Merlin Properties SOCIMI, S.A. and Subsidiaries

Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2020 prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, together with Report on Limited Review

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

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Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

REPORT ON LIMITED REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Merlin Properties SOCIMI, S.A. at the request of the Board of Directors,

Report on the Interim Condensed Consolidated Financial Statements

Introduction

We have performed a limited review of the accompanying interim condensed consolidated financial statements ("the interim financial statements") of Merlin Properties SOCIMI, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the condensed consolidated statement of financial position as at 30 June 2020, and the condensed consolidated statement of profit or loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and explanatory notes thereto for the six-month period then ended. The Parent's directors are responsible for preparing these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, for the preparation of interim condensed financial information, in conformity with 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 the audit regulations in force 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 the accompanying interim financial statements.

Conclusion

Based on our limited review, which under no circumstances may be considered to be an audit of financial statements, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2020 are not 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 interim condensed financial statements, pursuant to Article 12 of Royal Decree 1362/2007.

Emphasis of Matters

We draw attention to Note 2.1 to the accompanying interim financial statements, which indicates that the aforementioned accompanying interim financial statements do not include all the information that would be required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and, therefore, the accompanying interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2019. Our conclusion is not modified in respect of this matter.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Also, we draw attention to accompanying explanatory Note 2.10, which describes the currently known effects that the COVID-19 crisis situation had on operations in the period, the main actions undertaken by the directors and management of the Group in order to mitigate future impacts, and the scenario of uncertainty on the basis of which the valuations of the Group's assets were made. Our conclusion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

The accompanying interim consolidated directors' report for the six-month period ended 30 June 2020 contains the explanations which the Parent's directors consider appropriate about the significant events that took place in that period and their effect on the interim financial statements presented, of which it does not form part, and about the information required under Article 15 of Royal Decree 1362/2007. We have checked that the accounting information in the interim consolidated directors' report is consistent with that contained in the interim financial statements for the six-month period ended 30 June 2020. Our work was confined to checking the interim consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Merlin Properties SOCIMI, S.A. and Subsidiaries.

Other Matter

This report was prepared at the request of the Board of Directors of Merlin Properties SOCIMI, S.A. in relation to the publication of the half-yearly financial report required by Article 119 of the Consolidated Spanish Securities Market Law, approved by Legislative Royal Decree 4/2015, of 23 October, and implemented by Royal Decree 1362/2007, of 19 October.

DELOITTE, S.L.

Ignacio Alcaraz Elorrieta
29 July 2020

Merlin Properties SOCIMI, S.A. and Subsidiaries

Interim Condensed Consolidated Financial Statements
for the six-month period
ended 30 June 2020
prepared in accordance with International
Financial Reporting Standards (IFRS) as adopted by
the European Union

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2020

(Thousand of euros)

ASSETS	Notes	30-06-20	31-12-19	EQUITY AND LIABILITIES	Notes	30-06-20	31-12-19
NON-CURRENT ASSETS				**EQUITY**	Note 9		
				Share capital		469,771	469,771
Intangible assets	Note 5	843	797	Share premium		3,813,409	3,813,409
Property, plant and equipment	Note 5	19,403	11,683	Reserves		2,504,119	2,094,275
Investment property	Note 6	12,118,977	12,169,157	Other equity holder contributions		540	540
Investments accounted for using the equity method	Note 7	428,374	346,973	Valuation adjustments		(100,548)	(83,135)
Non-current financial investments-	Note 8	442,104	376,622	Treasury shares		(55,687)	(56,860)
Derivatives		104,033	124,684	Interim dividend		-	(92,939)
Other financial assets		338,071	251,938	Profit/(loss) for the period attributable to equity holders of the Parent		70,944	563,639
Deferred tax assets		87,752	87,778	Equity attributable to equity holders of the Parent		6,702,548	6,708,700
Total non-current assets		13,097,453	12,993,010	Non-controlling interests			
				Total Equity		6,702,548	6,708,700
				NON-CURRENT LIABILITIES			
				Debt instruments and other marketable securities	Note 10	3,827,688	3,723,414
				Non-current bank borrowings	Note 10	2,557,550	1,817,788
				Other financial liabilities	Note 11	128,532	120,464
				Deferred tax liabilities	Note 11	686,111	687,654
				Provisions	Note 11	34,061	33,708
				Total non-current liabilities		7,233,942	6,383,028
				CURRENT LIABILITIES			
				Provisions	Note 11	-	778
CURRENT ASSETS				Debt instruments and other marketable securities	Note 10	27,911	34,631
Inventories		279	221	Bank borrowings	Note 10	17,473	18,326
Trade and other receivables	Note 8	35,648	30,263	Other current financial liabilities	Note 11	76,602	6,576
Current financial assets	Note 8	110,993	7,723	Trade and other payables	Note 12	71,083	144,732
Other current assets		15,650	20,498	Current tax liabilities	Note 12	4,669	1,113
Cash and cash equivalents		896,651	254,016	Other current liabilities	Note 11	22,446	7,847
Total current assets		1,059,221	312,721	**Total current liabilities**		220,184	214,003
TOTAL ASSETS		14,156,674	13,305,731	**TOTAL EQUITY AND LIABILITIES**		14,156,674	13,305,731

The accompanying explanatory notes 1 to 17 are an integral part of the statement of financial position at 30 June 2020

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

(Thousands of euros)

	Notes	30-06-20	30-06-19
CONTINUING OPERATIONS:			
Revenue	Note 4 y 13.a	223,927	254,403
Other operating income		1,390	1,430
Personnel expenses	Note 13.c	(21,339)	(38,252)
Other operating expenses	Note 13.b	(32,333)	(30,836)
Gains/(losses) on disposal of assets	Note 3	(14,159)	36
Depreciation and amortization	Note 5	(734)	(856)
Excessive provisions		(368)	(313)
Change in fair value of investment properties	Note 6	31,962	159,469
Negative goodwill on business combinations		-	(2,865)
PROFIT/(LOSS) FROM OPERATIONS		188,346	342,216
Change in fair value of financial instruments		(39,889)	(21,408)
Change in fair value of financial instruments - Implicit derivative	Note 8	(18,907)	(2,576)
Change in fair value of financial instruments - Other		(20,982)	(18,832)
Finance income		1,574	39
Finance expenses		(71,873)	(50,318)
Gains/ (losses) on disposals of financial instruments		(10)	64
Share of results of companies accounted for using the equity method	Note 7	(8,346)	2,523
PROFIT/(LOSS) BEFORE TAX		69,802	273,116
Income tax		1,142	(11,111)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		70,944	262,005
Attributable to shareholders of the Parent		70,944	262,005
Attributable to non-controlling interests		-	-
EARNINGS PER SHARE (in euros):		0.15	0.57
BASIC EARNINGS PER SHARE (in euros):		0.15	0.57
DILUTED EARNINGS PER SHARE (in euros):		0.15	0.56

The accompanying explanatory Notes 1 to 16 are an integral part of the condensed consolidated income statement for the six-month period ended 30 June 2020

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

(Thousands of euros)

	Notes	30-06-20	30-06-19
PROFIT/(LOSS) PER INCOME STATEMENT (I)		70,944	262,005
OTHER COMPREHENSIVE INCOME:			
Income and expenses recognised directly in equity			
Cash flow hedges		(22,433)	(52,658)
Translation differences			
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY (II)		(22,433)	(52,658)
Transfers to profit or loss			
Hedging instruments		5,020	5,035
TOTAL TRANSFERS TO PROFIT OR LOSS (III)		5,020	5,035
TOTAL COMPREHENSIVE INCOME (I+II+III)		53,531	214,382
Attributable to shareholders of the Parent		53,531	214,382
Attributable to non-controlling interests		-	-

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated statement of comprehensive income for the six-month period ended 30 June 2020

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

(Thousands of euros)

	Share Capital	Share Premium	Reserves	Shareholder contributions	Profit/ (loss) for the period	Interim dividend	Valuation adjustments	Treasury shares	Equity attributable to the Parent	TOTAL
BALANCES AT 31 DECEMBER 2018	**469,771**	**3,858,624**	**1,416,773**	**540**	**854,878**	**(93,522)**	**(36,906)**	**(68,322)**	**6,401,836**	**6,401,836**
Consolidated comprehensive income	-	-	-	-	262,005	-	(47,623)	-	214,382	**214,382**
Distribution of 2018 profit	-	-	761,356	-	(854,878)	93,522	-	-	-	**-**
Transactions with shareholders or owners-										
Distribution of dividends	-	(45,215)	(94,193)	-	-	-	-	-	(139,408)	**(139,408)**
Acquisition of treasury shares	-	-	-	-	-	-		(633)	(633)	**(633)**
Recognition of share-based payments	-	-	16,027	-	-	-	-	-	16,027	**16,027**
Delivery of shares under the 2016 stock plan	-	-	(21,682)	-	-	-	-	12,089	(9,593)	**(9,593)**
Balances at 30 June 2019	**469,771**	**3,813,409**	**2,078,281**	**540**	**262,005**	**-**	**(84,529)**	**(56,866)**	**6,482,611**	**6,482,611**
Balances at 31 December 2019	**469,771**	**3,813,409**	**2,094,275**	**540**	**563,639**	**(92,939)**	**(83,135)**	**(56,860)**	**6,708,700**	**6,708,700**
Consolidated comprehensive income	-	-	-	-	70,944	-	(17,413)	-	53,531	**53,531**
Distribution of 2019 profit (Note 9)	-	-	470,700	-	(563,639)	92,939	-	-	-	**-**
Transactions with shareholders or owners -										
Distribution of dividends (Note 9)	-	-	(68,518)	-	-	-	-	-	(68,518)	**(68,518)**
Acquistion / (sale) of treasury shares	-	-	30	-	-	-	-	(70)	(40)	**(40)**
Recognition of share-based payments	-	-	8,129	-	-	-	-	-	8,129	**8,129**
Delivery of share distribution scheme	-	-	(497)	-	-	-	-	1,243	746	**746**
Balances at 30 June 2020	**469,771**	**3,813,409**	**2,504,119**	**540**	**70,944**	**-**	**(100,548)**	**(55,687)**	**6,702,548**	**6,702,548**

The accompanying explanatory notes 1 to 17 are an integral part of the condensed statement of changes in equity as of 30 June 2020

Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.

MERLIN PROPERTIES SOCIMI, S.A.

AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

(Thousands of euros)

	Notes	30-06-20	30-06-19
CASH FLOWS FROM OPERATING ACTIVITIES:		**(62,006)**	**209,118**
Profit for the year before tax		**69,802**	**273,116**
Adjustments for-		**114,489**	**(56,044)**
Depreciation and amortization	**Note 5**	734	856
Change in fair value of investment property	**Note 6**	(31,962)	(159,469)
Change in provisions of working capital		12,646	-
Change in provisions for contingencies and charges		368	313
Gains/(Losses) on disposals of non-current assets	**Note 3**	14,159	(36)
Finance income		(1,574)	(39)
Finance expenses		71,873	50,318
Change in fair value of financial instruments	**Note 8**	39,889	21,408
Impairment and gains or losses on disposal of financial instruments		10	(64)
Share of results of investments accounted for using the equity method	**Note 7**	8,346	(2,523)
Other gains/(losses)		-	33,192
Changes in working capital-		**(179,089)**	**61,527**
Inventories		(58)	-
Accounts receivable	**Note 8**	(8,422)	54,776
Other financial assets		(103,000)	-
Other current assets	**Note 8**	(822)	(4,558)
Accounts payable	**Note 12**	(68,644)	14,171
Other assets and liabilities		1,857	(2,862)
Other cash flows from operating activities-		**(67,208)**	**(69,481)**
Interest paid		(66,913)	(67,740)
Interest received		2	39
Income tax paid		(297)	(1,780)
CASH FLOWS FROM INVESTING ACTIVITIES:		**(98,175)**	**(185,887)**
Payments due to investment-		**(123,123)**	**(209,971)**
Net cash outflow from business acquisitions			(115,661)
Investment property	**Note 6**	(113,986)	(87,555)
Concession assets and property, plant and equipment		(8,480)	(6,755)
Contributions to associates		(658)	
Proceeds from disposals-		**24,948**	**24,084**
Financial assets		-	-
Investment property		24,948	24,084
Property, plant and equipment			
CASH FLOWS FROM FINANCING ACTIVITIES:		**802,817**	**(106,858)**
Proceeds and payments relating to equity instruments-		**(40)**	**(139,114)**
Refund of premium	**Note 9.2 y 9.3**	-	(45,215)
Dividends paid	**Note 9.3**	-	(94,193)
Dividends received from companies accounted for using the equity method		-	927
Purchase of equity instruments	**Note 9.4**	(40)	(633)
Proceeds and payments relating to financial liabilities-		**802,856**	**32,256**
Issue of bank borrowing		723,400	70,000
Repayment of bank borrowing	**Note 10.1**	(21,465)	(29,650)
Debenture issues	**Note 10.2**	100,000	-
Other payments due to financing activities	**Note 10.5**	921	(8,094)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**642,635**	**(83,627)**
Cash and cash equivalents at beginning of year		254,016	169,025
Cash and cash equivalents at end of year		896,651	85,398

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolited statement of cash flows for the six-month period ended 30 June 2020

Merlin Properties SOCIMI, S.A. and Subsidiaries

Explanatory notes for the Interim Condensed Consolidated Financial Statements for the six-month period ending 30 June 2020

1. Nature, activity and composition of the Group

Merlin Properties SOCIMI, S.A. (hereinafter, the "Parent") was incorporated in Spain on 25 March 2014 under the Spanish Limited Liability Companies Law. On 22 May 2014, the Parent requested to be included in the tax regime for listed companies investing in the property market (SOCIMIs), effective from 1 January 2014.

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

The Parent's corporate purpose, as set out in its bylaws, is as follows:

- The acquisition and development of urban real estate for subsequent leasing, including the refurbishment of buildings as per the Value Added Tax Law 37/1992, of 28 December;
- The holding of shares in other SOCIMIs or in other non-resident entities in Spain with the same corporate purpose and that operate under a similar regime as that established for SOCIMIs with regard to the mandatory profit distribution policy enforced by law or by the articles of association;
- The holding of shares in other resident or non-resident entities in Spain whose corporate purpose is to acquire urban property for subsequent leasing, and that operate under the same regime as that established for SOCIMIs with regard to the mandatory profit distribution policy enforced by law or by the articles of association, and that fulfil the investment requirements stipulated for these companies; and
- The holding of shares or equity interests in collective real estate investment undertakings regulated by Law 35/2003, of 4 November, on collective investment undertakings, or any law that may replace this 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 its income in each tax period, or those that may be considered ancillary activities under the legislation applicable at any time.

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

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

Merlin Properties SOCIMI, S.A. and Subsidiaries (hereinafter, the "Group") mainly engage in the acquisition and management (through leasing to third parties) of mainly offices, warehouses and commercial premises. They may also invest to a lesser extent in other assets for lease.

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

On 15 January 2020, the Parent's shares were listed on Euronext Lisbon under a dual listing.

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

1. At least 80% of a SOCIMI's assets must be invested in urban real estate for leasing purposes and/or in land to be developed for leasing purposes provided such development starts within three years of acquisition, along with investments in the capital or equity of other entities referred to in Section 1, Article 2 of the Law.

   The value of the assets will be determined according to the average of the individual balance sheets for each quarter of the year, whereby the SOCIMI may opt to calculate such value by taking into account the market value of the assets included in such balance sheets instead of their carrying amount, in which case that value would apply to all balance sheets for the year. For these purposes, the money and collection rights arising from the disposal of these properties or shareholdings, if applicable, during the same year or previous years will not be calculated, provided that, in this last case, the reinvestment period referred to in Article 6 of this Law has not elapsed.

2. Similarly, at least 80% of the income for the tax period for each year, excluding that arising from the disposal of shareholdings and properties used in the compliance of its main corporate purpose, once the holding period referred to below has elapsed, should come from the lease of properties and from dividends or shares in profit from these investments.

   This percentage is calculated based on consolidated profit if the company is a Parent of a group, as defined in Article 42 of the Commercial Code, irrespective of the place of residence and the obligation to prepare consolidated financial statements. That group will be exclusively composed of the SOCIMI and all the other entities referred to in Section 1, Article 2 of said Law.

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

This period will be calculated:

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

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

c) Shares or equity investments in entities referred to in Section 1, Article 2 of the Law must be kept in the SOCIMI's asset base at least during three years after their acquisition or, if applicable, from the beginning of the first tax period during which the special tax regime established in the Law applies.

As established in transitional provision one of Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December, governing listed companies investing in the property market, these companies may opt to apply the special tax regime pursuant to Article 8 of this Law, even when the requirements stipulated therein are not fulfilled, under the condition that such requirements are met within two years of the date application of the SOCIMI tax regime is sought.

Failure to fulfil said condition will render the SOCIMI subject to the general corporate income tax rules, starting in the tax period in which the non-fulfilment is detected, unless it is remedied within the following tax period. The SOCIMI will also be obliged to pay, together with the amount relating to the aforementioned tax period, the difference between the amount of tax payable under the general tax regime and the amount paid under the special tax regime in the previous tax periods, including any applicable late-payment interest, surcharges and penalties.

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

The transitional period in which the Company had to meet all requirements of this tax regime ended in 2017. At 30 June 2020, the Directors of the Parent prepare those interim financial statements considering the application of the SOCIMI regime so far as, at 30 June 2020, the requirements are met and they believe that they will still be met at the close of the year.

2. Basis of presentation of the interim condensed consolidated financial statements and consolidation principles

2.1 Regulatory framework

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

- The Spanish Commercial Code and all other Spanish corporate law.

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

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

- All other applicable Spanish accounting legislation.

The consolidated financial statements for 2019 have been prepared in accordance with the regulatory financial reporting framework described in the above paragraph and, accordingly, they present fairly the Group's consolidated equity and financial position as of 31 December 2019 and the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended on 31 December 2019.

The separate and consolidated financial statements of Merlin Properties, SOCIMI, S.A. for 2019 prepared by its directors were approved by the shareholders at the Annual General Meeting on 17 June 2020.

The 2019 separate financial statements of the Group companies, which were prepared by their respective directors, were approved by their shareholders at the respective General Meetings within the periods established in applicable tax legislation.

These interim condensed consolidated financial statements are presented in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, and were approved by the Parent's directors on 29 July 2020, in accordance with Article 12 of Royal Decree 1362/2007.

Pursuant to IAS 34, interim financial reports must be prepared with the sole intention of updating the content of the Group's previous consolidated annual financial statements, with an emphasis on any new activities, events or circumstances that may have occurred during the semester, but not duplicating the information that was already published in the consolidated annual financial statements. Therefore, the interim condensed consolidated financial statements as of 30 June 2020 do not include all the information that would be required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, and therefore the accompanying interim condensed consolidated financial statements must be read together with the Group's consolidated financial statements for the year ended 31 December 2019.

The consolidated results and determination of consolidated equity are sensitive to the accounting policies and measurement bases and estimates adopted by the Directors of the Parent Company in the preparation of the condensed consolidated financial statements. The main accounting principles and policies and valuation criteria used correspond to those applied in the 2019 consolidated financial statements, except for the standards and interpretations that came into force during the first half of 2020.

2.2 Bases for reporting the interim condensed consolidated financial statements

The interim condensed consolidated financial statements were obtained from the accounting records of the Parent and consolidated companies, and have been prepared in accordance with the regulatory financial reporting framework described in Note 2.1 and, accordingly, they present fairly the Group's consolidated equity and financial position as of 30 June 2020 and the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flows that have taken place in the Group during the six-month period ended on 30 June 2020.

Given that the accounting policies and measurement bases applied in preparing the Group's interim condensed consolidated financial statements in the six-month period ended on 30 June 2020 may differ from those applied by some of the Group companies, the necessary adjustments and reclassifications were made on consolidation to unify these policies and bases and to make them compliant with IFRS as adopted by the European Union

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

These interim condensed consolidated financial statements as of 30 June 2020 were audited. The figures for 30 June 2019 and 31 December 2019 are presented for comparison purposes only.

2.2.1 Adoption of International Financial Reporting Standards effective as from 01 January 2020

During the first six months of 2020, the following standards, amendments and interpretations came into force, which, where applicable, were used by the Group in preparing the interim condensed consolidated financial statements:

Standards, Amendments and Interpretations	**Description**	**Mandatory application in the years beginning on or after:**
Amendments to IAS 1 and IAS 8 - Definition of "materiality"	Amendments to IAS 1 and IAS 8 to align the definition of "materiality" with that contained in the conceptual framework	01 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7. Reform of Benchmark Interest Rates	Amendments to IFRS 9, IAS 39 and IFRS 7 related to the current changes to the benchmark indexes.	01 January 2020
Amendment to IFRS 3 – Definition of a business	Clarifying the definition of a business	01 January 2020
Amendment to IFRS 16 Leases - Improvements in rents	Amendment to facilitate the accounting of rental improvements related to COVID-19 in leases	01 June 2020 (1)

(1) Pending adoption by the European Union

These standards and amendments have not had a significant impact.

All accounting policies and measurement bases with a significant effect on the condensed consolidated financial statements were applied.

2.2.2 Standards not yet in force in 2020

The following standards were not yet in force in the first six months of 2020, either because their effective date is subsequent to the date of the interim consolidated financial statements, or because they have not yet been adopted by the European Union:

Standards, Amendments and Interpretations	**Description**	**Mandatory application in the years beginning on or after:**
IFRS 17 Insurance contracts	Replaces IFRS 4. It includes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.	01 January 2021
Amendment to IAS 1 Classification of liabilities as current or non-current	Clarifications about the presentation of liabilities as current or non-current	01 January 2023 (2)

(2) The IASB proposed postponing them to 1 January 2023 (Draft amendment of 3 June 2020).

At present, the Group is assessing the impacts that the future application of standards with a mandatory application date from 01 January 2021 could have on the consolidated financial statements once they come into force, although these impacts are not expected to be significant.

2.3. Functional currency

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

2.4 Comparative information

As required by international financial reporting standards adopted by the European Union, the information contained in these interim condensed consolidated financial statements for the year ended 30 June 2019 is presented for comparative purposes with information relating to the six-month period ended 30 June 2020 for the interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity, interim condensed consolidated statement of cash flows and for the year ended 31 December 2019 for the interim condensed consolidated statement of financial position.

2.5 Responsibility for the information and use of estimates

The information in these Interim Condensed Consolidated Financial Statements is the responsibility of the directors of the Parent Company.

In the Group's interim condensed consolidated financial statements for the six-month period ended on 30 June 2020, estimates were occasionally made by the senior executives of the Group and of the consolidated companies, later ratified by the directors, in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

1. The market value of the net assets acquired in business combinations.
2. The market value of the Group's property assets. The Group obtained valuations from independent experts as of 30 June 2020.
3. The fair value of certain financial instruments.
4. The assessment of provisions and contingencies.
5. Management of financial risk and, in particular, of liquidity risk.
6. The recovery of deferred tax assets and the tax rate applicable to temporary differences.
7. Definition of the transactions carried out by the Group as a business combination in accordance with IFRS 3 or as an acquisition of assets.
8. Compliance with the requirements that govern listed real estate investment companies.

Changes in estimates:

Although these estimates were made on the basis of the best information available as of 30 June 2020, future events may require these estimates to be modified prospectively (upwards or downwards), in accordance with IAS 8. The effects of any change would be recognised in the corresponding consolidated income statement.

2.6 Contingent assets and liabilities

During the first six months of 2020 there have been no significant changes in the Group's main contingent assets and liabilities.

2.7 Seasonal nature of Group transactions

In view of the activities carried out by the Group companies, the transactions are not markedly cyclical or seasonal. Accordingly, no specific disclosures in this regard are included in these explanatory notes to the interim condensed consolidated financial statements for the six-month period ended 30 June 2020.

2.8 Consolidated statement of cash flows

The following terms are used in the condensed consolidated statement of cash flows, which was prepared using the indirect method, with the meanings specified:

1. Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
2. Operating activities: the principal revenue-producing activities of the entities composing the consolidated Group and other activities that are not investing or financing activities.

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

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

2.9 Relative importance

In determining the information to be broken down in the explanatory notes to the interim condensed consolidated financial statements or other matters, the Group has, in accordance with IAS 34, taken into account the relative importance in relation to the interim condensed consolidated financial statements for the six-month period ending on 30 June 2020.

2.10 Quantitative and qualitative information on the impacts of COVID-19

The appearance of COVID-19 in China in January 2020 and its recent global expansion has resulted in classifying the viral outbreak as a pandemic by the World Health Organisation since 11 March 2020. This situation has affected global financial markets, since restrictions have been placed on transportation and business activities in many sectors.

On 14 March 2020, the Government of Spain declared a state of alarm under the Royal Decree 463/2020, which remained in force until 21 June 2020. According to the declaration of the state of alarm, certain retail and hospitality activities have been classified as essential, where opening was permitted, while others have been classified as non-essential based on their nature and therefore subject to a forcedclosure. Likewise in Portugal, an *Estado da Emergência* was declared by the President of the Republic in the Decreto do Presidente da República no. 14-A/2020, of 18 March, which established, in general terms, the limits on the restrictions of certain fundamental rights due to COVID-19, which included restrictions on the country’s retail commerce.

In this regard, the Group's activity has been affected in various areas, and in general it has been forced to take different measures of action to mitigate them. The Parent Company’s Directors believe that the COVID-19 crisis represents a significant event that, under accounting regulations, requires the submission of separate breakdowns on the impacts. Below, the primary impacts related to COVID-19 are presented grouped into the attached interim notes in accordance with IAS 34 (15-15c), together with the actions the Group has taken to mitigate their impact.

The Directors continue to evaluate and implement additional measures to adapt the Group's operations and to adopt the necessary measures based on how the pandemic progresses, and they believe that it is not possible to reasonably predict the impact of COVID-19. The general operational and financial impact will greatly depend on the extent and duration of the COVID-19 pandemic, including the possible appearance of additional new outbreaks, and it may be affected by other factors that cannot yet be foreseen.

The Directors and Management Team believe that the COVID-19 health emergency and its effects on the Group's activities primarily affects the following aspects:

- The Group's estimates and, the case being, the book value of the assets and liabilities on the balance sheet
- Financial risks: credit risk and liquidity risk
-

These do not include all of the impacts, although the Directors and Management Team believe that the others, not listed above, will not have a significant effect on the Group's activity.

<u>Measurement of fair value of investment property</u>

The Group adjusted the fair value of its real estate investments in accordance with IAS 40. This fair value is determined using the reference of the valuations made by independent third parties every six months so that, at the close of each six-month period, the fair value reflects the market conditions of the elements of the investment properties at that date.

The COVID-19 pandemic has impacted global financial markets. Activity in the real estate market is being affected in many sectors. Therefore, reports by independent third-party experts place less weight on prior evidence from the market as a reference to establish their appraisals. Therefore, appraisals by external third-party experts, Savills Consultores Inmobiliarios, S.A., CBRE Valuation Advisory, S.A. and Jones Lang LaSalle, S.A., are issued based on “substantial appraisal uncertainty” according to DBPV 3 and OBPVA 10 of the RICS Red Book Global Standards.

This circumstance will require a close follow up of the macroeconomic situation and of the real estate sector, in the close future and if it will have any impact in the fair value of the assets.

The appraisal methods described in Note 6 has not been modified, although they were influenced by, among other things, the following aspects derived from the effects of COVID-19.

- Closure of activities in shopping centres.
- Loss of customers and reductions in footfall.
- The positive impact on logistics distributors.
- The risk of losing major contracts.
- Payments of rent for commercial spaces.
- Increased discount rates and exit capitalisation rates due to future uncertainty.

Meanwhile, the details of main assumptions used in the appraisals at December 2019 and June 2020 based on the nature of the assets and the sensitivities to increases and decreases of those variables are included in Note 6 of the attached notes.

Liquidity risk

The Directors of the Parent believe that the appearance of the health crisis and the impact on the economy caused by the need for lockdown has caused a significant impact on the general financial position of the Company, which can be divided into the specific liquidity risk of the companies or groups and the liquidity risk of customers (credit risk). Furthermore, these situations have affected the availability of financing in the markets, which have contracted in general, to the detriment of the future evolution of the activity, and applying more stringent conditions when increasing financing and risk positions.

In this context, at 30 June 2020 the Group had a leverage ratio (defined as the loan-to-value ratio [LTV]) of 40.4% and cash and other liquid assets equal to EUR 896,651,000 and EUR 100,000,000 in a short-term deposit. The Group does not have any major loan maturities until 2022 because of the absence of promissory notes and other short-term financial instruments.

Furthermore, the rating agencies S&P and Moody's have confirmed MERLIN Group's credit rating following the COVID-19 pandemic considering the commercial policy it implemented, which will be explained below. S&P rated the Group BBB with a stable perspective, while Moody's rated it Baa2 with a negative perspective.

The Group has taken the following measures to strengthen its capital structure:

- *CapEx investments*. The Group has revised its CapEx plans to prioritise the execution of investments in assets with high levels of pre-rental. The priority projects in execution that generate rent in the short term represent a total investment of EUR 247.7 million over the next four years, of which EUR 167.4 million will be invested this year. The future incremental rents attributable to these projects (65% are pre-rented) amount to EUR 37.3 million.

- *Reduced structure costs*. In its meeting of 8 April 2020, the Board of Directors decided to reduce its remuneration by 25%, and the CEO, the General Corporate Director and the management team agreed to renounce to all of their remuneration and incentives plans for 2020. These measures represent EUR 11 million in savings in the year.

- *Drawdown of additional financing.* On 20 March 2020, the Group drew down from its corporate line of credit, which was fully available, a sum of EUR 700 million. This drawdown was made from a solid financial position, in the uncertain times of the pandemic. The Group also issued EUR 100 million of bonds at the beginning of the year, with the goal of continuing optimising its financing calendar, with regard to both its schedule of maturities and the average cost of its debt. In relation to these actions, later in June it issued an additional EUR 500 million 7-year bond, in order to repay different bonds and mortgages with maturities in 2022, 2023 and 2025, the aim is to improve the Group's financial position (see Note 16).

- *Dividends*. On 8 July 2020, the 2019 dividend was paid out after it was approved in the General Shareholders Meeting held on 17 June 2020, for a sum of EUR 68,518,000. However, even though a refund of the share premium was passed for a sum of EUR 0.173 per share payable in cash, its execution was delegated to the Board of Directors, which will decide if it should be paid out once the impact of COVID-19 on the evolution of the business is analysed.

The Parent's Directors and Management Team are constantly monitoring the evolution of the situation and the effects it may have on the credit market, and they believe that the Group's situation at 30 June 2020 and the measures mentioned above ensure that it will be solvent to fulfil the obligations on the balance sheet at 30 June 2020, and there is no material uncertainty about the continuity of the Group's operations.

Credit risk

As indicated in the consolidated director's report for the year ended 31 December 2019, the deterioration of the Group's receivables was not significant, considering that the risk of default was less than 1% of turnover and that the Group has deposits from its tenants to secure the credits.

During the first half of 2020, in response to the Covid-19 outbreak, the Company has put in place two commercial policies:

Commercial policies implemented

After the outbreak of the pandemic, the Group implemented a commercial policy that offered 100% rent relief to all tenants affected by the compulsory shutdown set forth in the state of alarm regulations if they were up-to-date in their contractual obligations, including payment of past rents and common expenses. This policy was in force during the shutdown mandated by to the state of alarm and involved a 100% rent relief for tenants, they continued to pay community expenses and waived their right to any future legal actions against Merlin as a consequence of COVID-19.

The above policies have been presented to approximately 89% of the shopping centre tenants, and 3% of offices. The level of acceptance has generally been above 85% in shopping centers and 100% in offices, which has resulted in approximately EUR 22.7 million reduction of rents from revenues at the close of the first semester for these actions.

The Group recorded this rent forgiveness as lower turnover, according to its interpretation of accounting regulations and the consideration that there are have been no significant changes to the leases.

Additional commercial measures

The Group has approved an additional commercial policy that will last from June to 31 December 2020. This policy is designed for tenants with retail activities in the Group's portfolio of assets, to help them reopen and recover during the rest of 2020. The policy consists of providing a partial rent relief until year end (progressive from 60% in June to 10% in December).

These conditions have been offered to approximately 4% of the office tenants and 94% of shopping centres tenants. 93% and 92% have accepted them respectively, which represents a decrease in rents for the half year of EUR 5m.

The Directors and the Management team have evaluated the linealization of the Covid-19 rent reliefs, and have concluded that their impact in the Consolidated Financial Statements is not significant. Therefore, they have decided to record the full amount of the rent reliefs at 30 June 2020 under the heading “Net revenue” in the accompanying condensed consolidated income statement.

Accounting implications of COVID-19 on the calculation of the expected loss of receivables

One of the implications considered by the Group due to COVID-19 has been the assessment of customer credit risk in the current market setting, which may increase, depending on the activity of its businesses and the degree of severity that COVID-19 has on them.

To date, the Directors have assessed possible impacts from COVID-19, taking into consideration the characteristics of the Group's contracts. It should thus be noted that the Group's usual practise is to bill each month in advance, whilst also holding deposits from tenants as an additional guarantee of payment. It should also be taken into account that the Group has a very high-quality base of customers, which mitigates the credit risk.

Based on these facts and on the application of the simplified approach of impairment and credit risk, and also taking into consideration other differential factors of the Group’s portfolio of tenants and the characteristics of their leases, and the amounts collected thus far, the Group has concluded that the increased credit risk of its customers has not been significantly affected.

At 30 June 2020, the default risk was less than 1% of turnover.

In relation to its other financial assets exposed to credit risk, which mainly correspond to loans to associates and third parties, the Directors have determined that there has not been a significant increase in the risk, considering the measures agreed in some cases with tenants and the long-term expectations based above all on the historical experience with those entities, which make it possible to estimate that the credit risk will remain in line with the previous year.

Nevertheless, the Group is constantly monitoring the evolution of this credit risk.

Other effects

Investment in assets and health measures derived from COVID-19

Since the start of the COVID-19 pandemic, the Group has launched various initiatives in its assets, which have been categorised into the main lines of recommendations from the competent authorities: (i) social distancing measures; (ii) hygiene and cleaning measures; (iii) and organisational measures. The objective of these measures is to minimise the risk of infection with COVID-19, preserving the health and safety of those who enter the buildings, taking into consideration the evolution of the spread of the virus, and the latest provisions adopted by the various administrations, in addition to the various recommendations and ministerial orders of the Ministry of Health and the Ministry of Industry, Commerce and Tourism. At any rate, since the current situation of the pandemic is highly dynamic, the adopted measures will be adapted at all times as necessary to respond to the rapidly changing circumstances related to COVID-19 and the recommendations from the competent authorities.

Based on this situation, the Group has acquired gloves, masks, sanitiser gels, protective screens and adopted other measures for vulnerable areas (stairs, lifts and restrooms). These measures had the following impacts on the financial statements at 30 June 2020:

	Thousands of euros	
	Offices	Shopping centres
Investment properties	54	279
Operating expenses	150	335

The Company's Directors are monitoring the evolution of the situation constantly with the goal of successfully dealing with the possible financial and non-financial impacts that may arise.

3. Changes in the scope of consolidation

The only change in the scope of consolidation was as follows in the first semester of 2020:

- Addition of Silicius Real Estate, S.A to the scope of consolidation:

On 27 February 2020, the Group resorted to a capital increase of the company Silicius Real Estate, S.A. for a sum of EUR 173 million. The capital increase was underwritten by contributing three secondary shopping centers owned by the Group, namely those entitled Thader, La Fira and Nassica. The capital increase saw the Group acquire 34.37% of the shares in the company, which is a multi-product company managed externally by Mazabi.

The asset contribution also entailed the assumption of certain obligations associated with the contributed assets for a total of EUR 9 million, at a sum of EUR 1.8 million a year, of which EUR 8.5 million is maintained as outstanding obligations at 30 June 2020, recorded as “other financial liabilities”, current and non-current respectively.

The contribution indicated above includes certain conditions related to the shares received by the Group. Thus, for 50% of the shares it received, the Group has a put option to the company Silicius at the same contribution price. This option expires 24 months after the contribution.

The remaining 50%, in turn, has a liquidity mechanism starting the fifth year after the contribution, so Silicius itself has the option to buy them at a market price associated with their NAV at the time plus a differential. If the option is not exercised, the Group can sell them by collecting certain assets of the investee company at the same price indicated above.

The Group recorded the shares associated with 50% of the investment as “financial assets available for sale” for a sum of EUR 86.5 million, because it considers it highly likely that it will exercise its option to sell and that there is therefore no exposure to the investee company's future risks and benefits. The remaining amount of the stake, which represents 17.19% of the company's shares, was recorded as an in companies consolidated with the equity method (see Notes 7 and 8).

This contribution resulted in a EUR 13,842,000 capital loss for the Group.

4. Segment reporting

a) Basis of segmentation

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

- Office buildings
- Net lease.
- Shopping centres.
- Logistics assets
- Other

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

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

The Group carried out its business activities exclusively in Spain and Portugal in the period of six months which ended on 30 June 2020.

b) Basis and methodology for business segment reporting

The segment reporting below is based on monthly reports prepared by Group management and is generated using the same computer application that prepares all the Group's accounting information. The accounting policies applied to prepare the segment information are the same as those used by the Group, as described in Note 2.

Segment revenue relates to ordinary revenue directly attributable to the segment plus the relevant proportion of the Group's general income that can be allocated on a reasonable basis to that segment. Ordinary revenue of each segment does not include interest or dividend income, nor gains debt recoveries or cancellation.

Segment expenses are calculated as the general expenses arising in operating activities, plus the corresponding proportion of the general expenses that can be reasonably allocated to the segment.

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

Segment assets and liabilities are those directly related to each segment's operations, plus the assets and liabilities that can be directly attributed thereto using the aforementioned allocation system, and include the proportional part of the assets and liabilities of joint ventures.

In 2019, the Group modified certain segment distribution criteria based on its management information of the activity, which entailed changing the name of its "High Street Retail" segment to "Net Lease". This change also involved reclassifying certain assets that were classified as "High Street Retail" to the other segments, keeping in the "Net Lease" segment only those assets with long-term leases from "Sale & leaseback" transactions. The reclassified amounts were not very significant. To make it easier to compare the information of the segments at 30 June 2020, the Parent's Directors homogenised the 2019 interim information with the criteria used at the close of 2019. Therefore, the information is different from the information included in the Consolidated Abbreviated Interim Financial Statements for the six-month period closed 30 June 2019.

Segment reporting for these activities as of 30 June 2020 and its comparison with the previous period (30 June 2019 for revenues and expenses, and 31 December 2019 for assets and liabilities) is presented below:

a) Segment reporting

As of 30 June 2020	Thousands of euros						
	Buildings buildings	Net Lease	Shopping Centres	Unit	Other	Logistical Corporate	Total Group
Revenue from non-Group customers:							
Rental income	111,995	43,276	34,077	27,699	4,130	-	221,177
Services rendered	1,749	-	349	-	-	652	2,750
Revenues	**113,744**	**43,276**	**34,427**	**27,699**	**4,130**	**652**	**233,927**
Other operating income	854	-	249	141	77	69	1,390
Staff costs	-	-	-	-	-	(21,339)	(21,339)
Operating expenses	(12,709)	(27)	(8,639)	(2,024)	(635)	(8,300)	(32,333)
Gains/(losses) on disposal of assets	-	114	(14,181)	(1)	(91)	-	(14,159)
Depreciation and amortisation charge	(221)	-	-	-	(6)	(507)	(734)
Excess provisions	-	-	-	-	-	(368)	(368)
Changes in fair value of investment properties	123,700	19,253	(117,423)	19,968	(13,536)	-	31,962
Negative goodwill on business combinations	-	-	-	-	-	-	-
Profit/(loss) from operations	**225,369**	**62,615**	**(105,567)**	**45,783**	**(10,061)**	**(29,793)**	**188,346**
Change in the fair value of financial instruments-							
Changes in fair value of financial instruments - Embedded derivative	-	(18,907)	-	-	-	-	(18,907)
Changes in fair value of financial instruments - Other	-	(6,733)	-	(1)	-	(14,248)	(20,981)
Finance income	-	-	1	-	-	1,572	1,574
Finance expenses	(161)	(11,222)	(1,957)	(5,663)	-	(52,869)	(71,873)
Profit/(loss) on disposal of financial instruments	-	-	-	-	-	(10)	(10)
Share of results of companies accounted for using the equity method	-	-	-	-	-	8,346	8,346
Profit/(loss) before tax	**225,208**	**25,753**	**(107,523)**	**40,119**	**(10,061)**	**(103,694)**	**69,802**
Corporation tax	(666)	(513)	2,847	-	-	(526)	1,142
Profit/(loss) for the year	**224,542**	**25,240**	**(104,677)**	**40,119**	**(10,061)**	**(104,220)**	**70,944**

At 30 June 2019	Buildings buildings	Net Lease	Shopping Centres	Unit	Other	Logistical Corporate	Total Group
Revenue from non-Group customers:							
Rental income	117,150	43,381	61,456	24,278	6,978	33	253,277
Services rendered	210	-	345	-	-	571	1,127
Revenues	**117,150**	**43,381**	**61,801**	**24,278**	**6,978**	**604**	**254,403**
Other operating income	41	-	74	(4)	63	1,256	1,430
Staff costs	-	-	-	-	-	(38,252)	(38,252)
Operating expenses	(14,216)	(276)	(8,668)	(1,128)	(1,003)	(5,545)	(30,836)
Gains/(losses) on disposal of assets	-	5	(18)	44	5	-	36
Depreciation and amortisation charge	(26)	-	-	-	-	(830)	(856)
Excess provisions	-	-	-	-	-	(313)	(313)
Changes in fair value of investment properties	107,412	8,989	9,729	32,768	571	-	159,469
Negative goodwill on business combinations	-	-	-	-	-	(2,865)	(2,865)
Profit/(loss) from operations	**210,571**	**52,100**	**62,918**	**55,958**	**6,614**	**(45,946)**	**342,216**
Change in the fair value of financial instruments-							
Changes in fair value of financial instruments - Embedded derivative	-	(2,576)	-	-	-	-	(2,576)
Changes in fair value of financial instruments - Other	-	(3,638)	-	(1,611)	-	(13,583)	(18,832)
Finance income	-	-	1	-	-	38	39
Finance expenses	(172)	(11,037)	(1,969)	(561)	-	(36,579)	(50,318)
Profit/(loss) on disposal of financial instruments	-	-	-	-	-	64	64
Share of results of companies accounted for using the equity method	-	-	-	-	-	2,523	2,523
Profit/(loss) before tax	**210,399**	**34,849**	**60,950**	**53,786**	**6,614**	**(93,483)**	**273,116**
Corporation tax	(4,791)	(540)	(2,626)	(137)	-	(3,016)	(11,111)
Profit/(loss) for the year	**205,607**	**34,309**	**58,324**	**53,649**	**6,614**	**(96,499)**	**262,005**

At 30 June 2019	Thousands of euros Office Offices	 Net Lease	 Shopping Centres	 Unit	 Other	 Logistical Corporate	 Total Group
Investment property	6,465,463	1,744,910	2,273,682	1,197,064	437,858	-	12,118,977
Non-current financial assets-	18,879	116,885	97,014	4,990	11,035	193,302	442,104
Derivatives	-	*104,033*	-	-	-	-	104,033
Other financial assets	*18,879*	*12,852*	*10,943*	*4,990*	*11,035*	*279,823*	338,071
Deferred tax assets	-	-	-	-	-	87,752	87,752
Other non-current assets	4,642	-	5	12,220	899	430,853	448,620
Non-current assets	**6,488,984**	**1,861,795**	**2,284,180**	**1,214,274**	**449,792**	**798,427**	**13,097,453**
Trade receivables	9,101	445	8,843	7,135	2,874	7,250	35,648
Other current financial assets	1	1,310	134	133	-	109,415	110,994
Other current assets	51,664	75,526	62,029	27,724	-	695,636	912,578
Current assets	**60,766**	**77,281**	**71,006**	**34,993**	**2,874**	**812,301**	**1,059,220**
Total assets	**6,549,750**	**1,939,076**	**2,355,185**	**1,249,267**	**452,666**	**1,610,728**	**14,156,673**
Non-current bank borrowings and debenture issues	17,499	764,872	131,925	67,944	-	5,402,998	6,385,238
Other non-current liabilities	291,282	47,208	219,417	75,192	7,057	208,548	848,704
Non-current liabilities	**308,781**	**812,080**	**351,342**	**143,135**	**7,057**	**5,611,546**	**7,233,941**
Current liabilities	**33,400**	**4,095**	**20,823**	**15,319**	**2,971**	**143,578**	**220,185**
Total liabilities	**342,181**	**816,175**	**372,165**	**158,454**	**10,028**	**5,755,124**	**7,454,127**

At 31 December 2019	Office Offices	Net Lease	Shopping Centres	Unit	Other	Logistical Corporate	Total Group
	Thousands of euros						
Investment property	6,291,960	1,748,544	2,540,437	1,136,961	451,255	-	12,169,157
Non-current financial assets-	23,210	137,623	18,276	11,378	1,216	184,919	376,622
Derivatives	-	124,684	-	-	-	-	124,684
Other financial assets	23,210	12,939	18,276	11,378	1,216	184,919	251,938
Deferred tax assets	312	3,957	788	3,818	-	78,903	87,778
Other non-current assets	3,811	1	75	5,189	929	349,448	359,453
Non-current assets	**6,319,293**	**1,890,125**	**2,559,576**	**1,157,346**	**453,400**	**613,270**	**12,993,010**
Trade receivables	8,671	1,498	5,282	6,825	2,966	5,021	30,263
Other current financial assets	50	1,277	151	688	-	5,557	7,723
Other current assets	36,764	31,555	64,542	13,729	737	127,408	274,735
Current assets	**45,485**	**34,330**	**69,975**	**21,242**	**3,703**	**137,986**	**312,721**
Total assets	**6,364,778**	**1,924,455**	**2,629,551**	**1,178,588**	**457,103**	**751,256**	**13,305,731**
Non-current bank borrowings and debenture issues	18,348	757,792	131,745	66,715	-	4,566,602	5,541,202
Other non-current liabilities	347,848	46,903	242,553	75,446	7,483	121,593	841,826
Non-current liabilities	**366,196**	**804,695**	**374,298**	**142,161**	**7,483**	**4,688,195**	**6,383,028**
Current liabilities	**47,959**	**15,018**	**29,223**	**20,987**	**1,598**	**99,218**	**214,003**
Total liabilities	**414,155**	**819,713**	**403,521**	**163,148**	**9,081**	**4,787,413**	**6,597,031**

b) Geographical segment reporting

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

The following table provides a summary of ordinary revenues, investment property by geographical area as of 30 June 2020:

	Thousands of euros			
	Lease income	%	Investment property (a)	%
Madrid	107,205	49%	6,479,622	54%
Catalonia	43,590	20%	2,008,834	16%
Galicia	6,535	3%	383,794	3%
Basque Country	7,696	3%	385,365	3%
Andalusia	6,994	3%	366,261	3%
Valencia	8,372	4%	398,823	3%
Castilla y León	2,908	1%	120,225	1%
Rest of Spain	20,148	9%	1,028,062	8%
Portugal	17,729	8%	1,052,025	9%
Total	**221,177**	**100%**	**12,223,010**	**100%**

(a) It also includes the amount of the embedded derivative described in Note 8

At 31 December 2019

	Thousands of euros			
	Rental income	%	Investment property (a)	%
Madrid	237,038	46%	6,383,215	52%
Catalonia	93,153	18%	2,002,321	16%
Valencia	21,610	4%	410,596	3%
Galicia	20,649	4%	400,275	3%
Andalusia	22,246	5%	451,762	4%
Basque Country	18,530	4%	394,106	3%
Castilla-La Mancha	15,492	3%	448,482	4%
Rest of Spain	36,375	7%	756,671	6%
Portugal	46,433	9%	1,046,413	9%
Total	**511,526**	**100%**	**12,293,841**	**100%**

(a) It also includes the amount of the embedded derivative described in Note 8

c) Main customers

The table below lists the most important tenants as of 30 June 2020, and the primary characteristics of each of them:

Position	Name	Type	% of total rental income	% accumulated	Maturity
1	BBVA	Net Leases	16.0%	16.0%	2029-2040
2	Endesa	Offices	4.4%	20.4%	2020-2030
3	Inditex	Logistics and shopping centres	2.9%	23.3%	2020-2022
4	Técnicas Reunidas	Offices	2.2%	25.5%	2022
5	PWC	Offices	1.6%	27.1%	2022
6	Madrid	Offices	1.4%	28.5%	2020-2024
7	Caprabo	Net Leases	1.4%	29.9%	2026
8	Hotusa	Others (Hotel)	1.4%	31.3%	2023
9	Indra	Offices	1.4%	32.7%	2024
10	FNAC	Shopping centres	1.3%	34.0%	2022

5. Other intangible assets and property, plant and equipment

The changes in the “Other intangible assets” and “Property, plant and equipment” captions in the first six months of 2020 were due mainly to the additions corresponding to technical facilities and office equipment and to the depreciation for the year, which amounted to EUR 734 thousand and is recognised under "Depreciation and amortisation charge" in the accompanying condensed consolidated income statement.

6. Investment property

The changes recognised under this caption in the six-month period ended 30 June 2020 were as follows:

	Thousands of euros
Balances as of 01 January 2019	**11,740,461**
Additions due to business combinations	112,846
Additions for the year	230,758
Disposals	(269,880)
Changes in value of investment property	354,972
Balances as of 31 December 2019	**12,169,157**
Additions for the year	113,986
Disposals	(196,128)
Changes in value of investment property	31,962
Balances as of 30 June 2020	**12,118,977**

Investment property is recognised at fair value. Income recognised in the condensed consolidated income statement on measuring investment property at fair value total EUR 31,962 thousand.

Investment property mainly includes property assets in the office, net lease, shopping centre and logistics segments.

The main additions of assets during the first six months of 2020 corresponds to an office building in Barcelona in the amount of EUR 15 million.

Other additions for the year refer to the improvement and refurbishment carried out on certain assets owned by the Group, most notably Larios Shopping Centre in Málaga, El Saler Shopping Centre in Valencia and X Madrid, as well as the development of Monumental, Torre Glóries, Plaza Ruiz Picasso and Castellana 85 in the Office segment and certain logistics warehouses in Azuqueca, Lisbon, San Fernando de Henares and Seville.

The removals of the first semester 2020 mainly correspond to the contribution of three secondary shopping centres to Silicius Socimi (see Note 3).

As of 30 June 2020, the Group had pledged real estate assets totalling EUR 2,443,433 thousand to secure various loans and derivative financial instruments, the balances of which as of 30 June 2019 were EUR 965,310 thousand and EUR 111,197 thousand, respectively (see Note 10).

All properties included under “Investment property” were insured as of 30 June 2020.

As of 31 December 2019, the Group had firm purchase commitments for investment property amounting to EUR 53,952 thousand, which did not differ significantly as of 30 June 2020.

At 30 June 2020, the gross surface areas and occupancy rates of the assets by line of business were as follows:

	Square metres (*)										
	Gross leasable area										
2020	Comm. of Madrid	Catalonia	Comm. of Valencia	Galicia	Andalusia	Basque Country	Castilla-La Mancha	Rest of Spain	Portugal	Total	Occupancy rate (%)
Offices	850,253	228,395	-	-	15,078	-	-	4,488	95,680	1,193,894	90.9
Net Lease	56,639	108,150	26,799	16,286	27,159	23,102	8,354	84,196	-	350,685	100.0
Shopping centres	75,678	64,096	63,808	100,242	37,956	25,922	-	32,732	60,098	460,532	94.1
Logistics	308,271	148,210	61,604	-	124,725	99,491	396,698	42,343	-	1,181,339	96.8
Other	59,254	20,540	-	5,898	-	46	-	-	-	85,738	71.7
Total surface area	1,350,095	569,391	152,211	122,426	204,918	148,561	405,049	163,758	155,778	3,272,188	
% weight	41.3%	17.4%	4.7%	3.7%	6.3%	4.5%	12.4%	5.0%	4.8%	100.0%	

(*) Does not include land area or projects under development

Fair value measurement and sensitivity

All investment property leased or to be leased through operating leases are classified as investment property.

The Group adjusted the fair value of its real estate investments in accordance with IAS 40. This fair value is determined using the reference of the valuations made by independent third parties every six months so that, at the close of each six-month period, the fair value reflects the market conditions of the elements of the investment properties at that date.

The market value of the Group's investment property as of 30 June 2020, calculated on the basis of appraisals carried out by Savills Consultores Inmobiliarios, S.A., CBRE Valuation Advisory, S.A. and Jones Lang LaSalle, S.A. independent appraisers not related to the Group, amounted to EUR 12,175,627 thousand. This appraisal includes the value of the derivative implicit in the rent from the lease to BBVA for a sum of EUR 104,033 thousand, which is recorded under "other financial non-current assets" and does not include the sums related to advances that the Group paid to third parties to buy assets, or the usage rights recorded pursuant to IFRS 16 for sums of EUR 15,741 and 31,642 thousand respectively, which are recorded under investment properties on the attached balance sheet. The valuation was carried out in accordance with the Appraisal and Valuation Standards issued by the Royal Institute of Chartered Surveyors (RICS) of the United Kingdom and the International Valuation Standards (IVS) issued by the International Valuation Standards Committee (IVSC).

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

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

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

In any event, the situation of the rental property market and the possible effects of the current health crisis dragging on could lead to material differences between the fair value of the Group's investment property and their effective realisable values. Breakdowns of value and the sensitivity scenarios are provided below.

Breakdown of fair value of investment properties

As of 30 June 2020, the detail of assets measured at fair value by their level in the fair value hierarchy is as follows:

Fair value measurement	Thousands of euros As of 30 June 2020 Total	Level 1	Level 2	Level 3
Investment property				
Offices				
- Land	2,241,717			2,241,717
- Buildings	4,223,746			4,223,746
Net Lease				
- Land	383,690			383,690
- Buildings	1,361,221			1,361,221
Shopping centres				
- Land	472,718			472,718
- Buildings	1,800,964			1,800,964
Logistics				
- Land	246,629			246,629
- Buildings	950,435			950,435
Other				
- Land	206,458			206,458
- Buildings	231,400			231,400
Total assets measured at fair value	12,118,977			12,118,977

Fair value measurement	Thousands of euros As of 31 December 2019 Total	Level 1	Level 2	Level 3
Investment property				
Offices				
- Land	2,159,968			2,159,968
- Buildings	4,131,992			4,131,992
Net Lease				
- Land	389,223			389,223
- Buildings	1,359,321			1,359,321
Shopping centres				
- Land	584,853			584,853
- Buildings	1,955,584			1,955,584
Logistics				
- Land	292,042			292,042
- Buildings	844,919			844,919
Other				
- Land	212,622			212,622
- Buildings	238,633			238,633
Total assets measured at fair value	12,169,157			12,169,157

No assets were reclassified from one level to another during the period.

The main assumptions used to calculate the fair value of investment property were as follows:

As of 30 June 2020

	Exit yield	Discount rate
Offices	3.00% - 7.25%	4.75% - 11.00%
Net lease	5.00% - 7.00% (*)	6.75% - 8.75% (*)
Shopping centres	3.50% - 7.75%	5.75% - 10.75%
Logistics	4.75% - 7.25%	6.75% - 15.00%
Other	4.00% - 7.50%	4.00% - 15.50%

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

As of 31 December 2019

	Exit yield	Discount rate
Offices	3.00% - 7.25%	4.00% - 8.30%
Net Lease	5.00% - 7.00% (*)	6.75% - 8.75% (*)
Shopping centres	3.50% - 7.50%	5.75% - 10.50%
Logistics	4.75% - 7.45%	6.72% - 15.00%
Other	4.00% - 7.50%	4.00% - 16.00%

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

Rents: the amounts per square metre used in the valuation have ranged between 2.85 and 82.56 euros depending on the type of asset and location. The growth rates of the rents used in the projections are mainly based on the CPI, to which a differential may be applied.

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

	Thousands of euros					
	30.06.2020					
	Assets			Consolidated profit/(loss) before tax		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Increase in rate of return	(568,216)	(1,087,105)	(2,000,546)	(568,216)	(1,087,105)	(2,000,546)
Decrease in rate of return	624,926	1,315,498	2,939,812	624,926	1,315,498	2,939,812

	Thousands of euros					
	31.12.2019					
	Assets			Consolidated profit before tax		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Increase in rate of return	(566,873)	(1,084,859)	(1,997,460)	(566,873)	(1,084,859)	(1,997,460)
Decrease in rate of return	623,022	1,310,972	2,926,973	623,022	1,310,972	2,926,973

The effect of a 1%, 5% and 10% change in the rents considered has the following impact investment property in consolidated assets and in the consolidated income statement:

	Thousands of euros					
	30.06.2020					
	Assets			Consolidated profit before tax		
	1%	5%	10%	1%	5%	10%
Increase in rents	80,542	402,708	805,417	80,542	402,708	805,417
Decrease in rents	(80,542)	(402,708)	(805,417)	(80,542)	(402,708)	(805,417)

	Thousands of euros					
	31.12.2019					
	Assets			Consolidated profit before tax		
	1%	5%	10%	1%	5%	10%
Increase in rents	74,288	371,439	742,878	74,288	371,439	742,878
Decrease in rents	(74,288)	(371,439)	(742,878)	(74,288)	(371,439)	(742,878)

The effect of the quarter-and-a-half point change in the considered Exit Yield, in the assumption based on return calculated as the result of dividing the net operating income of the last year of the period analysed by the estimated exit yield, on investment property in the consolidated asset and in the consolidated income statement, would be as follows:

	Thousands of euros			
	30.06.2020			
	Assets		Consolidated profit before tax	
	0.25%	0.50%	0.25%	0.50%
Increase in exit yield	(374,704)	(715,098)	(374,704)	(715,098)
Decrease in exit yield	414,475	875,410	414,475	875,410

	Thousands of euros			
	31.12.2019			
	Assets		Consolidated profit before tax	
	0.25%	0.50%	0.25%	0.50%
Increase in exit yield	(320,321)	(612,931)	(320,321)	(612,931)
Decrease in exit yield	352,165	741,170	352,165	741,170

Accordingly, the impact on the consolidated income statement of the revaluations of the Group's property assets during the first six months of 2020, taking into consideration all headings affected in the consolidated income statement, is as follows:

	Thousands of euros	
	30-06-2020	30-06-2019
Changes in fair value of investment property	31,962	159,469
Changes in the fair value of derivatives	(18,907)	(2,576)
Effect on the income statement	**13,055**	**156,893**

7. Investments accounted for using the equity method

The movements in the balance of the "Investments accounted for using the equity method" heading came mainly from the acquisition of Silicius Real Estate, S.A. (see Note 3), which represented a EUR 91,021,000 increase related to the 17,19% stake. At 30 June, 2020, the consolidated net value of this shareholding amounts to EUR 77,165 thousand as a result of including the result attributable to the parent company once the accounting criteria relating to fair value has been standardised.

The remaining amount of the movements came from the results obtained from the investees in the first semester of 2020. The most significant stake was the 14,46% investment in the company Distrito Castellana Norte, S.A (DCN) with a consolidated net value of EUR 168,597 thousand.

In relation to the main investments accounted for using the equity method (DCN), the Group believes the values recorded on the books are reasonable because they do not differ significantly from the current values, in view of timeframe over the course of the development of the investment in DCN.

Appendix I to the Group's consolidated financial statements for 2019 includes a list of the main investments in associates, including the name, country of incorporation, activity and percentage of the shareholding, and there have been no significant changes in the main items of the Group's associates.

8. Current and non-current financial assets

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

Classification of financial assets by category:

	Thousands of euros	
	30-06-2020	31-12-2019
Non current:		
At fair value-		
Derivative embedded in BBVA lease agreement	104,033	124,684
Available-for-sale financial assets	99,719	17,540
At amortised cost-		
Equity instruments	1,832	1,174
Loans to third parties	167,675	163,630
Loans to associates	625	625
Deposits and guarantees	68,220	68,969
	442,104	**376,622**
Current:		
At amortised cost-		
Investments in associates	2,334	1,055
Other financial assets	108,659	6,668
Trade and other receivables	35,648	30,263
	146,641	**37,986**

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

Derivatives

"Derivatives" includes the value of the embedded derivative corresponding to the inflation multiplier included in the lease agreement with BBVA to revise rents annually (see Note 10 of the financial statements for the 2019 year). The negative variation in this derivative during the six-month period ended on 30 June 2020 was EUR 18,907 thousand, recognised under "Change in fair value of financial instruments" in the accompanying condensed consolidated income statement. The measurement approach used is described in Note 5.6 of the consolidated financial statements for the 2019 year and is applicable to level 2 of the fair value measurement hierarchy established in IFRS 7, as observable inputs but not quoted prices are reflected. The rest of the variation, for a sum of EUR 1,744 thousand, corresponds to the sum the Group collected as part of the sale of the BBVA branches sold in the first semester of 2020.

Below, an analysis is provided of the sensitivity of the variation in percentage points of the inflation curves and their effect of the affected assets and on the income statement:

At 30 June 2020

	Thousands of euros	
Scenario	Assets	Consolidated profit/(loss) before tax
+50 bp	26,800	26,800
-50 bp	(8,350)	(8,350)

At 31 December 2019

	Thousands of euros	
Scenario	Assets	Consolidated profit/(loss) before tax
+50 bp	39,943	39,943
-50 bp	(27,807)	(27,807)

Available-for-sale financial assets

The "Available-for-sale financial assets" caption includes the Group's investments in companies excluded from the scope of consolidation because they are less than 20% and do not have significant influence.

As of 30 June 2020, a holding in Aedas Homes, S.A. is included in the amount of EUR 13,198 thousand, equivalent to 817,727 shares (1.7%) of its share capital. The negative change in the fair value of this investment (hierarchical level 1) in the first half of 2020, amounting to EUR 4,342 thousand, is recognised under "Changes in the fair value of financial instruments" (market value as of 30 June 2020 is EUR 16.14 per share). This company is listed in the Madrid Stock Exchange.

This heading also includes the 17.19% stake in Silicius Real Estate, S.A. for a sum of EUR 86,521 thousand, which the Parent Company acquired in a contribution of assets in the first semester of 2020 (see Note 3). This company is not yet listed. In view of the absence of observable data, the Group has used the company's business plan as its best estimate of its fair value. At 30 June 2020, it is very likely that the Parent Company will exercise its option to sell at the purchase price of the transaction, and Management's analysis did not indicate signs of impairment in the investment.

Loans to third parties

This heading includes the loan provided to Juno Holdings 1, S.a.r.l. for EUR 70,000 thousand, which comes due in November 2021. The loan accrues an annual interest rate of 2% payable at maturity. At 30 June 2020, the outstanding amount was EUR 70,000 thousand in principal and EUR 825 thousand in interest.

This heading also includes the loan provided to Desarrollos Urbanísticos Udra, S.A.U. for a sum of EUR 86,397 thousand and that accrues market rate interest. At 30 June 2020, the outstanding amount was EUR 86,397 thousand in principal and EUR 1,171 thousand in interest.

Other financial assets

At 30 June 2020, this heading included the short-term deposit in dollars in a credit institution for a sum of EUR 100,000 thousand with a fixed term and that accrues market rate interest. The Parent Company has also taken out an exchange rate hedge for the deposit.

Classification of financial assets by maturity:

The classification of the main financial assets by maturity is as follows:

At 30 June 2020

	Thousands of euros				
	Less than 1 year	From 1 to 5 years	Over 5 years	Undetermined maturity	Total
Derivative embedded in BBVA lease agreement	-	-	104,033	-	104,033
Available-for-sale financial assets	-	99,719	-	-	99,719
Equity instruments	-	-	1,254	578	1,832
Loans to third parties and associates	-	69,949	87,625	10,726	168,300
Deposits and guarantees	-	-	-	68,220	68,220
Investments in associates	2,334	-	-	-	2,334
Other financial assets	108,659	-	-	-	108,659
Trade and other receivables	35,648	-	-	-	35,648
Total financial assets	**146,641**	**169,668**	**192,912**	**79,524**	**588,745**

At 31 December 2019

	Thousands of euros				
	Less than 1 year	From 1 to 5 years	Over 5 years	Undetermined maturity	Total
Derivative embedded in BBVA lease agreement	-	-	124,684	-	124,684
Available-for-sale financial assets	-	17,540	-	-	17,540
Equity instruments	-	-	-	1,174	1,174
Loans to third parties and associates	-	70,874	86,695	6,686	164,255
Deposits and guarantees	-	-	-	68,969	68,969
Investments in Group companies and associates	1,055	-	-	-	1,055
Other financial assets	6,668	-	-	-	6,668
Trade and other receivables	30,263	-	-	-	30,263
Total financial assets	**37,986**	**88,414**	**211,379**	**76,829**	**414,608**

9. Equity

9.1 Share capital

During the first six months of 2020, there were no changes in the share capital of the Parent Company.

As of 30 June 2020, the share capital of Merlin Properties SOCIMI, S.A., amounted to EUR 469,771 thousand, represented by 469,770,750 fully subscribed and paid shares of EUR 1 par value each, all of which are of the same class and confer the holders thereof the same rights.

All the Parent Company's shares can be publicly traded and are listed on the Madrid, Barcelona, Bilbao and Valencia and Lisbon Stock Exchanges. The market price of the Parent's shares as of 30 June 2020 and the average market price for the fourth quarter amounted to EUR 7.38 and EUR 7.67 per share, respectively.

As of 30 June 2020, and according to the public information of the Spanish Securities Market Commission (CNMV), the significant shareholders of Merlin Properties SOCIMI, S.A. with direct or indirect ownership interests exceeding 3% of share capital, are as follows:

	Shares			% of share capital
	Direct	Indirect	Total	
Banco Santander, S.A.	78,437,100	26,172,125	104.609.225	22.27%
Manuel Lao Hernandez	-	29,459,324	29,459,324	6.27%
BlackRock, INC	-	18,773,897	18,773,897	3.99%

9.2. Share premium

The Consolidated Text of the Spanish Limited Liability Companies Law expressly permits the use of the share premium to increase capital and establishes no specific restrictions as to its use.

This reserve is unrestricted so long as its allocation does not lower equity to below the amount of share capital of the Parent.

9.3. Reserves

The detail of reserves as of 30 June 2020 and 31 December 2019 is as follows:

	Thousands of euros	
	30-06-2020	31-12-2019
Legal reserve	65,133	47,193
Reserves of consolidated companies	2,385,540	2,001,298
Other reserves	53,446	45,784
Total other reserves	**2,504,119**	**2,094,275**

Legal reserve

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

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

At 30 June 2020, the Group had not yet reached the legally required minimum established in the Consolidated Text of the Spanish Limited Liability Companies Law.

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

Reserves of consolidated companies

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

	Thousands of euros	
	30-06-2020	31-12-2019
Merlin Properties SOCIMI, S.A.	856,586	768,328
Tree Inversiones Inmobiliarias, SOCIMI, S.A.	471,974	449,073
Merlin Retail, S.L.U.	127,179	121,401
Merlin Oficinas, S.L.U.	257,143	223,962
Merlin Logística, S.L.U.	300,892	211,033
Varitelia Distribuciones, S.L.	48,027	43,743
Metroparque, S.A.	73,981	70,317
La Vital Centro Comercial y de Ocio, S.L.	15,568	14,281
Global Carihuela, Patrimonio Comercial, S.A.	(234)	2,389
Sadorma 2003, S.L.	(5,243)	(5,386)
Parques Logísticos de la Zona Franca, S.A.	45,020	8,396
Sevisur Logística, S.A.	18,361	17,274
Innovación Colaborativa, S.A.	(4,114)	-
Desarrollo Urbano de Patraix, S.A.	232	238
Global Murex Iberia, S.L.	(30)	(12)
Exhibitions Company, S.A.U (formerly Testa Hoteles, S.A.U.)	(17)	(4)
Gescentesta, S.L.U.	629	480
Milos Asset Management, S.L.	(1)	-
Merlin Properties Monumental, S.A.	42,334	37,135
Merlin Properties Torre A, S.A.	13,865	9,838
Promosete Investimentos Imobiliarios, S.A.	14,841	8,911
Praça do Marqués-Serviços auxiliares, S.A.	19,980	8,101
Grupo Almada	15,828	(14,095)
Torre Dos Oceanos	12,627	3,057
MPCVI- Compra e venda Imobiliária, S.A.	13,932	9,665
MPEP-Properties Escritórios Portugal, S.A.	6,338	(31)
VFX Logística, S.A.	(2,078)	769
Torre Art, S.A.	13,445	-
Torre Fernao Magalhanes, S.A.	7,093	-
Reserves consolidated using the equity method		
Araba Logística, S.A.	(20,670)	(20,670)
Centro Intermodal de Logística, S.A.	33,397	25,989
Paseo Comercial Carlos III, S.A.	12,532	11,101
Other investments	(3,877)	(3,985)
	2,385,540	**2,001,298**

Dividends

On 17 June 2020, the General Shareholders Meeting approved the distribution of a dividend out of 2019 profit in the amount of EUR 68,518 thousand that was paid out on 8 July 2020 and recorded under the “Other current financial liabilities” heading of the attached consolidated condensed balance sheet.

On that same date, the General Shareholders Meeting also authorised an additional payment of the share premium for a sum of EUR 0.173 per share, payable in cash, and it delegated the Board of Directors to make the payment, granting it the power to decide on the execution, amount and date of the payment, once it has analysed the impact of COVID-19 on the evolution of the business. The Board has yet to authorise the payment of the distribution.

9.4 Treasury shares

At 30 June 2020, the Parent held treasury shares amounting to EUR 55,687 thousand.

The changes in the first six months of 2020 were as follows:

	Number of shares	Thousands of Euros
Balance as of 1 January 2019	**6,150,000**	**68,322**
Additions	52,776	633
Disposals	(1,125,407)	(12,095)
Balance as of 31 December 2019	**5,077,369**	**56,860**
Additions	25,966	277
Disposals	(129,474)	(1,450)
Balance as of 30 June 2020	**4,973,861**	**55,687**

On 27 April 2017, the shareholders authorised the Board of Directors to acquire shares of the Parent Company. The General Shareholders Meeting held on 7 May 2018 revoked the authorisation granted by the General Meeting of 26 April 2017 in the part not used and then authorised the acquisition of shares by the Parent Company or by a Group company, pursuant to section 146 and related provisions of the Spanish Corporate Enterprises Act, in accordance with the requirements and restrictions established in prevailing legislation during the five-year period. The authorisation includes the acquisition of shares that, where applicable, must be handed over directly to employees or directors of the Parent or of Group companies as a result of the purchase option they hold or for the settlement and payment of share-based incentive plans of which they are beneficiaries.

The share buybacks, for a sum of EUR 1,243 thousand (at an average cost of EUR 11.20 per share) correspond to shares paid to employees as part of the flexible remuneration plan. There were also EUR 207 thousand in sales in the first semester of 2020 (at an average cost of EUR 11.20 per share).

9.5 Earnings per share

Details of the calculation of earnings per share are as follows:

Basic

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

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

	30-06-2020	30-06-2019
Profit for the year attributable to holders of equity instruments net of the Parent Company (thousand euros)	70,944	262,005
Weighted average number of shares outstanding (thousands)	464,749	464,216
Basic earnings per share (euros)	**0.15**	**0.56**

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

	Number of shares	
	30-06-2020	30-06-2019
Ordinary shares at beginning of period	469,770,750	469,770,750
Treasury shares	(4,973,861)	(5,077,465)
Average effect of outstanding shares	(47,993)	(477,673)
Weighted average number of ordinary shares outstanding as of 30 June (shares)	**464,748,896**	**464,215,612**

Diluted

As indicated in Note 15, the Group has granted its executives a variable remuneration plan payable in shares on condition that the shareholder return rate during the 3-year period ending in 2019 reaches a certain level. The amount of this variable remuneration amounts to a maximum of EUR 75 million, which will be paid with a variable number of shares, limited to a maximum of 6 million. At 31 December 2019 (the end of the measurement period) and considering the final share reference price (i.e., the average closing share price for the Company in the 90 trading sessions before 31 December 2019) 5,874,111 shares were allocated.

Taking into account the characteristics of the plan (detailed in Note 20 to the 2019 consolidated financial statements) and the fulfilment of its conditions, at 30 June 2020 the plan would have a dilutive effect on earnings per share.

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

The potential ordinary shares of the variable remuneration plan, as stated in paragraph 46 of IAS 33, have been determined as if the plan consisted of a contract to issue a certain number of ordinary shares at their average market price during the period, which will not have dilutive effect, and a contract to issue the remaining ordinary shares for free.

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

	30/06/2020		
	Thousands of euros	Thousands of shares	Earnings per share
Profit for the year attributable to holders of equity instruments net of the Parent Company (thousand euros)	70,944		
Weighted average number of shares outstanding (thousands)	-	464,749	0.15
Weighted average number of potential ordinary shares to be delivered under the variable remuneration plan.	-	5,874	
Weighted average number of potential ordinary shares not provisioned at market price	-	(1,417)	
Basic earnings per share (euros)	**70,944**	**469,206**	**0.15**

9.6 Valuation adjustments

This heading of the consolidated statement of financial position includes changes in the value of financial derivatives designated as cash flow hedges.

10. Current and non-current financial liabilities

Details of payables with credit entities and debentures issued are as follows (in thousands of euros):

	Thousands of euros	
	30-06-2020	31-12-2019
Non current:		
Measured at amortised cost		
Syndicated loan	850,000	850,000
Syndicated loan arrangement expenses	(12,716)	(17,382)
Total syndicated loan	**837,284**	**832,618**
Senior syndicated mortgage loan (Tree)	674,536	692,520
Syndicated mortgage loan arrangement costs (Tree)	(54,872)	(57,486)
Total senior syndicated mortgage loan (Tree)	**619,664**	**635,034**
Revolving credit facility	700,000	-
Non-mortgage loan	23,400	-
Mortgage loans	257,395	260,093
Loan arrangement expenses	(7,874)	(5,652)
Total other loans	**972,921**	**254,441**
Debentures and bonds	3,850,000	3,750,000
Debenture issue expenses	(22,312)	(26,586)
Total debentures and bonds	**3,827,688**	**3,723,414**
Total amortised cost	**6,257,557**	**5,445,507**
Measured at fair value		
Derivative financial instruments	127,681	95,695
Total at fair value	127,681	95,695
Total non-current	**6,385,238**	**5,541,202**
Current:		
Measured at amortised cost		
Syndicated loans	1,251	2,501
Senior syndicated mortgage loan (Tree)	9,093	9,335
Debentures and bonds	27,911	34,631
Mortgage loans	5,808	5,100
Non-mortgage loan	52	-
Revolving credit facility	155	161
Loan arrangement expenses	-	(2)
Total amortised cost	**44,270**	**51,726**
Measured at fair value		
Derivative financial instruments	1,114	1,231
Total at fair value	**1,114**	**1,231**
Total current	**45,384**	**52,957**

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

On 20 April 2016, the Parent Company was given a credit rating of “BBB” with stable outlook by Standard & Poor’s Rating Credit Market Services Europe Limited. On 2 May 2018, Standard & Poor's updated this rating to “BBB” with a positive outlook, changing it to stable outlook due to the COVID-19 pandemic on 27 March 2020.

Additionally, on 17 October 2016, the Company was given a credit rating of investment grade “Baa2” by Moody’s. On 27 May 2020, Moody's updated this rating to “Baa2” with a negative outlook due to the COVID-19 pandemic.

10.1 Loans and credits

The details of the bank borrowings matured as of 30 June 2020 and 31 December 2019 are as follows:

	Thousands of euros				
	Bank borrowings				
	Limit	Debt arrangement expenses	30.06.2020		Short-term interest
			Long term	Short term	
Syndicated loans	881,000	(12,716)	850,000	635	616
Revolving credit facilities	700,000	(2,677)	700,000	-	155
Senior syndicated mortgage loan (Tree)	716,894	(54,872)	674,536	8,498	595
Other mortgage loans - other assets	268,000	(5,148)	257,395	4,687	1,121
Non-mortgage loan	115,000	(49)	23,400	-	52
Total	**2,680,894**	**(75,462)**	**2,505,331**	**13,820**	**2,539**

	Thousands of euros				
	Bank borrowings				
	Limit	Debt arrangement expenses	31.12.2019		Short-term interest
			Long term	Short term	
Syndicated loans	881,000	(17,384)	850,000	1,905	596
Revolving credit facility	700,000	-	-	-	161
Senior syndicated mortgage loan (Tree)	716,894	(57,486)	692,520	8,725	610
Other mortgage loans - other assets	268,000	(5,652)	260,093	3,974	1,126
Non-mortgage loan	115,000	-	-	-	-
Total	**2,680,894**	**(80,522)**	**1,802,613**	**14,604**	**2,493**

Certain financing arrangements include commitments to maintain certain coverage ratios, which are standard in these types of real estate companies, such as the loan-to-value ratio, the ratio of the company's income used to service the debt (interest coverage ratio, ICR), or the ratio of mortgage-free assets and non-mortgage debt. The Parent's directors have confirmed that these ratios were met at 30 June 2020 and do not expect that they will not be fulfilled in the coming years.

The main variations in the first half of 2020 are as follows:

Syndicated loan and revolving credit facility of the Parent

On 25 April 2019, the Group arranged a senior syndicated loan amounting to EUR 1,550 million, including two tranches, a corporate loan of EUR 850 million and a corporate credit facility of EUR 700 million.

On 20 March 2020, the Group drew down EUR 700 million from its corporate credit facility to optimise and strengthen its financial position in view of the uncertainty generated by COVID-19.

The initial maturity date for this facility was 2024, with the possibility of two optional one-year extensions. The first one-year extension was approved on 2 July 2020, and the new maturity date is 9 May 2025. This financial arrangement accrues an interest rate of EURIBOR at one month + 90 basis points; it includes a cost adjustment mechanism based on four sustainability criteria.

On 17 July 2020 the Group repaid the full amount drawn down from its credit facility (see Note 16).

Meanwhile, the senior loan associated with its participation in Tree has not undergone significant changes, with its variation mainly corresponding to certain divestments from affected assets.

Non-mortgage loan of the Parent

On 10 March 2020, the Group drew down EUR 23,400 thousand from the first tranche of its non-mortgage loan from the European Investment Bank.

This loan accruals a fixed interest rate of 60 basis points and it matures in 2030.

10.2 Debenture issues

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

On 18 May 2018, the Parent Company extended that bond-issue scheme (Euro Medium Term Notes – EMTN) up to an amount of EUR 5,000 million. This programme was renewed on 22 May 2020.

On 7 February, the Parent issued a 15-year cap of EUR 100 million at 102% of the par value and a coupon of 1.875%, in addition to the EUR 500 million of the same bond issued in the 3Q19.

On June 17, 2020, the General Shareholders' Meeting approved the extension of this bond issuance program up to an amount of EUR 6 billion.

The detail at 30 June 2020 of the bonds issued by Parent is as follows:

Maturity	Face value (Millions of Euros)	Coupon	Listed price	Return	Market
May 2022	700	2.375%	MS + 180 bp	1.539%	Ireland (a)
April 2023	850	2.225%	MS + 221 bp	1.852%	Luxembourg
May 2025	600	1.750%	MS + 226 bp	1.911%	Luxembourg
November 2026	800	1.875%	MS + 257 bp	2.256%	Luxembourg
September 2029	300	2.375%	MS + 270 bp	2.491%	Luxembourg
December 2034	600	1.875%	MS + 264 bp	2.625%	Luxembourg
	3,850	**2.063%**			

(a) Due to the business combination with Metrovacesa carried out in 2016, the Group recognised a bond issue launched by Metrovacesa for EUR 700 million. The terms and conditions of the bonds abide by UK laws and are traded on the Irish Stock Exchange. This issue also includes a series of compliance obligations and guarantees, which is common in these types of transactions. At the close of the first six-month period of 2020, the Group complied with the covenants set forth in this contract and the directors consider that they will be met in 2020.

The bond issue has the same guarantees and ratio compliance obligations as the syndicated loan and the revolving credit facilities, and as the non-mortgage loan from the European Investment Bank.

The Parent's Directors have confirmed that these ratios were met at 30 June 2020 and do not expect that they will not be fulfilled in the coming years.

10.3 Derivatives

The detail of the financial instruments as of 30 June 2020 is as follows:

	Thousands of euros	
	30-06-2020	31-12-2019
Non-current		
Interest rate derivatives	127,681	95,695
Total non-current	**127,681**	**95,695**
Current		
Interest rate derivatives	1,114	1,231
Total current	**1,114**	**1,231**

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

These financial instruments are classified as Level 2 as per IFRS 7.

The detail of the derivative financial instruments (liability), without including short-term interests, included in the consolidated statement of financial position as of 30 June 2020, and its hedged notional value, is as follows:

Interest Rate	Interest Contracted	Thousands of euros					
		Value Value	Outstanding notional at each close of the year				
			2020	2021	2022	2023	Years Subsequent
Synd. Parent Comp. (ended (2021)	0.0981% - (0.12%)	(4,188)	840,000	-	-	-	-
Synd. Parent Comp. (start 2021)	0.0154%	(13,165)	-	850,000	850,000	850,000	850,000
Tree Inversiones (ended 2024)	0.959%	(41,161)	698,213	688,405	677,196	665,987	-
Tree Inversiones (start 2024)	1.693%	(66,287)	-	-	-	-	660,029
Other subsidiaries	2.085% - 0.25%	(2,880)	67,900	67,900	67,900	67,900	67,900
		(127,681)	**1,606,113**	**1,606,305**	**1,595,096**	**1,583,887**	**1,577,929**

The Group has opted for hedge accounting by appropriately designating the Hedging Relationships in which these derivative instruments are hedging instruments for the financing used.

The impact on liabilities and profit before tax of a 50 basis point fluctuation in the estimated credit risk rate would be as follows:

Scenario	Thousands of euros		
	Liabilities	Equity	Consolidated profit/(loss) before tax
5% rise in credit risk rate	(61,432)	37,334	24,098
5% reduction in credit risk rate	66,317	(20,838)	(45,479)

10.4. Maturity of bank borrowings

The detail of the bank borrowings, by maturity, as of 30 June 2020 is as follows:

	Thousands of euros			
	Debt Syndicated / Credit facility	Syndicated mortgage loan (Tree)	Mortgage loans	Total
2020	635	4,262	1,990	6,887
2021	-	8,445	5,401	13,846
2022	-	9,998	5,914	15,912
2023	-	9,849	6,418	16,267
2024	1,550,000	9,702	6,921	1,566,623
Over 5 years	23,400	640,777	235,439	899,616
	1,574,035	**683,033**	**262,083**	**2,519,151**

10.5 Debt arrangement expenses

Changes in debt arrangement expenses during the first half of 2020 are as follows:

	Thousands of euros				
	31/12/2019	Allocation to profit and loss account – Amortised cost	Impact income statement IFRS 9	Capitalisations of arrangement expenses	30/06/2020
Syndicated loans	14,361	(752)	(893)	-	12,716
Non-mortgage loan	-	(2)	-	51	49
Senior syndicated loan (Tree)	57,486	(1,054)	(2,599)	1,039	54,872
Mortgage loans - other assets	5,652	(323)	(181)	-	5,148
Debentures and bonds	26,586	(2,263)	-	(2,011)	22,312
Revolving credit facility	3,023	(346)	-	-	2,677
	107,108	**(4,741)**	**(3,673)**	**(921)**	**97,774**

11. Other current and non-current liabilities

The details of this heading as of 30 June 2020 are as follows:

	Thousands of euros			
	30-06-2020		31-12-2019	
	Non-current	Current	Non-current	Current
Leases (Note 15)	34,061	-	33,708	778
Guarantees and deposits received	89,761	852	92,257	646
Borrowings from Group companies and associates	6,750	1,776	-	-
Deferred tax liabilities	686,111	-	687,654	-
Other payables	32,021	73,974	28,207	5,930
Other current liabilities	-	22,446	-	7,847
Total	**848,704**	**99,048**	**841,826**	**15,201**

"Guarantees and deposits received" primarily comprise the amounts deposited by lessees to secure leases, which will be reimbursed at the end of the lease term.

The Parent and the majority of its subsidiaries adhere to the SOCIMI regime. Under this regime, gains from the sale of assets are taxed at a rate 0%, provided that certain requirements are met (basically, the assets must have been held by the SOCIMI for at least three years). Any gains from the sale of assets acquired prior to joining the SOCIMI tax regime, and those belonging to companies which are not included in that regime, will be distributed on a straight-line basis (unless proven to be distributed otherwise) over the period during which the SOCIMI owned them. Any gains generated prior to joining the SOCIMI tax regime will be taxed at the general rate, while a rate of 0% will be applied for the other years. In this regard, the Parent's directors estimated the tax rate applicable to the tax gain on the assets acquired prior to their inclusion to the SOCIMI regime (calculated in accordance with the fair value of the assets obtained from expert appraisals at the date of the business combination and as of 30 June 2020), recognising the related deferred tax liability.

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

The "Other current debts" heading includes the EUR 68,518 thousand dividend that the General Shareholders Meeting approved on 17 June 2020.

12. Trade and other payables

The details of this heading were as follows:

	Thousands of euros	
	30-06-2020	31-12-2019
Current		
Payables to suppliers	41,614	69,400
Payables to suppliers - Group companies and associates	172	-
Sundry accounts payable	19,718	13,598
Remuneration payable	2,878	51,922
Current tax liabilities	4,669	1,113
Other accounts payable to public authorities	6,583	9,747
Advances from customers	118	65
Total	**75,752**	**145,845**

The decrease in the "Remuneration payable" heading comes from payment of the incentive benchmarked to the value of the price of the 2017-19 Incentives Plan for a sum of EUR 37,500 thousand (see Note 15).

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

13. Revenue and expenses

a) Revenues

Details of ordinary revenues are provided in Note 4 alongside the segment information.

b) Other operating expenses

The breakdown of this item of the consolidated income statement is as follows:

	Thousands of euros	
	30-06-2020	30-06-2019
Non-recoverable expenses of leased properties	21,466	24,541
Overheads		
Independent professional services	3,696	2,935
Travel expenses	230	378
Insurance	166	85
Other	1,993	932
Costs associated with asset acquisitions and financing	1,544	1,374
Losses on, impairment of and change in provisions	1,041	247
Other expenses	2,197	344
Total	**32,333**	**30,836**

c) Employee benefits expense and average headcount

The breakdown of employee benefits expense is as follows:

	Thousands of euros	
	30-06-2020	30-06-2019
Wages, salaries and similar expenses	9,695	14,518
Compensation	-	152
Social security costs	1,250	1,235
Other employee benefit costs	291	226
Long-term incentive plan	10,103	22,121
Total	**21,339**	**38,252**

The decrease in the “Personnel costs” heading comes from the effect of the management team loyalty plans, one of which ended in 2019, and from the reduction in the bonuses paid to the management team and other executives in relation to the COVID-19 assistance measures (see Note 2.10).

The average number of employees at the various Group companies in the six-month period ended 30 June 2020 was 221 (184 during the same period in 2019).

14. Related party transactions

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

The detail of any significant transactions, given their amount or importance, carried out between the Parent or its Group companies, and related parties, is as follows:

Related party	Type of the relationship	Thousands of euros Revenue	Expense	Assets	Liabilities
Banco Santander, S.A.	Financing	-	2,402	-	255,592
Banco Santander, S.A.	Cash	-	-	163,250	-
Banco Santander, S.A.	Notional derivatives	-	-	-	465,263 (*)
Banco Santander, S.A.	Lease	935	51	-	1,065
Banco Santander, S.A.	Services	-	17	-	-
G36 Development, S.L.	Financing	3	-	625	-
Total		**938**	**2,470**	**163,875**	**721,920**

(*) This amount does not represent the recognition of a liability as of 30.06.2020.

Transactions executed with significant shareholders

During the first six months of 2020, only the shareholder Banco Santander, S.A. held the status of significant shareholder pursuant to the regulations in force.

(a) Financing transactions

- As of 30 June 2020, the Group has been granted loans from its shareholder Banco Santander, S.A. amounting to EUR 255,592 thousand. The notional amount of the derivatives in force contracted totals EUR 465,263 thousand. The amount of the financing arrangement described above includes the position of Banco de Santander, S.A. in the syndicated loan and revolving credit facility for the year (see Note 10).

- The Group has bank balances deposited with Banco Santander, S.A. amounting to EUR 163,250 thousand (including EUR 3 thousand in the accounts in the name of the associated company Paseo Comercial Carlos III, S.A.).

- During the first half of 2020, the finance costs incurred in transactions with Santander, S.A. amounted to EUR 2,402 thousand, which included EUR 31 thousand in guarantee fees and EUR 74 thousand in current account management costs.

- The Group has been granted guarantees by the shareholder Banco Santander, S.A. amounting to EUR 6,577 thousand (EUR 5,061 thousand granted to MERLIN Properties SOCIMI, S.A. and EUR 1,516 thousand granted to the associate Paseo Comercial Carlos III, S.A.).

(b) Provision of services.

- During the first semester of 2020, the Group continued to lease six properties to Banco Santander S.A. The duration of the lease contracts covers a period of between one and six years, and during the first half of 2020 they generated income of 935 thousand euros, including income from leasing, as well as parking spaces and transfers of ATM space in shopping centres. The guarantees deposited to secure these agreements amounted to EUR 1,065 thousand. EUR 51 thousand in property management expenses were also regularised.

- Additionally, the Group has contracted the General Shareholders Meeting organisation services and the shareholder register service in the amount of EUR 17 thousand.

Transactions with companies accounted for using the equity method

(c) G36 Development, S.L.

- The Parent has a loan outstanding amounting to EUR 625 thousand, granted on 1 October 2018 to the associate G36 Developments, S.L., which holds an asset that will be used for the management of flexible office spaces.

Dividends and other profits distributed to related parties

In its meeting of 17 June 2020, the Company's General Meeting resolved to pay out EUR 68,518 thousand in ordinary dividends, with the payment date set for 8 July 2020.

The date that General Meeting set for determining the registered shareholders entitled to the ordinary dividend (the record date) was 26 June 2020, when the dividends due to the shareholders on that date were determined.

Dividends paid	**2020**	**2019**
Significant shareholders	**16,999**	**31,648**
Banco Santander, S. A.	16,999	31,648
Directors and Executives	**696**	**1,307**
Directors	439	806
Executives	256	501
Total	**17,695**	**32,955**

15. Stakes held by directors and their affiliates in other companies

The Parent's directors and the parties related thereto did not have any conflicts of interest that had to be reported in accordance with article 229 of the revised text of the Spanish Capital Companies Act.

Directors' compensation and other benefits

As of 30 June 2020, the amount of salaries, per diem attendance fees and compensation of any kind earned by members of the Parent's governing bodies totalled EUR 1,617 thousand (EUR 1,468 thousand as of 30 June 2019), respectively, as detailed below:

	Thousands of euros	
	30-06-2020	30-06-2019
Fixed and variable remuneration	1,612	1,463
Statutory compensation	-	-
Compensation	-	-
Per diem allowances	-	-
Life and health insurance	5	5
Total	**1,617**	**1,468**

In addition to the sums above, the Executive Directors were paid a total of EUR 1,815 thousand in relation to the variable objectives for 2019, and to the deferred sums for 2014 and 2017, in accordance with the conditions of those plans. At 30 June 2020, there was still EUR 6,277 thousand pending payment associated with the bonus objectives for 2015-19 and that is recorded as long-term provisions.

Also, as indicated in Note 20 of the 2019 consolidated annual financial statements, as members of the management team, the Executive Directors are entitled to payment of a remuneration plan granted to the management team in 2017 for the 2017-19 period, which will be described below. Under that plan, the Executive Directors have been paid EUR 12,500 thousand based on compliance with the incentive linked to increasing the Company's share price.

The Ordinary General Shareholders Meeting of 17 June 2020 approved the appointment of Maria Ana Forner Beltrán and Ignacio Gil Casares Satrustegui as proprietary directors. The Board of Directors thus consisted of 14 members on 30 June 2020.

The breakdown, by board member, of the amounts disclosed above paid for salary and bonuses, is as follows:

Board member	Type	Thousands of euros 30-06-2020	30-06-2019
Remuneration of board members			
Javier García Carranza Benjumea	Chairman - Proprietary director	-	-
Ismael Clemente Orrego	CEO	500	500
Miguel Ollero Barrera	Executive director	500	500
Maria Luisa Jordá Castro	Independent director	82	62
Ana García Fau	Independent director	80	62
Fernando Ortiz Vaamonde	Independent director	71	58
John Gómez Hall	Independent director	62	50
George Donald Johnston	Independent director	74	57
Juan María Aguirre Gonzalo	Independent director	84	64
Pilar Cavero Mestre	Independent director	74	57
Francisca Ortega Hernández Agero	Proprietary director	-	-
Emilio Novela Berlín	Independent director	72	53
Maria Ana Forner Beltrán	Proprietary director	7	-
Ignacio Gil Casares Satrustegui	Proprietary director	6	-
Total		**1,612**	**1,463**

In its meeting of 8 April 2020, the Board of Directors decided to reduce its remuneration by 25%, and it agreed with the CEO, the General Corporate Director and the management team to renounce to all of their remuneration and incentives plans for 2020 (see Note 2.10). The Parent has not paid out advances or provided credits and guarantees to the members of the Board.

The Parent's directors are covered by the "Corporate Third-Party Liability Insurance Policies for Directors and Executives" taken out by the Parent in order to cover possible damages that may be claimed, and that are evidenced as a result of a management error committed by its directors or executives, as well as those of its subsidiaries, in discharging their duties. The premium amounted to an annual total of EUR 279 thousand (EUR 122 thousand in 2019).

Remuneration and other benefits of senior executives

The remuneration of the Parent's senior executives, including the Head of Internal Audit, excluding those who are simultaneously members of the Board of Directors (whose remuneration is disclosed above), in the first six months ended on 30 June 2020, is summarised as follows:

Thousands of euros			
Number of People	Fixed and variable remuneration	Other remuneration	Total
6	1,051	14	1,065

At 30 June 2019

Thousands of euros			
Number of People	Fixed and variable remuneration	Other remuneration	Total
6	1,051	15	1,066

In addition to the amounts above, EUR 1,904 thousand of variable remuneration was paid in the first half of 2020 to the Senior Management as bonuses from previous years. As of 30 June 2020, the amount of variable remuneration paid over the long-term amounts to EUR 6,605 thousand, and is recognised under "Long-term provisions" in the accompanying balance sheet

Under that incentives plan, Senior Management have been paid EUR 10,063 thousand based on compliance with the incentive linked to increasing the Company's share price.

In regards to the "golden parachute" clauses for executive directors and other senior executives of the Company or its Group in the event of dismissal or takeover, these clauses provide for compensation that represented a total commitment of EUR 14.500 thousand as of 30 June 2020.

The main characteristics of the current incentives plans are described below:

2017-19 incentives plan

As indicated in note 20 of the 2019 consolidated annual financial statements, at the General Shareholders Meeting held on 26 April 2017, the shareholders approved a new remuneration plan for the management team and other important members of the Group's workforce, the measurement period of which is from 1 January 2017 to 31 December 2019 ("2017-19 Incentive Plan"). According to the plan, the members of the management team may be entitled to receive: (i) a certain monetary amount in accordance with the increase of the share price and (ii) Parent Company shares, if certain objectives are fulfilled.

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

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

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

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

TSR NAV rate / TSR rate Share price	Percentage assigned to beneficiaries ("PR")	Percentage assigned to shareholders
< 24%	0%	100%
≥ 24% and < 36%	6%	94%
≥ 36%	9%	91%

To calculate the TSR, (i) the percentage assigned to the Beneficiaries in accordance with the above table will be applied to the result of multiplying the Share Price TSR or the NAV TSR multiplied by the number of Shares of the Company as of 31 December 2019; (ii) the result of that transaction will be balanced through an adjustment mechanism in favour of the Beneficiaries, as, once a minimum return is reached, the Beneficiaries will be entitled to the assigned percentage of the total return generated from the start.

The date for calculating the amount of the incentive tied to the NAV per share and the amount of the incentive tied to the quoted price of the shares was 31 December 2019. The maximum amount to be received for the incentive tied to the quoted price from 2017 to 2019 amounted to EUR 37.5 million, which was paid out in March 2020. As of 30 June 2020, the Company recognised the expense in the amount of EUR 1,974 thousand, corresponding to the vested portion of the 2017-19 Incentive Plan, with a balancing entry under liabilities.

Also, the maximum amount of the incentive tied to EPRA NAV per share will be EUR 75 million and a maximum of 6,000,000 shares have been allocated for its payment. At 31 December 2019, there were 5,874,111 shares that were ultimately allocated to the incentive benchmarked to the EPRA NAV. Lastly, if the value of the maximum number of shares allocated to the plan were below the aforementioned incentive tied to the EPRA NAV, the difference would be paid in cash. 50% of the allocated shares will be paid out on the second settlement date, i.e., on the second business day after the formulation of the 2020 annual financial statements. The remaining 50% of the allocated shares will be paid out on the third settlement date, i.e., on the second business day after the formulation of the 2021 annual financial statements. However, these amounts may be modified based on how the EPRA NAV evolves in the future.

In this regard, as of 30 June 2020, the Company recognised the expense in the amount of EUR 8,129 thousand, corresponding to the vested portion of the 2017-2019 Incentive Plan, with a balancing entry in reserves.

16. Subsequent events

On July 8th, MERLIN distributed a final 2019 dividend to shareholders of € 68.518m.

In July, MERLIN issued a € 500m 7-year bond at a 2.375% coupon. Part of the proceeds were used to repurchase € 151.7m of the bonds expiring in 2022 and € 107.2m of the bonds expiring in 2023. The balance (€ 241.1m) will be used to early repay mortgage loans expiring in 2025. As a result of this debt management initiative, the average maturity will be extended from 6.0 years to 6.5 years, while maintaining the same average cost of debt, bearing no floating rate risk now.

On July 17th, MERLIN repaid in full the € 700m RCF once the sanitary situation stabilized.

17. Explanation added for translation to English

These interim condensed consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2.1). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.