Deloitte.

Deloitte, S.L.
Avda. Diagonal, 654
08034 Barcelona
España

Tel: +34 932 80 40 40
Fax: +34 932 80 28 10
www.deloitte.es

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

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Inmobiliaria Colonial, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of Inmobiliaria Colonial, S.A. and Subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain, identified in Note 2-a to the accompanying consolidated financial statements, and for such internal control as the directors determine is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Parent's directors of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Inmobiliaria Colonial, S.A. and Subsidiaries as at 31 December 2016, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

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

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

Col·legi
de Censors Jurats
de Comptes
de Catalunya

DELOITTE, S.L.

Any 2017 Núm. 20/17/02248
CÒPIA

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

Francesc Ganyet

24 February 2017

Inmobiliaria Colonial, S.A. and Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2016, prepared in accordance with International Financial Reporting Standards and Consolidated Management 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 consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

(Thousands of Euros)

ASSETS	Note	31 December 2016	31 December 2015	LIABILITIES AND EQUITY	Note	31 December 2016	31 December 2015
Intangible assets		2,549	3,090	Share capital		892,058	797,214
Property, plant and equipment	7	44,061	33,118	Share premium		731,326	560,606
Investment properties	8	7,762,627	6,743,313	Reserves of the Parent		250,634	1,163,954
Non-current financial assets	9	150,676	8,954	Prior years' losses at the Parent		-	(1,147,975)
Non-current deferred tax assets	16	454	865	Reserves in consolidated companies		199,417	64,881
Other non-current assets		-	156	Valuation adjustments recognised in equity - financial instruments		(571)	(2,504)
NON-CURRENT ASSETS		**7,960,367**	**6,789,496**	Valuation adjustments on available-for-sale financial assets		1,317	-
				Other equity instruments		3,697	2,895
				Treasury shares		(49,811)	(17,065)
				Profit for the year		273,647	415,413
				Equity attributable to shareholders of the Parent		**2,301,714**	**1,837,419**
				Non-controlling interests		**1,706,205**	**1,612,048**
				EQUITY	11	**4,007,919**	**3,449,467**
				Bank borrowings and other financial liabilities	12 and 13	777,531	512,615
				Bonds and similar securities issued	12	2,509,956	2,539,285
				Non-current deferred tax liabilities	16	356,658	246,980
				Non-current provisions	15	13,674	12,519
				Other non-current liabilities	14	54,630	28,018
				NON-CURRENT LIABILITIES		**3,712,449**	**3,339,417**
Non-current assets held for sale	22	-	12,727	Bank borrowings and other financial liabilities	12 y 13	93,549	59,937
Trade and other receivables	10	116,954	71,966	Bonds and similar securities issued	12	313,927	175,955
Current financial assets		441	9	Trade payables	14	69,760	85,642
Tax assets	16	44,689	37,552	Tax liabilities	16	17,328	8,902
Cash and cash equivalents	12	105,200	217,776	Current provisions	15	12,719	10,206
CURRENT ASSETS		**267,284**	**340,030**	**CURRENT LIABILITIES**		**507,283**	**340,642**
TOTAL ASSETS		**8,227,651**	**7,129,526**	**TOTAL EQUITY AND LIABILITIES**		**8,227,651**	**7,129,526**

The accompanying Notes 1 to 25 and the Appendix are an integral part of the consolidated statement of financial position for the year ended 31 December 2016.

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 December 2016

(Thousands of Euros)

Statement of comprehensive income	**Note**	**2016**	**2015**
Revenue	18-a	271,400	231,185
Other income	18-b	3,057	3,143
Staff costs	18-c	(22,293)	(23,296)
Other operating expenses	18-d	(33,481)	(36,481)
Depreciation and amortisation	7	(2,909)	(1,676)
Net change in provisions	18-e	(2,755)	(3,322)
Net gain/(loss) on sales of assets	18-f	(149)	-
Operating profit		**212,870**	**169,553**
Change in fair value of investment properties	18-f	560,777	719,982
Impairment charges and net gains/(losses) on assets	18-e	(4,373)	(2,474)
Finance income	18-g	3,559	10,466
Finance costs	18-g	(107,794)	(143,852)
Impairment of financial assets	18-g	(648)	2,267
Profit before tax		**664,391**	**755,942**
Income tax expense	16	(105,087)	(52,797)
Consolidated net profit		**559,304**	**703,145**
Net profit for the year attributable to the Parent		273,647	415,413
Net profit attributable to non-controlling interests	11	285,657	287,732
Basic earnings per share (€)	5	0.81	1.30
Diluted earnings per share (€)	5	0.81	1.30
Other comprehensive income			
Consolidated net profit		**559,304**	**703,145**
Other components of comprehensive income recognised directly in equity		**1,134**	**357**
Gains on hedging instruments	11 and 13	(244)	615
Gains on available-for-sale financial assets	9	1,317	-
Tax effect on prior years' profit or loss	11 and 13	61	(258)
Transfers to comprehensive income		**3,782**	**8,122**
Gains on hedging instruments	11 and 13	4,217	8,122
Tax effect on prior years' profit or loss	11 and 13	(435)	-
Consolidated comprehensive profit/(loss)		**564,220**	**711,624**
Comprehensive profit for the year attributable to the Parent		277,031	419,277
Comprehensive profit attributable to non-controlling interests		287,189	292,347
Comprehensive basic earnings per share (euros)		0.82	1.32
Comprehensive diluted earnings per share (euros)		0.82	1.32

The accompanying Notes 1 to 25 and the Appendix are an integral part of the consolidated statement of comprehensive income. for the year ended 31 December 2016

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED
31 December 2016

(Thousands of Euros)

	Note	Share Capital	Share premium	Reserves of the Parent	Prior years' losses at the Parent	Reserves in consolidated companies	Ajustes en patrimonio por valoración de instrumentos financieros	Valuation adjustments recognised in equity - financial instruments	Treasury shares	Other equity instruments	Profit/(loss)	Non-controlling interests	Total
Balance at 31 December 2014	**11**	**797,214**	**560,606**	**1,165,187**	**(944,584)**	**(621,819)**	**(6,368)**	**-**	**(21,291)**	**1,904**	**491,994**	**1,376,108**	**2,798,951**
Total recognised income and expense for the period		-	-	-	-	-	3,864	-	-	-	415,413	292,347	**711,624**
Allocation of 2014 profit		-	-	-	(203,391)	695,385	-	-	-	-	(491,994)	(57,305)	**(57,305)**
Treasury share portfolio		-	-	(1,182)	-	(926)	-	-	(4,006)	-	-	70	**(6,044)**
Share-based payment transactions		-	-	-	-	-	-	-	-	991	-	873	**1,864**
Changes in scope of consolidation and other changes		-	-	(51)	-	(7,759)	-	-	8,232	-	-	(45)	**377**
Balance at 31 December 2015	**11**	**797,214**	**560,606**	**1,163,954**	**(1,147,975)**	**64,881**	**(2,504)**	**-**	**(17,065)**	**2,895**	**415,413**	**1,612,048**	**3,449,467**
Total recognised income and expense for the period		-	-	-	-	-	2,067	1,317	-	-	273,647	287,189	**564,220**
Transactions with shareholders:													
Share capital increase		94,844	170,720	(1,905)	-	-	-	-	-	-	-	-	**263,659**
Offset of prior years' losses		-	-	(938,993)	938,993	-	-	-	-	-	-	-	**-**
Treasury share portfolio		-	-	(957)	-	(861)	-	-	(31,521)	-	-	(453)	**(33,792)**
Allocation of 2015 profit		-	-	28,535	208,982	130,063	-	-	-	-	(415,413)	(48,752)	**(96,585)**
Share-based payment transactions		-	-	-	-	-	-	-	-	629	-	462	**1,091**
Changes to consolidation scope		-	-	-	-	5,270	(134)	-	(1,225)	-	-	(144,378)	**(140,467)**
Other changes		-	-	-	-	64	-	-	-	173	-	89	**326**
Balance at 31 December 2016	**11**	**892,058**	**731,326**	**250,634**	**-**	**199,417**	**(571)**	**1,317**	**(49,811)**	**3,697**	**273,647**	**1,706,205**	**4,007,919**

The accompanying Notes 1 to 25 and the Appendix are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2016.

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

INMOBILIARIA COLONIAL, S.A. AND SUBSIDIARIES
(COLONIAL GROUP)
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 December 2016
(Thousands of Euros)

	Note	2016	2015
CASH FLOWS IN CONTINUING OPERATIONS			
1. CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES			
Operating profit		212,870	169,553
Adjustments to profit			
Depreciation and amortisation (+)		2,909	1,676
Net change in provisions (+/-)	18	2,755	3,322
Others	18	(32,515)	3,351
Gains/(losses) on sale of investment property (+/-)	18	149	-
Adjusted profit/(loss)		186,168	177,902
Taxes paid (-)		(8,013)	(39,392)
Increase/(decrease) in current assets and liabilities			
Increase/(decrease) in receivables (+/-)		352	(13,230)
Increase/(decrease) in payables (+/-)		(16,127)	(15,754)
Increase/(decrease) in other assets and liabilities (+/-)		6,117	3,097
Total net cash flows in operating activities		168,497	112,623
2. CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Investments in (-)			
Intangible assets		(1,154)	(708)
Property, plant and equipment	7	(2,776)	(165)
Investment properties	8	(171,368)	(324,604)
Equity investments, financial assets and other	2-f and 9	(275,732)	(28,869)
		(451,030)	(354,346)
Disposals of (+)			
Inversiones inmobiliarias	8	17,054	-
		17,054	-
Total net cash flows in investing activities		**(433,976)**	**(354,346)**
3. CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Dividends paid (-)	11	(96,584)	(57,305)
Repayment of bank borrowings (-)	12	(292,657)	(1,104,350)
Repayment of debts with bondholders (-)	12	(530,799)	(243,500)
Interest paid (+/-)	18	(114,831)	(139,462)
Treasury share transactions (+/-)	11	(48,883)	(7,249)
		(1,083,754)	(1,551,866)
New bank borrowings obtained (+)	12	597,412	136,018
New bondholder borrowings obtained (+)	12	650,000	1,750,000
Expenses associated with capital increases	11	(1,905)	(51)
Other proceeds/(payments) for current financial assets and other (+/-)		(8,850)	(558)
		1,236,657	1,885,409
Total net cash flows in financing activities		**152,903**	**333,543**
4. NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS			
Net cash flow for the period in continuing activities		**(112,576)**	**91,820**
Cash and cash equivalents at beginning of period	**14**	**217,776**	**125,956**
Cash and cash equivalents at end of year	**14**	**105,200**	**217,776**

The accompanying Notes 1 to 25 and the Annexe are an integral part of the consolidated statement of cash flows at 31 December 2016.

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

Inmobiliaria Colonial, S.A. and Subsidiaries

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

1. Colonial Group business activity

Group activity

Inmobiliaria Colonial, S.A. (formerly Grupo Inmocaral, S.A., incorporated as Grupo Fosforera, S.A., hereinafter, the "Parent") is a public limited company incorporated in Spain, for an indefinite period, on 8 November 1956. Its registered offices are at Avenida Diagonal 532, in Barcelona.

The activity of the Parent and its subsidiaries (hereinafter, the "Group" or the "Colonial Group") is the lease and disposal of movable property and property, which it carries on in Spain (mainly in Barcelona and Madrid) and in France (Paris), through the group of which the parent is Société Foncière Lyonnaise, S.A. (hereinafter, the "SFL subgroup" or "SFL" for the subsidiary).

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

On 30 August 2016 the Parent 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 from the rating obtained on 5 June 2015.

In view of the business activity carried out by the Group, it does not have any environmental expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or performance. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements. However, the Group does apply an active environmental policy in relation to urban development, construction, maintenance and the preservation of its property portfolio.

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

These consolidated financial statements have been prepared under the International Financial Reporting Standards (IFRSs) as adopted by the European Union, taking into account all mandatory accounting policies, rules and measurement bases, the Spanish Code of Commerce, the Spanish Limited Liability Companies Law, the Spanish Securities Market Law and other applicable company law, as well as regulations laid down by the Spanish National Securities Market Commission (CNMV), to present a true and fair view of the Colonial Group's consolidated equity and financial position at 31 December 2016 and of the comprehensive income from its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended.

The consolidated financial statements of Inmobiliaria Colonial, S.A. and Subsidiaries for the year ended 31 December 2016 were prepared on the basis of the accounting records kept by the Parent and by the other companies comprising the Colonial Group and were authorised for issue by the Parent's directors at the Board meeting held on 24 February 2017.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements at 31 December 2016 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify the policies and bases used and to make them compliant with International Financial Reporting Standards.

In order to present the various items that make up the consolidated financial statements on a consistent basis, the accounting policies and measurement bases used by the Parent were applied to all the companies included in the scope of consolidation.

The Group's consolidated financial statements for the year ended 31 December 2015 were approved by the shareholders of the Parent at the General Meeting held on 28 June 2016.

b) Adoption of International Financial Reporting Standards

The Colonial Group's consolidated financial statements are presented in accordance with International Financial Reporting Standards, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002. In Spain, the requirement to present consolidated financial statements under European IFRSs is established in final provision eleven of Law 62/2003, of 30 December, on tax, administrative and social order measures.

The main accounting principles and measurement bases adopted by the Colonial Group are detailed in Note 4.

Standards and interpretations effective in 2016

New accounting standards became effective in 2016 and were accordingly taken into account when preparing these consolidated financial statements. The new standards are as follows:

Approved for use in the European Union		**Mandatory application for annual periods beginning on or after**
Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (issued in November 2013)	The amendment permits contributions to be recognised as a reduction in the service cost in the period in which payment for the related service is made, if certain requirements are met.	1 February 2015 (1)
Improvements to IFRSs 2010-2012 Cycle (issued in December 2013)	Minor amendments to a series of standards.	1 February 2015 (1)
Amendments to IAS 16 and IAS 38 Acceptable Methods of Depreciation and Amortisation (issued in May 2014)	Clarifies acceptable methods of depreciation for property, plant and equipment and amortisation for intangible assets, not including revenue-based methods.	1 January 2016
Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)	Specifies how to account for the acquisition of an interest in a joint operation that constitutes a business.	1 January 2016
Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (issued in June 2014)	Bearer plants will now be recognised at cost, instead of at fair value.	1 January 2016
Improvements to IFRSs 2012-2014 Cycle (issued in September 2014)	Minor amendments to a series of standards.	1 January 2016
Amendments to IAS 27 Equity Method in Separate Financial Statements (issued in August 2014)	Application of the equity method will be allowed in separate financial statements of an investor.	1 January 2016
Amendments to IAS 1: Disclosure Initiative (issued in December 2014)	Miscellaneous clarifications regarding disclosures (materiality, aggregation, order of notes, etc.).	1 January 2016

Approved for use in the European Union		Mandatory application for annual periods beginning on or after
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities (issued in December 2014)	Clarifications on applying the consolidation exception to investment entities.	1 January 2016

(1) The IASB effective date for the standard was for annual periods beginning on or after 1 July 2014.

Standards and interpretations issued but not yet effective

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

New standards, amendments and interpretations		Mandatory application for annual periods beginning on or after
Approved for use in the European Union		
IFRS 15 Revenue from Contracts with Customers (issued in May 2014)	New standard for the recognition of revenue (substitutes IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31)	1 January 2018
IFRS 9 Financial Instruments (last phase issued in July 2014)	Replaces the rules for the classification, measurement, recognition and derecognition of financial assets and liabilities, hedge accounting and impairment established in IAS 39.	1 January 2018

New standards, amendments and interpretations		Mandatory application for annual periods beginning on or after
Not yet approved for use in the European Union		
Clarifications to IFRS 15 (issued in April 2016)	These relate to the identification of performance, of principal versus agent, concession of licences and their accrual at a point in time and over time, as well as some clarifications to the transition rules.	1 January 2018
IFRS 16 Leases (issued in January 2016)	Replaces IAS 17 and the related interpretations. The fundamental development is that the new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases (with a few limited exceptions) with a similar impact to the current financial leases (the right-of-use asset is depreciated and there is a financial cost for the amortised cost of the liability).	1 January 2019
Amendments to IAS 7 Disclosure Initiative (issued in January 2016)	Introduces additional disclosure requirements in order to improve the information provided to users.	1 January 2017
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016)	Clarification of the principles established for recognition of deferred tax assets for unrealised losses.	1 January 2017
Amendments to IFRS 2 Classification and Measurement of Share-based Payments (issued in June 2016)	Narrow scope amendments to clarify specific questions such as the effect of accrual conditions for cash-settled share-based payments, the classification of share-based payments settled net of tax withholdings, and certain aspects of modifications in the type of share-based payments.	1 January 2018

New standards, amendments and interpretations		Mandatory application for annual periods beginning on or after
Amendments to IFRS 4 Insurance Contracts (issued in September 2016)	Allows entities within the scope of IFRS 4 the option to apply IFRS 9 (Overlay Approach) or its temporary exemption.	1 January 2018
Amendments to IAS 40 Reclassification of Investment Property (issued in December 2016)	The modification clarifies that a reclassification of an investment to or from investment property takes place only when there is evidence of a change in use.	1 January 2018
Not yet approved for use in the European Union		
2014-2016 IFRS Improvements Cycle (issued in December 2016)	Minor amendments to a series of standards (varying effective dates).	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016)	This interpretation establishes the "transaction date", for the purposes of determining the applicable exchange rate for prepayments in foreign currencies.	1 January 2018
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)	Clarification regarding the results of these transactions if they are businesses or assets.	No date specified

The application of new standards, amendments and interpretations will be considered by the Group once they have been ratified and adopted, where appropriate, by the European Union.

The Parent's directors have reviewed the potential impacts of the future application of these standards and consider that their entry into force will not have a significant effect on the consolidated financial statements.

c) *Functional currency*

These consolidated financial statements are presented in the Group’s functional currency, the euro, as this is the currency of the main economic area in which the Group operates.

d) *Responsibility for the information provided and estimates and judgements made*

The information in these consolidated financial statements is the responsibility of the Parent's directors. Management of the Parent has made estimates based on objective data in order to quantify certain assets, liabilities, income, expenses and commitments reported herein. These estimates and criteria relate to the following:

- The market value of property, plant and equipment for own use and investment property (Notes 7 and 8).

  This market value 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.

- Classification, measurement and impairment of financial investments (Note 4-e).

- Estimate of the necessary provisions for insolvent accounts receivable (Note 4-f).

- Measurement of deferred tax liabilities recognised in the consolidated statement of financial position (Notes 4-m and 16).

- Measurement of non-current assets held for sale (Note 4-s).

- The market value of certain financial assets, including derivative financial instruments (Notes 9 and 13).

- Evaluation of lawsuits, obligations and contingent assets and liabilities at year-end (Notes 15 and 17).

Although these estimates were made on the basis of the best available information at the date of authorising these consolidated financial statements for issue, events that take place in the future might make it necessary to modify these amounts (upwards or downwards). Changes in accounting estimates would be made prospectively, with the effects of the changes recognised in the consolidated statement of comprehensive income.

e) Basis of consolidation

The main consolidation principles applied by the Parent's directors in preparing these consolidated financial statements were as follows:

1. The accompanying consolidated financial statements were prepared from the accounting records of Inmobiliaria Colonial, S.A. and its subsidiaries, whose financial statements were prepared by each Group company's management. The Parent is considered to have effective control in the circumstances outlined in point 6 below.

2. The results of the subsidiaries acquired or sold during the year are included in consolidated earnings from the effective date of acquisition or until the effective date of disposal, as appropriate.

3. All accounts receivable and payable and other transactions between the consolidated companies have been eliminated on consolidation.

4. Where necessary, the financial statements of the subsidiaries are adjusted to ensure uniformity with the accounting policies applied by the Group's Parent.

5. The interest of non-controlling shareholders is established in proportion to the fair values of the identifiable assets and liabilities recognised. The share of non-controlling interests in:

    a. Investees' equity: recognised under the heading "Non-controlling interests" in the equity section of the consolidated statement of financial position.

    b. Profit or loss for the year: recognised under the heading "Profit/(loss) attributable to non-controlling interests" in the consolidated statement of comprehensive income.

6. The Group used the following criteria to determine the consolidation method applicable to the various companies comprising the Group:

    Full consolidation:

    - Subsidiaries are fully consolidated and are considered to be all entities in which the Group directly or indirectly controls the financial and operating policies such that power is exercised over the investee. This is generally accompanied by an ownership interest of more than half of an entity's voting rights. In addition, to evaluate whether the Group controls another entity, it considers the power over the investee; the exposure or rights to variable returns of the investment; and the ability to use this power over the investee to affect the amount of the investor's returns. When evaluating whether the Group exercises control over an entity, the existence and the effect of any potential voting rights, both those held by the Parent and by third parties, are taken into consideration, provided they are of a substantive nature.

- Subsidiaries are accounted for using the purchase method. The acquisition cost is the fair value of the assets delivered, the equity instruments issued and the liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and identifiable liabilities and contingencies incurred in a business combination are measured initially at fair value at the acquisition date, regardless of the effect of non-controlling interests. When the acquisition cost is higher than the fair value of the Group's interest in the identifiable net assets acquired, the difference is recognised as goodwill. If the acquisition cost is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income (details of the companies consolidated at 31 December 2016 and 2015 are included in the Appendix).

7. The accompanying consolidated financial statements do not include the tax effect, if any, of transferring the reserves of the consolidated companies to the Parent's equity, since it is considered that these reserves will be used to finance the operations of each company and any potential distributions will not represent a significant additional tax cost.

f) Changes in the scope of consolidation

The following changes occurred in the scope of consolidation in 2016:

- On 25 May 2016, the Parent 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 (Note 8). The acquisition price was 44,745 thousand euros. Of this amount, payment of 15,680 thousand euros was deferred until 25 May 2018, and has been recognised under “Other non-current liabilities” in the consolidated statement of financial position. A guarantee was extended for the deferred portion (Note 14). In addition, the Parent has recognised all of the contingent consideration as an increase in the cost of the asset based on the definitive calculation in the purchase agreement totalling 4,600 thousand euros (Note 14) since the accrual of that consideration has been deemed to be probable.

- On 29 June 2016, the Parent and Reig Capital Group Luxembourg Sàrl (hereinafter, "Reig") reached an agreement whereby the Parent would acquire 2,038,956 shares in the subsidiary SFL (4.38% of its capital). The acquisition was carried out through two transactions: (i) the contribution to the Parent of 1,019,478 shares in SFL in consideration for the subscription of 90,805,920 shares in Colonial (Note 11) valued at 63,564 thousand euros; and (ii) the sale to the Parent of 1,019,478 shares at the price of 50.00 euros per share (for a total of 50,974 thousand euros). Following the transactions, the Parent holds 26,765,356 shares in the subsidiary SFL (57.52% of its total capital). Accordingly, equity attributable to the Parent increased by 2,011 thousand euros.

- On 30 June 2016, the Parent Company acquired 100% of the share capital of the Spanish company Hofinac Real Estate S.L. (hereinafter, "Hofinac"), owner of two properties in Madrid (Note 8). The acquisition was carried out through the non-monetary contribution of 100% of Hofinac's shares to the Parent, in exchange for the subscription of 288,571,430 shares in Colonial (Note 11), valued at 202,000 thousand euros.

- On 4 August 2016, the Parent Company and APG Strategic Real Estate Pool (hereinafter, "APG") reached an agreement whereby the Parent Company would acquire 475,247 shares in the subsidiary SFL (1.02% of its capital). The acquisition was carried out through two transactions: (i) the contribution to the Parent of 237,463 shares in SFL in consideration for the subscription of 2,116,508 shares in Colonial (Note 11) valued at 13,922 thousand euros; and (ii) the sale to the Parent of 237,624 shares at the price of 50.00 euros per share (for a total of 11,881 thousand euros). Accordingly, equity attributable to the Parent increased by 1,900 thousand euros.

- On 29 December 2016, the Parent Company acquired from Fundación Amparo del Moral 100% of the share capital of the Spanish company Fincas y Representaciones S.A. (hereinafter, Finresa), which owns a property in Madrid (Note 8), as well as other fixed assets (Note 7), for 47,678 and 8,842 thousand euros, respectively.

The changes in the scope of consolidation in 2015 were as follows:

- On 28 May 2015, the Parent acquired 100% of the share capital of the Spanish company Danieltown Spain, S.L., the owner of a building on calle Estébanez Calderón in Madrid. The acquisition price was 30,038 thousand euros. This acquisition did not have a significant effect on equity, assets or the Group's profit and loss.

At 31 December 2016 and 2015, Colonial Invest, S.L.U., Colonial Tramit, S.L.U., SB2 SAS, SB3 SAS and SCI SB3 were inactive subsidiaries.

g) *Financial position*

At 31 December 2016, the Group reports negative working capital totalling 239,999 thousand euros, mainly due to the reclassification to current liability of the outstanding nominal amount of the issue of SFL obligations maturing in November 2017. When preparing these consolidated financial statements, the Parent directors took into account the capacity for additional provisions obtained by the Group (Note 12).

h) *Comparative information*

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

i) *Grouping of items*

Certain items in the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows are grouped together to make them easier to understand; however, whenever the amounts involved are material, the information is broken down in the related notes to the consolidated financial statements.

j) *Correction of errors*

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

3. Distribution of the Parent's profit

The distribution of profit from 2016 proposed by the Board of Directors of the Parent and that will be submitted for approval at the General Annual Meeting is as follows:

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

The Parent 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 Parent (Note 11).

In the past 5 years, the Parent Company distributed the following dividends:

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

4. Accounting policies

The main accounting policies used to prepare the consolidated financial statements, in accordance with IFRSs and the interpretations in force when these consolidated financial statements were prepared, are as follows:

a) Business combinations and intangible assets

Business combinations

Business combinations are accounting for by applying the acquisition method (Note 2-e).

The cost of the business combination is allocated at the acquisition date by recognising all the identifiable assets, liabilities and contingent liabilities of the acquiree which meet the criteria for recognition under IFRS 3 at fair value. The excess of the cost of a business combination over the acquiree's allocated assets, liabilities and contingent liabilities is recognised as goodwill, which, accordingly, represents advance payments made by the Colonial Group for future economic benefits generated by the assets of the acquiree that are not individually and separately identifiable and recognisable.

If the cost of the business combination is less than the acquiree's assets, liabilities and contingent liabilities acquired, the difference is recognised in profit or loss for the year in which it is incurred.

Intangible assets

As a general rule, intangible assets are initially measured at their purchase price or their 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.

b) Property, plant and equipment (Note 7)

Property for own use

Properties for own use, including 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 Group and its cost can be determined reliably. Maintenance and upkeep expenses are charged to the consolidated statement of comprehensive income in the year incurred.

Other property, plant and equipment

The assets included under "Other property, plant and equipment" are measured at acquisition cost less accumulated depreciation and impairment, revalued 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 charged to the consolidated statement of comprehensive income for the year in which they are incurred.

Group companies depreciate their property, plant and equipment for own use and other property, plant and equipment using the straight-line method, distributing the cost of the assets over the years of estimated useful life. The years of estimated useful life of property for own use located in Spain and France are as follows:

	Years of estimated useful life	
	Spain	France
Properties		
Buildings	50	50
Fixtures	10 to 15	10 to 50
Other installations, tools and furniture	4 to 10	10 to 50
Other property, plant and equipment	4 to 10	5 to 40

Gains or losses arising on the disposal or derecognition of an asset from this heading are determined as the difference between the sale price and its carrying amount and are recognised in the consolidated statement of comprehensive income.

c) *Investment property (Note 8)*

"Investment property" in the consolidated statement of financial position reflects the values of the land, buildings and other constructions held to earn rents or for capital appreciation upon disposals due to future increases in their respective market prices.

Investment property is carried at fair value at the reporting date and is not depreciated.

The gains or losses arising from fluctuations in the fair value of investment property are taken to income in the same period in which they occur, and are recognised under "Change in fair value of investment property" in the consolidated statement of comprehensive income. These gains or losses are not included in operating profit as the changes in valuation are not directly within the control of the Group's management.

Assets are transferred from investment property in progress to investment property when they are ready for use. The classification of an investment property to the investment property in progress heading takes place only when the rehabilitation or renovation project will exceed 1 year in length.

When the Group recognises in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognises the carrying amount of the replaced part, recognising the impact under "Impairment charges and net gains/(losses) on assets" in the consolidated statement of comprehensive income. If the fair value of the assets replaced cannot be reliably determined, the cost of the replacement is included in the carrying amount of the property, whose fair value is later reassessed periodically on the basis of appraisals performed by independent experts.

In accordance with IAS 40, the Group calculates the fair value of its investment property on a regular basis. Fair value is determined based on the valuations made by independent experts (JLL Valoraciones in 2016 and 2015 and CBRE Valuation Advisory in 2016 in Spain and CBRE, Jones Lang LaSalle and BNP Paribas Real Estate in France, for both 2016 and 2015) at the date of preparation of the consolidated statement of financial position, so that the year-end fair values for investment property items reflect 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 Group.

The *Discounted Cash Flow* (hereinafter, "DCF") method was primarily used to determine the market value of the Group's investment property 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 of an investment 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 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 prepared 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 final profitability or Terminal Capitalisation Rate (*hereinafter, "TCR"*) adopted in each case refers not only to the market conditions forecast at the end of each cash flow period, but also to the leasing 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 reporting period. Buildings with unlet floor space were valued on the basis of future estimated rentals, net of an estimated letting period.

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:

Yields (%) - Offices	Gross 31 December 2016	 31 December 2015
Barcelona – Prime Yield		
Leased out	5.10	5.54
Total portfolio	5.17	5.57
Madrid – Prime Yield		
Leased out	4.75	4.92
Total portfolio	4.77	4.91
Paris – Prime Yield		
Leased out	3.70	4.08
Total portfolio	3.70	4.08

Assumptions made at 31 December 2016					
Rental increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	2.5	2.5	2.5	2.25	2.25
Total portfolio	2.5	2.5	2.5	2.25	2.25
Madrid –					
Leased out	3.0	3.0	3.0	3.0	2.5
Total portfolio	3.0	3.0	3.0	3.0	2.5
Paris –					
Leased out	0.0	1.0	2.0	2.0	2.0
Total portfolio	0.0	1.0	2.0	2.0	2.0

Assumptions made at 31 December 2015					
Rental increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	0.5	0.75	1.25	2.0	2.0
Total portfolio	0.5	0.75	1.25	2.0	2.0
Madrid –					
Leased out	0.5	0.75	1.25	2.0	2.0
Total portfolio	0.5	0.75	1.25	2.0	2.0
Paris –					
Leased out	0.8	1.40	2.0	1.9	1.9
Total portfolio	0.8	1.40	2.0	1.9	1.9

In addition, 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 arrive at an implied price which 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 Group at 31 December 2016 and 2015 to determine the value of its investment property:

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	7,927,918	518,842	(454,174)
December 2015	6,912,522	431,620	(383,189)

Although the sensitivity of other key variables was considered, it 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 table below details the borrowing costs capitalised in 2016 and 2015 (Note 18-g):

	Thousands of euros	
	Amount capitalised during the period	Average interest rate
2016:		
Inmobiliaria Colonial, S.A.	824	2.86%
Danieltown Spain, S.L.U.	43	2.86%
Moorage inversions 2014, S.L.U.	19	2.82%
SFL subgroup	291	1.94%
Total 2016:	**1,177**	-
2015:		
Danieltown Spain, S.L.U.	1	3.40%
SFL subgroup	6,048	2.77%
Total 2015:	**6,049**	-

The income earned in 2016 and 2015 from the lease of investment properties amounted to 271,400 thousand and 231,185 thousand euros, respectively (Note 18-a) and is recognised under "Revenue" in the accompanying consolidated statement of comprehensive income.

In addition, the bulk of repair and maintenance expenses incurred by the Colonial Group in connection with the operation of its investment properties is passed on to the respective lessees (Note 4-q).

Assets held under finance leases

The rights of use and purchase options arising from property, plant and equipment and investment properties classified as finance leases are recorded at the asset's cash value at acquisition, according to the underlying asset whenever the lease terms transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group. At 31 December 2015, all these rights related to investment property and are therefore measured at market value and are not depreciated. The Group did not recognise any assets classified as finance leases at 31 December 2016 (Note 12).

"Bank borrowings and other financial liabilities" (Note 12), both current and non-current, in the consolidated statement of financial position include the total liability from lease payments at their present value less deferred expenses. Financial transaction expenses are charged to the consolidated statement of comprehensive income each time a lease payment is made throughout the life of the lease in accordance with financial criteria.

All other leases are deemed to be operating leases and are expensed on an annual accrual basis.

d) Impairment of property, plant and equipment

At each reporting date, the Colonial Group assesses the carrying amounts of its property, plant and equipment to determine if there are indications that the assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash inflows that are independent of those from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount; however, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

e) Financial instruments (excluding derivative financial instruments)

Financial assets (Note 9)

Initial measurement

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

Classification and subsequent measurement

The financial assets held by the Group are classified into the following categories:

- Loans and receivables: this heading includes loans granted to third parties and associates. They are measured at face value and classified according to maturity. This heading also includes non-current deposits and guarantees granted, primarily in relation to deposits made with official entities in connection with security deposits collected from lessees, in accordance with prevailing legislation.

- Non-derivative financial assets: this heading includes current and non-current fixed income securities generally held to maturity, which are measured at amortised cost. Short-term fixed income securities are recognised under “Current financial assets” in the consolidated statement of financial position. Interest income is calculated in the year in which it accrues on a time proportion basis.

- Available-for-sale financial assets: this heading includes investments where the Group does not exercise significant influence or control. They are measured at fair value, recognising the result of the variations said fair value in equity. The Group considers that the best approximation of the fair value of holdings in companies engaging in property business, and whose assets fundamentally consist of investment properties, is the EPRA NNNAV or EPRA NAV Triple Net.

Financial liabilities (Note 12)

Financial liabilities consist primarily of bank borrowings and are recognised at amortised cost.

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.

Financial liabilities are derecognised when the obligations giving rise to them cease to exist. When a debt instrument swap takes place between the Group and a third party, as long as these instruments have substantially different conditions, the Group 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 attributable transaction costs, is recognised in the consolidated statement of comprehensive income.

The Group considers that the terms of the financial liabilities are substantially different if the present value of the discounted cash flows under the new terms, 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 flow from the original financial liability.

f) Receivables (Note 10)

Receivables are carried at recoverable value, i.e., net, where applicable, of the provisions recognised to cover past-due balances where circumstances warrant their consideration as bad debts. At 31 December 2016 and 2015, the Group had no significant receivables past due but not impaired.

In 2016, impairment losses in the amount of 2,896 thousand euros relating to accounts receivable were charged to "Net change in provisions" in the consolidated statement of comprehensive income for the year.

g) Cash and cash equivalents (Note 12)

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

Financial investments that are easily convertible into a certain amount of cash and that are not subject to any significant risk of changes in value are deemed cash equivalents.

Bank overdrafts are not considered to be cash and cash equivalents.

h) Own equity instruments (Note 11)

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

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

Any Parent shares acquired during the year are recognised as a deduction from equity at the value of the consideration paid. Any gains or losses on the purchase, sale, issue or cancellation of own equity instruments are recognised directly in equity and not in the consolidated statement of comprehensive income.

i) Provisions and contingent liabilities (Notes 15 and 17)

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

- Provisions: credit balances covering obligations arising as a consequence of past events which could give rise to liabilities at the Group companies, the nature of which is certain but the amount and timing of which cannot be determined, and

- Contingent liabilities: possible obligations arising as a consequence of past events, depending on the occurrence of one or more future events over which the consolidated companies do not have control.

The consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled (Note 15). Contingent liabilities are not recognised, but are disclosed in Note 17.

The provisions, which are quantified taking into consideration the best information available concerning the consequences of the events on which they are based, and which are revised at each reporting close, are recognised in order to cover the specific and likely risks for which they were originally recognised, and are fully or partially reversed if and when said risks cease to exist or are reduced.

j) Employee benefits

Termination benefits

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

Pension obligations (Note 15)

In 2016 the Parent 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 Parent Company in this respect in 2016 amount to 235 thousand euros and are recognised under the heading "Staff costs" in the income statement (Note 18-c). No amounts pending contributions to this pension plan exist at the end of 2016.

At 31 December 2016, the SFL subgroup had several defined-benefit pension plans. Defined benefit obligations are calculated periodically by independent actuarial experts. The actuarial assumptions used to calculate these liabilities are adapted the situation and to applicable French legislation, in accordance with IAS 17. The actuarial cost recorded in the consolidated statement of comprehensive income in relation to said plans is the sum of the service costs for the period, the interest expense and actuarial gains and losses.

Share-based payments (Note 19)

The Group 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.

k) Derivative financial instruments (Note 13)

The Group uses financial derivatives to manage its exposure to variations in interest rates. All derivative financial instruments, whether or not designated as hedging instruments, are carried at fair value: market value in the case of listed securities, or according to option valuation methods or discounted cash flow analysis for non-listed securities. The fair value of the derivative financial instruments is determined based on the valuations made by independent experts (Solventis in 2016 and 2015).

The following valuation criteria have been applied:

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

- Treatment of financial instruments which 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 consolidated statement of comprehensive income.

In accordance with IFRS 13, the Group estimated the credit risk in the measurement of its derivative portfolio.

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 cumulative gain or loss recognised in equity is transferred to the consolidated statement of comprehensive income for the year. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

Prospective and retrospective calculation 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 used to determine the effectiveness of hedging instruments consists of calculating the statistical correlation between the benchmark interest rates at each measurement date for the derivative and the hedged liability.

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

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

l) Current / non-current

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

The Group's primary business is the lease of assets and its normal business cycle is a calendar year and, therefore, assets and liabilities maturing in one year or less are classified as current assets and those maturing in more than that time 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 10) 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 Group has the irrevocable right to make payments after twelve months from the end of the reporting period.

m) Income tax (Note 16)

General regime

The expense for Spanish corporate income tax and analogous taxes applicable to consolidated foreign operations is recognised in the consolidated statement of comprehensive income, except when the tax expense is generated by a transaction the gains on which are taken directly to equity, in which case the corresponding tax is also recognised in equity.

Income tax expense is the sum of the tax payable on profit for the year and the variation in recognised deferred tax assets and liabilities.

Corporate income tax expense for the year is calculated based on taxable profit for the year, which differs from the net profit or loss presented in the consolidated statement of comprehensive income because it excludes certain taxable income and deductible expenses from prior years, as well as other exempt items. The Group's current tax liabilities are calculated using tax rates that have been enacted or substantively enacted by the reporting date.

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, deferred tax assets not recognised in the consolidated statement of financial position 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. In accordance with IAS 12, changes in deferred tax assets and liabilities caused by changes in tax rates or tax laws are recognised in the consolidated statement of comprehensive income for the year in which these changes are approved.

In accordance with that established in IAS 12, the measurement of the Group'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 that are measured using the fair value model of IAS 40, there is a rebuttable presumption that their carrying amount will be recovered through their sale. Consequently, the deferred tax liabilities arising from the Group's investment properties located in Spain and in companies that form part of the tax group, were calculated by applying a tax rate of 25%, less any existing tax credits not recognised at 31 December 2016. The effective settlement rate was therefore 18.75% (compared to the 7.5% at 31 December 2015).

The Parent heads a group of companies filing consolidated tax returns under tax group no. 6/08.

SIIC regime – SFL subgroup

Since 1 January 2003, the SFL subgroup companies file under the French tax regime applicable to listed property investment companies (“the SIIC regime”). This regime enabled on this date the recognition at market value of assets allocated to the rental business, subject to a tax rate of 16.5% (hereinafter, “exit tax”), payable within a period of four years, on the capital gains recorded for accounting purposes at 1 January 2003.

This regime affects only property activities, and is not applicable to companies engaged in sales and services, such as Segpim, S.A. and Locaparis SAS in the SFL subgroup, to properties under finance leases (unless the lease is cancelled early) or to the subgroups and joint ventures.

This regime affords the SFL subgroup an exemption from taxes on earnings generated by the rental business and on capital gains generated by the sale of properties, provided that 95% of profit from that activity and 60% of the capital gains obtained on property sales of companies availing themselves of such arrangement are distributed each year in the form of dividends.

On 30 December 2006, a new amendment to the SIIC regime was passed ("SIIC 4") which stipulated, inter alia, the following:

- To be able to continue under this regime, the maximum holding an individual shareholder may own in an SIIC company is 60%. A two-year transition period was established for meeting this requirement, which meant a deadline of 30 December 2008.

- Dividends paid annually to shareholders that hold, directly or indirectly, more than 10% of the capital of an SIIC and which are exempt from tax or are subject to a tax that is less than two-thirds of the standard French income tax rate would be subject to a 20% levy, payable by the SIIC company. This rule applies to dividends distributed from 1 July 2007.

On 18 December 2008, a new amendment to the SIIC regime ("SIIC 5") was approved, postponing the deadline for limiting the maximum holding of a single shareholder in an SIIC company to 60% until 1 January 2010. The Parent maintains an ownership interest in SFL of less than 60%.

At 31 December 2007, the Parent notified SFL that dividends distributed from 1 July 2007 would be taxed in Spain at a rate of over 11.11% as a result of the partial application of the deduction for double taxation of these dividends. As a result, the 20% withholding described above is not being applied.

n) Recognition of revenue and expenses (Note 18)

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

However, in accordance with the accounting principles established in the IFRS conceptual framework, the Group recognises all accrued revenue and necessary associated expenses. Revenue from goods sold is recognised when the goods have been delivered and ownership transferred.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's carrying amount.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established, i.e., when the shareholders at the Annual General Meetings of the investees approve the distribution of the related dividend.

Property leases-

In accordance with IAS 17, 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 Group's leases qualified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the lease term.

Specific lease terms and conditions-

Lease agreements include certain specific conditions linked to incentives or rent-free periods offered by the Group to its customers. In accordance with SIC 15, the Group 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.

o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of property developments (Note 4-c), which are assets that require preparation during a significant period of time for their intended use or sale, are capitalised until these assets in condition for their intended use or sale.

p) Consolidated statement of cash flows (indirect method)

The terms used in the consolidated 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, sale or disposal by other means of non-current assets and other investments not included in cash and cash equivalents.

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

q) Costs passed on to lessees

In accordance with IFRSs, the Group does not consider costs passed on to lessees of its investment property as revenue. In 2016 and 2015, the Group invoiced 48,400 thousand and 45,357 thousand euros, respectively. Expenses incurred in connection with investment properties that did not generate rental income were not material.

Direct operating expenses associated with investment properties which generated rental income during the years ended 31 December 2016 and 2015, included under "Operating profit" in the accompanying consolidated statement of comprehensive income, amounted to 66,720 thousand and 63,010 thousand euros, respectively. The expenses incurred in connection with investment properties that did not generate rental income were not significant.

r) Related party transactions

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

s) Non-current assets held for sale (Note 22)

Non-current assets held for sale are measured at the lower of their carrying amount in accordance with applicable measurement rules and fair value less costs to sell.

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 condition to be sold immediately 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 Colonial Group 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. The accompanying consolidated statement of financial position includes under this heading all the assets which at the date of authorising these consolidated financial statements for issue met all the requirements for classification as held for sale.

t) *Fair value hierarchy*

Assets and liabilities measured at fair value are classified according to the following hierarchy established in IFRS 7 and IFRS 13:

- Level 1: Inputs are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: Inputs are based on quoted prices for similar assets or liabilities in active markets (not included in level 1), prices quoted for identical or similar assets or liabilities in markets that are not active, techniques based on valuation models for which all relevant inputs are observable in the market or can be corroborated by observable market data.

- Level 3: In general, inputs are unobservable and reflect estimates based on market assumptions to determine the price of the asset or liability. Unobservable data used in the valuation models are significant in the fair values of the assets and liabilities.

In accordance with IFRS 13, the Group estimated the bilateral credit risk in order to reflect both its own risk, as well as counterparty risk in the fair value of its derivatives (Note 4-k). Credit risk at 31 December 2016 and 2015 was not considered to be material.

The detail of the Group's assets and liabilities measured at fair value according to the aforementioned levels is as follows:

31 December 2016

	Thousands of euros		
	Level 1	Level 2	Level 3
Assets			
Investment property	-	-	7,762,627
Non-current financial assets available for sale	-	-	138,293
Total assets	**-**	**-**	**7,900,920**
Liabilities			
Bank borrowings and other liabilities	-	-	871,080
Bonds and similar securities issued (**)	2,917,451	-	-
Derivative financial instruments (*):			
Not classified as hedges	-	3,414	-
Total liabilities	**2,917,451**	**3,414**	**871,080**

(*) At 31 December 2016, the fair value of the derivative financial instruments did not differ significantly from the carrying amount recognised in the accompanying consolidated statement of financial position (Note 13).

(**) At 31 December 2016, the carrying amount of the bonds issued by SFL and the Parent was 1,300,700 and 1,525,000 thousand euros, respectively. (Note 12).

31 December 2015

	Thousands of euros		
	Level 1	Level 2	Level 3
Assets			
Investment property	-	-	6,743,313
Non-current assets held for sale	-	-	12,727
Total assets	**-**	**-**	**6,756,040**
Liabilities			
Bank borrowings and other liabilities	-	-	573,516
Bonds and similar securities issued (**)	2,732,273	-	-
Derivative financial instruments (*):			
Cash flow hedges	-	3,058	-
Not classified as hedges	-	2,778	-
Total liabilities	**2,732,273**	**5,836**	**573,516**

(*) At 31 December 2015, the fair value of the derivative financial instruments did not differ significantly from the carrying amount recognised in the accompanying consolidated statement of financial position (Note 13).
(**) At 31 December 2015, the carrying amount of the bonds issued by SFL and the Parent was 1,456,500 and 1,250,000 thousand euros, respectively. (Note 12).

5. Earnings per share

Basic earnings per share are calculated by dividing earnings for the year attributable to shareholders of the Parent (after tax and non-controlling interests) by the weighted average number of shares outstanding during that year.

Diluted earnings per share are calculated in a manner similar to basic earnings per share, except that the weighted average number of shares outstanding is adjusted to take into account the potential dilutive effect of the convertible bonds outstanding at year-end. At 31 December 2016, there were no bonds pending conversion to shares in the Parent.

At the General Meeting held on 28 June 2016, shareholders approved a reverse stock split whereby every 10 existing shares would be swapped for one newly-issued share (Note 11). Consequently, the basic and diluted earnings per share is calculated in accordance with IFRS, taking into account that said operation was performed at the start of the first period presented, that being 1 January 2015.

	Thousands of euros	
	31 December 2016	31 December 2015
Consolidated profit for the year attributable to shareholders of the Parent:	**273,647**	**415,413**
- from continuing operations	273,647	415,413
	No. of shares	No. of shares
Weighted average number of ordinary shares (in thousands)	336,240	318,584
Weighted average number of ordinary shares - diluted (in thousands)	336,240	318,584
	Euros	Euros
Basic and diluted earnings per share:	**0.81**	**1.30**
- from continuing operations	0.81	1.30

6. Segment reporting

Segmentation criteria

Segment reporting is organised, firstly, on the basis of the Group's business segments, and, secondly, by geographical segment.

The business segments described below have been defined in line with the Colonial Group’s organisational structure at 31 December 2016, which has been used by the Group’s management to analyse the financial performance of the various operating segments.

Basis and methodology for business segment reporting

The segment information below is based on monthly reports prepared by Group management, generated using the same computer application as that used to prepare all of the Group's accounting data.

Segment revenue comprises revenue directly attributable to each segment, as well as gains from the sale of investment properties. Segment revenue excludes both interest and dividend income. The Group has included within segment revenue its share of revenue of proportionally consolidated joint ventures.

Segment expenses comprise operating expenses directly attributable to each segment and losses on the sale of investment properties. Allocated expenses do not include interest expense, income tax or general administrative expenses incurred in the provision of general services that are not directly allocated to any business segment and that cannot be so allocated following any rational criteria. Segment expenses include the share of expenses of proportionately consolidated joint ventures.

Segment assets and liabilities are those directly related to that business’ activities and operations. They include the share of assets/liabilities of proportionately consolidated joint ventures. The Group has no set criteria for allocating borrowings or equity by business segment. Borrowings are attributed in full to the “Corporate Unit”.

Segment information for these businesses is as follows:

2016 segment reporting

	Thousands of euros						
	Rentals					**Corporate Unit**	**Total Group**
	Barcelona	Madrid	Paris	Other	Total rentals		
Income							
Revenue (Note 18-a)	30,343	42,558	198,137	362	271,400	-	**271,400**
Other income (Note 18-b)	8	11	2,640	-	2,659	398	**3,057**
Net gain/(loss) on sales of assets (Notes 18-f)	557	(706)	-	-	(149)	-	**(149)**
Operating profit/(loss)	28,357	35,209	190,522	207	254,295	(41,425)	**212,870**
Change in fair value of investment property (Note 18-f)	44,673	77,130	438,040	934	560,777	-	**560,777**
Impairment charges and net gains/(losses) on assets (Note 18-e)	(7,531)	-	-	-	(7,531)	3,158	**(4,373)**
Financial gain/loss (Note 18-g)	-	-	-	-	-	(104,883)	**(104,883)**
Profit before tax	-	-	-	-	-	664,391	**664,391**
Consolidated net loss from continuing operations	-	-	-	-	-	559,304	**559,304**
Profit from discontinued operations	-	-	-	-	-	-	**-**
Consolidated net profit	-	-	-	-	-	559,304	**559,304**
Net loss attributable to non-controlling interests (Notes 18-i)	-	-	-	-	-	(285,657)	**(285,657)**
Net profit attributable to shareholders of the Parent (Note 5)	-	-	-	-	-	273,647	**273,647**

There were no significant inter-segment transactions in 2016.

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

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals		
Assets							
Intangible assets, property, plant and equipment and investment property (Notes 7 and 8)	807,984	1,349,566	5,605,423	6,761	7,769,734	39,503	**7,809,237**
Financial assets	1,081	1250	699	-	3,030	253,287	**256,317**
Other non-current assets	-	-	-	-	-	454	**454**
Trade receivables and other current assets	-	-	-	-	-	161,643	**161,643**
Total assets	**893,803**	**1,339,016**	**5,740,847**	**6,391**	**7,980,057**	**247,594**	**8,227,651**

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals		
Liabilities							
Bank borrowings and other financial liabilities (Note 12)	-	-	-	-	-	871,080	**871,080**
Bonds and similar securities issued (Note 12)	-	-	-	-	-	2,823,883	**2,823,883**
Trade liabilities (suppliers and payables)	-	-	-	-	-	69,760	**69,760**
Other liabilities	-	-	-	-	-	455,009	**455,009**
Total liabilities	-	-	-	-	-	**4,219,732**	**4,219,732**

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals		
Other disclosures							
Investments in intangible assets, property, plant and equipment and investment property	49,147	47,782	67,990	-	164,919	-	**164,919**
Depreciation and amortisation charge	(4)	-	(489)	-	(493)	(2,416)	**(2,909)**
Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year:							
- Changes in provisions	(1)	(1,545)	743	-	(803)	(1,952)	**(2,755)**
- Change in fair value of investment property (Note 18-f)	44,673	77,130	438,040	934	560,777	-	**560,777**
- Profit/loss due to changes in the value of assets due to impairment (Note 18-e)	(7,531)	-	-	-	(7,531)	3,158	**(4,373)**

2015 segment reporting

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals		
Income	27,102	35,331	170,099	-	232,532	1,796	**234,328**
Revenue (Note 18-a)	27,087	35,304	168,794	-	231,185	-	**231,185**
Other income (Note 18-b)	15	27	1,305	-	1,347	1,796	**3,143**
Net gain/(loss) on sales of assets (Notes 18-f)	-	-	-	-	-	-	-
Operating profit/(loss)	22,972	30,399	155,130	(245)	208,256	(38,703)	**169,553**
Change in fair value of investment property (Note 18-f)	92,233	118,776	513,654	(4,681)	719,982	-	**719,982**
Impairment charges and net gains/(losses) on assets (Note 18-e)	(2,880)	(390)	(11)	-	(3,281)	807	**(2,474)**
Financial gain/loss (Note 18-g)	-	-	-	-	-	(131,119)	**(131,119)**
Profit before tax	-	-	-	-	-	755,942	**755,942**
Consolidated net loss from continuing operations	-	-	-	-	-	703,145	**703,145**
Profit from discontinued operations	-	-	-	-	-	-	-
Consolidated net profit	-	-	-	-	-	703,145	**703,145**
Net loss attributable to non-controlling interests (Notes 18-i)	-	-	-	-	-	(287,732)	**(287,732)**
Net profit attributable to shareholders of the Parent (Note 5)	-	-	-	-	-	415,413	**415,413**

There were no significant inter-segment transactions in 2015.

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

	Thousands of euros						
	Rentals					**Corporate Unit**	**Total Group**
	Barcelona	Madrid	Paris	Other	Total rentals		
Assets							
Intangible assets, property, plant and equipment and investment property (Notes 7 and 8)	682,333	962,490	5,100,299	(4)	6,745,118	34,403	**6,779,521**
Financial assets	91,213	1,208	13,182	-	105,603	121,136	**226,739**
Other non-current assets	-	-	-	-	-	1,021	**1,021**
Trade receivables and other current assets	-	-	-	-	-	109,518	**109,518**
Non-current assets held for sale (Note 22)	-	6,942	-	5,785	12,727	-	**12,727**
Total assets	**773,546**	**970,640**	**5,113,481**	**5,781**	**6,863,448**	**266,078**	**7,129,526**

	Thousands of euros						
	Rentals					**Corporate Unit**	**Total Group**
	Barcelona	Madrid	Paris	Other	Total rentals		
Liabilities							
Bank borrowings and other financial liabilities (Note 12)	-	-	-	-	-	572,552	**572,552**
Bonds and similar securities issued (Note 12)	-	-	-	-	-	2,715,240	**2,715,240**
Trade liabilities (suppliers and payables)	-	-	-	-	-	85,642	**85,642**
Other liabilities	-	-	-	-	-	306,625	**306,625**
Total liabilities	**-**	**-**	**-**	**-**	**-**	**3,680,059**	**3,680,059**

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals		
Other disclosures							
Investments in intangible assets, property, plant and equipment and investment property	4,789	168,290	192,265	-	365,344	186	**365,530**
Depreciation and amortisation charge	(1)	-	(492)	-	(493)	(1,183)	**(1,676)**
Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year:							
- Changes in provisions	6	(994)	(252)	-	(1,240)	(2,082)	**(3,322)**
- Change in fair value of property property (Note 18-f)	92,233	118,776	513,654	(4,681)	719,982	-	**719,982**
- Profit/loss due to changes in the value of assets due to impairment (Note 18-e)	(2,880)	(390)	(11)	-	(3,281)	807	**(2,474)**

7. Property, plant and equipment

The movement in property, plant and equipment in 2016 and 2015 was as follows:

	Thousands of euros								
	Property for own use			Other property, plant and equipment		Total			
	Cost	Accumulated depreciation	Impairment	Cost	Accumulated depreciation	Cost	Accumulated depreciation	Impairment	**Total**
Balance at 31 December 2014	**43,110**	**(7,259)**	**(8,608)**	**11,554**	**(5,812)**	**54,664**	**(13,071)**	**(8,608)**	**32,985**
Additions or charges	2	(273)	-	163	(883)	165	(1,156)	-	(991)
Decreases	-	-	808	(454)	53	(454)	53	808	407
Transfers	-	-	-	717	-	717	-	-	717
Balance at 31 December 2015	**43,112**	**(7,532)**	**(7,800)**	**11,980**	**(6,642)**	**55,092**	**(14,174)**	**(7,800)**	**33,118**
Additions or charges	1,671	(282)	-	1,061	(946)	2,732	(1,228)	-	1,504
Additions to the scope of consolidation (Note 2-f)	9,271	(448)	-	593	(574)	9,864	(1,022)	-	8,842
Decreases	(2,810)	192	3,159	(595)	581	(3,405)	773	3,159	527
Transfers	-	-	-	70	-	70	-	-	70
Balance at 31 December 2016	**51,244**	**(8,070)**	**(4,641)**	**13,109**	**(7,581)**	**64,353**	**(15,651)**	**(4,641)**	**44,061**

At 31 December 2016 and 2015, the Group used two floors of the building located at Avenida Diagonal, 530, in Barcelona, one floor of the building located at Paseo de la Castellana, 52, in Madrid and one floor of the building located at 42 *rue* Washington in Paris for its own use, while the rest of these buildings were destined for leasing purposes. The value of buildings used for the Group's own use is recognised in "Property for own use".

The additions to the scope of consolidation deriving from the acquisition of Finresa (Note 2-f) for 8,842 thousand euros consist of land and two apartments located in Madrid.

Disposals relate to the sale of one of the apartments acquired from Finresa for 2,100 thousand euros, generating a loss of 706 thousand euros.

At 31 December 2016, the need to recognise a reversal of the asset impairment charge recognised in previous years in the amount of 3,159 thousand euros was evidenced by the appraisals performed by independent experts (Note 18-e). In 2015, the Company recognised the reversal of the asset impairment loss on the value of the assets recognised in previous years in the amount of 808 thousand euros.

At 31 December 2015, as a result of the disposal on the part of the Group of assets included under "Other property, plant and equipment", a gain of 14 thousand euros, stated as the difference between the sale price and carrying amount, was recognised in the consolidated statement of comprehensive income.

8. Investment property

The movements in this heading of the consolidated statement of financial position in 2016 and 2015 were as follows:

	Thousands of euros			
	Investment property	Investment property in progress	Prepayments	**Total**
Balance at 31 December 2014	**5,344,962**	**311,767**	**6,580**	**5,663,309**
Additions	187,285	148,627	-	**335,912**
Additions to the scope of consolidation (Note 2-f)	-	29,971	-	**29,971**
Decreases	(3,281)	-	(6,580)	**(9,861)**
Transfers	328,854	(329,987)	-	**(1,133)**
Changes in fair value (Note 18-f)	716,452	8,663	-	**725,115**
Balance at 31 December 2015	**6,574,272**	**169,041**	**-**	**6,743,313**
Additions	91,723	73,196	-	**164,919**
Additions to the scope of consolidation (Note 2-f)	270,050	31,866	-	**301,916**
Decreases	(7,532)	-	-	**(7,532)**
Transfers	(22,881)	22,572	-	**(309)**
Changes in fair value (Note 18-f)	557,296	3,024	-	**560,320**
Balance at 31 December 2016	**7,462,928**	**299,699**	**-**	**7,762,627**

Changes in 2016

The additions in 2016 relate to the following transactions:

- On 21 June 2016, the Parent acquired a building at calle José Abascal, 45, Madrid for 35,051 thousand euros, including acquisition costs.

- On 28 December 2016, the Parent acquired a building at calle Travesera de Gràcia, 47-49 in Barcelona for 42,043 thousand euros, including acquisition costs.

- The remaining additions relate to development and renovation projects, mainly on properties of the SFL subgroup, in the amount of 67,990 thousand euros, and at properties of other Group companies, in the amount of 19,835 thousand euros. The above amounts include 1,177 thousand euros in capitalised financial costs (Note 4-c).

In addition, as indicated in Note 2-f, the following additions were made to the scope of consolidation:

- On 28 May 2016, the Parent acquired 100% of the shares in Moorage, resulting in the addition in the scope of consolidation of land located on calle Ciudad de Granada in Barcelona, for 53,854 thousand euros.

- On 30 June 2016, the Parent acquired 100% of the shares in Hofinac, resulting in the addition in the scope of consolidation of two properties located at calle Santa Hortensia, 26-28 and calle Serrano, 73, both in Madrid, for a combined amount of 200,384 thousand euros.

- On 29 December 2016, the Parent acquired 100% of the shares in Finresa, resulting in the addition in the scope of consolidation of a property located in Madrid for 47,678 thousand euros.

Derecognition of assets amounting to 7,532 thousand euros were recognised in 2016 (Note 18.e).

Changes in 2015

In May 2015, the Parent acquired 100% of the share capital of the Spanish company Danieltown Spain, S.L.U., the owner of a property located in Madrid on calle Estébanez Calderón (Note 2-f). This acquisition resulted in an addition to the scope of consolidation in the amount of 29,971 thousand euros.

In June 2015, SFL acquired a property located in Paris, on avenue Percier, for 67,547 thousand euros.

In 2015, the Parent also acquired three properties located in Madrid for a total of 134,871 thousand euros, including acquisition costs.

Lastly, the Group carried out development and renovation projects on SFL properties amounting to 125,256 thousand euros (Richelieu, Call-LdA, Champs Élysées 90 and Washington Plaza, etc.), and made investments in other properties owned by other Group companies for approximately 8,238 thousand euros.

Changes in fair value of investment property

"Changes in fair value of investment property" in the consolidated statement of comprehensive income includes a net gain on the value of investment property in 2016 and 2015 of 560,777 thousand and 725,115 thousand euros, respectively (Note 18-f). These changes reflect the changes in the fair value of the Group's investment properties evidenced the independent property appraisals dated 31 December 2016 and 2015 (Note 4-c).

Other disclosures

The total surface area (above and under-ground) of investment property and projects under development at 31 December 2016 and 2015 is as follows:

Minimum	Total surface area (m^2) of investment property					
	Investment property		Investment property in progress		Total	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Barcelona (*)	286,216	285,935	59,368	31,520	345,584	317,455
Madrid	355,779	256,105	38,263	30,014	394,042	286,119
Rest of Spain	12,735	458	-	-	12,735	458
Paris (*)	415,174	414,190	45,855	51,272	461,029	465,462
	1,069,904	**956,688**	**143,486**	**112,806**	**1,213,390**	**1,069,494**

(*) Including 100% of the floor space of Washington Plaza (a property owned by SCI Washington, a Group company 66%-owned by SFL), the Haussmann, Champs Élysées, 82-88 and Champs Élysées, 90 building (owned by the Parholding subgroup, in which SFL holds a 50% interest) and the Torre del Gas property (owned by Torre Marenostrum, S.L., a company 55%-owned by the Parent).

At 31 December 2016, SFL and Torre Marenostrum, S.L. pledged assets as collateral for mortgage loans, the carrying amount of which is 862,787 thousand euros, and as collateral for debts in the amount of 241,000 thousand euros. At 31 December 2015, the above amounts were 932,850 thousand euros and 273,479 thousand euros.

In June 2016, the subsidiary SFL exercised its 26,000 thousand euro purchase option on the last finance lease it held, thereby assuming ownership of the property located at Wagram, 131.

9. Non-current financial assets

The changes in this heading of the consolidated statement of financial position in 2016 and 2015 were as follows:

	Thousands of euros			
	31 December 2015	Acquisitions and charges	Disposals or decreases	31 December 2016
Deposits and guarantees given	8,954	3,343	-	12,297
Financial assets available for sale	-	138,293	-	138,293
Total	**8,954**	**137,950**	**-**	**150,676**

	Thousands of euros			
	31 December 2014	Acquisitions and charges	Disposals or decreases	31 December 2015
Deposits and guarantees given	10,070	888	(2,004)	8,954
Total	**10,070**	**888**	**(2,004)**	**8,954**

Deposits and guarantees given

Long-term deposits and guarantees basically comprise deposits made with the official bodies in each country for deposits collected from lessees, in accordance with prevailing legislation.

Available-for-sale financial assets - Interest in Axiare SOCIMI

On 31 November 2016, the Parent acquired 10,846,541 shares in Axiare Patrimonio SOCIMI, S.A., (hereinafter, Axiare) representing 15.09% of its share capital, for 136,976 thousand euros, including acquisition costs.

The Parent Company classified the financial investment under financial assets available for sale given that the Directors consider that the Parent 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.

At 31 December 2016, the Parent recorded 1,317 thousand euros under "Valuation adjustments recognised in equity - financial instruments" in the consolidated statement of financial position (Note 11), as a result of the changes in the fair value of that investment (Note 4-e), using as a reference the latest NNNAV published by Axiare at 30 June 2016, which totalled 12.75 euros per share. At 30 December 2016, Axiare had a listed price of 13.82 euros per share.

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

As a result of restructuring the financial debt of Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. (hereinafter, "DUE"), the Parent granted a loan for a maximum of 85,000 thousand euros, the purpose of which, among others, is to finance the development of the project implemented by DUE and to cover the costs of the work yet to be carried out on the UE-1. 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 Parent recognised the appropriate provision under "Other non-current provisions" in the accompanying consolidated statement of financial position. The Parent recognised a provision for the full amount of the loan granted to DUE.

In accordance with the provisions of the agreement between both companies, the loan granted by the Parent is convertible into a participating loan provided that 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.

Lastly, aforementioned loan accrues contingent interest based on compliance with certain conditions. At 31 December 2016 and 2015, no finance income was accrued in this connection.

10. Trade and other receivables

The breakdown of this current asset heading in the accompanying consolidated statement of financial position at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	31 December 2016	31 December 2015
Trade receivables from sales and services	16,337	16,793
Accrual of lease incentives	103,125	59,160
Other receivables	85,810	85,630
Impairment of trade receivables (Note 18-e)	(89,094)	(90,093)
Other current assets	776	476
Total trade and other receivables	**116,954**	**71,966**

Trade receivables from sales and services

This mainly includes the amounts receivable from customers, fundamentally from the Group's rentals business in France, that are billed monthly, quarterly or yearly. At 31 December 2016 and 2015, no material amounts were past due.

Accrual of lease incentives

This includes the amount of the incentives in the operating lease agreements (rent-free periods, etc.) that the Group offers its customers, which are recognised in the consolidated statement of comprehensive income during the minimum operating lease term (Note 4-n). Of that amount, 87,596 thousand euros have a maturity of more than 1 year.

Other receivables and impairment losses on trade 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 85,473 thousand euros, including accrued interest (Note 18-e).

At 31 December 2015, the Parent derecognised from the consolidated statement of financial position the amount receivable from NZ Patrimonio, S.L.U. together with the corresponding impairment, totalling 66,717 thousand euros, as soon as the insolvency manager disposed of all of its assets, without the amounts obtained being sufficient to satisfy the sums owed to the Parent.

Nozar, S.A. is currently involved in bankruptcy proceedings; consequently, at 31 December 2016 and 2015, the accompanying consolidated statement of financial position included an impairment loss for the entire amount of this company’s trade receivables.

11. Equity

Share capital

The Parent's share capital at 31 December 2014 and 2015 comprised 3,188,856,640 fully subscribed and paid-up shares with a par value of 0.25 euro each.

The following changes in the Parent's share capital arose 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. This capital increase was recorded in the Barcelona Mercantile Register on 30 June 2016.

- On the same date, the shareholders also 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. This capital increase was recorded in the Barcelona Mercantile Register on 30 June 2016.

On 14 July 2016, the Parent carried out the resolution calling for 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 of each share from 0.25 euros to 2.50 euros.

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 Parent at 31 December 2016 and 2015 were 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 shares in the Parent.

At 31 December 2016, the Finaccess Group, the Villar-Mir Group and Deutsche Bank AG formally obtained financial instruments associated with Parent 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 Parent company shares, bringing its interest in the Parent to 9,780,025 shares, representing 2.74% of capital.

On 12 January 2017, the Villar-Mir Group sold Parent company shares, reducing its interest in the Parent to 5,419,255, representing 1.52% of capital.

On 18 January 2017, Fidelity International Limited sold Parent company shares, reducing its interest in the Parent to 3,543,721, representing 0.99% of capital.

The Parent has no knowledge of other significant equity interests.

During the General Shareholders' Meeting held on 24 April 2015, the Board of Directors was authorised to issue, on behalf of the Parent, on one or several occasions, and for a period of five years, debentures and/or bonds convertible into new shares of the Parent and/or exchangeable for shares of the Parent or 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 any other currency.

Lastly, at the General Meeting held on 28 June 2016, the shareholders of the Parent 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, 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, taken as a whole.

Share premium

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.

During 2015, there were no changes in the Parent's share premium.

Legal reserve

Under the Consolidated 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 profits 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 entered in the Barcelona Mercantile Register to reduce share capital by 169,439 thousand euros and 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 Parent 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 profits 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 47,832 thousand euros in dividends, and the allocation of 208,983 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 profits, in the amount of 938,992 thousand euros.

Following both offset exercises, voluntary reserves total 217,019 thousand euros, of which 169,439 thousand euros continue to be restricted.

Likewise, the aforementioned capital increases entailed costs of 1.905 thousand euros, which were recognised under “Reserves of the Parent” in consolidated equity.

Valuation adjustments recognised in equity - financial instruments

This heading of the consolidated statement of financial position includes the net change in the fair value of financial derivatives designated as hedging instruments in cash flow hedges (Note 13).

The changes in this heading are as follows:

	Thousands of euros	
	31 December 2016	31 December 2015
Opening balance	(2,504)	(6,368)
Changes in the fair value of hedges in the period	(101)	196
Transfer to the statement of comprehensive income	2,168	3,668
Changes in the scope of consolidation (Note 2-f)	(134)	-
Closing balance	**(571)**	**(2,504)**

Treasury shares of the Parent

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

On 29 April 2016, the Parent 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 previously, on 14 July 2016 the Group registered with the Companies Register the resolution concerning the reverse stock split into which the company's capital was divided, at the ratio of 1 new share for every 10 existing shares.

On 29 July 2016, the Parent 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 Parent gave 2,116,508 treasury shares to APG in exchange for 237,623 shares in the subsidiary SFL (Note 2-f).

The liquidity agreement signed by the Parent 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 Parent'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 Parent'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, 3,162,672 shares had been acquired under the framework of the repurchase scheme, for the amount of 20,249 thousand euros.

In 2015, the Parent 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 Parent 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 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 share 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.

Treasury shares of SFL

The Colonial Group held the following shares in SFL (held as treasury shares):

	31 December 2016	31 December 2015
No. of shares	362,380	377,465
Carrying amount (in thousands of euros)	13,056	12,052
% shareholding	0.78%	0.81%

In 2016, SFL acquired 117,893 shares for a total of 5,643 thousand euros and sold 132,978 shares with a carrying amount of 6,019 thousand euros, recognising a loss of 860 thousand euros attributable to the Colonial Group.

In 2015, SFL acquired 99,093 shares for a total of 4,106 thousand euros and sold 148,323 shares with a carrying amount of 6,000 thousand euros, recognising a loss of 926 thousand euros attributable to the Colonial Group.

Some of abovementioned shares are held by SFL to cover two share option plans with different maturity dates and strike prices (Note 19).

At 31 December 2016, the net value of the shares (EPRA NNNAV) published by SFL was 66.23 euros per share.

Non-controlling interests

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

	Thousands of euros		
	Torre Marenostrum, S.L.	SFL subgroup	**Total**
Balance at 31 December 2014	**18,004**	**1,358,104**	**1,376,108**
Profit for the year	4,513	283,219	**287,732**
Dividends and other	37	(56,444)	**(56,407)**
Financial instruments	161	4,454	**4,615**
Balance at 31 December 2015	**22,715**	**1,589,333**	**1,612,048**
Profit for the year	1,124	284,533	**285,657**
Dividends and other	(382)	(48,272)	**(48,654)**
Changes in the scope of consolidation (Note 2-f)	-	(144,378)	**(144,378)**
Financial instruments	505	1,027	**1,532**
Balance at 31 December 2016	**23,962**	**1,682,243**	**1,706,205**

The breakdown of the items included in “Dividends and other” at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	31 December 2016	31 December 2015
Dividend paid by the SFL subgroup to non-controlling interests	(42,435)	(52,992)
Dividend paid by Washington Plaza to non-controlling interests	(5,934)	(3,910)
Dividend paid by Torre Marenostrum to non-controlling interests	(382)	(403)
Others	97	898
Total	**(48,654)**	**(56,407)**

12. Bank borrowings, other financial liabilities and issuance of bonds and other similar securities

The breakdown by maturity of "Bank borrowings and other financial liabilities" at 31 December 2016 and 2015 is as follows:

31 December 2016

	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	Over 5 years	Total non-current	
Bank borrowings:								
Lines of credit	84,815	-	-	-	-	-	-	84,815
Loans	5,209	5,268	145,563	56,036	156,331	212,594	575,792	581,001
Syndicated loans	-	-	-	20,000	121,874	-	141,874	141,874
Interest	1,203	-	-	-	-	-	-	1,203
Debt arrangement expenses	(1,729)	(1,723)	(1,524)	(1,155)	(851)	(214)	(5,467)	(7,196)
Total bank borrowings	**89,498**	**3,545**	**144,039**	**74,881**	**277,354**	**212,380**	**712,199**	**801,697**
Other financial liabilities:								
Current accounts	70	63,346	-	-	-	-	63,346	63,416
Derivative financial instruments (Note 13)	1,428	-	45	-	-	1,941	1,986	3,414
Other financial liabilities	2,553	-	-	-	-	-	-	2,553
Total other financial liabilities	**4,501**	**63,346**	**45**	**-**	**-**	**1,941**	**65,332**	**69,383**
Total bank borrowings and other financial liabilities	**93,549**	**66,891**	**144,084**	**74,881**	**277,354**	**214,321**	**777,531**	**871,080**
Bonds and similar securities issued:								
Bond issues	300,700	-	375,000	-	500,000	1,650,000	2,525,000	2,825,700
Interest	16,873	-	-	-	-	-	-	16,873
Arrangement expenses	(3,646)	(3,072)	(2,717)	(2,459)	(2,418)	(4,377)	(15,043)	(18,689)
Total bonds and similar securities issued	**313,927**	**(3,072)**	**372,283**	**(2,459)**	**497,582**	**1,645,623**	**2,509,957**	**2,823,884**
Total at 31 December 2016	**407,476**	**63,818**	**516,367**	**72,422**	**774,936**	**1,859,944**	**3,287,487**	**3,694,963**

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	Over 5 years	Total non-current	
Bank borrowings:								
Lines of credit	22,027	-	-	-	-	-	-	22,027
Loans	5,333	5,261	5,268	145,563	6,036	218,924	381,052	386,385
Syndicated loans	-	-	-	67,250	-	-	67,250	67,250
Leases on investments	27,271	-	-	-	-	-	-	27,271
Interest	1,071	-	-	-	-	-	-	1,071
Debt arrangement expenses	(1,877)	(1,869)	(1,861)	(1,205)	(496)	(563)	(5,994)	(7,871)
Total bank borrowings	**53,825**	**3,392**	**3,407**	**211,608**	**5,540**	**218,361**	**442,308**	**496,133**
Other financial liabilities:								
Current accounts	-	67,679	-	-	-	-	67,679	67,679
Derivative financial instruments (Note 13)	3,208	-	616	-	-	2,012	2,628	5,836
Other financial liabilities	2,904	-	-	-	-	-	-	2,904
Total other financial liabilities	**6,112**	**67,679**	**616**	-	-	**2,012**	**70,307**	**76,419**
Total bank borrowings and other financial liabilities	**59,937**	**71,071**	**4,023**	**211,608**	**5,540**	**220,373**	**512,615**	**572,552**
Bonds and similar securities issued:								
Bond issues	155,800	300,700	-	750,000	-	1,500,000	2,550,700	2,706,500
Interest	23,508	-	-	-	-	-	-	23,508
Arrangement expenses	(3,353)	(3,171)	(2,597)	(1,887)	(1,364)	(2,396)	(11,415)	(14,768)
Total bonds and similar securities issued	**175,955**	**297,529**	**(2,597)**	**748,113**	**(1,364)**	**1,497,604**	**2,539,285**	**2,715,240**
Total at 31 December 2015	**235,892**	**368,600**	**1,426**	**959,721**	**4,176**	**1,717,977**	**3,051,900**	**3,287,792**

The bonds issued by SFL, which are traded on the Euronext Paris secondary market, had a market value of 1,371,985 and 1,479,228 thousand euros (par value of 1,300,700 and 1,456,500 thousand euros respectively) at 31 December 2016. At the same date, the fair value of bonds issued by the Parent and traded on the Irish Stock Exchange was 1,545,466 and 1,253,045 thousand euros, respectively (par value 1,525,000 and 1,250,000 thousand euros, respectively).

The fair value of the derivatives was also calculated based on the present value of the future cash flows, applying the appropriate market discount rates established by an independent expert.

Issues of the Parent's straight bonds

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

				(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**

The bonds were admitted for trading on the *Irish Stock Exchange's* main *securities market*.

On 5 October, the Parent registered on the *Irish Stock Exchange* an EMTN (*European Medium Term Note*) programme for 3,000,000 thousand euros.

2015

The issue of two series of straight bonds by the Parent 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 par value. The bonds will carry an annual coupon of 1.863%, payable annually 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 par value. The bonds will accrue a coupon of 2.728%, payable annually in arrears.

Following the disbursement of the amount of this bond issue, the syndicated loan of 1,040,000 thousand euros arranged by the Parent in 2014 was cancelled. Early cancellation of the loan entailed payment of a fee of 28,039 thousand euros, recognised under "Finance costs" on the consolidated statement of comprehensive income (Note 18-g).

2016

On 5 October 2016, the Parent 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 expanded 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 and with an issue price the equivalent of 99.223% of their par value. The bonds will accrue a coupon of 1.45%, payable annually in arrears.

- On the 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 and with an issue price the equivalent of 97.866% of their par value. The bonds will accrue a coupon of 1.875%, payable annually in arrears.

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

- Repurchase of 3750 bonds of the issue maturing on 5 June 2019, amounting to 375,000 thousand euros. This transaction has incurred some financial costs amounting to 20,904 thousand euros, which have been recognised under "Finance Costs" on the consolidated statement of comprehensive income (Note 18-g).

- Early cancellation of the loan for the amount of 135,682 euros, arranged for the acquisition of shares representing 15.09% of the share capital of Axiare (Note 9), detailed in the section "Other loans" of the present note.

- Early amortisation of the 60,000 euro syndicated loan formalised by the Parent Company on 12 November 2015, detailed in the section "New Syndicated Loan" of the present 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 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 was met at 31 December 2016 and 2015.

Issue of SFL straight bonds

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

				(Thousands of Euros)		
Issue	Duration	Maturity	Fixed-rate coupon payable annually	Amount of the issue	31 December 2016	31 December 2015
17/05/2011	5 years	25 /05/2016	4.625%	500,000	-	155,800
28/11/2012	5 years	28/11/2017	3.50%	500,000	300,700	300,700
20/11/2014	7 years	20/11/2021	1.875%	500,000	500,000	500,000
16/11/2015	7 years	16/11/2022	2.250%	500,000	500,000	500,000
Total issues				**2,000,000**	**1,300,700**	**1,456,500**

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

In May 2016, the subsidiary SFL settled the bonds maturing from the 2011 issue, with a pending nominal amount of 155,800 thousand euros.

In November 2015, SFL issued new bonds for the amount of 500,000 thousand euros. These bonds accrue a fixed coupon of 2.25% payable annually and have a term of 7 years, maturing in November 2022. Of the amount obtained from the new issue, 243,500 thousand euros were used to partially repurchase the bonds maturing in 2016 and 2017 in the amount of 144,200 thousand euros and 99,300 thousand euros, respectively. The cost associated with this partial repurchase amounted to 9,515 thousand euros (Note 18-g).

The interest accrued on the issue of bonds recognised in the consolidated statement of financial position at 31 December 2016 and 2015 amounted to 3,323 thousand euros and 7,665 thousand euros, respectively.

Parent 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, involving a syndicated loan in the amount of 350,000 thousand euros, initially due in June 2019 but extendable to November 2020. During 2016, the Parent and the financial institutions agreed to extend the maturity of the loan until November 2021. A variable interest rate was set based on a spread referenced to the EURIBOR, payable on a quarterly basis.

The main purpose of this syndicated loan is to finance possible acquisitions, as well as renovations and other investment requirements (CAPEX) on the property assets of the Company.

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

The loan is subject to compliance with the following financial ratios on a quarterly basis:

Ratios
Loan to Value Ratio <= 55%
Interest coverage ration >= 2x (from 30/6/2016)
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

At 31 December 2016 and 2015, the Parent complied with all covenants.

SFL syndicated loan

The breakdown of SFL's syndicated loan at 31 December 2016 and 2015 is as follows:

Thousands of euros	**Maturity**	31 December 2016		31 December 2015	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
SFL syndicated loan -					
BNP Paribas loan facility	July 2020	400,000	20,000	400,000	-
BPCE loan facility	October 2019	150,000	-	150,000	-
Total SFL syndicated loan		**550,000**	**20,000**	**550,000**	-

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

Compliance with covenants

SFL syndicated loans must meet the following covenants every six months:

	Ratios
BNP-Paribas (Agent Bank BNP-Paribas)	Loan to Value Ratio<= 50% Interest coverage ratio >= 2 Secured debt/equity value <= 20% Appraisal value of unmortgaged properties >= 2 €bn Gross financial debt subsidiaries / Gross consolidated financial debt < 25%
BPCE (Agent Bank Natixis)	Loan to Value Ratio<= 50% Interest coverage ratio >= 2 Secured debt/equity value <= 20% Appraisal value of unmortgaged properties >= 2 €bn Gross financial debt subsidiaries / Gross consolidated financial debt < 25%

At 31 December 2016 and 2015, SFL complied with the financial ratios stipulated in the respective financing agreements.

Mortgage-backed loans

At 31 December 2016 and 2015, the Group had the following mortgage loans, secured by certain investment properties and non-current assets held for sale:

	Thousands of euros			
	31 December 2016		31 December 2015	
	Mortgage debt	Market value of collateral	Mortgage debt	Market value of collateral
Investment property (Note 8)	241,000	868,866	273,479	953,840
Non-current assets held for sale (Note 22)	-	-	177	6,942
Total	**241,000**	**868,866**	**273,656**	**960,782**

The subgroup SFL accounts for 85% of the mortgage debt (205,400 thousand euros). These loans accrue a fixed interest rate.

Compliance with covenants

At 31 December 2016 and 2015, two of the Group's loans, with a total of 241,000 thousand and 246,209 thousand euros drawn down, respectively, were subject to compliance with certain financial ratios.

At 31 December 2016 and 2015, the Company complied with the financial ratios required in the financing agreement.

	Ratios
SFL subsidiaries: Pargal, Parchamps and Parhaus	Loan to Value Ratio <= 55% individual and 50% consolidated for the subsidiaries. Annual compliance every 30 June. Debt service coverage ratio >= 1.5 individual and 1.7 consolidated for the subsidiaries. Quarterly compliance.
Torre Marenostrum, S.L.	Net financial debt / Shareholders' equity <=3. Annual compliance. Debt service coverage ratio >= 1.05. Annual compliance.

Other loans

At 31 December 2016 and 2015, SFL had two bilateral loans not secured by a mortgage guarantee that were subject to compliance with various ratios. The total limits and amounts drawn down are as follows:

Thousands of euros	Maturity	31 December 2016		31 December 2015	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Other loans:					
BECM	April 2019	150,000	140,000	150,000	140,000
Banco Sabadell	June 2020	50,000	50,000	50,000	-
BNP Paribas	May 2021	150,000	150,000	-	-
Total other loans		**350,000**	**340,000**	**200,000**	**140,000**

The BNP Paribas loan was arranged in May 2016 for a period of five years and a floating interest rate with a spread tied to EURIBOR.

Compliance with covenants

These loans are subject to the following financial ratios on a half-yearly basis:

	Ratios
BECM	Loan to Value Ratio<= 50% Interest coverage ratio >= 2 Secured debt/equity value <= 20% Appraisal value of unmortgaged properties >= 2 €mm Gross financial debt subsidiaries / Gross consolidated financial debt < 25%
Banco Sabadell	Loan to Value Ratio<= 50% Interest coverage ratio >= 2 Secured debt/equity value <= 20% Appraisal value of unmortgaged properties >= 2 €mm Gross financial debt subsidiaries / Gross consolidated financial debt < 25%

At 31 December 2016 and 2015, SFL complied with the financial ratios stipulated in the respective financing agreements.

Lines of credit

The Group has lines of credit of up to 84,815 thousand euros, which at 31 December 2016 were fully drawn down. These credit facilities mature in the short term. At 31 December 2015, the balance of fully drawn-down lines of credit held by the Group totalled 22,027 thousand euros.

At 31 December 2016, the Group also had two current accounts in the amount of 57,346 thousand euros and 6,000 thousand euros extended to two Group companies, SCI Washington and SAS Parholding, respectively. These current accounts accrue interest at a rate of three-month Euribor plus 60 basis points, in the case of SCI Washington, and three-month Euribor plus 150 basis points, for the account extended to SAS Parholding. The total interest accrued for both current accounts is 70 thousand euros. The total nominal amount plus interest at 31 December 2016 was 63,416 thousand euros.

Guarantees given

At 31 December 2016, the Parent had granted to government bodies, customers and suppliers guarantees in the amount of 27,013 thousand euros, of which 15,680 thousand euros related to the bank guarantee provided in connection with the purchase of the company Moorage (Note 2-f). This amount is recognised under “Trade payables” in the consolidated statement of financial position (Note 14). Of the remaining amount**,** the main guarantees provided are as follows:

- 5,097 thousand euros granted to secure obligations acquired by the company Asentia. Accordingly, the Parent and this subsidiary have an agreement in place whereby if any of the guarantees are enforced, Asentia must compensate the Parent for any damages sustained within 15 days.

- 5,000 thousand euros granted to secure obligations acquired by the company DUE. In this regard, the Parent has a cash line of credit with BBVA to cover the obligations assumed with DUE (Note 15). The liabilities covered by these guarantees have been provided for in full under “Non-current provisions” in the consolidated statement of financial position.

Finance leases

At 31 December 2016, there were no finance lease debts after the execution by SFL of the purchase option established in the latest agreement (Note 8).

Cash and cash equivalents

At 31 December 2016 and 2015, amounts of 105,200 thousand and 217,776 thousand euros, respectively, were recognised under “Cash and cash equivalents”, of which 13,715 thousand and 13,982 thousand euros, respectively, were either restricted or pledged.

Debt arrangement expenses

At 31 December 2016 and 2015, the debt arrangement expenses assumed by the Group and not yet accrued amounted to 25,885 thousand euros and 22,639 thousand euros, respectively. These expenses are taken to the consolidated statement of comprehensive income during the term of the debt in accordance with financial criteria. In this regard, in 2016 and 2015 the Group recognised in the consolidated statement of comprehensive income 7,352 and 9,256 thousand euros, respectively, corresponding to the costs paid during the year.

Interest rate on borrowings

The interest rate paid by the Group in 2016 on borrowings allocated to continuing operations was 2.46%, or 2.63% including accrued fees. The average spread over Euribor paid by the Group in 2016 was 162 basis points (193 basis points including fees). The interest rate on the Group's debt at 31 December 2016 is 1.96% and the spread over EURIBOR is 156 basis points.

The accrued interest outstanding recognised in the consolidated statement of financial position at 31 December 2016 and 2015 amounted to:

	(Thousands of Euros)	
Issue	31 December 2016	31 December 2015
Parent Bonds	13,550	15,843
SFL Bonds	3,323	7,665
Bank borrowings	1,203	1,071
Total	**18,076**	**24,579**

Capital management: policies and objectives

The Group manages its capital to ensure that Group companies will be able to continue as going concerns, taking into account prevailing financial market conditions, with a view to maximising shareholder value.

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

The Group efficiently manages its financial risks with the aim of maintaining high levels of liquidity, minimising borrowing costs, reducing volatility due to changes in capital and ensuring compliance with its business plans:

Companies operating in the property sector need to make heavy upfront investments to ensure development of their projects and growth of their businesses through the purchase of rental properties and/or land. The Group's financial structure warrants diversification of its sources of financing by entity, product and maturity. The issues of bonds in 2016 together with the repurchase of the four-year bonds and the extension and diversification of their maturity dates, have allowed the Parent to reduce the financial cost of its debt.

The Parent's financing is granted entirely over the long term and structured in such a manner that it allows the performance of the underlying business plan.

SFL also has various lines of credit yet to be drawn down.

The Group's risk management policy is designed to limit and control the impact of interest rate fluctuations on profit and cash flows and to keep overall borrowing costs at reasonable levels. The Group arranges financial instruments to cover interest rate fluctuations, where necessary.

The Colonial Group draws up an annual cash budget and monthly 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 Group'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 Group's assets.

Given the sector in which the Group operates, the investments it makes, the financing obtained to make these investments, the EBITDA generated and the occupancy rates of its buildings, liquidity risk is significantly mitigated and cash surpluses may even arise. These cash surpluses enable the Group to have lines of credit available but not yet drawn down (in the case of SFL) or highly liquid deposits with no risk (in the case of the Parent). The Group does not use high-risk financial products as a method for investing cash surpluses.

13. Derivative financial instruments

Risk management policy objectives

The Colonial Group's risk management policies are structured as follows:

- Interest rate risk: At 31 December 2016, 81% of the Group's debt 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. The Group's policy is to arrange instruments that comply with accounting rules to be considered as effective hedge accounting, and therefore recognise changes in value on the market directly in the Group's equity.

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

- Liquidity risk: On 5 October 2016, the Parent 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 expanded to 5,000,000 thousand euros. Up until 31 December 2016, two issues of ordinary bonds had been made within the framework of the EMTN for a joint amount of 650,000 thousand euros. These transactions allowed the Parent to strengthen its long-term financial structure, reduce the financial cost of its debt and diversify maturity dates. The SFL subgroup also has loans not yet drawn down (Note 12) that are available to cover future commitments.

- Credit risk: the Parent 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.

Derivative financial instruments

The following table details the financial instruments and their fair values at 31 December 2016 and 2015.

Derivative financial instrument	Company	Counterparty	Interest rate	Maturity	Notional value (thousands of euros)	Fair value – Asset / (Liability)
Swap (step-up - amortised)	Colonial	BBVA	4.40%	2018	21,870	(657)
Cap	Colonial	CA-CIB	1.25%	2018	350,000	-
Cap	Colonial	ING	1.25%	2018	300,000	-
Cap	Colonial	Morgan Stanley	1.25%	2018	130,000	-
Vanilla swap	Torre Marenostrum	CaixaBank	2.80%	2024	23,140	(2,757)
Total at 31 December 2016					**825,011**	**(3,414)**

Derivative financial instrument	Company	Counterparty	Interest rate	Maturity	Notional value (thousands of euros)	Fair value – Asset / (Liability)
Swap (step-up - amortised)	Colonial	BBVA	4.40%	2018	60,118	(2,778)
Cap	Colonial	CA-CIB	1.25%	2018	350,000	-
Cap	Colonial	ING	1.25%	2018	300,000	-
Cap	Colonial	Morgan Stanley	1.25%	2018	130,000	-
Vanilla swap	Torre Marenostrum	CaixaBank	2.80%	2024	25,174	(3,058)
Total at 31 December 2015					**865,292**	**(5,836)**

In 2014, within the refinancing framework of its former syndicated debt, the Parent arranged 3 CAPs totalling 780,000 thousand euros with a strike price of 1.25% and maturing at 31 December 2018, with the aim of covering 75% of the nominal amount of the syndicated loan which was finally cancelled on 5 June 2015 (Note 12). The amount of 8,580 thousand euros was paid for the premiums and was fully recognised as a hedging expense in the consolidated statement of comprehensive income for 2014. At both 31 December 2016 and 2015 the associated CAPs are measured at 0 thousand euros in the consolidated balance sheet and, therefore, no losses or negative cash flows whatsoever can derive from those instruments.

At 31 December 2016 and 2015, 97% and 93%, respectively, of the nominal amount of the Group's derivatives portfolio was compliant with the requirements of accounting rules to be recognised as hedges. Accordingly, mark-to-market (MtM) differences between periods are recognised directly in equity.

At 31 December 2016, the accumulated impact on equity of derivative hedge accounting was a debit of 571 thousand euros, net of the tax effect and consolidation adjustments. At 31 December 2015, a debt balance of 2,504 thousand euros was recognised in equity (Note 11).

The impact for 2016 and 2015 of accounting for derivatives qualifying for hedge accounting on the consolidated statement of comprehensive income was a net finance cost of 3,740 thousand and 7,914 thousand euros, respectively (Note 18-g), corresponding primarily to SFL.

The fair value of the derivatives was calculated by discounting estimated future cash flows based on an interest rate curve and on assigned volatility at 31 December 2016, using the appropriate discount rates established by an independent expert.

At 31 December 2016, the market value of the derivatives gave rise to a financial liability of 3,414 thousand euros, including 174 thousand euros of coupon interest payable and 150 thousand euros in credit risk receivables. The fair value of the derivatives at 31 December 2015 was 5,836 thousand euros.

At 31 December 2016, 92% of total debt in Spain and 77% in France is hedged or at fixed rates.

At 31 December 2016, SFL did not have any hedging instruments.

14. Trade payables and other non-current liabilities

The breakdown of these headings in the consolidated statement of financial position, by item and maturity, is as follows:

	Thousands of euros			
	31 December 2016		31 December 2015	
	Current	Non-current	Current	Non-current
Trade and other payables	27,326	-	20,291	-
Advances	17,995	-	19,424	-
Payables for the purchase of properties and land	15,373	20,280	33,316	-
Guarantees and deposits received	1,733	34,201	2,651	27,853
Payable to Social Security	1,752	-	1,724	-
Deferred income	2,243	-	5,496	-
Other payables and current liabilities	3,338	149	2,740	165
Total	**69,760**	**54,630**	**85,642**	**28,018**

At 31 December 2016 and 2015, “Trade and other payables” included primarily the amounts payable by the Group for business-related purchases and associated costs.

“Advances” primarily reflects amounts paid upfront by lessees for bi-monthly or quarterly rent.

At 31 December 2016, “Payables for the purchase of properties and land” included borrowings for the refurbishment or renovation work on properties carried out by SFL (Louvre Saint-Honoré and Washington Plaza), in the amount of 15,373 thousand euros, and the amount outstanding on the Parent's acquisition of the shares in the subsidiary Moorage totalling 20,280 thousand euros, including the prior contingent amount (Note 2-f). The effect of the updated payments is not material.

“Guarantees and deposits received” mainly includes deposits paid by lessees.

“Deferred income” includes the amounts received by SFL for rights of entry, which relate to the amounts invoiced to lessees to reserve a unique space.

Average payment period to suppliers and trade creditors

The table below sets forth the information on the various Spanish Group companies required by final provision two of Law 31/2014, of 3 December, amending the Spanish Limited Liability Companies Law to improve corporate governance, and amending additional provision three of Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, which establishes measures to combat late payment in commercial transactions, all in accordance with that established in the resolution of 29 January 2016 issued by the Spanish Accounting and Audit Institute (ICAC) on disclosures to be included in the notes to the consolidated financial statements with regard to the payment period to suppliers in commercial transactions involving the various Spanish companies pertaining to the Group.

	2016	2015
	Days	Days
Average supplier payment period	31	45
Ratio of payments made	32	46
Ratio of payments pending	23	42
	Amount (in thousands of euros)	Amount (in thousands of euros)
Total payments made	72,009	44,389
Total payments pending	6,715	1,691

The figures shown in the foregoing table in relation to payments to suppliers relate to suppliers that because of their nature are trade creditors for the supply of goods and services and, therefore, they include the figures relating to “Payable to suppliers” and “Sundry accounts payable” in the accompanying consolidated statement of financial position. Furthermore, in accordance with that established in the aforementioned ICAC resolution of 29 January 2016, no comparative information is required, as these financial statements are classified as first-time statements for the sole purposes of applying the principle of consistency and meeting the requirement of comparability.

The "Average payment period to suppliers" shall be understood as the time between the delivery of the goods or the provision of the services of the supplier and the material payment for the operation.

This “Average payment period to suppliers” is calculated as the quotient formed in the numerator by the sum of the product of the ratio of operations paid by the total of payments made and the product of the ratio of operations pending payment multiplied by the total amount of payments outstanding at year-end, and in the denominator, the sum of the total amount of payments made and the total amount of payments outstanding at year-end.

The ratio of operations paid is calculated as the quotient formed in the numerator by the sum of the products corresponding to the amounts paid, multiplied by the number of payment days (difference between calendar days since the date of receipt of the invoice until the payment of the operation), and in the denominator by the total amount of the payments made in the year.

The ratio of operations pending payment is calculated as the quotient formed in the numerator by the sum of the products corresponding to the amounts pending payment, multiplied by the number of payment days pending payment (difference between calendar days since the receipt of the invoice until the close of the financial statements), and in the denominator by the total amount of the payments outstanding at the 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 which increases the maximum period to 60 days.

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.

15. Provisions

Changes in “Current provisions” and "Non-current provisions" in the consolidated statement of financial position for 2016 are as follows:

	Thousands of euros		
	Non-current provisions		Current provisions
	Provisions for employee benefits	Provisions for contingencies and other provisions	Provisions for contingencies and other provisions
Balance at 31 December 2015	**1,119**	**11,400**	**10,206**
Additions	-	2,080	2,822
Decreases	(90)	-	(309)
Transfers	-	(835)	-
Balance at 31 December 2016	**1,029**	**12,645**	**12,719**

Non-current provisions-

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

Lastly, the Parent reclassified 648 thousand euros in 2016 (768 thousand euros in 2015) that, at 31 December 2015, were recognised as a provision for contingencies 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.

In 2016, SFL allocated 2,070 thousand euros to provisions for contingencies.

“Provisions for employee benefits” covers the retirement benefits and seniority bonuses of employees of SFL (Note 4-j).

Current provisions

Additions to current provisions include 9,104 thousand euros, reflecting an estimate of the Parent's various future risks, which increased in 2016 by 2,822 thousand euros.

The Group has recorded the appropriate provisions for contingencies arising from third-party claims.

16. Tax matters

The Parent 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).

In addition to the Parent, the consolidated tax group for 2016 and 2015 included Danieltown Spain, S.L.U., Colonial Invest, S.L.U. and Colonial Tramit, S.L.U.

The breakdown of tax receivables and payables in the accompanying consolidated statement of financial position is as follows:

	Thousands of euros			
	Tax assets			
	Current		Non-current	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Tax refunds receivable	45	48	-	-
Income tax refunds receivable	35,815	23,768	-	-
VAT	8,829	13,736	-	-
Deferred tax assets	-	-	454	865
Total tax receivables	**44,689**	**37,552**	**454**	**865**

"Income tax refunds receivable" includes a balance in favour of the Parent at 31 December 2016 of 35,625 thousand euros deriving from income tax prepayments made during 2016 and 2015. The amount of those prepayments relates to the minimum payment of 23% and 12% of the accounting profit/(loss) at the date of the prepayment, in accordance with the temporary measures in force for 2016 and 2015, respectively. In January 2017, the tax authorities refunded 23,512 thousand euros relating to the prepayments made by the Parent in 2015 that were included in the settlement for that year.

	Thousands of euros			
	Tax liabilities			
	Current		Non-current	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Income tax payable	4,962	3,098	-	-
Other taxes payable	2,515	774	-	-
Exit tax payable (SFL Group)	6,159	2,925	9,314	2,856
VAT payable	3,692	2,105	-	-
Deferred tax liabilities	-	-	347,344	244,124
Total taxes payable	**17,328**	**8,902**	**356,658**	**246,980**

Income tax -

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. This measure has not had any material effect for the group.

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 carryforward, for Companies whose revenue is equal to or greater than €60 million.

The breakdown of "Income tax expense" in the consolidated statement of comprehensive income for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Corporate income tax expense	(22,322)	(9,346)
Deferred tax on the restatement of assets to their fair value (IAS 40)	(11,320)	(47,544)
Reduction in deferred liabilities due to the drop in the tax rate (Law 27/2014 of 27 November, on corporate income tax)	-	3,860
New limit on tax loss carryforwards (Royal Decree Law 3/2016, of two December, on Corporate Income Tax)	(71,438)	-
Other non-primary components	(7)	233
Income tax expense	**(105,087)**	**(52,797)**

2016

	Thousands of euros	
	Amount	Tax effect – at the 25% national rate (*)
Profit/(loss) before tax	664,391	(166,098)
Effect of the adjustments to taxable profit for France (SIIC 4 effect and adjustments to the tax base)	(367,768)	91,942
Effect of the adjustments to taxable profit for Spanish companies and unrecognised tax credits generated in the year	123,724	(30,931)
Prior income tax expense (base)	**420,347**	**(105,087)**
Income tax expense	**-**	**(105,087)**

(*) (Expense)/revenue

2015

	Thousands of euros	
	Amount	Tax effect – at the 28% national rate (*)
Profit/(loss) before tax	755,942	(211,664)
Effect of the adjustments to taxable profit for France (SIIC 4 effect and adjustments to the tax base)	(607,276)	170,037
Effect of the adjustments to taxable profit for Spanish companies and unrecognised tax credits generated in the year	43,214	(12,100)
Prior income tax expense (base)	**191,880**	**(53,727)**
Others	-	930
Income tax expense	-	**(52,797)**

(*) (Expense)/revenue

The following table reconciles pre-tax accounting profit/(loss) and taxable profit/(loss) after temporary differences:

	Thousands of euros	
	2016	2015
Accounting profit before tax (aggregate of individual expenses)	623,112	862,262
Permanent differences	(548,548)	(1,562,765)
Temporary differences	(8,667)	(829,676)
Aggregate taxable income/(tax loss) before use of unused tax losses	**65,897**	**(1,530,179)**
Offset of tax losses	(1,344)	-
Aggregate tax loss	**64,554**	**(1,530,179)**
Recognised taxable profit	65,871	27,439
Unrecognised tax loss	(1,317)	(1,557,618)

At 31 December 2016, the permanent differences recognised by the Group correspond primarily to the SFL subgroup –subject to the French SIIC regime (Note 4-m)– for a permanent negative difference in the amount of 496,315 thousand euros, and a dividend received from this company by the Parent, giving rise to a permanent negative difference of 54,565 thousand euros.

At 31 December 2015, the permanent differences recognised by the Group primarily related to the SFL subgroup – subject to the French SIIC regime (Note 4-m)– for a permanent negative difference in the amount of 553,392 thousand euros, and a dividend received from this company by the Parent, giving rise to a permanent negative difference of 53,884 thousand euros.

In 2015, following the sale of the ownership interest in Asentia's share capital, the adjustments associated with this shareholding were recovered, which gave rise to a negative adjustment of 1,585,652 thousand euros. Among these adjustments is the deferred revenue due to the application of the tax regime provided for in Chapter VIII, Title VII, of the Spanish Corporate Income Tax Law deriving from the contribution of the financial interest in Riofisa to the company Asentia.

Deferred tax assets –

The breakdown of the deferred tax assets recognised by the Group is as follows:

	Thousands of euros			
	Recognised as assets			
Deferred tax assets	31 December 2015	Additions	Retirements	31 December 2016
Fair value of financial instruments	720	-	(374)	346
Impairment of assets	145	-	(145)	-
Others	-	108	-	108
	865	**108**	**(519)**	**454**

Prior years' tax loss carryforwards –

The income tax law in force as of 1 January 2016 stipulates that prior years' tax loss carryforwards may be offset in future years without any time limit, although it generally establishes an offset limit of 70% of taxable profit, with a minimum of 1 million euros. In the event that the revenues recognised by the Company or the tax group fall between 20 million euros and 60 million euros, the offset is limited to 50% of taxable profit, while if revenues are equal to or exceed 60 million euros the offset limit is reduced to 25% of taxable income.

The following table shows the aggregate tax loss carryforwards to be offset by Spanish Group companies:

	Thousands of euros	
Year	At companies that make up the consolidated tax group	At other Group companies
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	590,387	-
2011	270,631	-
2012	394,064	3,219
2013	98,719	-
2014	14,412	-
2015	1,543,019	422
2016	422	1,397
Total	**5,398,777**	**5,038**

As indicated above, some of the Group companies form part of consolidated tax group 6/08, which means that certain transactions among companies included in the tax group are eliminated from the aggregate sum of the individual tax loss balances; they are not included in consolidated taxable profit until the gain or loss on the respective transaction is realised with third parties. In addition, the consolidated tax regime allows companies with taxable profit to make use of the tax losses generated by other companies within the same consolidated tax group.

The following table reconciles the aggregate of the individual tax losses and the consolidated tax loss for 2016, the difference being the result of application of the foregoing adjustments to companies in the consolidated tax group:

	Thousands of euros	
	At companies that make up the consolidated tax group	At other Group companies
Aggregate of the individual tax loss carryforwards:	**5,398,777**	**5,038**
Adjustments for transactions among companies that make up the consolidated tax group	(9,614)	-
Adjustments for the offset of taxable profit and tax loss carryforwards among companies that make up the consolidated tax group	(9,642)	-
Total tax loss carryforwards of the tax group	**5,379,521**	**5,038**

Deferred tax asset for tax credit carryforwards

The nature and amount of unused tax credits at 31 December 2016 by the Group due to insufficient taxable profit in prior years, and the last years for offset are set out below:

	Thousands of euros		
Nature of the tax credit	Year of origin	Amount	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	2023
	2009	1	2024
	2010	1	2025
Tax credit for reinvestment			
	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
		17,220	

Reinvestment of extraordinary profit -

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 directors of the Parent believe that the Parent or its tax group, as appropriate, will comply with the stipulated timeframes.

Deferred tax liabilities

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

	Thousands of euros					
Deferred tax liabilities	31 December 2015	Additions	Additions to the scope of consolidation (Note 2-f)	Retirements	Transfers	31 December 2016
Asset revaluations	237,816	101,259	20,455	(18,494)	-	340,650
Asset revaluations (Spain)	*29,928*	*58,609*	*20,455*	*(1,976)*	*(386)*	*106,630*
Asset revaluations-France-	*207,888*	*42,650*	-	*(16,518)*	-	*234,020*
Deferral for reinvestment	6,308	-	-	-	-	6,308
Others	-	-	-	-	386	386
	244,124	**101,259**	**20,455**	**(18,494)**	**-**	**347,344**

Deferred tax liability for asset revaluations –

This deferred tax liability corresponds fundamentally to the difference between the accounting cost of investment properties measured at fair value (under IFRS) and their tax basis (acquisition cost less depreciation).

"Asset revaluations (Spain)" includes the deferred taxes associated with the Group's investment property located in Spain that would be accrued if these assets were transferred at the fair value at which they are recognised, using the effective rate that would be applicable to each of the companies taking into account applicable legislation and any unrecognised tax credits. Accordingly, the deferred taxes associated with the investment property of Colonial Group companies that in turn form part of the tax group were recognised at an effective rate of 18.75% (tax rate of 25% with a limit on tax loss carryforwards of 25%). Consequently, in calculating its deferred tax liabilities, the Group is considering applying the tax credit of 31,771 thousand euros (the difference between the 25% tax rate and the effective settlement rate applied of 18.75%). At the 2015 year end, the deferred tax liabilities were calculated at an effective rate of 7.5% given that, in the previous financial year, in accordance with the tax legislation in effect, the Group was able to apply tax credits of up to 70% of the tax base.

"Asset revaluations-France-" records the amount of the deferred taxes associated with the Group's investment properties located in France, which would accrue if those assets are sold. It should be noted that practically all of the assets in France are subject to the SIIC regime (Note 4-m), and therefore no additional tax would arise at the time of their sale. Only the assets of the companies forming part of the Parholding subgroup (Appendix I) would fall outside of that tax regime at 31 December 2016 (Annex II). The Colonial Group also recognises a deferred tax under this heading in connection with the asset revaluations under the SIIC regime (the SIIC-4 liability), calculated as the minimum stipulated dividend under the regime, in the event that all capital gains on the investment properties recognised by the SFL Group are realised, taking into account an effective tax rate of 11.15%

Other non-current tax liabilities –

The non-current tax liabilities are detailed in the table below:

	Thousands of euros	
Description	31 December 2016	31 December 2015
Exit tax SFL	9,314	2,856
	9,314	**2,856**

Exit tax SFL -

In 2016, the subsidiary SFL executed the purchase option in the finance lease agreement that it held with respect to the property Wagram 131. This asset was subject to the SIIC regime, giving rise to the corresponding obligation to pay the exit tax (Note 4-m) totalling 13,012 thousand euros, which must be paid to the French tax authorities in four equal annual payments.

Other tax issues -

The Group has the last four years open for review by the tax inspection authorities for all applicable taxes in Spain and France, except income tax of Spanish companies with tax loss carryforwards or unused tax credits, in which case the period under review for this tax is extended to ten years. The Parent filed supplementary income tax returns for 2011 to 2014, breaking the statute of limitations for these years.

No additional material liability for the Group is expected to arise in the event of a new tax audit.

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. Contingent assets and liabilities

Guarantee commitments to third parties

The SFL subgroup has the following shareholders agreements with Prédica:

- *Agreement* in SCI Washington, in which SFL holds 66%. In the event of a change of control of SFL, Prédica may consent to the change of control, or acquire or sell all of the shares and current accounts held by SFL in the common subsidiary, at a price agreed between the parties or at market value.

- *Agreement* in Parholding, in which SFL holds 50%. In the event of a change of control of SFL, Prédica may consent to the change of control, or acquire or sell all of the shares and current accounts held by SFL in the common subsidiary, at a price agreed between the parties or at market value.

Contingent assets

In 2010, the Parent filed certain lawsuits on behalf of the company 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 Parent for reinvestment of the proceeds by the sellers in shares of the Company, as part of the 29 June 2006 equity issue 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 Parent, 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 Parent's Directors do not expect those rulings to have a significant impact on the consolidated financial statements, given that at 31 December 2016 the appropriate provision had been recognised to meet any possible costs (Note 15).

18. Income and expenses

a) Revenue

Revenue comprises basically rental income from the Group's rental properties which are concentrated in the cities of Barcelona, Madrid and Paris. Revenue amounted to 271,400 thousand and 231,185 thousand euros respectively, as at 31 December 2016 and 2015. The breakdown by geographical segments is as follows:

Rental business	Thousands of euros	
	2016	2015
Spain	73,263	62,391
France	198,137	168,794
	271,400	**231,185**

Revenue in 2016 and 2015 includes the effect of deferring grace periods and rent reset clauses throughout the term elapsing between the start of the lease and the first option for renewing the lease agreements (Note 10). Revenue also includes the accrued amounts received in connection to rights of entry (Note 14). At 31 December 2016 and 2015, these accruals increased revenue by 33,908 and 17,662 thousand euros respectively.

At 31 December 2016 and 2015, the total minimum future lease payments receivable corresponding to the Group's non-cancellable operating leases, based on the leases currently in force at each date, without taking into account the impact of common expenses, future increases in the CPI or future contractual lease payment revisions, were as follows:

Minimum operating lease payments	Thousands of euros	
	Nominal amount	
	31 December 2016	31 December 2015
Within one year	274,007	258,491
Spain	*75,618*	*64,570*
France	*198,389*	*193,921*
Between one and five years	664,884	651,641
Spain	*122,155*	*95,078*
France	*542,729*	*556,563*
After five years	247,678	309,393
Spain	*6,405*	*12,515*
France	*241,273*	*296,878*
Total	**1,186,569**	**1,219,525**
Spain	***204,178***	***172,163***
International	***982,391***	***1,047,362***

b) *Other operating income*

This heading relates mainly to property services rendered, and amounted to 3,057 thousand and 3,143 thousand euros at 31 December 2016 and 2015, respectively.

c) *Staff costs*

The breakdown of "Staff costs" in the accompanying consolidated statement of comprehensive income is as follows:

	Thousands of euros	
	2016	2015
Wages and salaries	14,849	14,018
Social security costs	5,561	6,462
Other employee benefit expenses	2,278	2,315
Contributions to defined-benefit plans	235	-
Termination benefits	-	1,060
Internal reallocation	(630)	(559)
Total staff costs	**22,293**	**23,296**
Spain	***9,287***	***9,068***
International	***13,006***	***14,228***

"Other employee benefit expenses" includes amounts corresponding to cost accrued in 2016 under the Parent's long-term bonus plan and SFL's share option plan detailed in Note 19, totalling 2,260 thousand euros (2,057 thousand euros in 2015).

Group headcount at 31 December 2016 and 2015, as well as the average headcount in 2016 and 2015, of staff employed in continuing operations, broken down by job category and gender, was as follows:

	Number of employees				Average headcount, 2016		Average headcount, 2015	
	2016		2015					
	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	12	5	11	5	12	5	12	5
Technical graduates and middle managers	29	32	27	27	27	30	29	26
Clerical staff	18	49	14	53	16	50	13	55
Others	4	1	1	1	1	1	1	1
	63	**87**	**53**	**86**	**56**	**86**	**55**	**87**

d) Other operating expenses

The breakdown of "Other operating expenses" in the consolidated statement of comprehensive income is as follows:

	Thousands of euros	
	2016	2015
External and other expenses	9,621	15,522
Taxes other than income tax	23,860	20,959
Total	**33,481**	**36,481**

e) Net change in impairment of trade receivables

The movement in "Impairment losses on trade receivables" included in the consolidated statement of financial position for the year was as follows:

	Thousands of euros	
	2016	2015
Opening balance	90,093	157,495
Net change	(999)	(67,402)
Closing balance	**89,094**	**90,093**

At 31 December 2015, the Parent derecognised from the consolidated statement of financial position the amount receivable from NZ Patrimonio together with the corresponding impairment value 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.

At 31 December 2016 and 2015, of this total amount, 85,473 thousand euros related to the impairment of receivables from Nozar, S.A.

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

	Thousands of euros	
	2016	2015
Reversal of impairment of properties for own use (Note 7)	3,159	808
Derecognitions of replaced assets (Note 8)	(7,532)	(3,282)
Impairment charges and net gains/(losses) on assets	**(4,373)**	**(2,474)**

f) Net gain/(loss) on sales of assets and change in fair value of investment property

The following table breaks down the Group's gains/(losses) from asset sales (Notes 8 and 22):

	Thousands of euros					
	Sale price		Costs to sell		Net gain/(loss) on sales of assets	
	2016	2015	2016	2015	2016	2015
Spain	17.054	-	(17.203)	-	(149)	-
Total	**17.054**	-	**(17.203)**	-	**(149)**	-

The breakdown of changes in the fair value of investment properties in 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Changes in value on statement of financial position		
Investment property (Note 8)	560,320	725,115
Non-current assets held for sale – Investment property (Note 22)	457	(5,133)
Changes in the fair value of investment properties recognised in the statement of comprehensive income	**560,777**	**719,982**
Spain	***122,737***	***206,328***
International	***438,040***	***513,654***

g) *Finance income and costs*

The breakdown of finance income and costs in 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Finance income:		
Revenue from equity instruments (Note 9)	-	18
Other interest and similar income	1,220	1,288
Income from financial derivatives (Note 13)	1,162	3,111
Capitalised borrowing costs (Note 4-c)	1,177	6,049
Total finance income	**3,559**	**10,466**
Finance costs:		
Interest and similar expense	(81,988)	(123,312)
Finance costs associated with the repurchase of bonds (Note 12)	(20,904)	(9,515)
Expense on derivative financial instruments (Note 13)	(4,902)	(11,025)
Total finance costs	**(107,794)**	**(143,852)**
Impairment of financial assets	**(648)**	**2,267**
Total financial loss	**(104,883)**	**(131,119)**

Lastly, "Finance costs associated with the repurchase of bonds" includes, for both 2016 and 2015, costs borne by the Parent and SFL to repurchase issued bonds (Note 12).

At 31 December 2015, "Interest and similar expense" included 28,039 thousand euros as the charge for early cancellation of the Parent's syndicated loan on 5 June 2015 (Note 12).

h) *Related party transactions*

The main related party transactions undertaken in 2016 and 2015 were as follows:

	Thousands of euros	
	2016	2015
	Building leases and other income	Building leases and other income
Gas Natural, SDG, S.A.	5,234	5,916
Total	**5,234**	**5,916**

On 29 July 2016, the Parent 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 (Note 11), by virtue of the contracts signed between the parties on 27 July 2016.

i) Results by consolidated company

The contribution of the consolidated companies to profit/(loss) for the year was as follows:

Company	Thousands of euros					
	Consolidated profit/(loss)		Profit/(loss) attributable to non-controlling interests		Profit/(loss) attributable to shareholders of the Parent	
	2016	2015	2016	2015	2016	2015
Inmobiliaria Colonial, S.A.	54,131	142,645	-	-	54,131	142,645
SFL subgroup	511,645	545,124	(284,533)	(283,219)	227,112	261,905
Torre Marenostrum, S.L.	2,658	10,188	(1,124)	(4,513)	1,534	5,675
Danieltown Spain, S.L.U.	3,548	5,190	-	-	3,548	5,190
Moorage Inversiones 2014, S.L.U.	(9,610)	-	-	-	(9,610)	-
Hofinac Real Estate, S.L.U.	(802)	-	-	-	(802)	-
Fincas y representaciones, S.A.U.	(2,265)	-	-	-	(2,265)	-
Colonial Invest, S.L.U.	(1)	(1)	-	-	(1)	(1)
Colonial Tramit, S.L.U.	-	(1)	-	-	-	(1)
Total	**559,304**	**703,145**	**(285,657)**	**(287,732)**	**273,647**	**415,413**

19. Share option plans

Long-term bonus scheme linked to delivery of several management indicators

On 21 January 2014, shareholders at the Parent's General Shareholders' Meeting set up a long-term bonus scheme for the Chairman and Chief Executive Officer of the Parent and for members of the Group's Management Committee, applicable from 2014 to 2018.

From 1 to 15 April in each of these years, following a proposal submitted by the Nomination and Remuneration Committee, the Board of Directors must determine the number of shares to be allocated to each beneficiary under the plan based on fulfilment of 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 after the date of receipt except as necessary to pay any taxes chargeable as a result of receiving them.

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 for adapting the number of shares to be received by the beneficiaries in cases of dilution.

In 2016 and 2015, the Parent recognised 1,146 and 1,205 thousand euros respectively under “Staff costs - Other employee benefit expenses” in the consolidated statement of comprehensive income to cover the incentive plan (Note 18-c).

On 11 April 2016, the Board determined the number of shares to be delivered to beneficiaries of the Plan in accordance with the level of fulfilment of indicators for 2015 would be 3,651,162 shares (Note 11). The shares were delivered to the beneficiaries on 29 April 2016. Of these shares, 1,758,139 shares were delivered to members of the Board of Directors and 1,893,023 shares to members of senior management, with a market value upon delivery of 1,196 thousand and 939 thousand euros, respectively.

On 24 April 2015, the Board determined the number of shares to be delivered to beneficiaries of the Plan in accordance with the level of fulfilment of indicators for 2014 would be 3,766,173 shares (Note 11). The shares were delivered to the beneficiaries on 30 April 2015. Of these shares, 1,813,521 shares were delivered to members of the Board of Directors and 1,424,908 shares to members of senior management, with a market value upon delivery of 1,088 thousand and 855 thousand euros, respectively.

Share option plans on SFL shares

SFL had two bonus share plans at 31 December 2016, the breakdown of which is as follows:

	Plan 1	Plan 3	Plan 4
Meeting date	09.05.2011	22.04.2015	13.11.2015
Board of Directors date	04.03.2014	17.06.2015	26.04.2016
Initial target number	33,981	27,328	32,036
Initial expected %	70.83%	70.83%	70.83%
Initial expected number	24,069	19,356	22,691
Amount per share (euros)	31.48	36.08	41.49
Options cancelled	(16,165)	(1,728)	(128)
Expected % at year-end	150.00%	100.00%	100.00%
Estimated number at year-end	26,723	25,600	31,908

Each allocation plan has been calculated based on the expected number of shares multiplied by the unit fair value of those shares. The expected number of shares is the total number of shares multiplied by the expected percentage of take-up in the grant. The resulting amount is charged on a straight-line basis over the grant period.

The fair value of the shares allocated is determined by the quoted price at the grant date, adjusted by the discounted value of future dividends paid during the acquisition period applying the Capital Asset Pricing Model (CAPM).

At 31 December 2016, 1,114 thousand euros were recognised in the consolidated statement of comprehensive income relating to these bonus share plans (Note 18-c).

During 2016, 36,424 free shares were allocated to their beneficiaries in accordance with the former Plan No. 1 approved by SFL's Board of Directors on 16 February 2013.

20. Year-end balances with related parties and associates

At 31 December 2016 and 2015 the Group did not have any balances outstanding with related parties and associates.

21. Director and senior management compensation and other benefits

The Parent'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 is as follows:

Director	Position	Type of director
Juan José Brugera Clavero	Chairman	Executive
Pedro Viñolas Serra	Chief Executive Officer	Executive
Carlos Fernández González	Director	Proprietary
Sheikh Ali Jassim M. J. Al-Thani	Director	Proprietary
Adnane Mousannif	Director	Proprietary
Juan Villar-Mir de Fuentes	Director	Proprietary
Juan Carlos García Cañizares	Director	Proprietary
Carlos Fernández-Lerga Garralda	Lead Director	Independent
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. The directors Mr Francesc Mora Sagués and Grupo Villar Mir, S.A.U. left the Board in 2016 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.

Pursuant to Article 229 of the Spanish Limited Liability Companies Law, the directors have reported that neither they nor any parties related thereto have any direct or indirect conflict with the interests of the Parent.

Compensation of Board members

Remuneration received in 2016 and 2015 by the current members of the Board of Directors and senior management of the Parent, by item, was as follows:

31 December 2016

	Thousands of euros		
	Inmobiliaria Colonial, S.A.	Other Group companies	Total
Compensation accrued by executive directors (*):	**2,610**	**150**	**2,760**
Attendance fees:	**535**	**150**	**685**
Director attendance fees	521	150	671
Additional per diems for the Vice Chairman	14	-	14
Fixed remuneration:	**897**	**-**	**897**
Directors' remuneration	546	-	546
Additional remuneration for the Executive Committee	66	-	66
Additional remuneration for the Audit and Control Committee	150	-	150
Additional remuneration for the Nomination and Remuneration Committee	135	-	135
Total	**4,042**	**300**	**4,342**

Remuneration for Executive Directors (*):	2,610	210	2,820

(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan described in Note 19.

31 December 2015

	Thousands of euros		
	Inmobiliaria Colonial, S.A.	Other Group companies	Total
Compensation accrued by executive directors (*):	**1,215**	**150**	**1,365**
Attendance fees:	**457**	**117**	**574**
Director attendance fees	428	117	545
Additional attendance fees for the Chairman	29	-	29
Fixed remuneration:	**1,100**	**-**	**1,100**
Directors' remuneration	600	-	600
Additional remuneration for the Executive Committee	200	-	200
Additional remuneration for the Audit and Control Committee	150	-	150
Additional remuneration for the Nomination and Remuneration Committee	150	-	150
Total	**2,772**	**267**	**3,039**

Remuneration for Executive Directors (*):	1,460	211	1,671

(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan described in Note 19.

In 2016, members of the Board of Directors of the Parent accrued remuneration of 1,432 thousand euros (1,557 thousand euros during 2015) as a fixed amount for fulfilment of their duties as board members and for attending board meetings. Additionally, certain non-executive directors of the Parent received 90 thousand euros from SFL for their role as directors of that company (56 thousand euros in 2015).

In 2016, executive directors received cash remuneration of 2,610 thousand euros for all items received from the Parent. 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). Additionally, the non-executive directors of the Parent received 210 thousand euros from SFL for their role as directors of that company (61 thousand euros in 2015).

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

Shareholders at a general 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 and has not taken out any pension plans or life insurance for former or serving members of the Board of Directors of the Parent.

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

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

Compensation of senior management

The Parent's senior management team is formed by senior executives and other persons responsible for the management of the Company, reporting to the CEO. The Company's senior management team was made up of two men and two women at 31 December 2016 and 2015.

Monetary compensation earned by senior management in 2016 amounted to 1,081 thousand euros. In addition, the 939 thousand euros corresponding to the long-term incentives (860 thousand and 855 thousand euros in 2015, respectively).

The Board of Directors at its meeting held on 27 July 2016 approved the granting of a defined-contribution scheme to a member of the 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 senior management had signed a golden parachute clause, in the event of termination under certain circumstances or a change of control.

22. Non-current assets held for sale

The movements under this heading in 2016 and 2015 were as follows:

	Thousands of euros
	Investment property
Balance at 31 December 2014	**16,539**
Additions	1,321
Impairment (Note 18-f)	(5,133)
Balance at 31 December 2015	**12,727**
Additions	60
Decreases	(13,550)
Transfers	306
Impairment (Note 18-f)	457
Balance at 31 December 2016	**-**

Investment property (Note 8) -

Changes in 2016

The Company's directors re-evaluated the sale assumptions for the assets recognised under this heading of the consolidated statement of financial position; therefore, their carrying amount has been transferred to "Investment property" in the consolidated statement of financial position.

At 21 September 2016, the Parent sold the asset located at calle Ausias March in Barcelona for 15,000 thousand euros, obtaining profit net of costs totalling 557 thousand euros (Note 18-f).

Changes in 2015

There were no significant changes in 2015.

23. Auditors' fees

Fees incurred for auditing services in 2016 and 2015 provided to the various companies composing the Colonial Group by the principal auditor and other auditors are set forth below:

Description	Thousands of euros			
	2016		2015	
	Principle auditor	Other auditors	Principle auditor	Other auditors
Audit services	535	323	532	282
Other attest services	137	-	224	15
Total audit and related services	**672**	**323**	**756**	**297**
Tax advisory services	-	-	-	-
Other services	161	20	160	26
Total professional services	**161**	**20**	**160**	**26**

The principal auditor of the Colonial Group is Deloitte, S.L.

The principal auditor's fees represent less than 1% of the Group revenue in Spain.

24. Events after the reporting date

On 12 January 2017, the Parent officially sold part of an asset in Madrid for 5,600 thousand euros, generating a net profit of 290 thousand euros.

On 13 January 2017, the SFL officially acquired a building on avenue Emile Zola in Paris for the amount of 165,000 thousand euros.

On 3 February 2017, the Parent 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 consolidated financial statements were authorised for issue, no significant events took place and there were no additional matters worthy of mention.

25. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2-a). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

APPENDIX
Companies included in the scope of consolidation

At 31 December 2016 and 2015, fully consolidated subsidiaries and related information were as follows:

	% shareholding					
	Direct		Indirect		Shareholder	Line of business
	31.12.16	31.12.15	31.12.16	31.12.15		
Torre Marenostrum, S.L. Avda. Diagonal 532 08006 Barcelona (Spain)	55%	55%	-	-		Real estate
Colonial Invest, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Colonial Tramit, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Danieltown Spain, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Moorage Inversiones 2014, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	-	-	-		Real estate
Hofinac Real Estate, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	-	-	-		Real estate
Fincas y representaciones, S.A.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	-	-	-		Real estate
Société Foncière Lyonnaise, S.A. (SFL) 42, rue Washington 75008 Paris (France)	58.55%	53.14%	-	-		Real estate
Condorcet Holding SNC 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
Condorcet PROPCO SNC 42, rue Washington 75008 Paris (France)	-	-	100%	100%	Condorcet Holding SNC	Real estate
SCI Washington 42, rue Washington 75008 Paris (France)	-	-	66%	66%	SFL	Real estate
SCI 103 Grenelle 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI Paul Cézanne 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
Segpim, S.A. 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Sales of property and rendering of services
Locaparis, SAS 42, rue Washington 75008 Paris (France)	-	-	100%	100%	Segpim	Sales of property and rendering of services

	% shareholding					
	Direct		Indirect		Shareholder	Line of business
	31.12.16	31.12.15	31.12.16	31.12.15		
Maud, SAS 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SB2, SAS 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SB3, SAS 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI SB3 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SAS Parholding 42, rue Washington 75008 Paris (France)	-	-	50%	50%	SFL	Real estate
SCI Parchamps 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate
SCI Pargal 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate
SCI Parhaus 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate

At 31 December 2016 and 2015, the Colonial Group companies were audited by Deloitte, S.L., with the exception of the SFL Group, which was audited jointly by Deloitte and PriceWaterhouseCoopers.

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

Inmobiliaria Colonial, S.A.
and Subsidiaries

Consolidated 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.

In France, the drop in energy prices and low inflation rates have enabled an increase in salaries, driving further growth in private consumption. GDP growth is expected to be 1.2% in 2016

Sources: la Caixa" monthly report & OECD study

Rental market situation

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.

París

Office take-up in the Paris region (Ile-de-France) in the fourth quarter of 2016 reached 669,400 sq m (cumulative of 2,400,000 sq m), an increase of 7% compared to the previous year and 4% higher than the average over the last ten years.

The centre of Paris captured the majority of the transactions in Ile-de-France since the beginning of the year and in particular high activity can be seen in the large transactions sectors, with 65 contracts for more than 5,000 sq m registered in 2016, an increase of 23% with respect to the previous year. In addition, there was an increase of 37% compared to the previous year in transactions of more than 20,000 sq m.

It is important to highlight that in the South Paris and La Défense areas, record levels were reached thanks to the dynamism of the market in transactions above 5,000 sq m. In addition, Paris Centre West registered an excellent year despite the situation of a lack of a supply, particularly in the Centre.

The supply of available office space in Île-de-France reduced by 10% compared to the last 12 months and stood at 4.37 million sq m. Therefore, the average vacancy rate reached 6.7%, 3.5% in Paris “intra muros” the lowest figure in the last 7 years.

Prime rental prices in the Paris CBD at the end of the fourth quarter reached €760/sq m/year.

Sources: Reports by Jones Lang Lasalle, Aguirre Newman, CBRE and BNP Paribas Real Estate

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 8.0 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

Revenue totalled 271 million euros at 31 December 2016, and was generated by the Group's recurring business (property rentals).

Profit from operations amounted to 213 million euros.

According to the independent year-end appraisals by CB Richard Ellis, Jones Lang Lasalle and BNP Paribas Real Estate, the Group's investment property was revalued by 561 million euros in the year. This revaluations, which was registered in France as well as in Spain, is the result of a +9.4% increase like-for-like in the appraisal values of the assets in operation with respect to December 2015 (9.1% in Spain and 9.4% in France).

The Group capitalised one million euros of borrowing costs related to developments in progress.

The net finance cost amounted to 105 million euros, including one million euros relating to the finance costs of developments in progress that were capitalised.

Once the results attributable to the minorities of (286) million euros were deducted, the results after taxes attributable to the Group amounted to 274 million euros.

Profit (loss) for the year

The highlights of rental business are as follows:

2016 was an excellent year for the Colonial Group and its shareholders.

The Net Asset Value at 31 December 2016 amounted to €7.25 per share, resulting in an annual increase of 18%, which together with the dividend paid in July 2016, means a Total Shareholder Return of more than 20%[1].

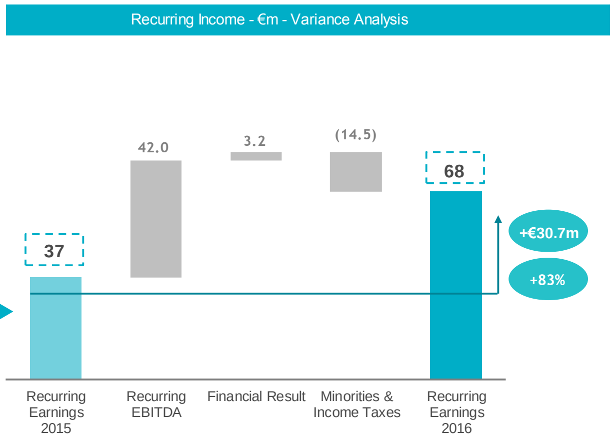
This Total Return is among the highest in the sector in Spain and Europe and is relies on an approach of industrial value creation combined with a positioning of asset class specialization in prime offices.

The recurring net profit of the Colonial Group amounted to 68 million euros at the close of 2016, 31 million euros higher than the previous year, resulting in an increase of 83%.

Profit & Loss Accounts

Results analysis - €m	2016	2015
Gross Rents	271	231
Net operating expenses[(1)]	(15)	(20)
Overheads	(36)	(33)
Recurring EBITDA	220	178
Recurring financial result	(80)	(83)
Income tax expense & others - recurring	(12)	(12)
Minority interests - recurring	(61)	(46)
Recurring Earnings	68	37
Variance asset values & provisions	554	715
Non-recurring financial result & MTM	(25)	(48)
Income tax & others - non-recurring	(98)	(47)
Minority interests - non-recurring	(225)	(242)
Profit attributable to the Group	274	415

(1) Includes other income

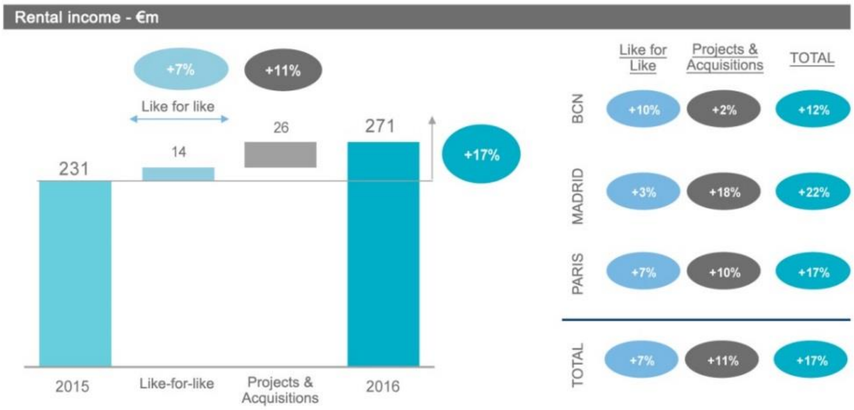


(1) Total return calculated as the increase of NAV plus dividends per share over NAV per share at 31/12/2015.

The Colonial Group has obtained an increase in rental income of 17% due to:

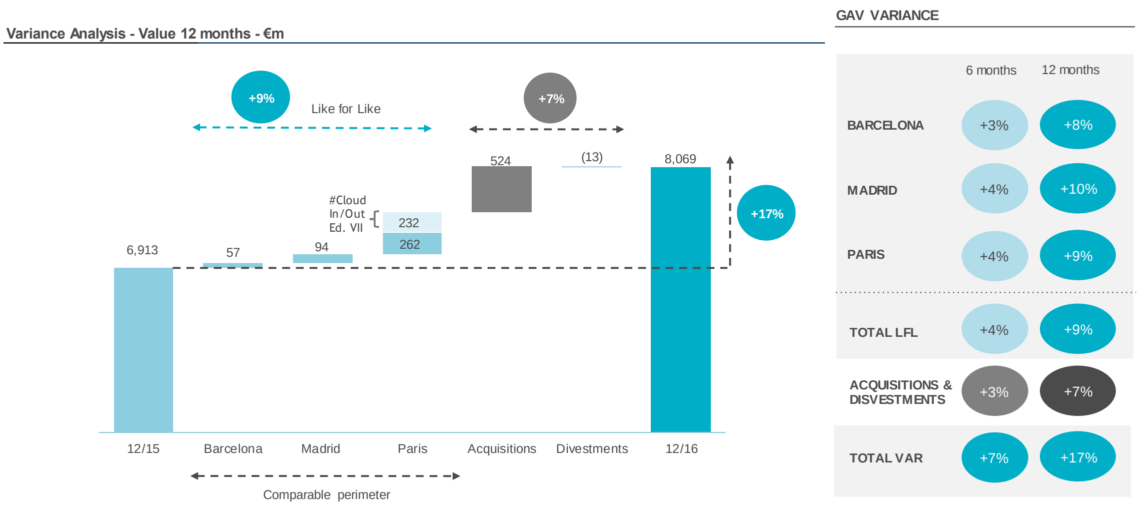
1. An increase of 7% in like-for-like income, based on the position of the prime portfolio.

2. An 11% increase in income through the successful delivery of prime factory projects and new acquisitions.



The like-for-like increase in rental income achieved by Colonial ranks among the highest in the sector. In particular, this increase was 6% like-for-like in Spain and 7% like-for-like in France. The progress in rental income resulted in an increase of 24% in recurring EBITDA which, together with the improvement in financial costs, led to a net recurring profit of 83%.

Colonial's Group Gross Asset Value amounted to 8,069 million euros at the close of 2016, resulting in an increase of +9.4% like-for-like in 12 months. The Gross Asset Value of the Group including transfer costs amounted to 8,478 million euros.



The assets in Spain increased by 9.1% like-for-like in the last 12 months, mainly due to a combination of property repositionings and increases in occupancy that have led to improved yields and rental income. The portfolio in Madrid increased by 9.6% like-for-like in 12 months, and the Barcelona portfolio increased 8.4% like-for-like in 12 months.

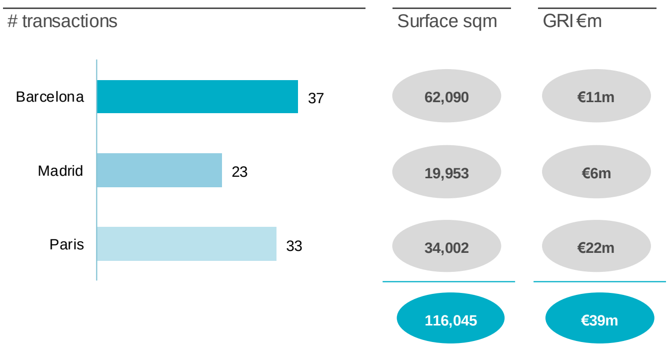
The appraisal value of the portfolio in France increased 9.4% like-for-like in 12 months. This increase in value is a consequence of the progressive repositioning of the property portfolio with positive impacts on rents and yields, in the context of an investment market with a strong interest for prime offices in Paris.

Corporate tax amounted to (105) million euros and was mainly due to the registering of deferred taxes associated with the asset revaluation in 2016, as well as the impact of (70) million euros derived from the regulation changes introduced by the Spanish tax authorities, limiting the percentage of use of losses carried forward as tax shields from 70% to 25%. This has led to the regularization of tax liabilities registered previous to aforementioned regulation change. It is important to point out that this impact does not imply a cash outflow.

The attributable net profit including the impact of the variance of change in fair of assets and financial liabilities as well as the tax impacts amounted to 274 million euros.

Rental portfolio management

In a rental market with clients demanding increasingly higher standards, the Colonial Group signed 93 transactions corresponding a rental contract volume of 116,045 sq m with an annualized income of 39 million euros.



The Colonial Group has been able to attract top tier clients that demand unique locations. This fact has resulted in signings with prices at the high end of the market, capturing an important increase in rents.

The most important transactions of the year include:

Barcelona

- ✓ Pre-letting on more than 9,000 sq m with Schibsted Iberica for the Parc Glories project.
- ✓ Contract renewal with Gas Natural (22,394 sq m).
- ✓ More than 4,800 sq m signed with various tenants in the Diagonal, 609-615 building.
- ✓ Letting of more than 11,000 sq m in Sant Cugat.

Madrid

- ✓ A pre-letting of more than 4,200 sq m on the Serrano, 73 building (currently under refurbishment).
- ✓ Commercialization of more than 4,600 sq m on the Recoletos, 37 building.

Paris

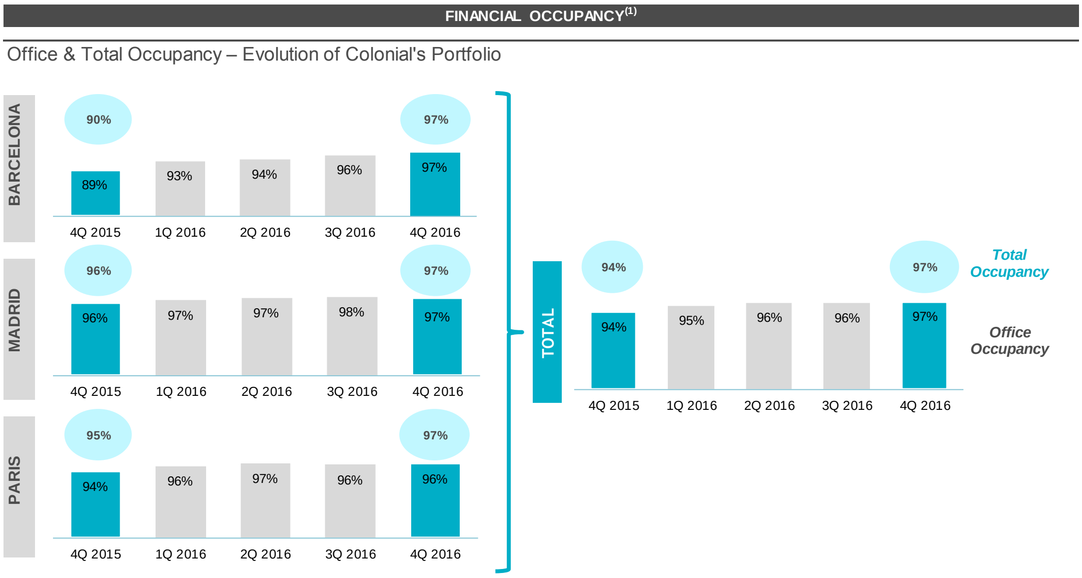
- ✓ Completion of the commercialization of the entire #cloud.paris building, with almost 3,000 sq m signed with Coty.
- ✓ The rental contract of more than 2,600 sq m with Quartus for the Cézanne Saint-Honoré building.
- ✓ The signing on more than 9,400 sq m on the Washington Plaza building with various tenants.
- ✓ The signing on more than 4,300 sq m on the Grenelle 103 building with various tenants.
- ✓ The signing of almost 2,100 sq m on the Percier building, on which several floors have been refurbished.

Portfolio occupancy

The excellent letting performance has enabled Colonial to achieve and maintain very solid occupancy levels.

At the close of 2016, Colonial's office portfolio reached an financial occupancy of 97% (319 basis points above that of the previous year) and much higher than the market average.

The following chart shows the evolution of the financial occupancy of the portfolio.



(1) Financial occupancy: calculation recommended by EPRA (occupied surfaces multiplied by the market prices/surfaces in operation at market prices).

The office portfolios in the three markets are at very solid financial occupancy levels: Barcelona at 97% (+745 basis points vs. the previous year), Madrid at 97% (+192 basis points) and Paris at 96% (+269 basis points). These high occupancy levels clearly exceed those of the competitors in Spain, as well as in France, and significantly improve the negotiation position to obtain further rental price increases in the coming quarters.

Asset repositioning and projects

In 2016, the Group invested more than €86 in development projects and asset repositioning.

In France, it is worth highlighting the reorganization of common areas in the office complex Cézanne Saint Honoré and the refurbishment of various floors in Percier. In Spain, various reorganizations of common areas and floors have been carried out in the Berlín 38-48/Numància 46 and Via Augusta 21-23 buildings in Barcelona. In the Madrid portfolio, common areas and office floors have been refurbished in the Castellana 52, José Abascal 45 and Miguel Ángel 11 assets, and the José Abascal 56 carpark has been repositioned. In addition, it's important to mention the transformation project underway on the Santa Engracia building, which has enabled the obtention of 234 sq m of additional gross lettable area to date. The significant commercial success of these assets with rental prices signed at the high end of the market is a direct consequence of the industrial Prime Factory strategy of the Colonial Group.

Acquisitions and portfolio rotation

Acquisitions 2016 – Alpha I

In 2016, the Colonial Group successfully executed its acquisition program. In the framework of the Alpha-I Project, three prime assets were acquired in Madrid, one project in Barcelona, and a 5.5%[2] stake in SFL.

In addition, in November 2016, a 15.1% stake was acquired in Axiare for €12.5/share resulting in a significant discount to NAV.

ALPHA-I PROJECT

BARCELONA	**Prime Factory**		1 **Parc Glories Project** Barcelona 22@ Area	**GLA : 24.551 sqm**	**Price: €77m[1] Cash**
MADRID	**Core + Value added**		2 **José Abascal** Madrid Prime CBD	**GLA : 5.326 sqm**	**Price: €35m Cash**
	Core + Value added		3 **Serrano 73** Madrid Prime CBD	**GLA : 4.242 sqm**	**Price: €48m New Col. shares**
	Core + Value added		4 **Corporate HQ – Sta Hortensia 26-28** Madrid BD	**GLA : 46.928 sqm**	**Price: €154m New Col. shares**
PARIS	**Core + Value added**		5 **5.5%[2] stake in SFL** Paris		**Price: €130m New Col. shares + Cash**
MADRID	**Value added**		6 **15.1% stake in Axiare** Madrid		**Price: €136m**

(1) Includes CAPEX for the development of the whole project.
(2) 4.4% acquired in June 2016 and 1.1% in August 2016 under the same conditions as the June purchase.

The volume of this investment program amounts to 580 million euros (including future capex of development projects) and fits perfectly with the objectives set, regarding asset type, location as well as value creation potential and therefore return expectations.

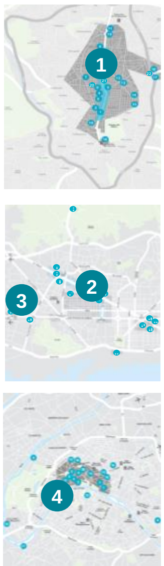
Beginning of 2017 – Alpha II

Accelerating the fulfilment of the growth objectives of the strategic plan, Colonial has begun 2017 with the execution of the Alpha II Project, which includes the acquisition of four assets for an investment volume of almost 400 million euros (total investment volume includes CAPEX for the future development of projects).

Specifically, three development projects were acquired, one in each of the markets in which the Colonial Group is present: Barcelona, Madrid and Paris. Additionally, Colonial purchased the Spanish headquarters of the Bertelsmann Group, located in the CBD in Barcelona.

The main characteristics of the Alpha II project acquisitions are as follows:

MADRID
BARCELONA
PARIS



	Asset	Photo	Type	Investment
1	**Paseo de la Castellana, 163** *Madrid Prime CBD*		**Value Added – Prime factory** GLA: 10,910 sq m	**Total Investment[1]: €51m**
2	**Travessera de Gracia, 47-49** *Barcelona Prime CBD*		**Core with value added potential** GLA: 8,939 sq m	**Total Investment[1]: €41m**
3	**Plaza Europa, 46-48** *Barcelona Plaza Europa*		**Value Added – Prime factory** GLA: 14,000 sq m	**Total Investment[1]: €32m**
4	**112-122 Av. Emile Zola** *Paris South Center*		**Value Added – Prime factory** GLA: 20,340 sq m	**Total Investment[1]: [€245m - €265m]**

(1) Acquisition price + total project CAPEX

The purchases of the Paseo de la Castellana, 163 and Travessera de Gràcia, 47-49 buildings were formalized at the end of December 2016.

All of the acquisitions in 2016, as well as the Alpha II project in 2017, offer a substantial upside potential of industrial value creation based on: (1) the real estate transformation of the buildings into top quality products and (2) the location in market segments with solid fundamentals.

All the acquisitions were made under very attractive terms, which shows the capacity of the Colonial Group to identify and capture opportunities of real estate value creation.

Asset rotation

The Colonial Group reviews as a recurrent basis the potential of future value creation for each one of its assets in the portfolio.

As a consequence of this analysis, the Ausias March, 148 asset was disposed for a price of 15 million euros in September 2016. This transaction has permitted to capture an 11% on the latest appraisal value in a building without further value creation potential.

Active balance sheet management

Optimization of the financial structure

On 28 October 2016, the Group carried out an issuance of senior unsecured notes for the nominal amount of 600 million euros with a maturity of 8 years and an annual coupon of 1.45%. This issuance was very well received by the market with an over subscription ratio of almost three times, underwritten by high quality investors.

In addition, on 10 November 2016, Colonial issued a private placement of 50 million euros with a ten year maturity and an annual coupon of 1.875%.

In parallel, Colonial launched a repurchase offer on its bonds maturing in 2019, which closed on 28 October with a final take up rate of 50%, successfully completing this process.

All of the transactions as a whole have implied:

1. Bond issuances with interest rates at historic lows

2. An optimization of the financial costs (from 2.27% to 1.96% in the Group)

3. An extension of the average debt maturities (from 5.0 to 6.0 years in Spain)

4. An increase in the liquidity of the Group reaching 873 million euros in cash and undrawn credit lines

The bonds have been well accepted on the market and are trading at values which clearly reflect the high creditworthiness of the Colonial Group.

Share buyback program

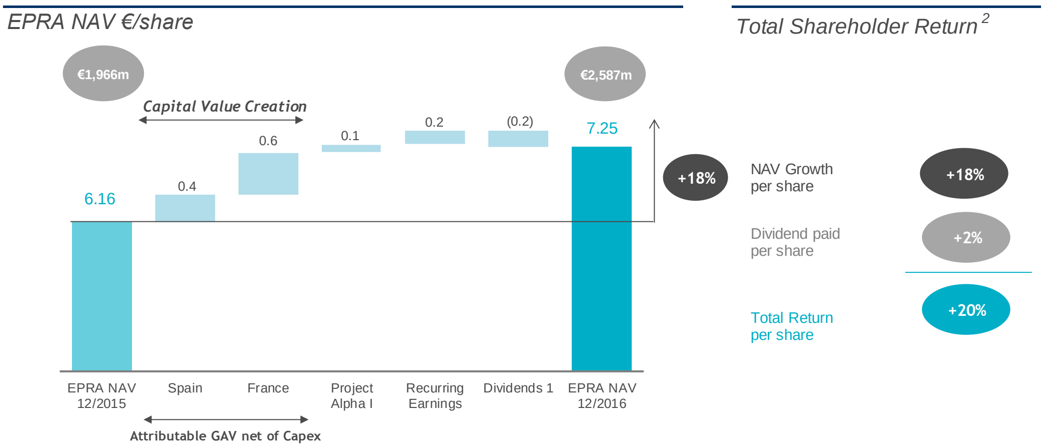
In November, the Colonial Group started a share buyback program to acquire up to 10 million treasury shares for a maximum monetary amount of 68 million euros. At 31 December 2016, 3.2 million shares were acquired (representative of 0.89% of the share capital) at an average price of €6.40/share, a 12% discount on NAV at 31/12/2016.

Shareholder Return

Total Return & Net Asset Value

At the close of 2016, the EPRA NAV of the Colonial Group amounted to €7.25 per share, a year-on-year increase of 18% (+7% in 6 months).

The Total Shareholder Return in 2016, which is understood as NAV growth per share plus the dividend received in July 2016, amounted to 20%1, positioning it among one of the highest returns in the listed sectors in Spain as well as in Europe.



(1) Dividends paid and other effects
(2) Total returns understood as NAV growth per share + dividends

This high Total Shareholder Return relies on the industrial strategy of the Colonial Group, focused on the transformation and creation of prime offices in the centre of Paris, Madrid and Barcelona, which enables Colonial to obtain a value creation above market average.

It is important to highlight that these returns were obtained in a framework of maintaining a solid capital structure with an LTV close to 40% and an Investment Grade credit rating. Accordingly, Colonial offers a very attractive risk-adjusted return for its shareholders.

Share price performance

In a year 2016 characterized by volatile capital markets, Colonial's shares were revaluated by 3%, outperforming the benchmark indices and its main peers in Spain.

In September 2016, Colonial was rated for its excellence and transparency in the communication of capital market information with the "EPRA Gold Award – Financial Reporting" and the "EPRA Gold Award – Sustainability Reporting", being the only listed Spanish company with the highest rating in both categories.

In addition, analyst coverage has increased substantially, from 11 analysts in December 2015 up to 18 analysts that currently cover Colonial.

3. Liquidity and capital resources

See "Capital management: Policies and Objectives" under Note 12 to the consolidated financial statements for the year ended 31 December 2016.

The average payment period (APP) of the Group's Spanish companies to its suppliers was around 31 days in 2016. With regard 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 Group has established two payment days per month to comply with the requirements set forth in Law 11/2013, of 26 July. 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*

Risk Management

Colonial is exposed to a variety of risk factors arising from the countries in which it operates and from the very nature of its activities. Colonial's Board of Directors is responsible for determining the risk management and control policy, identifying the Group's main risks, and implementing and supervising the Internal Control and Risk Management System (hereinafter, ICRMS) 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 which prompted them. The risks associated with the Group's activities are described below.

Strategic risks:

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

- Risks associated with the sector situation: The Colonial Group pays special attention to the economic, political, legal and social risks related to the countries in which it operates (Spain and France). The European property 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 growth of the Spanish economy for the coming years above Eurozone levels and the moderate growth of the French economy will enable the Group 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 property sector is characterised for being highly competitive, reaching high levels of investment in the last two years. The high quality of the Colonial Group'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 the Group as a key benchmark in the property sector in Europe. The successful execution of the growth strategy carried out by the Colonial Group 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 good positioning of the Group in the sector.

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

Corporate risks:

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

- Reputational risk and risks concerning social commitment: The Colonial Group's corporate social responsibility policy sets out the principles and bases of the Group's voluntary commitment to its stakeholders. Management of these expectations forms part of the Group'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 property market, which ensures the Group's viability and aims to anticipate its financial needs and avoid any restrictions in its operating and investment capacity, while pursuing its sustainability and growth targets.

- Financial risks: The Group 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 management of this risk 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. The Colonial Group arranges financial instruments to cover interest rate fluctuations. The Group maintains a high percentage of its gross financial debt tied to fixed rates.
- Risks relating to financing and debt: The Group'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 average maturity of the debt and with the optimisation of the borrowing cost. The Colonial Group's net financial debt, measured using the loan-to-value ratio, has remained stable, which provides the Group with sufficient funds to carry out its current projects, take on new projects and undertake significant growth costs over the coming years.
- Liquidity risk: As mentioned in the preceding paragraph, the Group 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.

- Rental property management risks: Sustainable management of daily operations increasingly forms a key part of an owner's obligations, and has a direct effect on occupancy levels. The Colonial Group 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 a key part of the Group's organisation and business plan.
- Risk of loss or damage to property assets: The Colonial Group's properties are exposed to general risks of damage as a result of fires, 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 by third parties.

Compliance risks:

Regulatory risks associated to compliance with obligations arising from applicable legislation, agreements with third parties and obligations self-imposed by the Group, mainly through its Code of Ethics and Code of Conduct.

- Risks arising from failure to comply with contractual obligations: In the course of its business, Colonial is exposed to risk arising from failure to comply with contractual obligations vis-à-vis customers, banks, suppliers, employees etc. The process of identifying and assessing risks of contractual breach that may give rise to legal proceedings against the Group allows it to take the appropriate corrective measures to mitigate these risks or, where applicable, any possible impact thereof. The Company has also taken out insurance to cover any legal costs or possible damage against directors and executives.
- Tax risks: The Colonial Group must adhere to the general tax legislation of the countries in which it operates, as well as any specific regulations for the property 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 ICRMS, establishing adequate measures to control and monitor the management of risks in this connection.

Reporting risks:

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

5. *Events after the reporting date*

On 12 January 2017, the Parent officially sold part of an asset in Madrid for 5,600 thousand euros, generating a net profit of 303 thousand euros.

On 13 January 2017, the SFL officially acquired a building on avenue Emile Zola in Paris for the amount of 165,000 thousand euros.

On 3 February 2017, the Parent 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 outlook for the Madrid, Barcelona and Paris office markets is as follows:

Barcelona y Madrid

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.

Paris

The Paris market is one of the most important markets worldwide. The last few quarters saw clear signs of an improvement in demand, especially in CBD areas, where there is an apparent scarcity of prime rentals.

Consequently, leading consultants expect the positive trend that began at the end of 2014 to be consolidated for prime property rentals in CBD areas.

Strategy for the future

The investment market showed record high take-up volumes. In the current climate of low interest rates, expectations are that investors will continue to be interested in the Paris market, as one of the Eurozone's major fields of office operations.

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

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

7. Research and development activities

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

8. Treasury shares

At 31 December 2016, the Company had 5,679,588 treasury shares with a nominal value of 14,199 thousand euros, which represents 1.59% of the Parent's share capital.

9. Other relevant information

On 10 December 2015, the Parent 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)

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

Alternative Performance Measure	**Calculation method**	**Definition/Relevance**
EBIT ***(Earnings before interest and taxes)***	Calculated as the "*Operating profit*" plus "*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 Amortization*)**	This is calculated as the "*Operating profit*" adjusted for "*Amortisation*" and the "*Net change in provisions*".	Indicator of the profit generating capacity of the Group, considering only its productive activity, eliminating any provisions for amortisation, debt and tax effects.
Gross financial debt (GFD)	Calculated as the sum of the items *"Bank borrowings and other financial liabilities"* and *"Issuance of bonds and other similar securities"*, excluding *"Interest"* (accrued), *"Arrangement expenses"* and *"Other financial liabilities"* of the consolidated statement of financial position.	Relevant indicator for analysing the financial position of the Group.

Alternative Performance Measure	**Calculation method**	**Definition/Relevance**
EPRA[1] NAV (*EPRA Net Asset Value*)	Calculated based on the equity of the Company and adjusting specific items according to EPRA recommendations.	Standard analysis ratio for the property sector and 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 property sector and recommended by EPRA.
Market Value excluding transaction costs or Gross Asset Value (GAV) excluding Transfer costs	Appraisal of all the assets in the Group's portfolio carried out by external appraisers to the Group, deducting the transaction costs or *transfer costs.*	Standard analysis ratio for the property sector.
Market Value including transaction costs or *GAV including Transfer costs*	Appraisal of all the assets in the Group's portfolio carried out by external appraisers to the Group, before deducting the transaction costs or *transfer costs.*	Standard analysis ratio for the property sector.
***Like-for-like* Rentals**	Amount of rental income from leases included in the item "*Revenue*" comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded, those proceeding 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) are included.	This permits the comparison, on a like-for-like basis, of the changes in the rental income of an asset or group of assets.

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

Alternative Performance Measure	Calculation method	Definition/Relevance
***Like-for-like* Appraisal**	Market Value excluding transaction costs or the Market Value including transfer costs, comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods is excluded.	This permits the comparison, on a like-for-like basis, of the changes in the Market Value of the portfolio.
***Loan to Value* Group or LtV Group**	Calculated as the result of dividing the Gross financial debt less the amount of the item *"Cash and cash equivalents"* between the Market Value, including transaction costs, of the Group's portfolio of assets.	This permits an analysis of the relation between the net financial debt and the appraisal value of the Group's portfolio of assets.
LtV Holding or LtV Colonial	Calculated as the result of dividing the Gross financial debt less the amount of the item *"Cash and cash equivalents"* between the total of the Market Value, including transaction costs, of the portfolio of assets of the parent company of the Group and the EPRA NAV of all its financial holdings in Subsidiaries.	This permits an analysis of the relation between the net financial debt and the appraisal value of the portfolio of assets of the parent company of the Group.

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

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

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

EPRA NAV (EPRA *Net Asset Value*)	**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.a) Revaluation of assets under development	n.a.	n.a.
(i.c) Revaluation of other investments	51	17
(ii) Revaluation of financial 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 transfer costs or GAV *excluding Transfer costs***

Market Value excluding transfer 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
Portfolio leased out	**7,771**	**6,824**
Projects	**144**	**82**
Others	**14**	**6**
Shareholding value in Axiare	**141**	**-**
Total Market Value excluding transfer costs	**8,069**	**6,913**
Spain	2,333	1,670
France	5,736	5,242

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

Market Value including transfer costs or GAV *including Transfer costs*	**31/12/2016**	**31/12/2015**
	(Millions of euros)	
Total Market Value excluding transfer costs	**8,069**	**6,913**
Plus: transfer costs	409	326
Total Market Value including transfer 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 transfer costs	8,478	7,239
Plus: Treasury shares of the Parent Valued at EPRA NAV	41	5
(B) Market Value including transfer 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 transfer 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.