

# INTERIM MANAGEMENT REPORT 1H 20**18**



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

- 1** | **KEY HIGHLIGHTS**
- 2** | **EXECUTIVE SUMMARY**
- 3** | **BUSINESS PERFORMANCE**
- 4** | **FINANCIAL STATEMENTS**  
Income Statement /  
Balance sheet and debt / Cash flow
- 5** | **VALUATION** GAV Y NAV
- 6** | **ASSET PORTFOLIO**
- 7** | **EPRA METRICS**
- 8** | **TESTA SHARES**
- 9** | **GLOSSARY**

# 1

## KEY HIGHLIGHTS

Puente de  
**MADRID**



## KEY HIGHLIGHTS

### KEY EARNINGS HIGHLIGHTS

		1H 2018	1H 2017	% Change
Rental income	Eur M	<b>36.98</b>	21.87	<b>69.1%</b>
Net rental income	Eur M	<b>28.47</b>	16.26	<b>75.1%</b>
Net rental income margin	%	<b>77.0%</b>	74.4%	
EBITDA	Eur M	<b>-87.20</b>	9.92	<b>n.m.</b>
Adjusted rental EBITDA	Eur M	<b>24.38</b>	14.53	<b>67.8%</b>
Adjusted rental EBITDA margin	%	<b>65.9%</b>	66.4%	
FFO1	Eur M	<b>19.58</b>	12.24	<b>59.9%</b>
FFO1 per share	Eur	<b>0.148</b>	0.124	<b>19.7%</b>
AFFO	Eur M	<b>17.53</b>	10.50	<b>66.9%</b>
AFFO per share	Eur	<b>0.133</b>	0.106	<b>24.9%</b>

### KEY FINANCIAL HIGHLIGHTS

		JUN 2018	DEC 2017	% Change
Portfolio gross asset value (GAV)	Eur M	<b>2,637.3</b>	2,275.5	<b>15.9%</b>
Adjusted EPRA NAV	Eur M	<b>1,981.5</b>	1,833.8	<b>8.1%</b>
Adjusted EPRA NAV per share	Eur	<b>14.98</b>	13.86	<b>8.1%</b>
Net debt	Eur M	<b>636.1</b>	402.0	<b>58.2%</b>
LTV ratio	%	<b>24.1%</b>	17.7%	
Cost of debt	%	<b>1.6%</b>	1.5%	

### KEY OPERATING HIGHLIGHTS

		JUN 2018	DEC 2017	% Change
No. of apartments	Units	<b>10,615</b>	9,244	<b>14.8%</b>
Total surface area (GLA)	sqm	<b>1,002.483</b>	881,687	<b>13.7%</b>
Residential surface area (GLA)	sqm	<b>953,662</b>	837,739	<b>13.8%</b>
Annualized gross rental income (GRI)	Eur M	<b>85.0</b>	72.4	<b>17.5%</b>
LFL growth in annualized rental income (12 months)*	%	<b>11.9%</b>	6.2%	
Passing rent	Eur/sqm/month	<b>7.63</b>	7.50	<b>1.7%</b>
Occupancy rate (surface area)	%	<b>91.4%</b>	89.5%	

\* Includes impact from occupancy change and rent change.

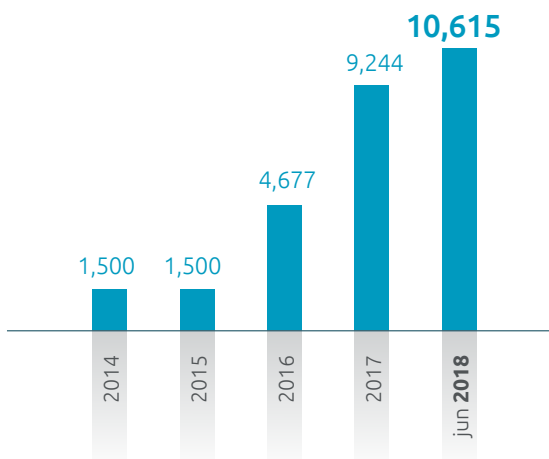
**KEY SHARE PRICE DATA**

SEPT 4<sup>th</sup>, 2018

Share price	Eur	<b>14.10</b>
Total no. of shares issued	Million	<b>132.27</b>
Market capitalisation	Eur M	<b>1,865</b>

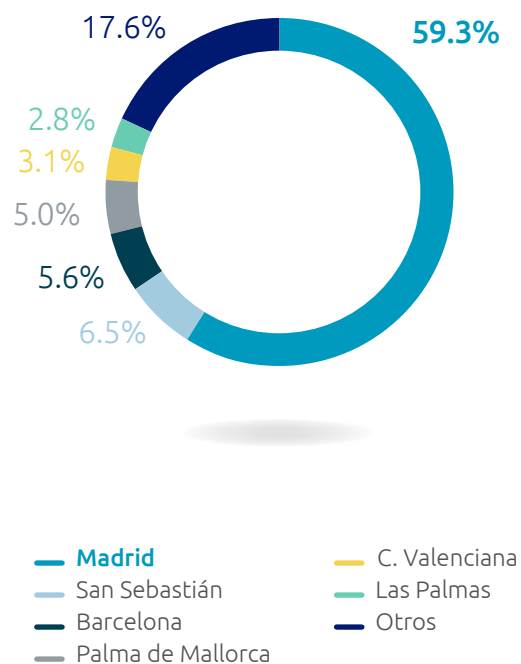
**TESTA PORTFOLIO**

(no. of apartments)



**GEOGRAPHICAL FOOTPRINT**

(% GAV)



Las Tablas  
**MADRID**



# 2

## EXECUTIVE SUMMARY

Terrazas de Gran Via  
**ALICANTE**



## EXECUTIVE SUMMARY

### Key figures

- > Testa's current **portfolio**: 10,615 apartments, compared with 9,244 at the end of 2017.
- > **Gross rental income** of 36.98 million euros in 1H18: +69.1% vs 1H17.
- > Growth of **annualized rental income** (GRI): 85.0 million euros through June, +12.7% LFL vs. June 2017.
- > **Occupancy rate** of 91.4%, marking an LFL improvement of 236 basis points in the first half of the year.
- > Improvement in **operating margins**: net/gross rental margin of 77.0%; recurring EBITDA margin of 65.9%.
- > **Funds from operations** (FFO1) amounted to 19.58 million euros in 1H18 (+98% vs. 1H17), equivalent to 0.148 euros per share.
- > Appraisal of **real estate assets** (GAV) of 2,637 million euros, +4.3% LFL vs. December 2017.
- > Adjusted **EPRA NAV** of 14.98 euros/share, +8.1% from 13.86 euros/share at year-end 2017.
- > Start of listing of **Testa shares** on the Alternative Equity Market (Mercado Alternativo Bursátil: "MAB") on 26/7/2018, with an initial reference price of 13.9 euros per share and an initial market capitalisation of 1,838 million euros.

#### ANNUALIZED GROSS RENTAL INCOME (GRI)

**€ 85.0 M** +11.9% LFL vs Dec 2017

#### NO. OF APARTMENTS

**10,615** +14.8% vs Dec 2017

#### OCCUPANCY RATE

**91.4%** +236bp LFL vs. Dec 2017

#### NET RENTAL INCOME MARGIN (NRI/GRI)

**77.0%**

#### ADJUSTED EBITDA MARGIN

**65.9%**

#### FFO1

**€ 19.58 M** +59,9% vs 1H17

#### PORTFOLIO VALUE (GAV)

**€ 2,637 M** +4.3% LFL vs Dec 2017

#### ADJUST. EPRA NAV

**€ 14.98/sh** +8.1% vs. Dec 2017

#### LTV RATIO

**24.1%**



## Strategy

**Testa is the largest residential rental REIT (SOCIMI) in Spain.** Our strategy is based on the acquisition and management of residential assets located in metropolitan areas with the greatest growth potential to provide sustainable returns for shareholders with a moderate risk profile. The company is managed internally with a staff of 80 employees.

Testa owns 10,615 residential units and 317 commercial premises, with a market value of 2,637 million euros according to the latest valuation report by Savills as of June 2018. The assets are located mostly in Madrid (59% of GAV) and, to a lesser extent, in other major metropolitan areas in Spain such as San Sebastián (7%), Barcelona (6%), Palma de Mallorca (5%), Las Palmas de Gran Canaria (3%) and Valencia (3%). All these areas feature scarce supply of residential property, sharper demographic growth, a higher household creation and higher per capita income than the Spanish average.

Moreover, 84% of the company's assets are less than 20 years old, making a good fit with customer preferences. This also implies smaller maintenance capex, allowing for a fairly high cash flow conversion rate. Meanwhile, 84% of rents are open market, and Testa owns either the entire building or the majority of the units in most cases.

**The corporate strategy is geared towards improving the rental income, with a combination of higher occupancy and rent levels,** while controlling operational costs, thereby boosting margins and shareholder returns. The Spanish residential market has seen a strong rental growth in the last few years, which lead us to expect higher revenues as our lease contracts are repriced up to market levels. We pursue an adequate balance between rent increases and a gradual improvement in occupancy, where our medium-term target is 95%.

**Testa aims to be an active player in the consolidation and institutionalisation of the Spanish residential real estate market** in a bid to bolster its leadership position and, above all, leverage economies of scale. The goal is to acquire between 1,000 and 2,000 apartments annually that are in line with the company's strategy regarding location, quality and profitability. Testa also intends to enter into turnkey built-to-let agreements with developers, for a volume of up to 10% of GAV.

Testa's dividend policy going forward entails the distribution of approximately 80% of FF01 each year, which easily complies with the mandatory dividend requirement of Spanish REITs.

---

### Bentaberri SAN SEBASTIÁN





Pamplona  
**NAVARRA**



## Outlook

**Testa sees scope for further organic growth in both rental income and in annualized rents in coming quarters.** Key growth drivers will continue to be the occupancy rate and lease renegotiations, capturing the increases in the residential rental market and narrowing the gap between the company's current leases and market rents, which stands at 26% according to the report by the external valuer.

We are confident that we can continue to improve our margins (net rental income and

adjusted EBITDA margins) through more efficient management of direct operating costs and general expenses, coupled with higher revenue.

We also have a pipeline of potential acquisitions, under study or in the negotiation phase, worth approximately 467 million euros and including 1,900 homes. The properties would meet our investment criteria, for which we currently estimate a gross initial yield of approximately 3.5%.

## Developments in the first half

### January 2018

In January 2018, Testa terminated its advisory, planning and strategic management services agreement with Merlin Properties earlier than scheduled. This agreement had an annual cost of **7.7** million euros plus VAT. The cost of early termination was **107.2** million euros, split between **89.7** million euros, that was converted into new Testa shares issued in March, and a cash payment of **18.8** million euros related to the payment of VAT, of which **17.5** million euros were considered as non-tax deductible.

### March 2018

In March 2018, Testa signed an agreement with CaixaBank to acquire **1,458** apartments for **228** million euros, in several stages. It completed the acquisition of **1,329** and **121** apartments in May and June, respectively, for **207** million euros and **19** million euros, respectively, with effect for financial purposes from June and July. That leaves eight apartments under the agreement worth **1.5** million euros, which are expected to be acquired over the coming months.

.....

In March 2018, Standard & Poor's assigned Testa Residencial an investment grade rating of BBB-; outlook positive. This is a preliminary rating, subject to the admission of Testa's shares to listing on the Spanish main market ('Mercado Continuo').

### April 2018

In April 2018, Testa Residencial's Board of Directors approved the planned merger with **99.65%**-owned subsidiary Compañía Urbanizadora del Coto, S.L. The owners of the remaining **0.35%** will receive Testa Residencial shares worth **1.1** million euros. The exchange will be covered with treasury shares, so there is no need to issue new shares. The merger is expected to be completed within the third quarter of the year.

## Events after the reporting period

### May 2018

In May 2018, Testa signed two new mortgages with banks to fund the acquisition of apartments from CaixaBank, for **130** million and **99** million euros, respectively. The two loans have similar terms and conditions, with a 7-year bullet maturity and a fixed annual cost of approximately **1.6%**.

.....

In May 2018, Campo de Tiro en Leganés (Madrid), with **80** apartments, was removed from the portfolio after the expiration of the surface rights. This asset generated **51,225** euros of monthly income. The concession in Torrejón de Ardoz (Madrid) will expire in September, resulting in the derecognition of **64** apartments representing **33,671** euros of current monthly rents, with a very limited impact on GAV.

### July 2018

On **26 July 2018**, shares of Testa Residencial began trading on the Spanish Alternative Equity Market (MAB), with an initial market capitalisation of **1,838** million euros, which corresponds to its approximate net asset value (adjusted EPRA NAV) based on the December 2017 appraisal. This fulfils one of the requirements of the Spanish REIT regime. The Company is open to the possibility of trading on the Spanish continuous market, in future, if conditions allow.

In July 2018, and before the shares were listed on the MAB, Testa increased the amount of treasury shares held to **601,991**, representing **0.46%** of the share capital.

### August 2018

In August 2018, Testa has agreed to acquire a portfolio of **549** rental apartments located in the province of Madrid for a price of **66.8** million euros. The assets are situated in important municipalities in the South region of Madrid: Pinto, Parla, Móstoles and Aranjuez. The buildings are currently **95%** leased and the price implies a value of **1,590** euros per square meter. An important part of the agreement (**334** apartments) has already been closed in August, while the rest is pending certain administrative procedures. The seller is a local private real estate company.

# 3

## BUSINESS PERFORMANCE

Mendez Álvaro  
**MADRID**



## BUSINESS PERFORMANCE

### Gross rental income

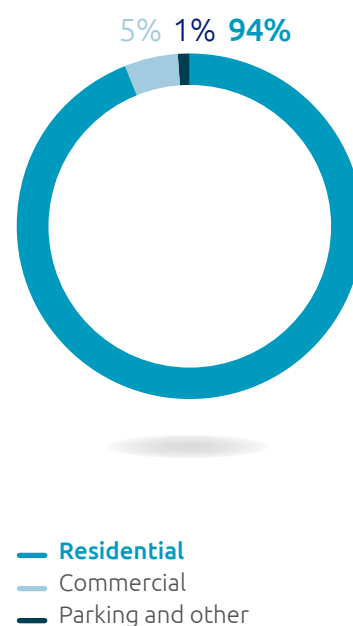
**Gross rental income in the first half of the year amounted to 36.98 million euros**, of which 94% came from residential assets and the remaining 6% from other uses, such as commercial, car parks and other.

This marked a 69% increase from the first half of 2017. There were considerable changes in asset perimeter between the two periods, with the addition of 3,300 apartments in March 2017, around 1,100 in September 2017, and 1,450 in May and June this year. On a constant-perimeter basis, gross rental income increased by 9.2% year-on-year.

#### RENTAL INCOME FOR THE PERIOD

€ M	IH2018	IH2017	% Change
Residential	34.7	20.7	67.7%
Commercial	1.9	0.9	111.0%
Parking and other	0.3	0.2	36.8%
<b>Total gross rental income</b>	<b>37.0</b>	<b>21.9</b>	<b>69.1%</b>

#### RENTS IN 1H18 BY USE



### Annualized rental income (GRI)

**Leases in force at the end of June 2018 represented gross annualized rental income (GRI) of 85.01 million euros**, up 56% year-on-year from June 2017. Excluding net changes in perimeter (24.1 million euros), like-for-like (LFL) growth in GRI was 11.9% year-on-year.

Annualized GRI increased by 17.5% in the first six months of 2018. Excluding perimeter changes, which accounted for a net annualized 8.4 million euros, GRI rose by 6.0% LFL in the period.

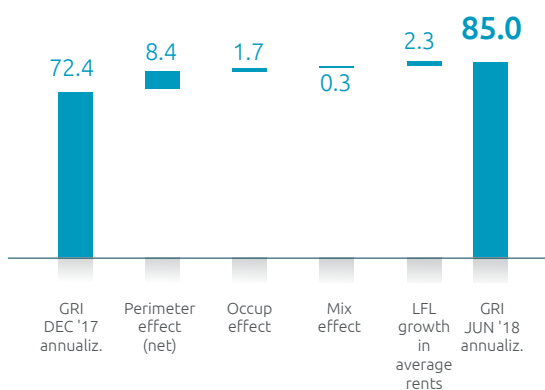
GRI growth was driven mostly by an increase in occupancy and the higher average in-place rent. Average passing rent ended 1H18 at 7.63 euros/sqm/month for the entire residential portfolio (+3.2% in the last six months and +7.4% year-on-year, both LFL). The average rent for open market assets (84% of the portfolio) stood at 7.99 euros/sqm/month.

**IN-PLACE RENTS AT THE END OF THE PERIOD**

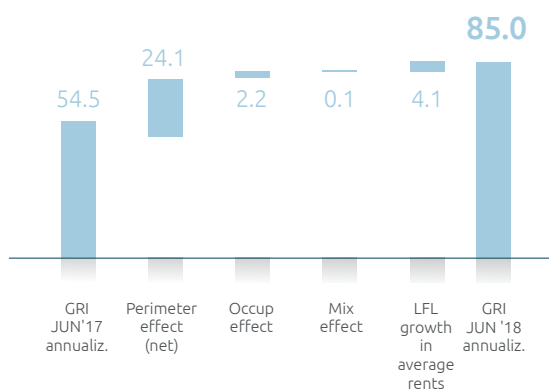
	JUN 2018	DEC 2017	JUN 2017	Chg. LFL % JUN '18 vs DEC '17	Chg. LFL % JUN '18 vs JUN '17
Annualised gross rental income (Eur M)	<b>85.01</b>	72.36	54.50	6.0%	11.9%
Of which: residential use	<b>80.09</b>	67.77	51.96	5.9%	12.5%
Residential passing rent (Eur/sqm/month):					
Total portfolio	<b>7.63</b>	7.50	6.75	3.2%	7.4%
Open market leases	<b>7.99</b>	7.87	6.98	3.7%	8.7%

**TREND IN ANNUALIZED GRI**

Jun 2018 vs. Dec 2017 (Eur M)

**TREND IN ANNUALIZED GRI**

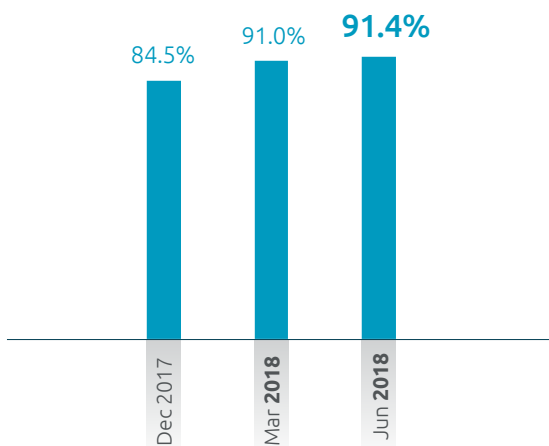
June 2018 vs. June 2017 (Eur M)

**Occupancy rate**

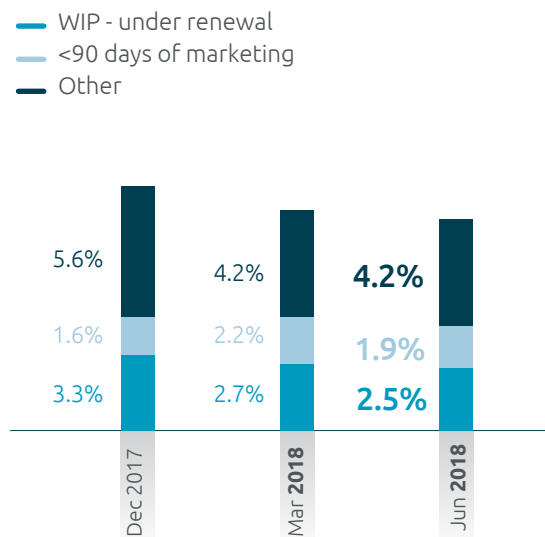
The residential occupancy rate at end-June 2018 stood at 91.4%, up from 89.5% at end-December 2017. Stripping out the assets acquired recently from CaixaBank, with average occupancy of 88.5%, the occupancy rate for the rest of the portfolio was 91.8%. This marks a 236 basis point

LFL improvement in the six-month period. The occupancy rate is calculated as a percentage of the residential lettable area.

## OCCUPANCY RATE %



## VACANCY RATE BY TYPE %



## Lease reviews

In the first half of the year, a total of 1,027 new rental leases were signed and 875 renewed with the same tenants. Accordingly, rental prices for 20% of the portfolio were updated in the six-month period. The period also saw the departure of 884 tenants, representing 9% of the total portfolio.

The first half of the year showed a net increase of 143 new tenants, leading to an improvement in the

occupancy rate. Monthly figures show a net positive balance in all months except June, which saw a larger number of departures arising from the recently added CaixaBank apartments. Excluding this impact, June also would have shown a net increase in tenants.

## ACTIVITY WITH TENANTS

	4Q17	Jan '18	Feb' 18	Mar' 18	Apr' 18	May' 18	Jun' 18	Accum. 1H18
Residential portfolio	9,244	9,244	9,244	9,244	9,244	10,494	10,615	
Leases signed	1,193	379	308	338	272	317	288	1,902
Renewals	667	182	150	157	113	161	112	875
New tenants	526	197	158	181	159	156	176	1,027
Tenant departures	-444	-147	-131	-156	-133	-129	-188	-884
<b>Net increase in tenants</b>	<b>82</b>	<b>50</b>	<b>27</b>	<b>25</b>	<b>26</b>	<b>27</b>	<b>-12</b>	<b>143</b>
% leases /total portfolio	13%	4%	3%	4%	3%	3%	3%	20%



On average, prices of leases signed in the first half of this year were 17.7% higher than the previous leases, including renewals and new tenants, and all type of apartments (unrestricted and rent-protected). For open market units, average rents were 19.6% higher for new tenants and 16.3% higher for renewals. As the chart illustrates, the percentage increase for all leases remained at similar levels throughout the first half. Rent increases are mainly a reflection of the Spanish residential rental market, which

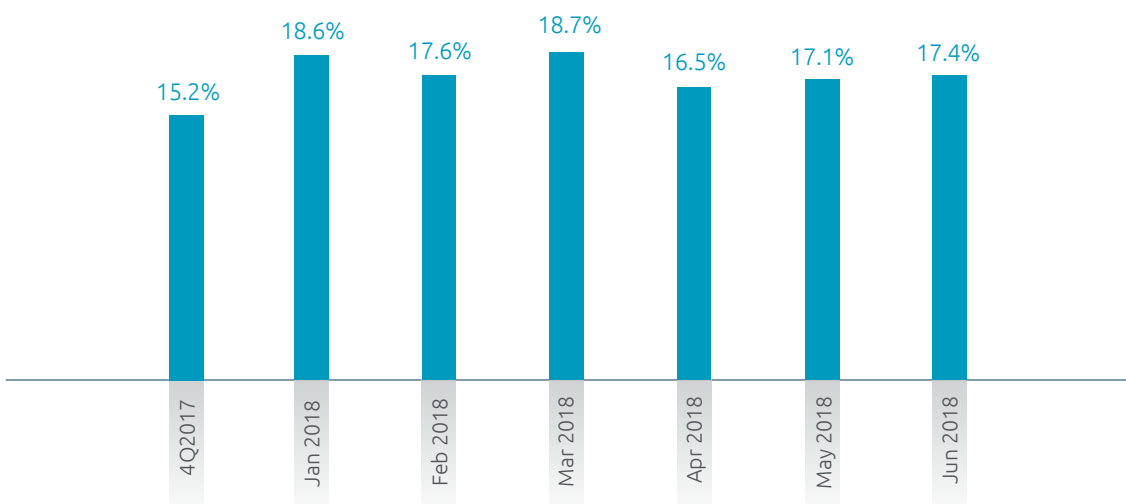
accumulates strong increases in the last three years. However, our average contractual rents remain below market prices in each location, which allows us to predict further rises in our rental income for coming quarters. Currently, Testa's average rent per apartment is 685 euros per month for the total portfolio and 860 euros per month for the Madrid assets.

### PERCENTAGE RENT REVIEW: TOTAL LEASES, NEW LEASES AND RENEWALS

	4Q17	Jan '18	Feb' 18.	Mar' 18	Apr' 18	May' 18	Jun' 18	Average 1H2018
Renewals (unrestricted units)	18.2%	19.5%	16.7%	14.8%	15.3%	13.2%	18.2%	16.3%
New leases (unrestricted units)	19.3%	20.3%	21.3%	22.6%	17.4%	19.0%	17.0%	19.6%
<b>Total leases *</b>	<b>15.2%</b>	<b>18.6%</b>	<b>17.6%</b>	<b>18.7%</b>	<b>16.5%</b>	<b>17.1%</b>	<b>17.4%</b>	<b>17.7%</b>

\* New rents vs. previous rent for all new leases and renewals signed in the period and for the entire portfolio (including unrestricted and rent-protected units).

### % RENT REVIEW IN RENEWALS AND NEW LEASES \*



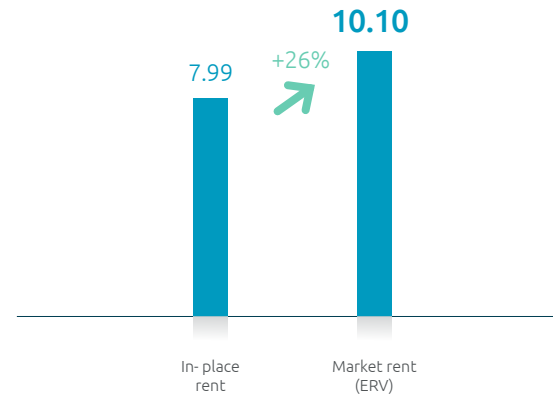
\* New rents vs. previous rent for all new leases and renewals signed in the period and for the entire portfolio (including open market and social housing).

## Difference between current and market rents (ERV)

According to the Savills report, the average market rent in June 2018 was 9.93 euros/sqm/month for Testa's entire residential portfolio and 10.1 euros/sqm/month for open market housing. The latter is 26% above the average rents agreed of 7.99 euros/sqm/month at present, up from 25% at the end of 2017.

### ESTIMATED RENTAL VALUE (ERV) VS. IN-PLACE RENT FOR OPEN MARKET HOUSING

(euros / sqm / month)



## Lease expiration profile

Of the more than 7,500 open market residential leases currently in force, 12% expire in the second half of 2018, 19% in 2019, 43% in 2020 and 26% in 2021. These figures refer to the maximum duration of each lease of three years according to current legislation. However, the tenant has the option to terminate the lease before expiry, and only has to fulfil one year of contract, with the option to extend it annually up to three years.



San Mateo

**LAS PALMAS DE GRAN CANARIA**

# 4

## FINANCIAL STATEMENTS

Income Statement / Balance sheet and debt / Cash flow



Los Olivos de Orgaz  
**MADRID**

# FINANCIAL STATEMENTS

## 4.a. Income statement

CONSOLIDATED INCOME STATEMENT			
€ M	IH 2018	IH 2017	% Change
<b>Rental income</b>	<b>36.98</b>	<b>21.87</b>	69.1%
Direct operating expenses (net of recoveries)	-8.51	-5.60	51.9%
<b>Net rental income</b>	<b>28.47</b>	<b>16.26</b>	<b>75.1%</b>
Net rental income margin, %	77.0%	74.4%	3.5%
Other revenue	0.09	0.50	-82.9%
Personnel expenses	-2.93	-1.46	100.5%
General expenses	-112.82	-5.38	1997.8%
<b>EBITDA</b>	<b>-87.20</b>	<b>9.92</b>	-
Depreciation and amortisation	-1.65	-1.56	6.1%
Operating provisions	-0.01	0.00	-
Gain/(losses) on asset disposals	0.00	0.26	-
<b>EBIT</b>	<b>-88.87</b>	<b>8.62</b>	-
Finance costs	-4.75	-3.38	40.7%
Finance income	0.00	0.00	-
Change in value of financial instruments	-22.29	0.11	-
Change in value of investment properties	125.10	41.49	201.5%
<b>Profit before tax</b>	<b>9.19</b>	<b>46.84</b>	<b>-80.4%</b>
Income tax	-0.25	-0.25	0.9%
Non-controlling interests	0.00	0.00	-
<b>Profit for the period</b>	<b>8.94</b>	<b>46.59</b>	<b>-80.8%</b>
No. of shares (million), excluding treasury shares *	132.27	98.99	
Net earnings per share (euros):	0.068	0.471	-85.6%

\* The number of shares for 1H17 is adjusted for the reverse split.

> **Gross rental income** increased by 69.1% year-on-year to 36.98 million euros. The period featured significant perimeter changes, mostly arising from the inclusion of assets in March 2017 (3,300 apartments, GAV of 665 million euros), in September 2017 (1,100 apartments, GAV of 400 million) and May-June 2018 (1,450 apartments worth 227 million euros). On a constant-perimeter basis, gross rents were up 9.2%, with an improvement in the occupancy rate and average in-place rent.

> **Net rental income** amounted to 28.47 million euros, with a net margin (NRI/GRI) of 77.0%, up from 74.4% in the first half of 2017.

> **Personnel expenses** increased due to the build up of an internal management team. This figure does not include the long-term incentive plan approved in July 2018, which will amount to around 1 million euros every six months as from 2H18. The average number of employees in the first half of 2018 was 80.

> **General expenses** included certain one-off expenses, totalling 111.6 million euros. The most significant are the 107.2 million for the termination of the service agreement with Merlin Properties and the 0.3 million euros for the costs incurred on the agreement up to the date of termination of 19 January 2018. It also included 4.0 million euros of non-recurring costs related to the listing preparation and other extraordinary expenses.

> **Rental EBITDA** adjusted for exceptional items amounted to 24.4 million euros in the first half, up 68% year-on-year, leaving a margin of 65.9% on gross rents.

> **Depreciation and amortisation** related to the Bentaberri asset in San Sebastián, which involve an administrative concession until 2069 and are measured at historical cost rather than fair value.

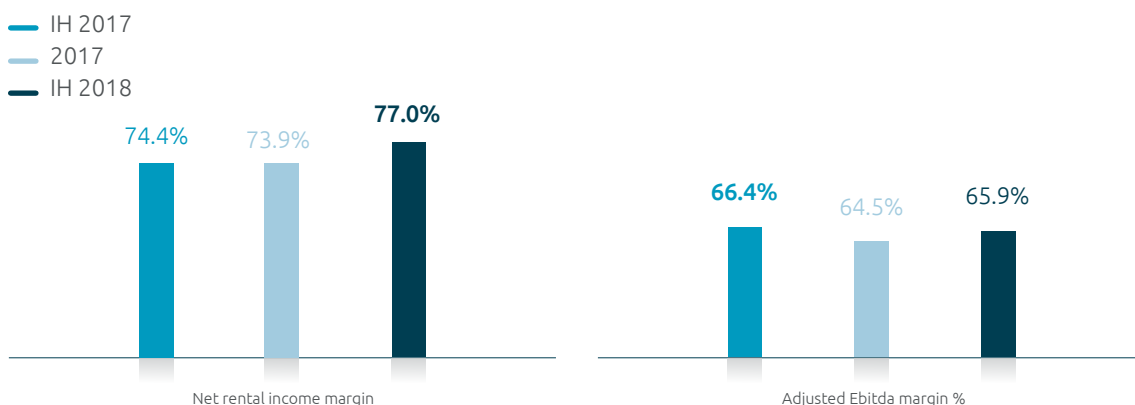
> **Finance costs** totalled 4.75 million euros, includes interest payments and the amortisation of loan arrangement expenses (0.40 million euros).

> The **change in value of financial instruments** relates mainly to Acciona's contingent liability, which is further explained in the balance sheet section.

> The **change in value of investment properties** was the result of the revaluation of assets in the six-month period based on the external appraisal. The first half featured a revaluation of the real estate portfolio of 125.1 million euros (+4.3% like-for-like increase vs December 2017).

> **Net profit** for the semester is 8.94 million euros, equivalent to 0.068 euros per share. We consider that the net profit is not the most useful metric to assess the underlying evolution of the Group, due to the impact of items like the change in the fair value of properties, with no impact on cashflow, or some non-recurring items which had a big impact this semester. Therefore, we prefer to focus on FFO1 and AFFO as metrics that better reflect the underlying evolution of the Testa business.

#### NET RENTAL INCOME AND EBITDA MARGINS, %



## Calculation of FFO1/AFFO

CALCULATION OF ADJUSTED EBITDA, FFO1 AND AFFO			
€ M	IH 2018	IH 2017	% Change
<b>Reported EBITDA</b>	<b>-87.20</b>	<b>9.92</b>	
(+) Management cost - Merlin	0.30	4.6	
(+) Cost for termination of agreement - Merlin	107.24	0.0	
(+) IPO/listing preparation costs	3.26	0.0	
(+) Other adjustments	0.78	0.0	
<b>Adjusted rental EBITDA</b>	<b>24.38</b>	<b>14.53</b>	<b>67.8%</b>
Adjusted rental EBITDA margin, %	65.9%	66.4%	
(-) Interest paid	-4.80	-2.26	112.9%
(+) Interest received	0.00	0.00	
(-) Income taxes paid	0.00	-0.03	
<b>FFO1</b>	<b>19.58</b>	<b>12.24</b>	<b>59.9%</b>
(-) Maintenance capex	-2.04	-1.74	17.4%
<b>AFFO</b>	<b>17.53</b>	<b>10.50</b>	<b>66.9%</b>
No. of shares (million), excluding treasury shares	132.27	98.99	33.6%
FFO1 per share (euros)	0.148	0.124	19.7%
AFFO per share (euros)	0.133	0.106	24.9%

> **Adjusted rental EBITDA** excluding non-recurring costs and non-rental revenue amounted to 24.38 million euros in the first half, up 67.8% on the same period last year, leaving a margin of 65.9% on gross rents.

> **FFO1** (funds from operations) amounted to 19.58 million euros, up 98% on the same period last year, or 0.148 euros per share (+48.4%).

> Testa spent 2.0 million euros on **maintenance capex** in the period, equivalent to 2.1 euros/sqm for the total portfolio.

> **AFFO** (FFO1 less maintenance capex) amounted to 17.53 million euros, or 0.133 euros/share.

# € 19.58 M

Funds from operations (FFO1) generated during the semester.

## Breakdown of capex

DETAIL OF INVESTMENTS			
€ M	IH 2018	IH 2017	% Change
<b>Acquisition of assets</b>	<b>225.5</b>	<b>660.0</b>	<b>65.8%</b>
Euros/unit	155,537	198,981	
<b>Maintenance capex</b>	<b>2.0</b>	<b>1.7</b>	<b>17.4%</b>
Euros/sqm/period	2.1	2.1	3.2%
<b>Other investments</b>	<b>3.7</b>	<b>0.2</b>	
<b>Total investments</b>	<b>231.3</b>	<b>661.9</b>	<b>65.1%</b>

Testa invested 231.3 million to investment property in the first half of 2018, broken down as follows:

- 225.5 million euros in **acquisitions of assets**, mainly the portfolio purchased from CaixaBank (1,450 apartments). This transaction involved associated costs of 1.6 million euros, a figure which is included under Other investments. These apartments produce annual rent of 8.9 million euros according to the current leases and have an occupancy rate of 88.5%. Pending completion under the announced agreement is the acquisition of an 8-home building for 1.5 million euros.
- 2.0 million euros of **maintenance capex**, equivalent to 2.1 euros/sqm for the total portfolio. This figure, used to calculate FFO1, relates to expenditure on upgrades of investment properties, including the refurbishment of apartments between outgoing and incoming tenants, but excluding investments in recently acquired assets or investments that increase yield considerably, or acquisition costs. Average capex per apartment in the first half amounted to 1,670 euros, in line with our forecasts, with 747 units refurbished in the period owing to a higher-than-expected tenant rotation. Nevertheless, high rotation is resulting in higher increases in the average passing rent.

- 3.7 million euros of **other investments**. These entail investments in properties acquired recently for refurbishment (0.5 million euros), repositioning to achieve a significantly improved returns (0.5 million euros), investments in IT, furniture and equipment (0.8 million euros) as well as costs associated with acquisitions (1.8 million euros, coming from the CaixaBank acquisition and other transactions).

### Málaga MÁLAGA



## 4.a. Balance sheet

CONSOLIDATED BALANCE SHEET					
ASSETS	JUN 2018	DEC 2017	EQUITY AND LIABILITIES	JUN 2018	DEC 2017
€ M			€ M		
<b>Non-current assets</b>	<b>2,637.6</b>	<b>2,283.5</b>	<b>Equity</b>	<b>1,489.5</b>	<b>1,394.5</b>
Concession assets	154.8	156,3	Shareholders' equity	1,488.8	1,393.8
Other intangible assets	0.3	0,1	Non-controlling interests	0.8	0.8
Property, plant and equipment	0.5	0,1	<b>Non-current liabilities</b>	<b>1,199.8</b>	<b>947.5</b>
Investment property	2,461.7	2,106.1	Non-current provisions	0.3	0.3
Non-current financial assets	9.5	9.8	Non-current bank borrowings	695.6	470.5
Deferred tax assets	10.8	11.1	Derivatives	5.1	0.1
			Other non-current financial liabilities	393.1	370.6
			Deferred tax liabilities	105.7	106.0
			<b>Current liabilities</b>	<b>18.4</b>	<b>14.1</b>
<b>Current assets</b>	<b>70.1</b>	<b>72.6</b>	Provisions	0.0	1.0
Trade and other receivables	3.1	1.4	Current bank borrowings	2.5	2.5
Other current financial assets	0.0	0.0	Current payables to group companies	5.4	5.4
Cash and cash equivalents	66.9	71.2	Trade and other payables	10.5	5.1
<b>Total assets</b>	<b>2,707.7</b>	<b>2,356.1</b>	<b>Total equity and liabilities</b>	<b>2,707.7</b>	<b>2,356.1</b>



> **Investment property** had a market value at 30 June 2018 of 2,461.7 million euros according to the external appraisal. The increase from December 2017 is due to the both the increase in market value and the investments in new assets made in the first half of 2018.

> **Concession assets** includes mainly the Bentaberri asset in San Sebastián, which includes the surface rights held to 2069, measured at historical cost and subject to annual depreciation rather than at fair value.

> **Non-current financial assets** includes 3.4 million euros of receivables from three leasehold or concession assets (Torrejón de Ardoz, Usera and Ventilla), which stipulate a fixed annual rent with the Madrid housing agency, IVIMA (Instituto de la Vivienda de Madrid) and entail no demand risk. The Campo de Tiro service concession arrangement expired in May, while the Torrejón de Ardoz concession expires in September this year. This balance sheet item also includes 6.0 million euros of deposits extended as guarantees.

> **Shareholders' equity** stood at 1,488.8 million euros. A capital increase in favour of Merlin Properties for 89.7 million euros was carried out in the first half of the year, under which

the payable for termination of the services agreement was capitalised in exchange for shares of Testa.

> **Other non-current financial liabilities** includes 375.5 million euros related to the contribution of assets by Acciona in 2017. According to the agreement, if Testa is not listed on the Spanish main market ('Mercado Continuo') by September 2022, Acciona has the option to recover the value of its shares in the Company, taking the EPRA NAV at that date. From an accounting perspective, this liability will become equity automatically once the company begins listing on the Spanish main market ('Mercado Continuo'). Testa considers it highly probable that this will occur before the deadline. Meanwhile, the change in the value of this liability is recognised in the income statement under "Change in value of financial instruments".

> **Deferred tax liabilities** arise from the asset contributions of 2016 and 2017 due to the difference between the tax amount and the carrying amounts of the assets included in those transactions. These liabilities will only materialise if the assets are sold, which is not envisaged in Testa's strategy since they are considered 'core' assets.

## Financial debt

**Net financial** debt at 30 June 2018 stood at 636.1 million euros, up from 402.0 million euros at the end of last year. The increase is the result mainly of the financing raised for new investments in real estate assets, especially the acquisition of the residential portfolio from CaixaBank.

The loan-to-value (LTV) ratio was 24.1%, which is still considerably below our medium-term target of 35%. Until it reaches 35%, Testa has a theoretical

borrowing capacity of an additional 287 million euros to fund future acquisitions of assets. There is currently 167 million euros of available cash, including undrawn amounts of 100 million euros on existing credit facilities.

The average maturity of the debt is 6.0 years, compared to 5.5 years at the end of 2017. Average cost of debt is 1.6%, while 80% is at fixed rates or hedged with derivatives.



Islas Baleares  
**MALLORCA**



## DEBT STRUCTURE

€ M	JUN 2018	DEC 2017
<b>Gross debt</b>	<b>703.1</b>	<b>473.2</b>
Syndicated loan	350.0	350.0
Mortgage debt	354.2	125.5
Derivatives	5.1	0.1
Interest payable	0.2	0.3
Debt arrangement expenses	-6.4	-2.7
<b>Cash and cash equivalents</b>	<b>-67.0</b>	<b>-71.2</b>
<b>Net debt</b>	<b>636.1</b>	<b>402.0</b>

Testa arranged two new mortgage loans in the first half of the year to fund the purchase of assets from CaixaBank, for 130 million euros and 99 million euros, respectively, both with a 7-year bullet maturity and a fixed annual cost of approximately 1.6%.

At present, half of the Company's debt has mortgage guarantees, with an unencumbered ratio of 471%.

## DEBT STRUCTURE

€ M	JUN 2018	DEC 2017
Net debt	636	402
GAV	2,637	2,276
<b>LTV ratio, %</b>	<b>24.1%</b>	<b>17.7%</b>
Average maturity (years)	6.0	5.5
Cost of debt (%)	1.6%	1.5%
At fixed rates or hedged (%)	80%	71%
Interest coverage ratio (x) *	6.0	4.8
Mortgage debt (%)	50%	26%
Unencumbered ratio (%) **	471%	528%

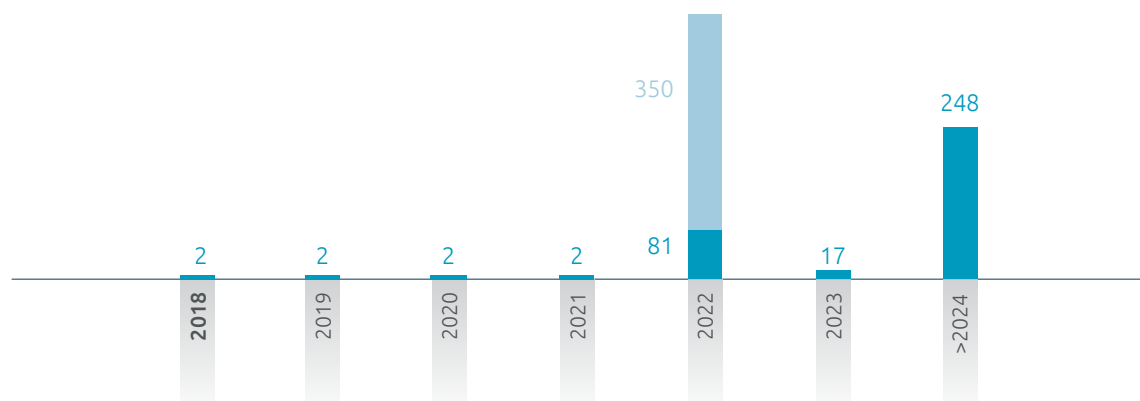
\* Interest coverage ratio (ICR) defined as net rental income/interest expenses

\*\* Unencumbered ratio defined as uncollateralised assets/unsecured gross debt

## GROSS DEBT MATURITY SCHEDULE

(€ M)

— Mortgage  
— Corporate



## 4.c. Cash Flow

<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b>		
€ M	IH 2018	IH 2017
EBITDA	-87.2	9.9
Other income and expenses	88.4	0.1
Changes in working capital	4.1	3.0
Gains/(losses) on asset disposals		0.3
Change in operating provisions		
Income tax payments		0.0
Net interest paid	-4.8	-2.3
Other	2.2	-2.4
<b>Net cash generated by operating activities</b>	<b>2.7</b>	<b>8.7</b>
Investments	-5.7	-1.9
Acquisitions of assets	-225,5	
Proceeds from sales		3.6
<b>Net cash used in investing activities</b>	<b>-231.3</b>	<b>1.7</b>
Proceeds from and repayment of equity instruments	-0.3	
Proceeds from and repayment of borrowings	224.6	-6.2
<b>Net cash from/(used in) financing activities</b>	<b>224.4</b>	<b>-6.2</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>-4.2</b>	<b>4.2</b>

> **Operating activities** showed positive cash flow for the first half, but less than in the same period last year due to various extraordinary expenses described previously, especially the payment of 18.8 million euros of VAT related to the termination of the agreement with Merlin and listing preparation costs.

> **Other income and expenses** includes other expenses recognised in the income statement, but that did not result in cash outflows, related mostly to the agreement with Merlin, which was capitalised with newly issued Testa shares worth 89.7 million euros.

> **Changes in working capital** includes provisions for expenses recognised but not paid, provisions for the accrual of direct taxes (property and business tax), which are usually paid at the end of the year, and changes in guarantees and deposits from tenants.

# 5

## VALUATION: GAV AND NAV

La Florida  
**OVIEDO**



## VALUATION: GAV AND NAV

### Portfolio value (GAV)

According to the June 2018 appraisal by Savills, Testa's portfolio has an estimated market value (GAV) of 2,637.3 million euros, 15.9% higher than the December 2017 appraisal. On a same-portfolio basis (like-for-like), GAV increased by 4.3% in the first six months of the year, slightly lagging the like-for-like growth of GRI in the same period.

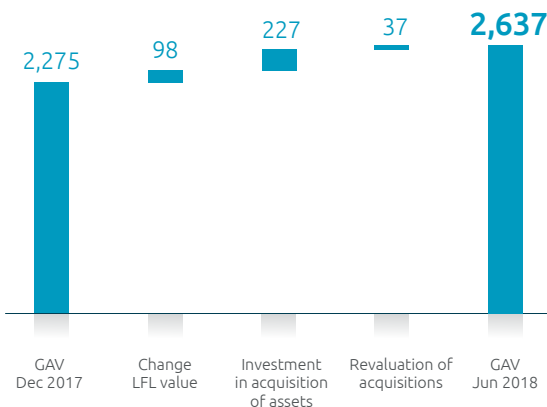
Moreover, the assets acquired in May and June were appraised for an amount (36.6 million euros) that was 16% above the acquisition price.

### Calculation of NAV

Based on the latest asset appraisal, adjusted EPRA NAV rose by 8.1% to 14.98 euros per share in the first half from 13.86 euros per share at the end of 2017. The adjustments are: i) the termination of the agreement with Merlin, which took place in the first half of the year along with the capital increase; and ii) the conversion into equity of the liability with Acciona, related to shares already issued by Testa over which Acciona has the right to recover the value if the Company is not listed on an official market by 2022.

#### TREND IN TESTA GAV

(€ M)



The average gross yield of the portfolio ended the period at 3.2%, broadly in line with the figure at the end of December 2017. This valuation implies an average residential price of 2,637 euros per gross square metre.



San Mateo  
**LAS PALMAS DE GRAN CANARIA**



### CALCULATION OF NAV

€ M	JUN 2018	DEC 2017	% Change
Shareholders' equity per balance sheet	1,488.8	1,393.8	
Unrealised gains on assets *	17.3	8.4	
Change in value of derivatives	5.1	0.1	
Deferred taxes (assets/liabilities)	94.8	94.9	
<b>EPRA NAV</b>	<b>1,606.0</b>	<b>1,497.1</b>	<b>7.3%</b>
Merlin services agreement **		-18.8	
Conversion of Acciona liability ***	375.5	355.6	
<b>Adjusted EPRA NAV</b>	<b>1,981.5</b>	<b>1,833.8</b>	<b>8.1%</b>
No. of shares (million), excluding treasury shares ****	132.3	132.3	
<b>Adjusted EPRA NAV per share (euros)</b>	<b>14.98</b>	<b>13.86</b>	<b>8.1%</b>

\*Referred to concession assets (Bentaberri and others), that are accounted for at historical cost on the balance sheet.

\*\*The Merlin management agreement was terminated and capitalised as equity in 1Q18.

\*\*\*Acciona has a right to recover its investment if Testa is not listed on an official market by 2022.

\*\*\*\*The number of shares for Dec 2017 includes the capital increase for the cancellation of the Merlin contract.

# € 14.98/sh

is the adjusted NAV as of June 2018,  
up 8.1% from Dec. 2017.

# 6

## TESTA'S ASSET PORTFOLIO



Islas Baleares  
**MALLORCA**



# TESTA'S ASSET PORTFOLIO

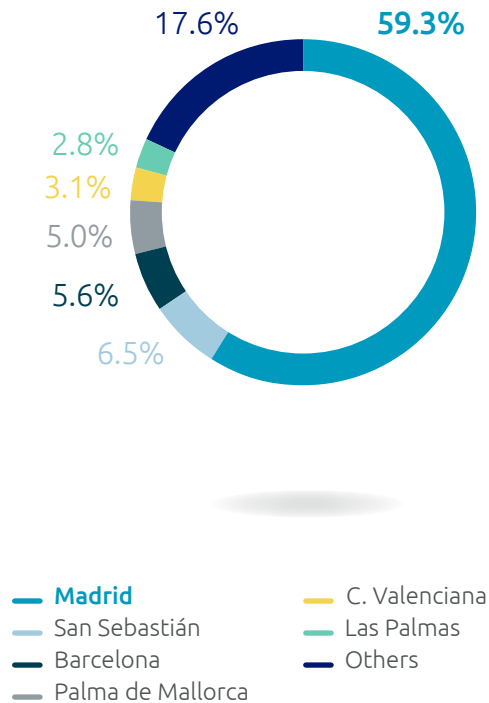
## Profile of Testa's portfolio

Testa boasts an excellent real estate portfolio, specialising in the residential rental segment. We have a strong footprint in Madrid (59,3% of GAV) and other key metropolitan areas of Spain, such as San Sebastián (6.5%), Barcelona (5.6%), Palma de Mallorca (5.0%),

Valencia (3.1%) and Las Palmas de Gran Canaria (2.8%). These areas enjoy higher economic and demographic growth than the national average and we will continue to target these going forward.

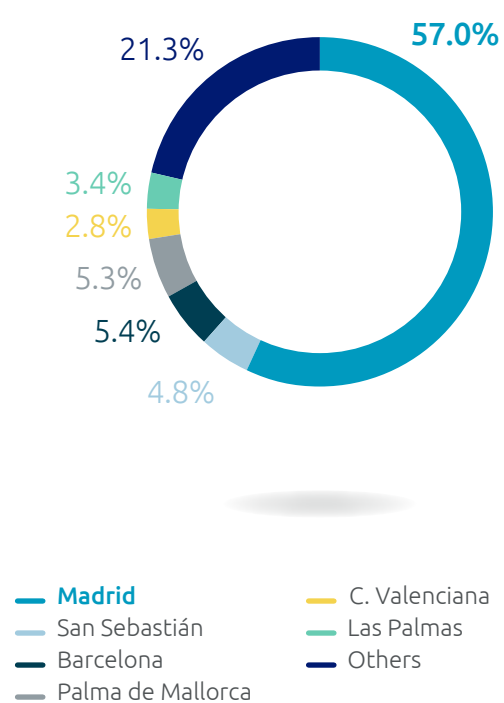
### GEOGRAPHICAL BREAKDOWN OF THE PORTFOLIO

(% of GAV at June 2018)



### GEOGRAPHICAL BREAKDOWN OF THE PORTFOLIO

(% annualized GRI at June 2018)

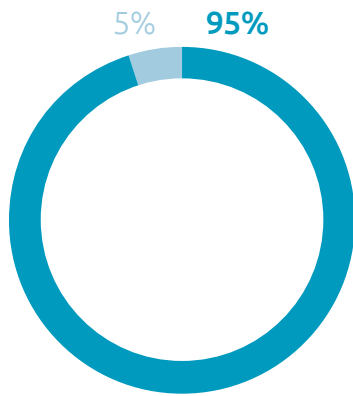


Of total assets, 95% are of residential use and the remaining 5% of other uses (commercial premises, offices, car parks), generally belonging to the same building as the homes.

The majority of our residential leases (84%) are unrestricted, so rents can be agreed freely between the parties. 15% are rent protected, whereby

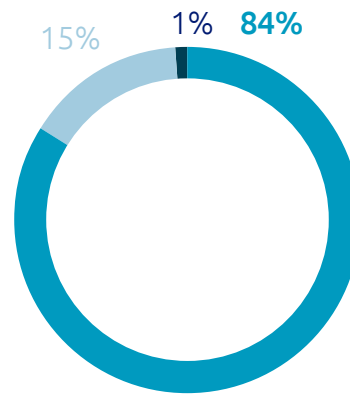
the local government sets a maximum rent for a specified term. Finally, 1% are old rent (renta antigua), involving leases entered into before the current Spanish lease act (Ley de Arrendamientos Urbanos) became effective.

**BY USE**  
(% of GAV)



- Residential
- Commercial

**BY LEASE TYPE**  
(% of GRI)



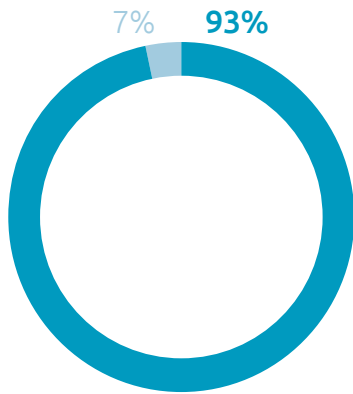
- Unrestricted rents
- Rent protected
- Old rent regime

On the other hand, 7% of assets are leasehold. The most important leasehold is the BentaBerri asset in San Sebastián, which expires in 2069. BentaBerri is

also our main social housing asset, although the rent protection expires in 2028, after which the properties can be leased at market rents.

BY TYPE OF OWNERSHIP

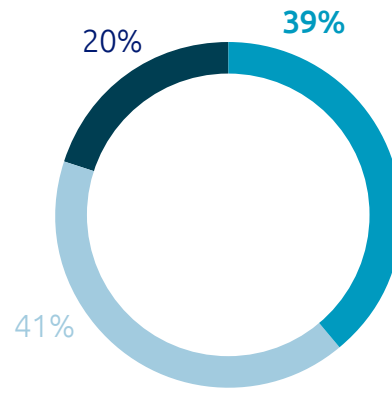
(% of GAV)



- Freehold properties
- Leasehold

BY OWNERSHIP/COMPLETE BUILDING

(% of no. of units)



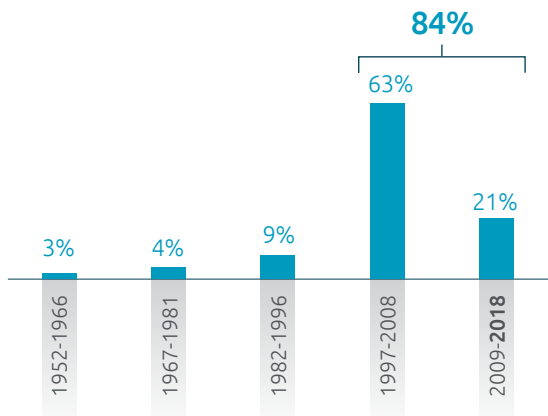
- 100% ownership
- >50% ownership
- <50% ownership

The portfolio is composed mostly (80%) of properties in which Testa owns the entire building or the majority of the units. This enables the Company to manage its assets more efficiently and control the homeowners' associations, thereby controlling operating costs.

84% of assets are less than 20 years old, which makes the product commercially appealing for our customers and reduces maintenance capex requirements considerably.

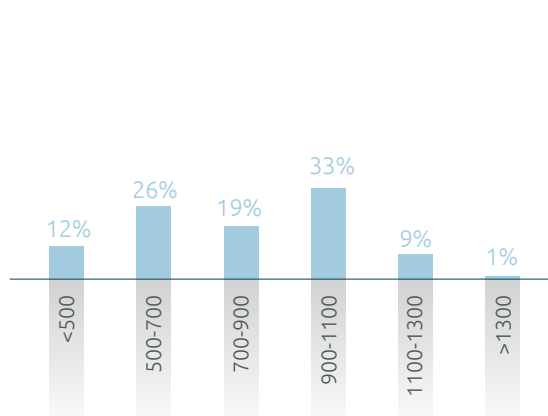
BY YEAR BUILT

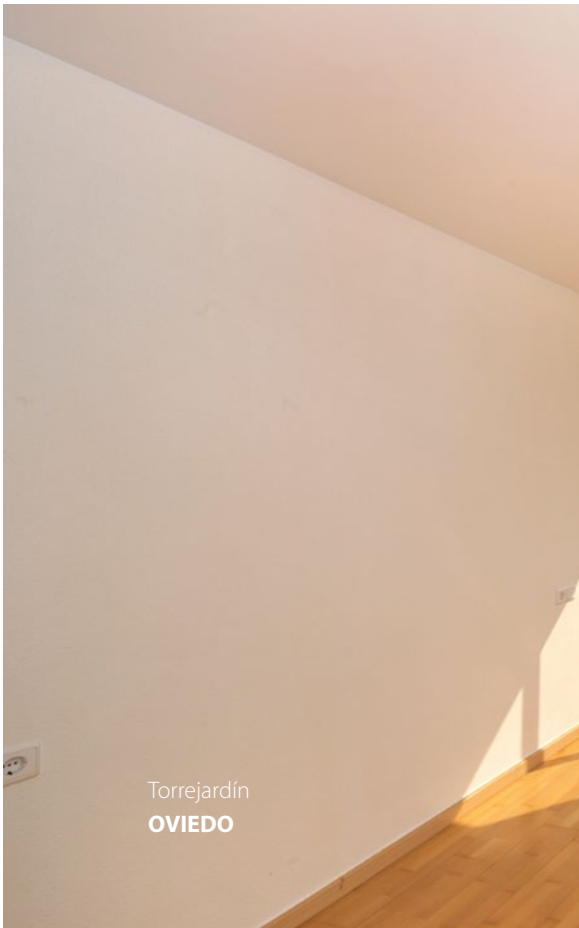
(% of apartments)



BY MONTHLY IN-PLACE RENT

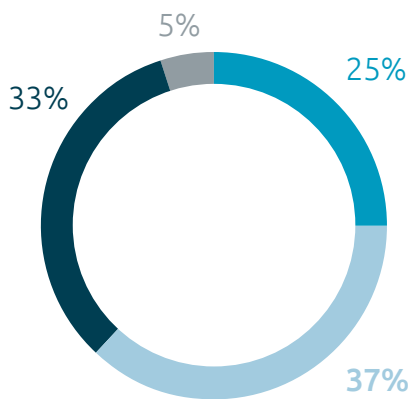
(euros/month)





BY NUMBER OF ROOMS

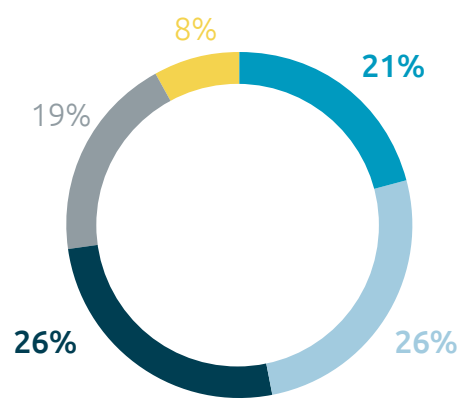
(% of apartments)



- 1 room or studio
- 2 rooms
- 3 rooms
- 4+rooms

BY APARTMENT SIZE IN GROSS SQM

(% of apartments) – Testa average: 90 sqm



- >110 sqm
- 90-110 sqm
- 70-90 sqm
- 50-70 sqm
- <50 sqm

## Breakdown of Testa's assets

TESTA PORTFOLIO IN DETAIL AS OF JUNE 2018									
	TOTAL PORTFOLIO			RESIDENTIAL PORTFOLIO					
	GAV (Eur M)	GAV (%)	GRI (Eur M)	Gross yield (%)	No. of apartm.	GAV (Eur/sqm)	GRI (Eur/sqm/month)	GRI (Eur/apartm./month)	Occupancy (%)
Madrid *	1,565	59.3%	48.4	3.1%	4,698	3,603	9.85	860	91.2%
Madrid ciudad	1,345	51.0%	40.3	3.0%	3,608	3,955	10.42	920	90.9%
Otros municipios	220	8.3%	8.2	3.7%	1,090	2,369	7.91	665	92.5%
San Sebastián **	172	6.5%	4.0	2.4%	510	3,639	7.26	674	98.1%
Barcelona *	147	5.6%	4.6	3.1%	501	3,627	10.12	801	93.3%
Las Palmas Gran Canaria *	75	2.8%	2.9	3.9%	506	1,456	5.47	492	93.0%
Palma de Mallorca *	132	5.0%	4.5	3.4%	533	2,099	6.49	756	93.0%
Valencia **	82	3.1%	2.4	2.9%	352	2,033	5.30	594	93.8%
Toledo **	56	2.1%	2.2	4.0%	449	1,249	4.48	428	93.6%
Pamplona *	63	2.4%	2.7	4.3%	507	1,370	5.09	460	97.1%
Valladolid **	52	2.0%	2.0	3.9%	513	1,367	4.86	363	91.0%
Oviedo **	42	1.6%	1.3	3.2%	291	1,653	5.46	483	80.4%
<b>Top 10 markets</b>	<b>2,385</b>	<b>90.4%</b>	<b>75.2</b>	<b>3.2%</b>	<b>8,860</b>	<b>2,867</b>	<b>8.02</b>	<b>722</b>	<b>92.2%</b>
Other premium & core markets	134	5.1%	4.6	3.4%	818	1,830	5.67	507	91.4%
<b>Total premium &amp; core markets</b>	<b>2,519</b>	<b>95.5%</b>	<b>79.7</b>	<b>3.2%</b>	<b>9,678</b>	<b>2,781</b>	<b>7.83</b>	<b>704</b>	<b>92.1%</b>
Non-core assets	118	4.5%	5.3	4.5%	937	1,104	5.25	459	83.2%
<b>Testa total portfolio</b>	<b>2,637</b>	<b>100.0%</b>	<b>85.0</b>	<b>3.2%</b>	<b>10,615</b>	<b>2,637</b>	<b>7.63</b>	<b>685</b>	<b>91.4%</b>

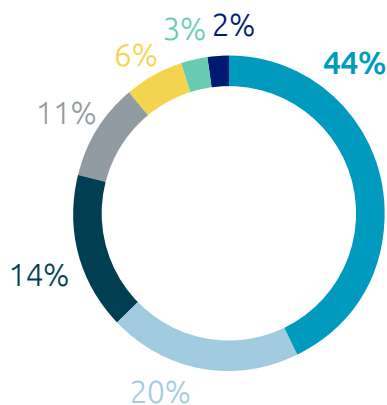
\* Premium markets; \*\* Core markets

## DETALLE DE LOS ACTIVOS DE MADRID POR ZONAS

Area of Madrid	TOTAL PORTFOLIO				RESIDENTIAL PORTFOLIO				
	GAV (Eur M)	GAV Madrid (%)	GRI (Eur M)	Gross yield (%)	No. of apartm.	GAV (Eur/sqm)	Passing rent (Eur/sqm/month)	Passing rent (Eur/apartm./month)	Occupancy (%)
City centre	843	53.9%	23.2	2.8%	1,868	4,581	11.18	1,016	89.2%
Second-ring	502	32.1%	17.0	3.4%	1,740	3,232	9.57	819	92.8%
<b>Madrid City</b>	<b>1,345</b>	<b>85.9%</b>	<b>40.3</b>	<b>3.0%</b>	<b>3,608</b>	<b>3,995</b>	<b>10.42</b>	<b>920</b>	<b>90.9%</b>
Large municipalities	220	14.1%	8.2	3.7%	1,090	2,369	7.91	665	92.5%
<b>Total Madrid</b>	<b>1,565</b>	<b>100.0%</b>	<b>48.4</b>	<b>3.1%</b>	<b>4,698</b>	<b>3,603</b>	<b>9.85</b>	<b>860</b>	<b>91.2%</b>

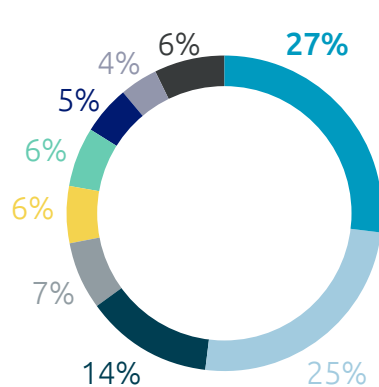
## MADRID CITY CENTRE

(% of GAV)



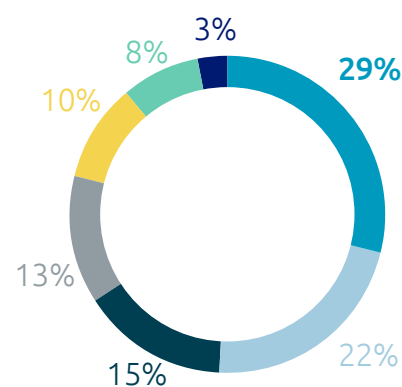
## MADRID SECOND-RING

(% of GAV)



## LARGE MUNICIPALITIES OF MADRID

(% GAV)



Alcorcón  
**MADRID**



## SOCIAL HOUSING PROJECTS

Asset	Location	GAV (Eur M)	GAV (%)	GRI (Eur M)	No. of apartm.	GAV (Eur/ sqm)	In-place residen- tial rent (Eur/ sqm/ month)	Occupan- cy (%)	End of concession	Social regime expiry date
Bentaberri	San Sebastián	172.1	6.5%	4.0	510	3,639	7.26	98.1%	23/12/2069	17/11/2028
La Ventilla	Madrid	1.9	0.1%	0.6	90	316	8.41	100.0%	28/07/2023	31/08/2030
Usera	Madrid	1.5	0.1%	0.9	148	145	7.39	100.0%	31/05/2020	14/04/2033
Torrejón	Madrid	0.0	0.0%	0.4	64	6	5.65	100.0%	09/09/2018	23/04/2031
Estocolmo	Alcorcón	24.3	0.9%	1.0	159	2,181	7.78	97.0%	-	08/12/2024
María Moliner	Leganés	16.1	0.6%	0.6	104	1,706	5.92	88.2%	-	19/07/2018
Tajo	Valladolid	12.0	0.5%	0.6	210	989	4.50	86.7%	-	11/12/2036
E. Norte	Pamplona	11.7	0.4%	0.6	124	1,199	4.96	99.5%	-	01/11/2018
González Garcés	A Coruña	9.2	0.4%	0.3	111	938	3.21	88.4%	-	29/06/2028
Sanducelay	Pamplona	9.0	0.3%	0.5	89	1,103	4.91	100.0%	-	31/05/2018
Mandeo	A Coruña	8.3	0.3%	0.3	136	1,122	4.59	81.1%	-	05/07/2029
Miño	Valladolid	7.9	0.3%	0.3	80	1,403	4.39	98.8%	-	29/03/2030
Marcelo Celayeta	Pamplona	8.3	0.3%	0.4	70	1,250	4.82	100.0%	-	02/06/2019
Can Mates IV	San Cugat	8.0	0.3%	0.4	62	1,724	6.87	100.0%	-	18/07/2042
La Rochapea	Pamplona	4.7	0.2%	0.2	36	1,223	4.79	100.0%	-	04/11/2019
Sandúa	Pamplona	3.9	0.1%	0.2	34	1,101	4.61	96.7%	-	03/07/2021
Can Mates III	San Cugat	3.4	0.1%	0.2	24	1,590	6.59	100.0%	-	18/07/2042
<b>Total</b>		<b>302.5</b>	<b>11.5%</b>	<b>11.5</b>	<b>2,051</b>	<b>1,849</b>	<b>6.11</b>	<b>96.0%</b>		



### EXPIRATION OF SOCIAL HOUSING REGIME

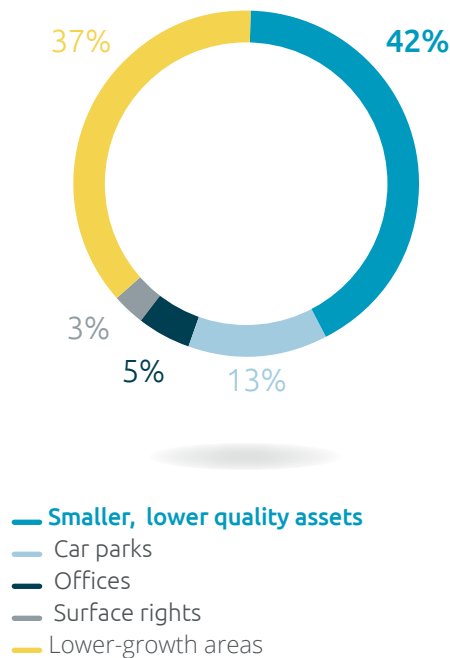
	< 5 years	5-10 years	> 10 years
In-place rent (Eur/sqm/month)	4.9	7.4	5.2
ERV Savills (Eur/sqm/month)	7.7	12.1	7.7
% upside	57%	64%	47%
Upside potential for rents (Eur M)	€ 0.78 M	€ 3.27 M	€ 1.64 M

### OLD RENT REGIME PROPERTIES

Asset	Location	GRI (Eur M)	No. of apartm.	In-place residential rent (Eur/sqm/month)	Occupancy (%)
Manzana de Castellana	Madrid	0.39	84	2.25	100%
Torrelaguna	Madrid	0.10	11	6.45	100%
Condesa Venadito	Madrid	0.08	7	9.18	100%
Bac de Roda	Barcelona	0.03	8	3.59	100%
Montevideo	A Coruña	0.01	9	1.28	100%
Trinxant	Barcelona	0.02	8	2.51	100%
Campanar	Valencia	0.00	7	0.37	100%
Cesáreo Alierta	Zaragoza	0.02	2	8.14	100%
San Jorge	Sevilla	0.00	4	0.32	100%
Parque América-Caribe	Madrid	0.02	2	13.24	100%
<b>Total old rent</b>		<b>0.66</b>	<b>142</b>	<b>3.21</b>	<b>100%</b>

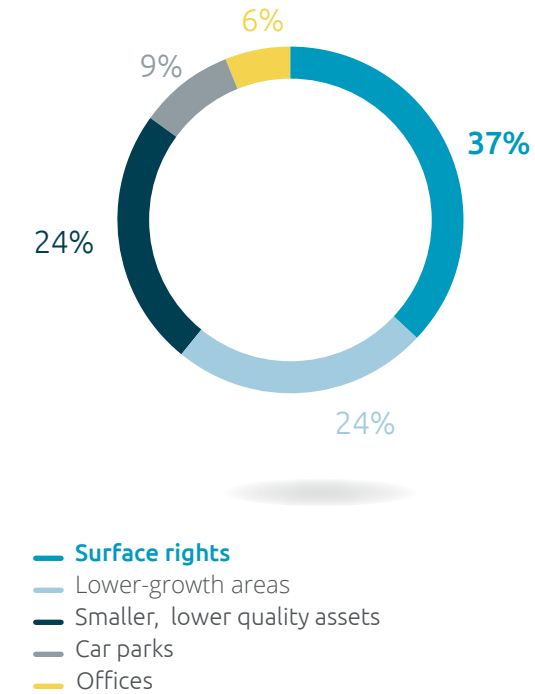
## NON-CORE ASSETS BY TYPE

(% of GAV)



## NON-CORE ASSETS BY TYPE

(% of GRI)



## TESTA'S TOP 10 ASSETS

Asset	Location	TOTAL PORTFOLIO				RESIDENTIAL PORTFOLIO				
		GAV (Eur M)	GAV (%)	GRI (Eur M)	Gross yield (%)	No. of apartm.	GAV (Eur/sqm)	Passing rent (Eur/sqm/month)	Passing rent (Eur/apartm./month)	Occupan. (%)
Coto	Madrid	406.6	15.4%	11.8	2.9%	834	5,053	12.61	1.107	89.2%
Bentaberri	San Sebastián	172.1	6.5%	4.0	2.4%	510	3,639	7.26	674	98.1%
Castellana	Madrid	159.7	6.1%	3.4	2.1%	245	4,393	7.88	1.115	94.0%
Plaza de Castilla	Madrid	116.2	4.4%	3.5	3.0%	302	5,204	12.61	794	92.9%
Cond. de Benadito	Madrid	47.4	1.8%	1.6	3.4%	149	2,816	9.14	1.016	82.3%
Salvador Dalí	P. de Mallorca	47.2	1.8%	1.8	3.9%	216	1,518	5.18	736	95.3%
Tamaraceite	Las Palmas G.C.	48.5	1.8%	2.0	4.1%	363	1,368	5.51	450	95.3%
Mir.Tablas B11	Madrid	44.0	1.7%	1.3	3.0%	123	3,658	9.49	927	96.5%
Benicalap	Valencia	31.8	1.2%	0.9	2.8%	147	1,972	4.95	517	97.3%
Francisco Remiro	Madrid	30.1	1.1%	1.1	3.6%	140	3,973	12.17	655	96.5%
<b>Top 10 edificios</b>		<b>1,103.6</b>	<b>41.8%</b>	<b>31.5</b>	<b>2.9%</b>	<b>3,029</b>	<b>3,604</b>	<b>8.78</b>	<b>829</b>	<b>93.3%</b>
Resto de activos		1,533.7	58.2%	53.6	3.5%	7,586	2,222	7.12	626	90.5%
<b>Total portfolio</b>		<b>2,637.3</b>	<b>100.0%</b>	<b>85.0</b>	<b>3.2%</b>	<b>10,615</b>	<b>2,637</b>	<b>7.63</b>	<b>685</b>	<b>91.4%</b>

Las Tablas  
MADRID

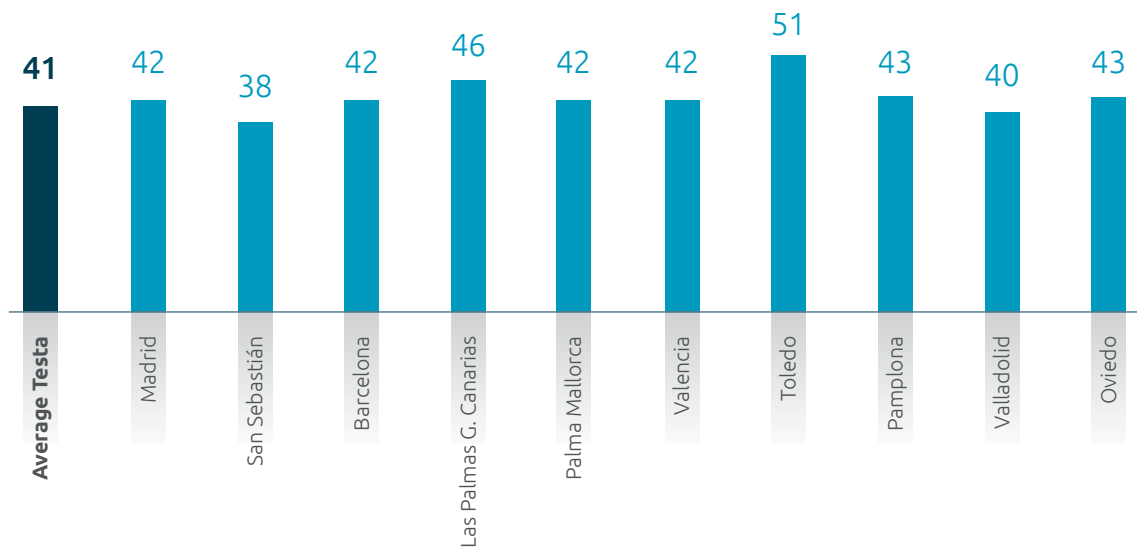


## Profile of Testa's tenants

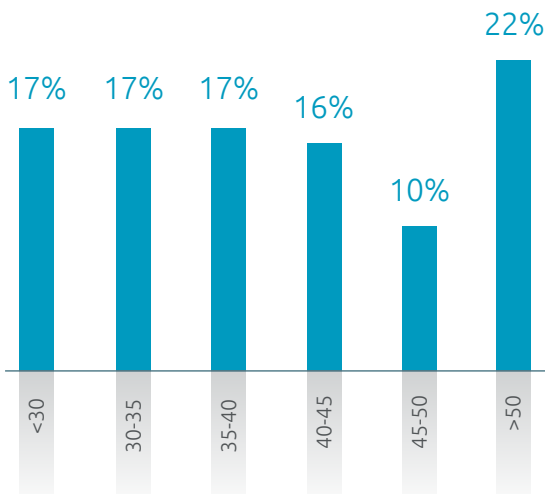
Testa's average tenant profile shows older tenants than the Spanish average (41 years old at Testa vs. 32 for the market) and higher purchasing power, with average household net income of 2,850 euros per month (vs the the average Spanish

household of 2,228 euros per month). The average affordability ratio (calculated as monthly rent divided by net income) is 30% for new leases signed in 2018.

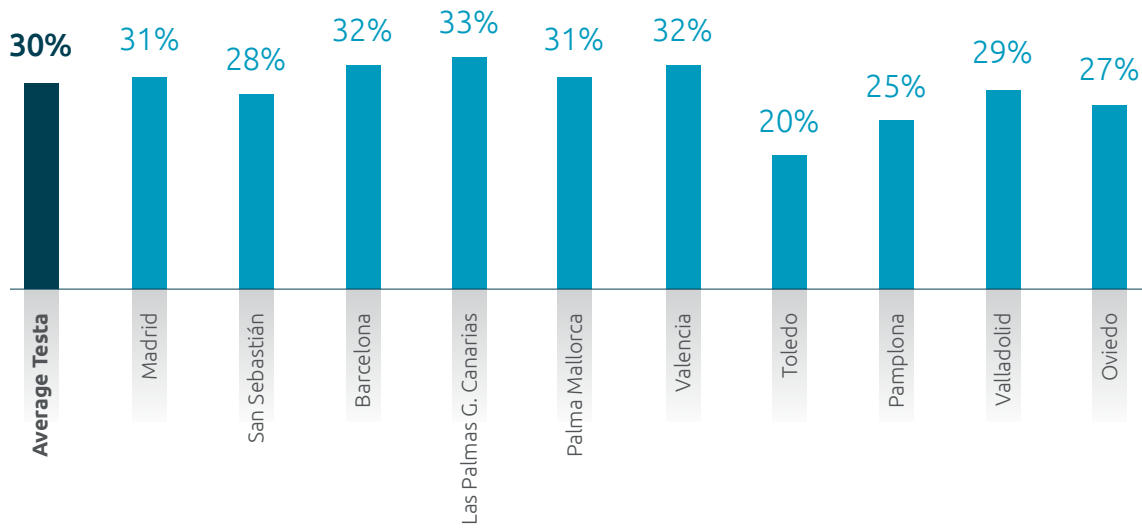
### AVERAGE AGE OF TESTA'S TENANTS



### % OF TENANTS BY AGE GROUP

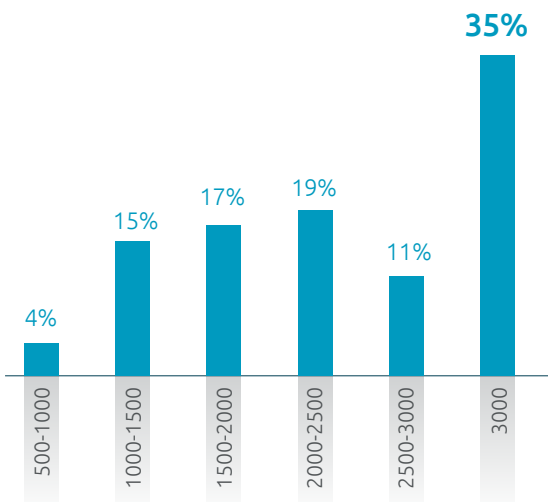


**AFFORDABILITY RATIO OF TESTA'S TENANTS \***

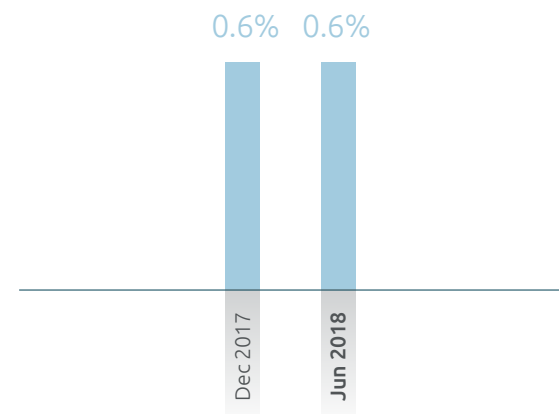


\* Monthly rent divided by total household net income, in new lease agreements signed in 1H18.

**BREAKDOWN OF TENANTS BY MONTHLY HOUSEHOLD NET INCOME BRACKET (AVERAGE: 2,850 EUROS/MONTH) \***



**TENANT BAD DEBT (NET OF GUARANTEES)**



\*For new lease agreements signed in 1H18

# 7

# EPRA METRICS

Terrazas de Gran Vía  
**ALICANTE**



## EPRA METRICS

EPRA EARNINGS		
Eur M	IH 2018	FY 2017
Earnings per IFRS income statement	8.94	46.59
Adjustments to calculate EPRA earnings:		
Change in value of investment properties	-125.10	-41.49
Gains or losses on asset disposals		-0.26
Tax on non-recurring income		
Amortisation of goodwill		
Change in the value of financial instruments and associated close-out costs	22.29	-0.11
Acquisition costs		
Deferred tax in respect of EPRA adjustments		
Non-controlling interests in respect of the above		
<b>EPRA earnings before company-specific adjustments</b>	<b>-93.87</b>	<b>4.74</b>
Diluted number of shares (million)	132.27	132.27
<b>EPRA earnings per share before company-specific adjustments, in euros</b>	<b>-0.710</b>	<b>0.036</b>
Company-specific adjustments:		
Termination of Merlin services agreement	107.55	4.60
IPO/listing costs	3.26	
Other adjustments	0.78	
<b>Company-specific adjusted EPRA earnings</b>	<b>17.71</b>	<b>9.34</b>
<b>Company-specific adjusted EPRA earnings per share, in euros</b>	<b>0.134</b>	<b>0.071</b>



## EPRA NAV

Eur M	JUN 2018	DEC 2017
Shareholders' equity per balance sheet	1,488.8	1,393.8
Unrealised gains on assets *	17.3	8.4
Change in value of derivatives	5.1	0.1
Deferred taxes (assets/liabilities)	94.8	94.9
<b>EPRA NAV</b>	<b>1,606.0</b>	<b>1,497.1</b>
No. of shares, million	132.27	132.27
<b>EPRA NAV per share (euros)</b>	<b>12.14</b>	<b>11.32</b>
Merlin services agreement **	0.0	-18.8
Conversion of Acciona liability ***	375.5	355.6
<b>Adjusted EPRA NAV</b>	<b>1,981.5</b>	<b>1,833.8</b>
No. of shares, million ****	132.27	132.27
<b>Adjusted EPRA NAV per share (euros)</b>	<b>14.98</b>	<b>13.86</b>

\*\* Referred to concession assets (Bentaberri and others), that are accounted for at historical cost on the balance sheet.

\*\* The Merlin management agreement was terminated and capitalised as equity in 1Q18.

\*\*\* Acciona has a right to recover its investment if Testa is not listed on an official market by 2022.

\*\*\*\* The number of shares for Dec 2017 includes the capital increase for the cancellation of the Merlin contract.



**EPRA NNNAV**

Eur M	JUN 2018	DEC 2017
EPRA NAV	1,606.0	1,497.1
Deferred taxes (assets/liabilities)	-94.8	-94.9
Change in value of derivatives	-5.1	-0.1
<b>EPRA NNNAV</b>	<b>1,506.1</b>	<b>1,402.1</b>
No. of shares, million	132.27	132.27
<b>EPRA NNNAV per share (euros)</b>	<b>11.39</b>	<b>10.60</b>
Merlin services agreement *	0.0	-18.8
Conversion of Acciona liability **	375.5	355.6
<b>Adjusted EPRA NNNAV</b>	<b>1,881.6</b>	<b>1,738.8</b>
No. of shares, million (diluted) ***	132.27	132.27
<b>Adjusted EPRA NNNAV per share (euros)</b>	<b>14.23</b>	<b>13.15</b>

\* The Merlin management agreement was terminated and capitalised as equity in 1Q18.

\*\* Acciona has a right to recover its investment if Testa is not listed on an official market by 2022.

\*\*\* The number of shares for Dec 2017 includes the capital increase for the cancellation of the Merlin contract.

**EPRA VACANCY RATE**

Eur M	JUN 2018	DEC 2017
Estimated rental value (ERV) of vacant space	9.5	9.9
Estimated rental value (ERV) of whole portfolio	118.2	102.8
<b>EPRA vacancy rate, %</b>	<b>8.0%</b>	<b>9.6%</b>

# 8

# TESTA SHARES



Calvià  
MALLORCA

## TESTA SHARES

Testa Residencial shares were admitted to trading on the Alternative Equity Market (MAB) from 26 July 2018. The initial reference price was set at 13.90 euros per share, approximately the same as the pro-forma EPRA NAV at year-end 2017 and giving an initial market capitalisation of 1,838 million euros.

The stock's technical listing has not resulted in any change to the Company's shareholder structure, but boosts the liquidity of outstanding shares, especially for the more than 1,500 non-controlling shareholders making up the free-float.

### Share data

**SECURITIES MARKET**  
**Alternative Equity Market** (MAB)

**TYPE OF MARKET**  
**Non-regulated market**

**TICKER**  
**YTST**

**ISIN CODE**  
**ES0105210019**

**FIRST DAY OF TRADING**  
**26/07/2018**

**INITIAL REFERENCE PRICE**  
**13.90 Euros/share**

**TOTAL NO. OF SHARES**  
**132,270,202**



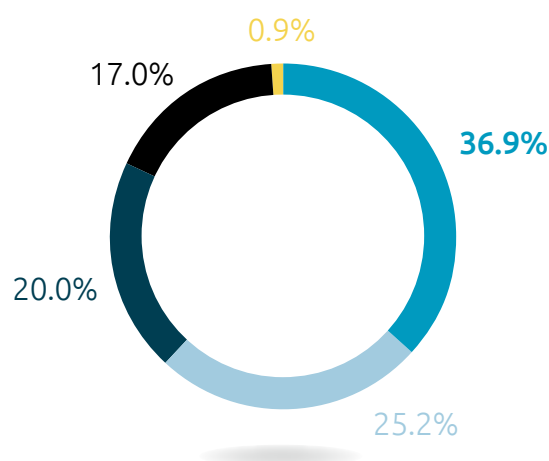
Bentaberri  
**SAN SEBASTIÁN**

## Estructura accionarial

Testa's main shareholders are **Santander (36.9%)**, **BBVA (25.2%)**, **Acciona Inmobiliaria (20.0%)** and **Merlin Properties (17.0%)**.

At the end of the first half, the number of treasury shares stood at 1,457, representing 0,001% of share capital. After the end of period and before the shares with listed on the MAB, Testa increased the amount of treasury shares held to 601,991, representing 0.46% of share capital.

### TESTA SHAREHOLDERS



### BOARD OF DIRECTORS

Name	Position	Category	Representing
Ignacio Moreno Martínez	Chairman	Independent	-
Miguel Oñate Rino	Vice-Chairman	Proprietary	Merlin
Wolfgang Beck	Chief Executive Officer	Executive	-
Javier Alarcó Canosa	Director	Independent	-
Antonio Hernández Mancha	Director	Independent	-
José María Xercavins Lluch	Director	Independent	-
Azucena Viñuela Hernández	Director	Independent	-
Finanzas y Carteras Uno, S.A. *	Director	Proprietary	Acciona
Altamira Santander Real Estate, S.A. **	Director	Proprietary	Santander
Carlos Manzano Cuesta	Director	Proprietary	Santander
Cesáreo Rey-Baltar Oramás	Director	Proprietary	BBVA
Lucas Osorio Iturmendi	Secretary (non member)	Secretary (non member)	-

\* Finanzas y Cartera Uno, S.A., represented by Isabel Antúnez Cid

\*\* Altamira Santander Real Estate, S.A., represented by Jaime Rodríguez Andrade



### TREND IN NUMBER OF SHARES

Event	Date	Volume of capital increase (Eur M)	Nominal amount (Eur/sh)	No. of issued/redeemed shares	No. of resulting shares	Resulting share capital (Eur M)
<b>Situation at Dec 2016</b>			<b>0.01</b>		<b>4,676,593,732</b>	<b>46.8</b>
Capital increase (contributions by Santander and BBVA)	07/03/2017	659.7	0.01	5,221,817,098	9,898,410,830	99.0
Capital increase	24/05/2017	0.03	0.01	237,407	9,898,648,237	99.0
Capital increase (contribution by Acciona)	25/09/2017	341.2	0.01	2,687,678,678	12,586,326,915	125.9
<b>Situation at Dec 2017</b>			<b>0.01</b>		<b>12,586,326,915</b>	<b>125.9</b>
Capital increase (termination of Merlin agreement)	27/03/2018	89.7	0.01	640,693,342	13,227,020,257	132.3
Reverse split (100x1)	27/03/2018		1.00	-57	132,270,202	132.3
<b>Situation at June 2018</b>			<b>1.00</b>		<b>132,270,202</b>	<b>132.3</b>

# 9

# GLOSSARY

Avenida Euro  
**MADRID**



## GLOSSARY AND ALTERNATIVE PERFORMANCE MEASURES

**Net rental income (NRI):** Rental income less non-recoverable expenses on properties.

**EBITDA:** Earnings before net revaluations, depreciation and amortisation, provisions, interest and taxes.

**Adjusted rental EBITDA:** EBITDA excluding extraordinary or non-recurring items.

**Annualized gross rental income or "GRI":** Passing monthly gross rents multiplied by 12.

**ERV:** Estimated rental value of properties as determined by the external appraiser.

**Average passing residential rents:** Passing monthly residential rent divided by the residential surface area as at the end of a period.

**Like-for-like growth of rent:** Performance of passing residential rent assuming the same scope of properties at the beginning and end of the period.

**Occupancy rate (physical):** Leased residential surface area divided by total residential surface area.

**Like-for-like occupancy rate:** Trend in occupancy rate assuming a constant scope between the two periods.

**EPRA vacancy rate :** Estimated rental value (ERV) of vacant space as a % of the portfolio's total ERV calculated in accordance with EPRA recommendations.

**FFO1:** Funds from operations calculated as adjusted rental EBITDA less interest and income tax payments.

**Inversiones de mantenimiento:** Inversión realizada en el mantenimiento y modernización de los activos, excluyendo adquisiciones. Con frecuencia, se presenta en relación a la SBA de la cartera.

**Maintenance capex:** Amount invested to maintain and upgrade investment properties, excluding acquisitions. Often shows as a percentage of portfolio GLA.

**AFFO:** Adjusted funds from operations, calculated as FFO1 less maintenance capex.

**GAV:** Gross Asset Value of the properties as defined by the external appraiser.

**GLA:** Gross leasable area.

**EPRA:** European Public Real Estate Association.

**EPRA NAV:** Net Asset Value as calculated in accordance with EPRA recommendation, taking shareholders' equity plus the revaluation of properties recognised at historical cost, the market value of derivatives and deferred taxes.

**EPRA NNNAV:** Triple net NAV, calculated as EPRA NAV less deferred taxes and the value of derivatives, in accordance with EPRA recommendations.

**Adjusted NAV or NNNAV:** EPRA NAV or NNNAV including certain company-specific adjustments.

**EPRA earnings:** Earnings from operations calculated in accordance with EPRA recommendations.

**EPRA cost ratio:** Operating expenses as a percentage of gross rental income, calculated in accordance with EPRA recommendations.

**Gross yield:** Gross yield of the properties calculated by dividing annualized gross rent by the latest available GAV.

**LTV (loan to value):** Net debt divided by GAV.

**Unencumbered ratio:** Ratio of assets free of encumbrances divided by debt without mortgage guarantees



Testa Residencial SOCIMI S.A.  
Paseo de la Castellana 257, 2nd floor  
28046 Madrid, España  
+34 91 048 9400  
ir@testainmo.com

[www.testaresidencial.com](http://www.testaresidencial.com)