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

Report on limited review of condensed interim consolidated financial statements and Interim consolidated directors' Report for the six months period ended at 30 June 2019

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

REPORT ON LIMITED REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have performed a limited review of the accompanying condensed interim consolidated financial statements (hereinafter, the interim financial statements) of Inmobiliaria Colonial, SOCIMI, S.A., S.A. (hereinafter, "the parent company") and its subsidiaries (hereinafter, "the group"), which comprise the statement of financial position as at June 30, 2019, and the abridged income statement, comprehensive income statement, statement of changes in equity, cash flow statement and related notes, all condensed and consolidated, for the six months period then ended. The parent company´s directors are responsible for the preparation of these interim financial statements in accordance with the requirbements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial information, as provided in Article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with legislation governing the audit practice in Spain and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these interim financial statements.

Conclusion

Based on our limited review, that cannot be considered as an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six months period ended June 30, 2019 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial statements, as provided in Article 12 of Royal Decree 1362/2007.

Emphasis of Matter

We draw attention to Note 2, in which it is mentioned that these interim financial statements do not include all the information required of complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, therefore the accompanying interim financial statements should be read together with the consolidated annual accounts of the group for the year ended December 31, 2018. Our conclusion is not modified in respect of this matter.

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Other Matters

Interim consolidated directors´ Report

The accompanying interim consolidated directors' Report for the six months period ended June 30, 2019 contains the explanations which the parent company´s directors consider appropriate regarding the principal events of this period and their impact on the interim financial statements presented, of which it does not form part, as well as the information required under the provisions of Article 15 of Royal Decree 1362/2007. We have verified that the accounting information contained in this directors' Report is in agreement with that of the interim financial statements for the six months period ended June 30, 2019. Our work is limited to checking the interim consolidated directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Inmobiliaria Colonial, SOCIMI, S.A. and its subsidiaries´ accounting records.

Preparation of this review report

This report has been prepared at the request of the Board of Directors of the Parent Company in relation to the publication of the half-yearly financial report required by Article 119 of Royal Legislative Decree 4/2015 of 23 October, approving the revised text of the Securities Market Law developed by the Royal Decree 1362/2007, of 19 October.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
José M Solé Farré (05565)

26 July 2019

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries

Condensed Consolidated Interim Financial Statements
and Consolidated Interim Management Report
for the six-month period ended
30 June 2019

Translation of Condensed Consolidated Interim Financial Statements and Consolidated Interim Directors' Report originally issued in Spanish. In the event of discrepancy, the Spanish version prevails.

Translation of Condensed Consolidated Interim Financial Statements and Consolidated Interim Directors' Report originally issued in Spanish. In the event of discrepancy, the Spanish version prevails.

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2019

(Thousands of Euros)

ASSET	Note	30 June 2019	31 December 2018	LIABILITIES AND EQUITY	Note	30 June 2019	31 December 2018
Goodwill	4	-	62,225	Share capital		1,270,287	1,270,287
Intangible assets		5,041	3,759	Issue premium		1,513,749	1,578,439
Material property	5	63,210	43,332	Reserves of the Parent		226,400	215,990
Investment properties	6	11,203,011	11,083,133	Reserves in consolidated companies		1,696,814	1,223,497
Non-current financial assets		31,518	32,454	Valuation adjustments recognised in equity - financial instruments		(2,063)	(2,078)
Non-current deferred tax assets		1,077	411	Other equity instruments		7,112	6,017
NON-CURRENT ASSETS		**11,303,857**	**11,225,314**	Treasury shares		(2,798)	(5,606)
				Income for the financial year		337,669	524,763
				Equity attributable to shareholders of the Parent		**5,047,170**	**4,811,309**
				Non-controlling interests		**1,312,785**	**1,290,486**
				EQUITY	9	**6,359,955**	**6,101,795**
				Bank borrowings and other financial liabilities	10	511,284	723,928
				Bonds and similar securities issued	10	3,779,146	3,776,866
				Non-current deferred tax liabilities	13	389,750	374,882
				Non-current provisions		1,487	1,380
Inventories		46,872	46,587	Other non-current liabilities		69,789	66,333
Trade and other receivables	7	122,655	99,972	**NON-CURRENT LIABILITIES**		**4,751,456**	**4,943,389**
Current financial assets		90	1,300				
Tax assets		14,809	19,757	Bank borrowings and other financial liabilities	10	6,217	9,100
Cash and cash equivalents	10	329,785	68,293	Bonds and similar securities issued	10	802,458	284,242
CURRENT ASSETS		**514,211**	**235,909**	Trade and other payables	12	209,858	114,779
				Tax liabilities		26,359	16,349
Assets classified as held for sale	8	**347,891**	**26,091**	Current provisions		9,656	17,660
				CURRENT LIABILITIES		**1,054,548**	**442,130**
TOTAL ASSETS		**12,165,959**	**11,487,314**	**TOTAL LIABILITIES AND EQUITY**		**12,165,959**	**11,487,314**

Notes 1 to 18 to the financial statements are an integral part of the abridged consolidated statement of financial position for the six-month period ended 30 June 2019.

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

CONSOLIDATED ABRIDGED INCOME STATEMENT AND COMPREHENSIVE INCOME STATEMENT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

(Thousands of Euros)

Income statement	**Note**	**June 2019**	**June 2018**
Net turnover amount	14-a	175,865	170,719
Other revenue		3,274	1,349
Personnel expenses		(14,800)	(13,384)
Other operating expenses		(31,932)	(32,474)
Depreciation and amortisation charge		(3,298)	(1,452)
Net change in provisions		4,982	4,025
Net gain/(loss) on sales of assets	14-b	(986)	713
Operating profit		**133,105**	**129,496**
Changes in fair value of investment property	14-c	418,509	324,210
Losses due to impairment of assets	14-c	(61,685)	(25,141)
Finance income	14-d	3,276	3,653
Finance costs	14-d	(56,346)	(59,783)
Impairment of financial assets	14-d	-	(241)
Loss before tax		**436,859**	**372,194**
Income tax expense		(20,829)	(15,780)
Consolidated net profit		**416,030**	**356,414**
Net profit for the year attributable to the Parent		337,669	253,912
Net profit attributable to non-controlling interests	9	78,361	102,502
Basic earnings per share (€)	3	0.67	0.59
Diluted earnings per share (€)	3	0.67	0.59
Statement of comprehensive income			
Consolidated net profit		**416,030**	**356,414**
Other components of comprehensive income recognised directly in equity		**(1,707)**	**(60,761)**
Gains on hedging instruments	10 and 11	(1,925)	(2,250)
Gains/(losses) on available-for-sale financial assets	8	-	(58,461)
Tax effect on prior years' profit or loss	10 and 11	218	(50)
Transfers to comprehensive income		**2,166**	**(64)**
Gains on hedging instruments	9	2,713	(86)
Tax effect on prior years' profit or loss		(547)	22
Consolidated comprehensive income		**416,489**	**295,589**
Comprehensive profit/(loss) for the year attributable to the Parent		338,292	193,371
Comprehensive profit/(loss) attributable to non-controlling interests		78,197	102,218
Comprehensive basic earnings per share (euros)		0.67	0.45
Comprehensive diluted earnings per share (euros)		0.67	0.45

Notes 1 to 18 to the financial statements are an integral part of the condensed consolidated statement of comprehensive income. for the six-month period ended 30 June 2019.

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED
30 JUNE 2019

(Thousands of Euros)

	Note	Share capital	Issue premium	Reserves of the Parent Company	Reserves in consolidated companies	Valuation adjustments recognised in equity - financial instruments	Valuation adjustments on available-for-sale financial assets	Other equity instruments	Treasury shares	Profit for the year	Equity attributable to shareholders of the Parent	Non-controlling interests	Total
Balance at 31 December 2017	**9**	**1,088,293**	**1,126,248**	**245,118**	**406,366**	**(559)**	**70,415**	**4,686**	**(31,262)**	**682,523**	**3,591,828**	**2,087,870**	**5,679,698**
Total recognised income and expense for the period		-	-	-	-	(1,519)	(54,777)	-	-	524,763	468,467	153,359	**621,826**
Transactions with shareholders:													
Share capital increase		181,994	463,517	(1,149)	-	-	-	-	-	-	644,362	-	**644,362**
Treasury share portfolio		-	-	7,332	-	-	-	-	22,754	-	30,086	-	**30,086**
Distribution of 2017 profit/(loss)		-	(11,326)	(33,798)	650,026	-	-	-	-	(682,523)	(77,621)	(52,273)	**(129,894)**
Share-based payment transactions		-	-	(1,513)	-	-	-	1,667	2,902	-	3,056	358	**3,414**
Changes in the scope of consolidation		-	-	-	151,426	-	-	-	-	-	151,426	(899,425)	**(747,999)**
Other changes		-	-	-	15,679	-	(15,638)	(336)	-	-	(295)	597	**302**
Balance at 31 December 2018	**9**	**1,270,287**	**1,578,439**	**215,990**	**1,223,497**	**(2,078)**	**-**	**6,017**	**(5,606)**	**524,763**	**4,811,309**	**1,290,486**	**6,101,795**
Change in accounting policy (Note 1-b)		-	-	-	(887)	-	-	-	-	-	(887)	(104)	**(991)**
Balance at 31 December 2018 adjusted		**1,270,287**	**1,578,439**	**215,990**	**1,222,610**	**(2,078)**	**-**	**6,017**	**(5,606)**	**524,763**	**4,810,422**	**1,290,382**	**6,100,804**
Total recognised income and expense for the period		-	-	-	-	623	-	-	-	337,669	338,292	78,197	**416,489**
Transactions with shareholders:													
Treasury share portfolio		-	-	-	-	-	-	-	(14)	-	(14)	-	**(14)**
Distribution of 2018 loss		-	(64,690)	(569)	488,455	-	-	-	-	(524,763)	(101,567)	(30,744)	**(132,311)**
Share-based payment transactions		-	-	(1,131)	-	-	-	990	2,822	-	2,681	186	**2,867**
Changes in the scope of consolidation		-	-	12,110	(13,301)	(608)	-	-	-	-	(1,799)	(26,265)	**(28,064)**
Other changes		-	-	-	(950)	-	-	105	-	-	(845)	1,029	**184**
Balance at 30 June 2019	**9**	**1,270,287**	**1,513,749**	**226,400**	**1,696,814**	**(2,063)**	**-**	**7,112**	**(2,798)**	**337,669**	**5,047,170**	**1,312,785**	**6,359,955**

Notes 1 to 18 to the financial statements are an integral part of the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2019.

Translation of Condensed Consolidated Interim Financial Statements and Consolidated Interim Directors' Report originally issued in Spanish. In the event of discrepancy, the Spanish version prevails.

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

(Thousands of euros)

	Note	June 2019	June 2018
CASH FLOWS IN CONTINUING OPERATIONS			
1. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) from operations		133,105	129,496
Adjustments to profit			
Depreciation and amortisation (+)		3,298	1,452
Net change in provisions (+/-)		(4,982)	(4,025)
Others		1,857	1,458
Gains/(losses) on sale of investment property (+/-)		986	(713)
Adjusted profit		134,264	127,668
Taxes paid (-)		8,963	8,754
Interest received (+)		858	-
Increase/(decrease) in current assets and liabilities			
Inventories (+/-)		(285)	-
Increase/(decrease) in receivables (+/-)		(9,481)	17,388
Increase/(decrease) in payables (+/-)		(5,523)	(78,897)
Increase/(decrease) in other assets and liabilities (+/-)		1,162	2,497
Total net cash flows from/(used in) operating activities		**129,958**	**77,410**
2. CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Investments in (-)			
Intangible assets		(2,620)	(1,091)
Property, plant and equipment	5	(6,767)	(622)
investment property	6	(47,329)	(83,272)
Non-current financial assets and others	2	(28,094)	(69,123)
Business combinations		-	(843,149)
Cash and cash equivalents acquired in a business combination		-	160,157
		(84,810)	(837,100)
Divestments in (+)			
investment property	6	11,850	36,881
		11,850	36,881
Total net cash flows in investing activities		**(72,960)**	**(800,219)**
3. CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Dividends paid (-)	9	(30,744)	(115,162)
Repayment of bank borrowings (-)	10	(309,771)	(618,313)
Interest paid (+/-)		(40,585)	(55,589)
Cancellation of financial derivatives (-)	14-d	(6,008)	(1,452)
Treasury share transactions (+/-)	9	(14)	(39)
		(387,122)	(790,555)
New bank borrowings obtained (+)	10	75,000	-
New bondholder borrowings obtained (+)	10	515,600	1,150,000
Other proceeds/(payments) for current financial assets and other (+/-)		1,016	4,020
		591,616	1,154,020
Total net cash flows from/(used in) financing activities		**204,494**	**363,465**
4. NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS			
Net cash flow for the period in continuing activities		**261,492**	**(359,344)**
Cash and cash equivalents at beginning of period	**10**	**68,293**	**1,104,601**
Cash and cash equivalents at end of the financial year	**10**	**329,785**	**745,257**

Notes 1 to 18 to the financial statements are an integral part of the condensed consolidated statement of cash flows for the six-month period ended 30 June 2019.

Inmobiliaria Colonial, SOCIMI, S.A.
and Subsidiaries

Explanatory notes to the Condensed Consolidated Interim Financial Statements for the six-month period ended 30 June 2019

1. Introduction, basis of presentation of the condensed consolidated interim financial statements and other information

a) Introduction

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

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

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 bylaws, is as follows:

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

In addition to the economic activity relating to the main corporate purpose, the Parent may also carry on any other ancillary activities, i.e., those that 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.

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

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

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

Standard & Poor's Rating Credit Market Services Europe Limited has maintained the Parent's and subsidiary SFL's "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 negative outlook from Moody's, which has improved during the year to a stable outlook.

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 or performance. 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.

The consolidated financial statements of the Group for 2018 were approved at the General Shareholders' Meeting of the Company held on 14 June 2019.

b) Basis of presentation of the condensed consolidated interim financial statements

In accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, all companies governed by the laws of a Member State of the European Union and whose securities are traded on a regulated market in any European Union country must file consolidated financial statements for periods beginning on or after 1 January 2005 in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Group's 2018 consolidated financial statements were prepared by the Parent's directors in accordance with the International Financial Reporting Standards as adopted by the European Union, applying the consolidation, accounting and measurement principles, policies and bases set forth in Note 4 to said consolidated financial statements in order to present a true and fair view of the Group's consolidated equity and consolidated financial position at 31 December 2018 and the consolidated results of its operations, changes in consolidated equity and the consolidated cash flows in the year then ended.

These condensed consolidated interim financial statements for the six month-period ended 30 June 2019 are presented in accordance with IAS 34 Interim Financial Reporting, and were authorised for issue by the Parent's directors on 25 July 2019 in accordance with Article 12 of Spanish Royal Decree 1362/2007.

In accordance with IAS 34, the interim financial report is intended to provide an update on the latest complete set of the Group's annual consolidated financial statements, focusing on new activities, events and circumstances that took place during the six months and not duplicating information previously reported in the 2018 consolidated financial statements. Accordingly, for a proper understanding of the information included in these condensed consolidated interim financial statements, they must be read in conjunction with the Group's consolidated financial statements for 2018.

The accounting policies and methods used in preparing these condensed consolidated interim financial statements are the same as those applied in the consolidated financial statements for 2018.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated interim financial statements for the six-month period ended 30 June 2019 may differ from those used by certain Group entities, the required adjustments and reclassifications were made on consolidation to unify such policies and bases and to make them compliant with IFRS and with the accounting policies and standards followed by the Parent.

The SFL Group, included in the scope of consolidation, was the subject of a limited review at 30 June 2019 on a shared basis between the Group's auditor, Deloitte & Associés and PriceWaterhouseCoopers Audit.

Standards and interpretations effective this year

New accounting standards became effective during the six-month period ended 30 June 2019, and were applied accordingly in preparing these condensed consolidated interim financial statements. These new standards are as follows:

- IFRS 16, "Leases"

- IFRS 9 (Amendment) “Prepayment component with negative compensation”

- IFRIC 23 "Uncertainty over income tax treatments"

- IAS 28 (Amendment) “Long-term interests in associates and joint ventures”

- IAS 19 (Amendment) “Plan amendment, curtailment or settlement”.

- Annual improvements to IFRSs. 2015-2017 Cycle: The amendments affect IFRS 3, IFRS 11, IAS 12 and IAS 23 and apply to annual periods beginning on or after 1 January 2019, all of which are subject to adoption by the EU. The main amendments refer to

    - IFRS 3 "Business combinations": An investment previously held in a joint venture is measured again when control over the business is obtained.

    - IFRS 11 "Joint arrangements": An investment previously held in a joint venture is not measured again when joint control over the business is obtained.

    - IAS 12 "Income taxes": All tax consequences relating to the payment of dividends are recognised in the same manner.

    - IAS 23 "Borrowing costs": Any specific loan originally obtained to develop a qualifying asset is considered part of general borrowings when the asset is ready for use or sale.

These standards have been taken into account with effect from 1 January 2019 and their impact has been reflected in these condensed consolidated interim financial statements, which have not been significant except for:

IFRS 16, "Leases"

The impacts for Colonial Group, associated with operating lease agreements from its subsidiary Utopicus, were as follows:

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

- With the adoption of IFRS 16, the group recognised lease liabilities in relation to leases that had previously been classified as operating leases under the principles of IAS 17 - Leases. These liabilities were measured at the current value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019. The weighted average incremental borrowing rate of the lessee applied to the lease liabilities on 1 January 2019 was 5.158%.

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

	Thousands of euros
	1 January 2019
Operating lease commitments presented at 31 December 2018	22,591
Discounted using the lessee's incremental borrowing rate on the initial application date	17,914
Lease liability recognised at 1 January 2019	**17,914**
Which are:	
Current lease liabilities	2,298
Non-current lease liabilities	15,616
	17,914

Right-of-use assets associated with property leases were valued on a retroactive basis as if the rules had always been applied. Recognised right-of-use assets relate to the following types of assets:

	Thousands of Euros	
	30 June 2019	1 January 2019
Properties	13,621	16,593
Total right-of-use assets	**13,621**	**16,593**

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

- Property, plant and equipment - Right-of-use assets - increase of 16,593 thousand euros (Note 5).

- Non-current deferred tax assets - increase of 330 thousand euros.

- Bank borrowings and other financial liabilities - Lease liabilities - increase of 17,914 thousand euros (Note 10).

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

Earnings per share for the six months ended 30 June 2019 have not changed significantly as a result of the adoption of IFRS 16.

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

- the use of a single discount rate for a portfolio of leases with reasonably similar characteristics,

- reliance on whether leases are previously recognised as onerous,

- accounting for operating leases with a remaining lease term of less than 12 months at 1 January 2019 as short-term leases,

- the exclusion of initial direct costs from the measurement of the right-of-use asset on the date of initial application, and

- hindsight to determine the lease term when the contract contains options to extend or terminate the lease.

The Group has chosen not to reassess whether a contract is, or contains, a lease on the date of initial application. Instead, for contracts signed before the transition date, the Group relies on its assessment under IAS 17 and IFRIC4 - Determining Whether an Arrangement Contains a Lease.

The subsidiary rents several offices. 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.

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

Since 1 January 2019, 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 current value. Lease liabilities include the net current 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.

Standards and interpretations issued but not yet in force

At the date of signing of these condensed consolidated interim financial statements, the following standards, amendments and interpretations had been published by the IASB but had not become effective, either because they came into effect after the date of the condensed consolidated interim financial statements or because they had yet to be endorsed by the European Union:

- IFRS 10 (Amendment) and IAS 28 (Amendment) “Sale or contribution of assets between an investor and its associate or joint venture”.

- IFRS 17 "Insurance contracts".

- IFRS 3 (Amendment) "Definition of a business".

- IAS 1 (Amendment) and IAS 8 (Amendment) "Definition of material".

As indicated in Note 2 b) to the consolidated financial statements for the year ended 31 December 2018, the application of new standards, amendments and interpretations will be considered by the Group once they have been ratified and approved, where appropriate, by the European Union.

The Parent has in any case reviewed the potential impacts of the future application of these standards and, as indicated in the 2018 financial statements, considers that they will not have a significant effect on the Group's consolidated financial statements.

c) Responsibility for the information and use of estimates

The information contained in these condensed consolidated interim financial statements for the first six months of 2019 is the responsibility of the Parent's directors, who have verified that the different controls established to ensure the quality of the financial and accounting information prepared have been effective.

The consolidated results and determination of consolidated equity are a product of the accounting policies and principles, measurement bases and estimates followed by the Parent’s directors in the preparation of the condensed consolidated interim financial statements. The main accounting policies and measurement bases applied are described in Note 4 to the 2018 consolidated financial statements, notwithstanding the stipulations of Note 1-b above, "Standards and interpretations effective in the current year".

In the condensed consolidated interim financial statements, estimates were occasionally made by the Management of the Parent and of the consolidated companies to quantify certain assets, liabilities, income, expenses and commitments reported herein. These estimates, made on the basis of the best information available, relate basically to:

- The market value of investment property (Note 6). The market value was obtained from the appraisals periodically made by independent experts. These appraisals were prepared at 30 June 2019, applying the methods described in Note 6.

- The measurement and impairment of goodwill (Note 4).

- Measurement of non-current assets held for sale (Note 8) and property, plant and equipment for own use.

- Estimate of the necessary provisions for impairment losses of accounts receivable.

- The recoverability of tax credits in respect of tax loss carryforwards and deferred tax assets recognised in the condensed consolidated statement of financial position (Note 13).

- The market value of certain financial assets, including derivative financial instruments.

- Evaluation of lawsuits, obligations and contingent assets and liabilities at year-end.

Although the estimates described were made on the basis of the best available information available to date concerning the facts analysed, in the light of future events it might be necessary to change these estimates (upwards or downwards). In accordance with IAS 8, any changes to accounting estimates would be made prospectively, with the effects of the changes recognised in the consolidated statement of comprehensive income.

During the six-month period ended 30 June 2019, there were no significant changes in the estimates made at the end of 2018.

d) Contingent assets and liabilities

Note 16 of the Group's consolidated financial statements for the year ended 31 December 2018 provides information on guarantee commitments to third parties and contingent liabilities at that date. During the first six months of 2019, there were no substantial changes to what was stated therein.

e) Basis of comparison

The information contained in these condensed consolidated interim financial statements for the first six months of 2019 is presented for comparative purposes with the information relating to the six-month period ended 30 June 2018 for the consolidated statement of comprehensive income and the consolidated statement of cash flows, and is compared with the information relating to 2018 year-end for the consolidated statement of financial position and for the consolidated statement of changes in equity.

f) Seasonal nature of the Group's operations

In view of the activities of Group companies, Group transactions are not significantly cyclical or seasonal. Therefore, no specific disclosures are provided in these explanatory notes to the condensed consolidated financial statements for the six-month period ended 30 June 2019.

g) Materiality

In deciding how to disclose items of the financial statements or other issues, in accordance with IAS 34, the Group assessed materiality in relation to the condensed consolidated half-yearly financial statements.

h) Events after the reporting period

There have been no significant subsequent events.

2. Changes in Group composition

The Appendix to the consolidated financial statements for the year ended 31 December 2018 provides information on consolidated Group companies at that date.

In 2018 the following changes were made to the scope of consolidation, as described in Note 2-f to the consolidated financial statements for the year ended 31 December 2018:

- On 16 January 2018, the Parent acquired 100% of the share capital of the Spanish company LE Offices Egeo, S.A.U. (hereinafter "Egeo"), the owner of an office building located in Madrid. The acquisition price was 49,098 thousand euros, plus associated acquisition costs. In addition, in 2018, the loan held by Egeo with a financial institution for 30,182 thousand euros, including interest, was cancelled early.

- Voluntary takeover bid to acquire shares of Axiare Patrimonio SOCIMI, S.A.

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

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

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

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

- On 20 March 2018, Utopicus increased its share capital by 4 thousand euros, corresponding to 3,638 shares with a nominal value of 1 euro each, plus a share premium, which was subscribed and paid in full by the Parent.

- On 7 May 2018, the Parent acquired 100% of Peñalvento from the subsidiary Agisa for 20,755 thousand euros.

- On 16 November 2018 the Parent acquired from Qatar Holding, LLC and DIC Holding, LLC 10,323,982 shares of the subsidiary SFL through (i) the contribution to the Parent of 7,136,507 shares of the subsidiary as consideration for the subscription of 53,523,803 new shares of the Company, (ii) the exchange of 400,000 shares of the subsidiary SFL for 3,000,000 shares of the Parent held as treasury shares, and (iii) the sale to the Parent of 2,787,475 shares of the subsidiary SFL for 203,486 thousand euros.

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

- In addition, the Parent acquired 168,000 shares of the subsidiary SFL, through the exchange of 315,000 shares of the Parent held as treasury shares and 8,442 thousand euros.

The following changes also took place in the scope of consolidation during the first six months of 2019:

- On 18 February 2019, the participating loan granted by the Parent to the subsidiary Utopicus, amounting to 4,999 thousand euros, was capitalised. With this capitalisation, the Parent increased its shareholding in the subsidiary Utopicus to 89.48%.

- On 30 April 2019, the Parent acquired the remaining 45% of the share capital of the subsidiary Torre Marenostrum, S.L. for 28,530 thousand euros, including the costs associated with the acquisition.

- In addition, the Parent absorbed the subsidiaries Colonial Invest, S.L.U., Hofinac Real Estate, S.L.U., Fincas y Representaciones, S.A.U., Colonial Arturo Soria, S.L.U., LE Offices Egeo, S.A.U., Axiare Properties, S.L.U., Axiare Investigación, Desarrollo e Innovación, S.L.U., Venusaur, S.L.U. and Chameleon (Cedro), S.L.U. On 17 April 2019, the mergers were registered with the Madrid Commercial Register.

- At the date of preparation of these interim financial statements, the Parent had not yet registered the merger by absorption of the subsidiaries Danieltown Spain, S.L.U., Moorage inversiones 2014, S.L.U., Almacenes generales internacionales, S.A.U., Soller, S.A.U. and Axiare Investments, S.L.U. It is expected that this entry in the Madrid Commercial Register will be carried out soon.

3. Earnings per share from ordinary activities

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.

Diluted earnings per share are calculated in a manner similar to basic earnings per share, except that the weighted average number of shares outstanding is adjusted to take into account the potential dilutive effect of the convertible bonds outstanding at year-end. At 30 June 2019 there were no bonds pending conversion to shares in the Parent.

	Thousands of Euros	
	30 June 2019	30 June 2018
Net profit for the year attributable to the Parent:	**337,669**	**253,912**
- from continuing operations	337,669	253,912
	No. of shares	No. of shares
Average number of ordinary shares (in thousands)	507,511	430,952
Weighted average number of ordinary shares - diluted (in thousands)	507,511	430,952
	Euros	Euros
Basic and diluted earnings per share:	**0.67**	**0.59**
- from continuing operations	0.67	0.59

4. Goodwill

The movement in this heading of non-current assets of the condensed consolidated statement of financial position is as follows:

	Thousands of Euros
	Goodwill
Balance at 31 December 2017	**-**
Business combinations	176,529
Impairment of goodwill	(114,304)
Balance at 31 December 2018	**62,225**
Impairment of goodwill (Note 14-c)	(62,225)
Balance at 30 June 2019	**-**

The goodwill recognised related to the business combination with Axiare Patrimonio SOCIMI, S.A. and subsidiaries (Note 2-a).

At 30 June 2019, the amount of goodwill in line with the revaluation of investment property arising from the business combination with Axiare was reduced.

5. Material property

The movement in this heading of non-current assets of the condensed consolidated statement of financial position is as follows:

	Thousands of Euros			
	Properties for own use	Right-of-use assets (Note 1-b)	Other property, plant and equipment	**Total**
Balance at 31 December 2017	**33,769**	**-**	**5,600**	**39,369**
Acquisition cost	***42,697***	**-**	***12,814***	***55,511***
Accumulated depreciation	***(4,000)***	**-**	***(7,214)***	***(11,214)***
Accumulated impairment	***(4,928)***	**-**	**-**	***(4,928)***
Additions	2,947	-	977	**3,924**
Additions to the scope of consolidation	131	-	505	**636**
Depreciation charge	(575)	-	(1,063)	**(1,638)**
Withdrawals	(270)	-	(330)	**(600)**
Transfers	-	-	11	**11**
Impairment (Note 18-f)	1,630	-	-	**1,630**
Balance at 31 December 2018	**37,632**	**-**	**5,700**	**43,332**
Acquisition cost	***44,789***	**-**	***13,553***	***58,342***
Accumulated depreciation	***(3,859)***	**-**	***(7,853)***	***(11,712)***
Accumulated impairment	***(3,298)***	**-**	**-**	***(3,298)***
Balance at 31 December 2018 adjusted	**37,632**	**16,593**	**5,700**	**59,925**
Acquisition cost	***44,789***	***18,544***	***13,553***	***76,886***
Accumulated depreciation	***(3,859)***	***(1,951)***	***(7,853)***	***(13,663)***
Accumulated impairment	***(3,298)***	**-**	**-**	***(3,298)***
Additions	5,136	(2,096)	1,654	**4,694**
Depreciation charge	(472)	(876)	(613)	**(1,961)**
Withdrawals	-	-	(112)	**(112)**
Transfers	14	-	(14)	**-**
Impairment (Note 14-c)	664	-	-	**664**
Balance at 30 June 2019	**42,974**	**13,621**	**6,615**	**63,210**
Acquisition cost	***49,925***	***16,448***	***15,079***	***81,452***
Accumulated depreciation	***(4,317)***	***(2,827)***	***(8,464)***	***(15,608)***
Accumulated impairment	***(2,634)***	**-**	**-**	***(2,634)***

At 30 June 2019 and 2018, it became evident that a reversal of the impairment of assets (Note 14-c) amounting to 664 thousand euros and 521 thousand euros, respectively, had to be recognised, evidenced by the valuations carried out by independent experts.

Lastly, assets amounting to 94 thousand euros were derecognised due to being replaced in the first half of 2019 (Note 14-c).

The negative additions to right-of-use Assets relate mainly to the impact of the sub-lease signed by the subsidiary Utopicus, amounting to 2,096 thousand euros.

6. Investment properties

The movement in this heading of non-current assets of the condensed consolidated statement of financial position is as follows:

	Thousands of Euros		
	investment property	Property, plant and equipment in the course of construction	**Total**
Balance at 31 December 2017	**8,545,388**	**247,008**	**8,792,396**
Additions	106,450	127,148	**233,598**
Additions to the scope of consolidation	1,700,094	110,616	**1,810,710**
Withdrawals	(358,466)	(24,368)	**(382,834)**
Transfers	(147,292)	74,603	**(72,689)**
Change in fair value	651,382	50,570	**701,952**
Balance at 31 December 2018	**10,497,556**	**585,577**	**11,083,133**
Additions	21,814	27,927	**49,741**
Withdrawals	(481)	-	**(481)**
Transfers (Note 8)	(575,659)	237,526	**(338,133)**
Changes in fair value (Note 14-c)	398,421	10,330	**408,751**
Balance at 30 June 2019	**10,341,651**	**861,360**	**11,203,011**

The additions in the first half of 2019 relate to development or renovation projects in buildings of the SFL subgroup amounting to 18,972 thousand euros and in buildings of the other Group companies amounting to 30,769 thousand euros, including 2,418 thousand euros of capitalised borrowing costs.

On 7 June 2019, the Parent disposed of an asset located in Madrid amounting to 500 thousand euros, giving rise to a net loss of 41 thousand euros, taking into account the indirect costs of the sale. Furthermore, assets amounting to 27 thousand euros were derecognised.

At 30 June 2019, the Group has pledged assets as collateral for mortgage loan with a carrying amount of 1,182,776 thousand euros to secure debts amounting to 275,900 thousand euros (Note 10-g). At 31 December 2018, the corresponding balances were 1,826,491 thousand euros and 515,642 thousand euros, respectively.

Transfers in the first half of 2019 relate to the carrying amount of 12 assets for which the Parent's directors estimate that their value will be recovered through a sale rather than through continued use (Note 8).

In accordance with IAS 40, the Group calculates the fair value of its investment property on a regular basis. This fair value is determined based on the valuations made on a six-monthly basis by independent experts (Jones Lang LaSalle and CB Richard Ellis Valuation in Spain, and Jones Lang LaSalle and Cushman & Wakefield in France) so that, at the close every six months, the fair value reflects the prevailing market conditions for the investment property. 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 "Changes in Value of Investment Property" heading in the condensed consolidated comprehensive income statement includes the revaluation gains on investment property for the six-month period ended 30 June 2019 amounting to 408,751 thousand euros (Note 14-c).

The sensitivity of valuations to a change of one quarter of a point in yields would have the following impact on the valuations used by the Group at 30 June 2019 and 31 December 2018 to determine the value of its investment property:

	Thousands of Euros		
Sensitivity of valuations to a change of one quarter of a point in yields	Valuation	Decrease of one quarter of a point	Increase of one quarter of a point
June 2019	11,797,638	816,426	(703,900)
December 2018	11,348,133	776,117	(671,522)

7. Trade and other receivables

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

	Thousands of Euros	
	30 June 2019	31 December 2018
Trade receivables for sales and services	36,035	15,027
Accrual of lease incentives	87,763	88,061
Other receivables	85,652	85,704
Other current assets	3,251	1,277
Impairment of receivables -		
- Trade receivables from sales and services	(4,573)	(4,624)
- Other receivables	(85,473)	(85,473)
Total trade and other receivables	**122,655**	**99,972**

(a) Trade receivables from sales and services

This mainly includes the amounts receivable from customers, fundamentally from the Group's rentals business in France, that are billed monthly, quarterly or yearly with no significant overdue amounts.

(b) 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 statement of comprehensive income during the minimum operating lease term. Of this amount, 67,261 thousand euros were charged to the statement of comprehensive income over a period of more than one year (68,014 thousand euros at 31 December 2018).

8. Assets classified as held for sale

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

	Thousands of Euros
Balance at 31 December 2017	-
Transfers	26,091
Balance at 31 December 2018	**26,091**
Withdrawals	(26,091)
Transfers (Note 6)	338,133
Changes in fair value (Note 14-c)	9,758
Balance at 30 June 2019	**347,891**

On 31 January, the Parent disposed of an asset located in Madrid amounting to 27,500 thousand euros, giving rise to a net loss of 945 thousand euros, taking into account the indirect costs of the sale.

Transfers in the first half of 2019 relate to the carrying amount of 12 investment properties (Note 6) for which the Parent's directors estimate that their value will be recovered through a sale rather than through continued use.

“Changes in value of investment property” in the condensed consolidated comprehensive income statement includes the profit from the revaluation of the investment property reclassified to "Assets Classified as Held for Sale" for the six-month periods ended 30 June 2019 amounting to 9,758 thousand euros (Note 14-c).

9. Equity

a) Share capital

At both 30 June 2019 and 31 December 2018, the share capital is represented by 508,114,781 fully subscribed and paid shares of 2.5 euros par value each.

Based on the pertinent notifications regarding the number of company shares to the Spanish National Securities Market Commission (CNMV), the shareholders owning significant direct or indirect interests in the Parent at 30 June 2019 and 31 December 2018 were as follows:

	June 2019		December 2018	
	Number of shares	% ownership	Number of shares	% ownership
Name or corporate name of the shareholder:				
Qatar Investment Authority	80,892,169	15.92%	80,892,169	15.92%
Finaccess Group	80,028,647	15.75%	80,028,647	15.75%
Inmo S.L.	29,002,980	5.71%	20,011,190	3.94%
Aguila Ltd.	28,800,183	5.67%	28,800,183	5.67%
DIC Holding, LLC	21,782,588	4.29%	21,782,588	4.29%
BlackRock Inc *	15,343,358	3.02%	15,256,886	3.00%
Deutsche Bank A.G. *	8,135,390	1.60%	8,135,390	1.60%

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

At both 30 June 2019 and 31 December 2018, Blackrock Inc. and Deutsche Bank AG formally obtained with third parties financial instruments associated with the Parent's shares that, in the event the instruments are exercised, could vary its shareholding in the share capital of Colonial. The Parent has no knowledge of other significant equity interests.

The General Shareholders' Meeting held on 24 May 2018 resolved to authorise the Board of Directors to issue, on behalf of the Parent and on one or more occasions and for a maximum period of 5 years, bonds convertible into new shares of the Parent or other similar securities that may give the right, directly or indirectly, to subscribe for shares of the Parent, with the express power to exclude preferential 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.

Additionally, on 14 June 2019, the Parent's General Shareholders' 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.

b) Share premium

At 31 December 2018, the share premium amounted to 1,578,439 thousand euros.

At 30 June 2019, the amount of the share premium was reduced by 64,690 thousand euros as a result of the dividend distribution resolution approved by the General Shareholders' Meeting on 14 June 2019. At 30 June 2019, the issue premium amounted to 1,513,749 thousand euros.

c) 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 30 June 2019, taking into account the allocation to the legal reserve included in the distribution of the Parent's profit for 2018, for 3,631 thousand euros, approved at the General Shareholders' Meeting held on 14 June 2019, the legal reserve amounted to 45,980 thousand euros (42,349 thousand euros at 31 December 2018).

d) Other reserves of the Parent

The resolutions approved by the shareholders at the General Shareholders' Meeting of 14 June 2019 included the distribution of profit for 2018, which included the appropriation of 3,631 thousand euros to the legal reserve and the distribution of 32,677 thousand euros in dividends, complemented with 4,200 thousand euros of distributable reserves. In addition, the Parent distributed dividends charged to the share premium amounting to 64,690 thousand euros.

During the first six months of 2019, the income generated from the delivery of treasury shares to the beneficiaries of the long-term incentives plan, calculated as the difference between the carrying amount of the shares delivered and the amount of the obligation assumed by the Parent, which amounted to losses of 1,131 thousand euros for the first half of 2019 (losses of 1,513 thousand euros in the first half of 2018) was also registered in the Parent's reserves.

In the first half of 2019 and 2018, there were no gains on transactions involving the Parent's own securities other than those referred to in the preceding paragraph.

At 30 June 2019, the Parent held 169,439 thousand euros of restricted reserves.

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

This heading of the consolidated statement of financial position includes the sum of gains and losses arising from changes in the fair value of financial derivatives designated as cash flow hedges (Note 11).

The changes in this heading are as follows:

	Thousands of Euros	
	30 June 2019	31 December 2018
Opening balance	**(2,078)**	**(559)**
Changes in the fair value of hedges in the period	(1,522)	(3,890)
Changes in the scope of consolidation (Note 2)	(608)	-
Transfer to the statement of comprehensive income	2,145	2,371
Closing balance	**(2,063)**	**(2,078)**

In the first half of 2019, the Parent cancelled various hedging instruments and reclassified to the income statement the amounts recognised directly in the Parent's equity, which amounted to 2,145 thousand euros attributable.

In 2018, as a result of the business combination with Axiare Patrimonio SOCIMI, S.A., the Group incorporated the financial instruments derived from this and its subsidiaries (Note 11). The item "Changes in the fair value of hedges during the year" included the impact of changes in the value of these instruments since the takeover date. After that date, the Parent cancelled various financial derivatives from that company. The heading "Transfer to the statement of comprehensive income" includes the amount recognised in equity reclassified to the statement of comprehensive income as a result of these cancellations.

f) Treasury shares of the Parent

At 30 June 2019 and 31 December 2018, the number of the Parent's treasury shares and their acquisition cost were as follows:

	30 June 2019		31 December 2018	
	No. of shares	Thousands of Euros	No. of shares	Thousands of Euros
Opening balance	**543,260**	**3,748**	**4,279,940**	**29,421**
Buyback plan 16 October 2017	-	3	-	41
Delivery of incentives plan shares	(493,894)	(2,822)	(421,813)	(2,902)
Other acquisitions	-	-	133	-
Other disposals	-	-	(3,315,000)	(22,812)
Closing balance	**49,366**	**929**	**543,260**	**3,748**

Deliveries of Parent shares deriving from the long-term Incentives Plan -

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

Other disposals -

On 16 November 2018, the Company exchanged 3,000,000 shares of treasury stock for 400,000 shares of the subsidiary SFL. During the month of December 2018, 315,000 shares of the Parent were exchanged for 42,000 additional shares of the subsidiary SFL.

g) Liquidity contracts

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

At 30 June 2019 and 31 December 2018, the number of the Parent's treasury shares included in the liquidity contract and their acquisition cost were as follows:

	30 June 2019		31 December 2018	
	No. of shares	Thousands of Euros	No. of shares	Thousands of Euros
Opening balance	**229,500**	**1,858**	**229,500**	**1,841**
Liquidity contract dated 11 July 2017	-	11	-	17
Closing balance	**229,500**	**1,869**	**229,500**	**1,858**

Liquidity contract dated 11 July 2017 -

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

h) Non-controlling interests

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

	Thousands of Euros					
	Torre Marenostrum, S.L.	SFL subgroup	Inmocol Torre Europa, S.A.	Utopicus subgroup	Axiare subgroup	**Total**
Balance at 31 December 2017	**24,351**	**2,052,456**	**11,037**	**26**	-	**2,087,870**
Income for the financial year	2,831	147,971	563	(478)	2,459	**153,346**
Dividends and other	(619)	(50,711)	-	12	-	**(51,318)**
Changes in the scope of consolidation (Note 2)	-	(897,611)	-	645	(2,459)	**(899,425)**
Financial instruments	13	-	-	-	-	**13**
Balance at 31 December 2018	**26,576**	**1,252,105**	**11,600**	**205**	-	**1,290,486**
Income for the financial year	314	78,195	128	(276)	-	**78,361**
Dividends and other	-	(30,528)	999	(104)	-	**(29,633)**
Changes in the scope of consolidation (Note 2)	(26,726)	-	-	461	-	**(26,265)**
Financial instruments	(164)	-	-	-	-	**(164)**
Balance at 30 June 2019	-	**1,299,772**	**12,727**	**286**	-	**1,312,785**

The breakdown of the items included in "Dividends and other" at 30 June 2019 and at 31 December 2018, is as follows:

	Thousands of Euros	
	30 June of 2019	31 December 2018
Dividend paid by the SFL subgroup to non-controlling interests	(22,445)	(44,089)
Dividend paid by Washington Plaza to non-controlling interests	(8,299)	(6,921)
Dividend paid by Torre Marenostrum to non-controlling interests	-	(618)
Others	1,111	310
Total	**(29,633)**	**(51,318)**

10. Bank borrowings and other financial liabilities

The breakdown of “Bank borrowings and other financial liabilities” at 30 June 2019 and 31 December 2018 by maturities is as follows:

30 June 2019

	Thousands of Euros							
	Current	Non-current						Total
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total non-current	
Bank borrowings:								
Loans	2,168	52,157	2,133	193,972	75,700	125,000	448,962	451,130
Interest	970	-	-	-	-	-	-	970
Debt arrangement expenses	(2,297)	(2,281)	(2,017)	(1,348)	(755)	(6)	(6,407)	(8,704)
Total bank borrowings	**841**	**49,876**	**116**	**192,624**	**74,945**	**124,994**	**442,555**	**443,396**
Other financial liabilities:								
Current accounts	-	52,246	-	-	-	-	52,246	52,246
Interest on current accounts	38	-	-	-	-	-	-	38
Derivative financial instruments	677	-	-	-	3,498	-	3,498	4,175
Lease liabilities (Note 1-b)	2,169	2,041	1,936	1,850	1,764	5,394	12,985	15,154
Other financial liabilities	2,492	-	-	-	-	-	-	2,492
Total other financial liabilities	**5,376**	**54,287**	**1,936**	**1,850**	**5,262**	**5,394**	**68,729**	**74,105**
Total bank borrowings and other financial liabilities	**6,217**	**104,163**	**2,052**	**194,474**	**80,207**	**130,388**	**511,284**	**517,501**
Bonds and similar securities issued:								
Bond issue	-	-	350,000	850,000	-	2,600,000	3,800,000	3,800,000
Promissory notes	778,100	-	-	-	-	-	-	778,100
Interest	28,934	-	-	-	-	-	-	28,934
Arrangement expenses	(4,576)	(4,567)	(4,388)	(4,029)	(3,478)	(4,392)	(20,854)	(25,430)
Total bonds and similar securities issued	**802,458**	**(4,567)**	**345,612**	**845,971**	**(3,478)**	**2,595,608**	**3,779,146**	**4,581,604**
Total at 30 June 2019	**808,675**	**99,596**	**347,664**	**1,040,445**	**76,729**	**2,725,996**	**4,290,430**	**5,099,105**

31 December 2018

	Thousands of Euros							
	Current	Non-current						Total
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total non-current	
Bank borrowings:								
Loans	7,494	10,721	62,186	268,265	90,282	176,955	608,409	615,903
Syndicated loans	-	-	-	20,000	50,000	-	70,000	70,000
Interest	1,313	-	-	-	-	-	-	1,313
Debt arrangement expenses	(2,711)	(2,645)	(2,472)	(1,761)	(1,237)	(1,830)	(9,945)	(12,656)
Total bank borrowings	**6,096**	**8,076**	**59,714**	**286,504**	**139,045**	**175,125**	**668,464**	**674,560**
Other financial liabilities:								
Current accounts	-	52,246	-	-	-	-	52,246	52,246
Interest on current accounts	40	-	-	-	-	-	-	40
Derivative financial instruments (Note 15)	473	-	-	2,098	899	221	3,218	3,691
Other financial liabilities	2,491	-	-	-	-	-	-	2,491
Total other financial liabilities	**3,004**	**52,246**	**-**	**2,098**	**899**	**221**	**55,464**	**58,468**
Total bank borrowings and other financial liabilities	**9,100**	**60,322**	**59,714**	**288,602**	**139,944**	**175,346**	**723,928**	**733,028**
Bonds and similar securities issued:								
Bond issues	-	-	350,000	350,000	500,000	2,600,000	3,800,000	3,800,000
Promissory notes	262,500	-	-	-	-	-	-	262,500
Interest	26,310	-	-	-	-	-	-	26,310
Arrangement expenses	(4,568)	(4,576)	(4,542)	(4,220)	(3,672)	(6,124)	(23,134)	(27,702)
Total bonds and similar securities issued	**284,242**	**(4,576)**	**345,458**	**345,780**	**496,328**	**2,593,876**	**3,776,866**	**4,061,108**
Total at 31 December 2018	**293,342**	**55,746**	**405,172**	**634,382**	**636,272**	**2,769,222**	**4,500,794**	**4,794,136**

The changes in net financial debt in the first half of 2019, which arose from cash flows and other, are detailed in the table below:

	Thousands of Euros		
	31 December 2018	Cash flows	30 June 2019
Loans	615,903	(164,773)	451,130
Syndicated loans	70,000	(70,000)	-
Bond issues	3,800,000	-	3,800,000
Promissory notes	262,500	515,600	778,100
Gross financial debt (gross nominal debt)	**4,748,403**	**280,827**	**5,029,230**
Cash and cash equivalents	**(68,293)**	**(261,492)**	**(329,785)**
Net financial debt	**4,680,110**	**19,335**	**4,699,445**

a) Issues of the Parent's straight bonds -

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

				(Thousands of Euros)		
Issue	Duration	Maturity	Fixed-rate coupon payable annually	Amount of the issue	30 June 2019	31 December 2018
05/06/2015	8 years	05/06/2023	2.728%	500,000	500,000	500,000
28/10/2016	8 years	28/10/2024	1.450%	600,000	600,000	600,000
10/11/2016	10 years	10/11/2026	1.875%	50,000	50,000	50,000
28/11/2017	8 years	28/11/2025	1.625%	500,000	500,000	500,000
28/11/2017	12 years	28/11/2029	2.500%	300,000	300,000	300,000
17/04/2018	8 years	17/04/2026	2.000%	650,000	650,000	650,000
Total issues					**2,600,000**	**2,600,000**

All of the bonds are admitted for trading on the *Irish Stock Exchange's* main *securities market*.

At 30 June 2019 and 31 December 2018, the fair value of the bonds issued by the Parent was 2,782,531 thousand euros and 2,557,454 thousand euros respectively.

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 Colonial 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 is met at 30 June 2019.

b) Issue of SFL straight bonds -

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

				(Thousands of Euros)		
Issue	Duration	Maturity	Fixed-rate coupon payable annually	Amount of the issue	30 June 2019	31 December 2018
20/11/2014	7 years	26/11/2021	1.875%	500,000	350,000	350,000
16/11/2015	7 years	16/11/2022	2.250%	500,000	350,000	350,000
29/05/2018	7 years	29/05/2025	1.500%	500,000	500,000	500,000
Total issues					**1,200,000**	**1,200,000**

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

At 30 June 2019 and 31 December 2018, the fair value of the bonds issued SFL was 1,266,247 thousand euros and 1,222,330 thousand euros respectively.

c) Issuance of promissory notes by the Parent

In December 2018, the Parent registered a commercial paper programme (*European Commercial Paper*) for a maximum limit of 300,000 thousand euros with a short-term maturity, extendable to 500,000 thousand euros. In the first half of 2019 the limit was increased from the initial 300,000 thousand euros to the expected 500,000 thousand euros.

At 30 June 2019, current issues amounted to 424,000 thousand euros, whereas at 31 December 2018 no issue had been made.

d) Issuance of SFL promissory notes

In September 2018, the subsidiary SFL registered a short-term promissory note (NEU CP) issuance programme for a maximum amount of 500,000 thousand euros. At 30 June 2019 and 31 December 2018, the current issuances amounted to 354,100 thousand euros and 262,500 thousand euros respectively.

e) Syndicated financing of the Parent -

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

Thousands of Euros	Maturity	30 June 2019		31 December 2018	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Credit facility	December 2023	500,000	-	500,000	50,000
Credit facility	March 2022	375,000	-	375,000	20,000
Total syndicated financing of the Parent		**875,000**	**-**	**875,000**	**70,000**

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

Compliance with financial ratios –

The credits are subject to compliance with the following financial ratios on a quarterly basis:

Ratios
Loan-to-value ratio <= 55% Interest coverage ratio >= 2x Secured Mortgage debt / Value of property assets ≤15% *(25% for the new syndicated loan)* Secured other debt / Value of non-property assets ≤15% *(25% for the new syndicated loan)* Value of the consolidated assets ≥ 4.5 billion euros

At 30 June 2019, the Parent complied with all the financial ratios.

f) SFL syndicated loan

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

Thousands of Euros	Maturity	30 June 2019		31 December 2018	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Credit facility	June 2024	390,000	-	250,000	-
Total SFL syndicated loan		**390,000**	**-**	**250,000**	**-**

During the month of June 2019, SFL novated the credit facility, increasing the limit and improving the margin and maturity.

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

Compliance with financial ratios -

SFL syndicated loans must meet the following financial ratios every six months:

Ratios
Loan-to-Value Ratio<= 50% Interest coverage ratio >= 2 Secured debt/equity value <= 20% Appraisal value of unmortgaged properties >= 2 billion euros Gross financial debt subsidiaries / Gross consolidated financial debt < 25%

At 30 June 2019, SFL complied with the financial ratios stipulated in the respective financing agreements.

g) Mortgage-backed loans

The Group holds the following mortgage-backed loans:

	Thousands of Euros			
	30 June 2019		31 December 2018	
	Mortgage debt	Market value of collateral	Mortgage debt	Market value of collateral
Investment property (Note 6)	275,900	1,188,529	515,642	1,828,786
Total	**275,900**	**1,188,529**	**515,642**	**1,828,786**

In the first half of 2019, the Parent cancelled 205,782 thousand euros of mortgage debt arising from the business combination with Axiare. In addition, the subsidiary Torre Marenostrum has cancelled its mortgage debt with a financial institution, which amounted to 31,772 thousand euros at the time of cancellation.

After these cancellations a bilateral loan for 75,700 thousand was maintained from the business combination with Axiare. It is a variable rate loan linked to EURIBOR plus an additional margin. This loan has the nature of a "sustainable loan" since its margin will vary according to the rating that the Parent obtains regarding ESG (environment, social and corporate governance) from the GRESB Sustainability Organisation. A financial derivative has been arranged to cover 75% of the outstanding notional amount of this loan at 30 June 2019 (Note 11).

The remaining mortgage debts, amounting to a total of 200,200 thousand euros, corresponds to subsidiaries of the SFL subgroup.

Compliance with financial ratios -

The Group's mortgage-backed loans are subject to compliance with various financial ratios (LTV and Debt Service Coverage Ratio, whose thresholds vary according to the assets financed). At 30 June 2019 and 31 December 2018, the Group complied with the financial ratios required in its mortgage loan agreements.

h) Other loans

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

Thousands of Euros	Society	Maturity	30 June 2019		31 December 2018	
			Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Other loans:						
BECM	SFL	July 2023	150,000	-	150,000	-
Banco Sabadell	SFL	June 2020	-	-	70,000	-
BNP Paribas	SFL	May 2021	150,000	50,000	150,000	50,000
CADIF	SFL	June 2023	175,000	-	175,000	-
Banque Postale	SFL	June 2024	75,000	-	75,000	-
Société Générale	SFL	October 2023	100,000	-	100,000	-
Bankinter	Colonial	July 2024	50,000	50,000	50,000	50,000
CaixaBank	Colonial	July 2024	75,000	75,000	-	-
Total other loans			**775,000**	**175,000**	**770,000**	**100,000**

This loan with CaixaBank has the condition of a "sustainable loan" since its margin will vary according to the rating that the Parent obtains on ESG (environment, social and corporate governance) from the GRESB Sustainability Agency.

Compliance with financial ratios

The loans corresponding to the Parent are subject to compliance with the following financial ratios on a quarterly basis:

Ratios
Loan-to-value ratio <= 55% Interest coverage ratio >= 2x Secured mortgage debt / Value of property assets <=15% Secured non-mortgage debt / Value of non-property assets <=15% Value of the consolidated assets ≥ 4.5 billion euros

The loans corresponding to the subsidiary SFL are subject the following financial ratios on a half-yearly basis:

Ratios
Loan-to-Value Ratio<= 50% Interest coverage ratio >= 2 Secured debt/equity value <= 20% Appraisal value of unmortgaged properties >= 2 million euros Gross financial debt subsidiaries / Gross consolidated financial debt < 25%

At 30 June 2019, SFL complied with the financial ratios stipulated in the respective financing agreements.

Lastly, at 30 June 2019, the companies of the Utopicus subgroup had four loans drawn down for a total of 230 thousand euros (261 thousand euros at 31 December 2018). These loans are not subject to compliance with any ratio.

i) Lines of credit

At 30 June 2019 and 31 December 2018 the Group did not have any drawn-down lines of credit.

j) Other financial liabilities - Current accounts

At 30 June 2019 and 31 December 2018, the subsidiary SCI Washington had a current account amounting to 52,246 thousand euros. This current account accrues an additional spread on the three-month Euribor.

k) Guarantees given

Additionally, the Parent Company has guarantees granted to government agencies, customers and suppliers. In relation to those detailed in the financial statements for the year ended 31 December 2018, a bank guarantee amounting to 7,125 thousand euros was cancelled to secure the deferred price in the purchase and sale of a property. The amount of the account payable was recognised under "Trade and Other Payables" (Note 12).

l) Cash and cash equivalents -

At 30 June 2019 and 31 December 2018, amounts of 2018 thousand euros and 329,785 thousand euros and 68,293 thousand euros, respectively, were recognised under "Cash and cash equivalents", of which 1,777 thousand euros, respectively, were either restricted or pledged as of both dates.

m) Capital management: policy and targets

The basic risks to which the Group is exposed and the risk management policies are detailed in the financial statements for the year ended 31 December 2018, and are reproduced in the management report which forms part of these interim financial statements.

11. Derivative financial instruments

The following table itemises the financial derivatives and their fair value as of 30 June 2019 and 31 December 2018:

Derivative financial instrument	Society	Counterparty	Interest rate	Maturity	Nominal value (thousands of euros)	Fair value – Asset / (Liability)
Swap	SFL	CA-CIB	0.23%	2022	100,000	(2,252)
CAP	SFL	CADIF	0.25%	2022	100,000	85
Swap	Colonial	DB	0.43%	2023	57,000	(1,923)
Total at 30 June 2019					**257,000**	**(4,090)**

Derivative financial instrument	Society	Counterparty	Interest rate	Maturity	Nominal value (thousands of euros)	Fair value – Asset / (Liability)
Swap	SFL	CA-CIB	0.23%	2022	100,000	(1,041)
CAP	SFL	CADIF	0.25%	2022	100,000	591
Swap	Colonial	Santander	0.25%	2022	18,000	(205)
Swap	Colonial	ING	0.95%	2022	18,650	(823)
Swap	Colonial	DB	0.27%	2022	18,650	(230)
Swap	Venusaur	DB	0.43%	2023	57,000	(899)
Vanilla swap	Torre Marenostrum	CaixaBank	0.94%	2032	26,197	(493)
Total at 31 December 2018					**338,497**	**(3,100)**

With the business combination between the Parent and Axiare Patrimonio SOCIMI, S.A., registered in 2018, the Parent has integrated the derivative financial instrument contracts of the acquired subsidiary. The nominal amount of the aforementioned derivatives amounted to 394,249 thousand euros.

During the first half of 2019, the Parent cancelled four financial derivatives, generating a financial expense of 1,560 thousand euros, which was recognised under "Finance Costs" in the condensed consolidated comprehensive income statement (Note 14-d). Also, during the first half of 2018, and after the date of the business combination, 1 financial instrument was cancelled, generating a financial expense of 1,452 thousand euros, which was recognised under "Finance Costs" in the condensed consolidated comprehensive income statement (Note 14-d).

The impact on the consolidated income statement for the accounting of financial derivatives for the six-month period ended 30 June 2019 and 2018 amounted to 3,345 thousand euros and 2,451 thousand euros, respectively, of net finance costs.

a) Hedge accounting -

At 30 June 2019, the Parent applies hedge accounting to all of its financial derivatives.

At 30 June 2019, the accumulated impact on other consolidated comprehensive income as a result of hedge accounting was a balance receivable of 2,063 thousand, net of the tax effect and consolidation adjustments. (2,078 thousand euros at 31 December 2018).

b) Fair value of financial derivatives -

The fair value of the derivative financial instruments was calculated by discounting estimated future cash flows based on an interest rate curve and on assigned volatility at 30 June 2019, using the appropriate discount rates established by an independent expert.

12. Trade and other payables

"Trade and Other Payables" in the consolidated condensed statement of financial position includes the dividend approved by the shareholders at the Annual General Meeting held on 14 June, amounting to 101,567 thousand euros, which was paid in July 2019.

In the first half of 2019, the deferred payments arising from the acquisition of a property in Barcelona amounting to 14,500 thousand euros were paid and the bank guarantees deposited as security for the deferred payment were cancelled (Note 10-k).

13. Tax situation

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

	Thousands of Euros	
	June 2019	December 2018
Deferred tax liabilities	379,472	361,514
Non-current tax liabilities	10,278	13,368
	389,750	**374,882**

Deferred tax liabilities –

The breakdown of deferred tax liabilities and the changes therein are provided below:

	Thousands of Euros			
Deferred tax liabilities	31 December 2018	Increase	Derecognitions	30 June 2019
Asset revaluations	356,069	18,052	-	374,121
Asset revaluations (Spain)	*151,007*	*4,302*	-	*155,309*
Asset revaluations-France-	*205,062*	*13,750*	-	*218,812*
Deferral for reinvestment	4,970	-	(94)	4,876
Others	475	-	-	475
	361,514	**18,052**	**(94)**	**379,472**

Additionally, there are 10,278 thousand euros of non-current taxes (13,368 thousand euros at 31 December 2018) relating to the exit tax borne by the subsidiary SFL arising from the option for the SIIC regime of two of its properties (see Note 4-m to the notes to the consolidated financial statements of the Group for 2018).

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, the changes in the deferred taxes recognised from 2017 correspond mainly to the properties owned by the companies that did not choose to operate under this regime, i.e., Torre Marenostrum, S.L. and Inmocol Torre Europa, S.A., and to certain adjustments arising from corporate transactions.

In this regard, until 31 December 2016, the deferred taxes associated with the investment property of the Colonial Group companies, which in turn formed part of the tax group, were recorded at an effective rate of 18.75% (tax rate of 25% with a limit on the offsetting of tax losses of 25%). Consequently, in calculating its deferred tax liabilities, the Group considers applying the deferred tax asset of 44,726 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)

"Asset revaluations (France)" records 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 the assets in France are subject to the SIIC regime (see Note 4-m to the notes to the 2018 consolidated financial statements) and, therefore, will not generate any additional tax when they are transferred. Only the assets of the companies forming part of the Parholding subgroup fall outside of that tax regime at 30 June 2019.

14. Income and expense

a) Revenue

Revenue comprises basically rental income from the Group's rental properties which are concentrated in the cities of Barcelona, Madrid and Paris. Revenue for the six-month periods ended 30 June 2019 and 2018 stood at 175,865 thousand euros and 170,719 thousand euros, respectively. The breakdown by geographic segment is as follows:

Rental segment	Thousands of Euros	
	June 2019	June 2018
Spain*	77,956	74,653
France	97,909	96,066
	175,865	**170,719**

* Includes coworking customer revenues of 2,101 thousand euros and 417 thousand euros at 30 June 2019 and 2018, respectively.

Revenue in the first half of 2019 and 2018 includes the effect of deferring grace periods and rent reset clauses throughout the term elapsing between the start of the lease agreement and the first option for renewing it. It also includes the accrual of the amounts received as entrance fees, which are amounts invoiced to lessees to reserve a unique space. As of 30 June 2019, the impact of the accruals has been a decrease in turnover of 298 thousand euros (228 thousand euros for the same period in 2018).

b) Net gain/(loss) on sales of assets

The breakdown of the Group's net gains/(losses) on sales of assets (Notes 6 and 8), and their geographical distribution, is detailed as follows:

	Thousands of Euros					
	Spain		France		Total	
	June 2019	June 2018	June 2019	June 2018	June 2019	June 2018
Sale price	28,000	37,130	-	-	28,000	37,130
Asset derecognition	(26,545)	(37,071)	-	-	(26,545)	(37,071)
Derecognition grace periods	-	(209)	-	-	-	(209)
Indirect costs and other	(2,441)	863	-	-	(2,441)	863
Net gain/(loss) on sales of assets	**(986)**	**713**	-	-	**(986)**	**713**

c) Impairment charges and net gains/(losses) on assets

The breakdown of "Changes in fair value of investment properties" in the condensed consolidated comprehensive income statement, by types, is as follows:

	Thousands of Euros	
	June 2019	June 2018
Changes in value on statement of financial position		
Investment property (Note 6)	408,751	324,210
Current assets classified as held for sale (Note 8)	9,758	-
Changes in fair value of investment property	**418,509**	**324,210**
- **Spain**	**184,043**	**165,031**
- **France**	**234,466**	**159,179**

The breakdown of the impairment charges recognised under "Impairment charges and net gains/(losses) on assets" in the condensed consolidated comprehensive income statement is as follows:

	Thousands of Euros	
	June 2019	June 2018
Derecognitions of replaced assets	(124)	-
Impairment of goodwill (Note 4)	(62,225)	(25,662)
Impairment of properties for own use and property, plant and equipment	664	521
Impairment charges and net gains/(losses) on assets	**(61,685)**	**(25,141)**
- **Spain**	**(61,682)**	**(25,141)**
- **France**	**(3)**	-

d) Finance income and costs

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

	Thousands of Euros	
	June 2019	June 2018
Finance income:		
Revenue from equity investments	-	35
Interest and similar income	858	838
Income from financial derivatives	-	5
Capitalised finance costs (Note 6)	2,418	2,775
Total finance income	**3,276**	**3,653**
Finance costs:		
Finance and similar expenses	(48,033)	(57,327)
Expenses for the cancellation of financial instruments	(4,448)	-
Financial derivative expense	(1,785)	(1,004)
Expense for cancelling financial derivatives (Note 11)	(1,560)	(1,452)
Total finance costs	**(56,346)**	**(59,783)**
Impairment of financial assets	**-**	**(241)**
Total financial loss	**(53,070)**	**(56,371)**

15. Segment reporting

All the Group's activities are carried out in Spain and France. The information, by segments, for the first six months of 2019 and 2018 is as follows:

Segment reporting, first six months of 2019

	Thousands of Euros						
	equity					**Corporate Unit**	**Total Group**
	Barcelona	Madrid	Paris	Remaining	Total Equity		
Revenue	23,299	50,877	99,189	3,679	177,044	2,095	179,139
Revenue	23,299	50,851	97,909	3,679	175,738	127	175,865
Other revenue	-	26	1,280	-	1,306	1,968	3,274
Operating profit /(loss)	20,710	37,535	93,907	3,320	155,472	(22,367)	133,105
Change in fair value of investment property	88,630	92,288	234,466	3,125	418,509	-	418,509
Impairment charges and net gains/(losses) assets and due to impairment	-	-	-	-	-	(61,685)	(61,685)
Net finance income/(expense)	-	-	-	-	-	(53,070)	(53,070)
Loss before tax	-	-	-	-	-	436,859	436,859
Consolidated net profit	-	-	-	-	-	416,030	416,030
Net profit/(loss) attributable to Non-controlling interests	-	-	-	-	-	(78,361)	(78,361)
Net profit/(loss) attributable to shareholders of the Company	-	-	-	-	-	337,669	337,669

There were no significant inter-segment transactions in the six-month period ended 30 June 2019.

Segment reporting, first six months of 2018

	Thousands of Euros						
	equity					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Remaining	Total Equity		
Revenue	19,730	51,800	96,650	3,153	171,333	735	172,068
Revenue	19,718	51,696	96,066	3,153	170,633	86	170,719
Other revenue	12	104	584	-	700	649	1,349
Operating profit /(loss)	17,869	43,170	90,640	2,835	154,514	(25,018)	129,496
Change in fair value of investment property	81,708	86,593	159,179	(3,270)	324,210	-	324,210
Impairment charges and net gains/(losses) assets and due to impairment	-	-	-	-	-	(25,141)	(25,141)
Net finance income/(expense)	-	-	-	-	-	(56,371)	(56,371)
Loss before tax	-	-	-	-	-	372,194	372,194
Consolidated net profit	-	-	-	-	-	356,414	356,414
Net profit/(loss) attributable to Non-controlling interests	-	-	-	-	-	(102,502)	(102,502)
Net profit/(loss) attributable to shareholders of the Company	-	-	-	-	-	253,912	253,912

There were no significant inter-segment transactions in the six-month period ended 30 June 2018.

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

16. Related-party transactions and balances

At 30 June 2019 and 31 December 2018 the Group did not have any balances outstanding with related parties and associates. The following transactions with related parties were carried out in 2019 and 2018:

	Thousands of Euros	
	June 2019	June 2018
	Lease income	Lease income
Gas Natural Fenosa, S.D.G. (*)	1,508	2,645
Total	**1,508**	**2,645**

(*) Gas Natural, SDG, S.A. was the shareholder of the Parent in the subsidiary Torre Marenostrum, S.L. On 30 April 2019, the Parent acquired the shareholding held in the subsidiary by Gas Natural, SDG, S.A. (Note 2).

17. Director and senior management compensation and other benefits

a) Composition of the Board of Directors

The Parent's Board of Directors is composed of 10 men and 3 women at 30 June 2019, with its composition being as follows:

Director	Position	Type of director
Juan José Brugera Clavero	Chairman	Executive
Pedro Viñolas Serra	Chief Executive Officer	Executive
Carlos Fernández González	Director	Proprietary
Javier López Casado	Director	Proprietary
Sheikh Ali Jassim M. J. Al-Thani	Director	Proprietary
Adnane Mousannif	Director	Proprietary
Juan Carlos García Cañizares	Director	Proprietary
Carlos Fernández-Lerga Garralda	Lead Director	Independent
Javier Iglesias de Ussel Ordís	Director	Independent
Luis Maluquer Trepat	Director	Independent
Ms Silvia-Mónica Alonso-Castrillo Allain	Director	Independent
Ms Ana Bolado Valle	Director	Independent
Ms Ana Peralta Moreno	Director	Independent

On 24 January 2019, Ms Ana Sainz de Vicuña tendered her resignation as a Director.

On 14 May 2019, the General Shareholders' Meeting appointed the new Independent Directors Ms Ana Bolado Valle and Ms Ana Peralta Moreno.

b) Remuneration of Board members

Remuneration received in the first half of 2019 and 2018 by the current members of the Parent's Board of Directors, classified by item, was as follows:

30 June 2019

	Thousands of Euros		
	Inmobiliaria Colonial, SOCIMI, S.A.	Other group companies	Total
Compensation accrued by executive directors (*):	**2,727**	**75**	**2,802**
Attendance fees:	**268**	**27**	**295**
Directors' attendance fees	268	27	295
Attendance fees of Executive Directors	-	**22**	**22**
Fixed remuneration:	**394**	**41**	**435**
Directors' remuneration	267	41	308
Additional remuneration of the Audit and Control Committee	52	-	52
Additional remuneration for the Nomination and Remuneration	75	-	75
Fixed remuneration of Executive Directors	-	**35**	**35**
Total	**3,389**	**200**	**3,589**

Remuneration for Executive Directors (*):	2,727	132	2,859

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

30 June 2018

	Thousands of Euros		
	Inmobiliaria Colonial, SOCIMI, S.A.	Other group companies	Total
Compensation accrued by executive directors (*):	**1,234**	**75**	**1,309**
Attendance fees:	**342**	**38**	**380**
Directors' attendance fees	342	38	380
Attendance fees of Executive Directors	-	**19**	-
Fixed remuneration:	**381**	**50**	**431**
Directors' remuneration	243	50	293
Additional remuneration of the Audit and Control Committee	63	-	63
Additional remuneration for the Nomination and Remuneration	75	-	75
Fixed remuneration of Executive Directors	-	**35**	**35**
Total	**1,957**	**217**	**2,174**
Remuneration for Executive Directors (*):	1,234	129	1,363

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

In the first half of 2019, members of the Board of Directors of the Parent accrued remuneration of 662 thousand euros (723 thousand euros during the first half of 2018) in relation to fixed compensation and per diem allowances for membership on the Board. Additionally, certain non-executive directors of the Parent received 68 thousand euros from SFL for their role as directors of that company (€88 thousand for 2018).

The monetary remuneration of executive directors in the first half of 2019 for all items received from the Parent amounted to 2,727 thousand euros and they also received 2,109 thousand euros in remuneration in kind under the long-term share delivery plan (1,234 thousand euros and 1,828 thousand euros in the first half of 2018, respectively). Executive directors of the Parent also received 129 thousand euros from SFL for their role as directors of that company (129 thousand euros in the first half of 2018).

At 30 June 2019 and 2018, the Parent had taken out civil liability insurance policies covering all the Directors, senior management and employees of the Parent, which include, for both years, the civil liability annual insurance premium for damage caused by acts or omissions amounting to 300 thousand euros and 393 thousand euros, respectively.

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, with overall annual contributions of 182 thousand euros and 180 thousand euros in 2019 and 2018, respectively. At 30 June 2019, the Parent had recognised 91 thousand euros for this item under "Staff costs" in the condensed consolidated comprehensive income statement (in the first half of 2018 it recognised 90 thousand euros arising from this agreement).

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 30 June 2019 and 2018, 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 the first half of 2019 and 2018, 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.

c) Remuneration of senior management

The Parent's senior management team comprises senior executives and other persons responsible for the management of the Parent Company and reporting to the CEO. The senior management team was made up of two men and two women at 30 June 2019 and 2018.

Monetary compensation earned by senior management in the first half of 2019 amounted to 1,070 thousand euros. Furthermore, they received 1,657 thousand euros corresponding to the long-term incentives plan (730 thousand euros and 1,436 thousand euros, respectively, in the same period of 2018).

On 27 July 2016, the Board of Directors approved the granting to a member of senior management of a defined-contribution scheme covering retirement and, where appropriate, disability and death, with annual contributions of 62 thousand euros in both 2019 and 2018. At 30 June 2019 and 2018, the Parent recognised 32 thousand euros and 31 thousand euros, respectively, in this connection under "Staff Costs" in the consolidated statement of comprehensive income.

At 30 June 2019 and 2018, one member of senior management had signed a golden parachute clause, in the event of termination under certain circumstances or a change of control.

18. Average headcount

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

	Number of employees				Average first half results 2019		Average first half results 2018	
	June 2019		June 2018					
	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	13	7	16	7	13	7	17	7
Technical graduates and middle managers	35	40	38	41	35	41	37	41
Administrative	30	82	20	63	28	79	18	61
Others	6	1	5	1	6	1	5	2
Total	**84**	**130**	**79**	**112**	**82**	**128**	**77**	**111**

1. Company situation

State of the rental market

Barcelona

Take-up in the office market in Barcelona set a new record during the first half of 2019 with 251,000 sqm signed. Of special mention is that out of the 103,450 sq m signed in the second quarter, 16% was taken up by operators of flexible office spaces, showing their interest in the Barcelona market. Likewise, the short-term future supply about to become available stands at a level at which current demand can easily absorb. The vacancy rate remains at an all-time low of 1.9% in the CBD. A lack of prime supply together with solid take-up continue to drive up rents, with prime rents reaching €26.75/sqm/month, an increase of +7% year to date.

Madrid

During the second quarter of 2019, more than 191,000 sqm were signed in the office market in Madrid, positioning take-up of the first half at 334,500 sqm, an increase of +42% compared to the same period of the previous year. The vacancy rate stood at 9% in Madrid, with a vacancy rate in the CBD at around 6%. At the close of the first half, prime rents continued to grow in Madrid and stood at €35.75/sqm/month, which represents an increase of +4% year to date.

Paris

In the offices market in Paris, take-up in the first half of 2019 reached a total of 1,101,000 sqm, in line with the average over recent years. The Coworking market has experienced strong growth in the last three years, proof of this is that, during the first half of 2019, 50% of the transactions of more than 5,000 sqm were led by operators of flexible spaces. Future supply in the coming three years is expected to be 2.2 million sqm, and since it has already been pre-let, it will be insufficient to meet market demand. This situation is highlighted in the CBD, where the vacancy rate stood at 1.6%, an historically low level, continuing to put pressure on prime rents which continue to increase and stand at €830/sqm/year, an increase of 3% so far this year.

Source: Reports by Jones Lang Lasalle, Cushman & Wakefield, CBRE and Savills

Organisational structure and functioning

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

The company has a stock market capitalisation of approximately 5,000 million euros with a free float of around 60%, and manages an asset volume of more than 11,800 million euros.

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

In particular, its strategy is based on the following:

- A business model focused on the transformation and creation of high-quality offices in prime locations, mainly central business districts (CBD).

- Maximum commitment to the creation of offices that meet the most demanding market requirements, with particular emphasis on efficiency and sustainability.

- A pan-European strategy, diversified in the Madrid, Barcelona and Paris office markets.

- An investment strategy combining core acquisitions and prime factory acquisitions with value added components.

- A clear industrial real estate approach to capture value creation that exceeds the market average.

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

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

Over the last three years, the Group has successfully executed its acquisition programme, making investments of more than 700 million euros (committed amounts including future capex). All acquisitions relate to assets in excellent locations with good fundamentals, the potential for additional return through property repositioning and maintaining maximum financial discipline.

At the close of the first half of 2019, the Colonial Group had a robust capital structure with a solid "Investment Grade" rating. The Group's LTV (Loan to value) stood at 37.9% in June 2019.

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

- A solid capital structure with a clear commitment to maintaining the highest credit rating standards – investment grade.

- Attractive returns for shareholders based on recurring return combined with the creation of real estate value based on value added initiatives.

2. Business performance and results

Introduction

At 30 June 2019, the Group's gross rental income reached 174 million euros, corresponding to its recurring business, property rentals.

Profit from operations amounted to 133 million euros.

According to the independent appraisals carried out by CB Richard Ellis and Jones Lang Lasalle in Spain and Jones Lang LaSalle and Cushman & Walkefield in France at half year end, the investment property and assets classified as held for sale were valued at 419 million euros. This revaluation, reported both in France and in Spain, reflects a 4.2% increase in value in like-for-like terms on rental assets in operation with respect to December 2018 (5% in Spain and 4% in France).

The net finance cost amounted to 53 million euros, including 2 million euros relating to the finance costs of developments in progress that were capitalised.

After subtracting profit attributable to non-controlling interests (78 million euros), the profit after tax attributable to the Parent amounted to 338 million euros.

Profit (loss) for the year

The highlights of rental business are as follows:

The first half of 2019 was excellent for the Colonial Group, with a total annual return for shareholders of 18%, due to the year-on-year increase in the EPRA NAV per share of 16% in combination with a dividend yield of 2%.

The results for the first half of 2019 are a clear reflection of the Group's successful growth strategy, as the following figures show:

- Value of assets of 11,798 million euros, +16% vs. the previous year (+4% like for like in the last 6 months)
- Rental income of 174 million euros, corresponding to the company's recurring business, +2% vs. the previous year (+4% like for like).
- Recurring net profit of 69 million euros, +66% compared to the previous year
- EPRA NAV of €10.52/share, +16% compared to the previous year
- Total return for the shareholders of 18% in one year

The Group has obtained very sound operating results, capturing strong rental increases in all markets:

- 60 contracts signed for more than 129,000 m² and 43 million euros in the annual gross rental income
- EPRA vacancy rates at levels of 4%
- Attracting growth in rent: 9% compared to market rent December 2018 and +11% "release spread"[2]

Strong revenue growth

The Group ended the first half of 2019 with gross rental income from the company's recurring business of 174 million euros, an increase of 4% in comparable "like for like" terms compared to the previous year.

The like-for-like increase in rental income has been obtained in all markets in which the Group operates:

- Barcelona +4% like for like due to rental price increases across the entire portfolio, highlighting the Diagonal 609 asset, as well as an increase in occupancy in assets such as Park Cugat and Torre BCN.

- Madrid +5% like for like driven by the market update of current rental prices on assets such as Castellana 43, Sagasta 31, Martínez Villergas and Egeo. The new leases signed on the Discovery Building also resulted in a significant positive impact.

- Paris +4% like for like rental increases rose to 3.3 million euros. This was due to the new leases signed in 2018, mainly on Washington Plaza and Cézanne Saint-Honoré with an increase in rents.

These like-for-like growth levels are clearly above the average of comparable data from competitors in Spain and Europe.

Creation of real estate value

The valuation of the Colonial Group's assets at the end of the first half of 2019 were appraised at 11,798 million euros, a year-on-year increase of 9% like for like (+4% in 6 months). Including the impact of sales, the year-on-year increase was 5% (+4% in 6 months).

This increase in value is the result of increases in rental prices and compression of yields throughout the portfolio complemented by increases in value obtained through the successful execution of projects.

By segment, the portfolios of Barcelona and Madrid have reached a growth like for like year-on-year of 19% and 9%, respectively. Particularly noteworthy was the sharp increase of 8% in the value of Barcelona over the last six months.

The Paris portfolio increased by +6% like for like in year-on-year terms (+4% like for like in the first six months of 2019), setting a clear benchmark for growth in the Paris market.

(1) Growth in NAV per share + dividend paid
(2) Rent signed on renewals compared to previous rent

Solid fundamentals in all segments

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

Lease agreements with significant increases in rent

In the first half of 2019, the Colonial Group has signed 60 rental contracts corresponding to more than 129,000 sqm and annual rents of 43 million euros.

Compared with the market rent (ERV) at December 2018, signed rents in the first half of 2019 increased by +9% and the release spread stood at +11%.

In Barcelona, rents were signed +13% above market rent, enhanced by the pre-letting registered for the Pedralbes project. In the Paris portfolio, the increase vs the market rents was +11% and in the Madrid portfolio it was +4%.

Sound occupancy levels

Particularly noteworthy are the office portfolios in Barcelona and Paris, with vacancy rates of 1.4% and 1.6%, respectively.

The Madrid office portfolio has an vacancy rate of 9%, improving +311 bps compared to the previous year, and +91 bps in 6 months:

> A 6% vacancy corresponds primarily to assets in the Axiare portfolio located in Arroyo de la Vega and Campo de las Naciones. Especially noteworthy are the recent deliveries of Avenida de Bruselas (100% let, although the occupancy comes into effect in July) and Ribera del Loira (20% occupancy at June). Additionally, the Virto asset had 40% occupancy in June.

> The rest of the Madrid portfolio has solid occupancy levels, maintaining a vacancy rate of 3%. The current available GLA represents a supply of maximum quality in attractive market segments, where there is a clear scarcity of Grade A products. Consequently, this offers significant potential for additional rental income to be captured in the coming quarters. In addition, noteworthy is the entry into operation of 1,900 sqm in the Castellana 163 asset, located in the Madrid CBD, which is being successfully repositioned by floors.

Considering the letting of the 100% surface of Avenida de Bruselas 38 asset, which will be effective during July, the vacancy of the Madrid Portfolio will reach 6.9%.

Growth vectors

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

A. An attractive project pipeline

A portfolio of 12 projects corresponding to more than 211,000 sqm to create prime products that offer strong returns and therefore, future value creation with solid fundamentals.

As of today, 5 of the 12 projects (specifically Pedralbes Centre, Gala Placidia, Diagonal 525, Castellana 163, and Louvré Saint Honoré) already have pre-let agreements in favourable terms, significantly increasing the visibility of future cash flow and value creation. The other projects in the portfolio continue to progress and already have very good market prospects, in excellent locations with scarce supply.

B. A strong prime positioning with an asset portfolio to capitalize on the cycle

The first half of the year has once again shown the capacity of the Colonial Group’s contract portfolio to capture maximum market rents and obtain significant rental price increases with double digit release spreads.

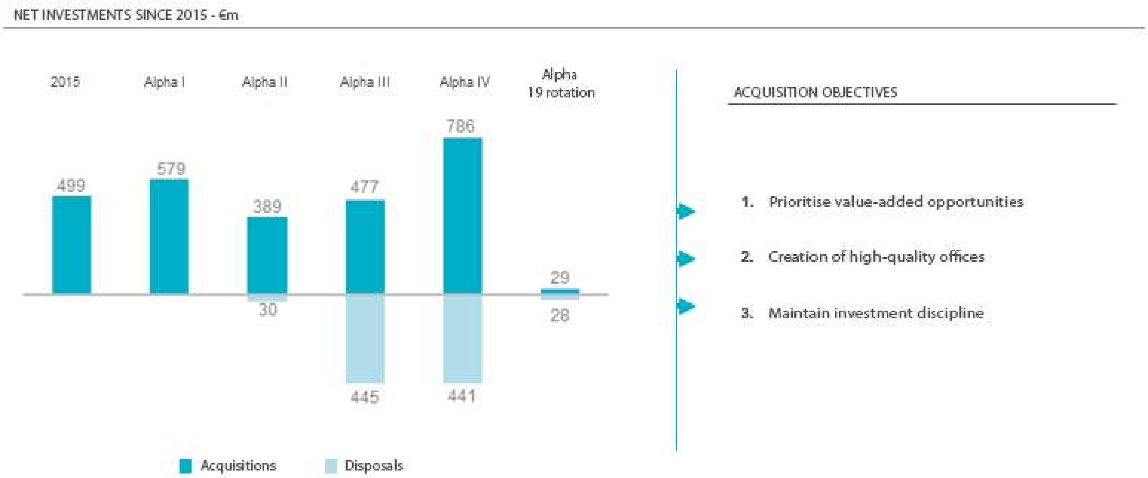
In addition, new renovation programs have been identified, accelerating tenant rotation in the corresponding spaces. In this respect, of note are two buildings in the prime CBD, in particular 106 Haussmann in Paris, Ortega y Gasset in Madrid and the TorreMarenostrum asset in the 22@ technological district in Barcelona.

The Haussmann 106 building offers almost 15,000 sqm in the centre of Paris which will be updated in the year 2020, offering a top-quality product. These characteristics have enabled the pre-letting of the entire building in the second half with a 12-year minimum fixed terms lease at a rent above €800/sqm/year, prime reference in Paris.

C. Discipline in the acquisitions & disposal programme

Over recent years, Colonial has successfully delivered the organic investment targets announced to the capital markets: asset acquisitions, prioritising off-market transactions and identifying properties with value-added potential in market segments with solid fundamentals.

Since 2015, the Colonial Group has carried out significant investments and disposals:



In this context, at the beginning of 2019, the Colonial Group carried out the Alpha rotation 2019 consisting in the following transactions:

> Disposal of the Hotel Centro Norte, a non-strategic asset at a secondary location in the Northeast of Madrid with a premium of +11% on the appraisal value.

> Acquisition of the remaining 45% of the Torre Marenostrum building from Naturgy, archieving 100% ownership of this unique building located in front of the sea in the 22@ market.

Potencial cash flow & future value

Colonial Group's portfolio of asset contracts has the potential to reach annual income (passing rents) of 511 million euros, which represents an increase of 42% (+151 million euros) with regard to the current cash flow.

1 Topped-up passing rental income: annualised cash GRI adjusted for grace periods, following EPRA BPR

Financial structure

At 30 June 2019, the Colonial Group had a solid balance sheet with an LTV of 37.9% (135 bps better than at the beginning of the year) and a Rating by Standard & Poors of BBB+, the highest rating in the Spanish real estate sector.

Colonial Group has 2,195 million euros between cash and available lines of credit with a maturity of the debt of 5.3 years. In particular, it is worth mentioning that 64% of the Group's debt matures in 2031.

In the first half of 2019, Colonial completed the restructuring of Axiare's outstanding debt by cancelling various bilateral loans amounting to 162 million euros and refinancing two bilateral loans amounting to 151 million euros, improving margins and cancelling mortgage guarantees.

Short-term promissory notes were issued under the ECP programme registered in December 2018, with current issues at 30 June amounting to 424 million euros.

SFL has restructured a syndicated loan which has allowed it to increase the limit to 390 million euros and improve both margins and maturities. During the first half of the year it also issued short-term promissory notes, with issues at the close of the half year amounting to 354 million euros.

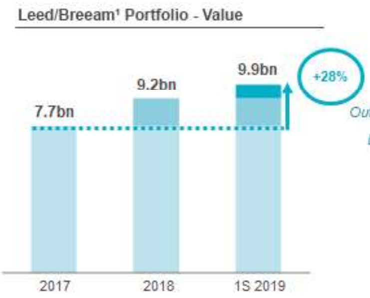
Solid development on the stock market

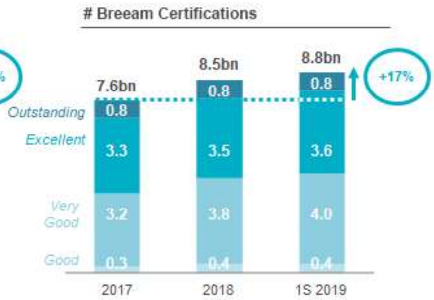
Colonial shares closed the first half of 2019 with a 25% revaluation, beating the benchmark indices (EPRA & IBEX35). The share price development reflects the support of the capital market for the Colonial Group's growth strategy. Colonial's share price stands out against its competitors as one of the securities closest to value regarding fundamentals.

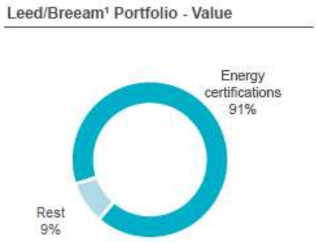
ESG Strategy

Colonial pursues the clear leadership in ESG, being a fundamental key in its growth strategy in which offering maximum quality in its portfolio constitutes a main characteristic. This fact is reflected in the high number of certifications in the Colonial Group’s property portfolio

91% of the portfolio has energy certificates Leed or Breeam. In particular, 1,845 million euros of assets have Leed ratings (+4% vs 12/18) and 8,837 million euros of assets have Breeam ratings (+4% vs 12/18).







(1) Portfolio in operation

This level of certification is clearly above average in the sector. In addition, the strategic sustainability plan carries out improvements in energy efficiency, betting on continuous improvement asset by asset.

The high quality of Colonial's portfolio is reflected in the high level of asset certification. At the beginning of 2019, BREEAM/GRESB recognised the Colonial Group as the leader, number one in Europe, in responsible investment through the "Award for Responsible Real Estate Investment" in the large portfolios category.

GRESB

BREEAM AWARDS 2019 WINNER

Colonial's European leadership in ESG has allowed it to formalise loans for a total volume of 151 million euros with ING and Caixabank.

3. Liquidity and capital resources

See "Capital Management and Risk Management Policy" in Note 14-o to the consolidated financial statements for the year ended 31 December 2018 and Note 10 to these condensed interim financial statements.

4. Risk management policies and objectives

Risk Management

Colonial is exposed to a variety of risk factors arising from the countries in which it operates and from the very nature of its activities. Colonial's Board of Directors is responsible for determining the risk management and control policy, identifying the Group's main risks and implementing and supervising the Control and Risk Management System that Colonial has developed as the foundation for the efficient and effective management of risks throughout the organisation. The risks associated with the Group's activities are described below.

Strategic Risks:

The risks related to the sector and the environment in which the Group carries on its business, the markets in which it operates and the strategies adopted in order to carry out its activities are analysed below.

- Risks associated with the industry climate: The Colonial Group pays special attention to the economic, political, legal and social risks related to the countries in which it operates (Spain and France). Despite the slowdown in the global economy, the European real estate sector has continued to be dynamic, with very significant levels of investment and marketing. The growth forecast for the French economy at levels similar to the European average and for the Spanish economy at levels clearly above that average, allow the Group to face the coming years with optimistic prospects in terms of sustainable growth and the profitability of its investments.
- Risks associated with a competitive sector: The real estate sector is characterised as being highly competitive, reaching high levels of investment in recent years, and was driven by specialised international investment funds and by listed real estate investment companies (REITs). Colonial Group maintains a benchmark position in the European real estate sector as a result of the high quality and value of its assets and its strategy of focusing mainly on its office rental activities in *prime* or *Central Business District* (*CBD*) areas of Barcelona, Madrid and Paris. The successful investment and organic growth strategy implemented in recent years, and the different Alpha projects have strengthened the Group's position as leader in the sector.
- Risks related to the value of assets: Every six months the Group carries out appraisals, through independent experts and by applying objective market criteria, on all of its property assets. Colonial allocates a significant portion of its resources to investing in and maintaining its property assets in order to enhance their value and position on the market, and to optimise income and returns.

Corporate Risks:

Risks relating to the organisational structure, corporate culture, corporate policies and key decision-making processes of the governing bodies are analysed.

- ESG Commitment Risk: The *Environment, Social and Governance policy*sets out the principles and bases of the Group's corporate social responsibility commitment to its stakeholders. The management of these expectations and of the strategy in the environmental, social and corporate governance spheres forms part of the Group's objectives for the coming years in terms of sustainability and the creation of value for these stakeholders.
- Anticipation of new trends: As is the case with other sectors, the real estate sector requires continuous adaptation to emerging trends. The growing implementation of digitalisation in all sectors, the new technology supplied in the real estate sector, and the increase in coworking spaces results in constant changes that specifically affect the real estate sector. In this area, in 2019 theColonial Group continues to consolidate its growth strategy in the field of coworking, through the opening of new Utopicus centres, as well as through the development of digitalisation projects and new technologies in the development of services and new business models in the real estate sector.

Operational Risks:

Operational risks refer to the risks arising from losses due to failures or flawed management of operations.

- Financial risks: The Group efficiently manages its financial risks with the aim of maintaining adequate levels of liquidity and debt, minimising borrowing costs and ensuring compliance with its business plans:
  - *Risk of exposure to interest rate fluctuations:* Management of this risk aims to reduce interest rate volatility to limit and control the impact of interest rate fluctuations on profit and cash flows and to keep overall borrowing costs at reasonable levels. The Colonial Group arranges financial instruments to hedge interest rate fluctuations. A high percentage of the Group's gross financial debt is at fixed rates.
  - *Risks relating to financing and debt:* The Group’s financial structure calls for diversification of its sources of financing, both by entity and by product and maturity. In 2018, the Group obtained a *Standard & Poor’s* credit rating of BBB+ with a stable outlook and in 2019 Colonial obtained a *Moody’s* rating of Baa with a stable outlook. This is a consequence of the improvement in the financial structure, extending and diversifying the maturity of the debt and keeping the Group's net financial debt (*“Loan to Value”)* at adequate levels, thus providing sufficient financial capacity for the Group to undertake the projects planned and to assume significant growth levels in the coming years.

- *Liquidity risk:* As mentioned in the preceding paragraph, the Group has the necessary sources of financing to take on current projects, as well as those included in its business plan, while maintaining a high capacity to attract capital, obtain liquidity and new lines of credit.

- Asset management risks: Sustainable property management requires that the Group allocate a significant portion of its investments to acquiring, constructing, renovating and maintaining the high quality of its properties, which stand out as a result of their high energy efficiency. This property management strategy is a key part of the Group's organisation and business plan. Likewise Colonial Group's real estate assets are exposed to the generic risk of damage for which the Group has contracted sufficient coverage to cover the cost of rebuilding the property and the damage caused to third parties. In addition, commercial management is focused on maintaining minimum vacancy levels by maximising the income obtained from leasing the Group's assets and the average maturity of the contracts signed. The success of this asset management has a direct impact on the value of the Group's assets.

Compliance Risks:

Potential regulatory risks in relation to compliance with obligations arising from applicable legislation, agreements with third parties and obligations self-imposed by the Group, mainly through its Code of Ethics and Code of Conduct, are analysed.

- Regulatory compliance risks: The process of identifying and assessing risks of regulatory or contractual breach that may give rise to legal proceedings against the Group allows it to take the appropriate corrective measures to mitigate these risks or, where applicable, any possible impact thereof, through the controls established in the crime prevention model defined and implemented by the Group. The Company has also taken out insurance to cover any legal costs or possible damage against directors and executives.

- Tax risks: Colonial Group must adhere to the general tax legislation of the countries in which it operates, as well as those specific to the SOCIMI and SIIC schemes, respectively in Spain and France. Accordingly, Colonial has a tax policy, a tax strategy and a tax risk management system, establishing adequate measures to control and monitor the management of risks in this connection.

Reporting Risks:

In order to cover any reporting risks that may arise from errors or a failure to comply with requirements concerning the public information to be disclosed by the Group, and to ensure the reliability of this public information, Colonial has developed an Internal Control over Financial Reporting (ICFR) Organisational and Monitoring Model. Internal Audit is responsible for performing the necessary tests to verify compliance with the ICFR policies, manuals and procedures, validating the efficacy of the controls in place in these processes.

5. Events after the reporting period

There have been no significant subsequent events.

6. Future outlook

Barcelona and Madrid

The Spanish economy has maintained a good growth rate and has weathered the global economic slowdown better than its counterparts. Therefore, while in the first quarter of 2019 the eurozone as a whole advanced 1.2% year-on-year, the growth of Spain's GDP was 2.4% year-on-year. This pace of growth reflects the high generation of employment, the improvement in consumer confidence and the good rate of growth in business in the services sector (+5.4% year-on-year in April, three-month rolling average) and the industrial sector (+2.4% year-on-year). Proof of this is that in May 2019 the total number of Social Security contributors stood at 19,442,113 people, a figure very close to the all-time high reached in July 2007.

With regard to the office market in Barcelona and Madrid, demand is expected to continue at a high rate. This demand, together with a scarce supply of quality, means that prime rents continue to grow and that projects continue to be pre-leased. This is expected to whet the appetite of the investor seeking higher returns than traditional financial markets.

Paris

The Paris market is one of the most important markets in the world. During the last few quarters, there have been clear signs of an improvement in demand, especially in CBD areas, where there is an obvious lack of prime rentals. Today the availability of office space in this area is the lowest that it has been in the last 10 years. Consequently, leading consultants expect this positive trend that began at the end of 2014 to be consolidated for prime property rentals in CBD areas.

In terms of growth prospects, the French economy is expected to grow by around 1.6% over the next two years, a positive development as this growth is higher than that achieved in 2018 and is above the eurozone average.

Strategy for the future

The investment market has shown record contracting levels. In the current climate of low interest rates, expectations are that investors will continue to be interested in prime products.

In this market context, the Parent is implementing a selective investment policy, in order to maximise value for its shareholders.

In particular, it has focused its efforts on acquiring top-quality properties in high-potential market areas, including assets with the wherewithal to become prime rentals through repositioning.

7. Research and development activities

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

8. Treasury shares

During the first half of 2019, Inmobiliaria Colonial, SOCIMI, S.A. delivered 493,894 treasury shares to the beneficiaries of the long-term incentive plan. At 30 June 2019, the Parent held a closing balance of 278,866 shares with a par value of 697 thousand euros (2.5 euros per share), representing 0.06% of the Parent's share capital.

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

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

Alternative Performance Measure	**Calculation method**	**Definition/Relevance**
EBIT ***(Earnings before interest and taxes)***	Calculated as the "*Operating profit*" plus "*Changes in fair value of investment property*" and "*Losses due to impairment of assets*".	Indicator of the profit generating capacity of the Group, considering only its productive activity less debt and tax effects.
EBITDA **(*Earnings Before Interest, Taxes, Depreciation and Amortization*)**	This calculated as the "*Operating profit*" adjusted for" *Amortisation*" and the "*Net change in provisions*".	Indicator of the profit generating capacity of the Group, considering only its productive activity, eliminating any provisions for amortisation, debt and tax effects.
Gross financial debt (GFD)	Calculated as the sum of the items *"Bank borrowings and other financial liabilities"* and *"Issuance of bonds and other similar securities"*, excluding *"Interest"* (accrued), *"Arrangement expenses"* and *"Other financial liabilities"* of the consolidated statement of financial position.	Relevant indicator for analysing the financial position of the Group.
Net financial debt (NFD)	Calculated by adjusting in gross financial debt the item *"Cash and cash equivalents"*.	Relevant indicator for analysing the financial position of the Group.
EPRA1 **NAV** **(*EPRA Net Asset Value*)**	Calculated based on the equity of the Company and adjusting specific items according to EPRA recommendations.	Standard analysis ratio for the real estate sector, recommended by EPRA.
EPRA[1] NNNAV **(EPRA "triple net")**	Calculated by adjusting the following items in the EPRA NAV: The market value of the financial instruments, the market value of the financial debt, any taxes that would be accrued with the sale of assets at market value, applying the reinvestment tax rebate and the tax credit recognised in the balance sheet taking into account the going concern criteria.	Standard analysis ratio for the real estate sector and recommended by EPRA.
Market Value excluding transaction costs or *Gross Asset Value (GAV) excluding Transfer costs*	Appraisal of all the assets in the Group's portfolio carried out by external appraisers to the Group, deducting the transaction costs or *transfer costs.*	Standard analysis ratio for the real estate sector.
Market Value including transaction costs or *GAV including Transfer costs*	Appraisal of all the assets in the Group's portfolio carried out by external appraisers to the Group, before deducting the transaction costs *transfer costs.*	Standard analysis ratio for the property sector.

1 EPRA (*European Public Real Estate Association*) which recommends the standards for best practices to follow in the property sector. The calculation method for 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 "*Revenue*" comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded, together with those from assets included in the portfolio of projects and renovations, as well as other atypical adjustments (for example, compensation for early termination of lease agreements).	This permits the comparison, on a like-for-like basis, of the changes in the rental income of an asset or group of assets.
***Like-for-like* Valuation**	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.
***Loan-to-Value* Group or LtV Group**	Calculated as the result of dividing the Gross financial debt less the amount of the item *"Cash and cash equivalents"* between the Market Value, including transaction costs, of the Group's portfolio of assets.	This permits an analysis of the relation between the net financial debt and the appraisal value of the Group's asset portfolio.
LtV Holding or LtV Colonial	Calculated as the result of dividing the Gross financial debt less the amount of *"Cash and cash equivalents"* of the Parent and the Spanish subsidiaries wholly owned thereby between the sum of the market value, including transaction costs of the asset portfolio of the head of the Group and the Spanish subsidiaries wholly owned thereby, and the EPRA NAV of the rest of the financial investments in subsidiaries.	This permits an analysis of the relation between the net financial debt and the appraisal value of the portfolio of assets of the parent company of the Group.

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

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 NAV (EPRA *Net Asset Value*)

EPRA NAV (EPRA *Net Asset Value*)	30/06/2019	31/12/2018
	(Millions of euros)	
"EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT"	**5,047**	**4,811**
Includes:		
(i.a) Revaluation of investment assets	19	24
(i.a) Revaluation of assets under development	7	7
(i.c) Revaluation of other investments	19	26
(ii) Revaluation of finance leases	n.a.	n.a.
(iii) Revaluation of assets held for sale	8	n.a.
Excludes:		
(iv) Market value of financial instruments	4	2
(v.a) Deferred taxes	244	228
(v.b) Goodwill resulting from deferred assets	n.a.	n.a.
Includes/excludes:		
Adjustments of (i) to (v) in relation to the interests of strategic alliances	n.a.	n.a.
EPRA NAV	**5,348**	**5,098**

- **EPRA NNNAV (EPRA “triple net”)**

EPRA NNNAV (EPRA “triple net”)	30/06/2019	31/12/2018
	(Millions of euros)	
EPRA NAV	**5,348**	**5,098**
Includes:		
(i) Market value of financial instruments	(4)	(2)
(ii) Market value of the debt	(272)	(14)
(iii) Deferred taxes	(244)	(229)
EPRA NNNAV	**4,831**	**4,853**

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

Market Value excluding transaction costs or GAV *excluding transfer costs*	30/06/2019	31/12/2018
	(Millions of euros)	
Barcelona	1,268	1,175
Madrid	2,460	2,511
Paris	6,484	6,256
Operating portfolio	**10,211**	**9,942**
Projects	**1,099**	**925**
Logistics and others	**488**	**481**
Total Market Value excluding transaction costs and Parent's treasury shares	**11,798**	**11,348**
Spain	4,975	4,778
France	6,823	6,570

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

Market Value including transaction costs or GAV *including transfer costs*	30/06/2019	31/12/2018
	(Millions of euros)	
Total Market Value excluding transaction costs	**11,798**	**11,348**
Plus: transaction costs	592	567
Total Market Value including transaction costs, treasury stock, EPRA	**12,390**	**11,915**
Spain	5,115	4,910
France	7,276	7,005

- *Like for like* Rentals

Like-for-like Rentals	Barcelona	Madrid	Paris	Logistics and others	TOTAL
	(Millions of euros)				
Rental income 1st half 2017	**17**	**25**	**99**	**0**	**141**
Like-for-like	1	2	4	0	7
Projects and registrations	0	1	0	0	1
Investments and divestments	0	2	(7)	0	4
Axiare	2	16	0	8	26
Others and compensation	0	0	0	0	0
Rental income 1st half 2018	**20**	**46**	**96**	**8**	**170**
like for like	1	2	3	0	6
Projects and registrations	1	(1)	(1)	0	(1)
Investments and divestments	1	(4)	0	2	(1)
Axiare	0	0	0	0	0
Others and compensation	0	0	0	0	0
Rental income 1st half 2019	**23**	**43**	**98**	**10**	**174**

- *Like-for-like* Valuation

Like-for-like Valuation	30/06/2019	31/12/2018
	(Millions of euros)	
Valuation at 1 January	**11,348**	**9,282**
like-for-like Spain	223	381
like-for-like France	254	341
Acquisitions	-	1,422
Divestments	(27)	(78)
Total valuation	**11,798**	**11,348**

- ***Group Loan to Value* or Group LtV**

Loan to Value Group or LtV Group	**30/06/2019**	**31/12/2018**
	(Millions of euros)	
Gross financial debt	5,029	4,748
Less: *"Cash and cash equivalents"*	(330)	(68)
(A) Net financial debt	**4,699**	**4,680**
Market Value including transaction costs	12,391	11,915
Plus: Treasury shares of the Parent valued at EPRA NAV	8	8
(B) Market Value including transaction costs and Parent's treasury shares	**12,399**	**11,923**
***Loan to Value* Group (A)/(B)**	**37,9%**	**39,3%**

- **LtV Holding or LtV Colonial**

LtV Holding or LtV Colonial	**30/06/2019**	**31/12/2018**
Holding Company	*(Millions of euros)*	
Gross financial debt	3,225	3,002
Less: *"Cash and cash equivalents"* of the Parent and Spanish subsidiaries wholly owned thereby	(284)	(41)
(A) Net financial debt	**2,941**	**2,961**
(B) Total Market Value including transaction costs and Parent's treasury shares and EPRA NAV of subsidiaries with non-controlling interests	**8,953**	**8,538**
***Loan to Value* Holding (A)/(B)**	**32,8%**	**34,7%**