Merlin Properties SOCIMI, S.A.

Financial Statements for
the year ended
31 December 2021 and
Directors' Report, together with
Independent Auditor's Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails (see Notes 2 and 25).

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Opinion

We have audited the financial statements of Merlin Properties SOCIMI, S.A. (the Company), which comprise the balance sheet as at 31 December 2021, and the statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2021, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company (identified in Note 2.1 to the financial statements) and, in particular, with the accounting principles and rules contained therein.

Basis for Opinion

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

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

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

Key Audit Matters

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

Compliance with the REIT tax regime	
Description	**Procedures applied in the audit**
On 22 May 2014, the Company applied to be included in the REIT (Spanish "SOCIMI") tax regime, which was applicable from 1 January 2014. Therefore, in 2021 the Company was regulated by Spanish Real Estate Investment Trusts (SOCIMI) Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December. One of the main characteristics of companies of this nature is that they are subject to an income tax rate of 0%. The applicability of the REIT tax regime is conditional upon compliance with certain requirements in relation, inter alia, to company name and object, minimum share capital, the obligation to distribute the profit of each year in the form of dividends and the trading of the entity's shares on a regulated market, as well as other requirements such as the investments made and the nature of the income earned each year, predominantly, which requires significant judgements and estimates to be made by the directors, since failure to comply with any of these requirements will lead to the loss of entitlement to the special tax regime unless the cause of the non-compliance is rectified the following year. Therefore, compliance with the REIT tax regime requirements is a key matter in our audit, to the extent that the related tax exemption has a significant impact on both the financial statements and shareholder returns, since the business model of the Company is based on continuing to qualify for taxation under the REIT regime.	Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with compliance with the REIT tax regime, as well as tests to verify that the aforementioned controls operate effectively. We obtained and reviewed the documentation prepared by the Company's directors on compliance with the obligations associated with this special tax regime, and we involved our internal experts from the tax area, who assisted us in analysing both the reasonableness of the information obtained and the completeness thereof in relation to all the matters provided for in the legislation in force at the analysis date. Lastly, we verified that Notes 1, 16 and 22 to the financial statements contained the disclosures relating to compliance with the conditions required by the REIT tax regime and other matters associated with the taxation of the Company.

Valuation of investment property and of non-current investments in Group companies and associates	
Description	**Procedures applied in the audit**
The Company manages, both directly and indirectly through its ownership interests in Group companies and associates, a portfolio of urban property assets earmarked for lease (offices, shopping centres, logistics parks, etc.) located mainly in Spain and Portugal. The Company measures these assets at acquisition cost, recognising the necessary impairment losses if the fair value of the assets is lower. At 31 December 2021, the total carrying amounts of the portfolio of property assets and the ownership interests in Group companies and associates that also engage in real estate activities were EUR 4,455 million and EUR 3,165 million, respectively. The Company periodically uses third parties independent of it as experts to determine the fair value of its property assets, both those it manages directly and those managed through the Group companies and associates in which it has ownership interests. The aforementioned experts have substantial experience in the markets in which the Company operates and employ valuation methodologies and standards widely used in the market. The valuation of the property asset portfolio is a key audit matter, since it requires the use of estimates with a significant degree of uncertainty.	Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the valuation of investment property and investments in Group companies and associates, as well as tests to verify that the aforementioned controls operate effectively. In particular, we tested those controls used by the directors to supervise and approve the engagement of and the work performed by the experts engaged for this purpose, and to ensure that no influence is exercised over the findings and conclusions of the work of those experts. We obtained the valuation reports of the experts engaged by the entity to value the entire property asset portfolio and evaluated the competence, capability and objectivity of the experts and the adequacy of their work for use as audit evidence. In this connection, with the assistance of our internal valuation experts, we: • analysed and concluded on the reasonableness of the valuation procedures and methodology used by the experts engaged by the Company's directors;

Valuation of investment property and of non-current investments in Group companies and associates	
Description	**Procedures applied in the audit**
Specifically, the discounted cash flow method is generally applied to the valuation of the rental property assets, which requires estimates of: • the future net revenue from each property based on available historical information and market surveys; • the internal rate of return or opportunity cost used when discounting; • the residual value of the assets at the end of the projection period (exit yield). In addition, small percentage changes in the key assumptions used for the valuation of the property assets, could give rise to significant changes in the financial statements. Therefore, we considered this matter to be a key matter in our audit.	• performed a review of the valuations of a sample of assets, chosen from among those of most significance in the Company's portfolio and those whose change in value might imply an atypical characteristic with respect to the available market information and the other property assets, and evaluated, in conjunction with our internal experts, the matters involving the highest level of risk, including the occupancy rates and expected returns on the property assets. On conducting that review, we took into account the information available on the industry and transactions with property assets similar to the property asset portfolio owned by the Company; and • held meetings with the experts engaged by the Company's directors, in order to check the findings of our work and obtain the necessary explanations. Lastly, we also checked that the disclosures made by the Company in relation to these matters, included in Notes 7 and 10 to the financial statements for 2021, contained the information required in this connection by the applicable financial reporting framework.

Other Information: Directors' Report

The other information comprises only the directors' report for 2021, the preparation of which is the responsibility of the Company's directors and which does not form part of the financial statements.

Our audit opinion on the financial statements does not cover the directors' report. Our responsibility relating to the directors' report, in accordance with the audit regulations in force, consists of:

a) Solely checking that certain information included in the Annual Corporate Governance Report and the Annual Directors' Remuneration Report, to which the Spanish Audit Law refers, have been furnished as provided for in the applicable legislation and, if this is not the case, reporting this fact.

b) Evaluating and reporting on whether the other information included in the directors' report is consistent with the financial statements, based on the knowledge of the entity obtained in the audit of those financial statements, as well as evaluating and reporting on whether the content and presentation of this section of the directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we observed that the information described in section a) above was furnished as provided for in the applicable legislation and that the other information in the directors' report was consistent with that contained in the financial statements for 2021 and its content and presentation were in conformity with the applicable regulations.

Responsibilities of the Directors and of the Audit and Control Committee for the Financial Statements

The directors are responsible for preparing the accompanying financial statements so that they present fairly the Company's equity, financial position and results in accordance with the regulatory financial reporting framework applicable to the Company in Spain, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The audit and control committee is responsible for overseeing the process involved in the preparation and presentation of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Report on Other Legal and Regulatory Requirements

European Single Electronic Format

We have examined the digital file in European Single Electronic Format (ESEF) of Merlin Properties SOCIMI, S.A. for 2021, which comprise the XHTML file including the financial statements for 2021, which will form part of the annual financial report.

The directors of Merlin Properties SOCIMI, S.A. are responsible for presenting the annual financial report for 2021 in accordance with the format and markup requirements established in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 ("ESEF Regulation").

Our responsibility is to examine the digital file prepared by the Company's directors, in accordance with the audit regulations in force in Spain. Those regulations require that we plan and perform our audit procedures in order to ascertain whether the content of the financial statements included in the aforementioned file corresponds in full to that of the financial statements that we have audited, and whether those financial statements were formatted, in all material respects, in accordance with the requirements established in the ESEF Regulation.

In our opinion, the digital file examined corresponds in full to the audited financial statements, and these are presented, in all material respects, in accordance with the requirements established in the ESEF Regulation.

Additional Report to the Audit and Control Committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit and control committee dated 22 February 2022.

Engagement Period

The Annual General Meeting held on 27 April 2021 appointed us as auditors for a period of one year from the year ended 31 December 2020.

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

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

Ignacio Alcaraz Elorrieta
Registered in ROAC under no. 20.687

23 February 2022

Appendix I to our auditor's report

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Merlin Properties SOCIMI, S.A. and Subsidiaries

Consolidated Financial Statements for the year
ended 31 December 2021
prepared in accordance with International
Financial Reporting Standards (IFRSs) as adopted by the
European Union and Consolidated Directors' Report

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMEBER 2021

(Thousands euros)

ASSETS	Notes	31/12/2021	31/12/2020	EQUITY AND LIABILITIES	Notes	31/12/2021	31/12/2020
NON-CURRENT ASSETS				**EQUITY**	**Note 13**		
Other intangible assets		**1,594**	**961**	**Share capital**		**469,771**	**469,771**
Property, plant and equipment		**9,160**	**7,106**	**Share premium**		**3,647,876**	**3,813,409**
Investment property	**Note 7**	**12,297,257**	**12,139,347**	**Reserves**		**2,566,276**	**2,509,875**
Investments accounted for using the equity method	**Note 9**	**482,784**	**434,127**	**Other shareholder contributions**		**540**	**540**
Non-current financial assets-	**Note 10**	**359,791**	**392,747**	**Valuation adjustments**		**(67,420)**	**(99,537)**
Derivatives		167,080	107,910	**Treasury shares**		**(32,305)**	**(54,149)**
Other financial assets		192,711	284,837	**Interim dividend**		**(70,033)**	—
Deferred tax assets	**Note 17**	**83,808**	**87,469**	**Profit/(Loss) for the year attributable to the Parent**		**512,217**	**56,358**
Total non-current assets		**13,234,394**	**13,061,757**	**Equity attributable to the Parent**		**7,026,922**	**6,696,267**
				Total equity		**7,026,922**	**6,696,267**
				NON-CURRENT LIABILITIES			
				Debt instruments and other marketable securities	**Note 14**	**4,017,570**	**4,065,802**
				Long-term bank borrowings	**Note 14**	**1,641,139**	**1,692,097**
				Other financial liabilities	**Note 15**	**158,353**	**141,436**
				Deferred tax liabilities	**Notes 15 & 17**	**681,013**	**684,454**
				Provisions	**Note 15**	**11,210**	**18,296**
				Total non-current liabilities		**6,509,285**	**6,602,085**
				CURRENT LIABILITIES			
CURRENT ASSETS				**Debt instruments and other marketable securities**	**Note 14**	**588,155**	**36,291**
Inventories		**38,697**	**33,436**	**Bank borrowings**	**Note 14**	**14,853**	**13,261**
Trade and other receivables	**Notes 10 & 11**	**39,625**	**33,368**	**Other current financial liabilities**	**Note 15**	**7,864**	**7,780**
Other current financial assets	**Note 10**	**82,919**	**79,365**	**Trade and other payables**	**Note 16**	**114,155**	**111,112**
Other current assets		**10,481**	**17,664**	**Current income tax liabilities**	**Note 17**	**3,935**	**2,474**
Cash and cash equivalents	**Note 12**	**866,721**	**252,022**	**Other current liabilities**	**Note 15**	**7,668**	**8,342**
Total current assets		**1,038,443**	**415,855**	**Total current liabilities**		**736,630**	**179,260**
TOTAL ASSETS		**14,272,837**	**13,477,612**	**TOTAL EQUITY AND LIABILITIES**		**14,272,837**	**13,477,612**

The accompanying explanatory Notes 1 to 25 and Appendix I are an integral part of the consolidated statement of financial position as at 31 December 2021

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE PERIOD ENDED IN 2021

(Thousands euros)

	Notes	Period 2021	Period 2020
CONTINUING OPERATIONS:			
Revenue	**Notes 6 and 18**	**468,203**	**446,132**
Other operating income		**4,277**	**2,640**
Staff costs	**Note 18-c**	**(40,779)**	**(40,888)**
Other operating expenses	**Note 18-b**	**(68,582)**	**(66,936)**
Gains or losses on disposals of non-current assets	**Note 7**	**4,057**	**(14,300)**
Depreciation and amortisation charge		**(1,858)**	**(1,614)**
Excessive provisions		**1,169**	**(30)**
Change in fair value of investment properties	**Note 7**	**177,008**	**(84,468)**
PROFIT/(LOSS) FROM OPERATIONS		**543,495**	**240,536**
Changes in the fair value of financial instruments-		**73,071**	**(35,152)**
Changes in fair value of financial instruments - Embedded derivative	**Note 10**	59,170	(15,010)
Changes in fair value of financial instruments - Other	**Notes 10 & 14**	13,901	(20,142)
Finance income	**Note 18.d**	**5,421**	**3,387**
Profit/(loss) on disposal of financial instruments		**(1,349)**	**(62)**
Finance expenses	**Note 18.d**	**(136,400)**	**(149,653)**
Share of results of companies accounted for using the equity method	**Note 9**	**34,560**	**(3,444)**
PROFIT/(LOSS) BEFORE TAX		**518,798**	**55,612**
Income tax	**Note 17**	**(6,581)**	**746**
PROFIT/(LOSS) FOR THE YEAR		**512,217**	**56,358**
Attributable to shareholders of the Parent		**512,217**	**56,358**
EARNINGS PER SHARE (in euros):	**Note 13.6**	**1.10**	**0.12**
BASIC EARNINGS PER SHARE (in euros):	**Note 13.6**	**1.10**	**0.12**
DILUTED EARNINGS PER SHARE (in euros):	**Note 13.6**	**1.08**	**0.12**

The accompanying explanatory Notes 1 to 25 and Appendix I are an integral part of the consolidated statement of financial position as at 31 December 2021

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD OF 2021

(Thousand euros)

	Notes	Year 2021	Year 2020
PROFIT/(LOSS) PER INCOME STATEMENT (I)		**512,217**	**56,358**
OTHER COMPREHENSIVE INCOME:			
Income and expense recognised directly in equity-			
Arising from cash flow hedges (*)		**23,202**	**(28,434)**
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY (II)		**23,202**	**(28,434)**
Transfers to the income statement		**8,915**	**12,032**
TOTAL TRANSFERS TO THE INCOME STATEMENT (III)		**8,915**	**12,032**
TOTAL COMPREHENSIVE INCOME (I+II+III)		**544,334**	**39,956**
Attributable to shareholders of the Parent		**544,334**	**39,956**

(*) Amounts to be transferred to the profit and loss account in subsequent years

The accompanying explanatory Notes 1 to 25 en the Consolidated Memory and Appendix I are an integral part of the consolidated statement of financial for the period ending in 2021

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED DECEMBER 31 2021

(Thousand euros)

	Share capital	Share premium	Reserves	Shareholder Contribution	Profit/(loss) for the year	Interim dividend	Valuation adjustments	Translation differences	Treasury shares	Equity attributed to the Parent Company	Non-controlling interests	Total Equity
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 for 2020	—	—	—	—	56,358	—	(16,402)	—	—	39,956	—	**39,956**
Distribution of 2019 profit	—	—	470,700	—	(563,639)	92,939	—	—	—	—	—	—
Transactions with shareholders or owners-												
Distribution of dividends	—	—	(68,518)	—	—	—	—	—	—	(68,518)	—	**(68,518)**
Acquisition of treasury shares	—	—	—	—	—	—	—	—	(279)	(279)	—	**(279)**
Recognition of share-based payments	—	—	16,258	—	—	—	—	—	—	16,258	—	**16,258**
Delivery of 2017 stock plans and Flexible Remuneration	—	—	(2,840)	—	—	—	—	—	2,990	150	—	**150**
Balances as of 31 December 2020	**469,771**	**3,813,409**	**2,509,875**	**540**	**56,358**	—	**(99,537)**	—	**(54,149)**	**6,696,267**	—	**6,696,267**
Consolidated comprehensive income for 2021	—	—	—	—	512,217	—	32,117	—	—	544,334	—	**544,334**
Distribution of 2020 profit	—	(25,467)	81,825	—	(56,358)	—	—	—	—	—	—	—
Transactions with shareholders or owners-												
Distribution of dividends	—	(140,066)	—	—	—	(70,033)	—	—	—	(210,099)	—	**(210,099)**
Acquisition/(sale) of treasury shares	—	—	—	—	—	—	—	—	5	5	—	**5**
Recognition of share-based payments	—	—	8,758	—	—	—	—	—	—	8,758	—	**8,758**
Share-based payments	—	—	(33,813)	—	—	—	—	—	20,896	(12,917)	—	**(12,917)**
Delivery of share distribution scheme and others			**(369)**						**943**	**574**		**574**
Balances as of 31 December 2021	**469,771**	**3,647,876**	**2,566,276**	**540**	**512,217**	**(70,033)**	**(67,420)**	—	**(32,305)**	**7,026,922**	—	**7,026,922**

The accompanying explanatory Notes 1 to 25 and Appendix I are an integral part of the consolidated statement of changes in equity as of 31 December 2021

MERLIN PROPERTIES SOCIMI, S.A.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED DECEMBER 31 2021
(Thousands euros)

	Notes	Year 2021	Year 2020
CASH FLOWS FROM OPERATING ACTIVITIES:		**230,466**	**134,660**
Profit for the year before tax		**518,798**	**55,612**
Adjustments for-		**(144,780)**	**302,811**
Depreciation and amortisation charge		1,858	1,614
Change in fair value of investment properties	**Note 7**	(177,008)	84,468
Changes in non-current provisions		11,079	19,320
Gains/Losses on derecognition and disposal of non-current assets	**Notes 7 & 3**	(4,057)	14,300
Finance income		(5,421)	(3,387)
Finance expenses		136,400	149,653
Changes in fair value of financial instruments		(73,071)	35,152
Share of results of investments accounted for using the equity method	**Note 9**	(34,560)	3,444
Other income and expenses		—	(1,753)
Changes in working capital-		**(22,003)**	**(97,714)**
Inventories		(5,261)	(33,215)
Accounts receivable		(6,257)	(4,845)
Other current assets		7,183	(5,541)
Accounts payable		(28,030)	(52,555)
Other assets and liabilities		10,362	(1,558)
Other cash flows from operating activities-		**(121,549)**	**(126,049)**
Interest paid		(120,864)	(126,695)
Interest received		3,011	2,392
Income tax recovered (paid)		(3,696)	(1,746)
CASH FLOWS FROM INVESTMENT ACTIVITIES:		**110,230**	**(229,866)**
Investment proceeds and payments-		**(177,359)**	**(255,172)**
Net cash flow from business acquisitions	**Note 3**	(2)	—
Investment property		(182,389)	(251,107)
Property, plant and equipment		(2,332)	(2,000)
Intangible assets		(1,342)	(568)
Financial assets		8,706	(1,497)
Proceeds from disposals-		**287,589**	**25,306**
Financial assets		75,557	—
Investment property		212,032	25,306
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES:		**274,003**	**93,212**
Proceeds and payments relating to equity instruments-		**(210,104)**	**(68,548)**
Issue of equity instruments	**Note 15**	—	(30)
Treasury share purchases	**Note 13**	(5)	—
Premium Refunds		(140,066)	—
Dividends Paid	**Note 4**	(70,033)	(68,518)
Proceeds and payments relating to financial liabilities-		**484,107**	**161,760**
Bank borrowings		417	27,261
Issuance of debentures and bonds		494,229	595,691
Repayment of bank borrowings		(10,539)	(202,278)
Return of debentures and bonds		—	(258,914)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**614,699**	**(1,994)**
Cash and cash equivalents at beginning of period		252,022	254,016
Cash and cash equivalents at end of period		866,721	252,022

The accompanying explanatory Notes 1 to 25 and Appendix I are an integral part of the consolidated statement of cash flows for the period ended as at 31 December 2021

Merlin Properties SOCIMI, S.A. and Subsidiaries

Notes to the consolidated financial statements for the year ended

31 December 2021

1. Nature and activity 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 [Ley de Sociedades de Capital]. On 22 May 2014, the Parent requested to be included in the tax regime for listed companies investing in the property market (REITs), 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, Spain.

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

– The acquisition and development of urban real estate for subsequent leasing, including the refurbishment of buildings as per the VAT Act;

– The holding of equity interests in other REITs or in other non-resident entities in Spain with the same corporate purpose and that operate under a similar regime as that established for REITs with respect to the mandatory profit distribution policy enforced by law or by the Articles of Association;

– The holding of equity interests in other resident or non-resident entities in Spain whose corporate purpose is to acquire urban real estate for subsequent leasing, and which operate under the same regime as that established for REITs with respect to the mandatory profit distribution policy enforced by law or by the Articles of Association, and which 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 represent 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 (“the Group”) engage mainly in the acquisition and management (through leasing to third parties) of offices, industrial warehouses, logistics warehouses, local premises and shopping centres, and they may also invest to a lesser extent in other assets for lease.

On 30 June 2014, the Parent Company was floated on the Spanish stock market through the issuance of EUR 125,000 thousand subscribed capital, 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 REITs [Ley 16/2012, de 27 de diciembre, por la que se regulan las Sociedades Anonimas Cotizadas de Inversion en el Mercado Inmobiliario]. Section 3 of that statute sets out the investment requirements for these types of companies, namely

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

1 The value of the assets will be determined according to the average of the separate balance sheets for each quarter of the year, whereby the REIT 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 section 6 of this statute has not elapsed.

2 Similarly, at least 80% of the income for the tax period, 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 section 42 of the Spanish Commercial Code [Código de Comercio], irrespective of the place of residence and the obligation to prepare consolidated financial statements. That group will be exclusively composed of the REIT and all the other entities referred to in section 2(1) of the Act.

3 The REIT'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 REIT'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 by this statute is applied, provided that the property is leased or offered for lease at that date. Otherwise, the following paragraph will apply.

b. In the case of properties developed or acquired subsequently by the REIT, 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 2(1) of the Act must be kept in the REIT'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 by law applies.

As established in transitional provision one of Law 11/2009, of 26 December, 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 section 13 of this statute, 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 REIT tax regime is sought.

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

With effect for the years beginning on or after 1 January 2021, the Spanish Measures to Prevent and Combat Tax Fraud Act 11/2021 of 9 July [Ley de medidas de prevención y lucha contra el fraude fiscal] amended section 9(4) of REIT Act 2009 [Ley de las Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario]. Specifically, a special tax of 15% was introduced on the amount of profit obtained in the year that is not distributed, in the part that comes from: (a) income not taxed at the general tax rate of income tax and; (b) income not from the transfer of eligible assets, once the three-year maintenance period has elapsed, which has been included in the three-year reinvestment period stipulated in section 6(1)(b) of Law 16/2012, of 27 December. This special tax will be considered income tax and will accrue on the day of the resolution to apply profit for the year by the general shareholders meeting or equivalent body. The tax must be self-assessed and paid within two months of its accrual.

The transitional period in which the Company had to meet all requirements of this tax regime ended in 2017. The Group's management, based on the opinion of its tax advisors, assessed compliance with the requirements of the regime, concluding that such requirements were met at 31 December 2021.

Consequently, the Group's consolidated financial statements and the individual financial statements of the Parent for 2021, prepared by its Directors, which are awaiting approval by the General Shareholders' Meeting, have been prepared under the REIT Regime. However, the Parent's directors consider that the above financial statements will be approved without any material changes.

On the other hand, the financial statements for the year 2021 of the companies that make up the Group are pending preparation by their respective Directors and are expected to be approved by their respective General Shareholders' or Shareholders' Meetings within the deadlines established by applicable law.

The separate and consolidated financial statements of Merlin Properties, SOCIMI, S.A. for 2020 prepared by its directors were approved by the shareholders at the Annual General Meeting on 27 April 2021.

The 2020 separate annual 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.

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

The Company has not modified its name or denomination in years 2020 or 2021

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

2.1 Regulatory framework

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

– The Spanish Commercial Code and all other Spanish corporate law;

- International Financial Reporting Standards (IFRSs) as adopted by the European Union pursuant to Regulation (EC) No 1606/2002 of the European Parliament and Law 62/2003, of 30 December, on tax, administrative and social security measures, and 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 REITs and other corporate law.

- All other applicable Spanish accounting legislation.

2.2 Basis of presentation of the consolidated financial statements

The consolidated financial statements for 2021 were obtained from the accounting records and financial statements 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 at 31 December 2021 and the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

Given that the accounting policies and measurement bases applied in preparing the Group's consolidated financial statements for 2021 may differ from those applied by some of the Group companies, the necessary adjustments and reclassifications were made on consolidation to unify these policies and bases and to make them compliant with IFRSs as adopted by the European Union.

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

2.2.1 Adoption of Financial Reporting Standards and Interpretations effective as from 1 January 2021

In 2021 the following standards, amendments and interpretations came into force, which, where applicable, were used by the Group in preparing these financial statements:

Standards, Amendments and Interpretations	Description	Mandatory Application to Financial Years Beginning on or After:
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Reform of Benchmark Interest Rates--Phase 2	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 related to the reform of the benchmark indexes (phase two).	01 January 2021
Amendment to IFRS 4 Differential Application of IFRS 9	Postponement in the application of IFRS 9 until 2023.	01 January 2021
Amendment to IFRS 16 Leases - Improvements in rents	Amendment to extend the period of application of the practical solution of IFRS 16 envisaged for rent improvements related to COVID-19.	01 April 2021

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 2021

The following standards were not yet in force in 2021, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union:

Standards, Amendments and Interpretations	**Description**	**Mandatory application for financial years beginning on or after:**
Amendment to IFRS 3 Reference to the Conceptual Framework	Update to IFRS 3 to bring the definitions of assets and liabilities in business combinations into line with those in the conceptual framework. Certain clarifications about the recording of contingent assets and liabilities were also added.	01 January 2022 (1)
Amendment to IAS 16 Income before projected use	The change prohibits deducting any income obtained from the sale of the items produced while the entity is preparing the asset for its intended use from the cost of property, plant and equipment Proceeds on the sale of those samples, together with production costs, must be recorded on the income statement.	01 January 2022 (1)
Amendment to IAS 37 Payable Contracts - Cost of performing a contract	The amendment explains that the direct cost of fulfilling a contract includes the incremental costs of complying with that contract and an allocation of other costs that relate directly to the performance of the contract	01 January 2022 (1)
Improvements to IFRS Cycle 2018-20	Minor amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41.	01 January 2022 (1)
Amendments 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
Amendments to IAS 1 Breakdown of accounting policies	Amendments that allow companies to properly identify the information on material accounting policies that must be broken down in financial statements.	01 January 2023
Amendment to IAS 8 - Definition of accounting estimates	Amendments and clarifications about what should be understood as accounting estimates.	01 January 2023
Amendment to IAS 12 Deferred taxes on assets and liabilities arising from a single transaction	Clarifications on how companies should record deferred taxes arising from transactions such as leases and decommissioning obligations.	01 January 2023
IFRS 17 Insurance contracts and amendments to them	Replaces IFRS 4 and includes the principles of registration, measurement, presentation and breakdown of insurance contracts with the objective that the entity provides relevant and reliable information that allows users of financial information to determine the effect that insurance contracts have on financial statements.	01 January 2023

(1) Approved for use in the European Union.

At present, the Group is assessing the impacts that the future application of standards with a mandatory application date from 01 January 2022 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 consolidated financial statements are presented in euros, since the euro is the functional currency in the area in which the Group operates.

2.4 Comparative information

The information relating to 2020 contained in these notes to the consolidated financial statements is presented solely for comparison purposes with similar information relating to the year ended 31 December 2021.

2.5 Responsibility for the information and use of estimates

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

In the Group's consolidated financial statements for 2021 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:

– The market value of the Group's property assets (see Note 5.1). The Group obtained valuations from independent experts at 31 December 2021.

– The fair value of certain financial assets (see Notes 5.5 and 5.6).

– The assessment of provisions and contingencies (see Note 5.11).

– Management of financial risk and, in particular, of liquidity risk (see Note 23).

– The recovery of deferred tax assets and the tax rate applicable to temporary differences (see Note 5.13).

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

– The market value of the net assets acquired in business combinations (see Note 3)

– Compliance with the requirements that govern listed Real Estate Investment Companies (see Note 1).

Changes in estimates:

Although these estimates were made on the basis of the best information available at 31 December 2021, future events may require these estimates to be modified prospectively (upwards or downwards), in accordance with IAS 8. The effects of any change would be recognised in the corresponding consolidated income statement.

2.6 Basis of consolidation applied

All companies over which effective control is exercised by virtue of holding of a majority of the voting rights in their representation and decision-making bodies and the power to determine the company's financial and operational policies were fully consolidated; and companies in which the Group owns more than a 20% interest and exercises significant influence without holding a majority of the voting rights were accounted for using the equity method (see Note 9). Likewise, there is considered to be a significant influence on the investments held by the Group with a participation rate of less than 20% if it has representation on the Board of Directors of these companies of the parties related to it.

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

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

2.6.1 Subsidiaries

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

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

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

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

2.6.2 Associates

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

2.6.3 Transactions between Group companies

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

2.6.4 First-time consolidation differences

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

2.6.5 Business combinations

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

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

Where applicable, the contingent consideration is recognised at the acquisition-date fair value.

Subsequent changes to the fair value of the contingent consideration are taken to the consolidated income statement unless this change arises within the one-year period established as the provisional accounting period, in which case the business combination will be modified.

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

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

2.6.6 Perimeter of consolidation

The companies composing the Merlin Group at 31 December 2021, along with information relating to the consolidation method, are listed in Appendix I of the consolidated financial statements.

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

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

On 14 March 2020, the Spanish Government declared a ‘state of alarm’ under Royal Decree 463/2020, which led to certain commercial and hospitality activities being classified as essential and were thus allowed to open, while all others were classified as non-essential and therefore subject to forced administrative closure. Likewise in Portugal, an *Estado da Emergência* was declared by the President of the Republic in Decree no. 14-A/2020, of 18 March, which established restrictions on certain fundamental rights due to COVID-19, which included restrictions on the country's retail commerce.

In addition, on 3 November 2020, a new state of alarm was declared in Spain, lasting until 9 May 2021, which involved certain restrictions at the regional level, although they were not as severe as those of the first state of alarm.

In December 2020, the European Union approved the marketing of the first vaccines to deal with the virus, and the vaccination process began.

The aforementioned pandemic affected certain operational activities of the Group during 2020 and, to a lesser extent, in 2021. The Parent's directors continued to assess the effects that the health and economic crisis caused by the COVID-19 pandemic had and could continue to have on the Group, including the following aspects:

– The Group's estimates and, the case being, the book value of the assets and liabilities on the consolidated balance sheet.

– Financial risks: credit risk and liquidity risk.

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

Measurement of fair value of 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 appraisal methods described in Note 7 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 traffic.

– The positive impact on logistics distributors.

– The risk of losing major contracts.

– Rent reliefs for commercial spaces.

As of 31 December 2021, appraisals performed by CBRE Valuation Advisory, S.A., Jones Lang LaSalle, S.A. and Savills Consultores Inmobiliarios S.A. do not signal any type of uncertainty in relation to the market value of the real estate investments of the Group.

Meanwhile, the details of main assumptions used in the appraisals at December 2021 and December 2020 based on the nature of the assets and the sensitivities to increases and decreases of those variables are included in Note 7.

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).

In this context, at 31 December 2021, the Group had a leverage ratio, understood as the loan-to-value (LTV) ration of the assets, of 39.2% (this ratio is obtained by dividing the Company's net debt by the fair value of its assets including transaction costs) and cash and cash equivalents amounting to EUR 866,721 thousand, mainly after the issue of debentures in the first half of 2021 amounting to EUR 500 million, the purpose of which was to cover the maturity of the bond for EUR 548 million due in May 2022 (see Note 24).

Furthermore, the rating agencies S&P and Moody's confirmed MERLIN Group's credit rating in 2021 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 outlook. On 4 June 2021, Standard & Poor's again ratified the rating of ‘BBB’ with stable outlook and on 3 December 2021, Moody's updated the rating to ‘Baa2’ with stable outlook.

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 31

December 2021 and the measures mentioned above ensure that it will be solvent to fulfil the current obligations on the consolidated balance sheet at 31 December 2021, and there is no material uncertainty about the continuity of the Group's operations.

Credit risk

During 2020, in response to the Covid 19 pandemic, the Group implemented two commercial policies. The Commercial Policy (Phase I)with 100% rent reliefs for all tenants whose business was forced to close as a result of the state of alarm and who were up to date with their contractual obligations. And the Commercial Policy (Phase II), which initially went from June to the 31st December 2020, and which consisted in a gradual decrease of the incentives from 60%, applicable in June, up to 10% that applied in December.

In the first semester of 2021, the Group continued with the additional commercial policies established in 2020 in response to the COVID-19 pandemic.

These additional commercial measures range from 1 January to 30 June 2021 and are aimed at the majority of the tenants with commercial activity in the Group's asset portfolio, to support them in their reopening and recovery in the first half of 2021. The measures consisted of providing 25% partial discounts on the guaranteed minimum rent (30% for entertainment and F&B). In the case of forced closure, a 100% discount was applied during the period in which the tenants were not legally authorised to open.

This rent relief has led to a EUR 24,867 thousand reduction in rental income at the end of 2021 for these actions (EUR 46,735 thousand in FY20). The Group recorded this rent relief as lower ‘Net Income” on the accompanying consolidated income statement according to its interpretation of accounting regulations and the consideration that there have been no significant changes to the leases.

In the second half of 2021, the Group ended its supplemental commercial policies by limiting the commercial measures to certain tenants, whose activity was particularly affected by the effects of the pandemic.

In 2021, the directors continued to assess the credit risk of the tenants as a result of the COVID-19 crisis. While the Group has continued to support its tenants with the rent discounts indicated above, 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, as its risk of delinquency is below 1% of its turnover.

In relation to its other financial assets exposed to credit risk, which mainly correspond to loans to associates and third parties, the Directors of the Parent 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 on the historical experience with those entities, which make it possible to estimate that the credit risk will remain stable.

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

3. Changes in the scope of consolidation

2021

On 27 January 2021, Edged Spain, S.L.U. entered the scope of consolidation. The Parent acquired 100% of the shares for EUR 3 thousand and subsequently sold 50% to Edged Global Services Iberia, S.L.U. on 30 March 2021. The Company Edged Spain, S.L.U. is dedicated to the provision of data processing centre services. Its contribution to the consolidated financial statements at 31 December 2021 was not significant.

2020

1) Entry of Silicius Real Estate SOCIMI, S.A. (formerly Silicius Real Estate, S.L.) into the scope of consolidation

On 27 February 2020, the Group resorted to a capital increase of the company Silicius Real Estate, S.L. for a sum of EUR 173 million. The capital increase was performed by contributing certain secondary commercial assets 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.

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 5.8 million is maintained as outstanding obligations at 31 December 2021, recorded as “other financial liabilities”, current and non-current respectively (which at 31 December 2020 amounted to EUR 8.1 million, see Note 19.e).

The terms agreed with Silicius Real Estate SOCIMI, S.A. included certain conditions in relation to the shares received by the Group:

- Class-A liquid shares: For 50% of the shares received, the Group has a put option to sell the shares to Silicius Real Estate SOCIMI, S.A., at the same contribution price and with a maturity of 24 months from the date of the transaction (February 2022). The Group recorded this 50% of the investment as a "financial asset" in accordance with IFRS 9 in the amount of EUR 86.5 million, as it considers it highly probable that the put option will be exercised at the issue price and, consequently, understands that there is no exposure to the future risks and rewards arising from the performance of the investee's business.

- Class-B liquid shares: For the remaining amount of the shareholding, which initially represented 17.19% of the share capital, it was recorded as an "investment accounted for using the equity method" as it exercised significant influence on the Board of Directors of Silicius Real Estate SOCIMI, S.A. and because it was considered that for this part of the shareholding there was exposure to the future risks and rewards of the investee.

  For this 50% (class-B liquid shares), on the fifth anniversary of the contribution of assets:

  - Silicius Real Estate SOCIMI, S.A. has the option to proceed with the purchase of the shares at a price per share equivalent to the net asset value (NAV) per share available at the above date increased by 30%.

  - If Silicius Real Estate SOCIMI, S.A. does not exercise the call option, Merlin will be entitled to request the redemption of the holding by way of return in kind of certain pre-selected assets.

  - If the Board of Silicius Real Estate SOCIMI, S.A. is not satisfied with the selection of assets made by Merlin, it will be obliged to purchase or redeem the class-b liquid shares in cash from Merlin at the issue price (including their par value and share premium) at which they were admitted.

The net asset value attributed to the Assets of Silicius Real Estate SOCIMI, S.A. for the purposes of the above paragraphs will be calculated on the basis of the latest available NAV as on the fifth anniversary, applying a premium of 30% to that NAV.

In relation to the Class-A liquid shares, the Group records the effect of the put option, implicit in the value held of the financial asset indicated above, as it is understood to be fully linked to the recoverable value of 50% of the initial contribution and with a maximum value equal to that of the initial contribution, offsetting any reduction that may arise from the initial cost. Consequently, it allows the asset to be recorded at its initial contribution price.

In relation to the Class-B liquid shares associated with the remaining 50% of the initial contribution, the Group identifies two components:

- one for the right to purchase from Silicius Real Estate SOCIMI, S.A. at NAV + 30%
- the other for Merlin's ability to sell the shares at their par value

These options are mutually exclusive: if one obtains value the other will not, and vice versa. The Group has recorded the value of the first option as a liability from a derivative with changes in the fair value, as it understands that this option could adjust the value of the share held in the moment of the sale and that the revalued NAV+30% is lower than the cost of the investment. The above transaction resulted in a loss to the Group amounting to EUR 14,012 thousand in 2020, after considering the expenses associated with it, and the obligations assumed, as indicated above.

4. Distribution of the profit of the Parent

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

	Thousands of euros
Profit/(Loss) for the year	89,608
Distribution:	
To voluntary reserves	8,961
To compensate Interim dividend	70,033
Dividends	10,614

Other dividends distributed

On 27 April 2021, the General Meeting approved the distribution of EUR 140,066 thousand charged to the 'Share Premium' reserve.

On 11 November 2021, the Company's Board approved the distribution of an interim dividend of EUR 70,033 thousand charged to the profit for 2021.

In the last five years, the Company distributed the following dividends and Share Premium refunds:

	Thousands of euros				
	2021	2020	2019	2018	2017
Shareholder remuneration	210,099	68,518	232,347	215,364	187,411

5. Accounting policies

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

5.1 Investment property

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

All assets and usage rights (through the corresponding administrative concession or area right granted by a public body) classified as real estate investments are in operation with various tenants. These properties are earmarked for leasing to third parties. The Parent's directors do not plan to dispose of these assets in the coming 12 months and have therefore decided to recognise them as investment property in the consolidated statement of financial position.

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

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

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

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

The market value of the Group's investment property at 31 December 2021, calculated on the basis of appraisals carried out by Savills, JLL and CBRE, independent appraisers not related to the Group, amounted to EUR 12,402,279 thousand (see Note 7).

5.2 Inventories

Land held for sale or integration into property development is considered as inventories. The Group considers that its inventories do not meet the requirements of IAS 40 for consideration as investment property.

At 31 December 2021, certain land acquired in 2020 was recognised as inventory, which forms part of a larger urban area yet to be developed, and is considered to be inventory as it is intended for sale. Under the future sale agreement reached with a third party, the land slated for residential will be transferred to that third party, once all the buildings corresponding to each of the uses are finally allocated by the approved and registered Reallotment Plan. In accordance with the above, the purpose of the land will be to recover it through sale, and it is not the Group's objective to obtain rental income from the land. Therefore, it was recorded as inventory at the end of 2021.

In relation to it, the Group maintains agreements with third parties for the future sale of the plots zoned for housing and for which it received, at 31 December 2021, advances amounting to EUR 16,623 thousand which are recorded under "Other Financial Liabilities" in the consolidated statement of financial position.

The Group values its inventories at acquisition cost (or at market value if the latter is lower), including both the acquisition cost of the land and plots, the urban planning costs, the construction costs and the personnel directly related to the real estate activity, and, where applicable, financial expenses to the extent that those expenses correspond to the period of urban planning and construction, provided that they are inventories that need a period of more than one year to be able to be sold. If the inventories are recorded at a cost price higher than their market value, the appropriate valuation adjustments are made, recording the corresponding impairment.

5.3 Investments accounted for using the equity method

At 31 December 2021, this heading in the consolidated statement of financial position included the amount corresponding to the percentage of shareholders' equity of the investee relating to the Parent and accounted for using the equity method after homogenization to the accounting criteria applied by the Group. In addition, and after accounting for these investments using the equity method, the Group decides whether or not an additional impairment loss needs to be recognised with regard to the Group's net investment in the associate.

5.4 Leases

At the beginning of a contract, the Group assesses whether the contract is or contains a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The group reassesses whether a contract is, or contains, a lease only if the terms of the contract change.

5.4.1 Tenant

For a contract containing a lease component and one or more additional leases or non-leases, the Group will distribute the consideration of the contract to each component of the lease based on the relative price regardless of the lease component and the aggregate price independent of the components that are non-lease components.

The relative price, independent of the lease and non-lease components, will be determined based on the price that the landlord, or a similar supplier, would charge an entity separately for that component or for a similar component. If there is no readily available separate observable price, the Group will estimate the separate price, maximising the use of observable information.

The Group chose not to apply the recognition and measurement requirements indicated in IFRS 16 to short-term leases in which the underlying asset is of low value, recognising the lease payments associated with leases as a straight-line expense over the lease term.

Initial recognition

At the commencement date, a tenant recognises a right-of-use asset and a lease liability. At the commencement date, a tenant will measure a right-of-use asset at cost. The cost of the right-of-use asset includes:

a. the amount of the initial measurement of the lease liability measured at the commencement date at the present value of the lease payments that were not paid at that date. Lease payments will be discounted using the interest rate specified in the lease, if that rate could be easily determined. If that rate cannot be easily determined, the tenant will use the tenant's incremental loan rate

b. lease payments paid before or from the commencement date, less incentives received;

c. the initial direct costs incurred by the tenant; and

d. an estimate of the costs incurred by the tenant when dismantling and eliminating the underlying asset, restoring the location where it is located or restoring the underlying asset to the condition required by the terms of the lease, unless those costs are incurred to produce inventories. The tenant could incur obligations as a result of these costs either at the commencement date or as a result of using the underlying asset for a specified period.

At the start date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

a. fixed payments, less any leases receivable;

b. variable lease payments, which depend on an index or rate, initially measured using the index or rate at the commencement date;

c. amounts expected to be paid by the tenant as guarantees of residual value;

d. the exercise price of a call option if the tenant is reasonably confident of exercising that option;

e. late lease payments if the lease term reflects that the tenant will exercise an option to terminate the lease.

Subsequent measurement of the right-of-use asset

After the commencement date, the Group will measure its right-of-use assets using the cost model, unless it applies the fair value model of IAS 40 'Investment properties' to its investment properties and rights of use that meet the definition of investment property (see Note 5.1). If the right of use of the assets relates to a class of property, plant and equipment to which the tenant applies the revaluation model of IAS 16, the tenant may choose to use that revaluation model for all right-of-use assets of assets related to that class of property, plant and equipment.

Subsequent measurement of lease liabilities

After the commencement date, the Group will measure a lease liability by:

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

b. reducing the carrying amount to reflect the lease payments paid; and

c. re-measuring the carrying amount to reflect the new measurements or changes in the lease and also to reflect the essentially fixed lease payments that have been revised.

5.4.2 Landlord

A landlord will classify each lease as an operating lease or a finance lease.

A lease will be classified as a finance lease when it substantially transfers all the risks and rewards inherent to owning an underlying asset. A lease will be classified as an operating lease if it does not substantially transfer all the risks and rewards inherent to owning an underlying asset.

Finance leases

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

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

Operating leases

A landlord recognises lease payments from operating leases as income on a straight-line basis or on another systematic basis. The landlord will apply another systematic basis if it is more representative of the structure with which the profit from the use of the underlying asset is reduced.

The Group will recognise the costs as expenses, including depreciation, incurred to obtain the lease income. It will also add the initial direct costs incurred to obtain an operating lease to the carrying amount of the underlying asset and recognise these costs as an expense over the lease term, on the same basis as the lease income.

5.5 Financial Instruments

Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. From 1 January 2018, the Group classified its financial assets in accordance with IFRS 9 ‘Financial Instruments'.

The classification of financial assets will depend both on how an entity manages its financial instruments (its business model) and on the existence and characteristics of the contractual cash flows of the financial assets. Based on the above, the asset is measured at amortised cost, at fair value through changes in other comprehensive income or at fair value through changes in profit or loss for the period, as follows:

- If the purpose of the business model is to hold a financial asset in order to collect contractual cash flows and, under the terms of the agreement, cash flows are received at specific dates that exclusively constitute payments of the principal plus interest on the principal, the financial asset will be measured at amortised cost.

- If the business model aims at both obtaining contractual cash flows and selling them and, under the terms of the agreement, cash flows are received at specific dates that exclusively constitute payments of the principal plus interest on the principal, the financial assets are measured at fair value through changes in other overall income (equity).

Outside these scenarios, the remaining assets will be measured at fair value through changes in losses and gains. All equity instruments (e.g. shares) are, by default, measured in this category. This is because their contractual flows do not meet the characteristic of being only payments of principal and interest. Financial derivatives are also classified as financial assets at fair value through profit or loss unless they are designated as hedging instruments.

For the purposes of measurement, financial assets should be classified into one of the following categories, with the accounting policies of each category being as follows:

1. Financial assets at amortised cost: these assets are subsequently recognised at their initial cost amortised in accordance with the effective interest method. This amortised cost will be reduced by any impairment loss. They are recognised in the consolidated income statement for the period when the financial asset is derecognised or impaired, or due to exchange differences. Interest calculated using the effective interest method is recognised in the income statement under the heading ‘Financial income’.

2. Financial assets at fair value with profit or loss: financial assets at fair value with profit or loss are recognised initially and subsequently at fair value, excluding transaction costs, which are charged to the income statement. Gains or losses from changes in fair value are presented in the income statement under the heading ‘Changes in the fair value of financial instruments’ in the period in which they originated. Any dividends and interest also leads to financial results.

3. Debt instruments at fair value with changes in total profit or loss: These instruments are subsequently recognised at fair value, recognising changes in fair value in 'Other comprehensive income'. Interest income, impairment losses and exchange differences are recognised in the consolidated income statement. When sold or derecognised, the accumulated fair value adjustments recognised in 'Other comprehensive income' are included in the income statement as 'other financial income/(expenses)'.

4. Equity instruments at fair value with changes in total profit or loss: Their subsequent measurement is at fair value. Dividends are only recorded in profits and loss, unless the dividends clearly represent a recovery in the cost of the investment. Other gains or losses are recognised as 'Other comprehensive income' and are never reclassified as profit or loss.

5. Financial assets valued at cost: financial assets that should be classified within the former category but its fair value can not be estimated accurately.

Impairment of financial assets

The impairment model applies to financial assets measured at amortised cost that include the item 'Customers and other receivables'.

The impairment model is based on a dual measurement approach, under which there will be an impairment provision based on expected losses over the next 12 months or based on expected losses over the entire life of the asset. The fact that determines the transition from the first approach to the second is that there is a significant decline in creditworthiness.

The deterioration of the Group's receivables was not significant, taking into account that the risk of default was less than 1% of turnover and that the Group has deposits from its tenants to secure its loans.

Financial liabilities

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

1. Bank loans and other loans: loans from banks and other lenders are recognised by the proceeds received, net of transaction costs.

   Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the term of the borrowings using the effective interest method.

   Financial debt is eliminated from the consolidated statement of financial position when the obligation specified in the agreement is paid, cancelled or expired. The difference between the carrying amount of a financial liability that has been cancelled or transferred to another party and the consideration paid, including any transferred assets other than the cash or liabilities assumed, is recognised in profit or loss for the year as other financial income or expenses.

   Exchanges of debt instruments between the Group and a counterparty and substantial changes to initially recognised liabilities are recognised as a cancellation of the original financial liability and the recognition of a new financial liability, provided that the instruments have substantially different terms. The Group considers that the conditions are substantially different if the present value of the cash flows discounted under the new conditions, including any net commission paid from any commission received, and using the original effective interest rate to make the discount, differs by at least 10 percent from the discounted present value of the cash flows that still fall outside the original financial liability.

If the exchange is recognised as a cancellation of the original financial liability, the costs or fees are recognised in the consolidated income statement as part of the consolidated income statement. Otherwise, the modified flows are discounted at the original effective interest rate, recognising any difference with the prior carrying amount, in profit or loss. Likewise, the costs or fees adjust the carrying amount of the financial liability and are amortised by the amortised cost method for the remaining life of the modified liability.

The Group recognises the difference between the carrying amount of a financial liability or the part of it cancelled or transferred to a third party and the consideration paid, including any assets transferred other than the cash or liabilities assumed in profit or loss.

The Group will account for exchanges of debt instruments with a lender, provided that the instruments have substantially different conditions, such as a cancellation of the original financial liability and subsequent recognition of a new financial liability. Similarly, a substantial change in the terms of an existing financial liability or a part of it will be recognised as a cancellation of the original financial liability and a subsequent recognition of a new financial liability. The difference between the carrying amount of the cancelled financial liability and the consideration paid, which includes any transferred assets other than cash or any liabilities assumed, will be recognised in profit or loss for the year.

If it is determined that the new terms or changes of a financial liability are not substantially different from the existing ones and it is therefore determined that the change is not substantial, the existing financial liability will not be derecognised. The Group will recalculate the gross carrying amount of the financial liability and recognise in profit or loss for change. The gross carrying amount of the financial liability will be recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest rate of the financial liability.

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

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

5.6 Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge the risks to which its future activities, transactions and cash flows are exposed. There risks are mainly due to changes in interest rates. Among the various transactions, the Group uses certain financial instruments as economic hedges.

Derivatives are initially recognised at fair value at the date on which the derivative contract is signed and are subsequently measured at fair value at the date of each balance sheet. The accounting for subsequent changes in fair value depends on whether the derivative has been designated as a hedging instrument and, if so, on the nature of the item it is hedging.

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

The effective part of the changes in the fair value of the derivatives that are designated and classified as cash flow hedges is recognised in the cash flow hedge reserve under equity. The gain or loss related to the ineffective part is recognised immediately in the consolidated profit/(loss) for the year.

Gains or losses relating to the effective part of the change in the intrinsic value of the option agreements are recognised in the cash flow reserve hedge under equity. Changes in the time value of option agreements that relate to the hedged item (‘aligned time value’) are recognised under other comprehensive income in the costs of the hedge reserve in equity.

When forward contracts are used to hedge expected transactions, the Group generally designates only the change in the fair value of the forward contract related to the cash component as the hedging instrument. Gains or losses related to the effective part of the change in the cash component of forward contracts are recognised in the cash flow hedge reserve under equity. The change in the forward element of the contract related to the hedged item is recognised in other comprehensive income on the costs of the hedge reserve under equity. In some cases, the gains or losses corresponding to the effective part of the change in fair value of the full term contract are recognised in the cash flow hedge reserve under equity.

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

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

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and provided that the host contracts are not measured at fair value by recognising changes in fair value in the consolidated statement of comprehensive income.

The fair value of the derivative financial instruments is calculated using the valuation techniques described in Note 5.7 below.

5.7 Valuation techniques and applicable assumptions to measure fair value

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

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

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

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

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

The Group applied the discounted cash flow method, considering a discount rate affected by the Merlin Group's own credit risk.

In particular for the measurement of the implicit derivative of the income, the Group based its estimate on the future total income arising from the agreement adjusted by the counterparty's credit risk. The estimate of future rental income was based on the eurozone inflation swaps (harmonised CPI in the euro area excluding tobacco) at the time of the analysis, and it considers the credit risk of the corresponding counterparty. The measurement approach used was based on the discounted cash flow model.

The following information is used in determining the value of the embedded income derivative (Note 10):

- Forward curve of the consumer price index of the Euro area without tobacco (HICP).
- Volatility of the HICP to calculate the value of the land (0%) included in leases.
- EUR discount factors for calculating the present value of future income (sum of the components of future income and value of land).
- Credit risk charges (Credit Default Swap) for the calculation of the adjustment for the value of the counterparty's credit risk (CVA).

HICP forward curve

For the construction of the curve, the 30-year zero coupon swap is used. From year to year, the annual rates are integrated and interpolated, applying seasonality adjustments, to obtain the forward rate curve.

HICP volatility

0% is taken as an initial premium for land. Subsequently, the volatility of each future settlement or forward year by year (floorlet) is calculated. Once the volatilities and forward rates are available, the amount of the land component is determined.

EUR discount factors

Since the market standard requires swap derivatives to be discounted at the Overnight indexed swap rate, both Euribor and Eonia rates are included in the yield curve data. The yield curve data used for the calculations are:

- Deposit fees: 1D, 2D, 3D
- Fixing of the Euribor: 1M, 3M and 6M
- Futures of Euribor: between 6M and 2Y
- Euribor Swap Rates: from 2Y to 30Y
- EONIA swap base fees: up to 30Y
- Credit Default Swap (CDS) rates
- We use CDS market data and interpolate for the specific deadlines or periods of the rents. We use the ‘Current Exposure Method’ to calculate the CVA.

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

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

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

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

The Group's financial assets and liabilities measured at fair value were as follows at 31 December 2021:

2021

	Thousands of euros			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments (Note 14.3)	—	(79,754)	(15,134)	(94,888)
Embedded derivatives (Note 10)	—	167,080	—	167,080
Financial results at fair value with changes in profit and loss (Note 10)	—	—	80,964	—
	—	**87,326**	**65,830**	**72,192**

2020

	Thousands of euros			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments (Note 14.3)	—	(128,622)	—	(128,622)
Embedded derivatives (Note 10)	—	107,910	—	107,910
Financial results at fair value with changes in profit and loss (Note 10)	17,254	—	86,521	103,775
	17,254	**(20,712)**	**86,521**	**83,063**

In addition, Note 7 includes information regarding the determination of the fair value of investment property.

5.8 Equity instruments

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

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

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

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

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

5.9 Distributions to shareholders

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

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

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

- 100% of the profit from dividends or shares in profits distributed by the entities referred to in section 2(1) of Law 11/2009.

- At least 50% of the profits arising from the transfer of the properties, shares or ownership interests referred to in section 2(1) of Law 11/2009, subsequent to expiry of the time limits referred to in section 3(2) of Law 11/2009, which are used for pursuit of the entities' principal corporate purpose. The remainder of these profits must be reinvested in other property or investments used for the pursuit of said activity within three years after the transfer date. Otherwise these profits should be distributed in full together with any profit arising in the year in which the reinvestment period expires. If the items to be reinvested are transferred prior to the end of the holding period, that profit must be distributed in full together with, if applicable, the profit generated during the year in which the items were transferred. The obligation to distribute profit does not apply to the portion of the profit attributable to prior years in which the Company was not included under the special tax regime established by this statute.

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

5.10 Cash and cash equivalents

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

5.11 Provisions

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

- Provisions: credit balances covering present obligations arising from past events with respect to which it is probable that an outflow of resources embodying economic benefits that is uncertain as to its amount and/or timing will be required to settle the obligations; and

- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the Group’s control.

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

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

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

5.12 Revenue recognition

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Rental income is measured at the fair value of the consideration received, net of discounts and taxes.

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

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

Leasing of investment property to third parties

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

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

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

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

5.13 Income tax

5.13.1 General regime

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

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

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

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

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

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that they will be recovered through future taxable profits.

5.13.2 REIT regime

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

As established in Transitional Provision Nine of Law 11/2009, of 26 October, amended by REIT Act 2012, the entity will be subject to a special tax rate of 19% on the total dividends or profit shares distributed to unitholders with a shareholding in the entity of 5% or more, when these dividends are exempt or taxed at a rate below 10% in the unitholders. The Group has therefore established the procedure guaranteeing confirmation by shareholders of their tax rate, proceeding where applicable, to withhold 19% of the dividend distributed to shareholders that do not meet the aforementioned tax requirements.

With effect for the years beginning on or after 1 January 2021, the Spanish Measures to Prevent and Combat Tax Fraud Act 11/2021 of 9 July [Ley de medidas de prevención y lucha contra el fraude fiscal] amended section 9(4) of REIT Act 2009 [Ley de las Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario]. Specifically, a special tax of 15% was introduced on the amount of profit obtained in the year that is not distributed, in the part that comes from: (a) income not taxed at the general tax rate of income tax and; (b) income not from the transfer of eligible assets, once the three-year maintenance period has elapsed, which has been included in the three-year reinvestment period stipulated in section 6(1)(b) of Law 16/2012, of 27 December. This special tax will be considered income tax and will accrue on the day of the resolution to apply profit for the year by the

General Shareholders Meeting or equivalent body. The tax must be self-assessed and paid within two months of its accrual.

5.14 Share-based payments

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

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

Additionally, the General Meeting held on 26 April 2017 approved a remuneration plan for the management team and other important members of the Group's workforce (which includes, inter alia, the Executive Directors and Senior Management), the measurement period of which was from 1 January 2017 to 31 December 2019 (the "2017-19 Incentive Plan"). In accordance with that plan, the beneficiaries may be entitled to receive (i) a certain monetary amount based on the increase in the share price; and (ii) shares in the Parent, provided that certain objectives are met.

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:

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

- an increase in the Parent's EPRA NAV plus the dividends distributed by the Company to shareholders during the measurement period;

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

TSR NAV 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 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 EPRA 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 share price from 2017 to 2019 amounted to EUR 37.5 million, which was paid out in 2020.

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. 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.

In this regard, as of 31 December 2021, the Group has recorded an expense of EUR 8,758 thousand corresponding to the portion accrued for the LTIP 2017-2019 against reserves.

5.15 Obligations to employees

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

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

In this sense, at 31 December 2021, the Group does not have commitments for this item, and there is no Downsizing Plan in force.

5.16 Current assets and liabilities

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

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

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

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

5.17 Segment information

The Group groups its segments based on the nature of the assets in the various areas in which it implements its strategy. In this sense, each operating segment is a component of the Group that performs business activities from which it can earn revenue and incur expenses. The operating results of each segment are regularly reviewed by the Group's management to decide on the resources to be allocated to each segment, assess its performance and for which differentiated financial information is available.

5.18 Earnings per share

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

For the calculation of the diluted profit per share, the Group calculates the amounts of the diluted earnings per share for the profit for the year attributable to the shareholders of the Parent and, where applicable, the profit for the year of the ongoing activities attributable to those holders of equity instruments.

To calculate the diluted earnings per share, the Group takes the profit or loss for the year attributable to the holders of ordinary equity instruments and the weighted average number of shares in circulation for all the dilutive effects inherent to the potential ordinary shares.

5.19 Environment

The Group carries out activities whose primary purpose is to prevent, mitigate or repair environmental damage caused by its operations. See climate change management policies in Note 23.

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

5.20 Consolidated statements of cash flows

The following terms are used in the consolidated statements of cash flows (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.

6. Segment reporting

a. Basis of segmentation

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

– Office buildings.

– Net leases:

Portfolio of assets (bank branches and stand-alone buildings) leased to BBVA. Until the sale of 32 supermarkets in 2021, this segment also included these assets (see Note 7).

– Shopping centres.

– Logistics assets.

– Other.

Assets not included in the above segments, which mainly correspond to three hotels, non-strategic land and other smaller assets.

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

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

The Group carried out its business activities in Spain and Portugal in the year ended 31 December 2021.

b. Basis and methodology for business segment reporting

The segment information 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 5.

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, gains on the disposal of investment property, debt recoveries or cancellation.

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

Segment reporting

Segment information about these businesses at 31 December 2021 is presented below:

2021	Thousands of EUR						
	Office buildings	Net Lease	Shopping Centers	Logistics	Other	Corporate Unit	Total for Group
Revenue from non-Group customers:							
Rental income	217,809	85,373	89,645	63,033	6,604	-	462,463
Services rendered	3,739	-	699	-	-	1,301	5,740
Net income	**221,547**	**85,373**	**90,344**	**63,033**	**6,604**	**1,301**	**468,203**
Other operating income	1,962	-	670	973	43	629	4,277
Staff costs	-	-	-	-	-	(40,779)	(40,779)
Operating expenses	(28,038)	12	(17,687)	(4,480)	(2,034)	(16,355)	(68,582)
Gains or losses on disposals of non-current assets	(846)	5,957	(137)	(1,024)	107	-	4,057
Depreciation and amortisation charge	(609)	-	-	-	(13)	(1,236)	(1,858)
Excessive provisions	-	-	-	-	-	1,169	1,169
Changes in fair value of investment property	30,947	(18,489)	(36,023)	206,989	(6,417)	-	177,008
Negative goodwill on business combinations	-	-	-	-	-	-	-
Profit/(loss) from operations	**224,965**	**72,853**	**37,167**	**265,490**	**(1,710)**	**(55,271)**	**543,495**
Changes in the fair value of financial instruments-							
Changes in fair value of financial instruments - Embedded derivative	-	59,170	-	-	-	-	59,170
Changes in fair value of financial instruments - Other	-	3,549	-	1,184	-	9,168	13,901
Finance income	-	-	-	-	-	5,421	5,421
Finance expenses	(288)	(20,206)	-	(1,801)	-	(114,106)	(136,400)
Profit/(loss) on disposal of financial instruments	-	-	-	-	-	(1,349)	(1,349)
Share of results of companies accounted for using the equity method	-	-	-	-	-	34,560	34,560
Profit/(Loss) before tax	**224,677**	**115,366**	**37,167**	**264,873**	**(1,710)**	**(121,577)**	**518,798**
Income tax	**(2,166)**	**1,229**	**405**	**-**	**-**	**(6,048)**	**(6,581)**
Profit/(Loss) for the year	**222,512**	**116,594**	**37,572**	**264,873**	**(1,710)**	**(127,625)**	**512,217**

At 31 December 2021	Thousands of EUR						
	Office buildings	Net Lease	Shopping Centers	Logistics	Other	Corporate Unit	Total for Group
Investment property	6,538,755	1,607,538	2,200,030	1,548,169	402,764	-	12,297,257
Non-current financial assets-	20,756	178,578	23,667	8,669	523	127,597	359,791
Derivatives	-	167,080	-	-	-	-	167,080
Other financial assets	20,756	11,498	23,667	8,669	523	127,597	192,711
Deferred tax assets	1,009	3,685	80	3,668	-	75,367	83,808
Other non-current assets	4,508	-	28	2,528	1,273	485,201	493,538
Non-current assets	**6,565,028**	**1,789,801**	**2,223,805**	**1,563,034**	**404,561**	**688,165**	**13,234,393**
Trade receivables	9,415	897	13,707	6,046	2,093	7,468	39,626
Other current financial assets	182	520	231	121	9	81,855	82,919
Other current assets	51,292	26,543	185,606	30,809	47	621,601	915,898
Current assets	**60,889**	**27,961**	**199,544**	**36,976**	**2,148**	**710,925**	**1,038,443**
Total assets	**6,625,917**	**1,817,762**	**2,423,349**	**1,600,010**	**406,710**	**1,399,090**	**14,272,837**
Non-current bank borrowings	14,911	682,867	-	69,048	-	4,891,884	5,658,709
Other non-current liabilities	330,679	43,186	223,080	78,051	18,643	156,937	850,576
Non-current liabilities	**345,590**	**726,053**	**223,080**	**147,099**	**18,643**	**5,048,821**	**6,509,285**
Current liabilities	**36,374**	**14,212**	**23,438**	**9,871**	**7,910**	**644,825**	**736,630**
Total liabilities	**381,964**	**740,265**	**246,518**	**156,970**	**26,553**	**5,693,646**	**7,245,915**

Segment information about these businesses at 31 December 2020 is presented below:

2020	Thousands of euros						
	Office buildings	Net Lease	Shopping Centers	Logistics	Other	Corporate Unit	Group total
Rental income	221,974	86,153	68,437	56,652	7,846	-	441,062
Income from services rendered	3,098	-	699	-	-	1,273	5,070
Net income	225,072	86,153	69,136	56,652	7,846	1,273	446,132
Other operating income	1,670	-	623	147	77	123	2,640
Staff costs	-	-	-	-	-	(40,888)	(40,888)
Operating expenses	(28,059)	(932)	(16,124)	(3,339)	(1,463)	(17,018)	(66,936)
Gains or losses on disposals of non-current assets	-	162	(14,350)	(1)	(111)	-	(14,300)
Depreciation and amortisation charge	(495)	-	-	-	(13)	(1,106)	(1,614)
Excessive provisions	(38)	-	-	-	-	8	(30)
Changes in fair value of investment property	57,860	12,575	(206,125)	79,436	(28,214)	-	(84,468)
							-
Profit/(loss) from operations	**256,010**	**97,958**	**(166,841)**	**132,895**	**(21,878)**	**(57,608)**	**240,536**
Changes in the fair value of financial instruments-							
Changes in fair value of financial instruments - Embedded derivative	-	(15,010)	-	-	-	-	(15,010)
Changes in fair value of financial instruments - Other	-	(8,809)	-	(1,511)	-	(9,822)	(20,142)
Finance income	-	-	-	-	-	3,387	3,387
Finance expenses	(338)	(22,474)	(6,596)	(6,351)	-	(113,895)	(149,653)
Profit/(loss) on disposal of financial instruments	-	-	-	-	-	(62)	(62)
Share of results of companies accounted for using the equity method	-	-	-	-	-	(3,444)	(3,444)
Profit/(Loss) before tax	**255,672**	**51,665**	**(173,437)**	**125,033**	**(21,878)**	**(181,444)**	**55,612**
Income tax	**(3,171)**	**659**	**10,773**	**-**	**-**	**(7,515)**	**746**
Profit/(Loss) for the year	**252,502**	**52,324**	**(162,664)**	**125,033**	**(21,878)**	**(188,959)**	**56,358**

At 31 December 2020	Thousands of euros						
	Office buildings	Net Lease	Shopping Centers	Logistics	Other	Corporate Unit	Group total
Investment property	6,452,502	1,737,911	2,207,456	1,317,904	423,573	-	12,139,347
Non-current financial assets-	23,639	120,762	12,569	9,192	7	226,578	392,747
Derivatives	-	107,910	-	-	-	-	107,910
Other financial assets	23,639	12,852	12,569	9,192	7	226,578	284,837
Deferred tax assets	1,077	3,707	787	3,782	-	78,116	87,469
Other non-current assets	4,820	-	45	50	893	436,387	442,194
Non-current assets:	**6,482,038**	**1,862,381**	**2,220,857**	**1,330,928**	**424,474**	**741,081**	**13,061,757**
Trade receivables	5,312	409	14,408	5,317	585	7,336	33,368
Other current financial assets	202	1,123	306	364	2	77,368	79,365
Other current assets	42,915	25,960	68,459	15,789	24	149,975	303,122
Current assets	**48,430**	**27,493**	**83,172**	**21,470**	**612**	**234,679**	**415,856**
Total assets	**6,530,468**	**1,889,873**	**2,304,030**	**1,352,398**	**425,085**	**975,760**	**13,477,612**
Non-current bank borrowings and debenture issues	16,643	726,366	-	68,243	-	4,946,646	5,757,899
Other non-current liabilities	330,719	46,910	222,706	77,556	1,760	164,536	844,186
Non-current liabilities	347,363	773,277	222,706	145,799	1,760	5,111,182	6,602,085
Current liabilities	40,399	11,203	27,216	17,717	2,850	79,876	179,260
Total liabilities	**387,762**	**784,480**	**249,922**	**163,516**	**4,610**	**5,191,057**	**6,781,345**

c. 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 tables summarises ordinary income and non-current investment property for each of the assets held by the Group by geographical area:

2021

	Thousands of EUR			
	Rental income	%	Investment property (a)	%
Madrid	213,591	46%	6,668,450	54%
Catalonia	75,608	16%	1,760,543	14%
Andalusia	23,928	5%	449,825	4%
Valencia	19,723	4%	413,908	3%
Galicia	17,525	4%	376,309	3%
Castilla-La Mancha	21,638	5%	632,594	5%
Basque Country	17,685	4%	388,563	3%
Rest of Spain	28,331	6%	669,044	5%
Portugal	44,434	10%	1,105,101	9%
Total	462,463	100%	12,464,337	100%

(a) Also includes the amount of the embedded derivative described in Note 10.

2020

	Thousands of euros			
	Rental income	%	Investment property (a)	%
Madrid	216,868	49%	6,518,339	53%
Catalonia	75,036	17%	1,837,549	15%
Andalusia	21,021	5%	441,517	4%
Valencia	16,936	4%	398,190	3%
Galicia	13,710	3%	373,993	3%
Castilla-La Mancha	17,006	4%	540,051	4%
Basque Country	15,843	4%	380,386	3%
Rest of Spain	28,548	6%	672,634	5%
Portugal	36,094	8%	1,084,598	9%
Total	**441,062**	**100%**	**12,247,257**	**100%**

(a) Also includes the amount of the embedded derivative described in Note 10

d. Main customers

The table below lists the most significant tenants as of 31 December 2021, and the primary characteristics of each of them:

2021

Position	Name	Type	% of total rental income	% of total	Maturity
1	BBVA	Net lease	15.9%	15.9%	2039-2040
2	Endesa	Offices	3.7%	19.6%	2022-2030
3	Inditex	Logistics and shopping centers	2.8%	22.4%	2022-2024
4	Técnicas Reunidas	Offices	2.1%	24.5%	2025
5	Community of Madrid	Offices	2.1%	26.6%	2022-2031
6	PricewaterhouseCoopers, S.L.	Offices	1.5%	28.1%	2028
7	Indra	Offices	1.5%	29.6%	2024-2026
8	BPI	Offices	1.4%	31.0%	2031
9	FNAC	Shopping centers	1.4%	32.4%	2022-2025
10	Hotusa	Hotels	1.3%	33.7%	2028

2020

Position	Name	Type	% of total rental income	% of total	Maturity
1	BBVA	Net lease	16.1%	16.1%	2022-2040
2	Endesa	Offices	3.7%	19.8%	2021-2030
3	Inditex	Logistics and shopping centers	2.9%	22.7%	2022-2024
4	Técnicas Reunidas	Offices	2.1%	24.8%	2021-2022
5	Community of Madrid	Offices	1.9%	26.7%	2021-2030
6	PricewaterhouseCoopers, S.L.	Offices	1.6%	28.3%	2022
7	Indra Sistemas, S.A.	Offices	1.4%	29.7%	2024
8	Hotusa	Hotels	1.4%	31.1%	2023
9	Caprabo	Net lease	1.4%	32.5%	2026
10	FNAC	Shopping Centers	1.3%	33.8%	2022

7. Investment property

The breakdown of and changes in items included under the Investment Property heading in the consolidated statement of financial position in 2021 and 2020 were as follows:

	Thousands of euros	
	2021	2020
Beginning balance	12,139,347	12,169,157
Additions for the year	182,389	251,107
Disposals	(201,487)	(196,449)
Changes in value of investment property	177,008	(84,468)
Ending balance	**12,297,257**	**12,139,347**

Investment property is recognised at fair value. The income recognised in the 2021 consolidated income statement from measuring investment property at fair value amounted to EUR 177,008 thousand (EUR 84,468 thousand in losses in 2020).

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

The additions and assets acquired in 2021 and 2020 were as follows:

	Thousands of euros	
	2021	2020
Purchases/Additions:		
Offices	20,738	15,411
Logistics	18,947	14,095
Improvements to assets	142,704	221,601
	182,389	**251,107**

The additions made in 2021 correspond to the purchase of an office building and the purchase of vertical building rights on a plot zoned for office use in Madrid for an amount of EUR 21 million, and the acquisition of two plots of land zoned for logistics use in Madrid and Valencia for a total amount of EUR 19 million.

The remaining additions in 2021 corresponded to improvement and adaptation works carried out in certain properties owned by the Group, including, among others, the office buildings at Castellana 85, Avenida de Burgos 208, Plaza Ruiz Picasso and Castellana 280 in Madrid, in Torre Glories, Pere IV in Barcelona and the Monumental building in Lisbon. In the Porto Pí and Saler shopping centers and in the logistics developments located in the Madrid region.

The disposals made in 2021 correspond mainly with the sale of 32 Caprabo supermarkets, an office building in Madrid and four logistics warehouses, having obtained a positive result of EUR 4,057 thousand recorded under the heading "Gains or losses on disposals of non-current assets" of the consolidated profit and loss account.

The additions made in 2020 corresponded to an office building in Barcelona in the amount of EUR 15 million and to the acquisition of a logistics landplot in Azuqueca (Guadalajara).

The other additions in 2020 refer to the improvement and adaptation work carried out on certain properties owned by the Group, most notably the El Saler Shopping Centre in Valencia, X Madrid and Porto Pi in Palma de Mallorca, and the development of Monumental, Castellana 85, Torre Glóries and

Diagonal 605 in the Office segment and certain logistics warehouses in Azuqueca, Lisbon, San Fernando de Henares and Seville.

The losses in 2020 correspond to the contribution of three trading venues to the investee Silicius Real Estate Socimi (see Note 3) and to the sale of certain assets leased from subsidiary Tree, having obtained a positive result of EUR 161 thousand registered under the heading 'Profit/(losses) on disposal of assets' of the attached consolidated income statement.

At 31 December 2021, the Group had pledged real estate assets totalling EUR 2,039,558 thousand (EUR 1,980,286 thousand in 2020) to secure various loans and derivative financial instruments, the balances of which at 31 December 2021 amounted to EUR 756,498 thousand and EUR 73,265 thousand (EUR 764,937 thousand and EUR 112,298 thousand in 2020), respectively (see Note 14). The Group holds no rights of use, seizure or similar situations with regard to its investment property. The Group did not hold financial leases in 2021 and 2020.

All the properties included under "Investment property" were insured as of 31 December 2021.

As of 31 December 2021, the Group had firm purchase commitments for investment property amounting to EUR 7,455 thousand, without considering the investments committed in constructions and improvements.

In 2021 and 2020 no finance costs were capitalised in the cost of constructing the properties.

In relation to the Group's commitment to climate change management (see note 23), on 31 December 2021, 91% of its office buildings, 85% of its logistics assets and 97% of its shopping centers were certified under BREEAM and LEED standards, with 26 new assets having been certified during the 2021 financial year

Fair value measurement and sensitivity

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

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

The market value of the Group's investment property as of 31 December 2021 and 2020, calculated based on 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 12,402,279 thousand (EUR 12,180,759 in 2020). This valuation includes the value of the implied derivative of the lease income with BBVA amounting to EUR 167,080 thousand and EUR 107,910 thousand as of 31 December 2021 and 2020, respectively; it does not include advances paid by the Group to third parties for the purchase of assets amounting to EUR 27,253 thousand (EUR 34,450 thousand in 2020) and does not include the value of the rights of use registered by application of IFRS 16 amounting to EUR 34,805 thousand (EUR 32,048 thousand in 2020). 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). In relation to the fair value of the rights of use, the group also obtains valuations from independent third parties.

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

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

- Term of the lease, collateral terms and guarantees and creditworthiness of the tenant.
- Location of the premises within the city (downtown, 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.

The fees paid by the Group to valuers for appraisal services rendered up to 31 December 2021 and 2020 were as follows

	Thousands of euros	
	2021	2020
Valuation services	646	656
	646	**656**

Breakdown of fair value of investment property

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

2021

	Thousands of euros			
	Total	Level 1	Level 2	Level 3
Fair value measurement				
Investment property:				
Offices-				
Land	2,262,569			2,262,569
Buildings	4,276,185			4,276,185
Net lease-				
Land	336,624			336,624
Buildings	1,270,914			1,270,914
Shopping centers-				
Land	458,729			458,729
Buildings	1,741,301			1,741,301
Logistics-				
Land	352,703			352,703
Buildings	1,195,467			1,195,467
Other-				
Land	184,524			184,524
Buildings	218,240			218,240
Total assets measured at fair value	**12,297,257**			**12,297,257**

2020

	Thousands of euros			
	Total	Level 1	Level 2	Level 3
Fair value measurement				
Investment property:				
Offices-				
Land	2,231,069			2,231,069
Buildings	4,221,433			4,221,433
Net lease-				
Land	382,218			382,218
Buildings	1,355,694			1,355,694
Shopping centers-				
Land	459,984			459,984
Buildings	1,747,472			1,747,472
Logistics-				
Land	262,322			262,322
Buildings	1,055,582			1,055,582
Other-				
Land	198,326			198,326
Buildings	225,247			225,247
Total assets measured at fair value	**12,139,347**			**12,139,347**

No assets were reclassified from one level to another during 2021 or 2020. At 31 December 2021, the gross surface areas and occupancy rates of the assets were as follows:

2021

	Square metres (*)										Occupancy rate (%)
	Comm. of Madrid	Catalonia	Comm. of Valencia	Galicia	Gross leasable Andalusia	area Basque Country	Castilla-La Mancha	Rest of Spain	Portugal	Total	
Offices	852,268	211,179	—	—	15,078	—	—	4,488	121,036	1,204,049	90.1%
Net lease	56,639	44,931	26,799	16,143	26,889	23,102	8,354	84,196	—	287,053	100.0%
Shopping centers	75,689	64,096	64,341	100,577	37,956	25,922	—	32,795	60,098	461,474	94.2%
Logistics	330,374	131,624	61,604	—	138,777	99,491	518,694	42,343	45,171	1,368,078	97.1%
Other	38,354	20,540	—	5,898	—	46	—	—	—	64,838	97.3%
Total surface area	**1,353,324**	**472,370**	**152,744**	**122,618**	**218,700**	**148,561**	**527,048**	**163,822**	**226,305**	**3,385,492**	
% weight	**40.0%**	**14.0%**	**4.4%**	**3.6%**	**6.5%**	**4.4%**	**15.6%**	**4.8%**	**6.7%**	**100.0%**	

(*) Not including square metres of ongoing projects or land

2020

	Square metres (*)										
	Comm. of Madrid	Catalonia	Comm. of Valencia	Galicia	Gross leasable Andalusia	area Basque Country	Castilla-La Mancha	Rest of Spain	Portugal	Total	Occupancy rate (%)
Offices	866,461	210,120	-	-	15,078	-	-	4,488	95,679	1,191,825	91.1%
Net lease	56,639	108,150	26,799	16,143	27,159	23,102	8,354	84,196	-	350,542	99.7%
Shopping centers	75,678	64,096	64,693	100,475	37,956	25,922	-	32,795	60,098	461,714	93.7%
Logistics	308,271	148,435	61,604	-	124,725	99,491	425,426	53,764	-	1,221,716	97.5%
Other	61,034	20,540	-	5,898	-	46	-	-	-	87,517	97.1%
Total surface area	**1,368,083**	**551,341**	**153,096**	**122,516**	**204,918**	**148,561**	**433,780**	**175,243**	**155,777**	**3,313,314**	
% weight	**41.3%**	**16.7%**	**4.6%**	**3.7%**	**6.2%**	**4.5%**	**13.1%**	**5.3%**	**4.7%**	**100.0%**	

(*) Not including square metres of ongoing projects or land

Hypotheses used in the valuation

In relation to the determination of the value of the fair value of investment property, the significant unobservable input data used in the measurement of fair value relates to market rents (considered in each cash flow projection period), the exit yield (as a key factor in the exit value of the asset in year 10), and the required internal rate of return (the "IRR", the rate used for the discounted cash flow projections).

The quantitative information on the significant non-observable input data used in measuring fair value is shown below.

2021

	Exit Yield	Discount rate
Offices	3,00% - 7,25%	4,75% - 10,50%
Net Lease	7,00%(*)	8,75%(*)
Shopping centres	3,50% - 8,00%	5,75% - 10,75%
Logistics	4,00% - 6,25%	5,25% - 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. In 2021, the Group sold 32 out of the 33 supermarkets included in this segment.

2020

	Exit Yield	Discount rate
Offices	3,00% - 7,25%	4,75% - 10,50%
Net Lease	5,00% - 7,00%(*)	6,50% - 8,25%(*)
Shopping centres	3,50% - 8,00%	6,00% - 10,75%
Logistics	4,50% - 9,00%	6,50% - 15,00%
Other	4,00% - 7,50%	4,00% - 15,50%

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

Market rents: the amounts per square metre used in the valuation have ranged between 2.25 and 79.21 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. It should be noted that the minimum range relates to a logistics asset and the maximum range is a retail asset located in a prime zone.

Analysis of the sensitivity of the hypotheses

The effect of one-quarter, half and one point changes in the required rates of return (the 'IRR', the rate used for the discounted cash flow projections) on the market value of the assets, on investment property in consolidated assets and in the consolidated income statement, would be as follows:

31 December 2021

	Thousands of EUR					
	31.12.2021					
	Assets			Consolidated profit/loss before tax		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Increase in IRR	(239,014)	(472,342)	(922,545)	(239,014)	(472,342)	(922,545)
Decrease in IRR	244,856	495,716	1,016,120	244,856	495,716	1,016,120

31 December 2020

	Thousands of EUR					
	31.12.2020					
	Assets			Consolidated profit/loss before tax		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Increase in IRR	(235,577)	(465,561)	(909,348)	(235,577)	(465,561)	(909,348)
Decrease in IRR	241,322	488,549	1,001,374	241,322	488,549	1,001,374

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

31 December 2021

	Thousands of EUR					
	31.12.2021					
	Assets			Consolidated profit/loss before tax		
	1%	5%	10%	1%	5%	10%
Increase in rents	82,531	412,657	825,314	82,531	412,657	825,314
Decrease in rents	(82,531)	(412,657)	(825,314)	(82,531)	(412,657)	(825,314)

31 December 2020

	Thousands of EUR					
	31.12.2020					
	Assets			Consolidated profit/loss before tax		
	1%	5%	10%	1%	5%	10%
Increase in rents	80,798	403,992	807,984	80,798	403,992	807,984
Decrease in rents	(80,798)	(403,992)	(807,984)	(80,798)	(403,992)	(807,984)

The effect of one-quarter, one-half and one point changes in the considered exit yields, 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:

31 December 2021

	Thousands of euros					
	Assets			Consolidated profit/loss before tax		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Increase in exit yield	(378,059)	(721,538)	(1,322,144)	(378,059)	(721,538)	(1,322,144)
Decrease in exit yield	418,137	883,082	1,988,801	418,137	883,082	1,988,801

31 December 2020

	Thousands of euros					
	Assets			Consolidated profit/loss before tax		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Increase in exit yield	(370,941)	(708,138)	(1,298,183)	(370,941)	(708,138)	(1,298,183)
Decrease in exit yield	410,016	865,626	1,947,851	410,016	865,626	1,947,851

The details of the 'Change in value of investment property' in the consolidated income statement are as follows:

Type of asset	Thousands of euros	
	2021	2020
Offices	30,948	57,860
Net lease	(18,489)	12,575
Shopping centers	(36,023)	(206,125)
Logistics	206,989	79,050
Other	(6,417)	(27,828)
	177,008	**(84,468)**

Accordingly, the impact on the consolidated income statement of the revaluations of the Group's real estate assets in 2021, taking into consideration all headings affected in the consolidated income statement, is as follows:

	Thousands of euros	
	2021	2020
Changes in fair value of investment property	177,008	(84,468)
Changes in the fair value of derivatives	59,170	(15,010)
Effect on the income statement	**236,178**	**(99,478)**

8. Operating leases

8.1 Operating leases – Tenant

The Group, in its position as a tenant, only maintains short-term and low-value leases, which, following an analysis of the application of IFRS 16, recognises them as a straight-line expense over the lease term. In 2021, the Group recorded an expense of EUR 699 thousand (EUR 698 thousand in 2020) included under ‘Other operating expenses’ in the accompanying consolidated income statement.

8.2 Operating leases – Landlord

The occupancy rates of the leased buildings at 31 December 2021 were as follows:

	Occupancy rate (%)	
	2021	2020
Offices	90.1	91.1
Net lease	100.0	99.7
Shopping centres	94.2	93.7
Logistics	97.1	97.5
Other	97.3	97.1

At 31 December 2021, the ordinary income from and the fair value of each of the assets were as follows:

2021

	Thousands of euros	
	Gross rental income (a)	Fair value (b)
Offices	228,560	6,538,755
Net lease	85,631	1,774,619
Shopping centers	114,894	2,200,030
Logistics	65,950	1,548,169
Other	10,285	402,764
	505,319	**12,464,337**

(a) The gross income indicated in the table above refers to the rental income (Note 6) of the properties, accrued since their incorporation into the Group, without taking into account credits (including those related to COVID-19), and rental income straight-lining.

(b) Includes investment property and the embedded derivative (Note 10).

2020

	Thousands of euros	
	Gross rental income (a)	Fair value (b)
Offices	233,215	6,452,502
Net lease	86,513	1,845,822
Shopping centers	114,375	2,207,456
Logistics	58,861	1,332,145
Other	10,484	409,332
	503,448	**12,247,257**

(a) The gross income indicated in the table above refers to income from leases (Note 6) of the properties accrued since their incorporation into the Group, without taking into account credits and rental income straight-lining.

(b) Includes investment property and the embedded derivative (Note 10).

The leases held between the Group and its customers include a fixed rent and, where applicable, a variable rent linked to the lessee's performance.

At 31 December 2021, the future minimum lease payments under non-cancellable operating leases (calculated at the nominal amount) are as follows:

	Thousands of euros	
	2021	2020
Within one year	470,266	465,952
Between one and five years	1,060,956	995,712
2023	368,956	365,352
2024	290,160	270,086
2025	221,148	205,027
2026	179,982	155,247
After five years	1,206,254	1,240,890
	2,737,496	**2,701,989**

In 2021, the Group recorded EUR 4,477 thousand (EUR 4,895 thousand in 2020) due to lease income relating to variable lease payments not fixed to a rate or an index.

9. Investments accounted for using the equity method

The changes in 2021 in investments in companies accounted for using the equity method are as follows:

	Thousands of EUR	
	2021	2020
Beginning balance	434,127	346,972
Additions made during the year	3,018	92,140
Derecognitions made during the year	(4,003)	—
Transfers	18,650	—
Dividends	(3,568)	(1,541)
Profit/(Loss) for the year	34,560	(3,444)
Ending balance	**482,784**	**434,127**

In relation to the investments held by the equity method, the additions for the year correspond mainly to the capital contribution made in Distrito Castellana Norte, S.A. as a result of the capital increase made during the year, which has led to an increase of EUR 2,922 thousand for the Group. On the other hand, the decrease corresponds to the effect of the refund of the share premium of Silicius Real Estate SOCIMI, S.A.

In 2021, the amount associated with the value of the purchase option held by Silicius Real Estate SOCIMI, S.A. on the interest held by the Group was transferred to "Other non-current financial liabilities" (Derivatives). This amount was presented, to date, by adjusting the fair value of the stake held. Its final settlement will not be made in cash but will involve, where appropriate, an adjustment to the value of the holding in Silicius Real Estate SOCIMI, S.A.

The other changes relate to the results obtained by the investees in 2021 and to the acquisition of Edged Spain, S.L. (Note 3).

The main changes in 2020 were as follows:

On 27 February 2020, the Parent acquired a stake in Silicius Real Estate, S.L., which represented an increase of EUR 91,021 thousand corresponding to 17.19% of the shares (see Note 3). In 2020, Silicius Real Estate, S.L., carried out capital increase by means of non-monetary contribution, in which the Parent did not participate, and the percentage of ownership was therefore diluted. At 31 December 2020, this ownership stake was 15.29% with a consolidated net value of EUR 70,542 thousand as a result of including the profit/loss attributable to the Parent Company after standardising the accounting criteria on fair value.

The detail of investments in companies accounted for using the equity method and the profit/loss attributable to the Group at 31 December 2021 is as follows:

2021

Associate	Line of business	Registered office	Percentage of Ownership	Thousands of euros	
				Investment	Profit/(loss) Attributable to the Group
Distrito Castellana Norte, S.A	'Operación Chamartín' construction development and property operation	Madrid	14,46%	171,899	(410)
Silicius Real Estate SOCIMI, S.A.	Sale and lease of property	Madrid	15,26%	93,182	7,991
Centro Intermodal de Logística, S.A.	Management of the port concession of the logistics activity area	Barcelona	48.50%	178,982	28,021
Paseo Comercial Carlos III, S.A.	Lease of Shopping centre	Madrid	50%	29,718	(1,712)
Provitae Centros Asistenciales, S.L.	Healthcare services	Madrid	50%	3,514	5
Other investments		-		5,490	664
				482,784	**34,560**

2020

Associate	Line of business	Registered office	Percentage of Ownership	Thousands of euros	
				Investment	Result attributable to the Group
Distrito Castellana Norte, S.A	'Operación Chamartín' construction development and property operation	Madrid	14,46%	169,387	(626)
Silicius Real Estate, S.L. (*)	Sale and lease of property	Madrid	15,29%	70,542	(20,211)
Centro Intermodal de Logística, S.A.	Gestión de la concesión portuaria de la Zona de Logistics activities	Barcelona	48,50%	152,749	25,529
Paseo Comercial Carlos III, S.A.	Lease of Shopping centre	Madrid	50%	31,430	(6,771)
Provitae Centros Asistenciales, S.L.	Healthcare services	Madrid	50%	3,508	(572)
Other investments	-	-		6,511	(795)
				434,127	**(3,444)**

(*) Includes change in value of the derivative held

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

The key business indicators at 100% for the Group's associates (standardised using the regulatory framework applicable to the Group) are as follows:

2021

	Thousands of euros					
	Provitae Centros Asistenciales, S.L.	Paseo Comercial Carlos III, S.A.	Centro Intermodal de Logística S.A. (CILSA)	Distrito Castellana Norte, S.A.	Silicius Real Estate SOCIMI S.A	Other
Non-current assets	17,187	244,246	985,619	6,449	760,574	9,412
Current assets	8	5,312	10,868	168,903	15,830	10,843
Non-current liabilities	(7,666)	6,984	(250,915)	499,153	257,725	(9,665)
Current liabilities	2,212	2,588	20,793	8,976	123,382	2,346
Revenue	—	6,702	66,586	—	28,754	1,905
Profit/(loss) from operations	**11**	**(3,424)**	**54,089**	**(2,833)**	**52,369**	**(3,325)**

2020

	Thousands of euros					
	Provitae Centros Asistenciales, S.L.	Paseo Comercial Carlos III, S.A.	Centro Intermodal de Logística S.A. (CILSA)	Distrito Castellana Norte, S.A.	Silicius Real Estate S.L.	Other
Non-current assets	9,790	148,976	570,155	6,117	667,318	28,913
Current assets	11	4,765	8,106	158,284	49,505	2,533
Non-current liabilities	621	86,840	241,262	499	311,034	13,259
Current liabilities	2,164	4,041	22,047	15,394	49,649	465
Revenue	—	5,460	58,832	—	21,941	1,691
Profit/(loss) from continuing operations	**(1,144)**	**(13,540)**	**50,011**	**(4,327)**	**(33,438)**	**(2,424)**

At the end of the year, there were no indications of impairment on the recoverable value of the investments held, aside from those already recorded.

10. Current and non-current financial assets

The breakdown, by type, of the balance of this heading in the consolidated statement of financial position at 31 December 2021 is as follows:

Classification of financial assets by category:

	Thousands of euros	
	2021	2020
Non current:		
At fair value-		
Derivative embedded in BBVA lease	167,080	107,910
Financial assets at fair value with changes in profit and loss	—	103,775
At cost-		
Equity instruments	6,796	2,595
At amortised cost-		
Loans to third parties	117,702	108,704
Loans to associates	2,773	625
Deposits and guarantees	65,440	69,138
	359,792	**392,747**
Current:		
At fair value-		
Financial assets at fair value with changes in profit and loss	80,964	—
At cost-		
Investments in associates	1,117	2,093
At amortised cost-		
Loans to third parties	236	71,767
Other financial assets	600	5,505
Trade and other receivables	39,625	33,368
	122,545	**112,733**

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

Derivatives

"Derivatives" includes the value of the embedded derivative corresponding to the inflation multiplier included in the lease with BBVA to revise rents annually (see Note 7). The increase in the value of the derivative in 2021 amounts to EUR 59,212 thousand (EUR 16,775 thousand decrease in 2020). Of the variation, EUR 42 thousand, corresponds to the sum the Group collected as part of the sale of the BBVA branches sold in 2021. The rest of the variation, amounting to EUR 59,170 thousand, is recognised under "Change in fair value of financial instruments" in the accompanying 2021 consolidated income statement. The measurement approach used is described in Note 5.7 and is applicable to Level two of the fair value measurement hierarchy established in IFRS 7, as observable inputs but not quoted prices are reflected.

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

2021

Scenario	Thousands of euros	
	Assets	Consolidated profit/loss before tax
+50 bps	43,381	43,381
-50 bps	(34,767)	(34,767)

2020

Scenario	Thousands of euros	
	Assets	Consolidated profit before tax
+50 bps	35,434	35,434
-50 bps	(24,282)	(24,282)

Financial assets at fair value with changes in profit and loss

On 30 July 2021, the Parent sold its ownership interest in Aedas Homes, S.A. equal to 1.70% of its share capital, with no significant impact on the accompanying consolidated financial statements.

At the end of 2020, this heading included 15.29% in Silicius Real Estate, SOCIMI, S.A. for EUR 86,521 thousand, acquired by the Parent through an asset contribution. In the first half of 2021, the Parent sold 353,966 shares for EUR 5,418 thousand, which did not have a significant impact on profits or losses. The ownership stake was reduced to EUR 80,964 thousand after the sale, which the Group reclassified under ‘Current financial assets,’ classified as available-for-sale assets, on the accompanying consolidated statement of financial position due to the maturity of the put option in the short term, with its holding at the end of 2021 being 15.26%.

At 31 December 2021, 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

The “Other non-current financial assets" heading includes the loan provided to Desarrollos Urbanísticos Udra, S.A.U., shareholder of Distrito Castellana Norte, S.A., for a sum of EUR 86,397 thousand, which accrues market rate interest. At 31 December 2021, the outstanding amount was EUR 89,262 thousand in principal and EUR 307 thousand in interest. In relation to the aforementioned loan, the Group has guarantees from the creditor associated with 10% of the shares in the company Distrito Castellana Norte, S.A., not having identified credit risk of the debtor.

Likewise, this heading also includes tenant rent linearisation, marketing expenses and installation expenses amounting to EUR 30,700 thousand.

At the close of 2020, the “Other current financial assets” heading included the loan provided to Juno Holdings 1, S.a.r.l. for EUR 70,000 thousand, which has a bullet repayment on maturity in November 2021. That loan accrues an annual interest rate of 2% due at maturity. On 15 December 2021, the Group received EUR 73,010 thousand, with EUR 70,000 thousand in principal and the rest being interest.

Deposits and guarantees

"Deposits and guarantees" primarily includes the guarantees provided by lessees as security amounting to EUR 64,124 thousand (EUR 66,706 thousand at 31 December 2020), which the Group has deposited with the housing authority (Instituto de la Vivienda) in each region. At 31 December 2021, guarantees provided by lessees as security amounted to EUR 73,842 thousand (EUR 73,376 thousand at 31 December 2020) and were recognised under "Non-current liabilities – Other financial liabilities" on the liability side of the accompanying consolidated statement of financial position for 2021 (see Note 15).

Classification of financial assets by maturity:

The classification of financial assets by maturity at 31 December 2021 and 2020 is as follows:

2021

	Thousands of euros				
	Less than 1 year	From 1 to 5 years	Over 5 years	Undetermined maturity	Total
Derivative embedded in BBVA lease	—	—	167,080	—	167,080
Equity instruments	—	—	—	6,796	6,796
Loans to third parties and associates	236	16,840	103,635	—	120,711
Deposits and guarantees	—	—	—	65,440	65,440
Financial assets at fair value with changes in profit and loss	82,081	—	—	—	82,081
Other financial assets	601	—	—	—	601
Trade and other receivables	39,626	—	—	—	39,626
Total financial assets	**122,544**	**16,840**	**270,715**	**72,236**	**482,335**

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	—	—	107,910	—	107,910
Available-for-sale financial assets	—	103,775	—	—	103,775
Equity instruments	—	—	—	2,595	2,595
Loans to third parties and associates	71,767	10,508	98,821	—	181,096
Deposits and guarantees	—	—	—	69,138	69,138
Investments in Group companies and associates	2,093	—	—	—	2,093
Other financial assets	5,505	—	—	—	5,505
Trade and other receivables	33,368	—	—	—	33,368
Total financial assets	**112,733**	**114,283**	**206,731**	**71,733**	**505,481**

11. Trade and other receivables

At 31 December 2021, the heading “Trade and other receivables” includes the following items:

	Thousands of euros	
	2021	2020
Trade and notes receivable	26,993	19,275
Sales debentures	1,124	937
Associates	525	403
Sundry accounts receivable	4,809	4,380
Staff	184	184
Other receivables from public authorities (Note 17)	19,315	20,222
Impairment of trade receivables	(13,324)	(12,033)
	39,625	**33,368**

“Trade and notes receivable” in the accompanying consolidated statement of financial position at 31 December 2021 mainly included the balances receivable from leasing investment property. In general these receivables are interest free and the terms of collection range from immediate payment on billing to payment at 30 days, while the average collection period is approximately 5 days (5 days in 2020).

At 31 December 2021, a breakdown by age of overdue receivables not considered impaired is as follows:

	Thousands of euros	
	2021	2020
Less than 30 days	1,805	3,500
31 to 60 days	1,136	2,248
61 to 90 days	230	749
More than 90 days	697	555
	3,868	**7,052**

At 31 December 2021 and 2020, no collection rights had been transferred to financial institutions.

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

The changes in the impairment losses and bad debt in 2021 and 2020 were as follows:

	Thousands of euros
Balance at 31 December 2019	**(10,667)**
Charges for the year	(2,224)
Reversals/amounts used	773
Other	85
Balance at 31 December 2020	**(12,033)**
Charges for the year	(2,245)
Reversals/amounts used	1,906
Other	(952)
Balance at 31 December 2021	**(13,324)**

Losses from bad debts amounted to EUR 836 thousand in 2021. The majority of impaired receivables are overdue by more than six months.

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

12. Cash and cash equivalents

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

At 31 December 2021 and 2020, the balance of "Cash and cash equivalents" was freely available, except for EUR 6,534 thousand and EUR 6,748 thousand, respectively, which mainly include a reserve account to cover payment of a quarterly instalment of a syndicated secured loan held by the Group.

13. Equity

The detail of "Equity" and of the changes to it is presented in the consolidated statement of changes in equity.

13.1 Share capital

At 31 December 2021, 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 at 31 December 2021 and the average market price for the fourth quarter amounted to EUR 9.57 and EUR 9.54 per share, respectively.

At 31 December 2021, according to information extracted from the CNMV, in relation to Royal Decree 1362/2007, of 19 October and Circular 2/2007, of 19 December, the shareholders with significant holdings in the share capital of Merlin Properties SOCIMI, S.A., both direct and indirect, in excess of 3% of the share capital, are the following according to public information:

	Shares			% of share capital
	Direct	Indirect	Total	
Banco Santander, S.A.	87,940,821	26,072,122	114,012,943	24.270%
Nortia Capital Investment Holding, S.L.	38,371,083	—	38,371,083	8.168%
BlackRock, INC	—	18,773,897	18,773,897	3.996%

The information from Banco Santander and Manual Lao Hernández (Nortia Capital Investment Holding, S.L.), has been obtained from the company´s Share Register Book, as of 31st December 2021.

13.2 Share premium

The Consolidated Text of the Corporate Enterprise 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 the Company's equity to below the amount of its share capital.

On 27 April 2021, the General Meeting approved the distribution of a dividend of EUR 140,066 thousand charged to the share premium reserve, and the allocation of EUR 25,467 thousand against prior years' losses also charged to it.

13.3 Other reserves

The detail of reserves at 31 December 2021 and 2020 is as follows:

	Thousands of euros	
	2021	2020
To legal reserve	65,133	65,133
Reserves of consolidated companies	2,467,203	2,385,540
Other reserves	33,940	59,202
Total other reserves	**2,566,276**	**2,509,875**

To legal reserve

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

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

At 31 December 2021, the Group had not yet reached the legally required minimum established in the Consolidated Text of the Corporate Enterprise Law.

The legal reserve of companies which have chosen to avail themselves of the special tax regime established in Law 11/2009, of 26 October, governing REITs, must not exceed 20% of share capital. The Articles of Association of these companies may not establish any other type of restricted reserves.

Reserves of consolidated companies

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

	Thousands of euros	
	2021	2020
Merlin Properties SOCIMI, S.A.	962,188	886,692
Tree Inversiones Inmobiliarias, SOCIMI, S.A.	466,118	471,974
Merlin Retail, S.L.U.	102,764	127,179
Merlin Oficinas, S.L.U.	252,800	257,143
Merlin Logística, S.L.U.	372,182	300,892
Varitelia Distribuciones, S.L.	29,469	48,027
Metroparque, S.A.	54,115	73,981
La Vital Centro Comercial y de Ocio, S.L.	9,078	15,568
Global Carihuela Patrimonio Comercial, S.A.	(19,786)	(234)
Sadorma 2003, S.L.	(5,245)	(5,243)
Parques Logísticos de la Zona Franca, S.A.	51,336	38,912
Sevisur Logística, S.A.	25,143	18,361
Innovación Colaborativa, S.A.	(5,135)	(4,114)
Desarrollo Urbano de Patraix, S.A.	210	232
Global Murex Iberia, S.L.	(38)	(30)
The Exhibitions Company, S.A.U.	(57)	(17)
Gescentesta, S.L.U.	773	629
Milos Asset Management, S.L.	(37)	(1)
MP Monumental, S.A.	42,181	42,334
MP Torre A, S.A.	16,067	13,865
MPCVI- Compra e venda Imobiliária, S.A.	15,305	13,796
MPEP-Properties Escritórios Portugal, S.A.	8,172	6,338
VFX Logística, S.A.	(959)	(2,078)
Promosete Investimentos Imobiliarios, S.A.	17,914	14,841
Praça do Marqués-Serviços auxiliares, S.A.	20,592	19,980
Forum Almada – Gestao Centro Comercial, Lda.	10,691	15,828
Torre dos Oceanus Investimentos Inmobiliarios, S.A.	14,907	12,627
Torre Arts, S.A.	15,112	11,492
Torre Fernao Magalhanes, S.A.	11,343	6,566
	2,467,203	**2,385,540**

Dividends

On 27 April 2021, the General Meeting approved the distribution of EUR 140,066 thousand charged to the ‘share premium’ reserve.

On 11 November 2021, the Company's Board approved the distribution of a dividend of EUR 70,033 thousand charged to the profit for 2021.

13.4 Treasury shares

At 31 December 2021, the Parent held treasury shares amounting to EUR 32,305 thousand. The changes in 2021 were as follows:

	Number of Shares	Thousands of euros
Balance at 1 January 2020	**5,077,369**	**56,860**
Additions	26,177	279
Disposals	(267,043)	(2,990)
Balance at 31 December 2020	**4,836,503**	**54,149**
Additions	374	3
Disposals	(1,951,386)	(21,847)
Balance at 31 December 2021	**2,885,491**	**32,305**

The General Meeting held on 10 April 2019 revoked the authorisation granted by the General Meeting of April 2018 in the part not used and then authorised the acquisition of shares by the Company itself or by a Group company, pursuant to section 146 and related provisions of the Corporate Enterprises Act, in accordance with the requirements and restrictions established in prevailing legislation during the five-year period.

The withdrawals of treasury shares amounting to EUR 21,847 thousand (average cost of EUR 11.20 per share) mainly correspond to the first delivery of shares under the ‘17-19 Incentive Plan’ (see Note 15) for EUR 20,986 thousand, and to payments to employees under the flexible remuneration plan for EUR 853 thousand.

The Group has a liquidity agreement for the securities listed on the Lisbon Stock Exchange, with net sales of 364 shares in 2021.

At 31 December 2021, the Parent held treasury shares representing 0.614% of its share capital.

13.5 Capital management

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

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

	Thousands of euros	
	2021	2020
Total financial debt (b)	6,226,854	5,735,023
Less - Cash and cash equivalents and Other current financial assets (a)	(979,990)	(466,540)
Net debt	**5,246,538**	**5,268,483**
Equity	7,026,922	6,696,267
Total capital	**12,273,460**	**11,964,750**
Debt-to-equity ratio	**43%**	**44%**

(a) Includes current financial assets, net of option value corresponding to 15.26% of the shares from Silicius Real Estate SOCIMI S.A. (see Note 10) amounting to EUR 80,964 thousand. In 2020, includes current financial assets, net of option value, corresponding to 15.29% of the shares acquired from Silicius Real Estate SOCIMI S.A. (see Note 10) amounting to EUR 86,521 thousand, and the loan granted by the Parent to Juno Holdings I, S.A.R.L. in 2019 amounting to EUR 70,000 thousand, as an integral part of the sale of a group of real estate assets. In both years, the amount of treasury shares is included as other current financial assets.

(b) Gross debt amounts without considering debt formalisation expenses and unpaid interest due.

13.6 Earning per share

Basic

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

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

	2021	2020
Profit for the year attributable to holders of equity instruments net of the Parent Company (thousands euros)	512,217	56,358
Weighted average number of shares outstanding (thousands)	466,397	464,900
Basic earnings per share (euros)	**1.10**	**0.12**

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

	Number of shares	
	2021	2020
Ordinary shares at beginning of period	469,770,750	469,770,750
Treasury shares	(2,885,491)	(4,836,503)
Average adjustment of outstanding shares	(488,735)	(34,336)
Weighted average number of ordinary shares outstanding at 31 December (shares)	**466,396,524**	**464,899,911**

Diluted

In accordance with paragraph 41 of IAS 33, potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares could reduce the earnings per share of the continuing activities.

As indicated in Note 20, the Group has granted its executives and key personnel 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) and the fulfilment of its terms, at 31 December 2021 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:

	2021		
	Thousands of euros	Thousands of shares	Earnings per share
Profit for the year attributable to holders of equity instruments net of the Parent Company (thousands euros)	512,217	-	-
Weighted average number of shares outstanding (thousands)	-	466,397	1.10
Weighted average number of potential ordinary shares to be delivered under the variable remuneration plan (Note 20).	-	5,874	-
Weighted average number of potential ordinary shares not provisioned at market price	-	(95)	-
Diluted earnings per share (euros)	**512,217**	**472,176**	**1.08**

13.7 Valuation adjustments

This heading of the consolidated statement of financial position includes changes in the value of financial derivatives designated as cash flow hedges. Movement in this heading in 2021 was as follows:

	Thousands of euros
Balance at 31 December 2019	**(83,135)**
Changes in the fair value of hedges in the	(16,402)
Balance at 31 December 2020	**(99,537)**
Changes in the fair value of hedges in the year	32,117
Balance at 31 December 2021	**(67,420)**

14. Current and non-current financial liabilities

At 31 December 2021, current and non-current liabilities were as follows:

	Thousands of euros	
	2021	2020
Non current:		
Measured at amortised cost		
Syndicated loan	850,000	850,000
Syndicated loan arrangement expenses	(7,758)	(11,054)
Total syndicated loan	**842,242**	**838,946**
Senior syndicated mortgage loan (Tree)	659,771	670,133
Syndicated mortgage loan arrangement costs (Tree)	(48,106)	(52,276)
Total senior syndicated mortgage loan (Tree)	**611,665**	**617,857**
Revolving credit facility	—	—
Unsecured loan	29,000	29,000
Secured loans	84,987	84,637
Loan arrangement expenses	(5,220)	(5,688)
Total other loans	**108,767**	**107,949**
Debentures and bonds	4,042,786	4,091,086
Debenture issue expenses	(25,216)	(25,284)
Total debentures and bonds	**4,017,570**	**4,065,802**
Total amortised cost	***5,580,244***	***5,630,554***
Measured at fair value		
Derivative financial instruments	78,465	127,345
Total at fair value	***78,465***	***127,345***
Total non-current	**5,658,709**	**5,757,899**
Current:		
Measured at amortised cost		
Syndicated loan	644	644
Senior syndicated mortgage loan (Tree)	10,573	9,016
Debentures and bonds	588,622	36,291
Mortgage loans	1,814	1,795
Revolving credit facility	410	404
Non-mortgage loan	123	125
Loan arrangement expenses	(467)	—
Total amortised cost	**601,719**	**48,275**
Measured at fair value		
Derivative financial instruments	1,289	1,277
Total at fair value	1,289	1,277
Total current	**603,008**	**49,552**

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 24 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. On 4 June 2021, Standard & Poor's again ratified the rating of ‘BBB’ with stable outlook.

Additionally, on 17 October 2016, the Company was given a “Baa2” investment grade credit rating by Moody’s. On 27 May 2020, Moody's updated this rating to “Baa2” with a negative outlook due to the Covid-19 pandemic. On 3 December 2021, Moody's updated the rating to ‘Baa2’ with stable outlook.

14.1 Loams

The detail of loans at 31 December 2021 is as follows:

2021

	Thousands of euros				
	Bank borrowings				
	Initial loan / Limit	Expenses incurred from formalising loans (Note 14.5)	31.12.2021		Short-term interest
			Long term	Short term	
Syndicated loan	850,000	(7,758)	850,000	—	644
Unsecured loan	160,200	(42)	29,000	—	123
Revolving credit facilities	700,000	(3,055)	—	—	410
Senior syndicated secured loan (Tree)	716,894	(48,106)	659,771	9,990	583
Secured loans - other assets	88,900	(2,123)	84,987	1,750	64
	2,515,994	**(61,084)**	**1,623,758**	**11,740**	**1,824**

2020

	Thousands of euros				
	Bank borrowings				
	Initial loan / Limit	Expenses incurred from formalising loans (Note 14.5)	31.12.2020		Short-term interest
			Long term	Short term	
Syndicated loan	850,000	(11,054)	850,000	—	644
Unsecured loan	115,000	(47)	29,000	—	125
Revolving credit facilities	700,000	(3,026)	—	—	404
Senior syndicated secured loan (Tree)	716,894	(52,276)	670,133	8,443	573
Secured loans - other assets	88,900	(2,615)	84,637	1,724	71
	2,470,794	**(69,018)**	**1,633,770**	**10,167**	**1,817**

Syndicated loan and revolving credit facilities - 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 due in 2024.

The initial maturity date for this revolving credit facility was 2024, with the possibility of two optional one-year extensions. The second one-year extension was approved on 30 June 2021, and the new maturity date is 9 May 2026.

The corporate loan accrues an interest rate of the one-month EURIBOR + 120 basis points, while the revolving credit facility yields an interest rate of the one-month EURIBOR + 90 basis points, and both incorporate a cost adjustment mechanism based on four sustainability criteria.

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. On 17 July 2020 the Group repaid the full amount drawn down from its credit facility.

In accordance with IFRS 9, the Group assessed in 2019 the nature of the refinancing undertaken previously, concluding that it does not represent a substantial change (10% test). Therefore, the difference between the value of the old debt at amortised cost and the new debt discounted at the effective interest rate of the old debt was recognised in 2019 as a lower financial expenses of EUR 7,797 thousand under "Financial expenses" in the consolidated income statement. This amount will revert to the consolidated income statement for subsequent years in accordance with the effective interest rate of the debt. In 2021, the application of the amortised cost in relation to these concepts involved a financial cost of EUR 1,790 thousand (EUR 1,795 thousand in 2020).

This facility maintains the commitments to maintain certain coverage ratios existing in the previous facility, the Group's bonds and the European Investment Bank loan. These ratios are defined as the ratio between the value of the assets over the outstanding debt ('Loan to Value'), the ratio between the group's income and its debt coverage ('ICR') and the ratio between assets and debt, both without collateral ('Unencumbered Ratio'). The Parent's directors have confirmed that these ratios were met at 31 December 2021 and do not expect that they will not be fulfilled in the coming years.

Unsecured loan of the Parent

On 20 December 2018, the Parent took out an unsecured loan from the European Investment Bank in an amount of EUR 51,000 thousand and with a 10-year maturity. On 4 November 2019, the Parent formalised the second tranche of the unsecured loan from the European Investment Bank amounting to EUR 64,000 thousand, with the two tranches totalling EUR 115,000 thousand. This loan has a maturity of 10 years. This credit facility shall be allocated to the development of logistical assets in the Castilla–La Mancha region.

On 10 March 2020 and 26 October 2020, the Group drew down EUR 23,400 thousand and EUR 5,600 thousand corresponding to the first tranche of the facility. This loan accrues a fixed interest rate of 60 basis points.

On 16 December 2021, the Parent took out an unsecured loan from the European Investment Bank in an amount of EUR 45,200 thousand and with a 10-year maturity. This financing will be used to make investments in energy efficiency. At year-end, this loan was not drawn down.

The credit facility includes commitments to maintain certain coverage ratios. These ratios are defined as the ratio between the value of the assets over the outstanding debt ('Loan to Value'), the ratio between the group's income and its debt coverage ('ICR') and the ratio between assets and debt, both without collateral ('Unencumbered Ratio'). The Parent's directors have confirmed that these ratios were met at 31 December 2021 and do not expect that they will not be fulfilled in the coming years.

Syndicated loans - Subsidiaries

Syndicated unsecured loan taken out by Sevisur Logística, S.A. for EUR 31,000 thousand in principal, maturing in September 2020. This facility consists of two tranches of EUR 25,000 and 6,000 thousand, with a market rate of EURIBOR + 125 and 200 basis points, respectively. In 2020, the company repaid it.

Senior syndicated mortgage loan (Tree):

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

The refinancing for 2014 and the first application of IFRS 9 ‘Financial Instruments’ resulted in an increase in reserves and a decrease in debt amounting to EUR 30,592 thousand at 1 January 2018, and an increase in financial expenditure amounting to EUR 10,083 thousand in 2018.

On 29 November 2018, the senior syndicated loan was novated so that the initially scheduled maturity in 2024 was postponed until 31 March 2031 with the possibility of extending the maturity annually for the next 3 years until 31 March 2034. The second of these extensions was approved in 2021. This loan accrues interest at a rate of the 3-month EURIBOR + 120 basis points.

In accordance with IFRS 9, the Group evaluated the nature of the refinancing undertaken in 2018 and concluded that it did not represent a material change (10% test). In accordance with IFRS 9, the difference between the value of the old debt at amortised cost and the new debt updated at the effective interest rate of the old debt was recognised as a financial result. This result will revert to the consolidated income statement for subsequent years in accordance with the effective interest rate of the debt. In 2021, the application of the amortised cost in relation to these concepts involved a financial cost of EUR 3,686 thousand (EUR 4,472 thousand in 2020).

The financing includes commitments to maintain certain coverage ratios, which are standard in these types of real estate companies, such as the loan-to-value ratio, the ratio of the subsidiary’s income used to service the debt (interest coverage ratio, ICR), and a minimum credit rating of BBVA from ratings agencies. The Parent’s directors have confirmed that these ratios were met at 31 December 2021 and do not expect that they will not be fulfilled in the coming years.

Secured loans - other assets

At 31 December 2021, the Group’s subsidiaries had taken out the following mortgage loans:

2021

	Thousands of euros				
Financial institution	Loan Original	Long-term Term	Short-term Term	Interest	Collateral
Caixabank	21,000	14,987	1,750	63	Secured
ING	70,000	70,000	—	1	Secured
	91,000	**84,987**	**1,750**	**64**	

2020

	Thousands of euros				
Financial institution	Loan Original	Long-term Term	Short-term Term	Interest	Collateral
Caixabank	21,000	16,737	1,724	69	Secured
ING	67,900	67,900	—	2	Secured
	88,900	**84,637**	**1,724**	**71**	

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

On 26 April 2019, the Group entered into a novation agreement modifying the secured loan signed on 4 December 2015 with ING Bank N.V. by the subsidiary Merlin Logística S.L.U. The due date for this financial arrangement, originally set to be in 2020, was extended until 2026. This financial arrangement accrues an interest rate of the 3-month EURIBOR + 100 basis points; it includes a cost adjustment mechanism based on four sustainability criteria. On 26 March 2021, the secured loan agreement was changed to increase the loan amount by EUR 2,100 thousand to a total of EUR 70,000 thousand.

This loan requires that the company maintain and comply with certain coverage ratios, such as the loan-to-value ratio and the ratio of the company's income used to service the debt (interest coverage ratio, ICR). The Parent's directors have confirmed that these ratios were met at 31 December 2021 and do not expect that they will not be fulfilled in the coming years.

In accordance with IFRS 9, the Group evaluated the nature of the refinancing undertaken of the previous ING loan and concluded that it did not represent a material change (10% test). Therefore, the difference between the value of the old debt at amortised cost and the new debt discounted at the effective interest rate of the old debt was recognised as a lower financial expenses of EUR 2,291 thousand under "Financial expenses" on the 2019 consolidated income statement. This amount will revert to the consolidated income statement for subsequent years in accordance with the effective interest rate of the debt.

In 2021, the application of the amortised cost in relation to these concepts involved a financial cost of EUR 363 thousand (EUR 363 thousand in 2020).

On 19 February 2015, the Group took out a secured loan from Allianz Real Estate for the Marineda shopping centre. The principal of the loan taken out amounted to EUR 133,600 thousand, it has a term of 10 years, accrues interest at a fixed rate of 2.66% and the principal is repayable in full upon maturity. On 1 September 2020, the Group repaid this financing early.

On 2 October 2015, the Group took out a first-ranking floating-rate secured loan from Caixabank, S.A. on the portfolio made up of 33 property assets in Catalonia. This loan has a principal of EUR 45,500 thousand that will be allocated to finance a portion of the acquisition price of the assets portfolio. It matures in October 2025 and accrues interest at the rate of the 3-month EURIBOR + 150 basis points until the end of the loan, which is payable on a quarterly basis. On 31 July 2020, the Group repaid this financing early.

Maturity of debt

The breakdown by maturity of these loans is as follows:

2021

	Thousands of euros				
	Syndicated Loan	Mortage Senior Tree	Syndicated Secured	Revolving line of credit	Total
2022	—	9,990	1,750	—	11,740
2023	—	9,841	1,777	—	11,618
2024	850,000	9,694	1,803	—	861,497
2025	—	17,426	1,829	—	19,255
2026	—	18,475	71,855	—	90,330
Over 5 years	29,000	604,335	7,723	—	641,058
	879,000	**669,761**	**86,737**	**—**	**1,635,498**

2020

	Thousands of euros				
	Syndicated Loan	Secured Senior Tree	Syndicated Secured	Revolving line of credit	Total
2021	—	8,443	1,724	—	10,167
2022	—	9,996	1,750	—	11,746
2023	—	9,847	1,777	—	11,624
2024	850,000	9,700	1,802	—	861,502
2025	—	17,435	1,824	—	19,259
Over 5 years	29,000	623,155	77,484	—	729,639
	879,000	**678,576**	**86,361**	—	**1,643,937**

The Group had undrawn loans and credit facilities at 31 December 2021 from a number of financial institutions totalling EUR 831 million (EUR 786 million at 31 December 2020).

None of the Group's debt was denominated in non-euro currencies at 31 December 2021 or 2020.

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

The finance cost for interest on the loans totalled EUR 19,752 thousand in 2021 (EUR 25,113 thousand in 2020) and is recognised in the accompanying consolidated income statement for 2021.

At 31 December 2021 and 2020, the debt arrangement expenses had been deducted from the balance of "Bank borrowings". In 2021, the Group charged an expense of EUR 9,617 thousand (in 2020 EUR 13,296 thousand was charged) under the heading 'Financial costs' of the accompanying consolidated income statement (see Note 18.d) related to the debt. This allocation in the accompanying consolidated income statement includes both the first application of IFRS 9 and the allocation of the debt to the income statement at amortised cost.

14.2 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 06 April 2016 and 14 October 2016, respectively, for an overall maximum amount of EUR 2,700 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.

On June 17, 2020, the General Shareholders' Meeting approved the extension of this bond issuance programme up to an amount of EUR 6,000 million, and it was extended on 21 March 2021.

On 7 February 2020, the Parent issued a bond of EUR 100 million at 15 years at 102% of the nominal value and with a coupon of 1.875%, in addition to EUR 500 million of the same bond issued in the fourth quarter of 2019.

On 13 July 2020, the Parent issued a bond of EUR 500 million at 7 years with a coupon of 2.375%. Part of the proceeds were used to repurchase EUR 151.7 million of the bonds expiring in 2022 and EUR 107.2 million of the bonds expiring in 2023. The remainder (EUR 241.1 million) was used for early settlement of secured loans maturing in 2025.

On 30 June 2021, the Parent issued a bond of EUR 500 million at 9 years and at 99.196% of nominal value with a coupon of 1.375%. These funds were used to pay in advance the bond maturing in May 2022 on the 23th February 2022 (see Note 24).

The terms of the bonds issued by the Group abide by UK law and are traded on the Luxembourg Stock Exchange. The bond issue scheme has the same guarantees and ratio compliance obligations as the syndicated loan and the revolving credit facility. At year-end 2021, the Group complied with the covenants set forth in this contract and the directors consider that they will also be met in 2022.

The detail at 31 December 2021 of the bonds issued by Parent is as follows:

2021

Maturity	Face value (Millions of Euros)	Coupon	Listed price	Yield	Market
May 2022	548	2.375%	MS + 53 bp	-0.01%	Ireland (a)
April 2023	743	2.225%	MS + 65 bp	0.169%	Luxembourg
May 2025	600	1.750%	MS + 55 bp	0.405%	Luxembourg
November 2026	800	1.875%	MS + 73 bp	0.708%	Luxembourg
July 2027	500	2.375%	MS + 87 bp	0.897%	Luxembourg
September 2029	300	2.375%	MS + 117 bp	1.319%	Luxembourg
June 2030	500	1.375%	MS + 139 bp	1.603%	Luxembourg
December 2034	600	1.875%	MS + 165 bp	2.058%	Luxembourg
	4,591	2.008%			

2020

Maturity	Face value (Millions of Euros)	Coupon	Listed price	Yield	Market
May 2022	548	2,375%	MS + 36 p.b.	-0,16%	Ireland (a)
April 2023	743	2,225%	MS + 56 p.b.	0,04%	Luxembourg
May 2025	600	1,750%	MS + 98 p.b.	0,51%	Luxembourg
November 2026	800	1,875%	MS + 118 p.b.	0,75%	Luxembourg
July 2027	500	2,375%	MS + 146 p.b.	1,10%	Luxembourg
September 2029	300	2,375%	MS + 164 p.b.	1,32%	Luxembourg
December 2034	600	1,875%	MS + 185 p.b.	1,74%	Luxembourg
	4.091	**2,085%**			

(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 of the bonds abide by UK laws and are traded on the Irish Stock Exchange. This issue also includes a series of compliance obligations and guarantees, which is common in these types of transactions. At year-end 2020, the Group complied with the covenants set forth in this contract and the directors consider that they will be met in 2022. (See Note 24)

These bond issues include commitments to maintain certain coverage ratios. These ratios are defined as the ratio between the value of the assets over the outstanding debt ('Loan to Value'), the ratio between the group's income and its debt coverage ('ICR') and the ratio between assets and debt, both without collateral ('Unencumbered Ratio'). The Parent's directors have confirmed that these ratios were met at 31 December 2021 and do not expect that they will not be fulfilled in the coming years.

The finance cost for interest corresponding to bond issues amounted to EUR 89,330 thousand (EUR 82,109 thousand in 2020, which includes EUR 6,026 thousand corresponding to the premium associated with early bond redemptions) and is included in the accompanying consolidated income statement for 2021. The accrued interest payable at 31 December 2021 amounted to EUR 40,322 thousand (EUR 36,291 thousand in 2020). Debt arrangement expenses taken to the consolidated income statement in 2021 amounted to EUR 5,370 thousand (EUR 5,610 thousand in 2020).

14.3 Derivatives

The detail of the financial instruments as of 31 December 2021 is as follows:

	Thousands of euros	
	2021	2020
Non current:		
Interest rate derivatives	78,465	127,345
Other (Note 9)	15,134	—
Total non-current	**93,599**	**127,345**
Current:		
Interest rate derivatives	1,289	1,277
Total current	**1,289**	**1,277**

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, except the one related to the investment in Silicius (see Note 9), which is classified as Level 3.

The detail of the derivative financial instruments included in the consolidated statement of financial position at 31 December 2021 is as follows:

2021

	Thousands of euros	
	Assets Financial	Liabilities Financial
Non current:		
Interest rate derivatives	—	78,465
Derivative embedded in contract BBVA lease (Note 10)	167,080	—
Current:		
Interest rate derivatives	—	1,289
Total derivatives recognised	**167,080**	**79,754**

2020

	Thousands of euros	
	Assets Financial	Liabilities Financial
Non-current		
Interest rate derivatives	—	127,345
Derivative embedded in contract BBVA lease (Note 10)	107,910	—
Current		
Interest rate derivatives	—	1,277
Total derivatives recognised	**107,910**	**128,622**

At the end of 2021, the interest rate hedge financial instruments came mainly from the corporate syndicated loan of the Parent, and from the syndicated secured loan of the subsidiary Tree Inversiones Inmobiliarias SOCIMI, S.A.

On the occasion of the refinancing of the syndicated loan of the Parent, a new interest rate swap (IRS) was signed to hedge the extension of the maturity of the financing from 2021 to 2024. The notional contract amounts to EUR 850,000 thousand at a cost of 0.0154%.

On 26 April 2019, the subsidiary Merlin Logística S.L.U., in the framework of the refinancing of the secured loan from ING Bank N.V., signed a new interest rate swap (IRS) to hedge the extension of the maturity of the loan from 2020 to 2026. The notional contract amounts to EUR 67,900 thousand at a cost of 0.31%.

On the occasion of the novation of the secured loan of Tree Inversiones Inmobiliarias SOCIMI, S.A. on 18 December 2018, a new interest rate swap (IRS) was signed to hedge the maturity extension of the secured loan from 2024 to 2031. The notional contract amounted to EUR 662,514 thousand and a cost of 1.693%.

The interest rate derivatives arranged by the Group and their fair values are as follows:

2021

Interest rate	Interest Contracted	Thousands of euros						
		Fair Value	Outstanding notional amount at each date					
			2021	2022	2023	2024	Years years
Syndicated Parent starting 2021)	0.0154%	(6,488)	850,000	850,000	850,000	—	—
Tree Inversiones (ends in 2024)	0.959%	(22,914)	688,405	677,196	665,987	—	—
Tree Inversiones (starts in 2024)	1.693%	(49,255)	—	—	—	660,029	642,065
Other subsidiaries	0.31%	(1,096)	67,900	67,900	67,900	67,900	67,900
		(79,754)	**1,606,305**	**1,595,096**	**1,583,887**	**727,929**	**709,965**

2020

Interest rate	Interest Contracted	Thousands of euros					
		Fair Value	Outstanding notional amount at each date				
			2020	2021	2022	2023	Years years
Syndicated Parent (ending 2021)	0,0981% - (0,12%)	(2,519)	840,000	—	—	—	—
Syndicated Parent starting 2021)	0.0154%	(13,805)		850,000	850,000	850,000	—
Tree Inversiones (ending 2024)	0,959%	(38,975)	698,213	688,405	677,196	665,987	—
Tree Inversiones (starting 2024)	1,693%	(70,457)					660,029
Other subsidiaries	0,31%	(2,866)	67,900	67,900	67,900	67,900	67,900
		(128,622)	**1,606,113**	**1,606,305**	**1,595,096**	**1,583,887**	**727,929**

The Group has opted for hedge accounting, suitably designating the hedging relationships in which these financial instruments are hedging instruments of the financing used by the Group. In this manner, the Group has neutralized flow variations stemming from interest payments and fixed the rate to be paid for said financing. The only derivatives that are highly effective prospectively and retrospectively, cumulatively, since the date of designation, are those associated with the financing of Tree, so their changes in value are recognised in equity.

The Group has recognised in equity the fair value of the derivatives that meet the effectiveness requirements, without considering any tax effect due to adhering to the REIT regime. Under the heading ‘Changes in fair value in financial instruments’ of the consolidated income statement, the Group has registered as a result of derivative financial instruments that have not met the hedge requirements due to ineffectiveness, EUR 9,804 thousand in 2021 (negative EUR 19,856 thousand in 2020).

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

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

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

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

The impact for interest rate derivatives on liabilities and profit or loss before tax of a 50 basis point fluctuation in the estimated credit risk rate at 31 December 2021 and 2020 would be as follows:

2021

Scenario	Thousands of euros		
	Liabilities	Equity	Consolidated profit before tax
5% rise in credit risk rate	(40,881)	28,041	12,840
5% reduction in credit risk rate	42,611	(23,296)	(19,315)

2020

Scenario	Thousands of euros		
	Liabilities	Equity	Consolidated profit before tax
5% rise in credit risk rate	(49.513)	27.331	22.182
5% reduction in credit risk rate	53.641	(11.935)	(41.706)

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

The breakdown of the financing activities and their impact on the Group's cash flows in 2021 was as follows:

2021

	Thousands of euros						
				No impact on cash			
	31/12/2020	Cash flows from financing activities (net)	Interest paid	Reclassifications of debt	Accrued interest	Other adjustments	31/12/2021
Long-term loans	1,633,770	2,100	—	(12,112)	—	—	1,623,758
Short-term loans	11,580	(10,539)	(17,541)	12,112	17,547	(5)	13,154
Long-term revolving credit facilities	—	—	—		—	—	—
Short-term revolving credit facilities	404	—	(2,198)	—	2,205	—	410
Long-term bonds	4,091,086	500,000		(548,300)	—	—	4,042,786
Short-term bonds	36,291	—	(85,299)	548,300	89,330	—	588,622
	5,773,131	**491,561**	**(105,039)**	**—**	**109,082**	**(5)**	**6,268,730**

2020

	Thousands of euros						
				No impact on cash			
	31/12/2019	from financing activities	Interest paid	Reclassifications of debt	Accrued interest	Other adjustments	31/12/2020
Long-term loans	1,802,613	(159,919)	—	(8,924)	—	—	1,633,770
Short-term loans	16,936	(13,359)	(21,679)	8,924	20,758	—	11,580
Long-term revolving credit facilities	—	—	—	—	—	—	—
Short-term revolving credit facilities	161	—	(4,094)	—	4,289	48	404
Bonds	3,784,631	341,086	(80,449)	—	82,109	—	4,127,377
	5,604,341	**167,808**	**(106,222)**	**—**	**107,156**	**48**	**5,773,131**

	Thousands of euros	
	31-12-2021	31-12-2020
Long-term loans	1,623,758	1,633,770
Short-term loans	13,154	11,580
Short-term revolving credit facilities	410	404
Long-term bonds	4,042,786	4,127,377
Short-term bonds	588,622	—
	6,268,730	**5,773,131**
Non-current derivatives	78,465	127,345
Current derivatives	1,289	1,277
Loan arrangement expenses		
Syndicated loan	(7,758)	(11,054)
Senior syndicated secured loan	(48,106)	(52,276)
Debenture issues	(25,683)	(25,284)
Other	(5,220)	(5,688)
Total current and non-current liabilities	**6,261,717**	**5,807,451**

In addition, under the interest rate hedging agreements signed (see Note 14.3), the net balance of the settlements amounted to EUR 15,826 thousand in 2021 (EUR 14,447 thousand in 2020).

14.5 Debt arrangement expenses

Changes in debt arrangement expenses during 2021 and 2020 are as follows:

Thousands of euros					
	31/12/2020	Allocation to profit and loss account – Amortised cost	Impact income statement IFRS 9	Capitalisations of arrangement expenses	31/12/2021
Unsecured loans	14,127	(2,151)	(1,790)	669	10,855
Senior syndicated loan (Tree)	52,276	(1,498)	(3,686)	1,014	48,106
Secured loans - other assets	2,615	(129)	(363)	—	2,123
Debentures and bonds	25,284	(5,370)	—	5,769	25,683
	94,302	**(9,148)**	**(5,839)**	**7,452**	**86,767**

Thousands of euros					
	31/12/2019	Allocation to profit and loss account – Amortised cost	Impact income statement IFRS 9	Capitalisations of arrangement expenses	31/12/2020
Unsecured loans	17,384	(2,214)	(1,795)	752	14,127
Senior syndicated loan (Tree)	57,486	(1,777)	(4,472)	1,039	52,276
Secured loans - other assets	5,652	(2,674)	(363)	—	2,615
Debentures and bonds	26,586	(5,610)	—	4,309	25,284
	107,108	**(12,275)**	**(6,630)**	**6,100**	**94,302**

15. Other current and no-current liabilities

Details of this heading at 31 December 2021 are as follows:

	Thousands of euros			
	2021		2020	
	Non-current	Current	Non-current	Current
Other provisions	11,210		18,296	
Guarantees and deposits received	93,035	1,369	89,326	714
Deferred tax liabilities	681,013	—	684,454	—
Other payables	46,134	6,495	46,260	7,066
Other (Note 9)	15,134	—	—	—
Borrowings from Group companies and associates	4,050	—	5,850	—
Other current liabilities	—	7,668	—	8,342
Total	**850,576**	**15,532**	**844,186**	**16,122**

"Other provisions" includes provisions for the measurement of risk associated with a number of lawsuits and claims filed by third parties arising from the Group's activity, which were recognised in accordance with the best existing estimates, as well as the provision corresponding to the variable retribution that will be disbursed in the long term for a total amount of EUR 3,338 thousand (EUR 9,305 thousand in 2020).

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

"Guarantees and deposits received" primarily 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 REIT regime. Under this regime, gains from the sale of assets are taxed at 0%, provided that certain requirements are met (basically, the assets must have been held by the REIT for at least three years). Any gains from the sale of assets acquired prior to joining the REIT tax regime will be distributed on a straight-line basis (unless proven to be distributed otherwise) over the period during which the REIT owned them. Any gains generated prior to joining the REIT 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 REIT 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 31 December 2021), 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 REIT 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%.

16. Trade and other payables

Details of this heading at 31 December 2021 are as follows:

	Thousands of euros	
	2021	2020
Current		
Suppliers	45,698	49,250
Suppliers - Group companies and associates	63	544
Sundry accounts payable	7,240	30,207
Remuneration payable	21,621	17,476
Other payables to public authorities (Note 17)	22,771	12,497
Advances from customers	16,762	1,138
	114,155	**111,112**

The increase in Remuneration payable relates to the collections made in 2021 of determined amounts in relation to the agreements that the Group has with third parties for the future sale of residential land (see Note 5.2).

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

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

Below are the disclosures required by additional provision three of Spanish Law 15/2010, of 5 July (amended by final provision two of Spanish Law 31/2014, of 3 December), prepared in accordance with the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 January 2016 on the disclosures to be included in the notes to financial statements in relation to the average period of payment to suppliers in commercial transactions.

	Days	
	2021	2020
Average period of payment to suppliers	31.6	31.3
Ratio of transactions settled	31.5	31.2
Ratio of transactions not yet settled	33.7	33.7
	Thousands of Euros	
	2021	2020
Total payments made	239,013	411,847
Total payments pending	4,129	9,502

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

For the sole purpose of providing the information envisaged in this Resolution, suppliers are considered trade payables for debts with suppliers of goods or services included under trade and other payables' on the liability side of the accompanying balance sheet.

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

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

17. Tax situation

a) Tax receivables and tax payables

The detail of the main tax receivables and payables at 31 December 2021 is as follows:

2021

	Thousands of euros			
	Tax assets		Tax liabilities	
	Non-current	Current	Non-current	Current
Public finance for withholdings and other items	—	10,705	—	16,450
VAT	—	8,610	—	6,017
Tax assets	83,808	—	—	—
Corporate income tax	—	—	—	3,935
Payable to the Social Security	—	—	—	304
Deferred tax liabilities	—	—	681,013	—
	83,808	**19,315**	**681,013**	**26,706**

2020

	Thousands of euros			
	Tax assets		Tax liabilities	
	Non-current	Current	Non-current	Current
Public finance for withholdings and other items	—	10,258	—	4,879
VAT	—	9,964	—	7,360
Tax assets	87,469	—	—	—
Corporate income tax	—	—	—	2,474
Payable to the Social Security	—	—	—	258
Deferred tax liabilities	—	—	684,454	—
	87,469	**20,222**	**684,454**	**14,971**

b) Reconciliation of the accounting profit/loss with the taxable profit/tax loss

At 31 December 2021, the taxable profit/loss was calculated as the accounting profit/loss for the year plus the effect of changes in the fair value of investment property, and temporary differences due to the existing limitations. At the reporting date of these financial statements, the Group did not recognise any deferred tax assets in this regard, as it is generally subject to a tax rate of 0% as the Parent and the majority of the subsidiaries adhere to the REIT regime.

The reconciliation of the accounting profit/loss to consolidated income tax expense for the year at 31 December 2021 is as follows:

	Thousands of EUR	
	2021	2020
Profit/(Loss) before tax	518,798	55,612
Permanent differences:		
- Negative goodwill on business combination	-	-
- Absorption of goodwil	-	-
'- Consolidation adjustments to profit or loss	(38,525)	29,050
'- Tax adjustments Operating profit/loss	(46,522)	(32,137)
- Non-deductible finance cost	22,300	40,578
'- Profit and loss accounted for using the equity method	(34,650)	3,444
- Tax adjustments outside the sale of asset	-	-
- Other permanent difference	(92,419)	88,410
Temporary differences:		
'- Changes in the value of investment properties	(177,008)	84,468
'- Adjustments to depreciation and amortisation	(79,589)	(76,144)
Tax loss carryforwards	(4,126)	-
Adjusted taxable profit/loss	**68,349**	**193,282**

The Parent and a significant number of its subsidiaries adhere to the REIT regime. As indicated in Note 5.13, the taxation of this scheme is constructed at a rate of 0%, provided that certain requirements are met.

In relation to the permanent differences/consolidation adjustments to profit or loss, the results of the companies integrated by the equity method are mainly included, and the incorporation of the amortisation expenses of the real estate investments not included under Income before taxes on the attached Annual Consolidated Financial statements.

Temporary differences arose from the change in value of investment property (IAS 40 - Fair value model). In this regard it should be stressed that for those investment properties acquired by companies already under the REIT regime, since the Parent's directors plan and state that investment property acquired by subsidiaries already subject to the REIT tax regime will not be sold within three years, the fair value adjustment in 2021 and 2020 is taxed at 0% and therefore the deferred tax liability is also zero.

c) Reconciliation of tax expense profit/loss

	Thousands of euros	
	2021	2020
Expense/(Income):		
Expense for increase in value of investment property (a)	(300)	2,739
Expense for disposal of properties within the REIT regime (b)	(3,095)	(607)
Expense for disposal of properties outside the REIT regime	179	-
Expense for gain/(loss) at standard rate	(3,833)	(1,692)
Income from adjustments to prior years	-	-
Other items	826	306
Total corporation tax expense	**(6,581)**	**746**
Current tax expense	**(6,318)**	**(2,300)**
Defered tax and other tax items	**(263)**	**3,046**
Total corporation tax expense	**(6,581)**	**746**

a. This corresponds to the increase in the value of the assets of the non-REIT subsidiaries (resident in Portugal, which meet the requirements of section 2[1][c] REITs Act to be considered as eligible assets for the purposes of that regime). The amount is the result of applying the tax rate that the directors consider will be applicable to the capital gains.

b. Adjustment corresponding to the profit arising in the individual financial statements of the Parent Company as a result of the sale of real estate asset resulting from the integration of Metrovacesa whose part of the profit is taxed under the general regime even though it was sold more than 3 years after its acquisition.

d) Deferred tax assets recognised

The detail of the tax loss carryforwards at 31 December 2021 is as follows:

2021

	Thousands of EUR	
	Recognised Amount in tax	Tax credit
Tax loss carryforwards:		
Prior to 2008	-	-
2009	139,838	34,960
2010	6,397	1,599
2011	92,268	23,067
2014	11,142	2,785
2015	2,856	714
2018	718	180
2019	462	116
Total tax loss carryforwards	**253,682**	**63,421**
Other deferred taxes recognised	**81,550**	**20,388**
Total capitalized deferred tax assets	**335,232**	**83,808**

The “Other deferred taxes recognised” heading mainly includes the timing differences caused by the limitation of depreciation of the assets generated by the acquisition of the Testa and Metrovacesa subgroup, and tax deductions pending application, mainly for reinvestment, as well as credit for losses from companies absorbed in previous years.

The deferred tax assets indicated above have been recorded in the consolidated statement of financial position since the Group´s directors consider that, based on the best estimates of the Company’s future results, including certain tax planning measures, it is likely that these assets will be recovered.

The detail of the tax assets not recognised at 31 December 2021 is as follows:

	Thousands of EUR
	Not recognised Amount in tax base
Tax loss carryforwards:	
2009	52,955
2010	5,673
2011	1,231
2012	1,676
2013	440
2014	20,158
2016	456
2017	2,199
2018	1,236
2019	4,045
2020	14,578
Total tax loss carryforwards	**104,646**

e) Deferred tax liabilities

As indicated above, the deferred tax liabilities arise mainly from the business combinations carried out in recent years and the increase in the value of the assets of Tree Inversiones Inmobiliarias, SOCIMI, S.A. (assets acquired prior to its incorporation into the REIT regime) and the non-REIT subsidiaries (resident in Portugal, which meet the requirements of section 2(1)(c) REIT Act to be considered as eligible assets for that regime).

The changes at 31 December 2021 are as follows:

	Thousands of euros
Total deferred tax liabilities at 31 December 2019	**687,654**
Increase in value of investment property	(2,739)
Temporary differences	(461)
Total deferred tax liabilities at 31 December 2020	**684,454**
Increase (decrease) in value of investment property	300
Derecognitions due to sales	(4,064)
Temporary differences	323
Total deferred tax liabilities at 31 December 2021	**681,013**

As stipulated in Note 17.b, the increase in value of investment property acquired by subsidiaries subject to the REIT tax regime generate temporary differences at a tax rate of 0%, whereby no deferred tax liability has been recognised.

f) Years open to audit and tax inspections

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year limitation period has expired. At 2021 year-end, the Parent and certain of its subsidiaries had all years since their incorporation open for review for all the taxes applicable to them. The rest of the subsidiaries had 2018 to 2020 open for review for income tax and 2018 to 2021 open for audit for the other taxes applicable to them. In accordance with the provisions of Additional Provision Nine of Royal Decree Law 11/2020 of 31 March and Additional Provision One of Royal Decree Law 15/2020 of 21 April, the period between 14 March and 30 May 2020 will not count for the purposes of the limitation periods established in the Spanish General Taxation Act 58/2003 of 17 December [Ley General Tributaria] so that the usual deadlines are extended by 78 additional days.

The Parent's directors consider that the tax returns for the above taxes have been filed correctly and, therefore, even in the event of discrepancies in the interpretation of current tax legislation in relation to the tax treatment afforded to certain transactions, such liabilities as might arise would not have a material effect on the consolidated financial statements. Also, Law 34/2015, of 21 September, partially amending Law 58/2003, of 17 December, on General Taxation establishes the right of the tax authorities to initiate a review and investigation procedure of the tax losses offset or carried forward or tax credits taken or carried forward, which will become statute barred after ten years from the day on which the regulatory period established for filing the tax return or self-assessment relating to the year or the tax period in which the right to offset the tax loss or to apply the tax credits arose.

On 10 February 2022, the Tax Agency informed the Parent of the initiation of audit and investigation actions relating to its income tax in 2016 to 2019 and its value added tax and withholdings in 2018 to 2019. On the date these Consolidated Financial Statements were approved, the Parent was in the process of collecting the information required by the tax authorities.

g) Disclosure requirements arising from REIT status, Law 11/2009, amended by Law 16/2012 and by Law 11/2021

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

18. Revenue and expenses

a) Net income

At 31 December 2021, the Group's revenue breakdown is as follows:

	Thousands of euros	
	2021	2020
Rental income	462,463	441,062
Income from services rendered	5,740	5,070
	468,203	446,132

b) Other operating expenses

At 31 December 2021, the detail of “Other operating expenses” in the consolidated income statement is as follows:

	Thousands of euros	
	2021	2020
Non-recoverable expenses of leased properties	46,319	45,454
Overhead-		
Professional services	10,291	7,898
Travel expenses	548	394
Insurance	633	396
Other	2,790	3,456
Costs associated with asset acquisitions and financing	1,622	4,174
Losses on, impairment of and change in provisions	2,312	1,740
Other current expenses	3,230	2,530
Other extraordinary items	837	894
	68,582	**66,936**

c) Staff costs and average headcount

The detail of “Staff costs” at 31 December 2021 is as follows:

	Thousands of euros	
	2021	2020
Wages, salaries and similar expenses	25,790	18,308
Termination benefits	152	1,167
Social security costs	2,745	2,723
Other employee benefit costs	594	458
Long-term incentive plan	11,498	18,232
	40,779	**40,888**

The average number of employees at the various Group companies in 2021 and 2020 was 226 and 222 respectively.

The detail of the headcount at 2021 and 2020 year-end, by category, is as follows:

2021

	Women	Men	Total
Executive directors	-	2	2
Senior Management (*)	1	7	8
Middle management	14	53	67
Other staff	95	67	162
	110	**129**	**239**

(*) Includes the Internal Audit Director.

2020

	Women	Men	Total
Executive directors	-	2	2
Senior Management (*)	-	5	5
Management Team	1	4	5
Middle management	10	42	52
Other staff	87	69	156
	98	**122**	**220**

(*) Includes the Internal Audit Director.

The average number of employees at the Group in 2021 with a disability equal to or greater than 33%, by category, was as follows:

Category	2021	2020
Executive directors	-	-
Senior management	-	-
Management Team	-	-
Middle management	-	-
Other staff	5	5
	5	5

d) Finance income and costs

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

	Thousands of euros	
	2021	2020
Finance income:		
Interest on deposits and current accounts	5,421	3,387
	5,421	3,387
Finance costs:		
Interest on loans and other credits	(132,949)	(136,062)
Other finance costs	(3,451)	(13,591)
	(136,400)	(149,653)
Net financial profit/loss	**(130,979)**	**(146,266)**

In 2021, Finance costs include mainly the interest corresponding to the bank borrowings and obligations detailed in the Note 14 amounting to EUR 19,752 thousand and EUR 89,330 thousand, respectively (EUR 25,113 and 82,109 thousand respectively in 2020). The amounts above also include amortisation of debt arrangement costs amounting to EUR 14,987 thousand (EUR 18,905 thousand in 2020), from application of the effective interest rate on financial debt (see Note 14.5), and the financial costs associated with interest rate derivatives amounting to EUR 8,880 thousand (EUR 9,934 thousand in 2020).

e) Contribution to consolidated profit/loss

The contribution of each company included in the scope of consolidation to profit/loss for 2021 was as follows:

Parent	Thousands of EUR	
	2021	2020
Merlin Properties SOCIMI, S.A.	28,391	(53,651)
Tree Inversiones Inmobiliarias, SOCIMI, S.A.	103,758	45,703
Merlin Retail, S.L.	26,887	(21,748)
Merlin Oficinas, S.L.	32,758	10,812
Merlin Logística, S.L.	203,220	87,194
Varitelia Distribuciones, S.L.U.	2,725	(18,558)
Metroparque, S.A.	7,949	(13,512)
La Vital Centro Comercial y de Ocio, S.L.	2,543	(5,093)
Global Carihuela Patrimonio Comercial, S.L.U.	(4,814)	(19,553)
Parques Logísticos de la Zona Franca, S.A.	24,471	17,363
Sevisur Logística, S.A.	17,266	9,956
Promosete Invest. Inmobiliaria, S.A.	2,480	3,517
Praça do Marqués - Servicios auxiliares, S.A.	1,996	2,706
MPCVI - Compra e Venda Imobiliária, S.A.	1,393	1,770
MPEP - Properties Escritórios Portugal, S.A	1,282	1,903
MP Monumental, S.A.	7,048	10
MP Torre A, S.A.	2,418	2,202
Forum Almada – Gestao Centro Comercial, Lda	14,004	(5,137)
Torre dos Oceanus Investimentos Inmobiliarios,S.A.	2,023	2,801
Torre Arts Investimentos Inmobiliarios,S.A.	4,271	5,650
Torre Fernão Magalhães Investimentos	1.868	5,332
VFX Logística, S.A.	(5,702)	1,119
Other companies	(577)	(984)
Equity method:		
Paseo Comercial Carlos III, S.A.	(1,712)	(6,770)
Centro Intermodal de Logística, S.A.	28,021	25,529
Provitae, S.L.	5	(572)
Sicilius Real Estate SOCIMI S.A.	7,991	(20,211)
Distrito Castellana Norte, S.A.	(410)	(626)
Other investments	665	(794)
Total	**512,217**	**56,358**

19. Related party transactions

Connected-party transactions are transactions carried out by the Parent Company or its subsidiaries with directors, with shareholders holding 10 % or more of the voting rights or represented on the board of directors of the Parent Company, or with anyone else considered to be connected parties within the meaning of the International Accounting Standards, adopted pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

At 31 December 2021, the detail of any significant transactions, given their amount or importance, carried out between the Parent or its Group companies, and connected parties, is as follows:

2021

Connected party	Nature of relationship	Thousands of euros			
		Revenue	Expense	Assets	Liabilities
Banco Santander, S.A. (a)	Financing	-	4,443	-	198,780
Banco Santander, S.A. (a)	Cash	-	-	487,939	-
Banco Santander, S.A. (a)	Notional derivatives	-	-	-	305,191 (*)
Banco Santander, S.A. (b)	Lease of	636	-	-	131
Banco Santander, S.A. (b)	Services	-	98	-	-
Pº Comer. Carlos III, S.A. (c)	Financing	16	-	2,561	-
Provitae Centros Asistenciales, S.L. (d)	Financing	-	-	1,106	-
Silicius Real Estate SOCIMI, S.A. (e)	Financing	-	-	80,964	5,850
G36 Developments S.L. (f)	Financing	4	-	224	-
		656	**4,541**	**572,794**	**509,952**

(*) This amount does not represent the recognition of a liability as of 31-12-2021.

2020

Connected party	Nature of relationship	Thousands of euros			
		Revenue	Expense	Assets	Liabilities
Banco Santander, S.A. (a)	Financing	-	4,788	-	200,519
Banco Santander, S.A. (a)	Cash	-	-	75,513	-
Banco Santander, S.A. (a)	Notional derivatives	-	-	-	464,471 (*)
Banco Santander, S.A. (b)	Lease of	914	-	-	98
Banco Santander, S.A. (b)	Services	-	99	-	-
Pº Comer. Carlos III, S.A. (c)	Financing	5	-	1,005	-
Provitae Centros Asistenciales, S.L. (d)	Financing	2	-	1,081	-
Silicius Real Estate SOCIMI, S.A. (e)	Financing	-	-	86,521	8,195
G36 Developments S.L. (f)	Financing	6	-	625	-
		927	**4,887**	**164,753**	**673,283**

(*) This amount does not represent the recognition of a liability as of 31-12-2020.

Transactions executed with significant shareholders

During 2021, only the shareholder Banco Santander, S.A. held the status of significant shareholder pursuant to the regulations in force.

a) Financing transactions

As of 31 December 2021, the Group has been granted loans from its shareholder Banco Santander, S.A. amounting to EUR 198,780 thousand. Additionally, the notional amount of the derivatives in force contracted totals EUR 305,191 thousand.

These positions correspond to Banco de Santander, S.A.'s stake in the loans included among the financing operations of the MERLIN Group, the detail of which can be found in Note 14.

As indicated in that Note 14, 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. Banco Santander participates in this refinancing with EUR 120 million (7.7% of the total) of which EUR 65.8 million correspond to its share of the corporate loan and EUR 54.2 million correspond to the credit line, on the terms as the other financial entities. At 31 December 2021, the credit facility was not drawn down.

Also indicated in Note 14, the Group maintains a syndicated loan in three tranches for the financing of Tree Inversiones Inmobiliarias, S.A., with EUR 669,761 thousand in outstanding principal, of which the portion owed to Banco Santander is EUR 132,974 thousand.

The Group has bank balances deposited with Banco Santander, S.A. amounting to EUR 487,939 thousand (including the accounts on behalf of the associates Paseo Comercial Carlos III, S.A. and Edged Spain, S.L.U. for EUR 6 thousand and EUR 23 thousand, respectively).

In 2021, the finance costs incurred in transactions with Santander, S.A. amounted to EUR 4,443 thousand, which included EUR 61 thousand in guarantee fees and EUR 80 thousand in current account management costs.

The Group has been granted guarantees by the shareholder Banco Santander, S.A. amounting to EUR 6,962 thousand (EUR 5,446 thousand granted to MERLIN Properties SOCIMI, S.A. and EUR 1,516 thousand granted to the associate Paseo Comercial Carlos III, S.A.).

b) Leases and services rendered

The Group has held during fiscal year 2021, 5 leases with Banco Santander, S.A. in different buildings. The duration of the leases covers a period of up to 5 years, and in 2021 they generated income of EUR 636 thousand, including income from leasing, and parking spaces and transfers of ATM space in shopping centers. The guarantees deposited to secure these agreements amounted to EUR 131 thousand.

In addition, the Group has contracted General Meeting and shareholder registration organisational services amounting to EUR 60 thousand, in addition to listing agent services on the Euronext Lisbon stock exchange for EUR 32 thousand.

Transactions with companies accounted for using the equity method

(c) Paseo Comercial Carlos III S.A.

At 31 December 2021, the Parent, together with the other shareholder of the associate and as a condition of bank financing, has a loan for EUR 2,539 thousand in force, plus EUR 22 thousand in accrued interest (EUR 16 thousand in 2021), which was granted on 27 July 2020 to the associate Paseo Comercial Carlos III, S.A., which manages a shopping center in Madrid.

(d) Provitae Centros Asistenciales, S.L.

At 31 December 2021, the Parent had a loan in force for EUR 962 thousand, plus EUR 144 thousand of interest accrued, which was granted on 10 January 2002 to the associated company Provitae Centro Asistenciales, S.L., which holds a property in Villajoyosa, Alicante.

(e) Silicius Real Estate SOCIMI, S.A.

At 31 December 2021, the Parent has a financial asset at fair value with changes in profit and loss amounting to EUR 80,964 thousand corresponding to the value of the shares associated with the liquidity mechanism maturing in February 2022, agreed in the non-monetary contribution that the Parent made on 27 February 2020 (See Note 3). In the first half of 2021, the Parent sold 353,966 shares for EUR 5,418 thousand. The Parent also has outstanding obligations to pay EUR 5,850 thousand, recorded under 'other current and non-current financial liabilities.'

(f) G36 Developments, S.L.

Merlin Properties, SOCIMI, S.A. has a loan in force for EUR 212 thousand, plus EUR 12 thousand of interest accrued (EUR 4 thousand in 2020), which was granted on 1 October 2018, to the associated company G36 Developments, S.L., the holder of an asset that will be dedicated to the management of flexible office spaces. In February 2022, G36 Developments, S.L. sold the asset it held.

Dividends and other profits distributed to related parties

	Thousands of euros	
	2021	2020
Significant shareholders	**50,209**	**16,999**
Banco Santander, S.A.	50,209	16,999
Directors and Officers	**1,780**	**695**
Directors	1,551	439
Executives	229	256
	52,989	**17,694**

20. Information on Directors

The Parent's directors and the parties related to it did not have any conflicts of interest that had to be reported in accordance with section 229 of the revised text of the Corporate Enterprises Act.

Directors' compensation and other benefits

At 31 December 2021 and 2020, salaries, per diem attendance fees and any other type of compensation paid to members of the Parent’s managing bodies totalled EUR 6,523 thousand and EUR 3,149 thousand, as detailed below

	Thousands of euros	
	2021	2020
Fixed and variable remuneration	6,259	2,909 (1)
Statutory compensation	-	-
Termination benefits	-	-
Per diems	250	228
Life and health insurance	14	12
	6,523	**3,149**

:

(1) In 2020, Executive Directors waived their variable compensation

In addition to the above amounts and in relation to the variable remuneration for Executive Directors corresponding to the prior years' bonuses, an amount of EUR 3,027 thousand was paid related to the deferred amounts of the variable objectives for 2015 and 2018 in accordance with the terms set out in those plans.

In this regard, there are accrued amounts pending payment associated with variable remuneration targets for 2016 to 2019 in the amount of EUR 3,250 thousand and the amount of remuneration corresponding to 2021 in the amount of EUR 2,700 thousand of which EUR 1,350 thousand are recorded under non-current "Provisions" and EUR 1,350 thousand are recorded under ‘Trade and other payables’ on the accompanying balance sheet, which will be disbursed in the short term.

Also, as indicated below in this Note, 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 979 thousand shares derived from 50% of the referenced amount based on compliance with the incentive linked to increasing the Company's EPRA NAV.

According to the provisions of the extraordinary incentive, described below, the Executive Directors have accrued an amount of EUR 750 thousand as an extraordinary incentive.

The Ordinary General Meeting of 17 June 2020 approved the appointment of Maria Ana Forner Beltran and Ignacio Gil Casares Satrustegui as proprietary directors. The Board of Directors thus consisted of 14 members on 31 December 2020. On 20 January 2021, Director John Gómez Hall resigned.

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

		Thousands of euros	
		2021	2020
Director:			
Remuneration of board members			
Javier García-Carranza Benjumea	Chair - Proprietary director		-
Ismael Clemente Orrego	CEO	2,800	1,000 (1)
Miguel Ollero Barrera	Executive director	1,900	1,000 (1)
María Luisa Jordá Castro	Independent director	172	144
Ana García Fau	Independent director	172	134
George Donald Johnston	Independent director	134	116
John Gómez Hall	Independent director	6	97
Fernando Ortiz Vaamonde	Independent director	136	111
Juan María Aguirre Gonzalo	Independent director	176	146
Pilar Cavero Mestre	Independent director	159	124
Francisca Ortega Hernández Agero	Proprietary director	129	-
Emilio Novela Berlín	Independent director	168	127
María Ana Forner Beltrán	Proprietary director	161	73
Ignacio Gil Casares Satrústegui	Proprietary director	146	65
		6,259	**3,137**

(1) In 2020, Executive Directors waived their variable compensation

The Company has granted no advances, loans or guarantees to any of its directors.

The Parent's directors are covered by the "Corporate Third-Party Liability Insurance Policies for Directors and Officers" taken out by the Parent 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, and those of its subsidiaries, in discharging their duties. The premium amounted to an annual total of EUR 493 thousand (EUR 221 thousand in 2020).

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 2021 and 2020, is summarised as follows:

2021

Number of employees	Thousands of euros		
	Fixed and variable remuneration	Other remuneration	Total
8	5.525	36	5.561

2020

Number of employees	Thousands of euros		
	Fixed and variable remuneration	Other remuneration	Total
5	1,865(1)	26	1,891

(1) In 2020, the Senior Management waived their variable compensation

In addition to the above amounts and in relation to the variable remuneration for Senior Management corresponding to the prior years' bonuses, an amount of EUR 4,105 thousand was paid related to the deferred amounts of the variable objectives for 2015 and 2018 in accordance with the terms set out in those plans.

In this regard, there are accrued amounts pending payment associated with variable remuneration targets for 2016 to 2019 in the amount of EUR 4,372 thousand and the amount of remuneration corresponding to 2021 in the amount of EUR 4,085 thousand, which are recorded under 'Trade and other payables' on the accompanying balance sheet.

Under that 2017-19 incentives plan, Senior Management have been paid EUR 806 thousand shares derived from 50% of the referenced amount based on compliance with the incentive linked to increasing the Company's EPRA NAV.

In fiscal year 2021, two members of Senior Management left the company. During the 2021 financial year, they received fixed and variable remuneration of 242 thousand euros, as well as other remuneration amounting to 3 thousand euros. In addition, they received an amount of EUR 3,870 thousand corresponding to the deferred amounts of the variable objectives for the fiscal years 2015, 2016, 2018 and 2019. There are no accrued amounts pending to be paid. Besides, in relation to the remuneration plan associated with the 2017-2019 period, they have received 1,076 thousand gross shares derived from the total amount accrued from the fulfilment of the incentive linked to the increase in EPRA NAV in the period.

In accordance with the establishment of the Extraordinary Incentive, which is described below, the Senior Management has accrued an amount of EUR 540 thousand as an extraordinary incentive.

In regards to the "golden parachute" clauses for the Parent's Executive Directors and other Senior Executives in the event of dismissal or takeover, these clauses provide for compensation that represented a total commitment of EUR 9,400 thousand as of 31 December 2021.

Extraordinary incentive 2021

The General Shareholders' Meeting held on 27 April 2021 approved an extraordinary incentive for the year 2021 linked to the fulfilment of a series of strategic objectives and with a maximum amount of one time the fixed remuneration of the beneficiaries. The degree of compliance with this extraordinary incentive was 37.5% and its overall amount is 2,737 thousand euros, the accrual of which has been recorded under the heading "Personnel expenses" in the consolidated income statement. This incentive will be paid in cash in April 2022.

2017-19 incentives plan

Also, at the General Meeting held on 26 April 2017, the shareholders approved a new remuneration plan for the management team and other important members of the Group's workforce, the measurement period of which is from 1 January 2017 to 31 December 2019 (the "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;

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 / TSR 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 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 EPRA 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 share price from 2017 to 2019 amounted to EUR 37.5 million, which was paid out in March 2020.

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. 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.

In this regard, as of 31 December 2021, the Company recognised the expense in the amount of EUR 8,758 thousand, corresponding to the vested portion of the 2017-19 Incentive Plan, with a balancing entry in reserves.

In 2021, a total of 2,805,035 gross shares were paid out corresponding to the first payment of the incentive indexed to the EPRA NAV, as well as 537,971 shares corresponding to the second payment of this incentive for beneficiaries leaving the company in 2021.

21. Auditor's renumeration

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

	Thousands of euros	
	2021	2020
Audit services	**603**	**592**
Other audit-related services:		
Other attest services	129	138
Total audit and related services	**732**	**730**
Services required by applicable regulations	**-**	**-**
Tax advisory services	-	-
Other services	202	-
Total other services	**202**	**-**
	934	**730**

The heading ‘Other audit-related services’ includes the verification services performed by the auditor in the bond issue process, and certain agreed procedures related to the performance of covenants. ‘Other services’ includes technical and urban planning advisory services, and other regulatory advisory services.

The audit services, in turn, include, in addition to the statutory annual audit, review services for interim periods.

22. Enviromental information

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

Therefore, no specific environmental disclosures have been included in these notes to the consolidated financial statements.

23. Risk exposure

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme is based on the uncertainty of financial markets and aims to minimize the adverse effects of such risks on the financial profitability of the Group.

Risk management is undertaken by the Group's Senior Management in accordance with the policies approved by the Board of Directors. Senior Management identifies, evaluates and mitigates financial risks in close collaboration with the Group's operating units. The Board of Directors issues the written global risk management policies and the policies for specific areas, including those for covering market risk, interest rate risk and liquidity risk and investing cash surpluses.

Market risk

Given the current status of the real-estate sector and in order to mitigate the effects thereof, the Group has specific measures in place to minimize said impact on its financial position.

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

– The economic environment in which the Group operates: Designing different economic scenarios and modifying the key variables potentially affecting the Group. Identifying interdependent variables and the extent of their relationship; and

– The time scale in which the assessment is being carried out: The time frame of the analysis and its possible deviations will be taken into account.

MERLIN Properties is exposed to market risk from possible vacancies or renegotiations of leases when the leases expire. This risk could have a direct negative impact on the valuation of the Company's assets.

However, market risk is mitigated by the customer acquisition and selection policies and the mandatory lease terms negotiated with customers themselves, as well as for the guarantees that the Group holds associated with leasing contracts. Therefore, at 31 December 2021, the average occupancy rate of the asset portfolio was 94.5%, with a weighted average unexpired lease term of 5.4 years (weighted by GRI).

Credit risk

Credit risk is defined as the potential risk of loss in earnings to which the Group is exposed if a customer or counterparty breaches its contractual obligations.

As a general rule, the Group places cash and cash equivalents with financial institutions with high credit ratings.

Except in the case of the BBVA branch leases, the Group is not exposed to significant concentration of credit risk with one customer or counterparty. The Group regularly reviews the credit rating and thus the creditworthiness of BBVA vis-à-vis the segment of bank branches leased to this bank. The Group also pays close attention to this situation, since the finance held is dependent on credit quality being maintained. The Parent's directors do not consider that there is any material credit risk regarding receivables due from this tenant.

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

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

Details of the estimated maturities of the Group's financial assets in the consolidated statement of financial position at 31 December 2021 are as follows. The tables present the results of the analysis of those maturities of financial assets at 31 December 2021:

2021

	Thousands of EUR				
	Less than 3 months	3 to 6 months	6 months to 1 year	Over 1 year (*)	Total
Loans to third parties	-	-	236	120,475	120,711
Equity instruments	-	-	-	6,796	6,796
Financial assets at fair value with changes in profit and loss		80,964			80,964
Investments in associates			1,117	-	1,117
Guarantees and deposits	-	-	-	65,440	65,440
Trade and other receivables	17,832	15,851	5,944	-	39,625
Other current financial assets	602	-	-	-	602
Cash and cash equivalents	866,721	-	-	-	866,721
Total	**885,155**	**96,815**	**7,298**	**192,712**	**1,181,976**

(*) not including derivatives

2020

	Thousands of EUR				
	Less than 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
Loans to third parties	-	-	71,767	106,110	177,877
Equity instruments				2,595	2,595
Financial assets at fair value with changes in profit and loss	-	-	-	103,775	103,775
Investments in associates			2,094		2,094
Guarantees and deposits	-	-	-	69,138	69,138
Trade and other receivables	14,884	13,147	5,337		33,368
Other current financial assets	5,505	-	-	-	5,505
Cash and cash equivalents	252,022	-	-	-	252,022
Total	**272,411**	**13,147**	**79,198**	**212,480**	**646,374**

(*) not including derivatives

Cash and cash equivalents

The Group has cash and cash equivalents of EUR 866,721 thousand, which represents its maximum exposure to the risk posed by these assets.

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

Liquidity risk

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

To manage liquidity risk and meet its various funding requirements, the Group uses an annual cash budget and a monthly cash projection, the latter being detailed and updated daily. The factor causing the liquidity risk is the working capital deficiency, which mainly includes short-term debt. At 31 December 2021, the Group's working capital amounted to EUR 301,813 thousand.

In addition, liquidity risk has the following mitigating factors, which should be highlighted: (i) the generation of recurrent cash from the businesses in which the Group performs its activity; and (ii) the capacity to renegotiate and obtain new financing facilities based on the Group's long-term business plans and the quality of its assets.

At the date of preparation of the consolidated financial statements, taking into account the foregoing, the Group had covered all its funding requirements to fully meet its commitments to suppliers, employees and the authorities based on the cash flow forecast for 2022. Likewise, the type of sector in which the Company operates, the investments it makes, the financing it obtains to make such investments, the EBITDA they generate and the occupancy rates of the properties, enables the liquidity risk to be mitigated and excess cash to be produced.

Any cash surpluses are used to make short-term investments in highly liquid deposits with no risk. The acquisition of share options or futures, or any other high-risk deposits as a method of investing cash surpluses, is not among the possibilities considered by MERLIN Properties for investing cash surpluses.

Details of the Group's exposure to liquidity risk at 31 December 2021 are provided in the table below. The tables below present the results of the analysis of gross financial liabilities, without considering bonds issuances, by remaining contractual maturity date.

2021

	Thousands of EUR				
	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Total
Bank borrowings	435	2,512	8,793	1,623,758	1,635,498
Other non-current liabilities and guarantees				93,035	93,035
Trade and other payables (excluding payables to public authorities)	23,405	43,976	24,003		91,384
Total	**23,840**	**46,488**	**32,796**	**1,716,793**	**1,819,917**

2020

	Thousands of EUR				
	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Total
Bank borrowings	429	2,121	7,618	1,633,770	1,643,938
Other non-current liabilities and guarantees				89,326	89,326
Trade and other payables (excluding payables to public authorities)	28,327	68,101	2,186	-	98,614
Total	**28,756**	**70,222**	**9,804**	**1,723,096**	**1,831,878**

Cash flow interest rate risk and fair value risk

The Group manages its interest rate risk by borrowing at fixed and floating rates of interest. The Group's policy is to ensure non-current net financing from third parties is at a fixed rate. To manage this, the Group enters into interest rate swaps which are designated as hedges of the respective loans. At 31 December 2021, the percentage of debt the interest rate of which is covered by the aforementioned financial instruments was 100%. The impact of interest rate fluctuations is explained in Note 14.3.

Exchange rate risk

The Group's policy is to borrow in the same currency as that of the cash flows of each business. Consequently, currently there is no foreign currency risk. However, noteworthy in this connection are the exchange rate fluctuations arising in translating the financial statements of foreign companies whose functional currency is not the euro. At 31 December 2021, the functional currency of all subsidiaries and associates of the MERLIN Group was the euro.

Tax risk

As mentioned in Note 1, the Parent and part of its subsidiaries are subject to the special tax regime for Real Estate Investment Trusts (REITs). The transitional period of the Parent ended in 2017 and, therefore, compliance with all requirements established by the regime (see Notes 1 and 5.13) became mandatory. Some of the more formal obligations that the Parent must meet involve the inclusion of the term SOCIMI (REIT) in its company name, the inclusion of certain information in the notes to its separate financial statements, the share price on the stock market, etc., and other obligations that require estimates to be made and judgements to be applied by management that may become fairly complex, especially considering that the REIT regime is relatively recent and was developed by the Directorate-General of Taxes mainly in response to the queries posed by various companies. The Group's Management, based on the opinion of its tax advisors, assessed compliance with the requirements of the regime, concluding that all those requirements were met at 31 December 2021.

Accordingly, and also for the purpose of taking into consideration the financial effect of the regime, it should be noted that, as established in section 6 of Law 11/2009, of 26 October, amended by the REITs Act, and in the percentages established in it, companies that have opted for the special tax regime are required to distribute the profit generated during the year to their shareholders in the form of dividends, once the related corporate obligations have been met. This distribution must be approved within six months from each year-end, and the dividends paid in the month following the date on which the pay-out is agreed (see Note 5.13).

If the Parent does not comply with the requirements established in the regime or if the shareholders at the General Meetings of these companies do not approve the dividend distribution proposed by the Board of Directors, calculated in accordance with the requirements of this Act, it would not be complying therewith and, accordingly, tax would have to be paid under the general regime, not the regime applicable to REITs.

Climate change management

Within the framework of the European Green Pact and the United Nations Sustainable Development Goals, the Group is carrying out various initiatives in the field of sustainability.

Firstly, the Group's Parent Company, in 2021 has created a Sustainability, Ethics and Innovation Committee reporting to the Board of Directors whose main competencies are to advise the Board of Directors, among others, on environmental and sustainability matters; to advise the Board of Directors in the formulation of the Group's sustainability strategy in its relations with stakeholders and in its publication and public communication; and to supervise the communication and information to the market of any information in which reference is made to sustainability issues and non-financial information and to keep the ESG (Environmental Social and Governance) Risk map up to date.

In this sense, the Group has incorporated in its investment and financing policies decision factors related to non-financial KPIs. Along these lines, the investment studies for real estate acquisitions and investments in repositioning the Group's assets consider, among other factors, elements such as obtaining energy efficiency certificates with the highest rating (see Note 7), air conditioning, lighting, solar energy, irrigation of green areas, accessibility, etc.

When certifying assets, the Group selects the most appropriate framework and method depending on the stage of the assets, as well as the characteristics of the building, its degree of occupancy at the time of certification or the tenants occupying it.

In this regard, the process of certifying the portfolio under the standards of the leaders in this market, BREEAM and LEED, continues, with the objective of reaching 99% of the portfolio. During the 2021 fiscal year, the Group has achieved certification or its renewal in 26 assets.

Additionally, the Group has obtained a rating of 81% in the 2021 GRESB edition, a platform that allows harmonizing and comparing information related to sustainability criteria (environmental, social and corporate governance - ESG) in real estate investments.

Thus, the Group has an Environmental Management System (EMS) certified according to ISO 14001, which constitutes the umbrella under which it manages its portfolios and which incorporates new properties into its perimeter on an annual basis.

In 2015, the Group initiated a plan for ISO 14001 (environmental management) and ISO 50001 (energy management) certifications, to maintain and expand the number of real estate assets that have at least ISO 14001, and subsequently ISO 50001 (understanding it as a natural step to achieve the ISO 14001 standard prior to aspiring to ISO 50001).

This plan covers office buildings as well as shopping centers and logistics warehouses. Regarding ISO 14001, 84 certified buildings were achieved in 2021, with a surface area of 1,141,317 m2.

The Group has also continued the process of implementing an Energy Management System under the ISO 50001 standard initiated in 2017, with 81 buildings currently certified, which have a surface area of 1,072,765m2, 17 more than in 2020.

Additionally, during the 2021 financial year, the Group has carried out an analysis of the entire portfolio to determine the carbon footprint of each of its assets, as well as the necessary measures to reduce the referred carbon footprint to its minimum expression.

In the assets included in the Energy Management System under the ISO 50001 standard, there is a target of reducing total energy consumption by 5% with respect to 2019, based on the implementation of ESMs (energy saving measures).

Likewise, the Group's financing policies are sensitive to the savings premiums currently offered by the capital market linked to the performance of certain sustainability indicators. Currently 15% of the Group's debt with credit institutions and bondholders is linked to compliance with ESG indicators (see Note 14).

These financings include a cost adjustment mechanism based on management indicators calculated based on four sustainability criteria, measurable on an annual basis. At the end of 2021 the Group complies with the indicators established in these contracts and the Directors estimate that they will also be complied with in 2022.

The indicators for the 2021 fiscal year were:

1. Investment of at least €2.2 million in energy efficiency improvements across the portfolio.

2. Achievement of at least 5 LEED and BREEAM external energy certifications with a minimum rating of Silver LEED and Good BREEAM, respectively

3. Obtaining at least 9 AIS/DIGA certifications for handicapped access for all tenants and consumers.

4. Electricity consumption of at least 40 GW from renewable energy sources.

Additionally, the Group in its commitment to climate responsibility, has incorporated qualitative factors related to the Group's sustainability strategy into the short-term variable compensation measurement targets for its staff and management team (see Note 20).
In addition, during 2021, the Group has applied to adhere to 11 objectives of the United Nations Sustainable Development Goals.

Finally, the Group has also made progress in reworking its sustainability policy, which will be articulated around 3 main pillars: (i) fight against climate change, (ii) well-being of tenants and users of the spaces and (iii) impact on the cities and society in which the Group operates.

All of the above will form part of the Group's path to net zero or commitment to the fight against climate change.

24. Events after the reporting period

On 23 February, the Group repaid EUR 548.3 million corresponding to the bond maturing on 23 May 2022. This transaction was paid out from available cash, obtained mainly by issuing EUR 500 million in bonds in June 2021.

25. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company 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 principals and rules.

Appendix I - Group companies and associates 2021

Parent	Line of business / Location	Ownership interest	Thousands of euros									
			Share	Profit/(loss)		Other Shareholders' Equity	Total Equity	Dividends received	Carrying amount		Consolidation method	Auditor
				From operations	Net				Cost	Impairment		
Tree Inversiones Inmobiliarias, SOCIMI, S.A.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	9,323	66.293	53.908	91.189	87.001	51.559	657.984	—	Full Consolidation	Deloitte
Merlin Retail, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	17.963	44.643	42.923	236.491	297.378	2.667	251.408	—	Full Consolidation	Deloitte
Merlin Oficinas, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	29.674	16.334	16,130	718.601	764.405	15.155	771.345	—	Full Consolidation	Deloitte
Merlin Logística, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	28.166	32.863	31.544	274.082	333.792	15.905	292.304	—	Full Consolidation	Deloitte
Sevisur Logística	Urban development, construction and operation of builidings for logistics purposes and shared services/ Ctra. de la Esclusa, 15. 41011, Sevilla.	100%	17,220	3.834	3.839	9.526	30.584	3.174	37.629	—	Full Consolidation	Deloitte
Parques Logísticos de la Zona Franca, S.A.	Acquisition and development of property assets for lease, Avda. 3 del Parc Logístic, nº 26, Barcelona	100%	15.701	4.957	5,230	107.017	127.948	4.939	118,310	—	Full Consolidation	Deloitte
Exhibitions Company , S.A.U.	Provision of all kinds of technical, commercial or economic services/ Paseo de la Castellana 257, Madrid	100%	180	(787)	(741)	4.215	3.654	—	4.287	(633)	Full Consolidation	N/A
Gescentesta, S.L.U.	Service provision / Paseo de la Castellana 257, Madrid	100%	3	197	151	782	936	—	3	—	Full Consolidation	N/A
Metroparque, S.A.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	56.194	7.881	8.186	33.086	97.465	6.354	231.557	—	Full Consolidation	Deloitte
La Vital Centro Comercial y de Ocio, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	14.846	2.446	2.495	18.731	36.071	1.397	56.788	—	Full Consolidation	Deloitte
Desarrollo Urbano de Patraix, S.A.	Land management / Avda. Barón de Carcer, 50, Valencia	100%	2,790	(2)	(81)	22.351	25,060	—	25,090	(30)	Full Consolidation	N/A
Sadorma 2003, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	73	(3)	254	18.531	18.857	—	25.485	(6.628)	Full Consolidation	N/A

			Thousands of euros									
						Other						
				Profit/(loss)					Carrying amount			
Parent	Line of business / Location	Ownership interest	Share	From operations	Net	Shareholders' Equity	Total Equity	Dividends received	Cost	Impairment	Consolidation method	Auditor
Global Murex Iberia, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	14	(1)	21	(15,480)	(15.445)	—	—	—	Full Consolidation	N/A
Varitelia Distribuciones, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	15.443	2.586	333	6,110	21.886	—	172.979	(151.094)	Full Consolidation	Deloitte
Global Carihuela, Patrimonio Comercial S.L.	Adquisición y promoción de bienes inmuebles para su arrendamiento / Paseo de la Castellana 257, Madrid	100%	3.303	(4.214)	(4.757)	9.115	7.661	—	34.102	(26.441)	Full Consolidation	Deloitte
MPCVI – Compra e Venda Imobiliária, S.A.	Acquisition and development of property assets for lease / Av. Fontes Pereira de Melo, Nº 51, Lisboa	100%	1,050	1.092	292	5.955	7.296	261	6.418	—	Full Consolidation	Deloitte Portugal
MPEP – Properties Escritórios Portugal, S.A.	Acquisition and development of property assets for lease / Av. Fontes Pereira de Melo, Nº 51, Lisboa	100%	50	700	(123)	26	(47)	69	85	—	Full Consolidation	Deloitte Portugal
MP Monumental, S.A.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisboa	100%	50	1.525	(1.63)	7.162	5.582	—	21.548	—	Full Consolidation	Deloitte Portugal
MP Torre A, S.A.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisboa	100%	50	1.534	(367)	(60)	(377)	—	10.186	—	Full Consolidation	Deloitte Portugal
VFX Logística, S.A.	Acquisition and development of property assets for lease / Av. Fontes Pereira de Melo, Nº 51, Lisboa	100%	5,050	(5.997)	(6,500)	13,760	12,310	—	21.353	(9.043)	Full Consolidation	Deloitte Portugal
Promosete, Invest. Inmobil. SA.	Acquisition and development of property assets for lease / Av. Fontes Pereira de Melo, Nº 51, Lisboa	100%	200	2.173	1.323	7.372	8.895	444	10.386	—	Full Consolidation	Deloitte Portugal
Praça Do Marquês serviços Auxiliares, SA	Acquisition and development of property assets for lease / Av. Fontes Pereira de Melo, Nº 51, Lisboa	100%	15.893	2.846	2.128	61.049	79,070	2.094	56.359	—	Full Consolidation	Deloitte Portugal
Torre Dos Oceanus Investimentos Inmobiliarios,S.A.	Acquisition and development of property assets for lease / Av. Fontes Pereira de Melo, Nº 51, Lisboa	100%	50	1.643	593	3.319	3.962	521	15.912	—	Full Consolidation	Deloitte Portugal
Forum Almada – Gestão Centro Comercial Sociedade Unipessoal, Lda.	Acquisition and development of property assets for lease / Av. Fontes Pereira de Melo, Nº 51, Lisboa	100%	5	(1.284)	(7.137)	15.053	7.921	—	32.574	—	Full Consolidation	Deloitte Portugal
Forum Almada II, S.A.	Acquisition and development of property assets for lease / Av. Fontes Pereira de Melo, Nº 51, Lisboa	100%	10	12.852	8.977	57.136	76.113	—	307.512	—	Full Consolidation	Deloitte Portugal

Parent	Line of business / Location	Ownership interest	Thousands of euros								Consolidation method	Auditor
			Share	Profit/(loss)		Other Shareholders' Equity	Total Equity	Dividends received	Carrying amount			
				From operations	Net				Cost	Impairment		
Torre Arts - Investimentos Imobiliarios, S.A.	Acquisition and development of property assets for lease / Av. Fontes Pereira de Melo, Nº 51, Lisboa	100%	100	2.861	2.177	83.653	85,930	2,030	85.781	—	Full Consolidation	Deloitte Portugal
Torre Fernao Magalhaes - Investimentos Imobiliarios, S.A.	Acquisition and development of property assets for lease / Av. Fontes Pereira de Melo, Nº 51, Lisboa	100%	100	1.302	995	26.87	27.965	557	27.555	—	Full Consolidation	Deloitte Portugal
Innovación Colaborativa, S.L.	Selection, contracting, fitting out, organisation and management of coworking-type collaborative workspaces / Paseo de la Castellana 257, Madrid	100%	15	(4.462)	(5.434)	6.539	2,020	—	15.868	(13.848)	Full Consolidation	N/A
Milos Asset Development,	Adquisition, holding, administration, disposal and development of land located within the project "Distrito Castellana Norte" / Paseo de la Castellana 257, Madrid	100%	3	(3)	374	(124)	253	—	2	—	Full Consolidation	N/A
Paseo Comercial Carlos III, S.A.	Acquisition and development of property assets for lease / Avda. San Martín Valdeiglesias, 20 - 28922 Madrid	50%	8.698	1,160	116	21.8	30.614	—	25.668	—	Equity method	Deloitte
Provitae Centros Asistenciales, S.L.	Acquisition and development of property assets for lease / C. Fuencarral, 123. Madrid	50%	6.314	(42)	(42)	(1.16)	5.112	—	5.061	(1.547)	Equity method	N/A
G36 Development, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana, 93 Madrid	50%	4.053	(21)	(21)	—	4.032	—	2.027	—	Equity method	N/A
Centro Intermodal de Logística S.A. (CILSA)	Development, management and performance of logisistics activities in a port system / Avenida Ports d'Europa 100, Barcelona	49%	18,920	15.744	10.401	118.936	148.257	1.788	95.688	—	Equity method	EY
Pazo de Congresos de Vigo, S.A.	Project for the execution, construction and operation of the Vigo Convention Centre / Avda. García Barbón, I. Vigo	44%	n.d	n.d	n.d.	n.d.	n.d	—	3,600	(3,600)	Equity method	n.d
PK. Hoteles 22, S.L.	Acquisition and development of property assets for lease / C. Príncipe de Vergara, 15. Madrid	33%	5.801	8.387	6.215	(5.298)	6.718	1,780	2.467	(283)	Equity method	CROWE, S.L.P.
Parking del Palau, S.A.	Acquisition and development of property assets for lease / Paseo de la Alameda, s/n. Valencia	33%	1.698	(10)	(12)	458	2.144	—	2.137	(920)	Equity method	BDO
Araba Logística, S.A.	Acquisition and development of property assets for lease / Avda. Álava s/n Rivabellosa (Álava)	25%	1,750	911	391	2.925	5.066	—	2.257	(2.257)	Equity method	Mazars
Distrito Castellana Norte, S.A.	Carrying out all types of real estate activities / Paseo de la Castellana 216, Madrid	14%	196,060	(6.274)	(2.833)	(27.35)	165.877	—	172.934	(1.036)	Equity method	KPMG

Silicius Real Estate, S.L.	Carrying out all types of real estate activities / Calle de Velázquez, 123, Madrid	15%	36.112	58.541	52.369	306.816	395.297	—	87.018	—	Equity method	PWC
Edged Spain, S.L.U	Provision of all kinds of technical, commercial or economic Data Center´s services / Paseo de la Castellana 257, Madrid	50%	3	(191)	(191)	(1)	(189)	—	2	(2)	Equity method	N/A

Appendix I - Group companies and associates 2020

Parent	Line of business / Location	Ownership interest	Thousands of euros								Consolidation method	Auditor
			Share	Profit/(loss)		Other	Total Equity	Dividends received	Carrying amount			
				From operations	Net	Shareholders' Equity			Cost	Impairment		
Tree Inversiones Inmobiliarias, SOCIMI, S.A.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	9,323	77,951	51,559	91,189	53,159	42,237	657,984	—	Full consolidation	Deloitte
Merlin Retail, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	17,963	8,362	2,438	236,491	256,892	11,780	251,408	—	Full consolidation	Deloitte
Merlin Oficinas, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	29,674	15,787	15,517	718,239	763,430	9,442	771,345	—	Full consolidation	Deloitte
Merlin Logística, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	28,166	20,775	16,776	273,211	318,153	11,187	292,304	—	Full consolidation	Deloitte
Sevisur Logística	Urban development, construction and operation of buildings for logistics activities and common services. Ctra. de la Esclusa, 15. 41011, Seville.	100%	17,220	3,706	3,553	9,173	29,946	2,406	37,629	—	Full consolidation	Deloitte
Parques Logísticos de la Zona Franca, S.A.	Acquisition and development of property assets for lease, Avda. 3 del Parc Logístic, nº 26, Barcelona	100%	15,701	4,624	4,939	107,017	127,657	6,108	118,310	—	Full consolidation	Deloitte
Exhibitions Company, S.A.U.	Provision of all manner of services, technical, commercial and economic services/Paseo de la Castellana 257, Madrid	100%	180	(36)	10	4,205	4,395	—	4,287	—	Full consolidation	N/A
Gescentesta, S.L.U.	Provision of services / Paseo de la Castellana 257, Madrid	100%	3	192	147	635	785	—	3	—	Full consolidation	N/A
Metroparque, S.A.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	56,194	6,030	6,354	33,086	95,633	7,612	231,557	—	Full consolidation	Deloitte
La Vital Centro Comercial y de Ocio, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	14,846	1,537	1,552	18,576	34,973	2,421	56,788	—	Full consolidation	Deloitte
Desarrollo Urbano de Patraix, S.A.	Land management / Avda. Barón de Carcer, 50, Valencia	100%	2,790	(22)	(102)	22,453	25,141	—	25,090	—	Full consolidation	N/A
Sadorma 2003, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	73	(2)	199	18,332	18,603	—	25,485	(6,882)	Full consolidation	N/A

Parent	Line of business / Location	Ownership interest	Thousands of euros: Share	Profit/(loss): From operations	Profit/(loss): Net	Other Shareholders' Equity	Total Equity	Dividends received	Carrying amount: Cost	Carrying amount: Impairment	Consolidation method	Auditor
Global Murex Iberia, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	14	—	21	(15,501)	(15,466)	—	—	(15,466)	Full consolidation	N/A
Varitelia Distribuciones, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	15,443	(18,531)	(20,560)	26,670	21,553	5,959	172,979	(151,427)	Full consolidation	Deloitte
Global Carihuela, Patrimonio Comercial S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana 257, Madrid	100%	3,303	(13,937)	(14,420)	24,242	13,125	—	34,102	(20,977)	Full consolidation	Deloitte
MPCVI – Compra e Venda Imobiliária, S.A.	Acquisition and development of properties for lease / Av. Fontes Pereira de Melo, Nº 51, Lisbon	100%	1,050	1,071	274	5,941	7,265	136	6,418	—	Full consolidation	Deloitte Portugal
MPEP – Properties Escritórios Portugal, S.A.	Acquisition and development of properties for lease / Av. Fontes Pereira de Melo, Nº 51, Lisbon	100%	50	798	78	22	150	—	85	—	Full consolidation	Deloitte Portugal
MP Monumental, S.A.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	100%	50	(680)	(2,674)	8,636	6,012	—	20,348	—	Full consolidation	Deloitte Portugal
MP Torre A, S.A.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	100%	50	1,515	(269)	325	106	—	10,186	—	Full consolidation	Deloitte Portugal
VFX Logística, S.A.	Acquisition and development of property assets for lease. Av. Fontes Pereira de Melo, Nº 51, Lisbon	100%	5,050	1,118	875	12,445	18,370	—	20,913	(2,550)	Full consolidation	Deloitte Portugal
Promosete, Invest. Inmobil. SA.	Acquisition and development of property assets for lease. Av. Fontes Pereira de Melo, Nº 51, Lisbon	100%	200	1,607	863	6,924	7,987	—	10,384	—	Full consolidation	Deloitte Portugal
Praça Do Marquês serviços Auxiliares, SA	Acquisition and development of property assets for lease. Av. Fontes Pereira de Melo, Nº 51, Lisbon	100%	15,893	2,809	2,758	60,595	79,246	—	56,361	—	Full consolidation	Deloitte Portugal
Torre Dos Oceanus Investimentos Inmobiliarios,S.A.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	100%	50	1,535	521	3,319	3,890	—	15,912	—	Full consolidation	Deloitte Portugal
Forum Almada – Gestão Centro Comercial Sociedade Unipessoal, Lda.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	100%	5	(5,252)	(7,221)	12,905	5,689	—	33,774	—	Full consolidation	Deloitte Portugal
Forum Almada II, S.A.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	100%	10,000	13,255	9,369	47,767	67,136	—	298,143	—	Full consolidation	Deloitte Portugal

Parent	Line of business / Location	Ownership interest	Thousands of euros								Consolidation method	Auditor
			Share	Profit/(loss)		Other	Total Equity	Dividends received	Carrying amount			
				From operations	Net	Shareholders' Equity			Cost	Impairment		
Torre Arts - Investimentos Imobiliarios, S.A.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	1	100	2666	2030	83653	85783	1952	85781	0	Full consolidation	Deloitte Portugal
Torre Fernao Magalhaes - Investimentos Imobiliarios, S.A.	Acquisition and development of property assets for lease / Avda. Fontes Pereira de Melo, 51, Lisbon	1	100	719	557	26870	27526	526	27555	0	Full consolidation	Deloitte Portugal
Innovación Colaborativa, S.L.	Selection, contracting, conditioning, organisation and management of coworking spaces/Paseo de la Castellana 257, Madrid	1	4	-4601	-4699	-751	-5446	0	3868	-9314	Full consolidation	N/A
Milos Asset Development,	Acquisition, holding, management, disposal and development of land located within the 'Distrito Castellana Norte' project / Paseo de la Castellana 257, Madrid	1	3	-36	-123	-1	-121	0	3	-124	Full consolidation	N/A
Paseo Comercial Carlos III, S.A.	Acquisition and development of property assets for lease / Avda. San Martín Valdeiglesias, 20 - 28922 Madrid	0.5	8698	-1672	-3472	25409	30635	0	25668	0	Equity method	Deloitte
Provitae Centros Asistenciales, S.L.	Acquisition and development of property assets for lease / C. Fuencarral, 123. Madrid	0.5	6314	-42	-47	-1112	5155	0	5061	-1553	Equity method	N/A
G36 Development, S.L.	Acquisition and development of property assets for lease / Paseo de la Castellana 93, Madrid	0.5	4053	-21	-21	0	4032	0	2027	0	Equity method	N/A
Centro Intermodal de Logística S.A. (CILSA)	Development, management and performance of logistics activities in a port system / Avenida Ports d'Europa 100, Barcelona	0.49	18920	12299	9063	113906	141889	1274	95688	0	Equity method	EY
Pazo de Congresos de Vigo, S.A.	Project for the execution, construction and operation of the Vigo Convention Centre / Avda. García Barbón, I, Vigo	0.44	N/A	N/A	N/A	N/A	N/A	0	3600	-3600	Equity method	N/A
PK. Hoteles 22, S.L.	Acquisition and development of property assets for lease / C. Príncipe de Vergara, 15. Madrid	0.33	5801	625	369	-220	5920	0	2467	0	Equity method	CROWE, S.L.P.
Parking del Palau, S.A.	Acquisition and development of property assets for lease / Paseo de la Alameda, s/n. Valencia	0.33	1698	-76	-78	527	2147	0	2137	-779	Equity method	BDO
Araba Logística, S.A.	Acquisition and development of property assets for lease/Avda. Álava s/n Rivabellosa (Álava)	0.25	1750	1726	1053	1873	4676	0	2257	-2257	Equity method	Deloitte
Distrito Castellana Norte, S.A.	Performance of all manner of real estate activity/ Paseo de la Castellana 216, Madrid	0.14	175853	-5807	-4327	-23018	148508	0	170012	-626	Equity method	KPMG
Silicius Real Estate, S.L.	Performance of all manner of real estate activity/ Calle de Velázquez, 123, Madrid	0.15	361122	-13259	-11957	6986	356141	267	91021	-20478	Equity method	PWC

Merlin Properties SOCIMI, S.A. and Subsidiaries

Consolidated Directors' Report for the year ended 31 December 2021

1. Position of the Company

Economic Situation

The markets in which MERLIN Properties SOCIMI Group operates (‘MERLIN’ or ‘MERLIN Properties’ or the ‘Group’) are benefiting from the progressive economic recovery after the overwhelming effect of the pandemic in 2020. It should be noted that the first half of the year in both Spain and Portugal was marked by restrictions, which mainly affected physical consumption. The turning point took place in the second half of the year, since virtually all the restrictions were lifted and optimal vaccination levels were reached, with 80% of the population getting fully vaccinated.

This economic situation led to a slight increase in take-up volumes, which translated into an increase in occupancy in the three categories of assets in which we operate. Various brokerage firms expect the economy of the Iberian Peninsula to continue to expand in the coming years, which should have a positive impact on our business performance.

The investment volume for all asset types in Spain has increased exponentially, hitting EUR 12,750 million in 2021[1] compared to EUR 9,477 million in direct investment in Spain in 2020[2] Given the Eurozone's expansive monetary policy and the overall context of low interest rates with rising inflation, demand for income-generating assets is expected to remain high.

1.1. Rental market situation by geographical area

Madrid

Madrid is both the largest metropolitan area and the main real estate market on the Iberian Peninsula. In general, the rental market has benefited from the recovery of the economy especially in the second half of the year. Therefore, surface absorption[3] in offices was around 414,000 sqm, +22% above 2020. The COVID-19 crisis has caused a slight adjustment in prime rents (ca. 2%) and an increase in availability up to 12%. With regard to the logistics market, it was a record year in terms of surface absorption with more than one million square meters contracted, 12% more than the previous year. Lastly, shopping centers are gradually recovering and the latest waves seem to have a lower impact on incoming footfall and sales.

Barcelona

Barcelona was one of the cities that recovered most strongly in 2021. With regards to the office market, prime rents slightly decreased to EUR 27.50/sqm/month, while average rents increased by 12.8% compared to 2020 [(4)]. On the other hand, the logistics market is suffering from a lack of both available land and quality product for e-commerce operators. As far as shopping centres are concerned, they have been affected both by opening restrictions and by the fall in tourism, which has particularly affected the urban assets.

Lisbon

The performance of the rental office market was positive, with 162,000 sqm contracted and an vacancy rate that bounced back slightly to 9%. Prime rents remained stable during the year, reaching EUR 25/sqm/month. In relation to logistics, rents remain stable at EUR 4/sqm/month, on the Alverca/ Azambuja axis. In addition, it was a record year in terms of contracting with 264,000 sqm leased, beating the previous record by a wide margin (171,000 sqm in 2017). Lastly, shopping centers have been affected by the severe restrictions on movement and opening of premises, especially at the beginning of the year, which has led to a slower recovery in their activity.

[1] Real Estate Market Outlook 2021 España” CBRE
[2] Real Estate Market Outlook 2020 España” CBRE
[3] “Mercado de oficinas de Madrid at a glance T4 2021” CBRE
[4] “Mercado de oficinas de Barcelona at a glance T4 2021” CBRE

1.2. Rental market situation by business segment

Offices

According to JLL, in 2021 the Spanish office market recorded an increase in activity compared to 2020, with leasing increasing by 20%. Vacancy has increased in both markets, to 12.4% in Madrid and 10.5% in Barcelona, although vacancy in the Prime-CBD markets continues to be low. Prime rents have remained stable despite the situation, although in more peripheral locations there have been slight declines. This performance was similar in Portugal.

Shopping centres

2021 began with very low levels of sales and footfall as a result of the third wave of the virus and the Filomena storm, but the gradual decline in uncertainty about the health and economic situation has allowed the activity of shopping centers to gradually recover. Nevertheless, the reduction in tourist flows continues to impact the sector.

Logistics

The upward trend in the logistics sector has been favoured by COVID-19, which has fuelled the development of e-commerce in the face of the constraints imposed on occupancy limits and physical opening. It was a record year for logistics leasing in all submarkets, especially in Madrid, Barcelona and Valencia.

Important to highlight the volume reached by turnkey projects and pre-lets, given the lack of available logistics platforms that meet current demand requirements. This shortage of quality products has impacted rents of logistics assets.

1.3. Organisational and operational structure

As a Group, MERLIN's main objective is to generate sustainable returns for shareholders through the acquisition, focused management and selective rotation of real estate assets in the moderate risk profile segments ("Core" and "Core Plus").

Its strategy and operations are characterised by:

1) Focusing on Core and Core Plus assets in Spain and Portugal

2) An investment grade capital structure

3) Distribution of 80% of AFFO (see Note 7.1. of the Directors' Report) in the form of dividends

4) Being one of the most efficient REITs in Europe

5) Implementing the best practices of Corporate Governance

The description of the internal organisational structure can be summarised as follows:

– A Board of Directors made up of 13 directors that receives advice from the Audit and Control Committee (CAC), the Appointments Committee (CN), the Remuneration Committee (CR) and the Sustainability Committee (CS). MERLIN's Board, comprised a majority of independent directors, focuses its activity on defining, supervising and monitoring the policies, strategies and general guidelines to be followed by the Group. The Board is responsible for the long-term strategy and for monitoring its implementation.

– A Chief Executive Officer reports directly to the Board and sits on it.

– An Investment Committee reporting to the General Director and formed by the management team.

2. Business performance and results

2.1. Business performance and results in 2021

The Company's operating performance improved over the year, leading it to beat the FFO forecast reported to the market at the beginning of the year.

MERLIN Properties closed the year with a Gross Income of EUR 505 million, an EBITDA of EUR 377 million and an FFO of EUR 273 million (Note 14.2. to the Directors' Report).

The net asset value (EPRA NTA Note 14.2. to the Directors' Report) amounts to EUR 7,567 million (EUR 16.11 per share), which represents an increase of 4.2% compared to the previous year. The portfolio's resilience is manifested in its solid fundamentals despite the impact of COVID-19, with growth in like-for-like gross rents (+0.2%) and with occupancy at 94.5% (+21 bps compared to 2020).

Offices

The decline in like-for-like rents (-1.2%) continued to improve compared to 6M21 (-2.9%) and 9M21 (-2.1%), thanks to the stabilisation of the occupancy rate and the rise of inflation. Occupancy is at 90.1%, beating the forecast given to the market (90%) and with a release spread of 4.3%. The main leases signed in 2021 include: 8,595 sqm in PE Sanchinarro with Inetum, 5,400 sqm in Vegacinco 2 with Indra, and 4,496 sqm in Arturo Soria 343 with Elecnor. With regard to renewals, of note were the renewals of Técnicas Reunidas (43,515 sqm in Adequa), Roche Farma (11,444 sqm in PE Puerta de las Naciones) and Vass (10,495 sqm on Avenida de Europa).

With regard to the Landmark Plan, the main highlights in the year were the completion of the full rerfurbishments of Monumental and Castellana 85, already delivered and 100% let to BPI, Accenture and Elecnor, respectively. The works on Plaza Ruiz Picasso have already begun and are progressing adequately.

Within Offices, MERLIN offers a flex space service through its subsidiary LOOM. This service consists in the commercialization of ready to use desks, maintained by dedicated staff within each space, to be used by clients through a service provision contract subscribed between LOOM and the customers. As of December 31st, LOOM has 10 spaces in operation, with a total GLA of 18,000 sqm and a total stock of 1,877 desks within those spaces. Out of these 10 spaces, 7 spaces, with a total GLA of 13,343 sqm are owned by MERLIN Properties. At year-end, LOOM has a 70% occupancy, measured as occupied desktops in relation to the total desktops in stock

Shopping centres

Footfall (+24.9%) and sales (+26.9%) continue improving compared to last year, but remain below those of 2019. The like-for-like rents increased by 2.6%, and occupancy continued to increase to 94.2% (+45 bps compared to 2020), with a release spread of 5.6%. The main leases and renewals signed in the year included Ocine for 2,333 sqm in Porto Pi, Toys ‘R’ Us for 1,677 sqm in Porto Pi and Fnac for 1,349 sqm in Larios.

With the delivery of Saler and Porto Pi in the first half of the year, the Flagship Plan is completed.

Logistics

Good release spread of 4.0% and growth in like-for-like rents of 1.6%. Occupancy is at 97.1%, with a slight increase over 2020 (+46 bps).

The main leases signed in the year included Carrefour with 98,757 sqm in A2-Azuqueca II, 4PX with 22,506 sqm in A2-Cabanillas Park I G, Truck and Wheel with 20,723 sqm in A2-Cabanillas Park I F, and Olicargo and Rangel with 45,171 sqm in Lisbon Park A.

Investment and divestment activity

The investments in the year were limited to the acquisition of the remaining building capacity in PE Atica XIX for EUR 1.9 million (around EUR 375 per sqm).

With regards to divestments, over the 2021 period, the Group has sold assets totalling EUR 238.1 million with a 5.4% premium above GAV, including 4 secondary logistics assets, an office building in Madrid, a BBVA branch, 32 supermarkets, a high street retail unit, a minority stake in a hotel, and a stake in Aedas.

2.2. Outlook for the Company in 2022

The evolution expected in 2022 will depend significantly on the evolution of the pandemic. In any case, MERLIN expects to continue its high occupancy rates and maintain its solid cash flow, due to the long lease term remaining (5.4 years from 31 December 2021, weighted by gross income). The Group also expects to continue the acquisition of assets that fit its investment philosophy and asset rotation as well as the financing of its ongoing capex plan. To this end, it has a cash position and debt securities of EUR 867 million at the end of 2021 and a liquidity position of EUR 1,811 million, including undrawn credit facilities, EUR 32 million in treasury stock and EUR 81 million corresponding to receivables for the sale of secondary commercial assets sold in 2020.

3. Capital and Liquidity Resources

3.1. Debt

At the end of 2021, the Group's financial debt amounted to EUR 6,227 million, made up of corporate financing without mortgage collateral (loans and bonds) and mortgage loans.

The Group's strategy is to actively manage both the Group's assets and liabilities. In relation to liabilities, the objective is to extend the average maturity of the debt and to take advantage of current market conditions to reduce or maintain financial cost levels and eliminate the risk arising from changes in interest rates. It currently holds 99.9% of its debt at a fixed rate or with interest rate hedges.

In 2021, MERLIN carried out various actions on its financial liabilities with the aim of extending the average maturity of the debt and maintaining or reducing its average cost.

The transactions carried out were as follows:

1. Issue of a 9-year bond of EUR 500 million at 99.2% of the par value and a coupon of 1.375%. This bond will be used to repay the bond maturing in 2022 with a coupon of 2.375%.

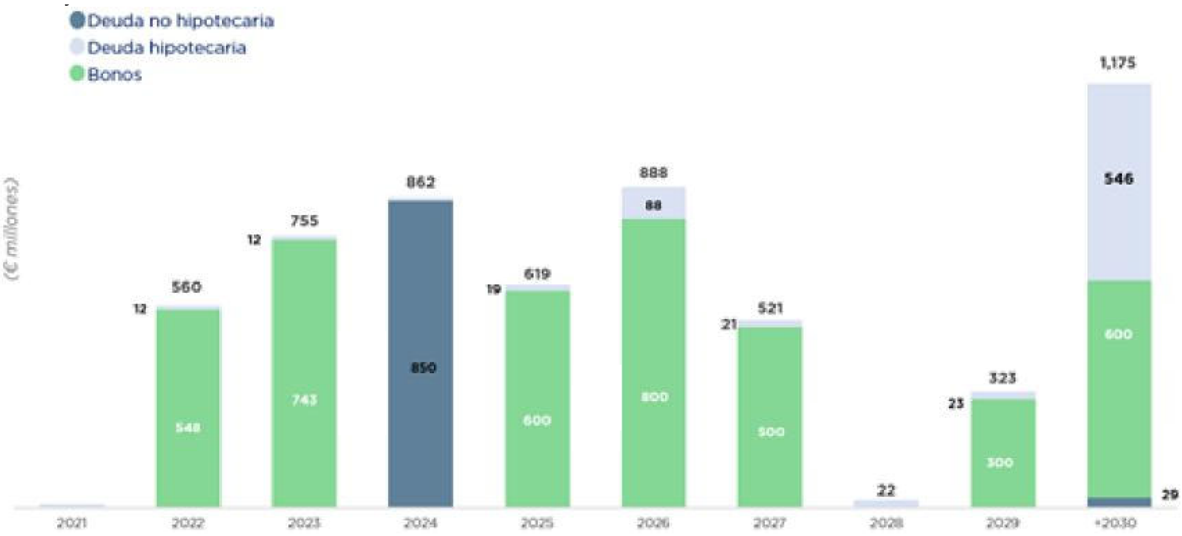
2. Extension of EUR 2.1 million of the mortgage-backed loan on 7 logistics warehouses.

3. Non-mortgage-backed loan from the European Investment Bank to carry out energy efficiency projects amounting to EUR 45.2 million with a maturity of 10 years. This transaction represents the first green loan in line with the new European framework.

4. Extension of the maturity of the credit facility from 2025 to 2026 and of the Tree mortgage from 2032 to 2033.

These transactions enabled the average maturity of the debt to be set at 5.3 years at year-end and to maintain a short-term horizon without significant debt maturities, the first relevant maturity being the EUR 743 million bond in 2023, the amount of which would be covered by the revolving credit facility.

The maturity schedule of the debt is as follows:



3.2. Liquidity available

MERLIN's liquidity position at 31st December 2021 amounts to EUR 980 million, including EUR 32 million in treasury stock and EUR 81 million corresponding to the receivables gained from taking a stake in Silicius. That transaction was carried out in the first quarter of 2020.

This liquidity is increased by EUR 831 million by the revolving credit facility, which was not drawn down in 2021, and the undrawn financing from the European Investment Bank.

Additionally, the Group has the ability to access the capital markets through the euro medium-term note (EMTN) programme, which has a limit of EUR 6,000 million. At 2021 year end, EUR 1,957 million was available through that programme.

3.3. Off-balance-sheet obligations and transactions

The Group's investment strategy currently focuses on two pillars, the start of the Data Center Program, as well as the development of new logistics warehouses.

In this regard, the Group has a horizon of projects at different stages of completion, in which it has EUR 7 million committed for the 2021-2025 period.

4. Enviromental Matters

Since the assets were acquired, the Group has incorporated sustainability into its decision-making process, aware of its impact on improving the performance of assets and the well-being of tenants. MERLIN seeks to differentiate its properties along these lines and, to that end, in 2021 it has continued with its three key repositioning plans: Landmark I, Flagship and Best II and III, the time horizon for which is 2019-23. These plans are focused on creating value by repositioning selected properties, incorporating sustainability into the process, as well as in obtaining better financing terms linked to meeting sustainability targets.

Sustainability certification

In 2021 the Group continued to make progress on making its asset portfolio sustainable by investing in improving the environmental performance of its properties. When certifying assets, the Group selects the most appropriate framework and modality based on the asset's phase, as well as the characteristics of the building, its occupancy rate at the time of certification or the tenants who occupy it.

We are continuing the process of certifying our portfolio under the standards of the leaders in this market, BREEAM and LEED, with the aim of certifying 99% of our portfolio. In 2021, the Group has certified or renewed the certification in 26 assets.

Assets	Category	Assets		Rating	Date
Avenida de Bruselas 33	Offices	1	LEED	GOLD	January 2021
Marques de Pombal 3	Offices	1	LEED	GOLD	January 2021
A4-Seseña	Logistics	1	LEED	GOLD	February 2021
Adequa 3	Offices	1	LEED	PLATINUM	February 2021
Adequa 5	Offices	1	LEED	PLATINUM	February 2021
Adequa 6	Offices	1	LEED	PLATINUM	February 2021
Vilamarina	Shopping Centers	1	BREEAM	VERY GOOD	March 2021
La Vital	Shopping Centers	1	BREEAM	VERY GOOD	March 2021
Avenida de Burgos 210	Offices	1	LEED	GOLD	March 2021
Almada	Shopping Centers	1	BREEAM	VERY GOOD	March 2021
Artea	Shopping Centers	1	BREEAM	EXCELLENT	may-21
Vitoria-Jundiz I	Logistics	1	BREEAM	VERY GOOD	may-21
Torre ZEN	Offices	1	LEED	GOLD	may-21
Torre Glories	Offices	1	BREEAM	EXCELLENT	may-21
Castellana 85	Offices	1	LEED	PLATINUM	August 2021
A2-Coslada Complex	Logistics	4	BREEAM	GOOD	August 2021
Diagonal 458	Offices	1	BREEAM	GOOD	August 2021
Zaragoza-Pedrola	Logistics	1	BREEAM	GOOD	August 2021
Eucalipto 25	Offices	1	LEED	GOLD	October 2021
Partenon 16-18	Offices	1	LEED	GOLD	December 2021
Maria de Portugal T2	Offices	3	BREEAM	VERY GOOD	December 2021
Total		**26**			

Additionally, MERLIN obtained an excellent rating (81%) in the 2021 edition of GRESB, a platform that makes it possible to harmonise and compare information related to sustainability criteria (environmental, social and corporate governance - ESG) in real estate investments.

This rating is above the global average and that of our peers and reinforces the Group's commitment to investing in sustainability.

ISO sustainability certifications

MERLIN, as manager of its portfolios, has an Environmental Management System (EMS) certified according to ISO 14001, which is the umbrella under which it manages its portfolios and that incorporates new properties into its scope every year.

Thus, in 2015 the Company began an ambitious plan for ISO 14001 (environmental management) and ISO 50001 (energy management) certifications to maintain and expand the number of real estate assets that have at least ISO 14001 certification, and subsequently ISO 50001 certification (based on the understanding that it is a natural step to obtain ISO 14001 certification before aspiring to ISO 50001).

This plan includes office buildings, shopping centres and logistics warehouses. With regards to ISO 14001, in 2021, 84 buildings composing a surface area of 1,141,317 sqm were certified, 1 building less than in 2020 due to its sale.

The Group has also continued the process of implementing an Energy Management System under the ISO 50001 standard, which began in 2017. Currently, 81 buildings are certified composing a surface area of 1,072,765 sqm, 17 more than in 2020.

In all assets included in the Energy Management System under ISO 50001 there is a target to reduce total energy consumption by 5% with respect to 2019, based on the implementation of energy saving measures (ESMs).

4.1 Coverage of possible environmental risks

MERLIN's Civil Liability Insurance expressly covers civil liability arising from contamination and pollution of the atmosphere, soil or waters, provided that these harmful actions have taken place as a result of accidental, sudden, unforeseeable, unexpected and unintended causes. The expenses for the removal, cleaning or elimination of polluting substances that MERLIN must legally bear due to pollution to third parties and their property are also covered.

There are no provisions and guarantees to cover possible environmental risks.

4.2 Local Communities

Merlin has a Stakeholder Relations Policy, and it is strengthening its commitment to transparency and value creation in relation to these Stakeholders by maintaining various channels of communication open through which it can respond to their concerns and needs.

In the case of local communities, the aspect of interest to them is the economic and social impacts of the assets on the environment.

The various channels of communication include face-to-face meetings, the corporate website, the MERLIN initiative websites, contact by phone and email, and the whistleblower hotline.

MERLIN establishes solid and lasting relationships with the local communities around assets, establishing different channels of communication within a framework of transparency and two-way communication. Through these channels, MERLIN identifies their needs and expectations, promoting partnership initiatives and programs, offsetting any potential negative impact arising from its activities, and thus promoting the creation of shared value.

MERLIN also continues to work together with local actors to improve the public spaces around its assets. In this way, MERLIN strengthens the value contributed by the activity carried out in these assets, generating new opportunities for growth and revitalisation in the surrounding communities, both socially and economically.

4.3 Sustainability evaluation of suppliers

Sustainability factors will be included in future years in addition to those already existing, in accordance with the Procurement Procedure, to assess each of the CAPEX and OPEX tenders in accordance with environmental, social and governance criteria.

In 2021, the design of an internal assessment procedure in these aspects was initiated, which will apply in future years to MERLIN's suppliers and contractors that are considered critical, i.e. with a contracts of more than EUR 1,000,000. In addition, suppliers that, due to their characteristics, provenance or uniqueness, pose a risk to the Company and/or whose services or products are critical to the performance of MERLIN's activity, are also considered critical.

For this evaluation, a 'Supplier Scoring Questionnaire' on Environmental, Social and Governance issues has been designed for 2021.

In 2021, this 'Supplier Scoring Questionnaire' was sent to, and answered by, all of MERLIN's 35 critical suppliers, with a satisfactory level in all cases.

4.4 Customer satisfaction survey

In the customer satisfaction survey, 17 opportunities for improvement were identified, which were communicated to each Asset Manager responsible for the customer's account, to manage each situation based on its circumstances and to provide a satisfactory solution to the customer where applicable.

4.5. ESG indicators Syndicated Loan

In 2019 the Group completed the process which begun in 2018 of refinancing its debt by a corporate syndicated loan (EUR 1,550 million) and a mortgage-backed loan increased in 2021 (EUR 70 million) under the sustainable (ESG) loan format.

The corporate loan marked an important milestone, as it was the largest financing of this type granted to a real estate company in Europe and the second largest obtained in Spain.

This financing includes a cost adjustment mechanism based on management indicators calculated based on four sustainability criteria, which are measured annually and reviewed by the Group's auditor. The indicators for 2021 were:

1. Investment of at least EUR 2.2 million in energy efficiency improvements across the portfolio.
2. Obtaining at least 5 LEED and BREEAM external energy certifications with a minimum rating of LEED Silver and BREEAM Good.
3. Obtaining at least 9 AIS/DIGA certifications for disability access for all tenants and consumers.
4. Electricity consumption of at least 40 GW from renewable energy sources.

At the end of 2021, 4 out of the 4 goals were met, with the consequent adjustment to borrowing costs for both loans for 2022.

In line with this financing under the principles of Corporate Social Responsibility, the Group took out a loan from the European Investment Bank for EUR 115 million in two tranches (2018 and 2019) for the financing of 5 logistics warehouses in Castilla-La Mancha, on the basis of eligibility for development of convergence zones.

5. Staff management

MERLIN’s staff are the Group's most important asset. At year end, MERLIN Group's team comprised a total of 239 employees, divided into 4 categories in keeping with MERLIN’s strategy of maintaining a horizontal structure.

Total number of employees at 2021 year end. Country, Sex, Professional Category and Age

Professional category	Men	Women	Total
Executive directors	2		2
Senior management	7	1	8
Middle Management	53	14	67
Other Staff	67	95	162
Total	**129**	**110**	**239**

			Sex		
Country	Professional category	Age Range	Men	Women	Total
SPAIN	Executive Directors	> 50 years old	2		2
	Total Executive Directors		2		2
	Senior management	> 50 years old	3		3
		30 - 50 years old	4	1	5
	Total Senior Management		7	1	8
	Middle Management	< 30 years old	2	1	3
		> 50 years old	24	4	28
		30 - 50 years old	26	8	34
	Total Middle Management		52	13	65
	Other Staff	< 30 years old	10	21	31
		> 50 years old	19	22	41
		30 - 50 years old	33	49	82
	Total Other Staff		62	92	154
Total Spain			123	106	229
PORTUGAL	Middle Management	< 30 years old		1	1
		30 - 50 years old	1		1
	Total Middle Management		1	1	2
	Other Staff	< 30 years old		1	1
		> 50 years old	1		1
		30 - 50 years old	4	2	6
	Total Other Staff		5	3	8
Total PORTUGAL			6	4	10
Overall total			129	110	239

Average number per country (Spain and Portugal)

The average workforce of the countries in which the Group operates is as follows:

Country	**Total**
Spain	218
Portugal	8
Total	**226**

Total number of employees at 2021 year end by type of employment contract

MERLIN has a team of professionals with indefinite-term contracts and an average age of 43. Throughout 2021, to promote the employability of young people, MERLIN, implemented a first job plan for young people who, having just finished their compulsory education, wanted to continue training and combine their studies with employment on some weekends.

From the moment they join the Company, MERLIN offers its employees stable contracts to ensure their loyalty and improve its ability to attract talent to the organisation. At 2021 year end, 99,91% of the Group's employees had an indefinite-term contract.

Contract Type	**Time**	**Total**
Indefinite	Full-time	224
	Part-time	10
Total Indefinite-term		**234**
Temporary	Full-time	5
Total Temporary		**5**
Overall total		**239**

The annual averages of permanent, temporary and part-time contracts by gender, age and professional classification are as follows:

			Sex		
Contract	**Category**	**Age Range**	**Men**	**Women**	**Total**
FULL-TIME INDEFINITE-TERM	Executive Directors	> 50 years old	2	-	2
	Total Executive Directors		**2**	**-**	**2**
	Senior management	> 50 years old	3	-	3
		30 - 50 years old	4	1	5
	Total Senior Management		**7**	**1**	**8**
	Middle Management	< 30 years old	2	2	4
		> 50 years old	22	4	26
		30 - 50 years old	27	8	35
	Total Middle Management		**51**	**14**	**65**
	Other Staff	< 30 years old	6	14	20
		> 50 years old	19	20	39
		30 - 50 years old	34	47	81
	Total Other Staff		59	82	141
Total FULL-TIME INDEFINITE-TERM			**119**	**97**	**216**
PART-TIME INDEFINITE-TERM	Other Staff	< 30 years old	-	-	-
		> 50 years old	1	2	3
		30 - 50 years old	1	5	6
	Total Other Staff		2	7	9
Total PART-TIME INDEFINITE-TERM			**2**	**7**	**9**
FULL-TIME TEMPORARY	Other Staff	< 30 years old	-	-	-
		30 - 50 years old	-	-	-
	Total Other Staff		-	-	-
Total FULL-TIME TEMPORARY			**-**	**-**	**-**
Group total			**123**	**104**	**227**

Turnover Rate

The voluntary turnover rate in 2021 was 7.95%.

		Sex		
Category	**Age Range**	**Men**	**Women**	**Total**
Senior management	> 50 years old	1	-	1
Total Senior Management		**1**	**-**	**1**
Middle Management	> 50 years old	1	-	1
	30 - 50 years old	1	-	1
Total Middle Management		**2**	**-**	**2**
Other Staff	< 30 years old	3	2	5
	30 - 50 years old	4	8	12
Total Other Staff		**7**	**10**	**17**
TOTAL		**10**	**10**	**20**

Number of dismissals by sex, age and professional category.

Professional category	Age Range	Women	Men	Total
Other Staff	< 30 years old	1	1	2
Other Staff	30-50 years	2	-	2
Group total		**3**	**1**	**4**

Total number of terminations, distinguishing between dismissals, and differentiating by gender, age and professional classification.

Reason for termination from the	Category	Age Range	Men	Women	Total
Employee dismissal	Other Staff	< 30 years old	-	1	1
		30 - 50 years old	1	2	3
	Total Other Staff		1	3	4
Total Employee dismissal			**1**	**3**	**4**
Voluntary resignation by employee	Middle Management	> 50 years old	1	-	1
		30 - 50 years old	1	-	1
	Total Middle Management		2		2
	Other Staff	< 30 years old	3	2	5
		30 - 50 years old	4	8	12
	Total Other Staff		7	10	17
Total Voluntary resignation by employee			**9**	**10**	**19**
Switch to pensioned status (employee retirement)	Senior management	> 50 years old	2	-	2
	Total Senior Management		2	-	2
Total Switch to pensioned status (employee retirement)			**2**	**-**	**2**
Group total			**12**	**13**	**25**

Disabled Employees.

MERLIN is also very committed to including and integrating people with disabilities into its workforce.

In this context, the Company currently has a total of 5 disabled employees on its staff, all of whom have part-time indefinite-term contracts, representing 2.09% of MERLIN's team. These staff members are fully integrated and perform necessary and valued functions at the Company. The Company exceeds the requirements under the current law in this area (the Spanish General Disability Act [Ley General de la Discapacidad], the former Spanish Social Integration of Disabled Persons Act [Ley de Integración Social de los Minusválidos]) through direct hiring.

Professional category	2021	2020
Other Staff	5	5
Total	**5**	**5**

Attracting and retaining talent.

MERLIN is committed to guaranteeing equal opportunities and transparency in its recruitment processes, hiring new staff based on their skills, knowledge and alignment with corporate values and objectives.

Merlin hired 45 new employees in 2021 (new workforce growth rate: 105% versus 2020), of whom 55.56 % were women).

To attract new talent, MERLIN has collaboration agreements with leading educational institutions, promoting, on the one hand, the integration of students who have recently joined the labour market and, on the other, the identification of students with stellar academic performance who could join the Company.

Within the framework of these agreements, in 2021 MERLIN had 2 interns.

In the area of talent retention, MERLIN continuously studies how to motivate and reward its staff for their involvement in and commitment to the Company. To that end, it currently has four key tools: remuneration, professional development, a horizontal structure and employment benefits.

a. Remuneration

Remuneration is a key tool for attracting and retaining the best talent. The Company's remuneration scheme prioritizes the performance over any other variable when establishing remuneration and, therefore, employee growth is monitored on an ongoing basis.

b. Employee Benefits

In addition to MERLIN's remuneration system, the Group offers all its employees employment benefits and alternative remuneration formulas.

In 2021, all MERLIN employees enjoyed the same conditions and social benefits in kind; health insurance, life and accident insurance and access to a flexible remuneration plan that contains a restaurant card, a transport card, childcare checks, training plans and access to the purchase of shares in the Parent.

5.3. Professional Development

As stated in the Company's Code of Conduct, MERLIN promotes equal opportunities and non-discrimination at all stages of its employment relationship with staff in terms of access to employment, training, promotion of employees and working conditions.

The proactivity of MERLIN staff is the key to their development. The Group's horizontal nature and youth allows each staff member to set the pace and focus of their development based on their abilities and aspirations. Throughout their career with the Company, all staff members have the opportunity to rotate through different positions and to take on new responsibilities.

Training

Likewise, MERLIN offers its employees on-the-job training to enhance their development process. This training consists of three tools:

- Targeted training: MERLIN gives its employees the opportunity to select the courses that best suit their specific needs. If necessary, MERLIN, through the experience of its staff members, provides guidance so that employees can choose those courses that best suit their needs.

- Shared knowledge: MERLIN considers it a priority to strengthen and share the knowledge it has gained, both in terms of the tools developed and the management procedures honed. To that end, the Group provides annual "in-house training" courses given by MERLIN staff to their colleagues.

- Language Training Plan: Merlin extended the scope of its Language Training Plan, extending the offer of language training through online and/or face-to-face classes to all Group employees.

In 2021, 92.45% of employees received training.

Total number of training hours by professional category

Professional category	Men	Women	Training hours 2021
Executive Directors	13	0	13
Senior management	62	7	69
Middle management	1,281	258	1,539
Other Staff	1,281	1,954	3,235
Overall total	**2,637**	**2,219**	**4,856**

In 2021, training hours increased by 13.9% compared to 2020.

5.4. Health and Safety

MERLIN seeks to ensure the welfare of its employees by creating healthy work environments that maximise their well-being through design, the heating, ventilation and air conditioning equipment used, light output, ergonomics, among others, meeting employees' needs in terms of their thermal, visual and acoustic comfort, as well as indoor air quality.

As part of their remuneration in kind, MERLIN provides its employees with high-cover health insurance that is 80% reimbursed. This medical insurance covers both employees and their immediate family (spouse and children). All employees, without differentiating between professional categories, have the same health insurance with the same coverage.

All employees, regardless of professional category, have the same health insurance with the same cover.

	No. of employees	Total Days
Men	10	733
Women	12	312
Overall total	**22**	**1,045**

Occupational accident days broken down by sex.

In 2021 there were no incidents due to non-compliance with health and safety regulations. All new recruits receive Occupational Risk Prevention training.

In 2021 there were no accidents with 'serious consequences' (according to GRI 403).

Other relevant issues

At MERLIN, all employees who meet the conditions indicated in the Spanish Workers' Statute [Estatuto de los Trabajadores] are entitled to reduced working hours. There are currently: 8 employees with reduced working hours, 1 is a man.

Among the Group's measures aimed at facilitating the enjoyment of work-life balance and encouraging the exercise of these rights by both parents, telecommuting should be highlighted, which is granted on an individual basis, as well as additional pay for paternity or maternity leave, without the employee's monthly income being reduced in this way.

100% of the employees in Spain are subject to a collective agreement and their salary is higher than the amount stipulated in this agreement. None of the employees in Portugal are subject to a collective agreement. The employees in Portugal are subject to the same legal conditions as those in Spain as long as they are more advantageous than those of Portuguese law.

6. MERLIN´s tax contribution

Definition:

Total Tax Contribution (TTC) measures the contribution made by a company or group of companies to the different governments.

In general, both taxes borne and taxes collected are imputed to each fiscal year, on a cash basis.

1. Taxes borne are those taxes that have entailed an effective cost for the companies, such as taxes on profits, social security contributions payable by the company, and certain environmental taxes.

2. Taxes collected are those that have been paid as a consequence of the company's economic activity, without entailing a cost for the companies other than managing them, such as withholding taxes levied on employees.

1. Report the public grants received explicitly.

In accordance with the MERLIN Group's current Tax Strategy — an update of which was approved by the Board of Directors on 10 April 2019 — compliance at all times with current tax legislation is part of the principles that guide MERLIN's corporate responsibility, with the taxes settled representing one of its contributions to the economic and social development of the society in which it operates.

6.1. Benefits and taxes by country.

In accordance with the foregoing, the Merlin Group’s total tax contribution, between Spain and Portugal in 2021 amounted to EUR 180,998 thousand. Based on the nature of the tax and the country of residence of the companies, the following is a breakdown of the total tax contribution collected and paid by the Group in 2021 following a cash approach:

Spain:

The total contribution in Spain amounted to EUR 165,911 thousand, taking into account direct and indirect taxation. This amount is differentiated into tax paid and tax collected/withheld. The former are those that entail a cost for the Group, while the latter are those that, without entailing a cost for the Group, consist of a collection on behalf of third parties. The following summary shows both concepts:

Thousands of euros
Taxes paid

	2021	**2020**
Income Tax	1,892	(38)
Transfer Tax and Stamp Duty	2,437	739
Tax on Large Commercial Establishments	82	272
Construction, installation and works tax	1,391	1,993
Economic Activities Tax	5,497	5,607
Property Tax	38,235	39,160
Urban Property Capital Gains Tax	2,996	2,400
Electric Power Generation Tax	15	13
Duties	2,274	2,288
Company SS	2,810	2,712
SUBTOTAL	**57,629**	**55,146**

Taxes collected/withheld

	2021	**2020**
VAT/Canary Islands General Indirect Tax	69,601	59,155
Suppliers Personal Income Tax/Non-resident Income Tax	2,271	713
Employees Personal Income Tax/Non-resident Income Tax	24,183	29,372
Dividend Personal Income Tax/Non-resident Income Tax	11,418	11,559
Employee SS	809	555
SUBTOTAL	**108,282**	**101,354**

Portugal:

The total contribution in Portugal amounted to EUR 15,087 thousand. Likewise, the following is a breakdown between the taxes paid and taxes collected/withheld for Portugal:

Thousands of euros

Taxes paid	2021	2020
Income Tax	2,523	1,737
Transfer Tax and Stamp Duty	—	—
Tax on Large Commercial Establishments	—	—
Construction, installation and works tax	—	—
Economic Activities Tax	—	—
Property Tax	**1,121**	**986**
Urban Property Capital Gains Tax	—	—
Electric Power Generation Tax	—	—
Duties	—	—
Company SS	99	83
SUBTOTAL	**3,743**	**2,806**

Taxes collected/withheld	2021	2020
VAT/Canary Islands General Indirect Tax	6,818	5,678
Suppliers Personal Income Tax/ Non-resident Income Tax	4,482	3,963
Employees Personal Income Tax/ Non-resident Income Tax	44	148
Dividend Personal Income Tax/ Non-resident Income Tax	—	—
Employee SS	—	38
SUBTOTAL	**11,344**	**9,827**

6.2. MERLIN's Total Tax Contribution in 2021

The Total Tax Contribution ('TTC') method measures the total impact of a company's tax payments. This assessment is made from the standpoint of the total taxes settled with the various public authorities directly or indirectly as a result of the economic activity of the MERLIN's Group.

To perform the analysis, the cash approach of the various taxes and fees levied on the MERLIN Group's activity was taken into account, considering the scope of consolidation of the companies under its control, as well as the impact of associated companies based on the Merlin Group's percentage of control over them.

The purpose of this calculation is to measure the business asset represented by the MERLIN Group's tax contribution so that it is effectively incorporated into the reputational value given the value it generates and contributes to society.

Therefore, the impact of the various taxes that entail an outflow of cash for the Group is detailed below:

Thousands of euros

Income tax

	2021	2020
Income Tax	4,415	1,699
Suppliers Personal Income Tax/Non-resident Income Tax	6,753	4,676
Economic Activities Tax	5,497	5,607
Urban Property Capital Gains Tax	2,996	2,4
SUBTOTAL	**19,661**	**14,382**

Taxes on shareholders

	2021	2020
Dividend Personal Income Tax/Non-resident Income Tax	11,418	11,559
SUBTOTAL	**11,418**	**11,559**

Property taxes

	2021	2020
Property Tax	39,356	40,146
SUBTOTAL	**39,356**	**40,146**

Taxes associated with employment

	2021	2020
Employees Personal Income Tax/Non-resident Income Tax	24,227	29,520
Company SS	2,909	2,795
Employee SS	809	593
SUBTOTAL	**27,945**	**32,908**

Taxes on products and services

	2021	2020
VAT/Canary Islands General Indirect Tax	76,419	64,833
Transfer Tax and Stamp Duty	2,437	739
Construction, installation and works tax	1,391	1,993
SUBTOTAL	**80,247**	**67,565**

Environmental taxes

	2021	2020
Tax on Large Commercial Establishments	82	272
Duties	2,274	2,288
Electric Power Generation Tax	15	13
SUBTOTAL	**2,371**	**2,573**

	2021	2020
TOTAL	**180,998**	**169,133**

As mentioned above, in 2021 the Merlin Group's total tax contribution amounted to EUR 180,998 thousand between Spain and Portugal, of which 33.9% corresponded to taxes paid and 66.1% to taxes collected/withheld.

1. The taxes paid by the MERLIN Group in 2021 amounted to EUR 61,372 thousand including, most notably, property tax that amounted to EUR 39,356 thousand, representing 64.1%.

2. The taxes collected/withheld by the MERLIN Group in 2021 amounted to EUR 119,626 thousand including, most notably, taxes on products and services, mainly VAT, which amounted to EUR 76,419 thousand, representing 63.9%.

According to the TTC method, the distributed value of a company is comprised the sum of the following elements: net interest, wages and salaries (net of taxes withheld from employees), taxes (paid and collected) and shareholder value (i.e., dividends, reserves, etc.), among others.

Thus, the ratio of distributed tax value reveals what percentage of the total value generated by MERLIN is allocated to the taxes paid to or collected/withheld for the public authorities. In essence, the tax distributed value reflects the way in which MERLIN contributes the value it generates to society.

Economic data	**Thousands of euros**	
	2021	**2020**
Revenue (Note 18.a.)	468,203	446,132
Salaries and wages (Note 18.c)	25,790	18,308
Net interest (Note 18.d)	(130,979)	(146,266)
Change in value of investment property (Note 7)	177,008	(84,468)
Change in value of financial instruments (Note 14)	73,070	(35,152)
Profit before tax	518,798	55,612
Profit after tax	512,217	56,358
Profit before tax paid	573,589	113,564
Profit before tax (without market revaluation)	268,720	175,232
Profit before taxes paid (without market revaluation)	**323,511**	**233,184**
Profit after taxes paid (without market revaluation)	**262,139**	**175,978**
Total taxes paid	**61,372**	**57,952**
Total taxes collected/withheld	**119,626**	**111,181**
Total tax contribution	**180,998**	**169,133**

Tax Contribution Indicators

1.	**Total Tax Contribution Ratio**	**19%**	**25%**
2.	TTC with regard to revenue	39%	38%
3.	Taxes paid as a percentage of revenue	13%	13%
4.	Taxes collected/withheld as a percentage of revenue	26%	25%
5.	**Distributed tax value in the Company**	**54%**	**78%**

In 2021, 19% of the value generated by MERLIN was paid to the Treasury through taxes paid and collected/withheld. Thus, for every EUR 100 of value generated by the Group in 2021, EUR 19 was allocated to paying taxes.

For every EUR 100 of the Company's revenue, EUR 38.7 was allocated to the payment of taxes, of which EUR 13.1 was taxes paid and EUR 25.6 was taxes collected/withheld.

In 2021, of total profit (without revaluation of the investment property) before tax, for the purposes of the Total Tax Contribution, taxes paid represented 18.9%.

7. Dividend policy

7.1. Dividend policy

The Company's dividend policy takes into account sustainable levels of distribution and reflects the Company's expectation of obtaining recurring profits. The Group does not intend to create reserves that cannot be distributed to Shareholders, except as required by law.

Under the REIT regime, after fulfilling any relevant requirement of the Corporate Enterprises Act (Ley de Sociedades de Capital), the Parent Company is obliged to adopt resolutions to distribute the profit obtained in the year to shareholders in the form of dividends and this distribution must be approved within six months of the close of each year, as follows: (i) at least 50% of the profit from the transfer of real estate and shares of qualified subsidiaries, provided that the remaining profit is reinvested in other real estate assets within no more than three years of the date of the transfer or, otherwise, 100% of the profit must be distributed as dividends after such period has elapsed; (ii) 100% of the profit obtained from receiving the dividends paid by qualified subsidiaries; (iii) at least 80% of the remaining profit obtained.

If the dividend distribution resolution is not adopted within the legally established period, the Parent Company will lose its REIT status for the financial year to which the dividends refer. As established in the Company's IPO Prospectus, MERLIN Properties has set itself the goal of distributing an annual dividend of between 4% and 6% of the IPO value.

The Company's dividend policy establishes a minimum distribution of 80% of the AFFO ("Adjusted FFO"), understood as the cash flow from operations less interest paid and less ordinary maintenance expenses for the assets. The distributions made to MERLIN shareholders from 2015 to 2021 are shown in the accompanying table.

On 19 May 2021, the payment of the distribution of share premium, amounting to EUR 140,055 was carried out. On 3 December 2021, the Company paid EUR 70,033 thousand as an interim dividend charged to profit for 2021.

7.2. Table of dividends paid by year

Type	Payment date	Item	EUR per share
2015 interim dividend	28 Oct. 15	Interim	0.0775
2015 final dividend	27 Apr. 16	Interim	0.0055692
2015 final dividend	27 Apr. 16	Distribution of share premium	0.102608
2015 total dividend			**0.19**
2016 interim dividend	25 Oct. 16	Interim	0.185
Extraordinary distribution	25 Oct. 16	Distribution of share premium	0.02
2016 final dividend	18-may-17	Interim	0.10071014
2016 final dividend	18-may-17	Distribution of share premium	0.09928767
2016 total dividend			**0.40**
2017 interim dividend	25 Oct. 17	Interim	0.2
2017 final dividend	25-may-18	Interim	0.02053654
2017 final dividend	25-may-18	Distribution of share premium	0.24
2017 total dividend			**0.46**
2018 interim dividend	25 Oct. 18	Interim	0.2
2018 final dividend	07-may-19	Interim	0.20270039
2018 final dividend	07-may-19	Distribution of share premium	0.09729961
2018 total dividend			**0.50**
2019 interim dividend	28 Oct. 19	Interim	0.2
2019 final dividend	08-jul-20	Interim	0.14741659
2019 total dividend			**0.34741659**
2020 final dividend	19-may-21	Distribution of share premium Dividend	0.3
2020 total dividend			**0.3**
2021 interim dividend	03 Dec 21	Interim	0.15
2021 total dividend			**0.15**

8. Main risks and uncertainties

MERLIN's Risk Management System is based on the principles, key elements and methodology established in the **COSO Framework** ("Committee of Sponsoring Organizations of the Treadway Commission"), which aims to minimise the volatility of results (profitability) and, therefore, maximise the Group's economic value, incorporating risk and uncertainty into the decision-making process to provide reasonable assurance of achieving the strategic objectives established, providing shareholders, other stakeholders and the market in general with an adequate level of guarantees to ensure that the value generated is protected.

Based on a comprehensive view of risk management, MERLIN has adopted a methodological approach based on the **Enterprise Risk Management Framework - Integrating with Strategy and Performance (COSO ERM 2017)**, which emphasises the importance of enterprise risk management in strategic planning and incorporates it throughout the organisation, since risk influences strategy and performance in all areas, departments and functions.

The **Risk Management and Control Policy** (https://www.merlinproperties.com/gobierno-corporativo/normativa-de-gobierno-corporativo/) was initially approved by the Board of Directors in February 2016, then in its second version in April 2018 and finally, in its current wording, in March 2021.

This policy establishes the general guiding principles, rooted in the perception that risk management is an ongoing process based on the identification and assessment of the Group's potential risks according to its strategic and business objectives, the determination of action plans and controls for critical risks, the supervision of the effectiveness of the controls designed and the evolution of residual risk to be reported to the Group's governing bodies.

MERLIN’s risk management is a process driven by the Board of Directors and senior management, and each and every member of the organisation is responsible for it within their own purview. Risk management is supervised by the Audit and Control Committee and allows Management to effectively manage uncertainty and its associated risks, thereby improving the ability to generate value.

A central element of the Risk Management System is the **Risk Map**, which was drawn up for the first time in 2015, and is updated every six months by the Audit and Control Committee and approved by the Board of Directors. It reflects and assesses the risks that could potentially impact its ability to meet its core objectives.

8.1. Description of MERLIN’s risks

MERLIN is exposed to a variety of risks inherent to the various segments of the real estate business in which it operates and in the leasing and/or development activities it carries on in each of these segments, as well as in the geographical areas in which it is established and in the evolution of external factors, both political and economic.

To implement risk management and control, the Board of Directors is assisted by the Audit and Control Committee, which supervises and reports on the adequacy and effectiveness of the risk management and control system.

The Audit and Control Committee is responsible for supervising the Company's risk management and control system (including internal controls) and verifying its suitability and integrity. The Audit and Control Committee carries out this supervisory function through the Internal Audit Department, which verifies the suitability and integrity of the Risk Management System implemented by the Group's management on an annual basis.

Based on the analysis of MERLIN's strategic vision, values and strategy, the various components are periodically analysed according to the grouping of the different strategic objectives included in these elements (being the benchmark REIT, creation of long-term value, generation of sustainable and growing dividends, values of transparency, ethics and responsibility).

In 2020, the MERLIN Risk Map was amended to expressly include a new category of ESG risks (Environmental, Social and Governance), replacing the previous ‘Stakeholder Risks’ category, to highlight the importance of this type of risks in the direction and management of the Company in its commitment to sustainability, social responsibility and governance in accordance with the highest standards of corporate governance.

The risks MERLIN identifies and assesses are thus classified under the perspective of the different strategic components and facilitating elements identified above, as shown below:

- **Business Risks:** which affect the strategic objectives of long-term value creation and the generation of sustainable and growing dividends, achievement of which depends mainly on the Group's various assets, grouped together in the different business segments (offices, net leases, shopping centres, logistics and others): occupancy rate of the assets, fluctuation rent levels, rent concentration, loss of property value, inefficiency in investments, political risk, etc.

- **Resource Risks:** which affect the strategic objectives of generating sustainable and growing dividends and the values of transparency, ethics and responsibility, achievement of which depends mainly on the various internal and external resources available to the Group (human, technological and financial): staff dependence and their remuneration, occupational risk prevention, business continuity plan, cybersecurity breaches, technological innovation, the Group's credit rating, volume of short-term debt, compliance with covenants, etc.

- **ESG Risks:** which affect the strategic objectives of leadership and reference (being the benchmark REIT) and the values of transparency, ethics and responsibility; achievement of which depends mainly on the various actions taken and policies implemented by the Group to guarantee the sustainability of its assets (physical impact, transition costs, compliance with sustainability standards) for its various stakeholders (customers, suppliers, society; investors and shareholders; and regulatory bodies) : customer and supplier credit risk, the Group's reputation, macroeconomic conditions in the country, shareholder remuneration (dividends), compliance with the REIT regime, etc.

Section E of the Annual Corporate Governance Report included in this Directors' Report details the main risks, the action plans established and, where applicable, those that have materialised during the year and the circumstances that have led to them.

8.2. *Financial, tax and climate change risks*

Financial risk management policies within the rental property sector are determined mainly by analysing the investment projects, management of the occupancy of the properties and the situation of the financial markets:

- **Market risk:** MERLIN Properties is exposed to market risk from possible vacancies or renegotiations of leases when the leases expire. This risk could have a direct negative impact on the valuation of the Company's assets.

However, market risk is mitigated by the customer acquisition and selection policies and the mandatory lease terms negotiated with customers. Therefore, at 31 December 2021, the average occupancy rate of the asset portfolio was 94.5%, with a weighted average unexpired lease term of 5.4 years (weighted by GRI).

- **Credit risk:** Credit risk is defined as the potential risk of loss in earnings to which the Group is exposed if a customer or counterparty breaches its contractual obligations. As a general rule, the Group places cash and cash equivalents with financial institutions with high credit ratings.

Except in the case of the BBVA branch leases, the Group is not exposed to significant concentration of credit risk with one customer or counterparty. The Group regularly reviews the credit rating and thus the creditworthiness of BBVA vis-à-vis the segment of bank branches leased to this bank. The Group also pays close attention to this situation, since the finance held is dependent on credit quality being maintained. The Parent's directors do not consider that there is any material credit risk regarding receivables due from this lessee.

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

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

- **Liquidity risk:** To manage liquidity risk and meet its various funding requirements, the Company uses an annual cash budget and a monthly cash projection, the latter being detailed and updated daily. The factor causing the liquidity risk is the working capital deficiency, which mainly includes short-term debt. In addition, liquidity risk has the following mitigating factors, which should be highlighted: (i) the generation of recurrent cash from the businesses on which the Group bases its activity; and (ii) the capacity to renegotiate and obtain new financing facilities based on the Group's long-term business plans and the quality of its assets.

At the date of preparation of the consolidated financial statements, taking into account the foregoing, the Group had covered all its funding requirements to fully meet its commitments to suppliers, employees and the authorities based on the cash flow forecast for 2021. Likewise, the type of sector in which the Company operates, the investments it makes, the financing it obtains to make such investments, the EBITDA they generate and the occupancy rates of the properties, enables the liquidity risk to be mitigated and excess cash to be produced.

Any cash surpluses are used to make short-term investments in highly liquid deposits with no risk. The acquisition of share options or futures, or any other high-risk deposits as a method of investing cash surpluses, is not among the possibilities considered by MERLIN Properties.

- **Interest rate risk:** To minimise the Group's exposure to this risk, financial instruments have been arranged to hedge cash flows, such as interest rate swaps. At 31 December 2021, the percentage of debt the interest rate of which is covered by the aforementioned financial instruments was 99.9%.

- **Foreign currency risk**: the Group's policy is to borrow in the same currency as that of the cash flows of each business. Consequently, currently there is no foreign currency risk. However, noteworthy in this connection are the exchange rate fluctuations arising in translating the financial statements of foreign companies whose functional currency is not the euro. At 31 December 2021, the functional currency of all subsidiaries and associates of the MERLIN Group was the euro.

- **Tax risk:** The Parent and a portion of its subsidiaries qualified for the special tax regime for real estate investment trusts (REITs). The transitional period of the Parent ended in 2017 and, therefore, compliance with all requirements established by the regime became mandatory.

Some of the more formal obligations that the Parent must meet involve the inclusion of the term SOCIMI (REIT) in its company name, the inclusion of certain information in the notes to its separate financial statements, the share price on the stock market, etc., and other obligations that require estimates to be made and judgements to be applied by management that may become fairly complex, especially considering that the REIT regime is relatively recent and was developed by the Directorate-General of Taxes mainly in response to the queries posed by various companies.

Group management, based on the opinion of its tax advisors, assessed compliance with the requirements of the regime, concluding that such requirements were met at 31 December 2021.

Accordingly, and also for the purpose of taking into consideration the financial effect of the regime, it should be noted that, as established in section 6 of the Spanish REITs Act 11/2009, of 26 October, amended by the Law 16/2012 of 27 December [Ley de las SOCIMI], and in the percentages established in it, companies that have opted for the special tax regime are required to distribute the profit generated during the year to their shareholders in the form of dividends, once the related corporate obligations have been met. This distribution must be approved within six months from each year-end, and the dividends paid in the month following the date on which the pay-out is agreed.

If the Parent does not comply with the requirements established in the regime or if the shareholders at the General Meetings of these companies do not approve the dividend distribution proposed by the Board of Directors, calculated in accordance with the requirements of this Act, it would not be complying therewith and, accordingly, tax would have to be paid under the general regime, not the regime applicable to REITs.

- **Climate change management**

Within the framework of the European Green Pact and the United Nations Sustainable Development Goals, the Group is carrying out various initiatives in the field of sustainability.

Firstly, the Group's Parent Company, in 2021 has created a Sustainability, Ethics and Innovation Committee reporting to the Board of Directors whose main competencies are to advise the Board of Directors, among others, on environmental and sustainability matters; to advise the Board of Directors in the formulation of the Group's sustainability strategy in its relations with stakeholders and in its publication and public communication; and to supervise the communication and information to the market of any information in which reference is made to sustainability issues and non-financial information and to keep the ESG (Environmental Social and Governance) Risk map up to date.

In this sense, the Group has incorporated in its investment and financing policies decision factors related to non-financial KPIs. Along these lines, the investment studies for real estate acquisitions and investments in repositioning the Group's assets consider, among other factors, elements such as obtaining energy efficiency certificates with the highest rating (see Note 7), air conditioning, lighting, solar energy, irrigation of green areas, accessibility, etc.

When certifying assets, the Group selects the most appropriate framework and method depending on the stage of the assets, as well as the characteristics of the building, its degree of occupancy at the time of certification or the tenants occupying it.

In this regard, the process of certifying the portfolio under the standards of the leaders in this market, BREEAM and LEED, continues, with the objective of reaching 99% of the portfolio. During the 2021 fiscal year, the Group has achieved certification or its renewal in 26 assets.

Additionally, the Group has obtained a rating of 81% in the 2021 GRESB edition, a platform that allows harmonizing and comparing information related to sustainability criteria (environmental, social and corporate governance - ESG) in real estate investments.

Thus, the Group has an Environmental Management System (EMS) certified according to ISO 14001, which constitutes the umbrella under which it manages its portfolios and which incorporates new properties into its perimeter on an annual basis.

In 2015, the Group initiated a plan for ISO 14001 (environmental management) and ISO 50001 (energy management) certifications, to maintain and expand the number of real estate assets that have at least ISO 14001, and subsequently ISO 50001 (understanding it as a natural step to achieve the ISO 14001 standard prior to aspiring to ISO 50001).

This plan covers office buildings as well as shopping centers and logistics warehouses. Regarding ISO 14001, 84 certified buildings were achieved in 2021, with a surface area of 1,141,317 m2.

The Group has also continued the process of implementing an Energy Management System under the ISO 50001 standard initiated in 2017, with 81 buildings currently certified, which have a surface area of 1,072,765m2, 17 more than in 2020.

Additionally, during the 2021 financial year, the Group has carried out an analysis of the entire portfolio to determine the carbon footprint of each of its assets, as well as the necessary measures to reduce the referred carbon footprint to its minimum expression.

In the assets included in the Energy Management System under the ISO 50001 standard, there is a target of reducing total energy consumption by 5% with respect to 2019, based on the implementation of ESMs (energy saving measures).

Likewise, the Group's financing policies are sensitive to the savings premiums currently offered by the capital market linked to the performance of certain sustainability indicators. Currently 15% of the

Group's debt with credit institutions and bondholders is linked to compliance with ESG indicators (see Note 14).

These financings include a cost adjustment mechanism based on management indicators calculated based on four sustainability criteria, measurable on an annual basis. At the end of 2021 the Group complies with the indicators established in these contracts and the Directors estimate that they will also be complied with in 2022.

The indicators for the 2021 fiscal year were:

1. Investment of at least €2.2 million in energy efficiency improvements across the portfolio.

2. Achievement of at least 5 LEED and BREEAM external energy certifications with a minimum rating of Silver LEED and Good BREEAM, respectively

3. Obtaining at least 9 AIS/DIGA certifications for handicapped access for all tenants and consumers.

4. Electricity consumption of at least 40 GW from renewable energy sources.

Additionally, the Group in its commitment to climate responsibility, has incorporated qualitative factors related to the Group's sustainability strategy into the short-term variable compensation measurement targets for its staff and management team (see Note 20).
In addition, during 2021, the Group has applied to adhere to 11 objectives of the United Nations Sustainable Development Goals.

Finally, the Group has also made progress in reworking its sustainability policy, which will be articulated around 3 main pillars: (i) fight against climate change, (ii) well-being of tenants and users of the spaces and (iii) impact on the cities and society in which the Group operates.

All of the above will form part of the Group's path to net zero or commitment to the fight against climate change.

9. Fraud and corruption prevention measures

In accordance with its Articles of Association, MERLIN aims to ensure that its conduct and that of the people related to it comply and are compliance with the current law, its corporate governance system and with generally accepted principles of ethical and social responsibility. MERLIN has a Criminal Compliance Management System that is based on Merlin's firm commitment to the values and principles framed within the rejection of and zero tolerance for any unlawful act.

These principles are set out in the **Code of Conduct** (https://www.merlinproperties.com/gobierno-corporativo/normativa-de-gobierno-corporativo/)) approved by the Board of Directors in 2015 and updated in 2021, and are projected onto the organisation's employees, managers and governing bodies, with a strong message of rejection of and zero tolerance for any unlawful behaviour or behaviour that violates the Group's policies, values and principles.

The **Criminal Compliance Policy** (https://www.merlinproperties.com/gobierno-corporativo/) helps to reinforce the Company's commitment to good corporate governance in accordance with its values and principles, and on the other hand, to diligently exercise in the organisation the necessary due control over the Group's governing bodies, executives and employees to minimise as much as possible the potential risk of bad practices or non-compliance with regulations in the performance of its activity.

In addition, MERLIN has a series of policies that express the Group's intention to strictly comply with the highest standards of ethical and legal behaviour.

In this regard, in 2018 the Board of Directors approved the **Tax Strategy, Tax Policy, and Tax Function Regulations,** which establish a series of guiding principles, including strict compliance with tax obligations and payment of taxes that are legally enforceable, not to use artificial structures or structures that make no economic or business sense in order to reduce the tax burden of the Company or its shareholders, and the commitment not to operate in territories classified as tax havens for the main purpose of reducing the tax burden of the Company or its shareholders.

These policies include the **Corruption, Fraud and Bribery Prevention Policy** (updated in 2021), which is based on the principle of zero tolerance for unlawful or criminal acts and, therefore, does not allow any of its employees, regardless of their hierarchical or functional level, to become involved or participate in any transaction or business within its business activity that involves a criminal or fraudulent act or goes against the principles set out in its Code of Ethics; and the **Public Authority Relations Policy**, which aims to establish the basic principles governing the Group, and the rules of conduct for MERLIN Group employees in their interactions with public authorities to impose preventive and proactive action in the fight against corruption and bribery in all areas of its business activity.

9.1. Policies approved in 2021

As explained above, in October 2021, the Board of Directors approved an update to the **Code of Conduct** (dating from 2015) and the **Whistleblower Hotline Reporting Procedure**. The improvements/updates to the Code of Conduct consisted of technical improvements to the document, drafting improvements (simplification and greater adaptation to MERLIN), reinforcement of the gifts and presents policy, reinforcement of the message of the obligation to know and communicate, as well as improvement of the whistleblower reporting procedure. The update of both documents, as the backbone of MERLIN's Compliance System, was specifically communicated and trained to the entire MERLIN Group workforce, as in addition to posting them on the corporate website.

On the other hand, the Policy against corruption and bribery has been updated for its technical improvement and greater alignment with ISO 37001, notably with the following changes: technical improvement according to Ibex-35 best practices, reinforcement of the message of zero tolerance of corruption and bribery, clearly specifying the types of actions that are prohibited, detailing the management model and the compliance structure, as well as explaining the consequences of breaches.

In addition to the policies already mentioned in the report, the following are some of the updates and improvements that were made this year:

- Risk Control and Management Policy
- Financial and non-financial information reporting policy
- Internal Security Market Conduct Regulation
- Financing and financial risks policy
- Investment policy
- Policy on transactions with treasury shares
- Anti-money laundering and countering the financing of terrorism manual.

These policies, and a summary of all the policies that make up the MERLIN Corporate Governance System, are accessible on the corporate website.

(https://www.merlinproperties.com/gobierno-corporativo/normativa-de-gobierno-corporativo/).

9.2. Crime Prevention Model

MERLIN has a **Crime Prevention and Detection Model** that was designed as a specific and effective programme to reduce the risk of crimes or other unlawful acts being committed within the Company and implemented as a set of general and specific measures aimed at preventing, detecting and reacting to possible crimes. In turn, this will allow the Group, where applicable, to be able to guarantee third parties and judicial and administrative bodies that it has exercised the proper prevention control legally required of all businesses in relation to their employees, managers and governing bodies.

In turn, this will allow the Group, where applicable, to be able to guarantee third parties and judicial and administrative bodies that it has exercised the proper prevention control legally required of all businesses in relation to their employees, managers and governing bodies.

To that end, Merlin has a **Criminal Compliance Body** (CCB) that is as a collective body that reports to the Parent Company's Board of Directors. The CCB has autonomous powers to take initiative and exercise control to ensure compliance with Merlin's Crime Prevention and Detection Model. The manner in which this body functions is defined in its Operating Procedures and, additionally, Merlin has a manual that defines the different responsibilities within the organisation in relation to crime prevention and detection.

In 2021, MERLIN's **Crime Prevention and Detection Model** was updated and adapted to the new risks identified as a result of the COVID-19 pandemic, in particular with regard to the prevention of occupational risks and the protection of personal data, as well as updating the risks and controls related to Market Abuse.

In addition, MERLIN has a **Whistle-blowing Channel** (canal.etico@merlinprop.com) that provides a confidential channel through which to communicate any event that violates the laws in force and the Code of Conduct, as well as potentially material irregularities of a financial or accounting nature or of any other nature. This Channel is accessible to all MERLIN companies and is equally public and accessible to any interested third party, for which purpose there is a specific email address, which is detailed in the Code of Conduct and it is published on the Group's corporate web page.

In 2021, four reports were received over the Group's Whistleblowing Channel that were processed in accordance with the Whistleblowing Channel Procedure updated in 2021, although, following their analysis, it was concluded that they had no impact on the effectiveness of the Financial Reporting System, and they did not result in penalties or reporting of any employees.

9.3. External Certification of the Compliance System

With regard to risks relating to corruption and fraud and MERLIN's **Criminal Compliance Management System,** it is worth noting that it obtained quality certification in 2019, which was subsequently renewed in 2021, in accordance with the **UNE 19601 standard,** the Spanish national standard for best practices in management systems to prevent crime, reduce risk and promote an ethical business culture that complies with the law, thus contributing to generating confidence.

Similarly, in 2021 **MERLIN's Anti-Corruption and Bribery System** was accredited under international standard **ISO 37001**, the international standard on best practices against corruption and bribery. These two certifications accredit that MERLIN's Crime Prevention and Detection Model meets the standard's requirements and that it is also effective in its commitment to ongoing improvement to incorporate the highest standards of compliance.

The certification accredits that MERLIN's Crime Prevention and Detection Model meets all the standard's requirements and is also effective in its commitment to ongoing improvement to incorporate the highest standards of compliance.

Among other aspects, MERLIN's Crime Prevention and Detection Model includes a Map of Risks or Criminal Offences to which the Group is exposed due to its activity and identifies, documents and executes more than 90 controls linked to such offences, demonstrating that the organisation has put in place the mechanisms and controls within its reach in the area of Criminal Compliance.

Thus, MERLIN has become one of the first real estate companies among the Ibex 35 to obtain both quality certificates, which help to generate confidence among its stakeholders and recognise MERLIN's effort to prioritise and adopt the best national and international practices in compliance, corporate governance, social responsibility and business ethics.

10. Adquisition and disposal of treasury shares

At 31 December 2021, the Parent held treasury shares amounting to EUR 32,305 thousand.

The changes in 2021 were as follows:

	Number of Shares	Thousands of euros
Balance at 1 January 2020	**5,077,369**	**58,860**
Additions	26,177	279
Disposals	(267,043)	(299)
Balance at 31 December 2020	**4,836,503**	**54,149**
Additions	374	3
Disposals	(1,951,386)	(21,847)
Balance at 31 December 2021	**2,885,491**	**32,305**

The General Meeting held on 10 April 2019 revoked the authorisation granted by the General Meeting of April 2018 in the part not used and then authorised the acquisition of shares by the Company itself or by a Group company, pursuant to section 146 and related provisions of the Corporate Enterprises Act, in accordance with the requirements and restrictions established in current legislation during the five-year period.

The withdrawals of treasury shares amounting to EUR 21,847 thousand (average cost of EUR 11.20 per share) mainly correspond to the first delivery of shares under the ‘17-19 Incentive Plan’ for EUR 20,896 thousand, and to payments to employees under the flexible remuneration plan for EUR 853 thousand.

The Group has a liquidity agreement for the securities listed on the Lisbon Stock Exchange, with net sales of 364 shares in 2021.

At 31 December 2021, the Parent held treasury shares representing 0.614% of its share capital.

11. Other relevant information

11.1. Stock market information

On 31 December 2021, MERLIN shares closed at a price of EUR 9.57, representing a 23% increase in their price compared to the closing price on 31 December 2020 (EUR 7.78).

11.2. Average payment period to suppliers

Below are the disclosures required by additional provision three of Spanish Law 15/2010, of 5 July (amended by final provision two of Spanish Law 31/2014, of 3 December), prepared in accordance with the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 January 2016 on the disclosures to be included in the notes to financial statements in relation to the average period of payment to suppliers in commercial transactions.

	2021	2020
	Days	Days
Average period of payment to suppliers	31.6	31.3
Ratio of transactions settled	31.5	31.2
Ratio of transactions not yet settled	33.7	34.9
	Thousands of Euros	
Total payments made	239,013	411,847
Total payments outstanding	4,129	9,502

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

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

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

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

11.3. R&D+i activities

In relation to R&D+I activities and other innovative initiatives, MERLIN has continued to promote numerous projects of a technological nature to position MERLIN at the forefront in terms of solutions for its clients and internal management. Of those projects the following are of note:

- Special projects:
    - Sensorisation programme for office buildings (in collaboration with Signify) and shopping centres (in collaboration with Vodafone)
    - Last mile logistics
    - Photovoltaic self-consumption project
    - Introduction of third-party technologies (e.g. KeepEyeOnBall, Mayordomo and Fillit)
    - User experience app
- Sponsorship: Agreement with Fifth Wall, a venture capital firm focused on the real estate industry

12. Annual Corporate Governance Report and Annual Remunerations Report

For the purposes of section 538 Corporate Enterprises Act, it is stated that the Annual Corporate Governance Report and the Annual Remuneration Report for 2021 form part of this Management Report. (See Appendix I and II).

13. Events after the reporting period

On 23 February, the Group repaid EUR 548.3 million corresponding to the bond maturing on 23 May 2022. This transaction was paid out from available cash, obtained mainly by issuing EUR 500 million in bonds in June 2021.

14. Alternative Performance Measures

MERLIN Properties, as a member of the EPRA (European Public Real Estate Association), follows best practice standards in reporting that enables investors to more easily compare certain measures that are specific to the real estate sector. The measures are published twice a year and are detailed in the Directors' Report.

In accordance with the recommendations issued by the European Securities and Markets Authority (ESMA), the alternative performance measures are described below.

14.1. Definition of APMs

Average maturity period (years)
Represents the average duration of the Group's debt to maturity. It is an important measure as it provides the investor with important information on the repayment commitments of financial obligations. It is calculated as the sum of the outstanding years to maturity of each loan multiplied by the outstanding debt of the loan and divided by the total outstanding amount of all loans. Given the nature of this measure, it is not possible to reconcile it to the Group's Financial Statements but the main information is available in note 14 of the Consolidated Financial Statements.

Average passing rent

Represents the rent per square meter per month at which an asset or category of assets is leased at a given point in time. The average passing rent is a relevant performance measure as it shows the implied rents of all the Group's current leases at a point in time per square meter per month, allowing comparison with market rents. Given the nature of this measure, it is not possible to reconcile it to the Financial Statements.

Release spread

Difference between the new rent signed and the previous rent on renewals (same space, same tenant) or re-lets (same space, different tenant) during the last twelve months. The release spread provides the investor with insight into rental behaviour (rental trends) when negotiating with tenants.
It is calculated on a rent-for-rent basis and therefore cannot be reconciled to the Financial Statements.

Rents Like-for-like

Amount of gross rents (note 8.2. of the Notes to the Consolidated Financial Statements for fiscal year 2020) comparable between two periods. They are calculated on an asset-by-asset basis excluding from both periods rents from investments or divestments made between the two periods as well as buildings under comprehensive renovation in the period and other atypical adjustments such as indemnities for early termination of lease agreements. We consider like-for-like rental growth to be a relevant measure that allows us to compare, on a homogeneous basis, the evolution of the rental income of an asset or category of assets.

The calculation is made on an asset-by-asset basis and therefore cannot be reconciled to the Financial Statements.

Gross annualized Rents

We consider gross annualized rents to be a relevant performance measure as it represents the total amount of rents from the Group's current leases at a given point in time, allowing the calculation of the return on each asset (gross yield). Given the nature of this measure, it is not possible to reconcile it to the Financial Statements.

GAV

Value of the portfolio according to the latest available external valuation plus prepayments at cost for turnkey projects and developments, plus the market value of equity method investees (including all disbursements made) and the fair value of available-for-sale financial assets.

GAV is a standard valuation measure for comparative purposes, globally recognized in the real estate industry, and carried out by an independent external valuator. A reconciliation to the financial statements can be found in the Appendix to this report.

Gross Yield

Represents the gross yield of an asset or asset class. It is calculated by dividing the annualized gross income by the latest available GAV.

PMA (Wault)

Average lease term, calculated as the number of years of lease term, from the balance sheet date to the first lease breakage milestone, weighted by the gross rental income of each lease. We consider Wault a relevant measure as it provides the investor with the period of risk and opportunity to renegotiate current leases.

Given the nature of this measure, it is not possible to reconcile it to the Financial Statements.

Total income

Consists of the sum of total gross rents (EUR 503.4 million, note 8.2. of the Notes to the Consolidated Financial Statements for 2020) and the remaining operating income excluding extraordinary items (EUR 5.2 million). The reconciliation to IFRS is shown in the table hereafter.

Accounting EBITDA

Accounting EBITDA is calculated as net operating income before net revaluations, depreciation, amortization, provisions, interest and taxes. Accounting EBITDA is a measure of performance and is calculated as a percentage of net operating income before net revaluations, depreciation, amortization, provisions, interest and taxes. Accounting EBITDA is a performance measure widely used by investors to value companies, as well as by rating agencies and creditors to assess the level of indebtedness by comparing accounting EBITDA to net debt and debt service.

Reconciliation to IFRS measures is provided in the table hereafter.

EBITDA

EBITDA is calculated as book EBITDA net of non-overheads and the LTIP provision. EBITDA is a very useful measure as it excludes the impact of atypical costs incurred in the period. Atypical or "non-overhead" expenses are those associated with the acquisition or sale of assets and severance, among others (as described in the IPO prospectus available on the corporate website www.merlinproperties.com).

Reconciliation to IFRS measures is provided in the table hereafter.

Accounting FFO and FFO

Accounting FFO or Funds Flow from Operations is calculated as EBITDA less net financial expenses and recurring taxes (excluding taxes from divestitures and other extraordinary events) and plus equity in income of companies accounted for by the equity method.

FFO is calculated by deducting the Group's non-overheads from FFO for accounting purposes. This is a globally recognized relevant measure of performance and liquidity in the real estate industry.

EPRA costs

Calculated as the quotient of the Group's total management costs divided by gross rents net of incentives. This performance measure shows operating efficiency on a recurring basis. Reconciliation to the financial statements can be found in the Appendix to this report.

EPRA earnings

Earnings from strategic businesses as recommended by EPRA.

Reconciliation to the financial statements can be found in the Appendix to this report.

EPRA NRV, EPRA NTA and EPRA NDV

EPRA Net Reinstatement Value (NRV): assumes that the entity never sells assets and is intended to represent the value necessary to rebuild the entity.

EPRA Net Tangible Assets (NTA): assumes that entities buy and sell assets, thereby crystallizing certain levels of deferred tax liabilities.

EPRA Net Disposal Value (NDV): represents shareholder value under a liquidation scenario, in which deferred tax liabilities, financial instruments and other adjustments are calculated taking into account the entire unrealized liability, net of any taxes.

EPRA Yields

Net Initial Yield: Annualized yield based on passing rents as of the balance sheet date, less non-pass-through operating expenses, divided by the market value of the assets (GAV) plus acquisition costs.

EPRA "Topped" NIY: Adjustment to EPRA Net Initial Yield in respect of the completion of vesting periods (or other non-completed rental incentives such as rent discounts or escalated rents).

These are two relevant performance measures as they are a recognized standard of comparison in the real estate industry globally, as they provide the net return on portfolio assets based on the leases in place at a given date irrespective of the Company's financial structure, as recommended by EPRA. The calculation is provided in the Appendix to this report. Given the nature of this measure, it is not possible to reconcile it to the financial statements.

EPRA Vacancy Ratio

Calculated as the Estimated Market Rental Value ("ERV") of the vacated area divided by the ERV of the entire portfolio. Given the nature of this measure, it is not possible to reconcile it to the financial statements.

The reconciliation to the Financial Statements is provided in the Appendix to this report.

Group financial indebtedness

Calculated as the sum of any amount due from the Group in the short and long term as a result of loans, credits, bonds, debentures, and in general any instrument of a similar nature.

Percentage of debt at a fixed rate or with interest rate hedges

The percentage of debt at a fixed rate or with interest rate hedges is calculated as the sum of fixed-rate financial debt and variable-rate financial debt with associated interest rate change hedging transactions in relation to the Group's financial debt.

The percentage of debt at a fixed rate or with interest rate hedges is a performance metric widely used by investors to assess the level of risk, as well as the rating agencies and creditors to evaluate the company exposure to interest rate movements.

Given the nature of the metric, it is not possible to reconcile it with the Group financial statements but the main information is available in the consolidated financial statements.

Liquidity position

The liquidity position is calculated as the sum of the Group's cash plus the amount corresponding to receivables from corporate transactions, the treasury stock position at market value, and the undrawn credit facilities available.

The liquidity position is a performance metric widely used by investors to assess the level of financial flexibility, as well as the rating agencies and creditors to evaluate the capacity to meet debt maturities. The reconciliation with IFRS metrics appears in the table hereafter.

Total Tax Contribution

The Total Tax Contribution (TTC) measures the contribution made by a company or group of companies to the different administrations. In general, both taxes borne and taxes collected are imputed to each fiscal year, following the cash basis.

- Taxes borne are those taxes that have entailed an effective cost for the companies, such as taxes on profits, social security contributions payable by the company, or certain environmental taxes.

- Taxes collected are those that have been paid as a result of the company's economic activity, without entailing a cost for the companies other than their management, such as withholding taxes levied on employees.

This performance metric, although not widely used by investors, rating agencies or creditors, is provided to assess the amount of taxes collected or paid by the company

Given the nature of the metric, it is not possible to reconcile it with the Group financial statements.

Investment in energy efficiency improvements

Investment in energy efficiency improvements is defined as investments aimed at directly or indirectly measuring, controlling or reducing the energy consumption or carbon footprint of all assets over which we have operational control.

This performance metric, although not widely used by investors, rating agencies or creditors, is provided to assess the level of investments in ESG (environmental, social and corporate governance) measures.

Given the nature of the metric, it is not possible to reconcile it to the Group's financial statements, but the main information is available in the consolidated financial statements.

Loan-to-value ratio (LTV)

The loan-to-value ratio is calculated as the net debt divided by the fair value of the assets of the company (GAV + transaction costs)

The LTV is a performance metric widely used by investors to assess the level of risk, as well as the rating agencies and creditors to evaluate the level of indebtedness.

The reconciliation with IFRS metrics appears in the table hereafter.

Leverage ratio

The leverage ratio is calculated as the net debt divided by the net debt plus the equity.

The leverage ratio is a performance metric widely used by investors to assess the level of risk, as well as the rating agencies and creditors to evaluate the level of indebtedness.

The reconciliation with IFRS metrics appears in the table hereafter.

Financial debt

The financial debt is calculated as the sum of any amount owed by the Group in the short and long-term as a result of loans, credits, bonds, debentures, and in general any instrument of a similar nature. The financial debt is a performance metric widely used by investors to assess the level of risk, as well as the rating agencies and creditors to evaluate the level of indebtedness.

The reconciliation with IFRS metrics appears in the table hereafter.

Given the nature of the metric, it is not possible to reconcile it with the Group financial statements but the main information is available in the consolidated financial statements.

Average cost of debt

The average cost of debt is calculated as the ratio between the passing interest cost including derivatives corresponding to interest bearing debt and the Group's financial debt.

The average cost of debt is a performance metric widely used by investors to assess the cost of borrowed funds, as well as the rating agencies and creditors to evaluate the capacity to fulfill interest obligations.

Given the nature of the metric, it is not possible to reconcile it with the Group financial statements but the main information is available in the consolidated financial statements.

Net debt

The net debt is calculated as the financial debt less cash and cash equivalents (e.g. disposal receivables or treasury stock)

The net debt is a performance metric widely used by investors to assess the level of risk, as well as the rating agencies and creditors to evaluate the level of indebtedness.

The reconciliation with IFRS metrics appears in the table hereafter.

14.2. Reconciliation of the APM with the financial statements

		€ millions	
PORTFOLIO VALUATION		**2021**	**2020**
Investment properties	**Note 7**	12,297	12,139
Derivative embedded in BBVA lease agreement	**Note 10**	167	108
Shares in companies accounted for using the equity method	**Note 9**	468	434
Other non-current financial assets [(1)]	**n/a**	89	104
Trade inventories [(2)]	**n/a**	6.3	19
Property, plant and equipment used internally	**n/a**	0.9	0.9
Total balance sheet items		**13,028**	**12,805**
Value of rights in use (IFRS 16)	**Note 7**	(35)	(32)
Investee adjustment	**n/a**	47	37
Revaluation of property, plant and equipment used internally	**n/a**	0.4	0.3
GAV		**13,041**	**12,811**

[(1)] *Including Silicius at amortized cost (EUR 78 million) net of the impact of the derivative*
[(2)] *Including DCN loan*
[(3)]*Amount effectively paid by MERLIN. This excludes both unpaid amounts and pre-sold commercial inventories. The total trade inventories amounted to EUR38.6 million as of FY21*

(€ million)	Offices	Shopping centers	Logistics	Net Leases	Other	WIP	**TOTAL**
Asset value	6,416.4	2,200	1,324.2	1,774.6	410.3	311.4	**12,437.0**
Transfer tax	165.1	45.9	41.5	56.3	9.0	18.8	**336.6**
Gross asset value	6,581.5	2,245.9	1,365.8	1,830.9	419.2	330.3	**12,773.6**
Exclude:							
WIP & Land	(369.6)	—	—	—	(96.4)	(330.3)	**(796.3)**
Commercial property portfolio GAV	6,211.9	2,245.9	1,365.8	1,830.9	322.8	—	**11,977.3**
Gross rents annualized	239.5	113.6	64.8	78.9	10.6	—	**507.4**
Exclude:							
Propex not recharged to tenants	(21.6)	(14.8)	(5.1)	—	(1.2)	—	**(42.8)**
“Topped-up” net rents annualized	217.8	98.7	59.7	78.9	9.4	—	**464.6**
Exclude:							
Incentives	(7.0)	(4.9)	(1.0)	—	(0.2)	—	**(13.0)**
Net rents annualized	210.9	93.9	58.7	78.9	9.2	—	**451.6**
EPRA “topped-up” yield	3.5 %	4.4 %	4.4 %	4.3 %	2.9 %	—%	**3.9 %**
EPRA net initial yield	3.4 %	4.2 %	4.3 %	4.3 %	2.8 %	—%	**3.8 %**

€ thousands		2021	2020
Net income	**Notes 18.a**	468,203	446,132
Other operating income		4,277	264
Staff costs	**Note 18.c**	(40,779)	(40,888)
Other operating expenses	**Note 18.b**	(68,582)	(66,936)
Accounting EBITDA		**363,118**	**340,948**
Costs associated with the acquisition and sale of assets	***Note 18.b***	*1,622*	*4,174*
Other expenses	***Note 18.b***	*837*	*894*
Termination benefits	***Note 18.c***	*152*	*1,167*
Non-overhead expenses	**Note 18.b and 18.c**	2,612	6,235
Long-term incentive plan	**Note 18.c**	11,498	18,232
EBITDA		**377,228**	**365,414**
Net financial expenses [(1)]	**Note 18.d**	(115,992)	(12,736)
Recurring results of companies accounted for using the equity method [(2)]	**n/a**	18,110	16,347
IFRS16 Adjustment	**n/a**	—	4,273
Bond repurchases	**n/a**	—	6,026
Current taxes [(3)]	**Note 17**	(6,317)	(2,300)
FFO		**273,028**	**262,400**
General non-overhead expenses	**Note 18.b and 18.c**	(2,612)	(6,235)
Accounting FFO		**270,417**	**256,165**

€ thousands		2021	2020
Gross rental income	**Note 8.2**	505,319	503,448
Revenue from the rendering of services	**Note 18.a**	574	507
Other net operating income	**n/a**	1,047	110
Income		**512,106**	**508,628**

[(1)] *Excluding debt arrangement costs*
[(2)] *Profit/(Loss) for the period excluding revaluation adjustment, derivative impact and including income from dividends received*
[(3)] *Current tax excluding impact on sales of fixed assets*

2021

(€ thousands)

EPRA Net Asset Value metrics	EPRA NRV	EPRA NTA	EPRA NDV
Consolidated equity	7,026,922	7,026,922	7,026,922
Includes:	—	—	—
i) Hybrid instruments	—	—	—
Diluted NAV	**7,026,922**	**7,026,922**	**7,026,922**
Includes:	—	—	—
ii.a) Revaluation of investment assets (if IAS 40 applies)	—	—	—
ii.b) Revaluation of development assets (if IAS 40 applies)	—	—	—
ii.c) Revaluation of other investments	47,870	47,870	47,870
iii) Revaluation of finance leases	—	—	—
iv) Revaluation of assets held for sale	—	—	—
Diluted NAV at market value	**7,074,792**	**7,074,792**	**7,074,792**
Excludes:	—	—	—
v) Deferred tax in relation to fair value gains of IP	597,205	502,573	—
vi) Fair value of financial instruments	(8,302)	(8,302)	—
vii) Goodwill as a result of deferred tax	—	—	—
viii.a) Goodwill as per the IFRS balance sheet	—	—	—
viii.b) Intangibles as per the IFRS balance sheet	—	(1,594)	—
Includes:	—	—	—
ix) Fair value of fixed interest rate debt	—	—	(124,393)
x) Revaluation of intangibles to fair value	—	—	—
xi) Real estate transfer tax	350,942	—	—
NAV	**8,014,638**	**7,567,470**	**6,950,400**
Number of diluted shares	469,770,750	469,770,750	469,770,750
NAV - Euros per share	**17.06**	**16.11**	**14.80**

2020

(€ thousands)

EPRA Net Asset Value metrics	EPRA NRV	EPRA NTA	EPRA NDV
Consolidated equity	6,698,567	6,698,567	6,698,567
Includes:	—	—	—
i) Hybrid instruments	—	—	—
Diluted NAV	**6,698,567**	**6,698,567**	**6,698,567**
Includes:	—	—	—
ii.a) Revaluation of investment assets (if IAS 40 applies)	—	—	—
ii.b) Revaluation of development assets (if IAS 40 applies)	—	—	—
ii.c) Revaluation of other investments	37,809	37,809	37,809
iii) Revaluation of finance leases	—	—	—
iv) Revaluation of assets held for sale	—	—	—
Diluted NAV at market value	**6,736,376**	**6,736,376**	**6,736,376**
Excludes:	—	—	—
v) Deferred tax in relation to fair value gains of IP	596,985	497,254	—
vi) Fair value of financial instruments	33,042	33,042	—
vii) Goodwill as a result of deferred tax	—	—	—
viii.a) Goodwill as per the IFRS balance sheet	—	—	—
viii.b) Intangibles as per the IFRS balance sheet	—	(961)	—
Includes:	—	—	—
ix) Fair value of fixed interest rate debt	—	—	(189,984)
x) Revaluation of intangibles to fair value	—	—	—
xi) Real estate transfer tax	374,359	—	—
NAV	**7,740,762**	**7,265,711**	**6,546,392**
Number of diluted shares	469,770,750	469,770,750	469,770,750
NAV - Euros per share	**16.47**	**15.46**	**13.93**

[(1)] Calculated according to the old EPRA NAV definition. From this year onwards, MERLIN will report EPRA NRV, EPRA NTA and EPRA NDV.

14.3. EPRA Metrics Reconciliation

€ thousands

EPRA EARNINGS		2021	2020
Consolidated Net Profit in accordance with IFRS		**512,217**	**56,358**
Adjustments for calculating EPRA earnings, excludes:		**(253,299)**	**181,575**
(i) changes in the value of investments, investment projects and other interests (1)	**Note 7**	(176,319)	86,112
(ii) Gains or losses on disposals of assets	**Income Statement**	(4,057)	14,300
(iii) Absorption of the revaluation of investment property		—	—
(iv) one-off taxes (2)	**n.d.**	264	(3,046)
(v) equity interest in earnings of companies accounted for using the equity method (3)	**n.d.**	(16,450)	19,791
(vi) Negative goodwill on business combinations	**Note 3**	—	—
(vii) Changes in the value of financial instruments and cancellation costs	**n.d.**	(58,083)	64,356
(viii) Impacts of impairment of the tax asset		—	—
(ix) Gains or losses on disposals of financial instruments	**Income Statement**	1,347	62
Non-controlling interests with regard to the above items		—	—
EPRA net recurring earnings before specific adjustments		**258,918**	**237,933**
EPRA net earnings per share before specific adjustments (weighted)		**0.55**	**0.51**
Net EPRA per share before specific adjustments		**0.55**	**0.51**

Company specific adjustments:		**14,110**	**24,467**
(i) LTIP provision	**Note 18.c**	11,498	18,232
(ii) General non-overhead expenses	**Note 18.b and 18.c**	2,612	6,235
(iii) one-off fees		—	—
non-controlling interests with regard to the above items		—	—
EPRA net recurring earnings after specific adjustments		**273,028**	**262,400**
EPRA net earnings per share after specific adjustments (weighted)		**0.58**	**0.56**
EPRA net earnings per share after specific adjustments		**0.58**	**0.56**

(i): Net revaluation of real estate investments plus Depreciation plus Surplus provisions
(iv): Income taxes less current taxes
(v): Share in profit/(Loss) for the period excluding revaluation adjustment, derivative impact and including income from dividends received

EPRA COST RATIO		2021	2020
		€ thousands	
Operating costs of assets not chargeable to tenants	**Note 18.b**	(46,319)	(45,454)
Incentives		—	—
Delinquencies	**Note 18.b**	(2,312)	(174)
Staff costs	**Note 18.c**	(40,627)	(39,721)
General expenses	**Note 18.b**	(14,262)	(12,144)
General non-overhead expenses	**Note 18.b and 18.c**	(2,612)	(6,235)
LTIP accrued Note 18.c	**Note 18.c**	11,498	18,232
Exclude (if part of the above)			
Depreciation of real estate investments		—	—
Lease costs for concessions		—	—
Service costs included in rents but not separately recovered		—	—
Third-party asset management unit expenses		**—**	**—**
EPRA costs (including direct costs of vacancy)		**(94,634)**	**(87,062)**

Gross income	**Note 8.2**	505,319	503,448
Other: incentives	**n.d.**	(42,856)	(62,386)
Less: service fees (if included in rents)		—	—
Plus: attributable income from joint ventures		—	—
Revenue from income	**Note 18.a**	**462,463**	**441,062**

EPRA Cost Ratio (including direct unemployment costs)	**20.5%**	**19.7%**
EPRA Cost Ratio (excluding direct unemployment costs)	**18.2%**	**17.2%**

	(€ m)	Notes	2021	2020
A	GAV	Section 5 Results Report	13,041	12,811
B	Transaction costs	n.a.	351	374
C=A+B	GAV + Transaction costs		13,392	13,185
N	Net debt		5,247	5,268
D=N/C	**LTV**		**39.2 %**	**39.9 %**

E	Net Debt		5,247	5,268
F	Equity	Balance sheet	7,027	6,696
G=E+F	Total capital		12,273	11,965
H=E/G	**Leverage ratio**		**42.7 %**	**44.0 %**

I	**Financial debt**	**Section 5 Results Report**	**6,227**	**5,735**
J=K+L+M	Cash and cash equivalents		980	467
K	Cash	Balance sheet	867	256
L	Receivables	Note 19	81	157
M	Treasury stock	Balance sheet	32	54
N=I+J	**Net debt**		**5,247**	**5,268**

J	Cash and cash equivalents		980	467
O	Undrawned credit facilities	Note 14.1	831	786
P=J+O	**Liquidity position**		**1,811**	**1,253**

MERLIN PROPERTIES, SOCIMI, S.A.
Formulación de las Cuentas Anuales Consolidadas e Informe de Gestión Consolidado correspondientes al ejercicio finalizado el 31 de diciembre de 2021.

En cumplimiento de lo dispuesto en los artículos 365 y 366 del Reglamento del Registro Mercantil, en relación con el artículo 253, apartado primero, de la vigente Ley de Sociedades de Capital, el Consejo de Administración de MERLIN Properties, SOCIMI, S.A. (la "**Sociedad**") formula las cuentas anuales consolidadas y el informe de gestión consolidado (que incluye adjunto, como sección separada, el Informe Anual de Gobierno Corporativo y el Informe Anual de Remuneraciones de los Consejeros) correspondientes al ejercicio cerrado a 31 de diciembre de 2021, en formato electrónico único de conformidad con el Reglamento Delegado (UE) 2019/815, de la Comisión, de 17 de diciembre de 2018, e integradas en el/los archivo/s electrónico/s con el/los siguiente/s código/s hash

Número: ____________________

(El "**Archivo de los Estados Financieros Consolidados**").

Asimismo, mediante la suscripción y firma del presente folio de firmas, y en cumplimiento de lo dispuesto en el apartado segundo del mencionado artículo 253, los miembros que integran el Consejo de Administración de la Sociedad declaran firmados de su puño y letra el contenido íntegro del Archivo de los Estados Financieros Consolidados.

D. Javier Garcia-Carranza Benjumea (Presidente)

D. Ismael Clemente Orrego (Vicepresidente)

Dña. Francisca Ortega Hernández-Agero (Vocal)

Dña. Ana Forner Beltrán (Vocal)

Dña. María Luisa Jorda Castro (Vocal)

Dña. Pilar Cavero Mestre (Vocal)

D. Juan María Aguirre Gonzalo (Vocal)

D. Miguel Ollero Barrera (Vocal)

D. Fernando Javier Ortiz Vaamonde (Vocal)

Dña. Ana María García Fau (Vocal)

D. Emilio Novela Berlin (Vocal)

D. George Donald Johnston (Vocal)

D. Ignacio Gil Casares Satrústegui (Vocal)

Madrid, a 23 de febrero de 2022

MERLIN Properties, SOCIMI, S.A.
DECLARATION OF RESPONSIBILITY FOR THE 2021 FINANCIAL STATEMENTS

The members of the Board of Directors of Merlin Properties, SOCIMI, S.A. declare that, to the best of their knowledge, the individual financial statements of Merlin Properties, SOCIMI, S.A. and the consolidated financial statements with its subsidiaries, for the year ended December 31, 2021, prepared (*formuladas*) (in English) by the Board of Directors at the meeting held on February 23, 2022, in accordance with the applicable accounting principles and in single electronic format, offer a true and fair view of the net worth, financial situation and results of Merlin Properties, SOCIMI, S.A. and of the subsidiaries included in the consolidated group, taken as a whole, and that the directors' reports accompanying the individual and consolidated financial statements (along with their attachments and supplementary documentation) include a true analysis of the business performance, results and position of Merlin Properties, SOCIMI, S.A. and of the subsidiaries included in the consolidated group, taken as a whole, and a description of the main risks and uncertainties they face.

Mr. Javier Garcia-Carranza Benjumea (Chairman)

Mr. Ismael Clemente Orrego (Deputy Chairman)

Ms. Francisca Ortega Hernández-Agero (Member)

Ms. Ana Forner Beltran (Member)

Ms. María Luisa Jorda Castro (Member)

Ms. Pilar Cavero Mestre (Member)

Mr. Juan María Aguirre Gonzalo (Member)

Mr. Miguel Ollero Barrera (Member)

Mr. Fernando Javier Ortiz Vaamonde (Member)

Ms. Ana María García Fau (Member)

Mr. Emilio Novela Berlin (Member)

Mr. George Donald Johnston (Member)

Mr. Ignacio Gil-Casares Satrústegui (Member)

In Madrid, on February 23, 2022