contributions by up to half the amount of the share capital, within a maximum period of five years, on one or more occasions and at the time and by the amount it deems appropriate. Within the maximum amount indicated, the Board of Directors is empowered to exclude the preferential subscription right up to a maximum of 20% of the share capital.

13.2 Share premium

On 30 June 2020, the General Shareholders' Meeting resolved to distribute dividends with a charge to the share premium amounting to 22,469 thousand euros, which were paid to shareholders.

In 2021, as a result of the aforementioned capital increases, the amount of the share premium increased by 145,316 thousand euros and 58,945 thousand euros, respectively.

On 30 June 2021, the General Shareholders' Meeting resolved to distribute dividends with a charge to the share premium amounting to 111,087 thousand euros, which were paid to shareholders.

13.3 Own shares

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

	31 December 2021		31 December 2020	
	No. of shares	Thousands of Euros	No. of shares	Thousands of Euros
Free tranche	7,943,007	64,745	3,131,110	22,546
Liquidity contracts	229,500	1,912	229,500	1,894
Closing balance	8,172,507	66,657	3,360,610	24,440

13.3.1 Own shares - Free tranche

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

	Note	31 December 2021		31 December 2020	
		No. of shares	Thousands of Euros	No. of shares	Thousands of Euros
Opening balance		3,131,110	22,546	349,366	4,301
2020 buyback plan		--	--	3,000,000	21,042
2021 buyback plan		5,000,000	43,439	--	--
Delivery of incentives plan shares	20	(296,337)	(2,134)	(395,116)	(4,169)
Other acquisitions		108,234	894	176,860	1,372
Other disposals		--	--	--	--
Closing balance		7,943,007	64,745	3,131,110	22,546

Parent share buyback plans -

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

On 30 June 2020, the Parent agreed to carry out a treasury share buyback programme. The maximum number of shares to be acquired amounted to 3,000,000, equivalent to 0.59% of the share capital of the Parent at that date. On 10 November 2020, the Parent ended the share buyback programme.

Deliveries of Parent shares deriving from the old long-term incentives plan -

Every year, the Parent settled the obligations to comply with the previous year's plan through the delivery of shares to the beneficiaries of the Remuneration Plan, once it has assessed the degree of attainment of the indicators included therein (Note 20.1).

13.3.2 Liquidity contracts

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

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

	31 December 2021		31 December 2020	
	No. of shares	Thousands of Euros	No. of shares	Thousands of Euros
Opening balance	229,500	1,894	229,500	1,878
Liquidity contract dated 11 July 2017	--	18	--	16
Closing balance	229,500	1,912	229,500	1,894

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

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

13.4 Other reserves

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

	Note	Thousands of Euros					Total
		Legal reserve	Other reserves	Valuation of financial hedge instruments	Share-based payments	Transactions with non-controlling interests	
At 31 December 2019		45,980	141,973	22,403	9,678	55,195	275,229
Revaluation – gross		--	--	(44,609)	--	--	(44,609)
Deferred tax		--	--	--	--	--	--
Non-controlling interest in revaluation - gross		--	--	1,073	--	--	1,073
Deferred tax		--	--	--	--	--	--
Reclassification to profit/(loss) - gross		--	--	1,676	--	--	1,676
Deferred tax		--	--	--	--	--	--
Other comprehensive income		--	--	(41,860)	--	--	(41,860)
Transfer to/from retained earnings		8,787	--	--	--	--	8,787
<i>Transactions with owners in their capacity as such:</i>							
Share-based payments	20	--	--	--	2,732	--	2,732
Transactions with non-controlling interests		--	--	--	--	--	--
At 31 December 2020		54,767	141,973	(19,457)	12,410	55,195	244,888

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

13.4.1 Legal Reserve

Under the Consolidated Text of the Spanish Corporate Enterprises Act, 10% of profit for each year must be transferred to the legal reserve until its balance is at least 20% of the share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. The legal reserve may only be used to set off losses until it exceeds 20% of the share capital and provided there are insufficient available reserves.

At 31 December 2021 and 2020, the legal reserve is not fully constituted

13.4.2 Other reserves

At 31 December 2021, the Parent 169,439 thousand euros of restricted reserves. This item also includes the merger reserve generated by the operations carried out in 2019, with a debit balance of 27,466 thousand euros.

13.5 Retained earnings

The changes in retained earnings are as follows:

	Note	Thousands of Euros	
		2021	2020
Balance at 31 December of the previous year		2,418,533	2,505,512
Net profit for the year	5	473,842	2,387
Charge to the legal reserve		--	(8,787)
Transfer to/from other reserves		1,094	--
<i>Components of other comprehensive income recognised directly in retained earnings:</i>			
Capital increases		(1,223)	--
Profit/(loss) from own share transactions		125	(1,777)
Dividends		--	(79,082)
Other gains/(losses)		169	280
Balance at 31 December		2,892,540	2,418,533

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

13.6 Non-controlling interests

The movement in this heading of the consolidated statement of financial position is as follows:

	Thousands of Euros				
	Inmocol Torre Europa, S.A.	Utopicus subgroup	SFL subgroup	Wittywood, S.L.	Total
Balance at 31 December 2019	12,610	575	1,388,714	--	1,401,899
Income for the financial year (Note 19.10)	(1,163)	(266)	61,524	335	60,430
Dividends and other	--	--	(32,692)	(1)	(32,693)
Changes in the scope of consolidation (Note 2.6)	--	--	--	4,053	4,053
Financial hedge instruments	--	--	(1,073)	--	(1,073)
Balance at 31 December 2020	11,447	309	1,416,473	4,387	1,432,616
Income for the financial year (Note 19.10)	275	(59)	92,871	(22)	93,065
Dividends and other	--	--	(27,712)	--	(27,712)
Changes in the scope of consolidation (Note 2.6)	--	(250)	(312,177)	--	(312,427)
Financial hedge instruments	--	--	113	--	113
Balance at 31 December 2021	11,722	--	1,169,568	4,365	1,185,655

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

	Thousands of Euros	
	31 December 2021	31 December 2020
Dividend paid by the SFL subgroup to non-controlling interests	(17,829)	(22,466)
Dividend paid by Washington Plaza and Parholding to non-controlling interests	(9,944)	(10,801)
Others	61	574
Total	(27,712)	(32,693)

The SFL subgroup has the following shareholders agreements with Prédica:

- SFL had two shareholder agreements in the SCI Washington and Parholding, in which SFL held 66% and 50% of their share capital, respectively.
As a result of the transactions carried out by the Group in 2021 described in Note 2.6, SFL has acquired the non-controlling interests in these companies, thereby terminating the previous agreements, in exchange for 49% of the companies SCI Paul Cézanne, SCI 103 Grenelle, SAS Cloud and SAS Champs-Élysées, for which SFL and Prédica have signed a new shareholders' agreement.
- SFL holds the aforementioned 51%-owned subsidiaries. On the basis of the shareholders' agreement, in which the conditions for qualifying these shareholdings as controlling interests are met (the decisions that most significantly affect the companies are controlled by SFL), SFL has sole control over the four companies. As a result, the Group has fully consolidated the four companies.

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

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

Non-controlling	% subsidiary	Thousands of Euros							
		- Non-current assets	Current assets	Non-current liabilities	Current liabilities	Ordinary income	Income for the financial year	Total comprehensive income	Cash flows
SFL Group	1.7%	7,567,015	164,316	1,730,000	517,332	174,634	362,046	368,761	103,960
Inmocol Torre Europa	50%	20,354	1,633	--	404	--	(86)	(86)	(3,760)

14 Bank borrowings, other financial liabilities and issuance of bonds and other similar securities

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

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

31 December 2020	Thousands of Euros								
	Current	Non-current						Total non-current	Total
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years			
Bank borrowings:									
Lines of credit	4,352						--	4,352	
Loans	2,081	194,999	75,700	--	--	--	270,699	272,780	
Interest	1,247	--	--	--	--	--	--	1,247	
Debt arrangement expenses	(2,303)	(2,132)	(1,855)	(1,385)	(985)	--	(6,357)	(8,660)	
Total bank borrowings	5,377	192,867	73,845	(1,385)	(985)	--	264,342	269,719	
Other financial liabilities:									
Current accounts	52,168	--	--	--	--	--	--	52,168	
Interest on current accounts	27	--	--	--	--	--	--	27	
Other financial liabilities	2,474	--	--	--	--	--	--	2,474	
Total other financial liabilities	54,669	--	--	--	--	--	--	54,669	
Total bank borrowings and other financial liabilities	60,046	192,867	73,845	(1,385)	(985)	--	264,342	324,388	
Bonds and similar securities issued:									
Bond issues	249,700	289,600	306,200	493,300	1,000,000	2,000,000	4,089,100	4,338,800	
Interest	28,420	--	--	--	--	--	--	28,420	
Debt arrangement expenses	(5,224)	(4,991)	(4,595)	(4,335)	(3,113)	(3,306)	(20,340)	(25,564)	
Total bonds and similar securities issued	272,896	284,609	301,605	488,965	996,887	1,996,694	4,068,760	4,341,656	
Issuance of promissory notes	235,000	--	--	--	--	--	--	235,000	
Total issuance of promissory notes	235,000	--	--	--	--	--	--	235,000	
Total	567,942	477,476	375,450	487,580	995,902	1,996,694	4,333,102	4,901,044	

The changes in net financial debt in 2021, which arose from cash flows and other, are detailed in the table below:

	Thousands of Euros		
	31 December 2020	Cash flows	31 December 2021
Loans	277,132	(201,432)	75,700
Issuance of promissory notes	235,000	22,000	257,000
Bond issues	4,338,800	263,000	4,601,800
Gross financial debt (gross nominal debt)	4,850,932	83,568	4,934,500
Cash and cash equivalents	(268,553)	49,611	(218,942)
Net financial debt	4,582,379	133,179	4,715,558

14.1 Issues of the Parent's straight bonds

The breakdown of the issues of straight bonds by the Parent is as follows:

Issue date	Duration	Maturity	Fixed-rate coupon payable annually	Thousands of Euros		
				Amount of the issue	31 December 2021	31 December 2020
05-06-15	8 years	06-2023	2.728%	500,000	--	306,200
28-10-16	8 years	10-2024	1.450%	600,000	187,200	493,300
10-11-16	10 years	11-2026	1.875%	50,000	50,000	50,000
28-11-17	8 years	11-2025	1.625%	500,000	500,000	500,000
28-11-17	12 years	11-2029	2.500%	300,000	300,000	300,000
17-04-18	8 years	04-2026	2.000%	650,000	650,000	650,000
14-10-20	8 years	10-2028	1.350%	500,000	500,000	500,000
22-06-21	8 years	06-2029	0.750%	625,000	625,000	--
Total issues					2,812,200	2,799,500

"In June and July 2021, the Parent, under the EMTN "European Medium Term Note" programme, issued simple bonds for a nominal amount of 625,000 thousand euros, an annual coupon of 0.75%, maturing in June 2029, and an issue price of 98.969% of their nominal value.

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

In June and July 2021, the Parent made an early redemption of the entire outstanding balance of the bond issue dated 05-06-15 in the amount of 306,200 thousand euros and redeemed part of the outstanding balance of the issue dated 28-10-16, in the amount of 306,100 thousand euros. The costs associated with these cancellations are presented in Note 19.8.

At 31 December 2021 and 2020, the fair value of the bonds issued by the Parent was 2.928.360 and 2.987.681 million de euros, respectively.

14.1.1 European Medium Term Note Programme -

On 5 October 2016, the Parent registered a 12-month European Medium Term Note programme for 3,000,000 thousand euros, which can be extended to 5,000,000 thousand euros, on the Irish Stock Exchange. On 18 May 2021, the CNMV approved the registration of the programme renewal in the official registers of the Parent's Euro Medium Term Note Programme.

14.1.2 Compliance with financial ratios -

These straight bonds establish the obligation, at 30 June and 31 December of each year, to meet a financial ratio, whereby the value of the non-guaranteed asset of the Group in the consolidated statement of financial position at each of these dates must at least be equal to the financial debt not guaranteed. This ratio had been met at 31 December 2021 and 2020.

14.2 Issue of SFL straight bonds

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

Issue date	Duration	Maturity	Fixed-rate coupon payable annually	Thousands of Euros		
				Amount of the issue	31 December 2021	31 December 2020
20-11-14	7 years	11-2021	1.875%	500,000	--	249,700
16-11-15	7 years	11-2022	2.250%	500,000	289,600	289,600
29-05-18	7 years	05-2025	1.500%	500,000	500,000	500,000
05-06-20	7 years	06-2027	1.500%	500,000	500,000	500,000
21-10-21	6,5 years	04-2028	0.500%	500,000	500,000	--
Total issues					1,789,600	1,539,300

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

In August 2021, SFL made an early redemption of the entire outstanding balance of the bond issue dated 20-11-14, amounting to 249,700 thousand euros.

In October 2021, SFL issued new straight bonds for a nominal amount of €500,000 thousand and maturity in April 2028, with an annual coupon of 0.50% and an issue price of 99.226% of their nominal value.

At 31 December 2021 and 2020, the fair value of the bonds issued SFL was 1.836.854 and 1.615.147 million euros, respectively.

14.3 Issuance of promissory notes by the Parent

In December 2018, the Parent registered on the Irish Stock Exchange a commercial paper programme (European Commercial Paper) for a maximum limit of 300,000 thousand euros maturing at short term, subsequently extended to 500,000 thousand euros. This programme was renewed on 23 September 2021. As at 31 December 2021, outstanding issues amounted to 140,000 thousand euros (31 December 2020: 70,000 thousand euros).

14.4 Issuance of SFL promissory notes

In September 2018, SFL registered a short-term promissory note (NEU CP) issuance programme for a maximum amount of 500,000 thousand euros with a short-term maturity. This programme was renewed in May 2021. As at 31 December 2021, outstanding issues amounted to 117,000 thousand euros (31 December 2020: 165,000 thousand euros).

14.5 Syndicated financing of the Parent

The breakdown of the Parent's syndicated financing is provided below:

Thousands of Euros	Maturity	31 December 2021		31 December 2020	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Credit facility	11-2025	500,000	--	500,000	--
Credit facility (extendable annually for two years until 2027)	11-2025	500,000	--	500,000	--
Total syndicated financing of the Parent		1,000,000	--	1,000,000	--

In November 2020, the Parent signed a new credit line for a total amount of 1,000,000 thousand euros, structured in two tranches of 500,000 thousand euros each, maturing in 2025, extendable in the second tranche until 2027. This credit line is considered sustainable as its margin is linked to the rating obtained by the GRESB Agency.

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

14.5.1 Compliance with financial ratios –

At 31 December 2021 and 2020, the Parent complied with all financial ratios.

14.6 SFL syndicated loan

The breakdown of SFL's syndicated loan is shown in the following table:

Thousands of Euros	Maturity	31 December 2021		31 December 2020	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Credit facility	06-2024	390,000	--	390,000	--
Total SFL syndicated loan		390,000	--	390,000	--

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

14.6.1 Compliance with financial ratios -

At 31 December 2021 and 2020, SFL complied with the financial ratios stipulated in the respective financing agreements.

14.7 Mortgage-backed loans

The detail of the mortgage-backed loans held by the Group on certain investment properties are presented in the following table:

	Note	Thousands of Euros			
		31 December 2021		31 December 2020	
		Mortgage debt	Market value of collateral	Mortgage debt	Market value of collateral
investment property	9,5	75,700	170,400	272,780	1,189,729
Total mortgage-backed loans		75,700	170,400	272,780	1,189,729

The Parent holds and "sustainable loan" for 75,700 thousand, the margin of which will vary depending on the parent company's ESG (environmental, social and corporate governance) rating from the GRESB sustainability agency.

In September 2021, the SFL subgroup made an early repayment of three mortgage loans with a total outstanding amount of 195,520 thousand euros, which matured in July 2022. The costs associated with this cancellation are presented in Note 19.8.

14.7.1 Compliance with financial ratios -

The Group's mortgage-backed loans are subject to compliance with various financial ratios. At 31 December 2021 and 2020, the Group complied with the required financial ratios.

14.8 Other loans

The Group has bilateral loans not secured by a mortgage guarantee, that were subject to compliance with various ratios. The total limits and balances drawn down are as follows:

Thousands of Euros	Society	Maturity	31 December 2021		31 December 2020	
			Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
CADIF	SFL	06,2023	175,000	--	175,000	--
BECM	SFL	07,2023	150,000	--	150,000	--
Banque Postale	SFL	06,2024	75,000	--	75,000	--
BNP Paribas	SFL	05,2025	150,000	--	150,000	--
Société Générale	SFL	10,2025	100,000	--	100,000	--
Intesa Sanpaolo	SFL	12,2026	100,000	--	--	--
Total other loans			750,000	--	650,000	--

In December 2021, SFL signed a new bilateral loan with Intesa Sanpaolo for a limit of 100,000 thousand euros, maturing in December 2026.

14.8.1 Compliance with financial ratios

All these SFL loans are subject to compliance with certain financial ratios on a half-yearly basis. At 31 December 2021 and 2020, SFL complied with the financial ratios stipulated in the respective financing agreements.

14.9 Lines of credit

At 31 December 2021, the Group did not have any drawn-down lines of credit. At 31 December 2020, it had a drawn-down balance of 4,352 thousand euros.

14.10 Other financial liabilities - Current accounts with partners

As at 31 December 2020, the subsidiary SCI Washington and the Parholding subgroup held current accounts with its shareholder amounting to 52,168 thousand euros. These current accounts bore interest (additional margin on three-month Euribor), which, as at 31 December 2020 amounted to 27 thousand euros.

Both current accounts have been closed as part of the SFL share purchase transaction (Note 2.6).

14.11 Guarantees given

At 31 December 2021, the Group has granted guarantees to government bodies, customers and suppliers in the amount of 8,845 thousand euros (9,121 thousand euros at 31 December 2020).

Of the total guarantees delivered, the main one granted, in the amount of 4,804 thousand euros, relates to commitments acquired by Asentia. Accordingly, the Parent and Asentia have an agreement in place whereby if any of the guarantees are enforced, Asentia must compensate the Parent for any losses incurred within 15 days.

14.12 Cash and cash equivalents

At 31 December 2021 and 2020, amounts of 218.942 and 268.553 million euros, respectively, were recognised under "Cash and cash equivalents", of which, at 31 December 2021 and 2020, 1,777 thousand euros was restricted or pledged.

14.13 Debt arrangement expenses

In 2021 and 2020, the Group recognised in the consolidated statement income 6,292 thousand euros and 5,872 thousand euros, respectively, corresponding to arrangement costs paid during the year (Note 19.8).

14.14 Loan interest

The Group's average interest rate in 2021 was 1.73% (1.88% % in 2020) or 2.04% incorporating the accrual of fees (2.14% in 2020). The average interest rate on the Group's debt outstanding at 31 December 2021 (spot) was 1.40% (1.70% at 31 December 2020).

The accrued interest outstanding recognised in the consolidated statement of financial position amounted to:

	Thousands of Euros	
	31 December 2021	31 December 2020
Obligations	25,467	28,420
Bank borrowings	702	1,247
Other financial liabilities - Current accounts	--	27
Total	26,169	29,694

14.15 Capital management and risk management policy

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

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

14.16 Financial risk management policy –

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

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

In order to attain these objectives, the Group enters into interest rate hedges to hedge against potential fluctuations in finance costs if necessary. The Group's policy is to arrange instruments that comply with accounting rules to be considered effective hedges and, therefore, to recognise changes in market value directly in the Group's other consolidated income. At 31 December 2021, 93% of total debt in Spain and 99% in France was hedged or at fixed rates (95% and 96%, respectively, at 31 December 2020).

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

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

Cash surpluses may eventually rise that enable the Group to have lines of credit available but not yet drawn down or highly-liquid deposits with no risk. At 31 December 2021, the Group had sufficient lines of credit available to meet its short-term maturities. The Group does not use high-risk financial products as a method for investing cash surpluses.

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

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

15 Derivative financial instruments

The following table details the financial instruments and their fair values:

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

	Society	Counterparty	Interest rate	Maturity	Nominal value (thousands of euros)	Fair value – Asset / (Liability)
Cash flow hedges-						
Collar	SFL	Société Générale	-0.7525% / 0%	2026	100,000	46
Collar	SFL	CIC	-0.25%/-0.52%	2027	100,000	165
Cash flow hedges on future envisaged transactions -						
Swap	SFL	CA-CIB	-0.3475%	2026	100,000	(457)
Swap	SFL	CIC	-0.4525%	2026	100,000	76
Swap	Colonial	Natwest	0.0835%	2032	350,000	(6,734)
Swap	Colonial	Natwest	0.0935%	2032	110,000	(2,217)
Swap	Colonial	CA-CIB	0.0980%	2032	40,000	(782)
Swap	Colonial	Natwest	0.3460%	2033	50,000	(1,586)
Swap	Colonial	Natwest	0.3490%	2033	150,000	(4,796)
Swap	Colonial	Barclays	0.3515%	2033	100,000	(3,203)
Total at 31 December 2020					1,200,000	(19,488)

During the first half of 2021, the Parent cancelled hedging instruments for a nominal amount of 625,000 thousand euros, all of which mature in 2032 and 2033. These cancellations have entailed a transfer to the statement of consolidated comprehensive income of the amount recorded in equity, amounting to 8,912 thousand euros of income, in addition to which these cancellations are associated with 193 thousand euros of commission expenses. At the same

time, the Parent arranged new financial hedging instruments for cash flow hedges of expected future transactions for a total amount of 625,000 thousand euros with maturities in 2033, 2034 and 2035.

In November 2021, the Parent arranged new financial instruments for cash flows of expected future transactions for a total amount of 712,500 thousand euros with maturities in 2034 and 2035.

In October 2021, SFL cancelled two cash flow hedges of planned future transactions, CA-CIB and CIC, both maturing in 2026. The result of the cancellations, totalling 2,521 thousand euros, will be recognised in the consolidated income statement over the life of the new bonds issued by SFL over a period of 6.5 years. As at 31 December 2021, the amount transferred from equity to consolidated comprehensive income is 65 thousand euros.

The impact on the consolidated income statement of the recognition of derivative financial instruments for 2021 and 2020 is shown in the following table:

	Note	Thousands of Euros	
		2021	2020
Income from derivative financial derivatives		8,977	--
Financial derivative expense	19,8	(193)	(1,685)
Net expense for financial derivative expense		8,784	(1,685)

15.1 Hedge accounting

At 31 December 2021 and 2020, the Parent and the subsidiary SFL applied hedge accounting to different derivative financial instruments.

At 31 December 2021, the cumulative impact recognised directly in equity in the consolidated statement of financial position due to hedge accounting amounted to a credit balance of 17,122 thousand euros, after recognition of the tax impact and consolidation adjustments. At 31 December 2020, the impact recorded amounted to a debtor balance of 19,457 thousand euros (Note 13.4).

15.2 Fair value of derivative financial instruments

The fair value of the derivatives was calculated by discounting estimated future cash flows based on an interest rate curve and on assigned volatility at 31 December 2021, using the appropriate discount rates established by an independent expert.

Changes of +/- 25 basis points in the interest rate curve have an effect on the fair value of derivative financial instruments of 27,616 thousand euros and -37,493 thousand euros, respectively.

16 Trade payables and other non-current liabilities

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

	Note	Thousands of Euros			
		31 December 2021		31 December 2020	
		Current	Non-current	Current	Non-current
Trade and other payables		41,992	--	42,698	--
Payables for the purchase of properties		35,445	--	32,771	--
Advances	11	31,282	28,287	20,729	28,287
Guarantees and deposits received		3,434	59,322	2,921	57,215
Payable to Social Security		3,170	--	2,171	--
Unearned income		1,952	--	392	--
Other payables and liabilities		18,533	566	13,756	396
Total		135,808	88,175	115,438	85,898

16.1 Trade and other payables

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

16.2 Payables for the purchase of properties

This heading includes the amounts payable arising from acquisitions of ownership interest and/or properties. As at 31 December 2021 and 2020, the amount included in this item corresponds mainly to payments for refurbishment or renovation works on various properties in the development of SFL. The effect of the updated deferred payments is not material.

16.3 Customer advances

Non-current advances include the amount of 28,287 thousand euros on account of the price of the asset being promoted by the Group under the purchase contract subject to suspensive conditions signed by the Parent Company and a third party (Note 11).

16.4 Guarantees and deposits received

This heading includes mainly security deposits paid by lessees.

16.5 Unearned income

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

16.6 Average period of payment to suppliers and trade creditors

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

	2021	2020
	Days	Days
Average supplier payment period	29	33
Ratio of payments made	28	34
Ratio of payments pending	43	29
	Amount (in thousands of euros)	
Total payments made	241,885	188,575
Total payments pending	13,850	10,536

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

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

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

17 Provisions and contingent assets and liabilities

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

	Note	Thousands of Euros			
		Non-current			Current
		Provisions for employee benefits	Provisions for contingencies and other provisions	Total non-current	Provisions for contingencies and other provisions
Opening balance		1,653	27	1,680	4,233
Charges		1,181	--	1,181	--
Allocations against equity		36	--	36	--
Withdrawals	19,4.1	--	--	--	(526)
Other withdrawals		(20)	--	(20)	(1,006)
Amounts used		(13)	(27)	(40)	--
Transfer		(960)	--	(960)	960
Closing balance		1,877	--	1,877	3,661

17.1 Non-current provisions

17.1.1 Provisions for employee benefits -

This line item includes the retirement benefits and seniority bonuses of employees of SFL (Note 4.11).

17.2 Current provisions

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

18 Tax matters

18.1 Option for the REIT Tax Regime with effect from 1 January 2017

On 30 June 2017, the Parent chose to operate within the REIT Tax Regime (Note 1).

18.2 Tax receivables and tax payables

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

	Note	Thousands of Euros			
		Current		Non-current	
		31 December 2021	31 December 2020	31 December 2021	31 December 2020
Tax refunds receivable		5	--	--	--
Income tax refunds receivable		519	3,466	--	--
VAT refundable		23,033	14,468	--	--
Deferred tax assets	18,5	--	--	696	418
Total		23,557	17,934	696	418

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

	Note	Thousands of Euros			
		Current		Non-current	
		31 December 2021	31 December 2020	31 December 2021	31 December 2020
Income tax payable		938	--	--	--
Other taxes payable		3,324	4,938	--	--
Exit tax payable (SFL Group)		--	5,205	--	--
VAT payable		5,274	4,581	--	--
Deferred tax liabilities	18,6	--	--	360,109	366,989
Total		9,536	14,724	360,109	366,989

18.3 Reconciliation of income tax expense

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

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

On 30 June 2017, the Parent chose to operate within the REIT Tax Regime, which is applicable effective as of 1 January 2017 (Note 1). After adhering to the REIT regime, the profit arising from REIT activities will be taxed at a rate of 0%, provided that the stipulated requirements are met (Note 4.14).

The breakdown of "Income tax expense" in the consolidated income statement is as follows:

	Thousands of Euros	
	2021	2020
Income tax expense	(2,750)	(10,563)
Deferred tax on the restatement of assets to their fair value (IAS 40)	7,594	7,717
Other non-primary components	(1,311)	856
Income tax expense	3,533	(1,990)

18.4 Reconciliation of income tax expense to "prima facie" tax payable

	Thousands of Euros	
	2021	2020
Profit from continuing operations before tax expense	563,374	64,807
	563,374	64,807
Taxed at the Spanish tax rate of 25% (2020: 25%)	(144,144)	(16,202)
Tax effect of amounts that are not deductible (taxable) in the calculation of taxable profit:		
Application of IAS 40 (revaluations and reversals of write-downs)	118,650	(11,799)
Impairment of goodwill	3	--
Other adjustments	13,074	16,067
Subtotal	(12,417)	(11,934)
Difference in tax rates by REIT and SIIC regime	15,674	8,272
Difference in foreign tax rates	(962)	(689)
Adjustments to current tax of prior years	258	--
Previously unrecognised tax losses now recovered to reduce current tax expense	--	4,441
Tax losses for the year not recognised for accounting purposes	980	(2,080)
Income tax expense	3,533	(1,990)

18.5 Deferred tax assets

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

	Note	Thousands of Euros			
		Recognised for accounting purposes			
		31 December 2020	Increase	Derecognitions	31 December 2021
For leases	7,2	333	195	--	528
Others		85	83	--	168
Total		418	278	--	696

18.5.1 Prior years' tax loss carryforwards –

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

The tax loss carryforwards of Spanish companies accumulated at 31 December 2021 amount to 5,412,867 thousand euros.

18.5.2 Deferred tax asset for tax credit carryforwards -

The Group has various deductions pending application at 31 December 2021 due to insufficient tax liability amounting to a total of 8,229 thousand euros.

18.6 Non-current deferred tax liabilities

The detail of the "Non-Current Deferred Tax Liabilities" heading on the non-current liability side of the consolidated statement of financial position is as follows:

	Thousands of Euros	
	31 December 2021	31 December 2020
Deferred tax liabilities	360.109	366.989
Non-current tax liabilities	--	--
	360.109	366.989

The breakdown of deferred tax liabilities and the changes therein are provided in the following charts:

	Thousands of Euros			
	31 December 2020	Increase	Derecognition s	31 December 2021
Asset revaluations	361,918	(6,694)	--	355,224
Asset revaluations (Spain)	144,652	(93)	--	144,559
Asset revaluations (France)	217,266	(6,601)	--	210,665
Deferral for reinvestment	4,595	(186)	--	4,409
Others	476	--	--	476
Total	366,989	(6,880)	--	360,109

18.6.1 Deferred tax liability for asset revaluations –

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

Asset revaluations (Spain)

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

Following the adoption of the REIT tax regime in 2017, the movements in deferred taxes recognised, which mainly relate to the properties owned by the companies that have not opted for this regime, i.e. Wittywood, S.L. and Inmocol Torre Europa, S.A., which are wholly owned by the Parent, were recognised at an effective rate of 18.75% (tax rate of 25% with a limit on the offset of tax loss carryforwards of 25%). Consequently, in calculating its deferred tax liabilities, the Group considers applying the deferred tax asset of 48,190 thousand euros arising from the tax losses (the difference between the 25% tax rate and the effective settlement rate applied of 18.75%).

Asset revaluations (France)

Includes the amount of the deferred taxes associated with the Group's investment property located in France, which would accrue if those assets are sold. It should be noted that practically all of the assets in France are subject to the SIIC regime (Note 4.14), and therefore no additional tax would arise at the time of their sale. Only the assets of the

companies forming part of the Parholding subgroup would fall outside of that tax regime at 31 December 2021 and 2020.

18.7 Years open to inspection and tax audits

The Group has the last four years open for review by the tax inspection authorities for all applicable taxes in Spain and France, except income tax of Spanish companies with tax loss carryforwards or unused tax credits, in which case the period under review for this tax is extended to ten years.

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

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

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

18.9 Adherence to the Code of Best Tax Practices

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

19 Income and expenses

19.1 Revenue

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

Rental segment	Thousands of Euros	
	2021	2020
Barcelona	45,683	49,742
Madrid	94,450	106,536
Rest of Spain	1,952	2,967
Paris	174,634	182,424
Total	316,719	341,669

Revenue for 2021 and 2020 includes the effect of the lease incentives throughout the minimum term of the lease agreement (Note 4.15). Revenue also includes the accrued amounts received in connection to rights of entry (Note 16.5). At 31 December 2021, the impact of previous accruals was una disminución of the turnover for 6.500 miles de euros (in 2020, un aumento for 4.910 miles de euros).

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

	Thousands of Euros	
	Nominal amount	
	31 December 2021	31 December 2020
<i>Within one year</i>	314,513	309,994
Spain	12,807	133,905
France	187,706	176,089
<i>1 to 5 years</i>	698,233	655,130
Spain	187,602	212,970
France	510,631	442,160
<i>More than five years</i>	501,738	454,569
Spain	26,019	39,708
France	475,719	414,861
Total	1,514,484	1,419,693
<i>Spain</i>	340,428	386,583
<i>France</i>	1,174,056	1,033,110

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

19.2 Other operating income

This heading relates mainly to property services rendered. At 31 December 2021 and 2020, this amounted to 5.330 and 4.982 miles de euros thousand euros, respectively.

19.3 Personnel expenses

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

	Thousands of Euros	
	2021	2020
Wages and salaries	25,904	18,948
Social security costs	6,757	6,006
Other employee benefit expenses	5,664	7,259
Contributions to defined benefit plans	288	246
Internal reallocation	(1,236)	(1,146)
Total staff costs	37,377	31,313
<i>Spain</i>	14,638	16,731
<i>France</i>	22,739	14,582

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

"Other employee benefit expenses" includes amounts corresponding to costs accrued in 2021 under the Parent's long-term remuneration plan (Note 20.1) and SFL's share option plan detailed in Note 20.2, totalling 3.787 miles de euros (6.342 miles de euros in 2020).

The contributions made by the Parent in 2021 and 2020 to defined benefit plans amounted to 288 and 246 miles de euros, respectively, and are recognised under "Staff costs" in the consolidated statement of comprehensive income. At year-end 2017 and 2016, there were no contributions payable to this pension plan.

The Group headcount, and the average headcount by job category and gender for the year, is as follows:

	Number of employees				Average headcount, 2021		Average headcount, 2020	
	2021		2020		Men	Women	Men	Women
	Men	Women	Men	Women				
General and area managers	11	8	13	9	11	9	13	9
Technical graduates and middle managers	33	45	40	42	37	43	44	49
Administrative	29	95	30	89	29	92	27	83
Others	5	1	5	1	5	1	5	1
Total employees	78	149	88	141	82	145	89	142

19.4 Other operating expenses

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

	Thousands of Euros	
	2021	2020
External and other expenses	18,191	18,968
Taxes other than income tax	25,914	26,968
Total other operating expenses	44,105	45,936

19.4.1 Net change in provisions

Changes during the year in operating provisions included in external services and other expenses is as follows:

	Note	Thousands of Euros	
		2021	2020
Net application to operating provisions	17	(526)	(3,240)
Net charge to provisions for doubtful debts and other		1,195	1,548
Other allocations/(reversals) of provisions		(4,772)	5,872
Total net change in provisions		(4,103)	4,180

19.5 Net gain/(loss) on sales of assets

The breakdown of the Group's net gains on sales of assets (Notes 9 and 23), and their geographical distribution, is detailed as follows:

	Thousands of Euros					
	Spain		France		Total	
	2021	2020	2021	2020	2021	2020
Sale price	85,597	333,390	264,000	--	349,597	333,390
Asset derecognition	(84,678)	(314,579)	(262,684)	--	(347,362)	(314,579)
Derecognition grace periods	(269)	(3,580)	71	--	(198)	(3,580)
Indirect costs and other	(2,019)	(13,617)	(1,279)	--	(3,298)	(13,617)
Net gains on sales of assets	(1,369)	1,614	108	--	(1,261)	1,614

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

The breakdown, by nature, of the impairment losses recognised under “Gains/(losses) due to changes in value of assets and impairment” in the consolidated income statement is detailed in the following table:

	Note	Thousands of Euros	
		2021	2020
Impairment/(Reversal of impairment) of properties for own use	8	269	1,078
Other impairment		--	(46)
Derecognitions of replaced assets	8 and 9	(1,281)	(489)
Impairment charges and net gains/(losses) on assets		(1,012)	543

19.7 Changes in value of real estate investment

The breakdown of “Changes in fair value of investment properties” in the consolidated income statement, by type, is as follows:

	Note	Thousands of Euros	
		2021	2020
investment property	9	441,134	(77,682)
Assets classified as held for sale – Investment property	23	3,092	(1,370)
Changes in value of investment property		444,226	(79,052)
Spain		189,049	(255,578)
France		255,177	176,526

19.8 Finance income and costs

The breakdown of financial loss by type, is as follows:

	Note	Thousands of Euros	
		2021	2020
Finance income:			
Interest and similar income		488	1,132
Income from derivative financial derivatives	15	8,912	--
Total finance income		9,400	1,132
Finance costs:			
Finance and similar expenses		(86,974)	(94,400)
Capitalised borrowing costs	9.11	12,404	10,507
Restated finance costs	7.18	(872)	(772)
Financial costs associated with loan cancellations		(2,484)	(2,493)
Finance costs associated with the repurchase of bonds		(36,088)	(26,975)
Finance costs associated with arrangement costs	14,13	(6,292)	(5,872)
Financial derivative expense	15	(128)	(1,685)
Total finance costs		(120,434)	(121,690)
Total financial loss		(111,034)	(120,558)

19.9 Related party transactions

There were no related party transactions in 2021 and 2020.

19.10 Results by company

The contribution of the consolidated companies to consolidated profit for the year was as follows:

Company	Thousands of euros					
	Consolidated net profit		Net profit attributable to non-controlling interests		Net profit/(loss) for the year attributable to the Parent	
	2021	2020	2021	2020	2021	2020
Inmobiliaria Colonial, SOCIMI, S.A.	203,778	(228,062)	--	--	203,778	(228,062)
SFL subgroup	364,346	294,051	92,871	61,524	271,475	232,527
Inmocol Torre Europa, S.A.	550	(2,327)	275	(1,163)	275	(1,164)
Peñalvento, S.L.U.	(180)	(67)	--	--	(180)	(67)
Colonial Tramit, S.LU	--	(4)	--	--	--	(4)
Utopicus Innovación Cultural, S.L.	(1,540)	(1,439)	(59)	(266)	(1,481)	(1,173)
Wittywood, S.L.	(44)	671	(22)	335	(22)	336
Inmocol One, S.A.	(1)	(2)	--	--	(1)	(2)
Inmocol Two, S.L.	(1)	(2)	--	--	(1)	(2)
Inmocol Three, S.L.	(1)	(2)	--	--	(1)	(2)
Total	566,907	62,817	93,065	60,430	473,842	2,387

20 Share option plans

20.1 Long-term remuneration plan of the Parent

20.1.1 Former long-term remuneration plan of the Parent

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

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

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

On 24 April 2021, the Parent settled the outstanding obligations relating to compliance with the plan once the Board had calculated the number of shares to be delivered to the beneficiaries of the Plan, in accordance with the level of fulfilment of indicators for 2020, which stood at 296.337 shares (Note 13.3.1). The shares were delivered to the beneficiaries on this date. Of these shares, 131,861 were delivered to members of the Board of Directors and 164,476 to members of senior management, with a market value upon delivery of 1,364 thousand euros and 1.702 thousand euros, respectively.

In 2020, the Company recognised 3,072 thousand euros (Note 19.3) under "Staff costs" in the consolidated income statement, to cover the incentives plan approved on 21 January 2014.

20.1.2 New long-term remuneration plan of the Parent

On 30 June 2021, the general shareholders's meeting of the Parent established a new long-term remuneration plan for the chairman and chief executive officer of the Company, as well as for such other directors and employees as the board of directors may determine, which shall apply for 2021 to 2025 (hereinafter referred to as "the New Plan"). The approval of this plan renders ineffective the previous plan approved on 21 January 2014 and extended for the second and last time for a period of two years at the general meeting held on 30 June 2021.

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

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

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

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

In 2021, the Company recognised an expense of 670 thousand euros (Note 19.3) under "Staff costs" in the consolidated income statement, to cover the incentives plan approved on 30 January 2021.

20.2 Share option plans on SFL shares

The subsidiary SFL had a bonus share plan at 31 December 2021, the breakdown of which is as follows:

	Plan 5	Plan 5	Plan 5
Meeting date	20/04/2018	20/04/2018	20/04/2018
Date of Board of Directors' Meeting	15/02/2019	06/02/2020	11/02/2021
Initial target number	32,948	34,476	33,460
Initial expected %	100%	100%	100%
Initial expected number	32,948	34,476	33,460
Amount per share (euros)	€54.00	€65.38	€54.59
Cancelled options / exits	-452	-468	-340
Expected % at year-end	200%	100%	100%
Estimated number at year-end	64,992	34,008	33,120

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

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

As at 31 December 2021, the expected closing percentage for the 2019 plan was 200%, while for the 2020 and 2021 plan it was 100%.

During the first half of 2021, 63,648 bonus shares of Plan 5 from 2018 were delivered.

At 31 December 2021 and 2020, a total of 3,869 and 3,270 euros were recognised in the consolidated statement of income relating to these bonus share plans (Note 19.3).

21 Balances with related parties and associates

At 31 December 2021 and 2020 the Group did not have any balances outstanding with related parties and associates, with the exception of those detailed below.

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

22 Director and senior management compensation and other benefits

22.1 Composition of the Parent's Board of Directors

The Parent's board of directors was made up of 8 men and 3 women at 31 December 2021 and 2020.

At 31 December 2021, the composition of the Parent's Board of Directors is as follows:

	Position	Type of director
Juan José Brugera Clavero	Chairman	Executive
Pedro Viñolas Serra	Vice-Chairman	Executive
Sheikh Ali Jassim M. J. Al-Thani	Director	Proprietary
Adnane Mousannif	Director	Proprietary
Carlos Fernández González	Director	Proprietary
Javier López Casado	Director	Proprietary
Juan Carlos García Cañizares	Director	Proprietary
Luis Maluquer Trepal	Coordinating Director	Independent
Ana Mónica Alonso-Castrillo Allain	Director	Independent
Ms Ana Lucrecia Bolado Valle	Director	Independent
Ms Ana Cristina Peralta Moreno	Director	Independent

Pursuant to Article 229 of the Spanish Limited Liability Companies Law, at the close of 2021, the directors of the Parent reported that neither they nor any parties related thereto have any direct or indirect conflict with the interests of the Parent.

22.2 Remuneration of Board members

The breakdown of the remuneration received in 2021 and 2020 by the members of the Board of Directors of the Parent, by item, is as follows:

	Thousands of Euros					
	31 December 2021			31 December 2020		
	Parent	Other group companies	Total	Parent	Other Group companies	Total
Remuneration earned by executive directors (*):	3,541	113	3,654	2,535	150	2,685
Attendance fees of non-executive directors:	871	45	916	962	75	1,037
Attendance fees of Executive Directors (*):	--	46	46	--	58	58
Fixed remuneration of non-executive directors:	778	40	818	863	60	923
Directors' remuneration	525	40	565	575	50	625
Additional remuneration Audit and Control Committee	150	--	150	125	10	135
Additional remuneration for the Appointments and Remuneration Committee	103	--	103	163	--	163
Remuneration executive directors (*):	--	50	50	--	70	70
Total	5,190	294	5,484	4,360	413	4,773

Remuneration for executive directors (*):	3,541	209	3,750	2,535	278	2,813
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(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan described in Note 20.

At 31 December 2021 and 2020, the Parent had a civil liability insurance policy covering all of its directors, executives and staff, with a premium of 500 thousand euros and 357 thousand euros, respectively. The aforementioned amount includes for the insurance premium paid for both periods for civil liability insurance to cover damages caused by acts or omissions.

The shareholders at the General Shareholders' Meeting held on 28 June 2016 approved the granting of a defined-contribution scheme for executive directors covering retirement and, when applicable, disability and death. At 31 December 2021 and 2020, the Parent recognised 225 and 183 thousand euros, respectively, in this connection under "Staff costs" in the consolidated statement of income.

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

At 31 December 2021 and 2020, two members of the Board of Directors had signed golden parachute clauses in the event of certain cases of termination or change of control, all of which were approved at the General Shareholders' Meeting.

In 2021 and 2020, there were no finalisations, modifications or early terminations of contracts outside of the normal business activities between the Parent and the members of the Board of Directors or any other person acting on their behalf.

22.3 Remuneration of senior management

The Parent's senior management team is formed by senior executives and other persons responsible for the management of the Parent, reporting to the CEO. At 31 December 2021, senior management comprised three men and two women (two men and two women at 31 December 2020).

Monetary compensation earned by senior management in 2021 amounted to 1,629 thousand euros. Furthermore, they received 988 thousand euros corresponding to the long-term incentives plan (1,369 and 1,072 thousand euros, respectively, in 2020).

At its meeting held on 27 July 2016, the Board of Directors approved the granting of a defined-contribution scheme for a member of senior management covering retirement and, when applicable, disability and death. At 31 December 2021 and 2020, the Parent recognised 63 and 63 thousand euros, respectively, in this connection under "Staff costs" in the consolidated statement of income.

At 31 December 2021 and 2020, one member of the senior management team had signed a guarantee or "golden parachute" clause in the event of certain cases of termination or change of control.

23 Assets classified as held for sale

The movements in this heading of the financial statement were as follows:

	Note	Thousands of Euros	
		investment property	
		31 December 2021	31 December 2020
Opening balance		281,959	176,434
Increase		180	6,680
Transfers	9 and 12.3	62,050	283,315
Withdrawals		(320,281)	(183,100)
Changes in value	19.7	3,092	(1,370)
Closing balance		27,000	281,959

23.1.1 Movements 2021 -

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

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

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

23.1.2 Movements 2020 -

In 2020, the Parent transferred 3 properties from "Investment property" in the consolidated statement of financial position for 277,492 thousand euros and 5.823 thousand euros from "Trade and other receivables" corresponding to the accrual of lease incentives.

For the 3 properties transferred, private sales contracts were signed, one corresponding to a property in Tarragona corresponding to the Parent and two properties located in Paris corresponding to SFL.

Of the total real estate transferred, the parent company disposed of one rural property and 4 logistics assets for a total sale price of 186,590 thousand euros, which represented a loss of 7,623 thousand euros including indirect costs of sale.

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

The "Changes in value of investment property" heading in the consolidated income statement includes the revaluation results of assets classified as held for sale for 2021, amounting to a profit of 3,092 thousand euros, according to valuations by independent experts at 31 December 2021 (Note 4.4) (1,370 thousand euros loss for 2020).

24 Auditors' fees

Fees incurred for auditing services in 2021 and 2020 provided to the various companies composing the Colonial Group by the principal auditor and other auditors are set forth below:

	Thousands of Euros			
	2021		2020	
	Principle auditor	Other auditors	Principle auditor	Other auditors
Audit services	653	284	607	245
Other verification services	166	29	126	--
Total auditing services and related	819	313	733	245
Tax advisory services	--	179	--	73
Other services	92	115	107	156
Total professional services	92	294	107	229

The principal auditor of the Colonial Group for 2021 and 2020 is PricewaterhouseCoopers Auditores, S.L.

The principal auditor's fees for other assurance services include 166 thousand euros and relate to services provided to the Group for limited reviews, issuance of comfort letters and agreed-upon procedures reports (126 thousand euros in 2020).

As at 31 December 2021, the principal auditor's fees for other professional services rendered to the Group amount to 92 thousand euros and correspond to the review of ESG indicators contained in the integrated Annual Report, reviews of the Green Bonds report and translations into English of regulatory information (107 thousand euros as at 31 December 2020).

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

25 Events after the reporting period

From 31 December 2021 to the date on which these consolidated financial statements were authorised for issue, no significant events took place with the exception of:

- On 4 January 2022, the Parent Company announced the termination of the former liquidity contract signed on 10 July 2017 with Renta 4 Banco, S.A. (Note 13.3.2), which has been replaced by a new one with Banco Sabadell, S.A.
- On 17 February 2022, the Parent announced that the bondholders' meetings have approved the conversion of all of the Group's outstanding bonds into green bonds.
- On 22 February 2022, the Parent reached an agreement with the financial institutions participating in the 1 billion euro credit line, extending its maturity to November 2026 (Note 14.5).
- On 24 February 2022, SFL signed a pledge agreement for the purchase of a property in the centre of Paris. The final acquisition is expected to take place in the first half of 2022.

Annexes

Companies included in the scope of consolidation At 31 December 2021 and 2020, the fully consolidated subsidiaries and the information thereon were as follows:

	% shareholding				Shareholder	Line of business
	Direct		Indirect			
	2021	2020	2021	2020		
Colonial Tramit, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-	Inmobiliaria SOCIMI, S.A.	Colonial Real estate
Inmocol Torre Europa, S.A. (*) Avda. Diagonal 532 08006 Barcelona (Spain)	50%	50%	-	-	Inmobiliaria SOCIMI, S.A.	Colonial Real estate
Wittywood, S.L. Avda. Diagonal 532 08006 Barcelona (Spain)	50%	50%	-	-	Inmobiliaria SOCIMI, S.A.	Colonial Real estate
Inmocol One, S.A.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	100%	-	-	Inmobiliaria SOCIMI, S.A.	Colonial Real estate
Inmocol Two, S.L.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	100%	-	-	Inmobiliaria SOCIMI, S.A.	Colonial Real estate
Inmocol Three, S.L.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	100%	-	-	Inmobiliaria SOCIMI, S.A.	Colonial Real estate
Peñalvento, S.L.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	100%	-	-	Inmobiliaria SOCIMI, S.A.	Colonial Real estate
Utopicus Innovación Cultural, S.L. (*) Príncipe de Vergara, 112 28002 Madrid (Spain)	100%	96.81%	-	-	Inmobiliaria SOCIMI, S.A.	Colonial Co-working

	% shareholding				Shareholder	Line of business
	Direct		Indirect			
	2021	2020	2021	2020		
SA Société Foncière Lyonnaise (SFL) 42, rue Washington 75008 Paris (France)	98.33%	81.71%	-	-		Real estate
SNC Condorcet Holding (**) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SNC Condorcet Propco (**) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SNC Condorcet Holding	Real estate
SCI Washington (*) 42, rue Washington 75008 Paris (France)	-	-	100%	66%	SFL	Real estate
SCI 103 Grenelle (*) 42, rue Washington 75008 Paris (France)	-	-	51%	100%	SFL	Real estate
SCI Paul Cézanne (*) 42, rue Washington 75008 Paris (France)	-	-	51%	100%	SFL	Real estate
SA Segpim (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Sale of real estate and provision of services
SAS Locaparis (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	Segpim	Sale of real estate and provision of services
SAS Maud (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SAS SB2 (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SAS SB3 (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI SB3 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SAS Parholding (*) 42, rue Washington 75008 Paris (France)	-	-	100%	50%	SFL	Real estate
SAS 92 Champs-Élysées (*) 42, rue Washington 75008 Paris (France)	-	-	51%	100%	SFL	Real estate
SAS Cloud (*) 42, rue Washington 75008 Paris (France)	-	-	51%	100%	SFL	Real estate
SC Parchamps (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate
SC Pargal (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate
SC Parhaus (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate

* Company audited in 2021 by PricewaterhouseCoopers

** Company audited in 2021 by Deloitte & Associés

At 31 December 2021 and 2020, the Group companies were audited by PricewaterhouseCoopers Auditores, S.L., with the exception of the SFL Group, which was audited jointly by Deloitte and PricewaterhouseCoopers.

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Consolidated management report for
the year ended 31 December 2021

1. Situation of the Group

Update on rental markets

Barcelona

Barcelona's office market continues to show a strong recovery, standing at 332,000 sqm by 2021, +240% more than in 2020. Demand in the fourth quarter of 2021 reached 99,000 sqm, +38% higher than the last quarter of 2019 (pre-pandemic). 22@ has concentrated 85% of the demand, mainly in Grade A and B+ offices. The CBD vacancy rate stands at 6.1%, however, the availability of grade A product is very limited. Prime rents once again reached an all-time high over the last decade, due to the lack of quality spaces, standing at €27.5/sqm/month.

The investment volume in 2021 reached €2 billion, the highest in the last 14 years, and +13% higher than in 2019 (pre-Covid year). The 22@ market followed by the CBD continue to account for more than 70% of transactions. Profitability on prime locations in Barcelona was 3.50%.

Madrid

Demand in the Madrid office market reached 412,000 sqm in 2021, up 22% on the previous year. Increased dynamism was observed in the fourth quarter of 2021 where 131,000 sqm were signed, almost double the figure recorded in the same quarter of 2020. In 2021, the CBD and the city centre continue to be the most sought-after areas, accounting for almost 40% of demand. Asset quality remains the main attraction for companies with 61% of demand being signed in A and B+ grade buildings. The availability rate of CBD increases due to the entry of new product to 7.4%, although the availability of Grade A CBD product stands at 3.6%. Prime rents remain stable at €36.5/ sqm/month.

The investment volume reached €655 million, of which the CBD accounts for 60% of total transactions. Profitability on prime locations in Madrid was 3.25%.

Paris

In the Paris office market, the level of take-up improved by +49% compared to the 2020 figure. Likewise, the CBD has already recovered the level of demand of 2019 (pre-pandemic record year) reaching 426,000 sqm and exceeding the 2020 figure by +55%. Unemployment in the Paris CBD fell from 3.9% in the third quarter of 2021 to 3.1%. The shortage of prime product caused prime rents to rise to €930/ sqm/year.

Investment volume in the Paris office market reached €12,663 million in 2021. Core office investment in Paris accounted for more than 60% of total investment in real estate assets in 2021. The prime yield stands at 2.50%.

Organisational structure and operation

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

The company has a stock market capitalisation of approximately €4,000 million with a free float of around 44%, and manages an asset volume of more than €12,400 million.

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

In particular, its strategy is based on the following:

- A business model focused on the transformation and creation of high-quality offices in prime locations, mainly central business districts (CBD).
- Maximum commitment to the creation of offices that meet the most demanding market requirements, with particular emphasis on efficiency and sustainability.
- A pan-European strategy, diversified in the Madrid, Barcelona and Paris office markets.
- An investment strategy combining core acquisitions and prime factory acquisitions with value added components.
- A clear industrial real estate approach to capture value creation that exceeds the market average.

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

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

In recent years, the Colonial Group has performed significant non-core asset divestments for 2 billion euros, with double-digit premiums with respect to the valuation under way.

Likewise, to improve the Group's Prime portfolio, since 2015, Colonial has acquired over €3,900 million of CBD core properties, identifying assets with value added potential in market segments with solid fundamentals.

At the close of 2021, the Colonial Group had a robust capital structure with a solid "Investment Grade" rating. The Group's LTV (Loan to value) stood at 35.8% in December 2021.

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

- A solid capital structure with a clear commitment to maintaining the highest credit rating standards – investment grade.
- Attractive returns for shareholders based on recurring return combined with the creation of real estate value based on value added initiatives.

Staff management

Colonial professionals are the Group's main asset. At year end 2021, the Colonial Group team comprised a total of 227 employees, divided into 4 categories.

The Group headcount, and the average headcount by job category and gender for the year, is as follows:

	Number of employees				Average headcount, 2021		Average headcount, 2020	
	2021		2020		Men	Women	Men	Women
	Men	Women	Men	Women				
General and area managers	11	8	13	9	11	9	13	9
Technical graduates and middle managers	33	45	40	42	37	43	44	49
Administrative	29	95	30	89	29	92	27	83
Others	5	1	5	1	5	1	5	1
Total employees	78	149	88	141	82	145	89	142

2. Business performance and results

Introduction

At 31 December 2021, the Group's revenue totalled €317 million.

According to the independent appraisals carried out by CB Richard Ellis and Jones Lang Lasalle in Spain and CB Richard Ellis and Cushman & Walkfield in France, at year end, the investment property and assets classified as held for sale were revalued at €444 million. The revaluation, which was posted both in France and Spain, was the result of the increased appraisal value of the assets.

Net financial profit was (111) million euros.

Profit/(loss) before tax and non-controlling interests at the end of 2021 amounted to €563 million.

Lastly, after subtracting profit attributable to non-controlling interests €(93) million, and income tax of €4 million, the profit after tax attributable to the Group amounted to €474 million.

2021 Annual results - Return to growth

Total shareholder return of +9% reaching an NTA of €12/share.

1. Growth in Net asset value (NTA) up to €6,496 m, +13%.

Colonial closed out 2021 with an NTA (Net Tangible Assets) of €12.04/share, thus representing an increase of the year-on-year value of +7%, which, together with a paid dividend of €0.22/share, resulted in a total return for the shareholder of 9%.

In absolute terms, the net value of the assets amounts to €6,496m, an annual increase of +13%, more than €768m increase in value in one year.

This significant growth in NTA has been generated by an industrial real estate strategy with a significant component of "Alpha" returns and has been mainly due to:

1. A strong increase in value of prime portfolios in all three markets driven by strong demand for prime Grade A buildings.

2. Solid fundamentals of Colonial's assets with high occupancy levels and solid rent increases, especially the strength of the Paris portfolio.
3. Significant progress in the project portfolio, in particular the delivery and leasing of the Prime Marceau project in Paris and the Diagonal 525 project in Barcelona.
4. The acceleration of the renovation programme substantially improving rental levels as well as asset values.
5. The successful execution of the takeover bid for Société Foncière Lyonnaise on attractive terms for Colonial shareholders.

2. Increase in value of the real estate portfolio of +6% like for like

The asset value of the Colonial Group at the end of 2021 amounted to €12,436 million (€13,091 million, including transfer costs), an increase of 6% like-for-like in y-o-y terms.

The portfolios in the three cities show very solid growth, the portfolios in Paris and Barcelona have increased by +6% like for like respectively and the properties in Madrid by +7% like for like.

Overall, value growth accelerated in the second half of the year with an increase of +4% like for like for all properties.

Asset value growth is underpinned by (1) growing market demand for prime city centre properties, (2) the strong fundamentals of Colonial's portfolio with 96% occupancy and signed rents in the high end of the market and (3) the successful generation of "Alpha" real estate value through the Project Portfolio and the Renovation Programme.

€349m of Non-Core assets were divested in 2021 at a premium to valuation of 11%. More than €263m relates to the completion of two sales in Paris, which were part of last year's Alpha V programme. Colonial also divested two non-strategic assets in Spain in the second half of 2021, optimising the prime profile of the Group's portfolio.

At 31 December 2021 the exposure of Colonial's property portfolio to CBD areas was 80%, +266bp compared to the previous year and 95% of the portfolio in operation has energy efficiency certification, an improvement of 252bp compared to the previous year.

Including the impact of net divestments, the value of assets increased by +3% compared to the previous year.

Net result of €474m and recurrent net result of €128m

1. Net income of €474 million, €+471 million compared to the previous year

The Colonial Group ended 2021 with net profit of €474 million, €+471 million with respect to the close of last year.

The significant increase in the net result is due to:

1. A strong increase in value of prime portfolios in all three markets driven by strong demand for prime Grade A buildings.
2. The significant progress in the project pipeline and the acceleration of the renovation programme substantially improved rental levels as well as asset values.
3. The successful execution of the acquisition of a 16.6% stake in Société Foncière Lyonnaise on very attractive terms for Colonial shareholders.
4. A solid recurring net result of over €128m based on a portfolio of assets with high occupancy levels and solid rental growth, in particular in the Paris portfolio.

2. Recurring net profit of €24.6Cts/share, reaching the high end of the forecast range.

Colonial closed the year with a recurring net profit of €128m, corresponding to €24.6/share, reaching the high end of the forecast range the company communicated to the capital markets of €23-25 Cts/share.

It is worth noting the strong acceleration of the result in the fourth quarter due to the inflation increases captured by the indexation clauses of the Colonial Group's contract portfolio. The recurrent net result also reflects strict management of operating and structural costs.

Compared to the previous year, the recurring net result has decreased as it reflects the impact of the divestments of non-strategic assets as well as the acceleration of the renovation programme.

1. The execution of the divestment programme for non-strategic properties with premiums on appraisals led to a y-o-y reduction of €13 million in net earnings due to lower rent, in exchange for improving the cash flow quality of the post-sales portfolio.
2. The commencement and acceleration of the portfolio renewal programme to reposition portfolio properties with an important value creation and future cash flow potential based on a real estate transformation of assets. This programme represents a temporary rotation of tenants, which had a negative impact on EBITDA from rentals of €16 million on 2021 profit and loss.

Active management in these buildings has a temporary impact on income, in return for increasing the level of rents of the portfolio once re-let, as well as the potential for value creation in each asset.

3. Comparable recurring net profit higher than in the previous year

Excluding the impact of active portfolio management, comparable recurring net profit was €158m, +15% higher than in the previous year.

Comparable recurring net earnings of per share (recurring EPS) were €30.43, +12% higher than in the same period of the previous year.

4. Rental income of €314m, +2% like for like

Colonial closed 2021 with rental income of €315m, 8% lower than the previous year due to 1) the divestments of non-strategic assets executed in 2020 and early 2021; and 2) the acceleration of the Group's renovation programme.

On a comparable basis, rental income increased by +2% compared to the same period of the previous year.

5. EBITDA income of €293m, +3% like for like

Net income from expenses (EBITDA from rentals) increased by +3% in comparable like-for-like terms, driven by the +6% increase in the Paris portfolio.

Significant acceleration of operational fundamentals

1. More than 170,000 sqm of contracts signed: second highest figure in Colonial's history

The Colonial Group closed 2021 with 118 office rental contracts, corresponding to 170,344 sqm, exceeding the previous year by +75%.

This volume of contracts signed is the second highest in Colonial's history, second only to 2019, a year of record results in all metrics.

In financial terms (square metres formalised multiplied by rents signed), the volume of contracts doubled the volume of the previous year (+114% vs. 2020), formalising contracts for an annualised amount of rents of more than €77m.

2. Acceleration of hiring in the second half of the year increased occupancy to 96%.

The second half of the year saw an acceleration with the signing of more than 110,000m² (higher than the 12-month commercial effort of the previous year). Both the third and fourth quarters exceeded more than 50,000 sqm of signed contracts, with high volumes in the Madrid & Paris portfolios.

It is worth noting that 2/3 of the contracts signed in the fourth quarter were for new builds, mainly from the renovation programme, improving the Group's occupancy rate by more than 250 bps in one quarter to 96% (notably the high occupancy rate of the Paris portfolio of more than 98%).

3. Rent capture in the high end of the market: polarisation effect of the Grade A portfolio

In 2021, the Colonial Group signed contracts with rental prices in the high end of the market.

The maximum rent signed in the Group's portfolio reached 930 euros/m²/year in Paris, as well as 35 euros/sqm/month in Madrid and 28 euros/sqm/month in Barcelona. With these price levels, Colonial's portfolio clearly marks the "prime" reference in each of the markets in which it operates.

Colonial's portfolio allows it to attract quality demand at maximum prices, given its prime location, its high levels of quality and eco-efficiency of the properties and with carbon footprint ratios among the lowest in the market. In particular, the average carbon intensity of the properties where contracts have been signed reaches 7 kgCO₂e/m² (carbon intensity of Scope 1&2), one of the most eco-efficient levels in the sector in Europe.

76% of the 170,344 sqm signed in 2021 corresponds to buildings located in the CBD areas of Madrid and Barcelona, as well as in the CBD and the central 7th arrondissement of Paris.

4. Acceleration of market rents growth in the fourth quarter

Growth in portfolio market rents, with acceleration in the fourth quarter

The Colonial Group closed the year with a +5% increase in rental prices compared to the market rent (ERV) as of December 2020. The highest growth was recorded in the Paris portfolio, where prices were +8% above the market rent as of December 2020.

Of particular note was the acceleration of growth in the last quarter of the year with an increase of +8% compared to market income. The Barcelona portfolio has registered an increase of +10% over the market return at December 2020, followed by Paris and Madrid with +9% and +5% respectively.

Solid double-digit rent increases in renovations in Barcelona

Release spreads (signed rental prices vs. previous rent) at year-end stand at +7% for 2021. These ratios highlight the reversionary potential of Colonial's contract portfolio with significant room for improvement in current rents. Noteworthy was a high release spread in the Barcelona portfolio of +24%.

5. A portfolio well positioned to capture additional growth through indexation

Colonial's contract portfolio is well positioned to capture the full impact of today's elevated index-linked indices. Almost all contracts have indexation clauses. In Madrid and Barcelona, all contracts are indexed to the consumer price index with the exception of two contracts with public administration clients where by Spanish regulation indexation cannot be applied. In Paris, 100% of the contracts are indexed to the ILAT indices (the latter for the most part) as well as to the ICC and ILC indices, all of which are currently at positive levels.

Colonial's portfolio was able to capture the high levels of indexation in all of its fourth quarter contracts. This has led to an additional increase in rental income, which has allowed the Colonial Group to close with recurring net income per share in the high end of the forecast range.

Project portfolio - additional income & value creation

1. Delivery of Diagonal 525 in Barcelona CBD and 83 Marceau in Paris CBD

The delivery in 2021 of Diagonal 525 in Barcelona CBD and Marceau in Paris prime CBD represents revenues of €11m per annum and a value creation of more than €180m over the total project cost.

Diagonal 525 – CBD Barcelona

- Naturgy's headquarters with a 10-year contract of obligatory compliance.
- Rent signed at 28/sqm/month - benchmark rent in prime Barcelona and double the rent of the previous contract.

83 Marceau – Prime CBD Paris

- 100% leased at maximum market rents.
- Goldman Sachs is the main tenant occupying 6,500 sqm on a 12-year lease.
- 2022 the first year with the full income impact (entry into operation in the last quarter of 2021).

2. Progress on projects to be delivered by 2022 with significant market shares

In 2022, more than 249,000m² will come into operation in Madrid and Paris with a significant impact both in terms of value creation and revenues for the Colonial Group.

Velázquez 86D – CBD Madrid

- 1,900 sqm leased retail space to date-11% of the building
- Advanced talks for half of the building.
- Delivery planned for the first half of 2022.

Miguel Ángel 23 – CBD Madrid

- Net zero building, one of the most eco-efficient buildings in Madrid.
- Advanced talks with potential customers for the whole.
- Delivery planned for the first half of 2022.

Biome – Paris City Centre (15eme Arrond.)

- 12 potential customers have already visited the asset.
- Potential interest with large demands from the audio-visual and technology sector.
- Delivery planned for the second half of 2022.

Renovations programme

The Colonial Group continues with its renovation programme of 108,000m² on 9 assets in its portfolio. During the second half of 2021, 35,000 sqm of leases were signed, corresponding to annual rents of €22m.

1. Acceleration of the renovation programme in Paris

The renovation programme in Paris includes 32,000 sqm. During the second half of 2021, the marketing of these areas accelerated with contracts for more than 27,800 sqm signed, representing 88% of the total renovation programme in Paris, with rents at the high end of the market.

2. Commercial acceleration in Madrid and Barcelona

In Spain, commercial activity was reactivated during the last quarter of the year, with the first pre-lettings signed in December 2021.

In Madrid, 47% of the Cedro building in Alcobendas has been leased at above-market rates and talks to lease the remaining 53% are at an advanced stage. At Ortega y Gasset, work is underway to close the lease of around 40% of the building in the first quarter of 2022.

In Barcelona, the Diagonal 530 building is already in the marketing phase, attracting prime demand in the city. Work on the main tower of Torre Marenostrom continues and will be delivered in the first quarter of 2022. At Parc Glories II, the departure of the current user has been arranged for December 2022 and repositioning work will begin during the first quarter of 2023.

Growth through acquisitions

Alpha VI Corporate Transaction and new Alpha VII acquisition programme

1. Alpha VI - Colonial takes 98.3% stake in SFL

In the first half of 2021, the Colonial Group announced its intention to strengthen its stake in its Paris subsidiary SFL through the joint acquisition of Colonial & SFL, the remaining SFL shares belonging to Predica and other minority shareholders through a mixed voluntary takeover bid. This transaction was successfully completed during the third quarter of 2021.

On 4 August 2021, a share swap took place, whereby SFL acquired from Predica the non-controlling interests in the subsidiaries SCI Washington (34%) and SAS Parholding (50%) in exchange for non-controlling interests in SCI Paul Cézanne (49%), SCI 103 Grenelle (49%), SAS Cloud (49%) and SAS 92 ChampsElysées (49%).

The agreement between Colonial and Predica was also formalised, under which shares corresponding to 5% of SFL were delivered in exchange for new Colonial shares representing 4.2% of the shareholding.

On 8 September 2021, the mixed voluntary takeover bid process for 5% of the shares held by SFL's minority shareholders was completed. The public offer launched by Colonial was very well received and finally, after the closing of these operations, Colonial's stake in SFL increased from 81.7% to 98.3%.

The transaction leads Colonial to consolidate its leadership position in the prime office sector in Europe, reinforcing its positioning on the French market, the leading European office market and, in particular, it will enable it:

1. Increase its exposure to quality offices in prime Paris real estate and in particular increased exposure to large projects in Paris with high value creation potential.
2. Simplification of the Colonial Group's shareholding structure and increase of the company's free float by approximately €400m (in NTA terms).
3. To create value for Colonial's shareholders with a positive impact on earnings per share and improving the capital structure.

2. Alpha VII - launch of new procurement programme

The Colonial Group relaunched its investment activity by acquiring 2 assets for a total value of €500m and annual rental income of more than €20m. It also recycled capital by divesting the secondary assets of Parc Cugat and Mercedes Open Parc for a total sales price of €66m and a premium over appraisal of 6%.

Acquisition of Danone's headquarters - Barcelona CBD

At the end of 2021, the Colonial Group acquired the Buenos Aires 21 asset in Barcelona.

The property has a surface area of 8,784 sqm above ground level and is located in the prime area next to Barcelona's Diagonal. The asset is the headquarters of the multinational food company Danone with a binding contract until 2029. The acquisition of the asset includes a project to renovate the façade and common areas of the building, which will improve the energy efficiency of the asset and enable it to obtain Leed Gold certification.

This acquisition shows, once again, how the Colonial Group is able to recycle capital invested in secondary areas and invest it in CBD areas, creating returns for shareholders.

Acquisition of Amundi's headquarters in the centre of Paris - 15eme Arrondissement

In February 2022, the Colonial Group through SFL reached a "promesse de vente" agreement to purchase the 91 Pasteur building of around 40,000 sqm located in the centre of Paris (15th arrondissement). The asset is the headquarters of Amundi, one of Europe's leading financial asset managers listed on Euronext.

With this investment, the Group incorporates the seventh largest office asset in Paris. This property offers a floor plan of more than 2,000 sqm, lots of light and a very efficient layout. The building was fully renovated in 2012 and limited capex investment is foreseen. It already has HQE and Breeam energy certifications.

The property is located in the heart of the 15th arrondissement of Paris, close to Montparnasse station, a market in full renovation. It is a market with excellent public transport connections that attracts high demand for office space. All the large buildings in the area already have projects approved for renovation in the next 5 years, a sign of the dynamics of this submarket

Divestitures of non-strategic assets – Parc Cugat and Las Mercedes

During the second half of 2021, the Colonial Group executed the sale of two secondary assets: the Parc Cugat office building and the Mercedes Open Park commercial asset. Both transactions have been closed at a price with a total premium of +6% over GAV.

Parc Cugat is located in the peripheral submarket of Sant Cugat del Vallés, in Barcelona, and has a limited future value creation perspective due to its secondary nature and location in an environment with a complicated path for increasing rents.

Las Mercedes Open Park is a non-core commercial asset from the acquisition of Axiare. This asset, located in a secondary commercial area in Madrid, requires investment in refurbishment, as well as active management of its tenants.

3. Launch of a new investment programme

With the execution of Alpha VI and the new organic acquisition programme Alpha VII, the company once again became a net investor in 2021 and 2022.

In the first quarter of 2021, the final part of the 2020 disposal program was formalised for €283m. Specifically, the sale of the two mature core assets in Paris were notarized: 112 Wagram and 9 Percier, as well as the retail asset Les Gavarres in Tarragona coming from the Axiare acquisition.

Leadership in ESG and Decarbonisation:

1. European leadership in eco-efficient buildings
 - 95% of the assets in operation have maximum energy certificates.
 - Substantial improvement of 252bp in one year
2. CDP: Top score the leading carbon index - Score A
 - Europe's only office real estate company with an A rating
 - Only five estate agents in Europe
 - Only 12 estate agencies worldwide
 - Part of a select group of 200 companies out of a total of more than 13,000 companies worldwide.
3. GRESB: Leading score among listed Western European office companies - Score 94/100
 - Continued improvement in GRESB, climbing more than 30 points in recent years
 - GRESB Development Benchmarking Report 97/100
4. VIGEO: Rating in the high end of the sector - A1+ score
 - Top 3% of the 4,892 companies rated worldwide
 - 4th out of 90 companies in the financial services sector - Real Estate
 - 36% increase in score in two years
5. SUSTAINALYTICS: Good ESG policy management - Score 10.1 points
 - Top 21 of the 431 listed real estate companies analysed.
 - Awarded Best Industry Rating 2022, as well as Best Regional Rating
6. MSCI: Benchmark rating for listed companies - A rating
 - Internationally top-ranked and ahead of its competitors
 - Strong score on Corporate Governance
7. FTSE4Good: Rating in the high end - 4/5 score
 - Rating above the Office Reits sector average and the Spanish average
 - 96% percentile rank in the Real Estate sub-sector BCI

A solid capital structure

1. Colonial Group converts all its current bonds into "green" bonds

In February 2022, Colonial and its French subsidiary SFL successfully converted all of the Group's bonds, for a total amount of €4,602 million, into "green bonds", following the approval of its bondholders. Colonial reached this milestone after guaranteeing the holding of a portfolio of environmentally sustainable investments with a value equal to or greater than the value of its financing. With this transaction, Colonial becomes the first IBEX-35 company to have all of its bonds rated as "green". This type of debt is intended to finance "green assets", which are assets that have a positive impact on the environment. It is the Group's intention that any bonds proposed to be issued in the future will be issued as "green bonds".

2. Liability Management

In 2021, the Colonial Group successfully executed an active management of its debt ("Liability Management"), for more than €1 billion. In particular, the following operations were carried out:

1. In June and July, Colonial issued €500 million of bonds, which were subsequently increased to €625 million. The issue matures at eight years, with a coupon of 0.75%, the lowest in the Group's history to date.

At the same time, Colonial announced the repurchase of all of its bonds maturing in 2023, which amount to €306 million and accrue an annual coupon of 2.728%. In addition, it announced the repurchase of €306 million of its bonds maturing in 2024.

2. In August and September this year, SFL repurchased all of its bonds maturing in November 2021, with an outstanding nominal amount of €250 million and bearing a coupon of 1.88%. It also made an early repayment of a mortgage-backed loan maturing in July 2022 for a total amount of €196 million.
3. In October 2021, SFL completed a bond issue in the French market for a total amount of €500 million maturing in April 2028. The issue has a coupon of 0.5%, the lowest level in the group's history.

As at 31 December 2021, the Group's spot cost of finance is 1.4%, 30 b.p. lower than in the previous year.

3. A strong balance sheet for future growth

At year-end 2021, the Colonial Group has a solid balance sheet with an LTV of 35.8%.

The Group's available balances amounted to €2,359 million, among cash and undrawn credit facilities. This liquidity allows the Group to secure its financing needs for the coming years by covering debt maturities until 2024.

Colonial's solid financial profile allows it to maintain a BBB+ credit rating from Standard & Poor's, the highest in the Spanish real estate sector.

Solid basis for future growth from 2021 results

Earnings per share growth acceleration from 2022 onwards

Colonial closed 2021 with a return to growth and solid results in all metrics

The Group is also progressing multiple future growth initiatives:

1. Operation Alpha VI - Acquisition of SFL

- Increase of Colonial's stake in SFL from 81.7% to 98.3%, on attractive terms for Colonial shareholders.
- Increased exposure to prime assets and product in the Paris market, with strong growth profile.
- Potential financial-tax optimisations with positive medium-term impact.

2. Reversal potential in the portfolio

- Price reversal: The impact of renewing all contracts in the contract portfolio at current market prices is €20 million of additional annual rent. This impact is +11% for the Paris contracts and +19% and +10% for the Barcelona and Madrid portfolios.
- Reversion due to occupation: The impact of renting all available space in the comparable portfolio (excl. projects and the renovation programme) at current market prices (without growth & inflation) will amount to €15 million of additional annual rents.

3. Project portfolio - €79 million in annual rent

- Colonial manages a project portfolio of more than 189,000 sqm with more than €79 million in annual rents.
- 2021 deliveries: Diagonal 525 in Barcelona and 83 Marceau offer €11 million in annual rents, of which only €4.5 million were registered in 2021 as they have not been in operation all year.
- Expected deliveries of more than 49,000 sqm by 2022: with solid interest in Miguel Angel 23, Velazquez 86D and Biome progressive impacts of higher rents in 2022 with consolidation in 2023
- > 2023 deliveries: more than €44 million of additional rents of which €16 million in Louvre Saint Honoré already pre-let.

4. Renovations programme - More than €40 million of additional annuities

More than 107,000 sqm in the renovation programme of which 64,000 sqm is already pre-let as of today.

- Delivery of more than 41,000 sqm by 2022, of which 39% is already pre-let.
- Delivery of more than 17,000 sqm in 2023-24.
- Recurrent analysis of new repositioning opportunities.

5. Procurement programme - More than €20m of additional short-term annuities

- Purchase of Danone's headquarters in Barcelona CBD
- Purchase of Amundi's Paris headquarters (partially in 2022).
- New medium-term acquisition programme and tactical rotation of non-core assets.
- Over €2,140m of loans available for future acquisitions & project development.

6. Capture of high levels of indexation (IPC)

- The group's contract portfolio is well positioned to capture the positive impacts of the indexation at the beginning of the year in the three markets where it operates.
- There are no cap clauses in rental contracts that could limit this effect.

7. Accelerating rental growth for Grade A assets in CBD areas

The trend of demand polarisation is driving the growth of Grade A assets in CBD.

- The Paris market offers strong rental growth for premium product given the low supply and strong demand with very positive prospects for the future.
- The Barcelona and Madrid markets offer a very attractive growth profile for Grade A product in the CBD, also reflected in the acceleration to the end of 2021.

Analyst consensus

In 2021, two analysts opened new coverage of Colonial, bringing the total number of analysts to 21. The consensus average price target is above €9.3/share.

It should also be noted that more than 60% of the 21 analysts who follow the company recommend buying Colonial shares, compared to 36% in December 2020.

Liquidity and capital resources

See "Capital management and risk management policy" under Note 14.15 to the consolidated financial statements for the year ended 31 December 2021.

The Average Payment Period (APP) of the Group's Spanish companies to their suppliers for 2021FY1 was 29 days. With regard payments made after the legally established period, note that these are primarily payments relating to works contracted and property refurbishment, which are paid within the payment terms stipulated in the contracts signed with the various contractors.

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

Risk management policies and objectives

Asset management is exposed to various internal and external risks and uncertainties, which may have an impact on Colonial's activities. Colonial's objective is therefore to create sustainable value by optimising the relationship between profitability and risks, which is constantly evolving in financial, environmental, social and economic areas, among others. This balance, together with a holistic and dynamic view of risk, reinforces Colonial's leadership in the sector and consolidates its long-term position. Risk management is a key aspect of Colonial's organisational culture and for this reason, the Group has developed the Colonial Risk Management and Control System (hereinafter, SCGR), establishing the bases for efficient and effective risk management throughout the organisation.

To comply with these corporate objectives, the risks to which Colonial is exposed are identified, analysed, assessed, managed, controlled and updated. To maintain an effective updated RMCS, Colonial prepares a corporate risk map, which identifies the main risks affecting the Group and assesses them in terms of impact and the probability of occurrence. This map is reviewed and updated frequently each year to obtain an integrated dynamic risk management tool, which evolves with the changes in environment in which the Company operates and the changes in the organisation itself.

The main responsibilities in relation to the RMCS correspond to the Board of Directors, the Audit and Control Committee and the internal audit unit. The RMCS also expressly determines the responsibilities of senior management, operational divisions and other risk owners with respect to risk management.

The Board of Directors is also responsible for determining the risk control and management policy, including tax risks, identifying the Group's main risks and implementing and overseeing the internal information and control systems, in order to ensure the Group's future viability and competitiveness, while adopting the most relevant decisions for its best development. To manage this function, it has the support of the Audit and Control Committee, which performs, among others, the following functions related to risk management and control:

- Submit a report on risk policy and risk management to the Board for approval.
- Periodically review risk management and control systems to adequately identify, manage and report key risks.
- Oversee the process of preparation, the completeness and presentation of mandatory public reporting (both financial and non-financial).

Also, Colonial has formed the regulatory compliance and internal audit units as tools to reinforce this objective. The regulatory compliance unit is responsible for overseeing the adequate compliance with the regulations and laws that may affect the performance of its activities and the internal audit function is responsible for performing the supervision activities required, envisaged in its annual plans approved by the Audit and Control Committee, to assess the effectiveness of the risk management processes and of the action plans and controls implemented by the corresponding departments to mitigate said risks.

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

- External risks: risks relating to the environment in which Colonial carries out its activity and which influence and condition the company's operations.
- Internal risks: risks arising from the activity of the Company and its management team.

The main external risks facing Colonial in the attainment of its objectives include the following:

- Economic risks arising from the political and macroeconomic climate in the countries in which it operates and changes in investors' own expectations.
- Market risks, arising from changes in the sector and the business model, from the greater complexity in developing the investment/divestment strategy and from the fluctuations of the real estate market with an impact on the valuation of real estate assets.
- Financial risks, related with restrictions on capital markets, fluctuating interest rates, the impact of changes in tax regulations (mainly due to the REIT system) and those of the counterparty of the main clients.
- Environmental risks, arising from the most demanding ESG requirements, and mainly those related with the impact of climate change on the Group's activity.

The main internal risks facing Colonial in the attainment of its objectives include the following:

- Strategic risks in relation with the Group's size and diversification, with the asset portfolio breakdown and the market strategy of coworking.
- Diverse operating risks related with the maintenance of occupancy levels of properties and the level of rental agreements, with the development of projects in terms and costs, with the management of debt levels and the current credit rating, with cyberattacks or failures in reporting systems, together with those specific to the management of the organisational structure and talent.
- Risks arising from compliance with all contractual regulations and obligations applicable to it, including the tax risks related with the loss of REIT status by Colonial or its status of listed real estate investment company (LREIC) by its French subsidiary Société Foncière Lyonnaise.

Also, the global health crisis caused by COVID-19 in 2020 generated high uncertainty in many areas, especially in the economic scope, having different effects on various sectors of the business fabric. In response to this situation, the Colonial Group has implemented a series of measures to ensure and preserve the health of its employees and assets, as well as the continuity of the business. The main measures carried out in 2020 were focused on the following:

- Protection and support for all employees
- Asset protection
- Portfolio analysis and customer service
- Review of the project and investment portfolio
- Continuation of the plan to divest non-strategic assets

- Financial measures focused on ensuring liquidity and strengthen the Group's solvency
- Strengthening internal and external communication

The Group has shown a high degree of resilience in the face of this crisis, in particular at the strategic, operational and financial levels. In 2020, the company reviewed its corporate risk map and analysed risk performance as a result of this crisis by identifying and monitoring risks, assessing and anticipating possible impacts, reviewing control measures and adopting the appropriate decisions in each of these areas in order to mitigate their impact and guarantee the Group's operations.

Despite all these measures, there is still a high degree of uncertainty about the impact of this crisis from an economic point of view, in particular in terms of job destruction and the destruction of the business fabric, with the consequent impact on the real estate sector.

Events after the reporting period

From 31 December 2021 to the date on which these consolidated financial statements were authorised for issue, no significant events took place with the exception of :

- On 4 January 2022, the Parent Company announced the termination of the former liquidity contract signed on 10 July 2017 with Renta 4 Banco, S.A. (Note 13.3.2), which has been replaced by a new one with Banco Sabadell, S.A.
- On 17 February 2022, the Parent announced that the bondholders' meetings have approved the conversion of all of the Group's outstanding bonds into green bonds.
- On 22 February 2022, the Parent reached an agreement with the financial institutions participating in the 1 billion euro credit line, extending its maturity to November 2026 (Note 14.5).
- On 24 February 2022, SFL signed a pledge agreement for the purchase of a property in the centre of Paris. The final acquisition is expected to take place in the first half of 2022.

Future outlook

The COVID-19 pandemic significantly affected both our domestic markets and global economy in general. However, the global economy is now beginning to recover, but still faces many challenges that are being overcome thanks to the stimulus provided by the strong deployment of expansionary economic policies and the good response of vaccines to the virus.

There is a majority opinion of a recovery of this economic impact, although there is a plurality of opinions on the speed of recovery in each country and region, which will depend mainly on the evolution of the health crisis.

At present, all international organisations are estimating significant GDP growth, with a good outlook in Europe and in the markets in which Colonial operates: Spain and France.

Barcelona and Madrid-

With regard to the quality office market in Barcelona and Madrid, the fundamentals remain strong with a better outlook than in secondary areas. The demand for quality assets in prime locations has been growing, mainly due to the need to attract talent in high value-added companies, to offer the best working environment to their employees and to have the best mobility options. Rents have recovered to pre-pandemic levels and it is expected that by 2022, rents will be set gradually, depending on the quality of the properties, their location and exclusivity.

Likewise, investor appetite is expected to continue for prime office products. In a climate of low interest rates, the current spread level of real estate yields with respect to the 10-year bond stood at around 300 basis points.

Paris-

Paris is one of the world's most important markets and has high liquidity.

Today the availability of office space in the best areas of the city was less than 6%. The lack of a combined product with the high demand of companies for Prime products means that consultants foresee that office rentals will remain

at high levels. In this regard, at the end of the second half of 2021, prime location rentals stood at levels of 930 euros/sqm/year.

With respect to the volume of investment, the interest of foreign capital for prime office buildings continues to be very high, with various operations under way, which will be concluded in the coming weeks. Prime yields remain stable at 2.75% and even below in one-off operations.

Future strategy-

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

Research and development activities

As a result of the nature of the Group, its business activities and structure, Inmobiliaria Colonial, SOCIMI, S.A. does not habitually carry out any R&D activities.

Own shares

At 31 December 2021, the Parent had 8,172,507 treasury shares with a nominal value of 20,431 thousand euros, which represents 1.51% of the Parent's share capital.

Other relevant information

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

Annual corporate governance report and annual remuneration report

Pursuant to Article 538 of the Spanish Limited Liability Companies Law, it is hereby noted that the annual corporate governance report and annual remuneration report for 2021 are included in this Management Report in a separate section.

Alternative Performance Measures (European Securities and Markets Authority)

The following glossary of the *Alternative Performance Measures* includes the definition and relevance thereof for Colonial in accordance with the guidelines of the European Securities and Markets Authority (ESMA) published in October 2015 (*ESMA Guidelines on Alternative Performance Measures*). These Alternative Performance Measures have not been audited or reviewed by the Parent.

Alternative Performance Measure	Calculation method	Definition/Relevance
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation)	Calculated as "Profit from operations" adjusted by "Depreciation and amortisation charge", "Net variation in provisions", "Variations in value of investment properties" and "Gains/(losses) due to changes in value of assets and impairment".	Indicator of the profit generating capacity of the Group, considering only its productive activity, eliminating any provisions for amortisation, debt and tax effects.
Gross financial debt (GFD)	Calculated as the sum of the items "Bank borrowings and other financial liabilities", "Issuance of bonds and other similar securities" and "Promissory notes", excluding "Interest" (accrued), "Arrangement expenses" and "Other financial liabilities" in the consolidated statement of financial position.	Relevant indicator to analyse the Group's financial position.
Net financial debt (NFD)	Calculated by adjusting in gross financial debt the item "Cash and cash equivalents".	Relevant indicator to analyse the Group's financial position.
EPRA ¹ NTA (EPRA Net Tangible Assets)	Calculated based on the Company's equity, adjusting specific items according to EPRA recommendations.	Standard analysis ratio for the real estate sector, recommended by EPRA.
EPRA ¹ NDV (EPRA Net Disposal Value)	Calculated by adjusting the following items in the EPRA NTA: The market value of the financial instruments, the market value of the financial debt, any taxes that would be accrued with the sale of assets at market value, applying the tax assets available to the Group, taking into account the going concern criteria.	Standard analysis ratio for the real estate sector, recommended by EPRA.
EPRA Earnings and Recurring net income	Calculated in accordance with EPRA recommendations, adjusting certain items to the net profit for the year attributable to the parent company.	Standard analysis ratio for the real estate sector, recommended by EPRA.
Market Value excluding transaction costs or <i>Gross Asset Value (GAV) excluding transfer costs</i>	Appraisal of all the assets in the Group's portfolio carried out by external appraisers to the Group, deducting the transaction costs or <i>transfer costs</i> .	Standard analysis ratio for the real estate sector.
Market Value including transaction costs or <i>GAV including transfer costs</i>	Appraisal of all the assets in the Group's portfolio carried out by external appraisers to the Group, before deducting the transaction costs <i>transfer costs</i> .	Standard analysis ratio for the property sector.

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

Alternative Performance Measure	Calculation method	Definition/Relevance
Like-for-like rentals	Amount of rental income from leases included in the item " <i>Revenue</i> " comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded, together with those from assets included in the portfolio of projects and renovations, as well as other atypical adjustments (for example, compensation for early termination of lease agreements).	This permits the comparison, on a like-for-like basis, of the changes in the rental income of an asset or group of assets.
Like-for-like appraisal	Market Value excluding transaction costs or the Market Value including transfer costs, comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded.	This permits the comparison, on a like-for-like basis, of the changes in the market value of the portfolio.
<i>Loan-to-Value</i> Group or LtV Group	Calculated as the result of dividing the net financial debt between the Market Value including transaction costs of the Group's asset portfolio.	This permits an analysis of the relation between the net financial debt and the appraisal value of the Group's asset portfolio.
LtV Holding or LtV Colonial	Calculated as the result of dividing the Gross financial debt less the amount of " <i>Cash and cash equivalents</i> " of the Parent and the Spanish subsidiaries wholly owned thereby between the sum of the market value, including transaction costs of the asset portfolio of the Group's Parent and the Spanish subsidiaries wholly owned thereby, and the EPRA NTA of the rest of the financial investments in subsidiaries.	This permits an analysis of the relation between the net financial debt and the appraisal value of the portfolio of assets of the parent company of the Group.

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

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

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

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

EPRA NTA (EPRA Net Tangible Assets)

EPRA NTA (EPRA Net Tangible Assets)	Millions of euros	
	2021	2020
"Equity attributable to shareholders of the Parent"	5,999	5,401
<i>Includes/excludes:</i>		
Adjustments of (i) to (v) in relation to the interests of strategic alliances	--	--
Diluted NTA	5,999	5,401
<i>Includes:</i>		
(ii.a) Revaluation of investment assets	--	--
(ii.b) Revaluation of assets under development	--	--
(ii.c) Revaluation of other investments	149	64
(iii) Revaluation of finance leases	--	--
(iv) Revaluation of inventories	12	10
Diluted NTA at Fair Value	6,160	5,475
<i>Excludes:</i>		
(v) Deferred taxes	351	233
(vi) Market value of financial instruments	(15)	19
EPRA NTA	6,496	5,727
Number of shares (millions)	540	508
EPRA NTA per share	12.03	11.27

EPRA NDV (Net Disposal Value)

EPRA NDV (EPRA Net Disposal Value)	Millions of euros	
	2021	2020
"Equity attributable to shareholders of the Parent"	5,999	5,401
<i>Includes/excludes:</i>		
Adjustments of (i) to (v) in relation to the interests of strategic alliances	--	--
Diluted NDV	5,999	5,401
<i>Includes:</i>		
(ii.a) Revaluation of investment assets	--	--
(ii.b) Revaluation of assets under development	--	--
(ii.c) Revaluation of other investments	149	64
(iii) Revaluation of finance leases	--	--
(iv) Revaluation of inventories	12	10
Diluted NDV at Fair Value	6,160	5,475
<i>Excludes:</i>		
(v) Deferred taxes	--	--
(vi) Market value of financial instruments	--	--
<i>Includes:</i>		
(ix) Market value of the debt	(203)	(280)
EPRA NDV	5,957	5,195
Number of shares (millions)	540	508
EPRA NDV per share	11.03	10.22

EPRA Earnings and Recurring Net Income

EPRA Earnings and Recurring Net Income	Millions of euros	
	2021	2020
Net profit/(loss) attributable to the Group	474	2
Net profit/(loss) attributable to the Group - Cts€/share	91.10	0.47
<i>Includes/(excludes):</i>		
(i) Changes in value of investments, investment projects and other interests	(443)	78
(ii) Profit or loss of sales of assets, investment projects and other interests	1	(2)
(iii) Profits or losses on sales of assets held for sale including changes in the value of such assets	--	--
(iv) Tax for sale of assets	--	--
(v) Impairment of goodwill	--	--
(vi) Changes in the value of financial instruments and cancellation costs	30	31
(iv) Deferred tax for considered EPRA adjustments	(9)	(4)
(ix) Adjustments from (i) to (viii) in respect of joint ventures (unless included by proportionate consolidation)	--	--
(x) Minority interests in respect of the above items	66	27
EPRA Earnings (pre-adjustments specific to the company)	120	133
<i>Adjustments specific to the company:</i>		
(a) Extraordinary contingencies and charges	10	3
(b) Non-recurring profit/(loss)	--	2
(c) Tax credits	--	--
(d) Minority interests in respect of the above items	(2)	--
Recurring Net Profit (post company specific adjustments)	128	138
Average number of shares (millions)	520.1	508.1
Recurring Net Profit (post company specific adjustments) - Cts€/share	24.59	27.06

Market value excluding transaction costs or GAV excluding transfer costs

Market value excluding transaction costs or GAV excluding transfer costs	Millions of euros	
	2021	2020
Barcelona	1,423	1,333
Madrid	2,518	2,441
Paris	6,633	6,616
Operating portfolio	10,574	10,390
Projects	1,843	1556
Others	20	74
Total Market Value excluding transaction costs	12,437	12,020
Spain	4,830	4,562
France	7,606	7,458

Market Value including transaction costs or GAV including Transfer costs

Market value including transaction costs or GAV including Transfer costs	Millions of euros	
	2021	2020
Total Market Value excluding transaction costs	12,436	12,020
Plus: transaction costs	655	611
Total Market Value including transaction costs	13,091	12,631
Spain	4,953	4,685
France	8,138	7,946

Like-for-like Rentals

Like-for-like rentals	Millions of euros			
	Barcelona	Madrid	Paris	Total
Rental income 2020	50	108	182	340
Like-for-like	--	1	5	6
Projects and registrations	(2)	(2)	(6)	(10)
Investments and divestments	(3)	(4)	(6)	(13)
Others and compensation	--	(8)	--	(8)
Rental income 2021	45	95	175	315

Like-for-like Appraisal

Like-for-like appraisal	Millions of euros	
	2021	2020
Valuation at 1 January	12,020	12,196
Like-for-like Spain	292	(163)
Like-for-like France	411	300
Acquisitions and disposals	(288)	(313)
Valuation at 31 December	12,435	12,020

Loan-to-Value Group or LtV Group

<i>Loan-to-Value Group or LtV Group</i>	Millions of euros	
	2021	2020
Gross financial debt	4,935	4,851
Commitments to defer property asset purchase and sale transactions	--	--
Less: "Cash and cash equivalents"	(219)	(269)
(A) Net financial debt	4,716	4,582
Market Value including transaction costs	13,091	12,631
Plus: Own shares of the Parent valued at EPRA NTA	98	38
(B) Market value including transaction costs and the Parent's own shares	13,189	12,669
<i>Loan to Value Group (A)/(B)</i>	35.8%	36.2%

LtV Holding or LtV Colonial

LtV Holding or LtV Colonial	Millions of euros	
	2021	2020
Holding Company		
Gross financial debt	3,028	2,945
Commitments to defer property asset purchase and sale transactions	--	--
Less: "Cash and cash equivalents" of the Parent and Spanish subsidiaries wholly owned thereby	(101)	(244)
(A) Net financial debt	2,927	2,701
(B) Market Value including transaction costs	10,036	8,972
<i>Loan to Value Holding (A)/(B)</i>	29.2%	30.1%