Inmobiliaria Colonial, S.A.

Financial Statements
for the year ended
31 December 2016 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 and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 23). In the event of a discrepancy, the Spanish-language version prevails.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 23). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Shareholders of
Inmobiliaria Colonial, S.A.,

Report on the Financial Statements

We have audited the accompanying financial statements of Inmobiliaria Colonial, S.A. ("the Company"), which comprise the balance sheet as at 31 December 2016, 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.

Directors' Responsibility for the Financial Statements

The directors are responsible for preparing the accompanying financial statements so that they present fairly the equity, financial position and results of Inmobiliaria Colonial, S.A. in accordance with the regulatory financial reporting framework applicable to the Company in Spain (identified in Note 2-a to the accompanying financial statements) 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of Inmobiliaria Colonial, S.A. as at 31 December 2016, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein.

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

Report on Other Legal and Regulatory Requirements

The accompanying directors' report for 2016 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for 2016. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Inmobiliaria Colonial, S.A.

DELOITTE, S.L.
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Francesc Ganyet

24 February 2017

Col·legi
de Censors Jurats
de Comptes
de Catalunya

DELOITTE, S.L.

Any 2017 Núm 20/17/02247
CÒPIA

Informe d'auditoria de comptes subjecte a la normativa d'auditoria de comptes espanyola o internacional

Inmobiliaria Colonial, S.A.

Financial Statements
for the year ended
31 December 2016 and
Management Report, together with the
Auditors' Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 23). In the event of a discrepancy, the Spanish-language version prevails.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 23). In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, S.A.

BALANCE SHEET AT 31 DECEMBER 2016
(Thousands of Euros)

ASSETS	Notes to the Financial Statements	31.12.16	31.12.15	LIABILITIES	Notes to the Financial Statements	31.12.16	31.12.15
NON-CURRENT ASSETS:				**EQUITY:**			
Intangible assets-		**1,061**	**578**	**CAPITAL AND RESERVES-**		**1,893,270**	**1,655,327**
Patents, licences, trademarks and similar		290	44	**Share capital-**		**892,058**	**797,214**
Computer software		771	534	Registered capital		892,058	797,214
Property, plant and equipment-	**Note 5**	**15,566**	**10,923**	**Share premium**		**731,326**	**560,606**
Land and buildings		18,030	17,828	**Reserves-**		**250,634**	**1,163,954**
Plant and other items of property, plant and equipment		2,177	895	Legal and statutory reserves		33,615	5,080
Impairment of property, plant and equipment		(4,641)	(7,800)	Other reserves		217,019	1,158,874
Investment property-	**Note 6**	**1,510,105**	**1,389,481**	**Own shares and equity holdings**		**(36,755)**	**(5,013)**
Land		1,160,545	1,101,919	**Prior years' profit and loss**		**-**	**(1,147,975)**
Buildings and installations		396,877	371,498	**Profit for the year**		**54,839**	**285,350**
Investment property in progress and prepayments		71,272	69,002	**Other equity instruments**		**1,168**	**1,191**
Impairment of investment property		(118,589)	(152,938)	**ADJUSTMENTS DUE TO CHANGES IN VALUE-**		**1,317**	**-**
Non-current investments in Group companies and associates-	**Note 8**	**1,857,163**	**1,427,199**	**Available-for-sale financial assets**		**1,317**	**-**
Non-current equity instruments of the Group		1,865,345	1,427,209	**Total equity**	**Note 12**	**1,894,587**	**1,655,327**
Impairment of non-current financial investments in Group companies and associates		(8,182)	(10)				
Non-current financial investments-	**Note 8**	**146,782**	**7,299**	**NON-CURRENT LIABILITIES:**			
Non-current equity instruments		138,293	-	**Non-current provisions-**	**Note 13**	**10,671**	**11,508**
Other non-current financial assets		8,489	7,299	Debt instruments and other marketable securities		97	108
Total non-current assets		**3,530,677**	**2,835,480**	Other provisions		10,574	11,400
				Non-current payables-		**1,664,421**	**1,319,240**
				Debt instruments and other marketable securities	**Note 14**	1,513,868	1,243,960
				Bank borrowings	**Note 14**	119,927	65,371
				Derivatives	**Note 9**	45	616
				Other non-current financial liabilities	**Note 15**	30,581	9,293
CURRENT ASSETS:				**Deferred tax liabilities and other accounts payable to public authorities**	**Note 16**	**36,632**	**29,658**
Non-current assets held for sale	**Note 10**	**-**	**12,607**	**Total non-current liabilities**		**1,711,724**	**1,360,406**
Trade and other receivables-		**38,880**	**26,938**				
Trade receivables from sales and services		1,393	1,564	**CURRENT LIABILITIES:**			
Trade receivables from Group companies and associates	**Note 18**	28	16	**Current provisions**	**Note 13**	**11,926**	**9,104**
Other receivables	**Note 11**	1,729	-	**Current payables-**		**11,728**	**15,930**
Advances to suppliers		96	155	Debt instruments and other marketable securities	**Note 14**	11,367	14,132
Employee receivables		4	4	Bank borrowings	**Note 14**	(270)	(381)
Other accounts receivable from public authorities	**Note 16**	35,630	25,199	Derivatives	**Note 9**	612	2,162
Current investments in Group companies and associates-		**5,697**	**420**	Other current financial liabilities		19	17
Current loans to Group companies and associates	**Note 18**	5,697	420	**Current payables to Group companies and associates**	**Note 18**	**4,704**	**-**
Current financial investments-	**Note 11**	**441**	**9**	**Trade and other payables-**		**20,650**	**36,405**
Current equity instruments		9	9	Payable to suppliers		13,760	29,430
Other current financial assets		432	-	Other payables		4,480	5,017
Prepayments and accrued income		**43**	**92**	Other accounts payable to public authorities	**Note 16**	2,410	1,958
Cash and cash equivalents-	**Note 14**	**79,591**	**201,632**	**Current accrued expenses and deferred income**		**10**	**6**
Total current assets		**124,652**	**241,698**	**Total current liabilities**		**49,018**	**61,445**
TOTAL ASSETS		**3,655,329**	**3,077,178**	**TOTAL EQUITY AND LIABILITIES**		**3,655,329**	**3,077,178**

The accompanying Notes 1 to 23 and Appendices I and II to the financial statements are an integral part of the balance sheet at 31 December 2016.

INMOBILIARIA COLONIAL, S.A.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016
(Thousands of Euros)

	Notes to the Financial Statements	2016	2015
CONTINUING OPERATIONS:			
Revenue-	**Note 17**	**119,822**	**117,731**
Sales		64,746	56,475
Services		241	183
Income from investments in Group companies and associates		54,835	61,073
Other operating income-		**123**	**751**
Non-core and other current operating income		123	751
Staff costs-	**Note 17**	**(9,287)**	**(9,068)**
Wages, salaries and similar expenses		(7,506)	(7,418)
Employee benefits expense		(1,781)	(1,650)
Other operating expenses-		**(19,764)**	**(19,915)**
External services		(11,914)	(13,682)
Taxes other than income tax		(3,512)	(2,553)
Losses on, impairment of and changes in allowances for trade receivables	**Note 17**	(4,376)	(3,830)
Other current operating expenses		38	150
Amortisation and depreciation-	**Notes 5 and 6**	**(28,170)**	**(25,664)**
Impairment and gains/(losses) on disposal of fixed assets-		**61,133**	**125,478**
Impairment and losses	**Note 17**	61,741	125,942
Gains/(losses) on disposals and other	**Notes 6 and 10**	(608)	(464)
Profit from operations-		**123,857**	**189,313**
Finance income-	**Note 17**	**1,550**	**1,113**
Marketable securities and other financial instruments-		**1,550**	**1,113**
Group companies and associates	**Note 18**	81	-
Third parties		1,469	1,113
Finance costs-	**Note 17**	**(55,358)**	**(63,548)**
On debts to Group companies and associates	**Note 18**	(1)	-
On debts to third parties		(55,357)	(63,548)
Change in fair value of financial instruments-	**Note 17**	**(64)**	**(192)**
Trading portfolio and other		(64)	(192)
Impairment and gains/(losses) on disposal of financial instruments-	**Notes 8, 13 and 17**	**(8,172)**	**154,984**
Impairment and losses		(8,172)	154,992
Gains/(losses) on disposals and other		-	(8)
Financial profit/(loss)-		**(62,044)**	**92,357**
Profit before tax-		**61,813**	**281,670**
Income tax expense	**Note 16**	(6,974)	3,680
Profit for the year from continuing operations-		**54,839**	**285,350**
Profit for the year-		**54,839**	**285,350**

The accompanying Notes 1 to 23 and Appendices I and II to the financial statements form an integral part of the income statement for 2016.

INMOBILIARIA COLONIAL, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE

(Thousands of Euros)

	2016	2015
PROFIT FOR THE YEAR (I)	**54,839**	**285,350**
Income and expense recognised directly in equity		
- Valuation of financial instruments:		
Available-for-sale financial assets	1,317	-
Total income and expense recognised directly in equity (II)	**1,317**	**-**
Amounts transferred to the income statement		
- Valuation of financial instruments:		
Available-for-sale financial assets	-	-
Total amounts transferred to income statement (III)	**-**	**-**
Total recognised income and expense (I+II+III)	**56,156**	**285,350**

The accompanying Notes 1 to 23 and Appendices I and II to the financial statements form an integral part of the statement of recognised income and expense for 2016.

INMOBILIARIA COLONIAL, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

B) STATEMENT OF TOTAL CHANGES IN EQUITY

(Thousands of Euros)

	Notes to the financial statements	Share capital	Share premium	Reserves	Treasury shares	Prior years' profit and loss	Profit for the year	Other equity instruments	Valuation adjustments	Total
Balance at 31 December 2014		**797,214**	**560,606**	**1,165,187**	**-**	**(944,584)**	**(203,391)**	**1,191**	**-**	**1,376,223**
Total recognised income and expense		-	-	-	-	-	285,350	-	-	**285,350**
Transactions with shareholders:	**Note 12**									
Capital increases		-	-	(51)	-	-	-	-	-	**(51)**
Transactions with own shares and equity holdings (net)		-	-	(4)	(7,396)	-	-	-	-	**(7,400)**
Distribution of profit		-	-	-	-	(203,391)	203,391	-	-	**-**
Share-based payment transactions:										
Accrual long-term remuneration plan 2015	**Note 17**	-	-	-	-	-	-	1,191	-	**1,191**
Delivery long-term remuneration plan 2014	**Note 19**	-	-	(1,178)	2,383	-	-	(1,191)	-	**14**
Balance at 31 December 2015		**797,214**	**560,606**	**1,163,954**	**(5,013)**	**(1,147,975)**	**285,350**	**1,191**	**-**	**1,655,327**
Total recognised income and expense		-	-	-	-	-	54,839	-	1,317	**56,156**
Transactions with shareholders:	**Note 12**									
Capital increases		94,844	170,720	(1,905)	-	-	-	-	-	**263,659**
Transactions with own shares and equity holdings (net)		-	-	(12)	(33,856)	-	-	-	-	**(33,868)**
Other transactions with shareholders		-	-	(938,993)	-	938,993	-	-	-	**-**
Distribution of profit		-	-	28,535	-	208,982	(285,350)	-	-	**(47,833)**
Share-based payment transactions:										
Accruals long-term remuneration plan 2016	**Note 17**	-	-	-	-	-	-	1,168	-	**1,168**
Delivery long-term remuneration plan 2015	**Note 19**	-	-	(945)	2,114	-	-	(1,191)	-	**(22)**
Balance at 31 December 2016		**892,058**	**731,326**	**250,634**	**(36,755)**	**-**	**54,839**	**1,168**	**1,317**	**1,894,587**

The accompanying Notes 1 to 23 and Appendices I and II to the financial statements are an integral part of the statement of total changes in equity for 2016.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 23). In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, S.A.

2016 STATEMENT OF CASH FLOWS
(Thousands of Euros)

	Notes to the Financial Statements	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES (I):		**22,355**	**12,571**
Profit for the year before tax from continuing operations-		**61,813**	**281,670**
Profit/(loss) for the year before tax from discontinued operations-		**-**	**-**
Adjustments for-		**(22,370)**	**(248,356)**
Amortisation and depreciation	**Notes 5 and 6**	28,170	25,664
Valuation allowances for impairment losses	**Notes 5, 6, 10 and 17**	(61,741)	(125,942)
Changes in allowances	**Note 13**	4,376	3,830
Proceeds from disposals of fixed assets	**Note 6**	608	464
Impairment and gains/(losses) on disposal of financial instruments	**Notes 8, 11, 13 and 17**	8,172	(154,984)
Finance income	**Note 17**	(56,385)	(62,186)
Finance costs	**Note 17**	55,358	63,548
Change in fair value of financial instruments	**Notes 9 and 17**	64	192
Other income and expenses		(992)	1,058
Changes in working capital-		**(18,514)**	**2,509**
Trade and other receivables		(1,317)	173
Other current assets		-	711
Trade and other payables		(16,370)	(2,030)
Other current liabilities		2	(4)
Other non-current assets and liabilities		(829)	3,659
Other cash flows from operating activities-		**1,426**	**(23,252)**
Interest payments and fees		(41,975)	(49,739)
Dividends received	**Note 17**	54,835	61,073
Interest received		726	1,113
Other taxes received (paid)		(9,975)	(32,433)
Proceeds from and payments for cancellation of derivatives		(2,185)	(3,266)
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**(354,902)**	**(174,449)**
Payments for investments-		**(369,022)**	**(174,453)**
Group companies and associates	**Note 8**	(138,568)	(30,038)
Intangible assets		(755)	(552)
Property, plant and equipment	**Note 5**	(1,843)	(165)
Investment property	**Note 6**	(90,820)	(142,378)
Other financial assets	**Note 8**	(136,976)	-
Non-current assets held for sale	**Note 10**	(60)	(1,320)
Proceeds from sale of investments-		**14,120**	**4**
Property, plant and equipment		13	-
Other current financial assets		-	4
Non-current assets held for sale	**Note 10**	14,107	-
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**210,506**	**258,202**
Proceeds from and payments for equity instruments-		**(97,529)**	**(6,246)**
Distribution of dividends		(47,833)	-
Acquisition / disposal of own equity instruments		(47,791)	(6,195)
Expenses associated with capital increases	**Note 12**	(1,905)	(51)
Proceeds from and payments for financial liability instruments-		**308,035**	**264,448**
Issue of bank borrowings	**Note 14**	314,705	64,411
Bonds and similar marketable securities issued	**Note 14**	650,000	1,241,266
Debt issues with Group companies and associates	**Note 18**	(5,277)	(420)
Credit issues with Group companies and associates	**Note 18**	4,700	-
Redemption and repayment of debt with financial institutions	**Note 14**	(260,177)	(1,040,809)
Redemption and repayment of bonds and similar marketable securities	**Note 14**	(395,904)	-
Redemption and repayment of debt with Group companies and associates	**Note 18**	(12)	-
EFFECT OF EXCHANGE RATE FLUCTUATIONS (IV)		-	**-**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**(122,041)**	**96,324**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS FROM NON-MONETARY CONTRIBUTIONS		**-**	**-**
Cash and cash equivalents at start of year		201,632	105,308
Cash and cash equivalents at end of year		79,591	201,632

The accompanying Notes 1 to 23 and Appendices I and II to the financial statements are an integral part of the statement of cash flows for 2016.

Inmobiliaria Colonial, S.A.

Notes to the financial statements for the year ended 31 December 2016

1. Company's description

Inmobiliaria Colonial, S.A. (formerly, Grupo Inmocaral, S.A.), hereinafter, "the Company", is a limited company incorporated in Spain (incorporated for an indefinite period on 8 November 1956 as Grupo Fosforera, S.A.).

On 19 April 2007, the Board of Directors of the Company agreed to rename the Company Inmobiliaria Colonial, S.A., additionally changing its registered office to Avenida Diagonal, 532, Barcelona.

The Company's main business is the lease, acquisition, development and sale of real estate, in addition to the management of financial holdings. The Company leases office space in Spain (mainly in Barcelona and Madrid) and in Paris through the group headed by Société Foncière Lyonnaise, S.A. (hereinafter SFL).

On 16 June 2002 and 29 June 2006, the Company performed capital increases, partially through non-monetary contributions. In 2007, the company merged into Inmobiliaria Colonial, S.A. (formerly Grupo Inmocaral, S.A.) (merged company) Finally, in 2008 Inmobiliaria Colonial S.A. acquired (acquiring company) merged with Subirats-Coslada Logística, S.L.U., Diagonal Les Poxes 2002, S.L.U., Dehesa de Valme, S.L., Urbaplan 2001, S.A.U., Entrenúcleos Desarrollo Inmobiliario, S.L., Inversiones Tres Cantos, S.L. and Inversiones Notenth, S.L. (merged companies).

In 2010, the spin-off and contribution to the subsidiary Asentia Project, S.L., hereinafter "Asentia", of the land and development business, was performed, including shares in the subsidiary Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U., hereinafter "DUE", to which a project in Seville was transferred. In addition, the non-monetary contribution of the Llacuna property development in Barcelona to the subsidiary Abix Service, S.L.U., hereinafter "Abix", was carried out. These transactions took place under the scope of the "Framework Refinancing Agreement" signed between the Company and the banks on 19 February 2010.

The aforementioned mergers, spin-offs and non-monetary contributions availed themselves of the tax regime provided for in Title VII, Chapter VIII, of the Spanish Corporate Income Tax Law. In accordance with legal requirements, all relevant information regarding these corporate transactions is detailed in the financial statements for the years concerned.

In 2014, the assets and liabilities of Abix, a wholly-owned company until this date, were transferred en bloc to Inmobiliaria Colonial, S.A. The aforementioned transaction entailed the transfer en bloc by universal succession of all of Abix's assets and liabilities to the Company, and the subsequent dissolution of the investee, all in accordance with article 87.1 of Law 3/2009, of 3 April, on structural changes to trading companies.

On 30 August 2016, the Company obtained a "BBB-" long-term credit rating and an "A-3" short-term credit rating from Standard & Poor's Rating Credit Market Services Europe Limited, unchanged with respect to the rating obtained on 5 June 2015.

Inmobiliaria Colonial, S.A. is listed on the Madrid and Barcelona stock exchanges.

In view of the business activity carried on by the Company, 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 financial statements. However, the Company does apply an active environmental policy in relation to urban development, construction, maintenance and the preservation of its property portfolio.

The Company is the head of a group of subsidiaries and is obliged under current legislation to prepare consolidated financial statements separately. The consolidated financial statements for 2015 were approved at the General Shareholders' Meeting of Inmobiliaria Colonial, S.A. held on 28 June 2016, and they were subsequently filed at the Barcelona Mercantile Register.

2. Basis of presentation of the financial statements

a) Financial reporting regulatory framework applicable to the Company

These financial statements have been authorised for issue by the directors in accordance with the financial reporting regulatory framework applicable to the Company, as set out in:

a) The Spanish Commercial Code and other company law.

b) The Spanish National Chart of Accounts approved by Royal Decree 1514/2007, along with Royal Decrees 1159/2010 and 602/2016, amending certain aspects of the Chart of Accounts and its sectorial adaptations and, in particular, the Sectorial Adaptation of the National Chart of Accounts of Property Companies approved by the Order of 28 December 1994, and the provisions approved by the Spanish National Securities Market Commission (CNMV).

c) Mandatory standards approved by the Institute of Accounting and Auditing for the implementation of the National Chart of Accounts and its supplementary regulations, the Securities Market Law and other regulations issued by the CNMV.

d) All other applicable Spanish accounting law.

b) True and fair view

The accompanying financial statements were prepared on the basis of the accounting records kept by the Company, and are presented in accordance with the applicable financial reporting regulatory framework and, in particular, with the accounting policies and measurement bases contained therein, to present a true and fair view of the Company's equity, financial position, income, and cash flows for the year then ended. These financial statements, which have been authorised for issue by the Company's directors, shall be submitted for approval at the General Shareholders' Meeting, and they are expected to be approved without any changes.

The 2015 financial statements were approved by the General Shareholders' Meeting held on 28 June 2016.

c) Non-mandatory accounting policies applied

No non-mandatory accounting policies have been applied. Accordingly, the directors have authorised these financial statements for issue on the basis of all mandatory accounting policies and standards that have a material effect on such statements. All mandatory accounting policies have been applied.

d) Critical aspects of measurement and estimate of uncertainty

In preparing the accompanying financial statements, estimates were made by the Company's directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates and criteria relate to the following:

- Impairment losses or reversals of impairment losses recognised in previous years on property, plant and equipment for own use and investment property as a result of lower or higher property appraisals carried out by independent experts vis-à-vis the carrying amount recognised for these assets (Notes 5 and 6).

The market value of the property, plant and equipment for own use and of the investment properties was obtained from the appraisals periodically made by independent experts. Such appraisals were made on 30 June 2016 and 31 December 2016 in accordance with the methods described in Notes 4-b and 4-c.

- The useful life of property, plant and equipment for own use and of investment property (Notes 4-b and 4-c).
- Classification, measurement and impairment of financial investments (Note 4-e).
- Measurement of non-current assets held for sale (Note 4-f).
- Estimation of the appropriate provisions for default of accounts receivable (Note 4-g).
- Measurement of deferred tax liabilities recognised in the balance sheet (Notes 4-m and 16).
- The market value of certain financial assets, including derivative financial instruments (Note 9).
- Evaluation of lawsuits, obligations, and contingent assets and liabilities at year-end (Note 13).

Although these estimates were made on the basis of the best available information at year-end 2016, events that take place in the future might make it necessary to modify these amounts (upwards or downwards) in coming years, which would mean prospectively recognising the effects of said changes in the corresponding income statement.

e) Comparative information

The information included in these notes to the financial statements for 2016 is presented, for comparison purposes, with the information relating to 2015.

In December 2016, Royal Decree 602/2016, of 2 December, was approved, amending the Spanish National Chart of Accounts approved by Royal Decree 1514/2007, of 16 November. Royal Decree 602/2016 is applicable to the years commencing as from 1 January 2016.

The main amendments introduced by Royal Decree 602/2016 that affect the Company relate to:

I. New disclosures of information in the notes to the financial statements, the most significant of which (in addition to those deriving from the changes referred to in point II below) are as follows: a) the premiums paid for the directors' third-party liability insurance policy; b) employees with a disability equal to or exceeding 33%; and c) the conclusion, modification or early termination of any agreement between a trading company and any of its shareholders or directors, or any person acting on their behalf, involving a transaction not forming part of the Company's ordinary business or which is not carried out under normal market conditions.

II. Amendment of the accounting policies and measurement bases for intangible assets (in particular, for goodwill). In line with the amendments made to the Commercial Code introduced by Law 22/2015, of 20 July, intangible assets are defined as assets with a defined useful life and, therefore, must be systematically amortised over the period during which their Inherent financial benefits are reasonably expected to produce returns for the company. When the useful life of those assets cannot be reliably estimated, they will be amortised over a maximum of 10 years, notwithstanding any periods established by the particular rules for an intangible asset. Goodwill will be amortised over its useful life and, unless there is evidence to the contrary, it will be presumed that its useful life is 10 years, recoverable on a straight-line basis. These intangible assets and goodwill previously had indefinite useful lives, and were only subject to impairment and not to systematic amortisation.

The Company has optionally included the relevant comparative information relating to the new requirements for making disclosures in the notes to the financial statements, as permitted under Additional Provision Two of the aforementioned Royal Decree, in Notes 19 and 20 to said financial statements. The remaining amendments introduced by such Royal Decree did not have an effect on the Company.

f) Grouping of items

Certain items in the balance sheet, income statement, statement of changes in equity and statement of cash flows are grouped together in order to facilitate comprehension. However, whenever the amounts involved are material, the information is broken down in the related notes to the financial statements.

g) Correction of errors

No significant errors have been found in the preparation of the accompanying financial statements that would require a restatement of the amounts included in the financial statements of 2015.

3. Distribution of profit

The distribution of the 2016 profit proposed by the Board of Directors of the Company for approval at the General Shareholders' Meeting is as follows:

	Thousands of euros
Profit for the year of the Company	**54,839**
To the legal reserve	5,484
To dividends	49,355
Total distributed	**54,839**

The Company's Board of Directors will submit for approval at the Annual General Meeting a proposed distribution of dividends totalling 0.165 euros per share, which would give rise to a total maximum dividend of 58,876 thousand euros, based on the current number of outstanding shares. The definitive amount of the dividend, as well as the nature of the reserves to be distributed, will be determined prior to its distribution based on the treasury shares held by the Company (Note 12).

In the past five years, the Company has distributed the following dividends:

Thousands of euros	2011	2012	2013	2014	2015
Dividends distributed	-	-	-	-	47,833

4. Accounting policies and measurement bases

The main accounting policies and measurement bases used by the Company to prepare its financial statements, in accordance with the National Chart of Accounts, were as follows:

a) Intangible assets

As a general rule, intangible assets are initially measured at their acquisition or production cost. They are then measured at cost less the corresponding accumulated amortisation and, where applicable, less any impairment losses. These assets are amortised over their useful life, or over ten years when their useful life cannot be reliably estimated.

Computer software-

"Computer software" includes mainly the cost of acquiring and implementing an integrated IT system, in addition to subsequent extensions or upgrades of such system. The cost is amortised on a straight-line basis at a rate of 25% per year.

b) *Property, plant and equipment*

Property for own use-

Properties for own use, as well as office furniture and equipment, are recognised at acquisition cost less any accumulated depreciation and any impairment, based on the same measurement assumptions explained in Note 4-c.

Historical cost includes expenses directly attributable to the acquisition of the properties.

Subsequent costs are capitalised or recognised as a separate asset only when it is probable that the future benefits associated with ownership of the asset will flow to the Company and its cost can be determined reliably. Other upkeep and maintenance expenses are charged to the income statement in the year in which they are incurred.

Other property, plant and equipment-

The assets included under "Other property, plant and equipment" are measured at acquisition cost less the corresponding accumulated depreciation and impairment, and restated pursuant to the applicable enabling legislation. Subsequent additions were measured at cost.

The costs of expansion, modernisation or improvement leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related assets, while upkeep and maintenance costs are expensed currently.

The Company depreciates its property, plant and equipment for own use and other items of property, plant and equipment using the straight-line method at annual rates based on the years of estimated useful life, as follows:

	Years of estimated useful life
Properties:	
Buildings	50
Fixtures	10 to 15
Other fixtures, tools and furniture	4 to 10
Other property, plant and equipment	4 to 10

Gains or losses arising on the disposal or derecognition of an asset are determined as the difference between the sale price and its carrying amount, and are recognised under “Impairment and gains/(losses) on disposal of fixed assets” in the income statement.

c) *Investment property*

“Investment property” in the balance sheet reflects the values of the land, buildings and other constructions held to earn rent or for capital appreciation upon disposals due to future increases in their respective market prices.

Investment property is recognised at acquisition cost plus any capital gains assigned as a result of the merger described in Note 1 between Grupo Inmocaral, S.A. (acquiring company) and Inmobiliaria Colonial, S.A. (merged company), less amortisation and the relevant accumulated impairment losses.

The costs of expansion, modernisation or improvement leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related assets, while upkeep and maintenance costs are expensed currently.

For developments in progress, the only costs capitalised are execution and borrowing costs, provided such expenses were accrued before the asset was put to use and the construction work lasted over one year.

The table below details the borrowing costs capitalised in 2016 and 2015 (Note 17):

	Thousands of euros	
	Amount capitalised during the period	Average interest rate
2016	824	2.86%
2015	-	-

Investment property in progress is transferred to investment property in operation when the assets are ready for use. The classification of an investment property to the investment property in progress heading takes place only when the rehabilitation project will exceed one year.

The Company depreciates its investment properties by the straight-line method at annual rates based on the years of estimated useful life, as follows:

	Years of estimated useful life
Properties:	
Buildings	50
Fixtures	10 to 15
Other fixtures, tools and furniture	4 to 10
Other property, plant and equipment	4 to 10

The Company periodically compares the carrying amount of its investment property with the market value based on valuations made by independent experts for each one of them. The appropriate impairment losses are recognised on investment property when the market value of an item is lower than the carrying amount. Market value is determined every six months, i.e. on 30 June and 31 December of each year, using the valuations prepared by independent experts (JLL Valoraciones and CBRE Valuation Advisory in 2016 and JLL Valoraciones in 2015), so that the year-end market values for investment property items reflect the prevailing market conditions. The valuation reports prepared by independent experts contain only the standard warnings and/or disclaimers concerning the scope of the findings of the appraisals carried out, referring basically to the comprehensiveness and accuracy of the information provided by the Company.

The Discounted Cash Flow (hereinafter, “DCF”) method was primarily used to determine the market value of the Company's property investments in 2016 and 2015.

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

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

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

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

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

The properties were assessed individually, considering each of the lease agreements in force at the end of the year. Buildings with unlet floor space were valued on the basis of future estimated rental income, less a period for the marketing thereof.

The key inputs in this valuation method are the determination of net income, the period of time over which they are discounted, the estimated realisable value at the end of each period and the target internal rate of return used to discount the cash flows.

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

The yields and other assumptions used in determining future cash flows in 2016 and 2015 are set out in the tables below:

	Gross	
Exit yields (%) - Offices	31 December 2016	31 December 2015
Barcelona – Prime Yield		
Leased out	5.05	5.52
Total portfolio	5.08	5.55
Madrid – Prime Yield		
Leased out	4.67	4.92
Total portfolio	4.68	4.91

Assumptions made at 31 December 2016					
Rent increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	2.50	2.50	2.50	2.25	2.25
Total portfolio	2.50	2.50	2.50	2.25	2.25
Madrid –					
Leased out	3.00	3.00	3.00	3.00	2.50
Total portfolio	3.00	3.00	3.00	3.00	2.50

Assumptions made at 31 December 2015					
Rent increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	0.50	0.75	1.25	2.00	2.00
Total portfolio	0.50	0.75	1.25	2.00	2.00
Madrid –					
Leased out	0.50	0.75	1.25	2.00	2.00
Total portfolio	0.50	0.75	1.25	2.00	2.00

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

A change of one-quarter of one point in yields would have the following impact on the valuations used by the Company to determine the value of its assets recognised under "Property, plant and equipment", "Investment property" and "Non-current assets held for sale" in the balance sheet:

Sensitivity of valuations to a change of one quarter of a point in yields	Thousands of euros		
	Valuation	Decrease of one quarter of a point	Increase of one quarter of a point
December 2016	1,741,691	81,562	(73,221)
December 2015	1,535,736	80,452	(72,615)

Although the sensitivity of other key variables was considered, such analysis was not carried out given that reasonable changes that could arise would not lead to a material change in the fair value of the assets.

The rental income earned in the years ended 31 December 2016 and 2015 from the lease of these investment properties amounted to approximately 64,746 thousand euros and 56,475 thousand euros, respectively (Note 17), and is recognised under “Revenue” in the accompanying income statement.

Gains or losses arising on the disposal or derecognition of an asset are determined as the difference between the sale price and its carrying amount, and are recognised under “Impairment and gains/(losses) on disposal of fixed assets” in the income statement.

d) Leases

Finance leases-

Leases are classified as finance leases whenever their terms imply that substantially all the risks and rewards incidental to ownership of the leased asset have been transferred. All other leases are classified as operating leases. At 31 December 2016 and 2015, all of the Company’s leases qualified as operating leases.

Operating leases-

Income and expenses deriving from operating leases are recognised in the income statement in the year in which they accrue.

The acquisition cost of the leased assets is presented in the balance sheet in accordance with the nature of the asset, plus the costs directly attributable to the lease, which are expensed over the term of the lease on the same basis as lease income.

Any collection or payment that might be made when arranging an operating lease will be treated as a prepaid lease collection or payment, which will be allocated to the income statement over the lease term as the benefits of the leased asset are received or given.

e) Financial instruments

Financial assets-

Classification-

The financial assets held by the Company are classified in the following categories:

- Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the company's trade, or those not arising from trade that are not equity instruments or derivatives and whose collections are for a fixed and determinable amount and are not traded in an active market.

- Investments held to maturity: debt instruments, with a fixed maturity date and determinable collection amounts traded in an active market and which the Company has expressed its intent and capacity to hold until their maturity date.

- Equity investments in Group companies, associates and jointly-controlled entities: Group companies are those linked to the Company by a relationship of control, and associates are companies over which the Company exercises a significant influence. In addition, the category of jointly-controlled entities includes companies over which, by virtue of an arrangement, joint control is exercised with one or more partners.

- Available-for-sale financial assets: include debt instruments and equity instruments of other companies that are not classified under any of the foregoing categories.

Initial measurement-

Financial assets are initially recognised at the fair value of the consideration given, plus any directly attributable transaction costs.

In the case of equity investments in Group companies that exercise control over subsidiaries, the fees paid to legal advisors and other professionals related to the acquisition of the investment are recognised directly in profit or loss.

Subsequent measurement-

Loans, receivables and investments held to maturity are measured at their amortised cost.

Investments in Group companies, associates and jointly controlled entities are measured at cost minus, if applicable, any accumulated impairment losses. Such losses are calculated as the difference between the carrying amount and the recoverable amount, where the latter is the higher of fair value less costs to sell and the present value of the future cash flows from the investment.

Lastly, available-for-sale financial assets are measured at fair value. Fair value gains and losses are recognised in equity until the asset is disposed of or is determined to be impaired (on a prolonged or permanent basis), at which point the cumulative gains or losses are reclassified to the income statement. Permanent impairment is presumed to exist if the market value of the asset has fallen by more than 40% or if a prolonged decline in the price has occurred over a year and a half without a recovery in value.

Unless better evidence of the recoverable value of the investee companies is available, the EPRA Triple Net Asset Value (EPRA NNNAV) is used.

The Company tests its financial assets that are not carried at fair value for impairment at least at the end of each reporting period. If the recoverable value of the financial asset is lower than its carrying amount, objective evidence of impairment is deemed to exist, in which case, it is recognised in the income statement

In particular, the Company calculates valuation adjustments relating to trade and other receivables by carrying out a case-by-case analysis of the solvency of the debtor.

The Company derecognises financial assets when they expire or when the rights to the cash flows of the financial asset have been assigned and a substantial transfer has occurred of the risks and benefits of ownership.

In contrast, the Company does not derecognise financial assets, and it recognises a financial liability for the same amount as the consideration received in assignments of financial assets in which the risks and benefits of ownership are substantially retained.

Financial liabilities-

Financial liabilities our accounts payable by the Company that have arisen from the purchase of goods and services in the course of the Company's business and those which, not arising from trade, cannot be considered derivative financial instruments.

Accounts payable are initially recognised at the fair value of the consideration received, adjusted for directly attributable transaction costs, and subsequently measured at amortised cost.

Liability derivative financial instruments are measured at fair value, using the same criteria as those applied to financial assets held for trading described in the preceding section.

The Company derecognises financial liabilities when the obligations giving rise to them cease to exist. When a debt instrument swap takes place between the Company and a third party, as long as these instruments have substantially different conditions, the Company derecognises the original financial liability and recognises the new financial liability. The difference between the carrying amount of the original liability and the payment received, including any transaction costs attributable, is recognised in the income statement.

If debt instruments that do not have substantially different terms are exchanged, the original financial liability is not derecognised and the amount of the fees paid are recognised as an adjustment to its carrying amount. The amortised cost of the financial liability is determined by applying the effective interest rate, which is equal to the carrying amount of the financial liability on the date of modification with the cash flows to be paid according to the new conditions.

The Company considers that the conditions of the financial liabilities are substantially different if the present value of the discounted cash flows under the new conditions, including any fees paid net of any fees received and discounted using the original effective interest rate, differs by at least 10% from the present value of the remaining discounted cash flows still remaining from the original financial liability.

Own equity instruments-

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

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

Treasury shares acquired by the Company during the year are recognised at the value of the consideration delivered in exchange and are deducted directly from equity. Any gains or losses on the purchase, sale, issue or cancellation of own equity instruments are recognised directly in equity and never in the income statement.

Derivative financial instruments-

The Company uses financial derivatives to manage its exposure to variations in interest rates. All derivative financial instruments, whether or not they are designated as hedging instruments, are carried at fair value, market value in the case of listed securities, or using option valuation methods or discounted cash flow analysis for non-listed securities. The following valuation criteria have been applied:

- Cash flow hedges: fair value gains or losses arising on the efficient part of transactions which classify for hedge accounting are recorded, net of taxes, directly in equity until the underlying or expected transaction occurs, at which point gains and losses are released to the income statement. Any valuation gains and losses on the ineffective portion of the hedge are recognised directly in the income statement.

- Treatment of financial instruments that are not allocated to a specific liability and do not qualify for hedge accounting: fair value changes in these financial instruments are recognised directly in the income statement.

The Company's directors have considered the credit risk in the measurement of the derivatives portfolios, with no significant impact seen as at 31 December 2016.

Hedge accounting is discontinued when a hedging instrument expires or is sold or exercised, or when the hedge no longer qualifies for hedge accounting. Gains or losses on hedging instruments accumulated directly in equity remain in equity until the related transaction materialises. Once the related cash flow occurs, any gain or loss accumulated in Company equity is released to the income statement for the period.

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

- Retrospective tests measure how effectively the instrument would have hedged the liability over its life, using historical interest rates to date.

- Prospective tests measure the instrument's expected effectiveness on the basis of forward interest rates as published by Bloomberg at the measurement date. This is adjusted monthly from the inception of the hedge on the basis of the historical interest rates already established.

The method consists of calculating the statistical correlation between the benchmark interest rates at each measurement date for the derivative and the hedged liability. This is applicable to the hedged portion of the derivative liability.

A hedging instrument is considered effective if this statistical correlation is between 0.8 and 1.

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

f) Non-current assets and disposal groups classified as held for sale

Non-current assets held for sale are measured at cost or at the fair value less costs to sell, whichever is lower.

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

The Company classifies non-current assets as assets held for sale when the Board of Directors or Executive Committee has officially approved the disposal and the sale is considered highly probable within a period of twelve months.

g) Accounts receivable

Trade receivables are carried at recoverable value, i.e., net, where applicable, of the allowances recognised to cover past-due balances where circumstances warrant their consideration as bad debts. At 31 December 2016 and 2015, there were no unprovisioned at-risk accounts receivable.

In 2016, impairment losses of 1,545 thousand euros relating to accounts receivable were charged to “Losses, impairment and change of trade provisions” in the income statement for the period.

h) Functional currency

These financial statements are presented in euros as this is the currency of the main economic area in which the Company operates.

i) Cash and cash equivalents

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

j) Current / non-current

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

The Company's primary business is the lease of assets and its normal business cycle is a calendar year. Therefore, assets and liabilities maturing in one year or less are classified as current assets and those maturing in over one year are classified as non-current assets, except for receivables deriving from the recognition of income associated with incentives or grace periods (Notes 4-n and 11), which are applied on a straight-line basis over the term of the lease agreement and are considered to be a current asset.

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

k) Provisions and contingent liabilities

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

- Provisions: credit balances covering obligations deriving from past events, where cancellation is likely to give rise to an outflow of funds, which are indeterminate with regard to their amount and/or timing of cancellation.

- Contingent liabilities: possible obligations arising as a consequence of past events, depending on future events over which the Company does not have control.

The financial statements include all provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled (Note 13). Contingent liabilities are not recognised in the financial statements, but are rather reported in the notes to the financial statements, in so far as they are not considered remote.

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

The receivable from a third party upon settlement of the obligation, when the reimbursement is virtually certain, is recognised as an asset, except where there is a legal obligation to outsource the risk discharging the Company of this obligation. In this case, benefits are used to estimate any amount to be recognised as the provision.

l) Employee benefits

Termination benefits-

Under current legislation, the Company is required to pay severance to employees terminated under certain conditions. Severance payments that can be reasonably quantified are recorded as an expense in the year in which the decision to terminate the contract is taken and a valid expectation regarding termination is transmitted to third parties. At 31 December 2016, the Company did not record any provisions in this connection.

Pension obligations-

In 2016 the Company assumed a commitment with executive directors and one member of senior management to make a defined contribution to an external pension plan that meets the requirements established by Royal Decree 1588/1999, of 15 October.

The contributions made by the Company in this respect in 2016 amount to 235 thousand euros and are recognised under the heading "Staff costs" in the income statement (Note 17). No amounts pending contribution to this pension plan exist at the end of 2016.

Share-based payment transactions-

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

In the case of transactions settled with equity instruments, both the services rendered and the increase in equity are measured at the grant-date fair value of the equity instruments delivered. If, on the other hand, they are settled in cash, the goods and services received and the corresponding liability are recognised at the fair value of the goods and services received as of the date on which the recognition requirements are met.

On 21 January 2014, the General Shareholders' Meeting set up a long-term share-based payment scheme for the Company's Chairman and CEO, as well as for the members of the Executive Committee, the conditions of which are detailed in Note 19. The amount of the services received are measured in accordance with the fair value of the instruments assigned, equivalent to the listed price of the Company's shares at the time the incentive plan agreement was reached.

m) Income tax expense

Income tax expense (income) includes the amount of current tax payable (receivable) and deferred tax liability (asset).

Current tax is the amount of income taxes payable (recoverable) as a result of the income tax settlements for a period. Tax credits and other tax benefits, excluding tax withholdings and payments on account, and tax loss carryforwards effectively utilised in the current period, reduce the current income tax expense.

Deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include the temporary differences, measured at the amount expected to be payable or recoverable, between the carrying amounts of assets and liabilities and their tax bases, as well as the carryforwards of unused tax losses and unused tax credits. These amounts are recognised by applying to the temporary difference or tax credit the tax rate that is expected to apply when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and affects neither the accounting profit (loss) nor taxable profit (tax loss). Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognised with a balancing entry in equity.

In accordance with the regulations in effect, the measurement of the Company's deferred tax liabilities reflects the tax consequences that would follow from the manner in which the carrying amount of its assets is expected to be recovered or settled. In this regard, for deferred tax liabilities that arise from investment properties, it is considered that there is a rebuttable presumption that their carrying amount will be recovered through their sale. When determining the deferred tax attributable to the capital gains assigned to the business combination described in Note 1, a portion of the cost of which was not tax deductible, the 25% tax rate was applied less 25% of the offset of tax-loss carryforwards as stipulated by the current limitation established by law at 31 December 2016. The effective rate taken into consideration was 18.75% after the legislative amendment of December 2016 that established new limitations on the offset of tax-loss carryforwards (7.5% in 2015), among other matters.

The balance sheet includes those tax credits considered likely to be recoverable within a reasonable timeframe, either because of the performance of the property market itself, or through taxable profits generated by the activities carried out by the Company's management (Note 16).

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.

The Company heads a Group of companies filing consolidated tax returns under tax group no. 6/08 (Note 16).

n) Income and expenses

General criteria-

Revenues 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. Revenue is measured at the fair value of the consideration received, less discounts and tax.

Revenue from sales is recognised when the significant risks and rewards from ownership of the sold asset have been transferred to the buyer, where daily management of the asset is not exercised and effective control is not held.

Specific lease terms and conditions-

Lease agreements include certain specific conditions linked to incentives or rent-free periods offered by the Company to its customers (Note 4-j). The Company recognises the aggregate cost of incentives granted as a reduction in rental income over the term of the lease on a straight-line basis. The effects of the rent-free periods are recognised during the minimum term of the lease agreement.

The indemnity payments made by lessees to cancel their lease agreements prior to their minimum termination date are also recognised as income in the consolidated statement of comprehensive income on the date of payment.

Interest and dividends received -

Interest received on financial assets is recognised with the effective interest rate method, and dividends are recognised when the right of the shareholder to receive them is declared. Interest and dividends from financial assets accrued subsequent to acquisition are recognised as income in the income statement.

The Company, in accordance with the query of BOICAC 79 related to the recognition of certain income (dividends, income from loans to related parties, etc.) for companies whose corporate purpose is the holding of financial assets, reflects dividend income from holdings in SFL and Torre Marenostrum, S.L. (hereinafter Torre Marenostrum) as the larger amount under "Revenue" in the income statement.

o) *Related party transactions*

The Company's transactions with related parties are all carried out at market prices. Furthermore, the transfer prices applied are fully documented and supported and the directors of the Company therefore do not consider that there is a significant risk that could give rise to a material liability in the future.

p) *Costs passed on to lessees*

The bulk of repair and maintenance expenses incurred by the Company in connection with the operation of its assets are passed on to the respective lessees of the properties. The Company does not consider the costs incurred by lessees from their property investments as income and they are recognised, less the corresponding costs, in the income statement. In 2016 and 2015, the Company invoiced these items at 18,242 thousand euros and 15,019 thousand euros, respectively.

Direct operating expenses associated with rented investment properties during the 2016 and 2015, included under "Profit from operations" in the income statement, amounted to 6,720 thousand euros and 8,167 thousand euros, respectively. The expenses incurred in connection with investment properties that did not generate rental income were not significant.

q) *Statement of cash flows (indirect method)*

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

- Cash flows: inflows and outflows of cash and cash equivalents, which are highly liquid short-term investments subject to an insignificant risk of changes in value.
- Operating activities: principal revenue-producing activities and other activities that are not investing or financing activities.
- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- Financing activities: activities that result in changes in the size and composition of equity and borrowings that are not operating activities.

5. Property, plant and equipment

The movement in this heading of the balance sheet in 2016 and 2015, and the most significant information affecting this heading, was as follows:

	Thousands of euros								
	Land and buildings			Plant and other items of property, plant and equipment		Total			
	Cost	Accumulated depreciation	Impairment	Cost	Accumulated depreciation	Cost	Accumulated depreciation	Impairment	**Total**
Balance at 31 December 2014	**19,220**	**(1,344)**	**(8,608)**	**9,718**	**(8,685)**	**28,938**	**(10,029)**	**(8,608)**	**10,301**
Additions/charges	-	(48)	-	165	(303)	165	(351)	-	(186)
Decreases / reversals	-	-	808	(47)	47	(47)	47	808	808
Balance at 31 December 2015	**19,220**	**(1,392)**	**(7,800)**	**9,836**	**(8,941)**	**29,056**	**(10,333)**	**(7,800)**	**10,923**
Additions/charges	251	(49)	-	1,592	(297)	1,843	(346)	-	1,497
Decreases / reversals	-	-	3,159	(378)	365	(378)	365	3,159	3,146
Balance at 31 December 2016	**19,471**	**(1,441)**	**(4,641)**	**11,050**	**(8,873)**	**30,521**	**(10,314)**	**(4,641)**	**15,566**

The Company uses two floors of the building located at Avenida Diagonal, 532, in Barcelona and one floor of the building located at Paseo de la Castellana, 52, in Madrid.

The additions in the year ended 31 December 2016 relate mainly to the rehabilitation work performed on Company offices located in Barcelona.

At 31 December 2016, the need to recognise an impairment loss reversal in the amount of 3,159 thousand euros on properties for own use was evidenced by the appraisals performed by independent experts (Note 4-b). The amount was recognised under “Impairment and gains/(losses) on disposal of fixed assets - Impairment and losses” in the accompanying income statement (Note 17). In the year ended 31 December 2015, a reversal to the impairment of the value of the property for own use amounting to 808 thousand euros was recognised.

At year end 2016 and 2015, the Company had totally depreciated property, plant and equipment still in use amounting to 7,417 thousand euros and 7,163 thousand euros, respectively.

The Company has no property, plant and equipment outside of Spanish territory, and it has no purchase commitments.

The Company's policy is to contract insurance policies to cover any risks affecting elements of property, plant and equipment. At 31 December 2016 and 2015, these elements were fully insured.

6. Investment property

The movement in this heading of the balance sheet in 2016 and 2015, and the most significant information affecting this heading, was as follows:

	Thousands of euros							
	Land	Buildings and installations		Investment property in progress	Total			
	Cost	Cost	Accumulated depreciation	Cost	Cost	Accumulated depreciation	Impairment	**Total**
Balance at 31 December 2014	**1,031,955**	**654,850**	**(299,146)**	**38,184**	**1,724,989**	**(299,146)**	**(283,411)**	**1,142,432**
Additions/charges	69,482	42,078	(25,132)	30,818	142,378	(25,132)	(92)	117,154
Decreases / reversals	-	(3,270)	2,600	-	(3,270)	2,600	130,565	129,895
Transfers	482	(482)	-	-	-	-	-	-
Balance at 31 December 2015	**1,101,919**	**693,176**	**(321,678)**	**69,002**	**1,864,097**	**(321,678)**	**(152,938)**	**1,389,481**
Additions/charges	60,249	29,124	(27,551)	2,270	91,643	(27,551)	(273)	63,819
Decreases / reversals	-	(22,077)	20,572	-	(22,077)	20,572	58,894	57,389
Transfers (Note 6)	(1,623)	21,760	3,551	-	20,137	3,551	(24,272)	(584)
Balance at 31 December 2016	**1,160,545**	**721,983**	**(325,106)**	**71,272**	**1,953,800**	**(325,106)**	**(118,589)**	**1,510,105**

Movements in 2016

The additions for the year ending 31 December 2016 mainly relate to the acquisition of two properties located in Madrid and Barcelona (Jose Abascal 45 and Travessera de Gracia 47-49, respectively), for the total amount of 77,094 thousand euros, including acquisition costs.

In addition to these acquisitions, investments were made in various properties, both under development and in operation, all of which are located in Barcelona and Madrid, for a total amount of 14,549 thousand euros, including 824 thousand euros in capitalised finance costs (Note 4-c).

During 2016, the Company transferred a property located in Barcelona with a carrying amount of 13,514 thousand euros from "Investment property" to "Non-current assets held for sale". This property was sold on 21 September 2016 (Note 10).

As a result of the review of the Company's asset sale plan by directors, in 2016, four properties with a total carrying amount of 12,930 thousand euros were transferred from "Non-current assets held for sale" to "Investment property" in the balance sheet due to the fact that the directors re-estimated the assumptions for their recovery (Note 10).

Also during 2016, the Company derecognised certain assets under “Investment Property” due to obsolescence. The carrying amount of these assets was 1,197 thousand euros, which was recognised in “Impairment and gains/(losses) on disposal of fixed assets - Gains/(losses) on disposals and others” in the income statement.

Movements in 2015

The additions for the year ending 31 December 2015 mainly related to the acquisition of three properties located in Madrid (Príncipe de Vergara, 112; Génova.17 and Santa Engracia, 120), for the total amount of 134,871 thousand euros, including acquisition costs.

In addition to these acquisitions, investments were made in various properties, both under development and in operation, all of which are located in Barcelona and Madrid, for a total amount of 7,507 thousand euros.

Also during 2015, the company derecognised certain assets under “Investment Property” due to obsolescence. The carrying amount of these assets was 464 thousand euros, and was recognised in “Impairment and gains/(losses) on disposal of fixed assets - Gains/(losses) on disposals and others” in the income statement.

Impairment

At 31 December 2016, the need to recognise an impairment loss reversal for the amount of 58,313 thousand euros on investment properties was evidenced by the appraisals performed by independent experts. The amount was recognised under “Impairment and gains/(losses) on disposal of fixed assets - Impairment and losses” in the income statement (Note 17). In the year ended 31 December 2015, an impairment loss reversal of 130,267 thousand euros was recognised on investment property.

Other disclosures

The total surface area (above ground and underground) of investment property in operation (land, buildings and facilities) and projects in progress at 31 December 2016 and 2015, by location and use, is as follows:

Location	Total surface area (m2)					
	Investment property in use		Investment property in progress		Total	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Barcelona	244,452	243,815	29,474	31,520	273,926	275,335
Madrid	270,418	256,105	15,898	16,360	286,316	272,465
Rest of Spain	12,735	458	-	-	12,735	458
	527,605	**500,378**	**45,372**	**47,880**	**572,977**	**548,258**

Uses	Total surface area (m2)					
	Investment property in use		Investment property in progress		Total	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Offices	327,414	321,498	26,105	27,250	353,519	348,748
Parking	149,724	164,303	19,267	20,630	168,991	184,933
Other	50,468	14,577	-	-	50,468	14,577
	527,606	**500,378**	**45,372**	**47,880**	**572,977**	**548,258**

The Company has no contractual obligations for the acquisition, construction or development of investment properties or for repairs and maintenance.

At 31 December 2016 and 2015, the Company did not reflect in its balance sheet any properties recognised under "Investment property" that were secured by a mortgage.

At year end 2016 and 2015, the Company had totally depreciated investment property still in use amounting to 126,280 and 128,702 thousand euros, respectively.

The Company has no property, plant and equipment outside of Spanish territory, and it has no purchase commitments.

The Company's policy is to contract insurance policies to cover any risks affecting investment properties. At 31 December 2016 and 2015, these elements were fully insured.

7. Leases

At year-end 2016 and 2015, the Company had contracted with tenants the following minimum irrevocable lease payments under the leases currently in force, without taking into account the impact of common expenses, future increases in the CPI or future contractual lease payment revisions:

	Thousands of euros	
	Nominal amount	
Operating leases lease payments	31 December 2016	31 December 2015
Within one year	59,386	58,665
Between one and five years	78,826	82,284
More than five years	6,097	12,515
Total	**144,309**	**153,464**

8. Non-current investments in Group companies and associates and non-current financial investments

The balance of the accounts in “Non-current investments in Group companies and associates” and “Non-current financial investments” of the balance sheet at year-end 2016 and 2015 are as follows:

	Thousands of euros	
	31 December 2016	31 December 2015
Non-current investments in Group companies and associates:		
Non-current equity instruments in Group companies (*)	1,857,163	1,427,199
Total	**1,857,163**	**1,427,199**
Non-current financial investments:		
Non-current equity instruments (**)	138,293	-
Other non-current financial assets	8,489	7,299
Total	**146,782**	**7,299**

(*) Category of "Equity investments in Group companies" (Note 4-e).
(**) Category of "Available-for-sale financial assets" (Note 4-e).

Non-current equity instruments in Group companies-

The breakdown at 31 December 2016 and 2015 is as follows:

31 December 2016

	Thousands of euros			
	Opening balance	Additions or charges	Disposals or reversals	Closing balance
Cost:				
Société Foncière Lyonnaise, S.A.	1,370,746	140,359	-	1,511,105
Torre Marenostrum, S.L.	26,399	-	(198)	26,201
Colonial Tramit, S.L.U.	13	-	-	13
Colonial Invest, S.L.U.	13	-	-	13
Danieltown Spain, S.L.U.	30,038	-	-	30,038
Moorage Inversiones 2014, S.L.U.	-	49,355	-	49,355
Hofinac Real Estate, S.L.U.	-	202,000	-	202,000
Fincas y Representaciones, S.A.U.	-	46,620	-	46,620
Total cost	**1,427,209**	**438,334**	**(198)**	**1,865,345**
Impairment:				
Colonial Tramit, S.L.U.	(5)	-	-	(5)
Colonial Invest, S.L.U.	(5)	-	-	(5)
Moorage Inversiones 2014, S.L.U.	-	(5,010)	-	(5,010)
Hofinac Real Estate, S.L.U.	-	(803)	-	(803)
Fincas y Representaciones, S.A.U.	-	(2,359)	-	(2,359)
Total impairment	**(10)**	**(8,172)**	**-**	**(8,182)**
Net total	**1,427,199**	**430,162**	**(198)**	**1,857,163**

31 December 2015

	Thousands of euros			
	Opening balance	Additions or charges	Disposals or reversals	Closing balance
Cost:				
Société Foncière Lyonnaise, S.A.	1,370,746	-	-	1,370,746
Torre Marenostrum, S.L.	26,399	-	-	26,399
Colonial Tramit, S.L.U.	13	-	-	13
Colonial Invest, S.L.U.	13	-	-	13
Danieltown Spain, S.L.U.	-	30,038	-	30,038
Total cost	**1,397,171**	**30,038**	**-**	**1,427,209**
Impairment:				
Société Foncière Lyonnaise, S.A.	(150,235)	-	150,235	-
Torre Marenostrum, S.L.	(1,724)	-	1,724	-
Colonial Tramit, S.L.U.	(5)	-	-	(5)
Colonial Invest, S.L.U.	(4)	(1)	-	(5)
Total impairment	**(151,968)**	**(1)**	**151,959**	**(10)**
Net total	**1,245,203**	**30,037**	**151,959**	**1,427,199**

The information related to Group companies and associates at 31 December 2016 and 2015 is disclosed in Appendix I to these notes.

Movements in 2016

- On 25 May 2016, the Company acquired 100% of the share capital of the Spanish company Moorage Inversiones 2014, S.L. (hereinafter, "Moorage"), which owns several plots of land in Barcelona. The acquisition price was 44,755 thousand euros. Of this amount, payment of 15,680 thousand euros was deferred until 25 May 2018, and it was recognised under “Other non-current financial liabilities” in the balance sheet (Note 15). A guarantee was extended to the seller for the deferred portion (Note 14).

  In addition, the Company has recognised all of the contingent consideration as an increase in the cost of the interest in Moorage based on the calculation defined in the purchase agreement totalling 4,600 thousand euros (Note 15) since the accrual of that consideration has been deemed to be probable. This amount is recognised under “Other non-current financial liabilities” in the accompanying balance sheet (Note 15). The effect of the updated deferred payments is not material.

- On 29 June 2016, the Company acquired 2,038,956 shares in the subsidiary SFL (4.38% of its capital) from Reig Capital Group Luxembourg Sàrl (hereinafter, "Reig"). The acquisition was carried out through two transactions: (i) the contribution to the Company of 1,019,478 shares in SFL in consideration for the subscription of 90,805,920 shares in Colonial (Note 12) valued at 63,564 thousand euros; and (ii) the sale to the Company of 1,019,478 shares at the price of 50.00 euros per share (for a total of 50,974 thousand euros).

- On 30 June 2016, the Company acquired 100% of the share capital of the Spanish company Hofinac Real Estate S.L. (hereinafter, "Hofinac"), owner of two properties in Madrid. The acquisition was carried out through the non-monetary contribution of 100% of Hofinac's shares to the Company, in exchange for the subscription of 288,571,430 shares in Colonial (Note 12), valued at 202,000 thousand euros.

- On 4 August 2016, the Company acquired 475,248 shares in the subsidiary SFL (1.00% of its capital) from APG Strategic Real Estate Pool (hereinafter, "APG"). The acquisition was carried out through two transactions: (i) the contribution to the Company of 237,624 shares in SFL in consideration for the delivery of 2,116,508 shares in Colonial valued at 13,940 thousand euros; and (ii) the sale to the Company of 237,624 shares at the price of 50.00 euros per share (for a total of 11,881 thousand euros).

  Following that transaction, the Company held 27,240,604 shares in the subsidiary SFL (58.55% of its share capital).

- Finally, on 29 December 2016, the Company acquired 100% of the share capital of the Spanish company Fincas y Representaciones, S.A. (hereinafter “Finresa”), the owner of a property and rural land located in Madrid. The acquisition price was 46,620 thousand euros.

Movements in 2015

- On 28 May 2015, the Company acquired 100% of the share capital of the Spanish company Danieltown Spain, S.L.U. (hereinafter “Danieltown”), the owner of a building on calle Estébanez Calderón, Madrid. The acquisition price was 30,038 thousand euros.

Impairment

In 2016, the Company did not recognise the reversal or impairment of the financial interest in SFL given that the fair value of that interest, calculated based on SFL's EPRA *Triple Net Asset Value* (EPRA NNNAV) of 66.23 euros per share at year-end was higher than the acquisition cost of the shareholding. The average listed price of SFL shares in December 2016 was 48.03 euros per share.

In 2015, the Company recognised the reversal of the impairment of this entire financial holding, amounting to 150,235 thousand euros.

In 2016, the Company recorded impairment totalling 8,172 thousand euros under the heading “Impairment and gains/(losses) on disposal of financial instruments" in the income statement to adjust the value of the rest of the financial holdings to their recoverable value in accordance with that indicated in Note 4-e (impairment reversal of 1,723 thousand euros at 31 December 2015).

Non-current financial investments-

The breakdown at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	31 December 2016	31 December 2015
Fair value:		
Non-current equity instruments		
Axiare Patrimonio SOCIMI, S.A.	138,293	-
Total fair value	**138,293**	**-**
Cost:		
Loans to companies		
Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U.	-	73,219
Other non-current financial assets		
Other loans	7,751	7,751
Guarantees and deposits	8,489	7,299
Total cost	**16,240**	**88,269**
Impairment:		
Loans to companies		
Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U.	-	(73,219)
Other non-current financial assets		
Other loans	(7,751)	(7,751)
Total impairment	**(7,751)**	**(80,970)**
Total non-current financial investments	**146,782**	**7,299**

Axiare Patrimonio SOCIMI, S.A.–

On 17 October 2016, the Company acquired 10,846,541 shares in Axiare Patrimonio SOCIMI, S.A., (hereinafter, Axiare) representing 15.09% of its share capital, for 12.50 euros per share, for a total of 136,976 thousand euros, including acquisition costs.

The Company classified the financial investment under "Available-for-sale financial assets" since the directors consider that the Company does not and cannot exercise significant influence over Axiare at 31 December 2016, given that, in accordance with the bylaws and the number of shares acquired, it is unable to appoint members to Axiare's Board of Directors.

During 2016, the Company recorded 1,317 thousand euros under the heading "Valuation adjustments" in equity (Note 12) as a result of the changes in the fair value of that investments, which the directors calculated based on Axiare's EPRA *Triple Net Asset Value* (EPRA NNNAV) of 12.75 euros per share published on 30 June 2016. The average listed price of Axiare shares in December 2016 was 13.35 euros per share.

Information related to the interest in Axiare at 31 December 2016 is disclosed in Appendix II to these notes.

Loan to Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. (DUE)–

As a result of restructuring the financial debt of the then investee DUE, the Company granted a loan for a maximum of 85,000 thousand euros, which was fully impaired at year-end 2016 and 2015, the purpose of which was to finance the development of the project implemented by DUE and to cover the costs related to the work yet to be carried out on the UE-1, among other things. In this regard, the amount yet to be drawn down at 31 December

2016 totalled 10,563 thousand euros, and for such purpose, in accordance with the obligations assumed, the Company recognises the appropriate provision under “Other non-current provisions” on the balance sheet (Note 13).

In accordance with the provisions of the agreement between both companies, the loan granted by the Company is convertible into a participating loan provided that the company DUE is the process of dissolution. In this regard, on 25 June 2015, in response to the request by DUE, 72,451 thousand euros were converted into a participating loan.

During 2016, the Company classified that loan under current items based on its due date (Note 11).

Lastly, the aforementioned loan accrues contingent interest, based on compliance with certain conditions. At 31 December 2016 and 2015, no finance income had accrued for this item.

Account receivable held with former shareholders-

“Other receivables” included the account receivable held with companies of a former shareholder of the Company relating to the tax effect of the difference between the tax and accounting bases of the assets contributed in the equity issue dated 29 June 2006. This receivable is secured by a guarantee on first demand.

In 2015, the Company returned the guarantees corresponding to the amounts deemed unrecoverable, thus recognising on the balance sheet only those amounts considered to be recoverable, totalling 7,751 thousand euros. This amount was fully impaired at 31 December 2016 and 2015.

Non-current deposits and guarantees-

This heading includes the amount of non-current deposits and guarantees granted, primarily in relation to deposits made with official entities in connection with security deposits collected from tenants, in accordance with prevailing legislation.

9. Derivative financial instruments

Risk management policy objectives-

The risk management policy of the Company aims to safeguard the solvency of the company by taking action on the following types of risks:

- Liquidity risk: On 5 October 2016, Colonial formally implemented a 12-month Euro Medium Term Note Programme to issue bonds up to a maximum of 3,000,000 thousand euros, which may be extended to 5,000,000 thousand euros. Up until 31 December 2016, two issues of ordinary bonds had been made within the framework of that issue programme in the amounts of 600,000 thousand euros and 50,000 thousand euros, respectively (Note 14). These transactions allowed the Company to strengthen its long-term financial structure, reduce the financial cost of its debt and diversify the due dates.

- Interest rate risk: At 31 December 2016, 93% of the debt drawn down accrued interest at a fixed rate. The Group’s risk management policy is designed to limit and control the effect of interest rate fluctuations on profit and cash flow, and to keep overall borrowing costs at reasonable levels. In order to attain these objectives, the Group enters into interest rate hedges to hedge against potential fluctuations in finance costs if necessary. Colonial’s policy is to arrange instruments that comply with the National Chart of Accounts to be considered as effective hedge accounting, and therefore recognise their variations in value on the market directly in Colonial's “Equity” (Note 4-e).

- Counterparty risk: the Company mitigates this risk by using top-tier financial institutions to underwrite and arrange its financing.

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

- Financing risk: The Company's financial structure warrants diversification of its sources of financing by entity, product and maturity dates. In 2016, Colonial used capital markets to issue a 12-month Euro Medium Term Note Programme to issue bonds up to a maximum of 3,000,000 thousand euros, which may be extended to 5,000,000 thousand euros.

Derivative financial instruments-

The derivative financial instruments held by the Company at 31 December 2016 and 2015 are as follows:

31 December 2016

				Thousands of euros	
Financial instrument	Counterparty	Interest rate	Maturity	Nominal amount	Fair value – Asset / (Liability)
Swap (step-up - amortised)	BBVA	4.40%	2018	21,870	(657)
Cap	CA-CIB	1.25%	2018	350,000	-
Cap	ING	1.25%	2018	300,000	-
Cap	Morgan Stanley	1.25%	2018	130,000	-
Total at 31 December 2016				**801,870**	**(657)**

31 December 2015

				Thousands of euros	
Financial instrument	Counterparty	Interest rate	Maturity	Nominal amount	Fair value – Asset / (Liability)
Swap (step-up - amortised)	BBVA	4.40%	2018	60,118	(2,778)
Cap	CA-CIB	1.25%	2018	350,000	-
Cap	ING	1.25%	2018	300,000	-
Cap	Morgan Stanley	1.25%	2018	130,000	-
Total at 31 December 2015				**840,118**	**(2,778)**

In 2014, within the refinancing framework of its former syndicated debt, Colonial arranged 3 CAPs totalling 780,000 thousand euros, with a strike price of 1.25%, maturing at 31 December 2018, in order to cover 75% of the nominal amount of the syndicated loan which was finally cancelled on 5 June 2015 (Note 14). The amount of 8,580 thousand euros was paid for the premiums and it was fully recognised as a hedging expense in the income statement for 2014. At both 31 December 2016 and 2015, the associated CAPs are measured at 0 thousand euros in the Company's balance sheet and, therefore, no losses or negative cash flows whatsoever can derive from those instruments.

At 31 December 2016, the market value of derivative financial instruments gave rise to a financial liability of 657 thousand euros. At 31 December 2015, the market value of derivative financial instruments gave rise to a financial liability of 2,778 thousand euros.

At 31 December 2016 and 2015, the impact on the income statement of recognising derivative financial instruments amounted to 64 thousand euros and 192 thousand euros in finance costs, respectively (Note 17). This impact is recognised in “Change in fair value of financial instruments – Trading portfolio and others” in the income statement.

The fair value of the derivative financial instruments was calculated by discounting estimated future cash flows based on an interest rate curve and on assigned volatility at each calculation date.

10. Non-current assets held for sale

The movement in this heading of the balance sheet in 2016 and 2015, and the most significant information affecting this heading, was as follows:

	Thousands of euros							
	Investment properties held for sale				Financial investments held for sale			Total
	Cost	Accumulated depreciation	Impairment	**Total**	Cost	Impairment	**Total**	
Balance at 31 December 2014	**42,994**	**(29)**	**(26,545)**	**16,420**	**3**	**(3)**	**-**	**16,420**
Additions/charges	1,320	-	(5,133)	**(3,813)**	-	-	**-**	**(3,813)**
Decreases / reversals	-	-	-	-	(3)	3	-	-
Balance at 31 December 2015	**44,314**	**(29)**	**(31,678)**	**12,607**	**-**	**-**	**-**	**12,607**
Additions/charges	60	-	(546)	**(486)**	-	-	**-**	**(486)**
Transfers (Note 6)	(20,137)	(3,551)	24,272	**584**	-	-	**-**	**584**
Decreases / reversals	(24,237)	3,580	7,952	**(12,705)**	-	-	**-**	**(12,705)**
Balance at 31 December 2016	-	-	-	-	-	-	-	-

Investment properties held for sale

Movements in 2016

During the first half of 2016, the Company transferred a property located in Barcelona with a carrying amount of 13,514 thousand euros from "Investment property" to "Non-current assets held for sale" (Note 6). On 21 September 2016, the Company formally sold that property for 15,000 thousand euros, generating a gain of 589 thousand euros (including selling costs), which was recognised in “Gains/(losses) on disposals and others”.

As a result of the review of the Company's asset sale plan by directors, in 2016, four properties with a total carrying amount of 12,930 thousand euros were transferred from "Non-current assets held for sale" to "Investment property" in the balance sheet due to the fact that the directors re-estimated the assumptions for their recovery, as is indicated in Note 6.

Movements in 2015

There were no significant changes in 2015.

Other disclosures

Based on the valuations performed by an independent expert on the Company's assets at 31 December 2016 (Note 4-c), the Company recognised a reversal of the impairment loss of 269 thousand euros on the value of the investment property held for sale (Note 17). In the year ended 31 December 2015, an impairment loss of 5,133 thousand euros was recognised on the value of such assets.

The Company had properties recognised under “Non-current assets held for sale” with a carrying amount of 6,942 thousand euros at 31 December 2015, which were secured through the bilateral mortgage loans described in Note 14. At 31 December 2016, those guarantees had been cancelled.

Financial investments held for sale

This includes the cost of the financial investment in the company Asentia, parent of the group through which the Company operated the land and development business of the Colonial Group (Note 1).

As a result of various capital increases carried out in 2014, subscribed in full through the conversion of debt into equity by various creditors of Asentia, the Company's stake in Asentia was reduced from 100% to 3.79%.

On 28 May 2015, Asentia increased its share capital, partially subscribed by the Company through the non-monetary contribution of the collection right for an initial nominal amount of 275,000 thousand euros but which was valued at 0 euros. After this increase, the equity interest of the Company in Asentia rose to 0.069%.

On 10 December 2015, this equity interest was sold for 4 thousand euros, resulting in income of 4 thousand euros, recognised in "Impairment and gains/(losses) on disposal of financial instruments – Gains/(losses) on disposals and others" in the income statement.

11. Current financial investments and other receivables

Current financial investments-

The breakdown of the balances in this heading at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	31 December 2016	31 December 2015
Current financial investments:		
Current equity instruments	9	9
Loans to companies (DUE) (Note 8):		
Cost	73,866	-
Impairment	(73,866)	-
Other current financial assets	432	-
Other receivables:		
Cost	87,201	85,472
Impairment	(85,472)	(85,472)
Total	**2,170**	**9**

Sundry receivables-

At 31 December 2016 and 2015, the amounts owed by Nozar, S.A., resulting from the cancellation of the purchase agreements entered into in July 2007 as a result of failing to comply with the conditions precedent, were recognised under "Other receivables", and totalled 85,472 thousand euros, including accrued interest.

At 31 December 2015, the Company derecognised from the balance sheet the amount receivable from NZ Patrimonio, together with the corresponding impairment loss of 66,717 thousand euros, as soon as the insolvency manager disposed of all of its assets, without the amounts obtained being sufficient to pay that owed to the Company.

Nozar, S.A. is currently involved in bankruptcy proceedings; consequently, at 31 December 2016 and 2015, the balance sheet includes an impairment loss for the entire amount of this company's trade receivables.

Likewise, the balance sheet heading "Other receivables" includes 1,729 thousand euros (of which 1,004 thousand euros fall due in the long-term) relating to the impact of lease incentives or rent grace periods offered by the Company to lessees, which at 31 December 2016, are apportioned over the minimum term of the leases (Note 4-j). These receivables do not bear interest.

12. Equity and capital and reserves

Share capital-

In 2015, there were no changes in the Company's share capital. Therefore, at 31 December 2015, share capital was represented by 3,188,856,640 fully subscribed and paid shares with a par value of 0.25 each.

The following changes in the Company's share capital occurred in 2016:

- At the General Meeting held on 28 June 2016, the shareholders approved the issue of 288,571,430 new shares with a par value of 0.25 euros each, plus a share premium of 0.45 euros per share, as consideration for the non-monetary contribution of shares of Hofinac. The total amount of the capital increase was 72,143 thousand euros (Note 8). This capital increase was recorded in the Barcelona Mercantile Register on 30 June 2016.

- On the same date, the shareholders approved the issue of 90,805,920 shares with a par value of 0.25 euros each, plus a share premium of 0.45 euros per share, as consideration for the non-monetary contribution of 1,019,478 shares of SFL. The total amount of the capital increase was 22,701 thousand euros (Note 8). This capital increase was recorded in the Barcelona Mercantile Register on 30 June 2016.

At the General Meeting held on 28 June 2016, the shareholders also approved a reverse stock split whereby every 10 existing shares would be swapped for one newly-issued share, bringing the total number of shares to 356,823,399 and raising the par value from 0.25 euros per share to 2.50 euros per share. On 14 July 2016, the resolution was executed and filed in the Barcelona Mercantile Register. The reverse stock split was considered to have taken place for trading purposes on 26 July 2016, at which date the former shares were excluded from trading and the new shares were simultaneously admitted to the Madrid and Barcelona stock exchanges.

As a result, the Parent's share capital at 31 December 2016, was represented by 356,823,399 fully subscribed and paid up shares with a par value of 2.5 euros each.

Based on the pertinent notifications regarding the number of company shares to the Spanish National Securities Market Commission (CNMV), the shareholders owning significant direct or indirect interests in the Company at 31 December 2016 and 2015 are as follows:

	December 2016		December 2015	
	Number of shares	% shareholding	Number of shares*	% shareholding
Name or corporate name of the shareholder:				
Qatar Investment Authority	41,593,367	11.66%	415,963,672	13.04%
Finaccess Group **	41,139,685	11.53%	-	-
Aguila Ltd.	21,800,184	6.11%	218,001,838	6.84%
Joseph Charles Lewis	17,617,708	4.94%	162,167,654	5.09%
Villar-Mir Group **	11,906,969	3.34%	464,512,350	14.57%
BlackRock Inc	10,885,211	3.05%	-	-
Deutsche Bank A.G. **	8,135,390	2.28%	29,235,244	0.92%
Fidelity International Limited	6,248,471	1.75%	62,484,713	1.96%
Invesco Limited	3,540,788	0.99%	35,407,880	1.11%
Third Avenue Management LLC	-	-	97,030,111	3.04%
Mora Banc Grup, S.A.	-	-	223,064,422	7.00%

* Number of shares prior to the reverse stock split at the ratio of 1 new share for every 10 existing shares.
** Does not include certain financial instruments linked to Company shares.

At 31 December 2016, the Finaccess Group, the Villar-Mir Group and Deutsche Bank AG formally obtained financial instruments associated with Company shares that, in the event the instruments are exercised, could give rise to an additional interest in the share capital of Colonial of 0.50%, 4.44% and 1.61%, respectively.

On 5 and 20 January 2017, BlackRock, Inc. sold Company shares, reducing its interest to 9,780,025 shares (2.74% of Colonial's share capital).

On 12 January 2017, the Villar-Mir Group sold Company shares, reducing its interest to 5,419,255 (1.52% of Colonial's share capital).

On 18 January 2017, Fidelity International Limited sold Company shares, reducing its interest to 3,543,721 shares (0.99% of Colonial's share capital).

The Company has no knowledge of other significant equity interests.

At the General Shareholders' Meeting held on 24 April 2015, the Board of Directors was authorised to issue, on behalf of the Company, on one or several occasions, and for a period of five years, debentures and/or bonds convertible into new shares of the Company and/or exchangeable for shares of the Company or of any other third-party entity, expressly providing for, in the case of convertible debentures and/or bonds, the power to exclude the pre-emptive subscription right of the shareholders and to increase the share capital by the amount necessary to meet the conversion. The total maximum amount of the issue or issues of the securities that may be performed under this authorisation may not exceed a combined amount of 350,000 thousand euros or its equivalent in another currency.

Lastly, at the General Meeting held on 28 June 2016, the Company's shareholders authorised the Board of Directors, in accordance with article 297.1 b) of the Spanish Limited Liability Companies Law, to increase share capital, through monetary contributions, by up to half the existing amount at the time of the authorisation, in one or several issues and within a maximum period of five years, at the time and for the amount deemed appropriate. Within the limits indicated, the Board of Directors was also authorised to exclude preferential subscription rights in certain conditions. This authorisation is limited to a maximum nominal amount of 20% of total share capital at the time of the authorisation, taken as a whole.

Share premium-

There were no changes to the share premium in 2015. As a result of the capital increases carried out in 2016, the share premium increased by 129,857 thousand euros and 40,863 thousand euros, respectively.

Legal reserve-

Under the Spanish Limited Liability Companies Law, 10% of 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.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

In this regard, the proposed distribution of 2015 profit approved at the General Shareholders' Meeting of 28 June 2016 included the allocation of 28,535 thousand euros to the legal reserve, equivalent to 10% of Inmobiliaria Colonial, S.A.'s profits for 2015.

At 31 December 2016, the legal reserve totalled 33,615 thousand euros and it had not reached the required level at that date.

Voluntary reserves-

On 17 February 2014, a share capital reduction was filed in the Barcelona Mercantile Register to reduce share capital by 169,439 thousand euros and to increase restricted voluntary reserves by decreasing the par value of all shares from 1 euro to 0.25 euros per share.

At 31 December 2015, the Company had set aside voluntary reserves of 1,158,874 thousand euros, of which 169,439 thousand euros were not freely available, as indicated in the preceding paragraph.

The proposed distribution of 2015 profit approved at the General Shareholders' Meeting of 28 June 2016 also included the allocation of 28,535 thousand euros to the legal reserve, the distribution of 47,833 thousand euros in dividends, and the allocation of 208,982 thousand euros to offset prior years' losses. At the meeting, the shareholders also approved the partial application of voluntary reserves to offset prior years' losses still existing after the offset included in the proposed distribution of 2015 profit, in the amount of 938,993 thousand euros.

At 31 December 2016, voluntary reserves stood at 217,019 thousand euros, of which 169,439 thousand euros continued to be restricted.

The aforementioned capital increases entailed costs of 1,905 thousand euros, which were recognised under “Reserves - Other reserves” in equity.

Treasury shares-

In the first half of 2016, the Company acquired 2,871,382 treasury shares for 1,650 thousand euros.

On 29 April 2016, the Company settled its remaining obligations relating to compliance with the 2015 plan (Note 19) by presenting 3,651,162 shares to the beneficiaries of the Remuneration Plan.

As outlined above, on 14 July 2016, the Company registered the reverse stock split of the shares into which the Company’s capital was divided, exchanging one newly issued share for every 10 existing shares.

On 29 July 2016, the Company acquired 3,801,417 shares from Mora Banc Grup S.A. and Mora Assegurances, S.A.U., for the amount of 25,469 thousand euros, by virtue of the contracts signed between the parties on 27 July 2016.

On 4 August 2016, the Company gave 2,116,508 treasury shares to APG in exchange for 237,623 shares in the subsidiary SFL.

The liquidity agreement signed by the Company on 22 June 2015, in order to facilitate the liquidity of transactions and the regularity of the listed price of the shares, was suspended on 15 November 2016, after having restarted on 28 October 2016, as a result of the establishment of the share repurchase scheme described below. At 31 December 2016, the number of shares acquired within the framework of this contract amounted to 209,603 shares, taking into consideration the previously mentioned reverse stock split.

Finally, on 14 November 2016 the Company's Board of Directors agreed to implement a scheme involving the repurchase of treasury shares in accordance with the authorisation granted by shareholders at the General Meeting held on 30 June 2014. The purposes of the plan are to complete the coverage of the share plan approved by shareholders at the General Meeting held on 21 January 2014 (Note 19) and additional initiatives that the Board of Directors may consider advisable for the corporate interest. The maximum monetary amount assigned to the scheme amounts to 68,000 thousand euros and a maximum of 10,000,000 shares may be acquired, equivalent to 2.8% of the Company's current share capital. The maximum duration of the scheme will be six months, i.e. up to 15 May 2017. However, it may be ended early if the maximum number of shares or the maximum monetary amount is reached before said date. At 31 December 2016, 3,162,671 shares had been acquired within the framework of the aforementioned repurchase scheme, for the amount of 20,249 thousand euros.

In 2015, the Company acquired 12,257,013 treasury shares for 7,396 thousand euros. In order to meet the obligations set out in the long-term Remuneration Plan described in Note 19, on 30 April 2015, the Company settled the obligations pending for compliance with the 2014 plan, delivering 3,766,173 shares to beneficiaries of the plan.

At 31 December 2016 and 2015, the number of treasury shares and the acquisition cost were as follows:

	31 December 2016	31 December 2015 (**)
Liquidity contract (*)-		
No. of shares	209,603	1,487,013
Carrying amount (in thousands of euros)	1,329	945
Treasury shares contract-		
No. of shares	5,469,985	7,003,827
Carrying amount (in thousands of euros)	35,426	4,068

(*) Liquidity contract pursuant to the provisions of Regulation Three of CNMV Circular 3/2007, of 19 December, on liquidity contracts for the purposes of acceptance as a market practice.
(**) Number of shares prior to the reverse stock split at the ratio of 1 new share for every 10 existing shares.

Adjustments due to change in value

This balance sheet heading includes the sum of gains and losses arising from the changes in the fair value of Available-for-sale financial assets described in Note 8.

13. Provisions and contingencies

Provisions-

The breakdown of current and non-current provisions in the balance sheet at year-end 2016, as well as the main changes recognised therein, are as follows:

	Thousands of euros			
	Current	Non-current		
	Provisions for contingencies and charges	Provisions for personnel	Provisions for contingencies and charges	Total non-current
Balance at 31 December 2015	**9,104**	**108**	**11,400**	**11,508**
Charges	2,822	-	9	9
Decreases / amounts used	-	(11)	-	(11)
Transfers	-	-	(835)	(835)
Balance at 31 December 2016	**11,926**	**97**	**10,574**	**10,671**

Provision for contingencies and charges - Current

At 31 December 2015, “Current provisions” included 9,104 thousand euros, corresponding to an estimate of the Company's various future risks, which increased by 2,822 thousand euros in 2016.

Provision for contingencies and charges - Non-current

At 31 December 2016 and 2015, this heading included the development costs of the UE-1 which are to be financed by the Company through loans granted to DUE, up to a maximum amount of 20,000 thousand euros (Note 8). The Company has a restricted cash line of credit with BBVA to cover these items that may be drawn down when DUE provides evidence that the development work has been carried out. At 31 December 2016, 9,437 thousand euros had been drawn down (8,768 thousand euros at 31 December 2015).

Lastly, and in accordance with that detailed in Note 8, the Company reclassified 648 thousand euros in 2016 (768 thousand euros in 2015) which, at 31 December 2015, were recognised as a provision for contingencies and charges under “Impairment of non-current financial investments” to adjust the value of the credit facility granted to its recoverable value, in view of the equity position of the investee.

Contingent assets-

In 2010, the Company filed certain lawsuits against former directors for transactions carried out between June 2006 and December 2007 regarding the following corporate action for liability:

- A corporate action for liability against certain former directors in relation to the purchase of assets by the Company for reinvestment of the proceeds by the sellers in shares of the Company, as part of the 29 June 2006 capital increase or otherwise.

- A corporate action for liability against certain former directors in connection with the losses caused by the acquisition of shares of Riofisa in 2007.

- A corporate action for liability against certain former directors in connection with the purchase of treasury shares between March and December 2007, both months inclusive. In February 2015, a ruling was handed down by the Supreme Court dismissing the claims filed by the Company, which was ordered to pay costs. However, the court upheld the grounds relating to the validity of the resolution for filing a corporate action for liability.

Given that the three aforementioned lawsuits relate to claims filed against third parties in favour of Colonial, the only contingency that may arise is the payment of legal costs in the event that all cases are lost. The Company's directors do not expect those rulings to have a significant impact on the financial statements, given that at 31 December 2016, the appropriate provision had been recognised to meet any possible costs (Note 17).

14. Bank borrowings, bonds and other marketable securities

At 31 December 2016 and 2015, the breakdown by maturity of "Bank borrowings" was as follows:

31 December 2016

	Thousands of euros							
	Current	Non-current						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total non-current	Total
Bank borrowings:								
Syndicated loans	-	-	-	-	121,874	-	121,874	121,874
Fees and interest	234	-	-	-	-	-	-	234
Debt arrangement	(504)	(504)	(504)	(504)	(435)	-	(1,947)	(2,451)
Total bank borrowings	**(270)**	**(504)**	**(504)**	**(504)**	**121,439**	**-**	**119,927**	**119,657**
Debt instruments and other marketable securities:								
Bonds issues	-	-	375,000	-	-	1,150,000	1,525,000	1,525,000
Fees and interest	13,549	-	-	-	-	-	-	13,549
Debt arrangement	(2,182)	(2,182)	(1,829)	(1,572)	(1,565)	(3,984)	(11,132)	(13,314)
Total bonds and other marketable securities	**11,367**	**(2,182)**	**373,171**	**(1,572)**	**(1,565)**	**1,146,016**	**1,513,868**	**1,525,235**
Total at 31 December 2016	**11,097**	**(2,686)**	**372,667**	**(2,076)**	**119,874**	**1,146,016**	**1,633,795**	**1,644,892**

31 December 2015

	Thousands of euros							
	Current	Non-current						Total
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total non-current	
Bank borrowings:								
Loans	124	53	-	-	-	-	53	177
Syndicated loans	-	-	-	67,250	-	-	67,250	67,250
Fees and interest	294	-	-	-	-	-	-	294
Debt arrangement	(799)	(796)	(796)	(340)	-	-	(1,932)	(2,731)
Total bank borrowings	**(381)**	**(743)**	**(796)**	**66,910**	**-**	**-**	**65,371**	**64,990**
Debt instruments and other marketable securities:								
Bonds issues	-	-	-	750,000	-	500,000	1,250,000	1,250,000
Fees and interest	15,843	-	-	-	-	-	-	15,843
Debt arrangement	(1,711)	(1,708)	(1,708)	(998)	(475)	(1,151)	(6,040)	(7,751)
Total bonds and other marketable securities	**14,132**	**(1,708)**	**(1,708)**	**749,002**	**(475)**	**498,849**	**1,243,960**	**1,258,092**
Total at 31 December 2015	**13,751**	**(2,451)**	**(2,504)**	**815,912**	**(475)**	**498,849**	**1,309,331**	**1,323,082**

The financial debt taken out by the Company was arranged at arm's length, so its carrying amount substantially approximates its fair value. The bonds issued by the Company that are traded on a regulated market had a market value of 1,545,466 and 1,253,045 thousand euros (par value of 1,525,000 thousand euros and 1,250,000 thousand euros, respectively) at 31 December 2016 and 2015.

Issue of the Company's straight bonds-

The breakdown of the issues of straight bonds made by the Company at 31 December 2016 and 2015, is as follows (in thousands of euros):

Issue	Duration	Maturity	Fixed-rate coupon payable annually	Amount of the issue	31 December 2016	31 December 2015
05/06/2015	5 years	05 /06/2019	1.863%	750,000	375,000	750,000
05/06/2015	8 years	05/06/2023	2.728%	500,000	500,000	500,000
28/10/2016	8 years	28/10/2024	1.450%	600,000	600,000	-
10/11/2016	10 years	10/11/2026	1.875%	50,000	50,000	-
Total issues				**1,900,000**	**1,525,000**	**1,250,000**

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

2015

The issue of two series of straight bonds by the Company was subscribed and fully paid up on 5 June 2015:

- A series of 7,500 bonds in the amount of 750,000 thousand euros, maturing on 5 June 2019 and with an issue price equivalent to 100% of the nominal value. The bonds will carry an annual coupon of 1.863%, payable yearly in arrears.

- A series of 5,000 bonds in the amount of 500,000 thousand euros, maturing on 5 June 2023 and with an issue price equivalent to 100% of the nominal value. The bonds will carry an annual coupon of 2.728%, payable yearly in arrears.

Following the disbursement of the amount of this bond issue, the syndicated loan of 1,040,000 thousand euros arranged by the Company in 2014 was cancelled in full. Early cancellation of the loan entailed payment of a fee of 28,039 thousand euros, recognised under “Finance costs” in the income statement (Note 17).

2016

On 5 October 2016, the Company formally implemented a 12-month Euro Medium Term Note Programme to issue bonds up to a maximum of 3,000,000 thousand euros, which may be extended to 5,000,000 thousand euros. Up until 31 December 2016, two issues of straight bonds have been made within the framework of the aforementioned programme:

- On the 28 October 2016, the issue of a series of 6,000 straight bonds for the amount of 600,000 thousand euros was subscribed and fully paid up, maturing on 28 October 2024, with an issue price equivalent to 99.223% of their par value. The bonds will carry an annual coupon of 1.45%, payable yearly in arrears.

- On 10 November 2016, the issue of a series of 500 straight bonds for the amount of 50,000 thousand euros was subscribed and fully paid up, maturing on 10 November 2026, with an issue price equivalent to 97.866% of their par value. The bonds will carry an annual coupon of 1.875%, payable yearly in arrears.

With the amount paid for the above-mentioned bonds issues, the Company has carried out the following operations:

- Repurchase of 3,750 bonds of the issue maturing on 5 June 2019, amounting to 375,000 thousand euros. This transaction incurred certain financial costs amounting to 20,904 thousand euros, which were recognised under "Finance Costs - Payables to third parties" in the income statement (Note 17).

- Early cancellation of the loan for the amount of 135,682 thousand euros, arranged for the acquisition of shares representing 15.09% of the share capital of Axiare (Note 8), detailed in the section "Other loans" of this note.

- Early repayment of the 60,000 thousand euros syndicated loan formalised by the Company on 12 November 2015, detailed in the section "New Syndicated Loan" of this note.

These straight bonds establish the obligation, at 30 June and 31 December of each year, to meet a financial ratio whereby the value of the non-guaranteed asset of the Colonial Group in the consolidated statement of financial position at each of these dates must, at least, be equal to the financial debt not guaranteed. This ratio had been met at 31 December 2016 and 2015.

New syndicated loan-

On 12 November 2015, the Company entered into a syndicated loan with a group of seven financial institutions, including *Natixis S.A. Sucursal en España*, as the Agent Bank, in the amount of 350,000 thousand euros, initially due in June 2019 but extendable to November 2020. This syndicated loan is primarily intended to finance possible acquisitions, rehabilitation work and other investment needs (CAPEX) involving the Company's properties. On 14 November 2016, the Company formally amended that agreement to establish a due date of November 2021.

At 31 December 2016 and 2015, drawdowns totalled 121,874 thousand euros and 67,250 thousand euros, respectively.

The main terms and conditions of the new syndicated loan, taking into consideration the aforementioned amendment, are as follows:

- A fixed interest rate of EURIBOR plus 160 basis points paid quarterly.
- The loan establishes the need for compliance with the following financial ratios:

Ratios
Loan to value ratio <= 55% Interest coverage ratio >=2x (from 30/06/2016) Secured mortgage debt / Value of property assets <=15% Secured other debt / Value of non-property assets <=15% Value of the consolidated assets >= 4.5 bn euros

At 31 December 2016 and 2015, the Company complied with all the financial ratios.

Other loans-

On 14 October 2016, the Company signed a loan agreement with a financial institution for a maximum of 200,000 thousand euros (fully drawn down at that date), falling due in January 2017 and accruing fixed interest at EURIBOR plus 110 basis points, payable monthly. That loan was primarily intended to finance the acquisition of 10,846,541 shares in Axiare, representing 15.09% of its share capital (Note 8), that were delivered on that same date, to secure the creation of a top tier pledge for that loan.

In November of this year the Company repaid and cancelled that loan early, together with the guarantees securing the loan.

Mortgage loans-

At 31 December 2016, the Company did not have any loans secured by mortgages. However, at 31 December 2015, the Company had a loan for the amount of 177 thousand euros secured by mortgages on certain investment properties held for sale (Note 10), with a market value of 6,942 thousand euros.

Other guarantees delivered-

At 31 December 2016, the Company had granted guarantees for 27,013 thousand euros to government bodies, customers and suppliers, of which 15,680 thousand euros relate to the bank guarantee provided to secure the outstanding amount payable on the acquisition of the investee company Moorage (Notes 8 and 15).

On 1 July 2016, the Company cancelled the bank guarantee totalling 21,799 thousand euros on deposit for the acquisition of the building located at calle Francisco Silvela 42, Madrid (Note 6).

Of the remaining amount**,** the main guarantees provided are as follows:

- 5,097 thousand euros granted to secure obligations acquired by the company Asentia. The Company and Asentia have an agreement in place whereby if any of the guarantees is enforced, Asentia must compensate the Company for any damage sustained within a maximum of 15 days.

- 5,000 thousand euros granted to secure obligations acquired by the company DUE. In this regard, the Company has a cash line of credit with BBVA to cover the obligations acquired with DUE (Note 13). The liabilities covered by these guarantees are fully provisioned for under “Other provisions” of the balance sheet.

Fees and interest-

The average interest rate for financing of the Company for 2016 and 2015 was 2.87% and 3.49%, with an average credit spread of 171 and 265 basis points on the Euribor, respectively. The interest rate on the Company's debt at 31 December 2016 and 2015 was 1.96% and 2.18%, respectively, and the Euribor spread was 163 and 175 basis points, respectively.

At 31 December 2016 and 2015, accrued and unpaid interest amounted to 13,783 thousand euros and 16,137 thousand euros, respectively.

Debt arrangement expenses-

At 31 December 2016, the debt arrangement expenses assumed by the Company and not yet accrued amounted to 15,765 thousand euros (10,482 thousand euros at 31 December 2015). These expenses are taken to the income statement during the term of the debt generating them on a time proportion basis. In this regard, in 2016, the Company recognised 4,072 thousand euros in the income statement corresponding to the costs repaid during the year (1,092 thousand euros in 2015).

Cash and cash equivalents-

At 31 December 2016 and 2015, amounts of 79,591 thousand euros and 201,632 thousand euros, respectively, were recognised under "Cash and cash equivalents", of which 11,215 thousand euros and 11,482 thousand euros, respectively, were of restricted use (Note 13).

15. Other non-current financial liabilities

The heading "Other non-current financial liabilities" totalling 9,293 thousand euros at 31 December 2015 mainly recorded the amount relating to the guarantees received from lessees, which are subsequently deposited with the appropriate government body, as well as other deposits received (Note 8).

That heading also included 10,301 thousand euros at 31 December 2016 relating to the guarantees received from lessees and other deposits received, the deferred payment and the contingent consideration on the acquisition of the shares in Moorage totalling 15,680 thousand euros and 4,600 thousand euros, respectively (Notes 8 and 14).

16. Public authorities and tax matters

The detail of current balances with the tax authorities at 31 December 2016 and 2015 is as follows:

	Thousands of euros			
	Receivable		Payable	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Tax receivables and payables		254	1,600	1,656
Value added tax payable	5	1,577	520	
Income tax payable	35,625	23,368	-	-
Deferrals with tax authorities	-	-	-	-
Other deferred taxes	-	-	219	219
Social Security payables	-	-	71	83
Total current balances	**35,630**	**25,199**	**2,410**	**1,958**
Deferred tax due to the merger (Note 1)	-	-	29,938	22,964
Other deferred taxes	-	-	6,694	6,694
Total non-current balances	**-**	**-**	**36,632**	**29,658**

The Company heads a group of companies filing consolidated tax returns since 1 January 2008. This consolidated tax group includes only subsidiaries incorporated in Spain in which the Parent owns at least 75%, either directly or indirectly (this threshold falls to 70% in the case of listed subsidiaries and those in which a majority of voting rights is held).

The composition of the consolidated tax group for 2016 includes the Company, Colonial Invest, S.L.U., Colonial Tramit, S.L.U. and Danieltown, S.L.U.

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

However, due to the temporary measures applicable in the 2015 tax period (Transitional Provision Thirty-One of Law 27/2014), the tax rate was 28%.

On 1 January 2016, Royal Decree Law 3/2016, of 2 December, on Income Tax, entered into effect, which establishes the obligation to reverse those losses that were tax deductible in taxable income during tax periods beginning prior to 1 January 2013 corresponding to the impairment of the representative values of the interest in the share capital or equity of the entities. This reversal shall be settled in equal parts in the taxable income corresponding to each one of the first five tax periods beginning as of 1 January 2016.

The above mentioned Royal Decree Law also established the limit to the carrying-forward of tax losses at 25% of the tax base, prior to said carry-forward, for Companies whose revenue is equal to or greater than 60 million euros.

The reconciliation of the accounting profit/(loss) and the taxable profit for Income Tax purposes at 31 December 2016 and 2015 is as follows:

31 December 2016

	Thousands of euros		
	Increase	Decrease	Amount
Accounting profit/(loss) for the period (before tax)			**61,813**
Permanent differences:			
Dividends SFL (Note 18)	-	54,565	(54,565)
Dividends Torre Marenostrum, S.L. (Note 18)	-	270	(270)
Plan contribution	235	-	235
Recovery of the tax provision	4,300	-	4,300
Capital increase costs		1,905	(1,905)
Other		26	(26)
Temporary differences:			
Carried over from previous years-			
Deferral for reinvestment	762	-	762
Arising in the year-		-	
Impairment of the portfolio (Note 8)	8,173	-	8,173
Amortisation of SFL financial goodwill		283	(283)
Non-deductible provisions	967		967
Retirements from deferred tax on asset gains	6,447	51,247	(44,800)
Non-deductible financial expense	26,605	-	26,605
Non-deductible amortisation	-	1,339	(1,339)
Non-deductible impairment	181	-	181
Other	9	-	9
Taxable income (taxable profit)	**52,682**	**114,638**	**(143)**

31 December 2015

	Thousands of euros		
	Increase	Decrease	Amount
Accounting profit/(loss) for the period (before tax)			**281,670**
Permanent differences:			
Dividends SFL (Note 18)	6,696	60,580	(53,884)
Dividends Torre Marenostrum, S.L. (Note 18)	-	493	(493)
Cancellation due to disposal of shareholding Asentia Project S.L.U.	-	954,961	(954,961)
Capital increase costs	-	51	(51)
Other	26	10	16
Temporary differences:			
Carried over from previous years-			
Deferral for reinvestment	859	-	859
Arising in the year-			
Impairment of SFL portfolio (Note 8)	-	150,235	(150,235)
Impairment of Colonial Tramit and Colonial Invest portfolio (Note 8)	1	-	1
Impairment of Torre Marenostrum, S.L. portfolio (Note 8)	6	1,724	(1,718)
Cancellation due to disposal of shareholding Asentia Project S.L.U.	-	630,690	(630,690)
Amortisation of SFL financial goodwill	-	57	(57)
Non-deductible provisions	6,178	16,386	(10,208)
Retirements from deferred tax on asset gains	673	76,966	(76,293)
Non-deductible financial expense	35,777	-	35,777
Non-deductible amortisation	-	1,859	(1,859)
Non-deductible impairment	5,383	-	5,383
Other	11	473	(462)
Taxable income (taxable profit)	**55,610**	**1,894,485**	**(1,557,205)**

During 2016, after the preparation of the financial statements for 2015, when preparing the definitive corporate income tax return for 2015 net positive adjustments were made to the tax base in the amount of 14,186 thousand euros. This did not have any impact on the Company's financial statements at 31 December 2016 but did reduce the tax-loss carryforwards not recognised in the accounts.

The difference between the accounting profit/(loss) and the taxable profit for income tax purposes for 2016 and 2015 primarily corresponds to the following:

- Dividends received from the French subsidiary SFL in application of the exemption on dividends from non-resident companies, amounting to 54,565 thousand euros and 60,580 thousand euros. SFL files income tax under the special SIIC regime which, inter alia, provides that shareholders with more than 10% of the share capital of an SIIC and which are exempt from taxation or subject to a tax that is two thirds lower than the standard income tax rate (33.33%) shall be subject to a 20% withholding at the SIIC source on the dividend originating from the income subject to that special system. To this end, and to guarantee the minimum taxation of Colonial at the source of the income distributed through dividends, the Company partially waives the above exemption, amounting to 6,696 thousand euros in 2015, thus meeting the requirement of minimum taxation of the shareholder at the source, as per the SIIC regime.

  The Company has notified the Board of Directors of SFL that it has partially paid tax on such dividends and, consequently, SFL need not make any withholding at source. The Company has also assured SFL that it would cover any amounts that were to be assessed in France as a result of this interpretation.

- Impairment of financial holdings and of loans with Group companies, considered not tax deductible.

- In accordance with the resolution in Royal Decree-Law 12/2012, of 30 March, amending Article 20 of the Corporate Income Tax Law, the Company has temporarily adjusted the finance cost that exceeds 30% of the yearly profit.

- In accordance with Law 16/2012 of 27 December, adopting various tax measures aimed at consolidating public finance and promoting economic activity, it is established that the amortisation and depreciation for accounting purposes on property, plant and equipment, intangible assets and investment property for tax periods beginning in 2013 and 2014, only up to 70% of the taxable income which would have been tax deductible can be deducted. In this regard, the Company carried out the corresponding adjustments to its taxable income. In 2016 and 2015, and according to the provisions of the Law, the Company has recovered a tenth part of the allocations made to depreciation in 2013 and 2014, which were considered non-deductible.

- Non-deductible provisions (Notes 8 and 13).

The breakdown of tax not recognised for accounting purposes that would have been directly recognised in the Company's equity at 31 December 2016 and 2015 is as follows:

31 December 2016

	Thousands of euros			
		Tax base		Tax
	Increases	Decreases	Total	Total
In deferred tax:				
Adjustments due to changes in value - Available-for-sale financial assets (Note 8).	1,317	-	1,317	(329)
Total deferred tax	**1,317**	**-**	**1,317**	**(329)**
In current tax:				
Capital increase costs	-	(1,905)	(1,905)	476
Total current tax	**-**	**(1,905)**	**(1,905)**	**476**
Total tax directly recognised in equity	**1,317**	**(1,905)**	**(588)**	**147**

31 December 2015

	Thousands of euros			
		Tax base		Tax
	Increases	Decreases	Total	Total
In current tax:				
Capital increase costs	-	51	(51)	(14)
Total current tax	**-**	**51**	**(51)**	**(14)**
Total tax directly recognised in equity	**-**	**51**	**(51)**	**(14)**

The reconciliation between the accounting profit/(loss) and the income tax expense recognised in the income statement for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Total before-tax accounting profit/(loss)	61,813	281,670
Permanent differences (*)	(52,231)	(1,009,322)
Adjusted accounting profit/(loss)	**9,582**	**(727,652)**
Taxable profit not recognised	(9,582)	727,652
Adjustment due to change in rate	-	3,680
Capitalised tax credit	6,974	-
Total tax expense recognised in the income statement	**6,974**	**3,680**
- Current tax	-	-
- Deferred tax	6,974	3,680

(*) Does not include capital increase costs of 1,905 thousand euros and 51 thousand euros in 2016 and 2015, respectively, the tax effect of which was taken directly to equity.

Income tax payable-

"Income tax payable" includes a balance in favour of the Company at 31 December 2016 of 35,625 thousand euros deriving from interim income tax payments made during 2016 and 2015. The amount of those prepayments relates to the minimum payment of 23% (2016) and 12% (2015) of the accounting profit/(loss) at the date of the interim payment.

In January 2017, the tax authorities refunded 23,512 thousand euros relating to the interim payments made by the Company in 2015 in the amount of 23,368 thousand euros and 144 thousand euros for the withholdings applied to the Company by third parties.

Deferred tax assets and liabilities-

The breakdown of deferred tax assets and liabilities at 31 December 2016 and 2015 by item is as follows:

31 December 2016

	Thousands of euros	
Deferred tax assets	Amount	Tax effect
Tax loss carryforwards	5,376,264	1,344,066
Non-deductible impairment	272	68
Impairment of the non-deductible portfolio	8,180	2,045
Non-deductible financial expense	398,614	99,654
Non-deductible amortisation	10,716	2,679
Non-deductible provisions	160,864	40,216
Other	100	25
Total tax credits and deferred tax assets	**5,955,010**	**1,488,753**
By transactions in tax group	3	1
Total transactions with tax group companies	**3**	**1**
Unused tax credits for dividends receivable	-	1,075
Unused tax credits for reinvestment	-	16,141
Unused tax credits for training	-	1
Total unused tax credits	**-**	**17,217**
Total deferred tax assets	**5,955,013**	**1,505,971**
Recognised balance (*)	**-**	**-**

(*) In accordance with the above, when determining the deferred tax liability at 31 December 2016, the Company has considered the application of tax credits totalling 9,979 thousand euros, with these being calculated at the effective settlement rate, estimated at 18.75% (Note 4-n).

Deferred tax liabilities	Thousands of euros	
	Amount	Tax effect
Deferral for reinvestment	24,384	6,096
Deferred liability for financial goodwill	1,892	473
Deferred liability from gains allocated to investment properties and financial assets	244,152	61,038
Capitalised tax credits	(124,040)	(31,010)
Total deferred tax liabilities	**146,388**	**36,597**
Recognised balance	**147,404**	**36,851**

31 December 2015

Deferred tax assets	Thousands of euros	
	Amount	Tax effect
Tax loss carryforwards	5,399,917	1,349,979
Non-deductible impairment	5,384	1,346
Non-deductible financial expense	372,192	93,048
Non-deductible amortisation	13,476	3,369
Non-deductible provisions	145,920	36,480
Other	1,024	256
Total tax credits and deferred tax assets	**5,937,913**	**1,484,478**
By transactions in tax group	2,611	653
Total transactions with tax group companies	**2,611**	**653**
Unused tax credits for dividends receivable	-	1,362
Unused tax credits for reinvestment	-	16,141
Unused tax credits for training	-	1
Total unused tax credits	**-**	**17,504**
Total deferred tax assets	**5,940,524**	**1,502,635**
Recognised balance (*)	**-**	**-**

(*) In accordance with the above, when determining the deferred tax liability at 31 December 2015, the Company has considered the application of tax credits totalling 28,453 thousand euros, with these being calculated at the effective settlement rate, estimated at 7.5% (Note 4-n).

Deferred tax liabilities	Thousands of euros	
	Amount	Tax effect
Deferral for reinvestment	22,452	5,613
Deferred liability for financial goodwill	1,608	402
Deferred liability from gains allocated to investment properties and financial assets	95,448	23,862
Total deferred tax liabilities	**119,508**	**29,877**
Recognised balance	**119,508**	**29,877**

Deferred tax liability on capital gains allocated to investment property and financial assets -

In 2015 the Company documents and supported the taxation of the public offering by Grupo Inmocaral for Inmobiliaria Colonial (Note 1), which gave rise to the need to present the relevant supplementary returns for the years not yet statute-barred.

The deferred tax attributable to the capital gains assigned to the merger of Grupo Inmocaral, S.A. and Inmobiliaria Colonial, S.A. (Note 1) was calculated based on a 25% tax rate on 41.077% of the total capital gains attributable to those assets, as determined by an independent third party (Loan Agency Services).

"Deferred liability for gains allocated to investment property and financial assets", as detailed in Note 4-m, includes the amount of deferred taxes associated with the Company's investment properties that would accrue if these assets were transferred using the effective rate that would be applicable, taking into account applicable legislation and any unrecognised tax credits. The deferred taxes associated with the Company's real estate investments were recognised at an effective tax rate of 18.75% (25% rate with a 25% limitation on the offset of tax-loss carryforwards) and 7.5% for 2015. As a result, the calculation of the Company's deferred tax liabilities takes into consideration the application of the tax credit totalling 9,979 thousand euros (difference between the 25% tax rate and the applied effective settlement rate of 18.75%).

Deferred tax assets relating to tax loss carryforwards-

The income tax law in force as of 1 January 2015 stipulates that prior years' tax loss carryforwards may be offset in future years without any time limit.

The following tables detail the tax loss carryforwards generated by the Company as at 31 December 2016.

Year of origin	Thousands of euros
	Tax base
2000	12,979
2001	5,468
2003	140
2004	38,516
2005	36
2006	25,053
2007	321,571
2008	1,211,855
2009	871,505
2010	590,385
2011	270,630
2012	394,062
2013	96,602
2014	13,556
2015	1,543,019
2016	143
Total	**5,395,520**

As indicated above, the Company is the head of the consolidated tax group 6/08, which means that certain transactions among other companies included in the tax group are eliminated from the tax base; they are not included in taxable profit contributed to the tax group until the gain or loss on the respective transaction is realised with third parties. In addition, the consolidated tax regime allows companies included in the scope of consolidation with taxable profit to make use of the tax losses generated by other companies within the same consolidated tax group. The following table presents a reconciliation at 31 December 2016 between the Company's tax losses and the tax loss arising from applying tax consolidation adjustments to the Company:

	Thousands of euros
Aggregate of the individual tax loss carryforwards:	**5,395,520**
Adjustments for transactions among companies included in the consolidated tax group	(9,614)
Adjustments for the offset of taxable income and tax loss carryforwards among companies included in the consolidated tax group	(9,642)
Total tax loss carryforwards	**5,376,264**
- Recognised	-
- Not recognised	5,376,264

Deferred tax assets relating to tax credits for reinvestment-

Prevailing legislation provides for a 12% deduction on gains obtained on the sale of certain items of property, plant and equipment, intangible assets and investments of 5% or more in the share capital of companies outside the tax group, so long as the gains are reinvested in full in assets of the same characteristics. Qualifying reinvestments must take place within the three years following the sale or in the year preceding the transaction.

Also under prevailing legislation, for the deduction for reinvestment of extraordinary gains to be applicable, the asset acquired with the proceeds must be held for a five-year period (three years, in the case of financial investments), unless the assets failing to comply with the deadline are reinvested within the prevailing timeframe. The terms for holding the amounts reinvested by the Company are as follows:

	Thousands of euros		
	2017	2018	2019
Reinvested by the Company	27,614	8,786	18,701
Associated profit	1,009	946	188

The Company´s directors believe that the Company or its tax group, as appropriate, will comply with the stipulated timeframes.

At 31 December 2016, the unused tax credits for reinvestment due to insufficient taxable profit and the corresponding last year for use are as follows:

Year of origin	Thousands of euros	
	Unrecognised	Last year for use
2002	458	2017
2003	3,316	2018
2004	1,056	2019
2005	92	2020
2006	1,314	2021
2007	7,275	2022
2008	1,185	2023
2009	434	2024
2010	713	2025
2011	39	2026
2012	123	2027
2013	112	2028
2014	24	2029
	16,141	

Deferred tax assets relating to tax credits for other deductions-

The nature and amount of the unused tax credits at 31 December 2016 due to insufficient taxable profit in prior years and the corresponding last year for use are as follows:

Nature of the tax credit	Thousands of euros		
	Year of origin	Unrecognised	Last year for use
Double taxation tax credit	2010	274	2017
	2011	355	2018
	2012	202	2019
	2013	83	2020
	2014	162	2021
Tax credit for training	2008	1	2018
	2009	1	2019
	2010	1	2020
		1,079	

Years open to inspection and tax audits-

The Group has the last four years open for review by the tax inspection authorities for all applicable taxes. As previously mentioned, the company filed supplementary corporate income tax returns for the periods 2011 to 2014, breaking the statute of limitations for those periods.

No additional material liability for the Company is expected to arise in the event of a new inspection.

Adherence to the Code of Best Tax Practices

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

17. Income and expenses

Revenue-

The Company's ordinary revenue relates to sales in Barcelona, Madrid and Paris. The detail by type of business activity is as follows:

Activity	Thousands of euros	
	2016	2015
Building leases	64,746	56,475
Services	241	183
Income from holdings in Group companies and associates (Note 4-n)	54,835	61,073
Total	**119,822**	**117,731**

Geographic markets	Thousands of euros	
	2016	2015
Barcelona	25,109	21,172
Madrid	39,275	35,303
France (*)	54,565	60,580
Others (**)	873	676
Total	**119,822**	**117,731**

(*) The total amount corresponds to finance income from dividends of SFL (Note 18).
(**) Includes 270 thousand euros and 493 thousand euros in 2016 and 2015, respectively, relating to dividends from the shareholding in Torre Marenostrum, S.L. whose only asset is in Barcelona (Note 18).

Staff costs

The detail of this heading in the income statement is as follows:

	Thousands of euros	
	2016	2015
Wages and salaries	7,506	6,358
Termination benefits	-	1,060
Social security costs	827	837
Other employee benefit expenses	1,349	1,372
Defined contribution to pension plans	235	-
Internal reallocation	(630)	(559)
Total	**9,287**	**9,068**

At 31 December 2016 and 2015, "Other employee benefit expenses" included 1,146 thousand euros and 1,205 thousand euros, respectively, relating to the amount accrued in the year from the long-term remuneration plan described in Note 19.

Losses on, impairment of and changes in allowances for trade receivables

The breakdown of “Losses on, impairment of and changes in allowances for trade receivables” in the income statement is as follows:

	Thousands of euros	
	2016	2015
Charge to provision for insolvency (Note 4-g)	1,563	1,091
Reversal of provision for insolvency (Note 4-g)	(18)	(103)
Allocation to provision for contingencies and charges (Note 13)	2,831	3,376
Application of provision for other trade balances	-	(534)
Total impairment/charges	**4,376**	**3,830**

Impairment of property assets

The changes in the impairment of property assets in the various balance sheet headings at 31 December 2016 and 2015 are presented below:

	Thousands of euros			
	Property, plant and equipment (Note 5)	Investment property (Note 6)	Non-current assets held for sale (Note 10)	Total
Balance at 31 December 2014	**(8,608)**	**(283,411)**	**(26,545)**	**(318,564)**
Charge	-	(92)	(5,133)	(5,225)
Reversal	808	130,359	-	131,167
Disposals	-	206	-	206
Balance at 31 December 2015	**(7,800)**	**(152,938)**	**(31,678)**	**(192,416)**
Charge	-	(273)	(546)	(819)
Reversal	3,159	58,586	815	62,560
Disposals	-	308	7,137	7,445
Transfers	-	(24,272)	24,272	-
Balance at 31 December 2016	**(4,641)**	**(118,589)**	**-**	**(123,230)**

The reconciliation with the income statement is as follows:

	Thousands of euros	
	2016	2015
Provisions for non-current assets	(819)	(5,225)
Use of provisions for non-current assets	62,560	131,167
Total impairment/charges	**61,741**	**125,942**

Finance income and costs

The breakdown of financial profit/(loss) in 2016 and 2015, by type, is as follows:

	Thousands of euros	
	2016	2015
Finance income:		
Finance income and other	645	1,113
Capitalised borrowing costs (Note 4-c)	824	-
Finance income from Group companies and associates (Note 18)	81	-
Total finance income	**1,550**	**1,113**
Finance costs:		
Loan cancellation expenses (Note 14)	-	(28,039)
Costs associated with the repurchase of bonds (Note 14)	(20,904)	-
Interest on borrowings and bonds	(34,274)	(35,438)
Other finance expenses	(179)	(71)
Finance expenses - Group companies and associates (Note 18)	(1)	-
Total finance expenses	**(55,358)**	**(63,548)**
Change in derivative instruments (Note 9)	(64)	(192)
Change in fair value of financial instruments	**(64)**	**(192)**
Impairment recognised on the SFL equity interest (Note 8)	-	150,235
Application of the impairment recognised on the Torre Marenostrum, S.L. equity interest. (Note 8)	-	1,724
Impairment of the Hofinac Real Estate, S.L.U. equity interest (Note 8)	(803)	-
Impairment of the Fincas y Representaciones, S.A.U equity interest (Note 8)	(2,359)	-
Impairment of the Moorage Inversiones 2014, S.L.U equity interest (Note 8)	(5,010)	-
Impairment of Colonial Invest, S.L.U. equity interest (Note 8)	-	(1)
Use of provision for contingencies and charges (Note 13)	648	768
Impairment of credit facilities with investee DUE (Notes 8 and 11)	(648)	(768)
Use of the provision for other credit facilities	-	3,022
Disposal of Asentia Project S.L. shareholding. (Note 10)	-	4
Impairment and gains/(losses) on disposal of financial instruments	**(8,172)**	**154,984**
Total financial profit (loss)	**(62,044)**	**92,357**

At 31 December 2016, "Finance costs - Costs associated with the repurchase of bonds" includes 20,904 thousand euros as the premium and fee for the cancellation of the repurchased bonds, as well as expenses relating to that repurchase, which formally took place on 2 November 2016 (Note 14).

At 31 December 2015, “Finance costs – Loan cancellation expenses” included 28,039 thousand euros as the charge for the early cancellation of the Company's syndicated loan on 5 June 2015 (Note 14).

18. Related-party transactions and balances

Related party transactions-

The breakdown of transactions with related parties in 2016 and 2015 is as follows:

2016

	Thousands of euros		
	Services rendered	Dividends received	Interest income/ (cost)
Torre Marenostrum, S.L.	160	270	-
Société Foncière Lyonnaise, S.A.	-	54,565	-
Danieltown Spain, S.L.U.	-	-	58
Moorage Inversiones 2014, S.L.U.	-	-	23
Hofinac Real Estate, S.L.U.	60	-	(1)
Total	**220**	**54,835**	**80**

In addition to the transactions listed in the preceding table, the Company received dividends from Torre Marenostrum totalling 198 thousand euros (Note 8), which were recognised as a reduction of the equity interest.

On 29 July 2016, the Company acquired 3,801,417 shares from Mora Banc Grup, S.A. and Mora Assegurances, S.A.U. (former Company shareholders), for a total amount of 25,469 thousand euros, by virtue of an agreement concluded between the parties on 27 July 2016 (Note 12).

2015

	Thousands of euros	
	Services rendered	Dividends received
Torre Marenostrum, S.L.	160	493
Société Foncière Lyonnaise, S.A.	-	60,580
Total	**160**	**61,073**

Balances with related parties-

2016

At 31 December 2016, the Company recognised the following balances with related parties in the balance sheet:

	Thousands of euros		
	Current accounts receivable	Current loans granted	Current payables to Group companies
Torre Marenostrum, S.L.	16	-	-
Moorage Inversiones 2014, S.L.U.	-	2,165	-
Hofinac Real Estate, S.L.U.	12	8	(4,700)
Danieltown Spain, S.L.U.	-	3,524	(4)
Total	**28**	**5,697**	**(4,704)**

At 31 December 2016, the Company had accounts receivable for 16 thousand euros and 12 thousand euros with the investees Torre Marenostrum and Hofinac relating to the fees billed for December 2016 by virtue of the equity and corporate management agreement entered into by those companies. At the date of preparation of these financial statements, those amounts had been paid to the Company.

The Company also recognised accounts receivable for 2,165 thousand euros and 3,524 thousand euros with the investee companies Moorage and Danieltown, respectively, relating to the current account balances maintained by those companies at 31 December 2016.

The Company also recognised borrowings from Group companies totalling 4,700 thousand euros with its investee Hofinac, relating to the balance at 31 December 2016 of the current account held between both companies.

2015

At 31 December 2015, the Company had an account receivable for 16 thousand euros with the investee Torre Marenostrum relating to the fees billed for December 2015 by virtue of the equity and corporate management agreement entered into by both companies.

The Company also held an account receivable for 420 thousand euros with the investee Danieltown, relating to the balance at 31 December 2015 of the current account held between both companies.

19. Remuneration of directors and senior management and other benefits

The Company's Board of Directors was made up of 10 men and 1 woman at 31 December 2016 and 2015. At 31 December 2016, its composition was as follows:

Director	Position	Type
Juan José Brugera Clavero	Chairman	Executive
Pedro Viñolas Serra	Chief Executive Officer	Executive
Carlos Fernández-Lerga Garralda	Lead Director	Independent
Juan Villar-Mir de Fuentes	Director	Proprietary
Carlos Fernández González	Director	Proprietary
Sheikh Ali Jassim M. J. Al-Thani	Director	Proprietary
Juan Carlos García Cañizares	Director	Proprietary
Adnane Mousannif	Director	Proprietary
Ms Ana Sainz de Vicuña	Director	Independent
Javier Iglesias de Ussel Ordís	Director	Independent
Luis Maluquer Trepat	Director	Independent

Mr. Carlos Fernández González and Mr. Adnane Mousannif were appointed as directors in 2016. In 2016 the directors Mr. Francesc Mora Sagués and Grupo Villar Mir, S.A.U. left the board. (represented by Mr. Juan-Miguel Villar Mir) and the classification of Mr. Luis Maluquer Trepat was changed from Other Director to Independent Director.

In 2015, Ms Silvia Villar-Mir de Fuentes resigned from her position as director.

In accordance with the provisions of Article 229 of the Spanish Limited Liability Companies Law, at the end of 2016 the Company's directors did not report to other members of the Board any direct or indirect conflict of interest that they, or any person associated with them as defined by the Spanish Limited Liability Companies Law, may have with respect to the Company.

Compensation of Board members-

Remuneration received in 2016 and 2015 by members of the Board of Directors of the Company, by item, is as follows:

	Thousands of euros	
	2016	2015
Remuneration paid to executive directors (*) (**):	**2,610**	**1,215**
Attendance fees:	**535**	**457**
Directors' attendance fees	521	428
Additional attendance fees of the Chairman and Deputy Chairman	14	29
Fixed remuneration:	**897**	**1,100**
Directors' remuneration	546	600
Additional remuneration of the Executive Committee	66	200
Additional remuneration of the Audit and Control Committee	150	150
Additional remuneration of the Nomination and Remuneration Committee	135	150
Total	**4,042**	**2,772**
Remuneration earned by executive directors (**):	**2,610**	**1,460**

(*) Includes the remuneration earned by the directors in the performance of senior management duties.
(**) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan subsequently described.

In 2016, members of the Board of Directors of the Company accrued fixed remuneration and attendance fees of 1,432 thousand euros (1,557 thousand euros during 2015).

In 2016, executive directors received cash remuneration of 2,610 thousand euros for all items received from the Company. Furthermore, remuneration in kind included 1,196 thousand euros corresponding to the long-term share delivery plan (1,460 and 1,088 thousand euros in 2015 respectively).

At 31 December 2016 and 2015, the Company had taken out a civil liability insurance policy covering all of its directors, executives and employees, for a total of 302 thousand euros and 322 thousand euros, respectively. The aforementioned amount includes the insurance premium paid for both periods for civil liability insurance to cover damages caused by acts or omissions.

The General Shareholders' Meeting held on 28 June 2016 approved the granting of a defined-contribution scheme for executive directors covering retirement and, when applicable, disability and death, with overall annual contributions of 175 thousand euros.

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

At 31 December 2016 and 2015, two members of the Board of Directors had signed guarantee or golden parachute clauses in the event of certain cases of termination or change of control, all of which were approved at the General Shareholders' Meeting.

In 2016 and 2015, there were no finalisations, modifications or early terminations of contracts outside of the normal business activities between the Company and the members of the Board of Directors or any other person acting on their behalf.

Remuneration of senior management-

The Company's senior management team is formed by senior executives and other persons responsible for the management of the Company, reporting to the CEO, as per the definition provided in the Good Governance Code for listed companies. The Company's senior management team was made up of two men and two women at 31 December 2016 and 2015.

Remuneration accrued by senior management in 2016 totalled 1,978 thousand euros, of which 939 thousand euros related to remuneration in kind linked to the long-term incentives plan (1,715 thousand euros in 2015, including 855 thousand euros for the long-term incentives plan).

The Board of Directors at its meeting held on 27 July 2016 approved the granting of a defined-contribution scheme to a member of senior management, covering retirement and, when applicable, disability and death, with an annual contribution of 60 thousand euros.

At 31 December 2016 and 2015, one member of the senior management team had signed a guarantee or "golden parachute" clause in the event of certain cases of termination or change of control.

Long-term bonus scheme linked to compliance with several management indicators-

On 21 January 2014, the Company's General Shareholders' Meeting set up a long-term bonus scheme for the Chairman and Chief Executive Officer of Inmobiliaria Colonial, S.A. and for members of the Company's Executive Committee that will apply from 2014 to 2018.

Following a proposal submitted by the Nomination and Remuneration Committee, from 1 to 15 April in each of these years, the Board of Directors must determine the number of shares to be allocated to each beneficiary under the plan based on compliance with the indicators for the previous year. The shares will be delivered to the beneficiaries between 15 and 30 April each year.

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

The determination of shares to be allocated will be subject to a final adjustment to ensure that the cash value of the shares does not exceed the average Colonial share price for November 2013 by more than 150%.

The plan includes the customary clauses to adapt the number of shares to be received by the beneficiaries in cases of dilution.

In 2016 and 2015, the Company recognised 1,146 and 1,205 thousand euros, respectively, under "Staff costs" in the income statement to cover the incentive plan.

On 11 April 2016, the Company's Board of Directors determined that the number of shares to be delivered to beneficiaries of the Plan in accordance with the level of compliance with indicators for 2015 would be 3,651,162 shares (3,766,173 shares in 2015). The shares were delivered to the beneficiaries on 29 April 2016. In this regard, 1,758,139 shares were given to members of the Board of Directors and 1,893,023 shares to senior management (1,813,521 and 1,424,908 shares in 2015, respectively), with a market value at the time of delivery of 1,196 thousand euros and 939 thousand euros, respectively (1,088 thousand euros and 855 thousand euros in 2015, respectively) (Note 12).

20. Other disclosures

Employee receivables

The number of Company employees at 31 December 2016 and 2015, as well as the average number of employees for 2016 and 2015, by job category and gender, is as follows:

Job category	No. of employees at 31 December				Average no. of employees 2016		Average no. of employees 2015	
	2016		2015					
	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	5	3	5	3	5	3	6	3
Technical graduates and middle managers	9	7	9	7	9	7	9	7
Clerical staff	15	31	13	30	15	31	13	30
Total	**29**	**41**	**27**	**40**	**29**	**41**	**28**	**40**

The Company also employed one woman with a disability equal to or exceeding 33% at 31 December 2016 and 2015.

Audit fees

In 2016 and 2015, fees for auditing and other services provided by the Company auditor, Deloitte, S.L. or by a company in the same group or related to the auditor, were as follows:

Description	Thousands of euros	
	Service rendered by Deloitte, S.L. and related companies	
	2016	2015
Audit services	310	310
Other verification services	135	207
Total auditing services and related	**445**	**517**
Tax advisory services	-	-
Other services	141	143
Total professional services	**141**	**143**

Capital management: Policies and objectives

As indicated in Note 1, the Company is the parent of the Colonial Group.

The Company manages its capital and financial structure, as well as that of the investees Torre Marenostrum, Danieltown, Moorage, Hofinac, Finresa, Colonial Invest and Colonial Tramit, in order to ensure their continuity as profitable businesses, taking into account the financial restrictions of the markets, and to maximise returns for shareholders.

The Company's strategy, and that of its investees, is to focus on markets and products that add value to the Colonial Group.

The Company draws up an annual cash budget and monthly cash forecasts to manage its liquidity risk and meet its financing needs. The liquidity risk is mitigated by the following factors: (i) recurring cash flow generation by the Company’s core activities; and (ii) its ability to renegotiate and obtain new financing on the basis of long-term business plans and (iii) the quality of the Company’s assets.

The Company's financing is granted in full at long term, structured in such a manner that it allows the development of its underlying business plan.

The Company, and its investees, review the capital structure, its leverage (net debt/equity) and LTV ratios on a regular basis.

The Company holds a majority stake in several companies (Note 8). The accompanying financial statements cover the Company individually and, therefore, do not reflect any changes in the components of equity that would be recognised if the aforementioned subsidiaries were to be consolidated. The Company prepares its consolidated financial statements on the basis of the International Financial Reporting Standards (IFRSs). According to the consolidated financial statements, shareholders' equity at the company at 31 December 2016 amounted to 2,301,714 thousand euros, attributable consolidated profit to 273,647 thousand euros, and assets and revenue to 8,227,651 thousand euros and 271,400 thousand euros, respectively.

21. Average supplier payment period

Following is the information required by Final Provision Two of Law 31/2014 of 3 December, which amends Spanish Limited Liability Companies Law with a view to improving corporate governance, and which also amends Additional Provision Three of Law 15/2010 of 5 July, amending Law 3/2004 of 29 December, establishing measures on combating late payment in commercial transactions, all in accordance with the provisions set forth in the resolution of 29 January 2016 of the Institute of Accounting and Account Auditing (ICAC) regarding the information to be included in the notes to the financial statements in relation to the average payment period to suppliers in commercial transactions.

	2016	2015
	Days	Days
Average supplier payment period	31	46
Ratio of payments made	32	46
Ratio of payments pending	22	43
	Amount (in thousands of euros)	Amount (in thousands of euros)
Total payments made	57,992	44,115
Total payments pending	6,176	1,667

To calculate the average payment period for suppliers in accordance with the ICAC Resolution, the Company has taken into account commercial transactions relating to the delivery of assets or the rendering of services since the date on which Law 31/2014, of 3 December, entered into force.

For the exclusive purposes of providing the information defined in that Resolution, suppliers are considered to be trade creditors because they are suppliers of goods and service that are included in the headings “Suppliers” and “Other payables” on the liability side of the balance sheet.

The "Average supplier payment period" shall be understood as the time between the delivery of the goods or the provision of the services by the supplier and the material payment of the transaction.

The "Average supplier payment period" is calculated as the ratio in which the numerator is the sum of the ratio of transactions paid multiplied by the total payments made plus the ratio of transactions pending payment multiplied by the total amount of payments pending at year end, and the denominator is the sum of the total amount of payments made and the total amount of those pending at year end.

The ratio of transactions paid is calculated as the ratio in which the numerator is the sum of the amounts paid multiplied by the number of payment days (the difference between the number of calendar days that have elapsed from the date on which the invoice is received until payment is made) and the denominator is the total amount of payments made during the year.

Similarly, the ratio of transactions pending payment is calculated as the ratio in which the numerator is the sum of the amounts pending payment multiplied by the number of days pending payment (the difference between the number of calendar days that have elapsed from the date on which the invoice is received until the year-end date) and the denominator is the total amount of payments pending at year-end.

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

As regards payments made by the Company after the legally permitted term, note that these are primarily payments relating to construction work and property refurbishment that are paid within the payment terms stipulated in the contracts signed with the various contractors. In this regard, in 2016 the Company notified all suppliers with contracts in force, and whose payment conditions included in the contract were not in line with the maximum payment period of 60 days, that the contract conditions would be changed in order to bring them into line with Law 11/2013.

22. Events after the reporting period

On 12 January 2017, the Company officially sold part of an asset located in calle Orense in Madrid for 5,600 thousand euros, generating a net profit of 290 thousand euros (selling costs included).

On 3 February 2017, the Company formally entered into a joint venture agreement with Inmo, S.L. to construct an office building in Barcelona, with the two companies jointly incorporating a public limited company.

From 31 December 2016 to the date on which these financial statements were authorised for issue, no significant events took place and there were no additional matters worthy of mention.

23. 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.a). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

APPENDIX I

NON-CURRENT INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

2016	Domicile	Thousands of euros					Direct	Indirect	Shareholder	Thousands of euros
		Share capital	Reserves, share premium and interim dividend	Profit/(loss)	Valuation adjustments	Dividend (Note 18)				Cost (Note 8)
HOLDINGS IN GROUP COMPANIES AND ASSOCIATES:										
Torre Marenostrum, S.L.	Avda. Diagonal 532, 08006 Barcelona, Spain	5,334	11,873	1,038	1,037	270	55%	-	-	26,201
Colonial Tramit, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	3	4	-	-	-	100%	-	-	13
Colonial Invest, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	3	5	-	-	-	100%	-	-	13
Danieltown Spain, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	541	22,859	(15)	-	-	100%	-	-	30,038
Moorage Inversiones 2014, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	63	22,603	(895)	-	-	100%	-	-	49,355
Hofinac Real Estate, S.L.	Avda. Diagonal 532, 08006 Barcelona, Spain	24,943	139,638	(900)	-	-	100%	-	-	202,000
Fincas y Representaciones, S.A.U.	C/ Juan Ramón Jiménez 7, 28036 Madrid (Spain)	926	(30)	1,610	-	-	100%	-	-	46,620
GROUP COMPANIES OF SOCIÉTÉ FONCIÈRE LYONNAISE, S.A.:										
Société Foncière Lyonnaise, S.A.	42, rue Washington 75008 Paris, France	93,058	665,993	(30,279)	-	54,565	58.55%	-	-	1,511,105
Segpim, S.A.	42, rue Washington 75008 Paris, France	39	166	694	-	-	-	100%	SFL	-
Locaparis, SAS	42, rue Washington 75008 Paris, France	153	15	582	-	-	-	100%	Segpim	-
MAUD SAS	42, rue Washington 75008 Paris, France	80	(586)	(924)	-	-	-	100%	SFL	-
SB2, SAS	42, rue Washington 75008 Paris, France	40	(19)	(1)	-	-	-	100%	SFL	-
SB3, SAS	42, rue Washington 75008 Paris, France	40	(19)	(1)	-	-	-	100%	SFL	-
SCI SB3	42, rue Washington 75008 Paris, France	2	(6)	-	-	-	-	100%	SFL	-
SCI Washington	42, rue Washington 75008 Paris, France	94,872	-	10,885	-	-	-	66%	SFL	-
SAS Parholding	42, rue Washington 75008 Paris, France	15,000	2,859	3,638	-	-	-	50%	SFL	-
SC Parchamps	42, rue Washington 75008 Paris, France	1,558	(6,826)	2,475	-	-	-	100%	SAS Parholding	-
SC Pargal	42, rue Washington 75008 Paris, France	9,120	16	4,998	-	-	-	100%	SAS Parholding	-
SC Parhaus	42, rue Washington 75008 Paris, France	1,500	-	3,874	-	-	-	100%	SAS Parholding	-
SCI 103 Grenelle	42, rue Washington 75008 Paris, France	-	-	4,440	-	-	-	100%	SFL	-
SC Paul Cézanne	42, rue Washington 75008 Paris, France	56,934	101,249	10,813	-	-	-	100%	SFL	-
Condorcet Holding SNC	42, rue Washington 75008 Paris, France	10	(1)	-				100%	SFL	
Condorcet PropCo SNC	42, rue Washington 75008 Paris, France	20,500	(4,193)	7,406	-	-	-	100%	Condorcet Holding SNC	-

NON-CURRENT INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

		Thousands of euros								Thousands of euros
2015	Domicile	Share capital	Reserves, share premium and interim dividend	Profit/(loss)	Valuation adjustments	Dividend (Note 18)	Direct	Indirect	Shareholder	Cost (Note 8)
HOLDINGS IN GROUP COMPANIES AND ASSOCIATES:										
Torre Marenostrum, S.L.	Avda. Diagonal 532, 08006 Barcelona, Spain	5,334	12,088	545	1,507	493	55%	-	-	26,399
Colonial Tramit, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	3	5	(1)	-	-	100%	-	-	13
Colonial Invest, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	3	7	(2)	-	-	100%	-	-	13
Danieltown Spain, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	541	23,269	(410)	-	-	100%	-	-	30,038
GROUP COMPANIES OF SOCIÉTÉ FONCIÈRE LYONNAISE, S.A.:										
Société Foncière Lyonnaise, S.A.	42, rue Washington 75008 Paris, France	93,058	789,712	(26,719)	-	60,580	53.14%	-	-	1,370,746
Segpim, S.A.	42, rue Washington 75008 Paris, France	39	165	960	-	-	-	100%	SFL	-
Locaparis, SAS	42, rue Washington 75008 Paris, France	153	15	725	-	-	-	100%	Segpim	-
MAUD SAS	42, rue Washington 75008 Paris, France	80	(610)	24	-	-	-	100%	SFL	-
SB2, SAS	42, rue Washington 75008 Paris, France	40	(17)	(2)	-	-	-	100%	SFL	-
SB3, SAS	42, rue Washington 75008 Paris, France	40	(18)	(2)	-	-	-	100%	SFL	-
SCI SB3	42, rue Washington 75008 Paris, France	2	(6)	-	-	-	-	100%	SFL	-
SCI Washington	42, rue Washington 75008 Paris, France	94,872	-	8,443	-	-	-	66%	SFL	-
SAS Parholding	42, rue Washington 75008 Paris, France	15,000	2,724	6,262	-	-	-	50%	SFL	-
SC Parchamps	42, rue Washington 75008 Paris, France	1,558	(6,576)	(250)	-	-	-	100%	SAS Parholding	-
SC Pargal	42, rue Washington 75008 Paris, France	9,120	16	3,357	-	-	-	100%	SAS Parholding	-
SC Parhaus	42, rue Washington 75008 Paris, France	1,500	-	1,997	-	-	-	100%	SAS Parholding	-
SCI 103 Grenelle	42, rue Washington 75008 Paris, France	-	1,143	4,903	-	-	-	100%	SFL	-
SC Paul Cézanne	42, rue Washington 75008 Paris, France	56,934	101,249	10,891	-	-	-	100%	SFL	-
Condorcet Holding SNC	42, rue Washington 75008 Paris, France	10	-	(1)				100%	SFL	
Condorcet PropCo SNC	42, rue Washington 75008 Paris, France	20,500	(10,017)	5,824	-	-	-	100%	Condorcet Holding SNC	-

APPENDIX II

NON-CURRENT FINANCIAL INVESTMENTS

2016	Domicile	Thousands of euros				Direct	Indirect	Shareholder	Thousands of euros
		Share capital	Reserves and share premium	Profit/(loss)	Valuation adjustments				Fair value (Note 8)
NON-CURRENT EQUITY INSTRUMENTS:									
Axiare Patrimonio SOCIMI, S.A. (*)	José Ortega y Gasset 29, 28006 Madrid (Spain)	718,750	(1,242)	183,524	-	15.09%	-	-	138,293

(*) Information referring to the interim condensed consolidated financial statements for the six-month period ended 30 June 2016. Company audited by PricewaterhousCoopers Auditores, S.L.

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

Inmobiliaria Colonial, S.A.

Management Report
for the year ended
31 December 2016

1. Company situation

Macroeconomic environment

Global economic growth grew by 3.1% in 2016, similar to the rate of 2015. The year 2016 picked up speed thanks to the acceleration of emerging economies in the second half of the year. Economic progress was driven by the main central banks maintaining an accommodative monetary policy and as a result of a slight recovery in oil prices

Growth in the Eurozone expanded at a moderate but steady rate in 2016, at 1.7%. The drivers in the Eurozone recovery this year have been domestic demand and household consumption which have seen an improvement due to growth in the labour market, together with an environment of very low rates that have reached historic lows, driving credit demands.

The growth rate of the Spanish economy remained high in the fourth quarter of 2016, with a rate of expansion compared to the third quarter (growth of 0.68% quarter-on-quarter), according to data from CaixaBank Research.

State of the Spanish rental market

Barcelona

During the last quarter of 2016, a total of 82,341 sq m of offices were signed in Barcelona, which was higher than the volume obtained in the third quarter, of 77,000 sq m, whilst being the most active quarter of the year. The cumulative take-up volume of offices for the whole of 2016 reached 305,000 sq m, a figure higher than the average take up of 235,000 sq m over the last five years.

By area, almost 50% of the transactions carried out in 2016 were in city centres, 30% in new business districts and 20% in peripheral locations. Regarding sectors, for another year, the services sector leads the demand, with an outstanding performance by internet and e-commerce companies, which show more rapid expansion than that observed in traditional economic sectors.

The average vacancy rate in Barcelona continues its downward trend in the last year, falling from 10.5% to the current 9.0%. The lack of supply of office space, coupled with take-up levels which have remained steady, are fuelling a gradual decrease in vacancy rates with a downward trend expected in the future. Vacancy currently stands at around 6% in Paseo de Gracia/Diagonal. In this respect, it is extremely difficult to find available space above 800 sq m in this area in particular.

During the fourth quarter of 2016, the maximum rents in the Paseo de Gracia/Diagonal area experienced growth, reaching maximum rental levels of €21.5/sq m/month.

Madrid

During the last quarter of 2016 the take-up for offices in Madrid increased up to 143,559 sq m, implying a relatively high increase with respect to the previous quarter, in which the take-up was 88,200 sq m. For the whole 2016 the total transactions exceeded 430,000 sq m, thanks to the increase in operations between 1,000 and 5,000 sq m. By sector, the main drivers of the office rental market were the technology, financial, automobile and engineering sectors and companies related with the tourism/hotel sector.

The total stock of offices in Madrid practically remained stable during the last 12 months, with new stock of just 16,251 sq m of offices. Activity has been primarily focused on the refurbishment of offices, with 100,000 sq m of newly refurbished spaces. However, it is worth mentioning the lack of existing quality supply in the centre of the capital: Grade A buildings make up 11.5% of the total, and 70% of these were found outside of the M-30.

As a consequence, the vacancy rate in 2016 was reduced gradually from 10.6% at the end of 2015 to 10.1% at the end of the 2016, due to a slight increase in the net absorption.

Continuing with the office market recovery which commenced three years ago, throughout 2016 the rental prices for the best offices in the capital reached €29/sq m/month, representing an increase of 6.4% compared to the beginning of the year.

Sources: la Caixa" monthly report, OECD study, reports by Jones Lang Lasalle, Aguirre Newman, CBRE

Organisational structure and functioning

Inmobiliaria Colonial, S.A. is a leading property company in the market of quality offices in the Spanish market. It is one of the leading office operators on the Spanish property market. The Company has a property portfolio valued at more than 1.7 billion euros, with a clear rental commitment centred on the operation and development of buildings for rent and a prominent presence in the rental business of quality offices in the prime zones of the Madrid and Barcelona markets. It is also a leader in the Paris market through its subsidiary Société Foncière Lyonnaise.

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

In particular, its strategy is based on the following:

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

- Maximum commitment to the creation of high-quality offices which respond to the highest demands of the market, with a particular emphasis on efficiency and sustainability.

- A pan-European strategy that is diversified among the office markets of Barcelona, Madrid and Paris.

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

- A clear industrial property approach to capture value creation higher than the market average.

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

Attractive returns for shareholders based on recurring return combined with the creation of property value based on value added initiatives

2. Business performance and results

Introduction

Total income for rentals amounts to 64,746 thousand euros and profit (loss) from operations totals 123,857 thousand euros.

The Company's net financial loss amounted to 62,044 thousand euros, which is due mainly to the net payables to third parties, totalling -55,357 thousand euros.

Profit after tax from continuing operations amounted to 54,839 thousand euros.

Rental business

The surface above-ground in operation at December 2016 amounted to 346,160 sq m, with an occupancy rate of 96.4% (in both Barcelona and Madrid).

In 2016, the Company reviewed/renewed leases representing a total above-ground surface area of 55,407 sq m (16% of the surface above-ground in operation at December 2016).

3. Liquidity and capital resources

See Note 20 to the financial statements for the year ended 31 December 2016**.**

The Company's average payment period to its suppliers was around 31 days in 2016. As regards payments made after the legally established period, note that these are primarily payments relating to works contracted and property refurbishment, which are paid within the payment terms stipulated in the contracts signed with the various contractors. The Company has established two payment days per month to comply with the requirements set forth in Law 11/2013. Accordingly, invoices received are entered on the 5th and the 20th of each month and the related payments are made on the 5th and the 20th of the following month.

4. Risk management policies and objectives

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

Section E of the Annual Corporate Governance Report sets out the main risks that arose during the year and the circumstances that prompted them. The risks associated with the Company's activities are described below.

Strategic risks:

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

- Risks associated with the sector situation: Colonial pays special attention to the economic, political, legal and social risks related to the countries in which it operates (Spain and France). The European real estate sector has maintained the dynamism of the previous year in spite of the political uncertainty and economic policies of the last year, characterised by reaching very significant investment levels. This situation, as well as the forecast, for the coming years, growth of the Spanish economy above Eurozone levels and the moderate growth of the French economy will enable Colonial to have a more optimistic outlook over the coming years in terms of increased return from its investments and sustainable growth.

- Risks associated with a competitive sector: The real estate sector is characterised as being highly competitive, reaching high levels of investment in the last two years. The high quality of Colonial's assets, the value of these assets and its strategy of focusing mainly on its office rental activities in *prime* or central business district (*CBD*) areas have positioned it as a key benchmark in the real estate sector in Europe. The successful execution of the growth strategy carried out by the Company in 2015 has continued throughout 2016, through the acquisition of new assets located in said *CBD* areas, an increase in the shareholding of SFL, and the complementary investment in the company Axiare Patrimonio Socimi S.A., thus reinforcing the Company's solid positioning in the sector.

- Risks related to the value of assets: Every six months the Company carries out appraisals, through independent experts and by applying objective market criteria, on all of its property assets. Colonial allocates a significant portion of its resources to investing in and maintaining its property assets in order to enhance their value and position on the market, and to optimise income and returns.

Corporate risks:

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

- Reputational risk and risks concerning social commitment: The Colonial Group's corporate social responsibility policy sets out the principles and bases of Colonial's voluntary commitment to its stakeholders. Management of these expectations forms part of the Company's objectives in terms of sustainability and creating value for these stakeholders.

- Medium-term and long-term business plans: The absence of business plans increases uncertainty in terms of a company's viability and future. Colonial has a medium- and long-term business plan that is constantly being revised by its governing bodies and is continuously adjusted to take into account the economic, financial and social situation of the real estate market, which ensures the Company's viability and aims to anticipate its financial needs and avoid any restrictions in its operating and investment capacity, while pursuing its sustainability, growth and value creation targets.

- Financial risks: The Company efficiently manages its financial risks with the aim of maintaining adequate liquidity and debt levels, minimising borrowing costs and ensuring compliance with its business plans:

  - ✓ Risk of exposure to interest rate fluctuations: The purpose of risk management is to reduce interest rate volatility to limit and control the impact of interest rate fluctuations on profit and cash flows and to keep overall borrowing costs at reasonable levels. Colonial arranges financial instruments to cover interest rate fluctuations. The Company maintains a high percentage of its gross financial debt tied to fixed rates.

  - ✓ Risks relating to financing and debt: Colonial's financial structure warrants diversification of its sources of financing by entity, product and maturity. After the new issue of bonds carried out in 2016, it has continued with the expansion and diversification of the average maturity of the debt and with the optimisation of the borrowing cost. Colonial's net financial debt, measured using the loan-to-value ratio, remains at suitable levels, which provides the Company with sufficient funds to carry out its current projects, take on new projects and to undertake significant growth costs over the coming years.

  - ✓ Liquidity risk: As mentioned in the preceding paragraph, the Company has the necessary sources of financing to undertake its current projects in addition to those laid down in its business plan.

Operational risks:

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

- Asset management risks: Sustainable management of daily operations is a key part of an owner's obligations, and has a direct effect on occupancy levels. Colonial allocates a significant portion of its investments to acquiring, constructing, renovating and maintaining the high quality of its property assets, well known for their energy efficiency. This property management strategy is incorporated into the Company's organisation and business plan.

- Risk of loss or damage to property assets: Colonial's properties are exposed to general risks of damage as a result of fire, flooding or other events, regardless of whether or not they are attributable to natural causes. Colonial has arranged hedges to cover the reconstruction costs of the properties it owns, as well as any damage caused to third parties.

Compliance risks:

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

- Risks arising from failure to comply with contractual obligations: In the course of its business, the Company is exposed to risk arising from failure to comply with contractual obligations vis-à-vis customers, banks, suppliers, employees etc. The process allows any risks of contractual breach that may give rise to legal proceedings against Colonial to be identified and assessed, thereby allowing the Company to take the appropriate corrective measures to mitigate these risks or, where applicable, any possible impact. The Company has also taken out insurance to cover any legal costs or possible damage against directors and executives.

- Tax risks: Colonial must adhere to the general tax legislation of the countries in which it operates, as well as any specific regulations for the real estate sector. Accordingly, Colonial has a tax policy, a tax strategy and a tax risk management system, approved by its governing bodies and within the framework of the CRMS, establishing adequate measures to control and monitor the management of risks in this connection.

Reporting risks:

In order to cover any reporting risks that may cause errors or failure to comply with requirements concerning the public information to be issued by the Company, and to ensure the reliability of this public information, Colonial developed an Internal Control over Financial Reporting (ICFR) Organisational and Monitoring Model, which was approved by its governing bodies. The Internal Audit area is responsible for performing the tests necessary to verify compliance with ICFR policies, manuals and procedures, validating the effectiveness of the controls implemented to mitigate the risks related to these processes.

5. Events after the reporting period

On 12 January 2017, the Company officially sold part of an asset located in calle Orense in Madrid for 5,600 thousand euros, generating a net profit of 294 thousand euros (selling costs included).

On 3 February 2017, the Company formally entered into a joint venture agreement with Inmo, S.L. to construct an office building in Barcelona, with the two companies jointly incorporating a public limited company.
From 31 December 2016 to the date on which these financial statements were authorised for issue, no significant events took place and there were no additional matters worthy of mention.

6. Future outlook

The forecasts for the Spanish economy in 2017 are very favourable, however a slight deceleration of 2.6% in the GDP is expected compared to the biennium 2015-2016 with a GDP which exceeded 3% in both years. Even so, growth will remain at high levels due to the effect of the structural reforms carried out in recent years, a positive labour dynamic, monetary relaxation and the new upward real estate cycle.

Regarding to the rent levels, the main property consultants in the Barcelona rental market forecast an increase of 4.1% in average rents for the period 2017-2020, enabling Barcelona to position itself as the third European city in rental increases. In Madrid, in spite of the continued recovery of the last three years, rents still remain below those registered in London, Paris and Frankfurt. Madrid contrasts with these large European cities with respect to labour costs, which are much more moderate in comparison.

7. Research and development activities

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

8. Treasury shares

At 2016 year-end, Inmobiliaria Colonial, S.A. had 5,679,588 treasury shares with a nominal value of 14,199 thousand euros, which represents 1.59% of the Company's share capital.

9. Other relevant information

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

10. Alternative Performance Measures (European Securities and Markets Authority)

Following is an explanatory glossary of the Alternative Performance Measures, including their definition and relevance for Inmobiliaria Colonial, S.A., in accordance with the recommendations of the European Securities and Markets Authority (ESMA) published in October 2015 (ESMA Guidelines on Alternative Performance Measures). These Alternative Performance Measures have not been audited or revised by the Company's auditor (Deloitte, S.L.).

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

Alternative Performance Measure	Calculation method	Definition/Relevance
***Like-for-like* Rentals**	Amount of rental income from leases included in "*Revenue*", comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded, together with those from assets included in the portfolio of projects and renovations, as well as other atypical adjustments (for example, compensation for early termination of lease agreements).	This permits the comparison, on a like-for-like basis, of the changes in the rental income of an asset or group of assets.
***Like-for-like* appraisal**	Market Value excluding transaction costs or the Market Value including transaction costs, comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded.	This permits the comparison, on a like-for-like basis, of the changes in the Market Value of the portfolio.
***Loan to Value* Group or LtV Group**	Calculated as the result of dividing the gross financial debt less the amount of *"Cash and cash equivalents"* between the Market Value, including transaction costs, of the Group's asset portfolio.	This permits an analysis of the relation between the net financial debt and the appraisal value of the Group's asset portfolio.
LtV Holding or LtV Colonial	Calculated as the result of dividing the gross financial debt less the amount of *"Cash and cash equivalents"* between the total of the Market Value, including transaction costs, of the asset portfolio of the Group's parent and the EPRA NAV of all its equity interests in subsidiaries.	This permits an analysis of the relation between the net financial debt and the appraisal value of the asset portfolio of the Group's parent.

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

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

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

- **EPRA NAV (EPRA *Net Asset Value*)**

EPRA NAV (EPRA *Net Asset Value*)	**31/12/2016**	**31/12/2015**
	(Millions of euros)	
"EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT"	**2,302**	**1,837**
Includes:		
(i.a) Revaluation of investment assets	11	8
(i.b) Revaluation of assets under development	n.a.	n.a.
(i.c) Revaluation of other investments	51	17
(ii) Revaluation of finance leases	n.a.	n.a.
(iii) Revaluation of assets held for sale	n.a.	n.a.
Excludes:		
(iv) Market value of financial instruments	2	4
(v.a) Deferred taxes	221	100
(v.b) Goodwill resulting from deferred assets	n.a.	n.a.
Includes/excludes:		
Adjustments of (i) to (v) in relation to the interests of strategic alliances	n.a.	n.a.
EPRA NAV	**2,587**	**1,966**

- **EPRA NNNAV (EPRA "triple net")**

EPRA NNNAV (EPRA "triple net")	**31/12/2016**	**31/12/2015**
	(Millions of euros)	
EPRA NAV	**2,587**	**1,966**
Includes:		
(i) Market value of financial instruments	(2)	(4)
(ii) Market value of the debt	(79)	(27)
(iii) Deferred taxes	(222)	(100)
EPRA NNNAV	**2,284**	**1,835**

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

Market Value excluding transaction costs or GAV *excluding transfer costs*	31/12/2016	31/12/2015
	(Millions of euros)	
Barcelona	761	676
Madrid	1,273	906
Paris	5,736	5,242
Operating portfolio	**7,771**	**6,824**
Projects	**144**	**82**
Other	**14**	**6**
Shareholding value in Axiare	**141**	**-**
Total Market Value excluding transaction costs	**8,069**	**6,913**
Spain	2,333	1,670
France	5,736	5,242

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

Market Value including transaction costs or GAV *including transfer costs*	31/12/2016	31/12/2015
	(Millions of euros)	
Total Market Value excluding transaction costs	**8,069**	**6,913**
Plus: transaction costs	409	326
Total Market Value including transaction costs	**8,478**	**7,239**
Spain	2,387	1,720
France	6,092	5,519

- **Like-for-like rentals**

Like-for-like rentals	Barcelona	Madrid	Paris	TOTAL
	(Millions of euros)			
Rental income 2014	**28**	**32**	**152**	**212**
Like for like	1	2	8	11
Projects and registrations	1	0	2	3
Investments and divestments	0	1	9	10
Others and compensation	(3)	0	(2)	(4)
Rental income 2015	**27**	**35**	**169**	**231**
Like for like	3	1	11	15
Projects and registrations	0	(1)	15	14
Investments and divestments	0	7	1	8
Others and compensation	(0)	0	3	3
Rental income 2016	**30**	**43**	**198**	**271**

- **Like-for-like appraisal**

Like-for-like appraisal	31/12/2016	31/12/2015
	(Millions of euros)	
Valuation at 1 January	**6,913**	**5,757**
Like-for-like Spain	151	206
Like-for-like France	494	701
Acquisitions	524	249
Divestments	(13)	0
Valuation at 31 December	**8,069**	**6,913**

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

Loan to Value **Group or LtV Group**	**31/12/2016**	**31/12/2015**
	(Millions of euros)	
Gross financial debt	3,633	3,209
Less: *"Cash and cash equivalents"*	(105)	(218)
(A) Net financial debt	**3,528**	**2,991**
Market Value including transaction costs	8,478	7,239
Plus: Treasury shares of the Parent valued at EPRA NAV	41	5
(B) Market Value including transaction costs and Parent treasury shares	**8,519**	**7,244**
Loan to Value **Group (A)/(B)**	**41.4%**	**41.3%**

- **LtV Holding or LtV Colonial**

LtV Holding or LtV Colonial	**31/12/2016**	**31/12/2015**
Holding Company	*(Millions of euros)*	
Gross financial debt	1,647	1,317
Less: *"Cash and cash equivalents"*	(80)	(202)
(A) Net financial debt	**1,567**	**1,115**
(B) Market Value including transaction costs	**4,439**	**3,309**
Loan to Value **Holding (A)/(B)**	**35.3%**	**33.7%**

11. Annual Corporate Governance Report

Pursuant to Article 538 of the Spanish Limited Liability Companies Law, it is hereby noted that the Annual Corporate Governance Report for 2016 is included in this Management Report in a separate section.