Inmobiliaria Colonial, SOCIMI, S.A.

Audit Report,
Annual Accounts and Directors' Report
as at 31 December 2017

This version of our report is a free translation of the original, which will be prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent auditor´s report on the annual accounts

To the shareholders of Inmobiliaria Colonial, SOCIMI, S.A.:

Report on the annual accounts

Opinion

We have audited the annual accounts of Inmobiliaria Colonial, SOCIMI, S.A. (the Company), which comprise the balance sheet as at December 31, 2017, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at December 31, 2017, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 2 of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the annual accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

Key audit matters

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

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R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Key audit matter	How our audit addressed the key audit matter
Measurement of non-current investments in Group companies	
At 31 December 2017 Inmobiliaria Colonial, SOCIMI, S.A. recognises a balance under Non-current investments in group companies amounting to Euro 2,072,989 thousand, as detailed in Notes 4.e) and 8 to the accompanying annual accounts. These investments are significant with respect to the Company's annual accounts as they account for approximately 40% of total assets. As indicated in Note 4.e) to the accompanying annual accounts, the Company carries out an assessment of the possible impairment adjustments by comparing the carrying amount of the shares with the recoverable amount , this being, unless otherwise evidenced, the investee's equity adjusted for any latent capital gains existing at the measurement date. Value adjustments and, if appropriate, their reversal, are recognised in the income statement for the year in which they arise. The quantification of the recoverable amount of such investments requires the use of judgements and significant estimates by Company Management when determining the valuation method and considering the key assumptions established. The materiality of the investments in group companies and the significant judgements described above mean that we consider this matter a key audit matter.	Our audit procedures included, among others, the review of the process implemented by the Company to assess the potential impairment of non-current investments in group companies. Also, we assessed the valuation methodology used by the Company. We obtained the audited balance sheets of the most relevant investees and reviewed the amounts of the capital gains identified and checked them against the valuations of their investment property carried out by independent experts, whom we assessed in terms of the requisite competence and independence, finding no exceptions. We ascertained that these valuations were performed in accordance with the Valuation Rules of the Royal Institution of Chartered Surveyors (RICS), included in the so-called "Red Book" - valuation manual. In this respect, we held meetings with the valuers together with our internal experts and verified for a representative sample of these valuations, the calculations used, final profitability, term of the rental contracts, the type and age of the properties, their location and occupancy rate and the discount rate used. Also, for a sample of assets, we verified, through the relevant purchase deeds, the technical specifications used by the independent experts in determining the fair value of those assets using the purchase deeds. We concluded that Management's approach is consistent and is supported by the available evidence. Lastly, we assessed whether the disclosures of information included in Notes 4.e) and 8 to the accompanying annual accounts in relation to this matter are adequate with respect to those required under applicable accounting regulations.
Valuation of Investment Property	
The Company has real estate assets which are recognised under Investment property amounting to Euro 1,531,337 thousand, representing 29% of total assets. Notes 4.c) and 6 to the accompanying annual accounts include information on the assets included under this heading.	For the purposes of validating their carrying amount before considering any impairment, we verified the annual depreciation of investment property and observed that it is calculated on a straight-line basis, without detecting significant incidents.

Key audit matter	How our audit addressed the key audit matter
As indicated in Note 4.c), these properties are tested for impairment. In order to obtain the recoverable amount of such assets, the Company determines the fair value through independent expert valuations. The methodology used to determine the fair value of the investment properties is mainly the discounted cash flows method, generally applied over a 10 year timeframe, in accordance with standard market practice. Such valuations are based on a series of significant judgements and estimates. We have therefore focused on this area due to the materiality of this heading with respect to the Company's total assets and the significant judgement required on the part of Management. Changes in the assumptions used could lead to a significant variation in the recoverable value of such assets and their impact on the income statement.	We obtained the year-end valuations of these assets by independent experts and we assessed that these experts meet the requirements of competence and independence, finding no exceptions. We determined that the valuations were performed in accordance with the Valuation Rules of the Royal Institution of Chartered Surveyors (RICS), included in the so-called "Red Book" - valuation manual. In this respect, we held meetings with the valuers together with our internal experts and verified for a representative sample of these valuations, the calculations used, final profitability, term of the rental contracts, the type and age of the properties, their location and occupancy rate and the discount rate used. Also, for a sample of assets, we verified the technical specifications used by the independent experts when determining the fair value of those assets using the purchase deeds. Lastly, we verified the relevant disclosures in Notes 4.c) and 6 to the accompanying annual accounts. We consider that we obtained sufficient audit evidence in the course of our work to corroborate the reasonableness of the carrying amount of investment property.
SOCIMI Tax Scheme	
On 30 June 2017 the Company asked the Tax Authorities to include it in the SOCIMI tax scheme as detailed in Notes 1, 4.m) and 16 to the accompanying annual accounts. Adopting this tax scheme entails breaking up the tax group existing at 31 December 2016, effective as from 1 January 2017. The SOCIMI Tax Scheme is governed by Law 11/2009, dated 26 October 2016, as amended by Law 16/2012, that contains very specific requirements for inclusion in that scheme and which are detailed in Note 4.m) to the accompanying annual accounts. We have decided to mention this matter as it is a relevant event for the year and because of its impact on the annual accounts, as a result of the change in the way of accounting for corporate income tax in the Company.	We obtained the certificate dated 30 June 107 through which the Company reported to the Tax Administration State Agency the decision to apply the SOCIMI Tax Scheme and we have seen the documentation relating to the receipt of such communication. We verified that the Company meets the necessary requirements under tax legislation to qualify for the SOCIMI Tax Scheme, without finding exceptions. Additionally, we involved our internal tax experts in order to validate that the effects of the scheme are correctly accounted for and the treatment of temporary differences and their tax impact. We also took into account the relevant disclosures in Notes 1, 4.m) and 16 to the accompanying annual accounts.

Key audit matter	How our audit addressed the key audit matter
	The results of our procedures ended satisfactorily and we did not identify any relevant matters affecting the financial information included in the accompanying annual accounts.
Public offering of shares of Axiare Patrimonio SOCIMI, S.A. In November 2017 the Company's interest in Axiare Patrimonio SOCIMI S.A. (hereinafter Axiare) amounted to 28.79%. At 31 December 2017 the Company holds this investment as a financial asset available for sale as the conditions to view it as an investment in an associate are not met, as indicated in Note 8 to the accompanying annual accounts. On 28 December 2017 the Comisión Nacional del Mercado de Valores authorised the voluntary public offer of Axiare shares, covering 100% of the company's share capital, excluding the shares already held by the Company. On 2 February 2018 it was confirmed that the offer had been accepted by 58.07 % of the corresponding shareholders, resulting in the disbursement of Euro 842,955 thousand. As a result, the Company owns 86.86% of Axiare's share capital. As this transactions was completed after the 2017 year-end but before the date of formulation of the annual accounts, accounting regulations require information to be disclosed on the business combination and the disclosure, where appropriate, of the reasons why certain information cannot be included. These disclosures are included in Note 22 to the accompanying annual accounts. We have decided to mention this matter as this is a significant transaction that has a relevant impact on the Company's annual accounts.	In relation to the interest obtained in Axiare Patrimonio SOCIMI, S.A. in November 2017, we took into account the arguments prepared by Management in order to conclude that there was no significant influence over that company. We reviewed that assessment together with our internal legal experts and concluded that Company Management's assessment is adequate. We verified the acceptance on 2 February 2018 of the public offer of Axiare shares through the Comisión Nacional del Mercado de Valores publication, thereby confirming the number of shares and percentage of capital obtained. We have determined that the information detailed in Notes 8 and 22 to the accompanying annual accounts relates to the information which is publicly available on the public offer of shares and the financial information published by Axiare for the year ended 31 December 2017 and can conclude that the disclosures are adequate.

Other Matters

On 24 February 2017 other auditors issued an audit opinion on the annual accounts of the group for the year ended 31 December 2016 in which they expressed an unqualified opinion.

Other information: Management report

Other information comprises only the management report for the 2017 financial year, the formulation of which is the responsibility of the Company´s directors and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the management report. Our responsibility regarding the management report is defined in the legislation governing the audit practice, which establishes two different levels:

a) A specific level that is applicable to certain information included in the Annual Corporate Governance Report (ACGR), as defined in art. 35.2. b) of Law 22/2015, on Audit of Accounts, which consists in verifying only that the aforementioned information has been provided in the management report, and otherwise, to report on it.

b) A general level applicable to the rest of the information included in the management report, which consists of evaluating and reporting on the concordance of the aforementioned information with the annual accounts, based on the Company´s knowledge obtained in the performance of the audit of the aforementioned accounts and without including information other than that obtained as evidence during the same, as well as evaluating and reporting whether the content and presentation of this part of the management report are in accordance with the regulations that result from application. If, based on the work we have done, we conclude that there are material inaccuracies, we are obliged to report it.

On the basis of the work performed, as described above, we have verified that the information mentioned in section a) above is provided in the management report and that the rest of the information contained in the management report is consistent with that contained in the annual accounts for the 2017 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the annual accounts

The Company´s directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of Inmobiliaria Colonial, SOCIMI, S.A., in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

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

The audit committee is responsible for overseeing the process of preparation and presentation of the annual accounts.

Auditor's responsibilities for the audit of the annual accounts

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

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

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

We also provide the Company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Company´s audit committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters.

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

Report on other legal and regulatory requirements

Report to the audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit committee dated February 22, 2018.

Appointment period

The General Ordinary Shareholders' Meeting held on 28 June 2016 appointed us as auditors for a period of 3 years, as from the year ended 31 December 2017.

Services provided

Services different to the audit of the accounts are indicated in Note 20 to the annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
José M Solé Farre (05565)

February 22, 2018

Inmobiliaria Colonial, SOCIMI, S.A.

Financial Statements
for the Year Ended on
31 December 2017 and
Management Report, together with the
Auditors' Report

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

INMOBILIARIA COLONIAL, SOCIMI, S.A.

BALANCE SHEET AT 31 DECEMBER 2017
(Thousands of Euros)

ASSETS	Notes to the ancial Stateme	31.12.2017	31.12.2016
NON-CURRENT ASSETS:			
Intangible assets-		**1.684**	**1.061**
Industrial property		676	290
Computer software		1.008	771
Property, plant and equipment-	**Note 5**	**17.445**	**15.566**
Land and buildings		18.188	18.030
Plant and other items of property, plant and equipment		4.185	2.177
Impairment of property, plant and equipment		(4.928)	(4.641)
Investment property-	**Note 6**	**1.531.337**	**1.510.105**
Land		1.160.562	1.160.545
Buildings and installations		373.685	396.877
Investment property in progress		76.726	71.272
Impairment of investment property		(79.636)	(118.589)
Non-current investments in Group companies and associates-	**Note 8**	**2.138.741**	**1.857.163**
Non-current equity instruments of the Group		2.075.941	1.865.345
Loans to companies		65.752	-
Impairment of financial investments in Group companies and associates		(2.952)	(8.182)
Non-current financial investments-	**Note 8**	**432.100**	**146.782**
Non-current equity instruments		423.277	138.293
Other non-current financial assets		8.823	8.489
Total non-current assets		**4.121.307**	**3.530.677**
CURRENT ASSETS:			
Trade and other receivables-		**18.587**	**38.880**
Trade receivables from sales and services		1.571	1.393
Trade receivables from Group companies and associates	**Note 18**	210	28
Other receivables	**Note 11**	3.859	1.729
Advances to suppliers		91	96
Employees receivables		4	4
Other accounts receivable from public authorities	**Note 16**	12.852	35.630
Current investments in Group companies and associates-	**Note 18**	**192**	**5.697**
Current loans to Group companies and associates		192	5.697
Current financial investments-	**Note 11**	**9**	**441**
Current equity instruments		9	9
Other current financial assets		-	432
Current prepayments and accrued income		**135**	**43**
Cash and cash equivalents	**Note 14**	**1.069.355**	**79.591**
Total current assets		**1.088.278**	**124.652**
TOTAL ASSETS		**5.209.585**	**3.655.329**

LIABILITIES	Notes to the ancial Stateme	31.12.2017	31.12.2016
EQUITY:			
CAPITAL AND RESERVES-		**2.462.145**	**1.893.270**
Share capital-		**1.088.293**	**892.058**
Registered capital		1.088.293	892.058
Share premium		**1.126.248**	**731.326**
Reserves-		**245.118**	**250.634**
Legal and statutory reserves		39.099	33.615
Other reserves		206.019	217.019
Own shares and equity holdings		**(31.262)**	**(36.755)**
Profit for the year		**32.497**	**54.839**
Other equity instruments		**1.251**	**1.168**
VALUATION ADJUSTMENTS-		**70.415**	**1.317**
Financial assets available for sale		**70.415**	**1.317**
Total equity	**Note 12**	**2.532.560**	**1.894.587**
NON-CURRENT LIABILITIES:			
Non-current provisions-	**Note 13**	**10.289**	**10.671**
Non-current employee benefit obligations		83	97
Other provisions		10.206	10.574
Non-current payables-		**2.488.366**	**1.664.421**
Debt instruments and other held-for-trading liabilities	**Note 14**	2.310.656	1.513.868
Bank borrowings	**Note 14**	160.412	119.927
Derivatives	**Note 9**	-	45
Other non-current financial liabilities	**Note 15**	17.298	30.581
Non-current payables to Group companies and associates-	**Note 18**	**18.094**	**-**
Deferred tax liabilities and other payables to public authorities-	**Note 16**	**39.363**	**36.632**
Total non-current liabilities		**2.556.112**	**1.711.724**
CURRENT LIABILITIES:			
Current provisions	**Note 13**	**19.914**	**11.926**
Current payables-		**11.573**	**11.728**
Debt instruments and other held-for-trading liabilities	**Note 14**	12.120	11.367
Bank borrowings	**Note 14**	(608)	(270)
Derivatives	**Note 9**	50	612
Other current financial liabilities		11	19
Current payables to Group companies and associates	**Note 18**	**48**	**4.704**
Trade and other payables-		**89.368**	**20.650**
Payable to suppliers		78.729	13.760
Other payables		8.273	4.480
Other accounts payable to public authorities	**Note 16**	2.366	2.410
Current accrued expenses and deferred income		**10**	**10**
Total current liabilities		**120.913**	**49.018**
TOTAL EQUITY AND LIABILITIES		**5.209.585**	**3.655.329**

The accompanying Notes 1 to 22 and the Appendix are an integral part of the balance sheet at 31 December 2017.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

INCOME STATEMENT FOR 2017
(Thousands of Euros)

	Notes to the Financial Stateme	Financial Year 2017	Financial Year 2016
CONTINUING OPERATIONS:			
Revenue-	**Note 17**	**100.545**	**119.822**
Sales		70.725	64.746
Services		703	241
Income from holdings in Group companies		29.117	54.835
Other operating income-		**2**	**123**
Non-core and other current operating income		2	123
Staff costs-	**Note 17**	**(13.268)**	**(9.287)**
Wages, salaries and similar expenses		(11.219)	(7.506)
Employee benefits expense		(2.049)	(1.781)
Other operating expenses-		**(27.285)**	**(19.764)**
External services		(16.993)	(11.914)
Taxes other than income tax		(2.197)	(3.512)
Losses on, impairment of and changes in allowances for trade receivables	**Note 17**	(8.073)	(4.376)
Other current operating expenses		(22)	38
Amortisation and depreciation-	**Notes 5 and 6**	**(25.275)**	**(28.170)**
Impairment and gains on disposal of fixed assets-	**Note 17**	**32.499**	**61.133**
Impairment and losses		32.285	61.741
Gains/(losses) on disposals and other		214	(608)
Profit from operations-		**67.218**	**123.857**
Finance income-	**Note 17**	**4.895**	**1.550**
From investments in equity instruments-		**3.681**	**-**
Third parties	**Notes 8 and 17**	3.681	-
Marketable securities and other financial instruments-		**1.214**	**1.550**
Group companies and associates	**Note 18**	268	81
Third parties		946	1.469
Finance costs-	**Note 17**	**(42.151)**	**(55.358)**
On debts to Group companies and associates	**Note 18**	(193)	(1)
On debts to third parties		(41.958)	(55.357)
Change in fair value of financial instruments-	**Note 17**	**(2)**	**(64)**
Trading portfolio and other		(2)	(64)
Impairment and gains/(losses) on disposal of financial instruments-	**Notes 8 and 17**	**5.236**	**(8.172)**
Impairment and losses		5.230	(8.172)
Gains/(losses) on disposals and other		6	-
Financial loss-		**(32.022)**	**(62.044)**
Profit before tax-		**35.196**	**61.813**
Income tax expense	**Note 16**	(2.699)	(6.974)
Profit for the year from continuing operations-		**32.497**	**54.839**
Profit for the year-		**32.497**	**54.839**

Notes 1 to 22 and the Appendix are an integral part of the income statement for 2017.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

STATEMENT OF CHANGES IN EQUITY FOR 2017

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE

(Thousands of Euros)

	Notes to the Financial Stateme	Financial Year 2017	Financial Year 2016
PROFIT FOR THE YEAR (I)		**32.497**	**54.839**
Income and expense recognised directly in equity:			
Cash flow hedges		-	-
Changes in fair value of available-for-sale financial assets	**Note 8**	69.098	1.317
Total income and expense recognised directly in equity (II)		**69.098**	**1.317**
Amounts transferred to income statement:			
Cash flow hedges		-	-
Total amounts transferred to income statement (III)		**-**	**-**
Total recognised income and expense (I+II+III)		**101.595**	**56.156**

Notes 1 to 22 and the Appendix are an integral part of the statement of recognised income and expense for 2017.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

STATEMENT OF CHANGES IN EQUITY FOR 2017

B) STATEMENT OF TOTAL CHANGES IN EQUITY

(Thousands of Euros)

	Notes to the Financial Stateme	Share capital	Share premium	Reserves	Treasury shares	Prior years' profit/(loss)	Profit for the year	Other equity instruments	Valuation adjustments -	Total
Balance at 31 December 2015		**797.214**	**560.606**	**1.163.954**	**(5.013)**	**(1.147.975)**	**285.350**	**1.191**	**-**	**1.655.327**
Total recognised income and expense		-	-	-	-	-	54.839	-	1.317	**56.156**
Transactions with shareholders:	**Note 12**									
Capital increases		94.844	170.720	(1.905)	-	-	-	-	-	**263.659**
Transactions with own shares and equity holdings (net)		-	-	(12)	(33.856)	-	-	-	-	**(33.868)**
Other transactions with shareholders		-	-	(938.993)		938.993				**-**
Distribution of profit		-	-	28.535	-	208.982	(285.350)	-	-	**(47.833)**
Share-based payment transactions:										
Accrual long-term remuneration plan 2016	**Note 17**	-	-	-	-	-	-	1.168	-	**1.168**
Delivery long-term remuneration plan 2015	**Note 19**	-	-	(945)	2.114	-	-	(1.191)	-	**(22)**
Balance at 31 December 2016		**892.058**	**731.326**	**250.634**	**(36.755)**	**-**	**54.839**	**1.168**	**1.317**	**1.894.587**
Total recognised income and expense		-	-	-	-	-	32.497	-	69.098	**101.595**
Transactions with shareholders:	**Note 12**									
Capital increases		196.235	394.922	(6.691)	-	-	-	-	-	**584.466**
Transactions with own shares and equity holdings (net)		-	-	10.371	2.956	-	-	-	-	**13.327**
Offset of prior years' losses		-	-	-	-	-	-	-	-	**-**
Distribution of profit		-	-	(7.910)	-	-	(54.839)	-	-	**(62.749)**
Share-based payment transactions:										
Accrual long-term remuneration plan 2017	**Note 17**	-	-	-	-	-	-	1.334	-	**1.334**
Delivery long-term remuneration plan 2016	**Note 19**	-	-	(1.286)	2.537	-	-	(1.251)	-	**-**
Balance at 31 December 2017		**1.088.293**	**1.126.248**	**245.118**	**(31.262)**	**-**	**32.497**	**1.251**	**70.415**	**2.532.560**

The accompanying Notes 1 to 22 and the Appendix are an integral part of the statement of recognised income and expense for 2017.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

STATEMENT OF CASH FLOWS FOR 2017
(Thousands of Euros)

	Notes to the Financial Statements	Financial Year 2017	Financial Year 2016
CASH FLOWS FROM OPERATING ACTIVITIES (I):		**56.949**	**22.355**
Profit for the year before tax from continuing operations-		**35.196**	**61.813**
Profit/(loss) for the year before tax from discontinued operations-		**-**	**-**
Adjustments for-		**(759)**	**(22.370)**
Amortisation and depreciation	**Notes 5 and 6**	25.275	28.170
Impairment loss allowances	**Note 17**	(32.285)	(61.741)
Changes in provisions	**Notes 13 and 17**	8.073	4.376
Proceeds from disposals of fixed assets	**Note 6**	(214)	608
Impairment and gains/(losses) on disposal of financial instruments	**Notes 8 and 17**	(5.236)	8.172
Finance income	**Note 17**	(4.895)	(1.550)
Income from holdings in Group companies	**Note 18**	(29.117)	(54.835)
Finance costs	**Note 17**	42.151	55.358
Change in fair value of financial instruments	**Notes 9 and 17**	2	64
Other income and expenses		(4.513)	(992)
Changes in working capital-		**13.747**	**(18.514)**
Trade and other receivables		(258)	(1.317)
Other current assets		432	-
Trade and other payables		11.518	(16.370)
Other current liabilities		(8)	2
Other non-current assets and liabilities		2.063	(829)
Other cash flows from operating activities-		**8.765**	**1.426**
Interest paid		(47.315)	(41.975)
Income from holdings in Group companies	**Notes 17 and 18**	29.117	54.835
Finance income		4.038	726
Other taxes received (paid)		23.534	(9.975)
Proceeds from and payments for cancellation of derivatives		(609)	(2.185)
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**(388.896)**	**(354.902)**
Payments for investments-		**(393.853)**	**(369.022)**
Group companies and associates	**Note 8**	(157.356)	(138.568)
Intangible assets		(1.152)	(755)
Property, plant and equipment	**Note 5**	(2.792)	(1.843)
Investment property	**Note 6**	(16.667)	(90.820)
Other financial assets	**Note 8**	(215.886)	(136.976)
Non-current assets held for sale	**Note 10**	-	(60)
Proceeds from sale of investments-		**4.957**	**14.120**
Property, plant and equipment		11	13
Investment property	**Note 6**	4.940	-
Other current financial assets	**Notes 9 and 17**	6	-
Non-current assets held for sale	**Note 10**	-	14.107
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**1.321.711**	**210.506**
Proceeds from and payments for equity instruments-		**535.044**	**(97.529)**
Issue of equity instruments	**Note 12**	591.157	-
Distribution of dividends	**Note 3**	(62.749)	(47.833)
Acquisition/Disposal of own equity instruments	**Note 12**	13.327	(47.791)
Expenses associated with capital increases	**Note 12**	(6.691)	(1.905)
Proceeds from and payments for financial liability instruments-		**786.667**	**308.035**
Issue of bank borrowings	**Note 14**	435.000	314.705
Bonds and similar marketable securities issued	**Note 14**	800.000	650.000
Debt issues with Group companies and associates	**Note 18**	(60.615)	(5.277)
Credit issues with Group companies and associates	**Note 18**	5.938	4.700
Redemption and repayment of bank borrowings	**Note 14**	(393.474)	(260.177)
Redemption and repayment of bonds and similar marketable securities	**Note 14**	-	(395.904)
Redemption and repayment of payables to Group companies and associates	**Note 18**	(182)	(12)
EFFECT OF EXCHANGE RATE FLUCTUATIONS (IV)		-	**-**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**989.764**	**(122.041)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS FROM NON-MONETARY CONTRIBUTIONS		**-**	**-**
Cash and cash equivalents at beginning of year		79.591	201.632
Cash and cash equivalents at end of year		1.069.355	79.591

The accompanying Notes 1 to 22 and the Appendix are an integral part of the statement of cash flows for 2017.

Inmobiliaria Colonial, SOCIMI, S.A.

Notes to the financial statements
for the year ended on
31 December 2017

1. Company's description

Inmobiliaria Colonial, S.A., is a public limited company incorporated in Spain, for an indefinite period, on 8 November 1956. Its registered offices are at Paseo de la Castellana, 52, Madrid (formerly Avenida Diagonal 532, in Barcelona).

On 29 June 2017, the shareholders at the Company's General Shareholders' Meeting resolved to adopt the SOCIMI (hereinafter, REIT) Tax Regime and to make the corresponding Bylaw amendments to bring the Company Bylaws in line with the requirements stipulated in this regime, which included changing the corporate name to Inmobiliaria Colonial, SOCIMI, S.A.

In 2007, Inmobiliaria Colonial, S.A. (formerly Grupo Inmocaral, S.A.) was merged by absorption into Inmobiliaria Colonial, SOCIMI, S.A. (absorbed company) In 2008 Inmobiliaria Colonial S.A. (absorbing company) merged with Subirats-Coslada Logística, S.L.U., Diagonal Les Poxes 2002, S.L.U., Dehesa de Valme, S.L., Urbaplan 2001, S.A.U., Entrenúcleos Desarrollo Inmobiliario, S.L., Inversiones Tres Cantos, S.L. and Inversiones Notenth, S.L. (absorbed companies).

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

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

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

On 30 June 2017, the Company submitted a request to the tax authorities to be included in the REIT Tax Regime, applicable as of 1 January 2017.

The Company’s corporate purpose, as set out in its Bylaws, is as follows:

- the acquisition and development of urban properties for lease;

- the ownership of interests in the share capital of listed real estate investment companies (REITs) or other non-resident entities in Spain with the same corporate purpose, which are subject to a regime similar to that established for REITs in relation to the obligatory profit distribution policy stipulated by law or the bylaws;

- the ownership of interests in the share capital of other resident or non-resident entities in Spain, the main corporate purpose of which is the acquisition of urban properties earmarked for lease, which are subject to the regime established for REITs in relation to the obligatory profit distribution policy stipulated by law or the bylaws and meet the investment requirements stipulated for these companies; and

- the ownership of shares or equity interests in collective real estate investment undertakings governed by Law 35/2003, of 4 November, on collective investment undertakings, or any law that may replace it in the future.

In addition to the economic activity relating to the main corporate purpose, the Company may also carry on any other ancillary activities, i.e., those that they generate income representing less than 20%, taken as a whole, of its income in each tax period, or those that may be considered ancillary activities under the legislation applicable at any time, including, in any case, the management, restoration and operation of properties and the performance of all manner of studies, reports, appraisals, valuations and surveys; and in general, the provision of real estate consulting and advisory services, property asset management, development and marketing services, and technical assistance through contracts with other public or private companies or entities.

Activities that by law are attributable exclusively to special purpose vehicles are expressly excluded from its corporate purpose.

All activities included in the corporate purpose will be carried out as authorised by current legislation at any given time, expressly excluding its own activities that are exclusively granted by prevailing legislation to individuals or legal entities other than this Company.

The Company may also carry out the aforementioned activities, in full or in part, indirectly through ownership interests in other companies with an identical or similar corporate purpose.

Inmobiliaria Colonial, SOCIMI, S.A. carries out its activities in Spain (mainly in Barcelona and Madrid) and in France (Paris) through the group of which it is the parent Société Foncière Lyonnaise, S.A. (hereinafter SFL).

Inmobiliaria Colonial, SOCIMI, S.A. has been listed on the Spanish electronic trading system and Stock Exchange since 19 June 2017, when it was included on the benchmark stock market index, the IBEX-35.

In 2017, the Company improved the credit rating obtained from Standard & Poor's Rating Credit Market Services Europe Limited, which is now a "BBB" long-term credit rating and an "A-2" short-term credit rating, both with a stable outlook. In addition, the Company obtained a "Baa2" credit rating with a negative outlook from Moody's.

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

The Company is the head of a group of subsidiaries and is obliged under current legislation to prepare consolidated financial statements separately. The consolidated financial statements for 2016 were approved at the General Shareholders' Meeting of Inmobiliaria Colonial, SOCIMI, S.A. held on 29 June 2017, and they were subsequently filed at the Barcelona Mercantile Register.

2. Basis of presentation of the financial statements

a) Financial reporting regulatory framework applicable to the Company

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

a) The Spanish Commercial Code and other company law.

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

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

d) All other applicable Spanish accounting law.

b) True and fair view

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

The 2016 financial statements were approved by the shareholders at the General Shareholders' Meeting held on 29 June 2017.

c) Non-mandatory accounting policies applied

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

d) Critical aspects of measurement and estimate of uncertainty

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

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

  The market value of the property for own use and of the investment property was obtained from the appraisals periodically made by independent experts. Such appraisals were made on 30 June 2017 and 31 December 2017 in accordance with the methods described in Notes 4-b and 4-c.

- The useful life of property for own use and of investment property (Notes 4-b and 4-c).

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

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

- Estimation of the appropriate provisions for default of accounts receivable (Note 4-g).

- Measurement of deferred tax liabilities recognised in the balance sheet (Notes 4-m and 16).

- The market value of certain financial assets, including derivative financial instruments (Notes 4-e and 9).

- Evaluation of lawsuits, obligations, and contingent assets and liabilities at year-end (Note 13).

Although these estimates were made on the basis of the best available information at year-end 2017, events that take place in the future might make it necessary to modify these amounts (upwards or downwards) in coming years, which would mean prospectively recognising the effects of said changes in the corresponding income statement.

e) Comparative information

The information included in these notes to the financial statements for 2017 is presented, for comparison purposes, with the information relating to 2016.

f) Grouping of items

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

g) Correction of errors

No significant errors have been found in the preparation of the accompanying financial statements that would require a restatement of the amounts included in the 2016 financial statements.

h) Functional currency

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

3. Distribution of profit

The distribution of the 2017 profit proposed by the Board of Directors of the Company for approval at the General Shareholders' Meeting is as follows:

	Thousands of euros
Profit for the year of the Company	**32,497**
To the legal reserve	3,250
To dividends	29,247
Total distributed	**32,497**

The Company's Board of Directors will submit for approval at the General Shareholders' Meeting a proposed distribution of dividends totalling 0.18 euros per share, which would give rise to a total maximum dividend of 78,357 thousand euros based on the current number of outstanding shares. The definitive amount of the dividend, as well as the nature of the reserves to be distributed, will be determined prior to its distribution based on the treasury shares held by the Company (Note 12).

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

Thousands of euros	2012	2013	2014	2015	2016
Dividends distributed	-	-	-	47,833	62,749

4. Recognition and measurement bases

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

a) *Intangible assets*

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

Computer software-

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

b) *Property, plant and equipment*

Properties for own use, including other property, plant and equipment, are recognised at acquisition cost less any accumulated depreciation and any impairment.

Historical cost includes expenses directly attributable to the acquisition of the properties. Any potential impairment losses on the properties are recognised in accordance with the same valuation assumptions described in Note 4-c.

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

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

	Years of estimated useful life
Property for own use	
Buildings	50
Installations	10 to 15
Other property, plant and equipment	4 to 10

Impairment of property, plant and equipment -

At each reporting date, the Company 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). The recoverable amount is the higher of the fair value of the asset less costs to sell or otherwise dispose of the asset and value in use. Where the asset does not generate cash inflows that are independent of those from other assets, the Company 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.

c) *Investment property*

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

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

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

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

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

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

	Years of estimated useful life
Properties:	
Buildings	50
Installations	10 to 15
Other property, plant and equipment	4 to 10

The Company periodically compares the carrying amount of its investment property with the market value based on valuations made by independent experts for each one of them. The appropriate impairment losses are recognised on investment property when the market value of an item is lower than the carrying amount. The market value is determined on a half-yearly basis: that is, at 30 June and at 31 December of each year, based on the valuations made by independent experts (Jones Lang LaSalle and CB Richard Ellis Valuation in Spain for the years 2017 and 2016), so that the year-end market 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 Company.

The Discounted Cash Flow (hereinafter, “DCF”) method was primarily used to determine the market value of the Company's investment property in 2017 and 2016.

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

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

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

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

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

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

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

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

The yields and other assumptions used in determining future cash flows in 2017 and 2016 are set out in the tables below:

	Gross	
Exit yields (%) - Offices	31 December 2017	31 December 2016
Barcelona – Prime Yield		
Leased out	4.85	5.05
Total portfolio	4.88	5.08
Madrid – Prime Yield		
Leased out	4.45	4.67
Total portfolio	4.47	4.68

Assumptions made at 31 December 2017					
Rent increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	3.00	3.00	3.00	3.00	2.25
Total portfolio	3.00	3.00	3.00	3.00	2.25
Madrid –					
Leased out	3.00	3.00	3.00	3.00	2.50
Total portfolio	3.00	3.00	3.00	3.00	2.50

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

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 a price that a developer might pay for the asset under development.

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

Sensitivity of valuations to a change of one quarter of a point in yields	Thousands of euros		
	Valuation	Decrease of one quarter of a point	Increase of one quarter of a point
December 2017	1,923,747	94,384	(84,360)
December 2016	1,741,691	81,562	(73,221)

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

The rental income earned in 2017 and 2016 from the lease of these investment property amounted to approximately 70,725 thousand euros and 64,746 thousand euros, respectively, and is recognised under “Revenue” in the income statement (Note 17).

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

d) Leases

Finance leases-

Leases are classified as finance leases whenever their terms imply that substantially all the risks and rewards incidental to ownership of the leased asset have been transferred to the lessee. All other leases are classified as operating leases. At 31 December 2017 and 2016, all of the Company’s leases qualified as operating leases.

Operating leases-

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

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

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

e) Financial instruments

Financial assets-

Initial measurement-

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

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

Classification-

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

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

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

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

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

Subsequent measurement-

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

Investments in Group companies, associates and jointly controlled entities are measured at cost minus, if applicable, any accumulated impairment losses. Such losses are calculated as the difference between the carrying amount and the recoverable amount, where the latter is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, the estimated impairment of these investments takes into account the equity of the investee, adjusted by the unrealised gains existing at the valuation date. The correction of value, and, when applicable, its reversal, is entered in the income statement of the year in which it occurs.

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

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

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

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

The Company derecognises financial assets when they expire or when the rights to the cash flows from the financial asset have been assigned and the risks and benefits of ownership have been substantially transferred.

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

Financial liabilities-

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

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

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

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

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

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

Own equity instruments (Note 12)-

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

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

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

Derivative financial instruments (Note 9) -

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

- Treatment of financial instruments that are not allocated to a specific liability and do not qualify for hedge accounting: gains or losses arising from the restatement at fair value of these financial instruments are recognised directly in the income statement.

The Company's directors have considered the credit risk in the measurement of the derivatives portfolios, with no significant impact seen as at 31 December 2017 and 2016.

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

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

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

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

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

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

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

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

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

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

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

g) Accounts receivable

Trade receivables are carried at recoverable value, i.e., net, where applicable, of the allowances recognised to cover balances of a certain age whose circumstances reasonably warrant their consideration as doubtful receivables. At 31 December 2017 and 2016, there were no unprovisioned at-risk accounts receivable.

In 2017, impairment losses of 67 thousand euros relating to accounts receivable were charged to "Losses, impairment and change of trade provisions" in the income statement for the year (1,545 thousand euros in 2016).

h) Statement of cash flows (indirect method)

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

- Cash flows: inflows and outflows of cash and cash equivalents, which are highly liquid short-term investments subject to an insignificant risk of changes in value.

- Operating activities: principal revenue-producing activities and other activities that are not investing or financing activities.

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

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

i) Cash and cash equivalents

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

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

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

j) Current / non-current

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

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

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

k) Provisions and contingent liabilities

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

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

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

The financial statements include all 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. Contingent liabilities are not recognised but are disclosed in Note 13.

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

The receivable from a third party upon settlement of the obligation, when the reimbursement is certain, is recognised as an asset, except where there is a legal obligation to outsource the risk, thereby discharging the Company of this obligation. In this case, the remuneration in question will be taken into account to estimate any amount to be recognised as the provision.

l) Employee benefits

Termination benefits-

Under current legislation, the Company is required to pay severance to employees terminated under certain conditions. Severance payments that can be reasonably quantified are recorded as an expense in the year in which the decision to terminate the contract is taken and a valid expectation regarding termination is transmitted to third parties. At 31 December 2017 and 2016, the Company did not record any provisions in this connection.

Pension obligations (Note 17) -

In 2017 and 2016 the Company assumed a commitment with executive directors and one member of senior management to make a defined contribution to an external pension plan that meets the requirements established by Royal Decree 1588/1999, of 15 October.

Share-based payments (Note 19) -

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

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

m) Income tax expense (Note 16)

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

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

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

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

In accordance with the regulations in effect, the measurement of the Company's deferred tax liabilities reflects the tax consequences that would follow from the manner in which the carrying amount of its assets is expected to be recovered or settled. In this regard, for deferred tax liabilities that arise from investment property, it is considered that there is a rebuttable presumption that their carrying amount will be recovered through their sale. When determining the deferred tax attributable to the capital gains assigned to the business combination described in Note 1, a portion of the cost of which was not tax deductible, the 25% tax rate was applied less 25% of the offset of tax loss carryforwards as stipulated by the current limitation established by law at 31 December 2017. The effective rate taken into consideration was 18.75% after the legislative amendment of December 2016 that established new limitations on the offset of tax loss carryforwards, among other matters.

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

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

Until 31 December 2016, the Company was the head of a group of companies filing consolidated tax returns under tax group no. 6/08.

REIT Regime

Effective as of 1 January 2017 (Note 1), the tax regime of the Company and the majority of its Spanish subsidiaries is governed by Law 11/2009, of 26 October, as amended by Law 16/2012, of 27 December, governing listed real estate investment companies (REITs). Article 3 establishes the investment requirements of this type of company, namely:

- REITs must have invested at least 80% of the value of their assets in urban properties earmarked for lease, in land to develop properties to be earmarked for that purpose, provided that development begins within three years following its acquisition, and in equity investments in other companies referred to in Article 2.1 of the aforementioned Law.

  The value of the asset is calculated based on the average of the quarterly individual balance sheets of the year. To calculate this value, the REIT may opt to substitute the carrying amount for the fair value of the items contained in these balance sheets, which will apply to all the balance sheets of the year. Any money or collection rights arising from the transfer of the aforementioned properties or investments made in the year or in prior years will not be included in the calculation unless, in the latter case, the reinvestment period referred to in Article 6 of the aforementioned Law has expired.

  This percentage must be calculated on the average of the consolidated balances if the company belongs to a group, in accordance with the criteria established in Article 42 of the Spanish Commercial Code, regardless of its place of residence and of the obligation to formally prepare consolidated financial statements. Such a group must be composed exclusively of the REIT and the other entities referred to in Article 2.1 of this Law.

- Similarly, at least 80% of the rental income from the tax period corresponding to each year, excluding the rental income arising from the transfer of the ownership interests and the properties used by the company to achieve its main corporate purpose, once the holding period referred to below has elapsed, should be obtained from the lease of properties and dividends or shares of profits arising from the aforementioned investments.

This percentage must be calculated on the basis of consolidated profit if the company belongs to a group, in accordance with the criteria established in Article 42 of the Spanish Commercial Code, regardless of its place of residence and of the obligation to formally prepare consolidated financial statements. Such a group must be composed exclusively of the REIT and the other entities referred to in Article 2.1 of this Law.

The REIT's real estate assets must be leased for at least three years. The time during which the properties have been made available for lease, up to a maximum of one year, will be included for the purposes of this calculation.

The period will be calculated:

- For properties that are included in the REIT's assets before the company avails itself of the regime, from the beginning of the first tax period in which the special tax regime set forth in this Law is applied, provided that the property is leased or offered for lease at that date. Otherwise the following shall apply.

- For properties developed or acquired subsequently by the REIT, from the date on which they were leased or made available for lease for the first time.

- In the case of shares or investments in entities referred to in Article 2.1 of this Law, they should be retained on the asset side of the REIT's balance sheet for at least three years following their acquisition or, where applicable, from the beginning of the first tax period in which the special tax regime set forth in this Law is applied.

As established in transitional provision one of Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December, governing listed real estate investment companies, these companies may opt to apply the special tax regime under the terms and conditions established in Article 8 of this Law, even if it does not meet the requirements established therein, provided that such requirements are met within two years after the date of the option to apply that regime.

Failure to meet this condition will require the REIT to file income tax returns under the general tax regime from the tax period in which the aforementioned condition is not met unless this situation is rectified in the following tax period. The REIT will also be obliged to pay, together with the amount relating to the aforementioned tax period, the difference between the amount of tax payable under the general tax regime and the amount paid under the special tax regime in the previous tax periods, including any applicable late-payment interest, surcharges and penalties.

The income tax rate for REITs was set at 0%. However, where the dividends that the REIT distributes to its shareholders holding an ownership interest exceeding 5% are exempt from tax or are subject to a tax rate lower than 10%, at the main office of this shareholder, the REIT shall be subject to a special charge of 19%, which shall be considered to be the income tax charge, on the amount of the dividend distributed to these shareholders. If applicable, this special charge must be paid by the REIT within two months after the dividend distribution date.

n) Income and expenses

General criteria-

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

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

Property leases -

Leases are classified as finance leases whenever their terms imply that substantially all the risks and rewards incidental to ownership of the leased asset have been transferred. All other leases are classified as operating leases. At 31 December 2017 and 2016, all of the Company's leases qualified as operating leases (Note 4-d).

Revenue from operating leases is recognised as income on a straight-line basis over the term of the lease, and the initial direct costs incurred in arranging these operating leases are taken to the income statement on a straight-line basis over the minimum term of the lease agreement.

The minimum term of a lease is considered to be the time elapsed from the start of the lease to the first option for renewing the lease.

Specific lease terms and conditions: lease incentives -

Lease agreements include certain specific conditions linked to incentives or rent-free periods offered by the Company to its customers (Note 4-j). The Company recognises the aggregate cost of incentives granted as a reduction in rental income over the minimum 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 income statement on the date on which they are claimable.

Interest and dividends received -

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

In line with that included in enquiry no. 79 of the Spanish Accounting and Audit Institute Official Gazette (BOICAC), regarding the recognition of certain income (dividends, income from loans to related parties, etc.) for companies whose corporate purpose is the holding of financial assets, the Company recognised dividend income from holdings in SFL and Torre Marenostrum, S.L. (hereinafter Torre Marenostrum) as an addition to "Revenue" in the income statement (Notes 17 and 18).

o) Related party transactions

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

p) Costs passed on to lessees

The bulk of repair and maintenance expenses incurred by the Company in connection with the operation of its assets are passed on to the respective lessees of the properties. The Company does not consider the costs incurred by lessees from their property investments as income, and they are recognised as a reduction of the corresponding costs in the income statement. In 2017 and 2016, a total of 18,503 thousand euros and 18,242 thousand euros, respectively, were invoiced in this regard.

Direct operating expenses associated with rented investment property net of costs passed on that generated lease income during 2017 and 2016, included under "Profit from operations" in the income statement, amounted to 5,712 thousand euros and 6,720 thousand euros, respectively. The expenses incurred in connection with investment property that did not generate rental income were not significant.

5. Property, plant and equipment

The movement in this heading in the 2017 and 2016 balance sheet, and the most significant information affecting it, was as follows:

	Thousands of euros								
	Land and buildings			Plant and other items of property, plant and equipment		Total			
	Cost	Accumulated depreciation	Impairment	Cost	Accumulated depreciation	Cost	Accumulated depreciation	Impairment	**Total**
Balance at 31 December 2015	**19,220**	**(1,392)**	**(7,800)**	**9,836**	**(8,941)**	**29,056**	**(10,333)**	**(7,800)**	**10,923**
Additions/charges	251	(49)	-	1,592	(297)	1,843	(346)	-	1,497
Disposals / reversals	-	-	3,159	(378)	365	(378)	365	3,159	3,146
Balance at 31 December 2016	**19,471**	**(1,441)**	**(4,641)**	**11,050**	**(8,873)**	**30,521**	**(10,314)**	**(4,641)**	**15,566**
Additions/charges	216	(55)	(287)	2,576	(475)	2,792	(530)	(287)	1,975
Disposals / reversals	(7)	4	-	(5,714)	5,621	(5,721)	5,625	-	(96)
Balance at 31 December 2017	**19,680**	**(1,492)**	**(4,928)**	**7,912**	**(3,727)**	**27,592**	**(5,219)**	**(4,928)**	**17,445**

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

During 2017, the Company derecognised certain assets under “Property, plant and equipment” due to obsolescence, with a net carrying amount of 96 thousand euros, reclassifying them under “Impairment and gains on disposal of fixed assets - Gains/(losses) on disposals and others” in the income statement.

At 31 December 2017, the need to recognise an impairment loss reversal in the amount of 287 thousand euros on properties for own use was evidenced by the appraisals performed by independent experts (Note 4-b). The amount was recognised under “Impairment and gains on disposal of fixed assets - Impairment and losses” in the income statement (Note 17). In the year ended 31 December 2016, a reversal to the impairment of the value of the property for own use amounting to 3,159 thousand euros was recognised.

At year-end 2017 and 2016, the Company had fully depreciated property, plant and equipment still in use amounting to 2,299 thousand euros and 7,417 thousand euros, respectively.

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

The Company's policy is to contract insurance policies to cover any risks affecting elements of property, plant and equipment. At 31 December 2017 and 2016, these elements were fully insured.

6. Investment property

The movement in this heading of the balance sheet in 2017 and 2016, and the most significant information affecting this heading, was as follows:

	Thousands of euros							
	Land	Buildings and installations		Investment property in progress	Total			
	Cost	Cost	Accumulated depreciation	Cost	Cost	Accumulated depreciation	Impairment	**Total**
Balance at 31 December 2015	**1,101,919**	**693,176**	**(321,678)**	**69,002**	**1,864,097**	**(321,678)**	**(152,938)**	**1,389,481**
Additions/charges	60,249	29,124	(27,551)	2,270	91,643	(27,551)	(273)	63,819
Disposals / reversals	-	(22,077)	20,572	-	(22,077)	20,572	58,894	57,389
Transfers (Note 10)	(1,623)	21,760	3,551	-	20,137	3,551	(24,272)	(584)
Balance at 31 December 2016	**1,160,545**	**721,983**	**(325,106)**	**71,272**	**1,953,800**	**(325,106)**	**(118,589)**	**1,510,105**
Additions/charges	17	12,053	(24,214)	5,454	17,524	(24,214)	(694)	(7,384)
Disposals / reversals	-	(13,053)	2,022	-	(13,053)	2,022	39,647	28,616
Balance at 31 December 2017	**1,160,562**	**720,983**	**(347,298)**	**76,726**	**1,958,271**	**(347,298)**	**(79,636)**	**1,531,337**

Movements in 2017

Additions in the year ended on 31 December 2017 are investments made in various properties, both under development and in operation, for a total amount of 17,524 thousand euros, including 857 thousand euros in capitalised finance costs with an average interest rate of 2.53%.

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

Movements in 2016

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

In addition to these acquisitions, investments were made in various properties, both under development and in operation, all of which are located in Barcelona and Madrid, for a total amount of 14,549 thousand euros, including 824 thousand euros in capitalised finance costs at an average interest rate of 2.86%.

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

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

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

Impairment

At 31 December 2017, the need to recognise an impairment loss reversal for the amount of 32,572 thousand euros on investment property was evidenced by the appraisals performed by independent experts. Such amount was reclassified under "Impairment and gains on disposal of fixed assets - Impairment and losses" in the income statement (Note 17). In the year ended 31 December 2016, an impairment loss reversal of 58,313 thousand euros was recognised on investment property.

Other disclosures

The total surface area by location (above and under-ground) of investment property and projects in use and in progress at 31 December 2017 and 2016 is as follows:

Location	Total surface area (m2)					
	Investment property in use		Investment property in progress		Total	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Barcelona	244,890	244,452	33,138	29,474	278,028	273,926
Madrid	264,044	270,418	18,717	15,898	282,761	286,316
Rest of Spain	12,735	12,735	-	-	12,735	12,735
	521,669	**527,605**	**51,855**	**45,372**	**573,524**	**572,977**

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

At 31 December 2017 and 2016, the Company did not reflect in its balance sheet any properties recognised under "Investment property" that were secured by a mortgage.

At year-end 2017 and 2016, the Company had fully depreciated investment property still in use amounting to 140,547 thousand euros and 126,280 thousand euros, respectively.

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

The Company takes out insurance policies to cover any risks affecting its investment property. At 31 December 2017 and 2016, these elements were fully insured.

7. Operating leases - Lessor

At year-end 2017 and 2016, the Company had contracted with tenants the following minimum irrevocable lease payments under the leases currently in force, without taking into account the impact of common expenses, future increases in the CPI or future contractual lease payment revisions:

Operating leases minimum lease payments	Thousands of euros	
	Nominal amount	
	31 December 2017	31 December 2016
Within one year	63,972	59,386
1 to 5 years	93,659	78,826
More than five years	16,490	6,097
Total	**174,121**	**144,309**

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

Non-current equity instruments in Group companies -

The breakdown by subsidiary at 31 December 2017 and 2016 is as follows:

31 December 2017

	Thousands of euros			
	Opening balance	Additions or charges	Disposals or reversals	Closing balance
Cost:				
Société Foncière Lyonnaise, S.A.	1,511,105	265	-	1,511,370
Torre Marenostrum, S.L.	26,201	-	(1,411)	24,790
Colonial Tramit, S.L.U.	13	-	-	13
Colonial Invest, S.L.U.	13	-	-	13
Danieltown Spain, S.L.U.	30,038	-	-	30,038
Moorage Inversiones 2014, S.L.U.	49,355	-	-	49,355
Hofinac Real Estate, S.L.U.	202,000	-	-	202,000
Fincas y Representaciones, S.A.U.	46,620	61	-	46,681
Inmocol Torre Europa, S.A.	-	10,080	-	10,080
Colonial Arturo Soria, S.L.	-	19,747	-	19,747
Almacenes Generales Internacionales, S.A.U.	-	100,124	-	100,124
Soller, S.A.U.	-	78,096	-	78,096
Utopicus Innovación Cultural, S.L.	-	3,634	-	3,634
Total cost	**1,865,345**	**212,007**	**(1,411)**	**2,075,941**
Impairment:				
Colonial Tramit, S.L.U.	(5)	(3)	-	(8)
Colonial Invest, S.L.U.	(5)	(2)	-	(7)
Moorage Inversiones 2014, S.L.U.	(5,010)	-	5,010	-
Hofinac Real Estate, S.L.U.	(803)	-	803	-
Fincas y Representaciones, S.A.U.	(2,359)	-	2,359	-
Utopicus Innovación Cultural, S.L.	-	(2,937)	-	(2,937)
Total impairment	**(8,182)**	**(2,942)**	**8,172**	**(2,952)**
Net total	**1,857,163**	**209,065**	**6,761**	**2,072,989**

31 December 2016

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

The information related to Group companies at 31 December 2017 and 2016 is disclosed in Appendix I to these notes.

Movements in 2017

On 18 May 2017, Inmocol Torre Europa, S.A. (hereinafter Inmocol) was incorporated. The initial share capital of 20,000 thousand euros was fully subscribed by the Company and its shareholder as follows:

- The shareholders subscribed 50% of the share capital through a non-monetary contribution of land located at Hospitalet del Llobregat, valued at 10,000 thousand euros, on which Inmocol will construct an office building.

- The remaining 50% of the share capital was subscribed by the Company, having only paid 25% of the capital subscribed, i.e., 2,500 thousand euros. The unpaid share capital subscribed will be paid by the Company when agreed upon by the Board of Directors of Inmocol.

During 2017, the Company also acquired 4,700 shares in its subsidiary SFL, for a total of 265 thousand euros, thus increasing its interest in the share capital from 58.55% to 58.56%.

On 27 September 2017, the Company acquired all shares of the Spanish company LE Offices Arturo Soria, S.L. (currently Colonial Arturo Soria, S.L., and hereinafter, "Arturo"), the owner of an office building located in Madrid. The acquisition price was 19,747 thousand euros. Of this amount, 4,200 thousand euros were deferred, at the latest, until 31 January 2018, and were recognised under “Trade payables” in the balance sheet. In addition, the loan held by Arturo with a financial institution for 13,159 thousand euros, including interest, was cancelled early, and was registered in the Property Registry on 26 November 2017.

On 27 October 2017, the Company acquired 61.51% of the share capital of the Spanish company Utopicus Innovación Cultural, S.L. (hereinafter, "Utopicus"), the head of the coworking Utopic_US platform. The acquisition price amounted to 2,633 thousand euros, and 205 thousand euros were deferred, which were recognised under “Trade payables” in the balance sheet. On this same date, Utopicus increased its share capital by 1,001 thousand euros, corresponding to 910 shares of one euro par value each, plus a share premium, which was subscribed and paid in full by the Company, thus increasing its interest in the share capital of Utopicus to 69.60%.

On 20 December 2017, the Company acquired all share capital of the Spanish companies Almacenes Generales Internacionales, S.A.U. (hereinafter, "Agisa") and Soller, S.A.U., which own several plots of land located in Madrid. The acquisition price was 178,220 thousand euros. Of this amount, 41,335 thousand euros were deferred, at the latest, until 31 December 2018, and were recognised under “Trade payables” in the balance sheet. Several guarantees were extended as collateral for the deferred amount (Note 14).

Movements in 2016

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

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

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

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

On 4 August 2016, the Company acquired 475,248 shares in the subsidiary SFL (1.00% of its capital) from APG Strategic Real Estate Pool (hereinafter, "APG"). The acquisition was carried out through two transactions: (i) the contribution to the Company of 237,624 shares in SFL in consideration for the delivery of 2,116,508 treasury shares in Colonial (Note 12) valued at 13,940 thousand euros; and (ii) the sale to the Company of 237,624 shares at the price of 50.00 euros per share (for a total of 11,881 thousand euros).

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

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

Impairment

In 2017 and 2016, the Company did not recognise impairments of the financial interest in SFL given that the fair value of that interest, calculated based on SFL's EPRA *Triple Net Asset Value* (EPRA NNNAV) at the close of 2017 and 2016, was 80.14 and 66.23 euros per share, respectively, higher than the acquisition cost of the shareholding (Note 4-e).

The price of SFL shares at the close of 2017 and 2016 was 54.61 euros and 48.95 euros per share, respectively.

Non-current investments in Group companies and associates - Loans to companies

The details of the “Loans to companies” heading in the balance sheet are as follows:

	Thousands of euros	
	31 December 2017	31 December 2016
Danieltown Spain, S.L.U.	12,486	-
Moorage Inversiones 2014, S.L.U.	6,035	-
Colonial Arturo Soria, S.L.	13,159	-
Almacenes Generales Internacionales, S.A.U.	11,495	-
Peñalvento, S.L.U.	22,577	-
Total	**65,752**	**-**

Loans to Group companies earn a market interest rate.

Non-current financial investments -

The breakdown at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	31 December 2017	31 December 2016
Fair value:		
Non-current equity instruments		
Axiare Patrimonio SOCIMI, S.A.	419,277	138,293
Advances for purchases of shares	4,000	-
Total fair value	**423,277**	**138,293**
Cost:		
Other non-current financial assets		
Account receivable held with former shareholders	7,751	7,751
Guarantees and deposits	8,823	8,489
Total cost	**16,574**	**16,240**
Impairment:		
Other non-current financial assets		
Account receivable held with former shareholders	(7,751)	(7,751)
Total impairment	**(7,751)**	**(7,751)**
Total non-current financial investments	**432,100**	**146,782**

Axiare Patrimonio SOCIMI, S.A. –

The movements in this shareholding in 2017 and 2016 are shown in the following table:

	Thousands of euros	
	2017	2016
Opening balance	**138,293**	**-**
Acquisitions	211,886	136,976
Adjustments to fair value through other comprehensive income	69,098	1,317
Closing balance	**419,277**	**138,293**

In 2016, the Company acquired 10,846,541 shares of Axiare Patrimonio SOCIMI, S.A., (hereinafter, Axiare) which represented 15.09% of its share capital.

In March 2017, the Company acquired 1,404,000 shares of Axiare representing 1.78% of the company's current share capital, for 15,801 thousand euros, including acquisition costs, obtaining an interest of 15.49% in Axiare.

In November 2017, the Company acquired 10,511,523 shares of Axiare, representing 13.30% of Axiare's current share capital, for a total amount of 193,085 thousand euros, equivalent to 18.36 euros per share, obtaining an interest of 28.79% in Axiare.

In 2017, the Company received 3,681 thousand euros of dividends from its interest in Axiare, which were posted in the "Finance income" heading in the income statement (Note 17).

At 31 December 2017, the Company registered its shareholding in Axiare Patrimonio SOCIMI, S.A. at the year-end share price of 18.42 euros per share, which represents an accumulated impact on the Company's equity of 70,415 thousand euros (1,317 thousand euros at 31 December 2016).

The Company's directors have considered that the Company did not exercise, nor will it exercise, at 31 December 2017 and 2016, a significant influence over Axiare, and thus it has been considered to be a financial investment.

Voluntary takeover bid to acquire shares of Axiare Patrimonio SOCIMI, S.A. (Note 22) –

On 28 December 2017, the Spanish Securities Market Commission authorised the voluntary takeover bid to acquire shares of Axiare Patrimonio SOCIMI, S.A. presented by the Company on 24 November 2017, as it considered that its terms were aligned with applicable laws and that the contents of the explanatory prospectus were sufficient.

The offer was made for 100% of the share capital of Axiare Patrimonio SOCIMI, S.A. consisting of 79,062,486 shares, admitted for trading on the Barcelona, Bilbao, Madrid and Valencia Stock Exchanges and included in the Spanish Stock Market Interconnection System, not including 22,762,064 shares, representing 28.79% of the share capital, which were blocked by the offeror. Consequently, the offer was effectively extended to the acquisition of 56,300,422 shares of Axiare Patrimonio SOCIMI, S.A., which represent 71.21% of the share capital.

The price offered was 18.36 euros per share; this amount arises through deducting the amount of the dividend paid by Axiare after the takeover bid was announced, of 0.14 euros per share, from the price initially offered of 18.50 euros per share.

On 28 December 2017, the first of the announcements referred to in article 22 of Royal Decree 1066/2007, of 27 July, for the takeover bid of Axiare Patrimonio SOCIMI, S.A. by Inmobiliaria Colonial, SOCIMI, S.A., was made. Consequently, in accordance with the terms set forth in the prospectus of the aforesaid offer, the acceptance period lasts from 29 December 2017 to 29 January 2018, inclusively.

Advances for purchases of shares –

During 2017, the Company signed a call option for all shares of a company, the option premium of which amounted to 4,000 thousand euros.

Account receivable held with former shareholders-

"Other non-current financial assets" included the account receivable held with companies of a former shareholder of the Company relating to the tax effect of the difference between the tax and accounting bases of the assets contributed in the capital increase dated 29 June 2006. This receivable is secured by a guarantee on first demand.

In 2015, the Company returned the guarantees corresponding to the amounts deemed unrecoverable, thus recognising on the balance sheet only those amounts considered to be recoverable, totalling 7,751 thousand euros. This amount was fully impaired at 31 December 2017 and 2016.

Non-current deposits and guarantees-

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

9. Derivative financial instruments

The derivative financial instruments held by the Company at 31 December 2017 and 2016 are as follows:

31 December 2017

				Thousands of euros	
Financial instrument	Counterparty	Interest rate	Maturity	Nominal amount	Fair value – Asset / (Liability)
Swap (redeemed step-up)	BBVA	4.40%	2018	4,212	(50)
Cap	ING	1.25%	2018	300,000	-
Cap	Morgan Stanley	1.25%	2018	130,000	-
Total at 31 December 2017				**434,212**	**(50)**

31 December 2016

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

At 31 December 2016, the Company had arranged 3 CAPs of a total nominal amount of 780,000 thousand euros, with a hedge level of 1.25% (strike), maturing on 31 December 2018. The amount paid for the premiums was 8,580 thousand euros, which was booked in full as a hedging expense in the 2014 income statement, valuing the CAPs at 0 thousand euros in the balance sheet. In 2017, the CA-CIB CAP was sold for 6 thousand euros, resulting in income of that amount in the "Impairment and gains/(losses) on disposal of financial instruments – Gains/(losses) on disposals and others" in the income statement (Note 17).

At 31 December 2017 and 2016, the impact on the income statement of recognising derivative financial instruments amounted to 2 thousand euros and 64 thousand euros in finance costs, respectively (Note 17). This impact is recognised in "Change in fair value of financial instruments – Trading portfolio and others" in the income statement.

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

10. Non-current assets held for sale

The movement in this heading of the balance sheet in 2017 and 2016, and the most significant information affecting this heading, was as follows:

	Thousands of euros			
	Cost	Accumulated depreciation	Impairment	**Total**
Balance at 31 December 2015	**44,314**	**(29)**	**(31,678)**	**12,607**
Additions/charges	60	-	(546)	**(486)**
Transfers (Note 6)	(20,137)	(3,551)	24,272	**584**
Disposals / reversals	(24,237)	3,580	7,952	**(12,705)**
Balance at 31 December 2016	-	-	-	-
Balance at 31 December 2017	-	-	-	-

Movements in 2016

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

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

Other disclosures

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

11. Current financial investments and other receivables

Current financial investments-

The breakdown of the balances in this heading at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	31 December 2017	31 December 2016
Current financial investments:		
Cost		
Current equity instruments	9	9
Loans to companies (DUE)	74,266	73,866
Other current financial assets	-	432
Total cost	**74,275**	**74,307**
Impairment (DUE)	(74,266)	(73,866)
Total impairment	**(74,266)**	**(73,866)**
Total current financial investments	**9**	**441**

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

As a result of restructuring the financial debt of the then investee DUE, the Company granted a loan for a maximum of 85,000 thousand euros, which was fully impaired at year-end 2017 and 2016, the purpose of which was to finance the development of the project implemented by DUE and to cover the costs related to the work yet to be carried out on the UE-1, inter alia. In this regard, the amount yet to be drawn down at 31 December 2017 totalled 10,214 thousand euros, and for such purpose, in accordance with the obligations assumed, the Company recognised the appropriate provision under "Other non-current provisions" on the balance sheet (Note 13) for the part not drawn.

In accordance with the provisions of the agreement between both companies, the loan granted by the Company is convertible into a participating loan provided that DUE is in the process of being dissolved. 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, the aforementioned loan accrues contingent interest, based on compliance with certain conditions. At 31 December 2017 and 2016, no finance income was accrued in this connection.

Other receivables –

	Thousands of euros	
	31 December 2017	31 December 2016
Other receivables:		
Cost		
Nozar, S.A.	85,473	85,473
Lease incentives	3,471	1,729
Other	388	-
Total cost	**89,332**	**87,202**
Impairment		
Nozar, S.A.	(85,473)	(85,473)
Total impairment	**(85,473)**	**(85,473)**
Total other receivables	**3,859**	**1,729**

At 31 December 2017 and 2016, the amounts owed by Nozar, S.A. resulting from the termination of purchase contracts formalised in July 2007 due to breach of compliance with the conditions precedent, are recognised under the heading "Other receivables".

Nozar, S.A. is currently involved in bankruptcy proceedings; consequently, at 31 December 2017 and 2016, the balance sheet includes an impairment loss for the entire amount of this company's trade receivables.

Lease incentives –

The lease incentives heading includes the amount of the incentives in the operating lease agreements (rent-free periods, etc.) that the Company offers its customers, which are recognised in the income statement during the minimum operating lease term (Note 4-j). Of that amount, 2,360 thousand euros have a maturity of higher than 1 year (1,004 thousand euros at 31 December 2016).

12. Equity

Share capital-

At 31 December 2015, the Company's share capital comprised 3,188,856,640 shares with a par value of 0.25 euro each, which had been fully subscribed and paid.

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

- On 28 June 2016, the General Shareholders' Meeting 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 plus 129,857 thousand euros for the share premium. This capital increase was registered with the Barcelona Mercantile Registry 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 plus 40,863 thousand euros for the share premium. This capital increase was registered with the Barcelona Mercantile Registry on 30 June 2016.

On 14 July 2016, the Company 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.

In 2017, the Company carried out two capital increases, both charged to monetary contributions and excluding the right to preferential subscription for the accelerated bookbuild offering for qualified investors:

- The increase was registered in the Mercantile Registry on 5 May 2017. Its purpose is to reinforce the Company's equity in order to take full advantage of investment opportunities which are currently available, carry out repositioning and improvement investments to maximise the quality, occupancy and value of the assets that already form part of its portfolio, as well as to consolidate its credit rating and possible improve it. As a result of the placement, 35,646,657 new shares were issued each with a par value of 2.50 euros, for a total amount of 253,092 thousand euros, prompting an increase in share capital and a share premium of 89,117 thousand euros and 163,975 thousand euros, respectively. The new shares were admitted to trading on 8 May 2017 on the Barcelona and Madrid Stock Exchanges.

- The increase aimed at ensuring and optimising the funding for the takeover bid for the shares of Axiare Patrimonio SOCIMI, S.A. (Note 8) not owned by Colonial was registered in the Mercantile Registry on 29 November 2017. As a result of the placement, 42,847,300 new shares were issued each with a par value of 2.5 euros, for a total amount of 338,065 thousand euros, prompting an increase in share capital and the share premium of 107,118 thousand euros and 230,947 thousand euros, respectively. The new shares were admitted to trading on 4 December 2017 on the Barcelona and Madrid stock exchanges.

As a result, the Company's share capital at 31 December 2017 was represented by 435,317,356 fully subscribed and paid up shares with a par value of 2.50 euros each.

Based on the pertinent notifications regarding the number of company shares to the Spanish National Securities Market Commission (CNMV), the shareholders owning significant direct or indirect interests in the Company at 31 December 2017 and 2016 were as follows:

	31 December 2017		31 December 2016	
	Number of shares*	% shareholding	Number of shares*	% shareholding
Name or corporate name of the shareholder:				
Finaccess Group	79,378,647	18.23%	41,139,685	11.53%
Qatar Investment Authority	41,610,141	9.56%	41,593,367	11.66%
Aguila Ltd.	28,800,183	6.62%	21,800,184	6.11%
Inmo S.L.	20,011,190	4.60%	-	-
BlackRock Inc	10,955,962	2.52%	10,885,211	3.05%
Deutsche Bank A.G.	8,135,390	1.87%	8,135,390	2.28%
Joseph Charles Lewis	-	-	17,617,708	4.94%
Villar-Mir Group	-	-	11,906,969	3.34%
Invesco Limited	-	-	3,540,788	0.99%
Fidelity International Limited	-	-	6,248,471	1.75%

* Does not include certain financial instruments linked to shares in the Company.

On 5 January 2018, BlackRock Inc. increased its interest to 11,308,788 shares, equivalent to 2.60% of the Company's share capital.

At 31 December 2017, Blackrock Inc. and Deutsche Bank AG formally obtained financial instruments associated with Company shares which, in the event the instruments are exercised, could give rise to an additional interest in the share capital of Colonial.

The Company has no knowledge of other significant equity interests.

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

At the General Meeting held on 29 June 2017, the shareholders of the Company 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, limiting this authorisation to a maximum nominal amount of 20% of total share capital, taken as a whole.

Share premium –

In 2017, as a result of the aforementioned accelerated bookbuilding processes, the amount of the share premium increased by 163,975 thousand euros and 230,947 thousand euros, respectively.

As a result of the capital increases carried out in 2016, the share premium increased by 129,857 thousand euros and 40,863 thousand euros, respectively.

Legal reserve –

Under the 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.

At 31 December 2015, the legal reserve amounted to 5,080 thousand euros. At 31 December 2016, taking into account the appropriation to the legal reserve included in the distribution of profit for 2015, the legal reserve reached 33,615 thousand euros. At 31 December 2017, taking into account the allocation to the legal reserve included in the Company's distribution of 2016 profit approved by the General Shareholders' Meeting on 29 June 2017, the legal reserve amounted to 39,099 thousand euros, although it had not yet reached the stipulated level at the date of authorisation for issue of these financial statements.

Voluntary reserves –

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

The resolutions approved by the shareholders at the General Shareholders' Meeting of 28 June 2016 included the distribution of profit for 2015, which included the appropriation of 28,535 thousand euros to the legal reserve and the distribution of 47,832 thousand euros in dividends, and 208,982 thousand euros were allocated to offset prior years' losses. At the meeting, the shareholders also approved the partial application of voluntary reserves to offset prior years' losses still existing after the offset included in the proposed distribution of 2015 profit, in the amount of 938,993 thousand euros.

As a result of the capital increases described above, costs of 6,691 thousand euros were registered in 2017 (1,905 thousand euros in 2016), which were registered in the "Reserves" heading of equity.

In 2017, the Company carried out transactions with its own shares, with income of 10,371 thousand euros (12 thousand euros of losses in 2016), and which were registered directly in the Company's equity. The income generated from the delivery of treasury shares to the beneficiaries of the long-term incentives plan (Note 19), calculated as the difference between the carrying amount of the shares delivered and the amount of the obligation assumed by the Company, which amounted to 1,286 thousand euros in 2017 (945 thousand euros in 2016) was also registered in the Company's reserves.

Following both offset exercises, at 31 December 2017, voluntary reserves stood at 206,019 thousand euros, of which 169,439 thousand euros continued to be restricted.

Treasury shares –

At 31 December 2017 and 2016, the number of the Company's treasury shares and their acquisition cost were as follows:

	31 December 2017		31 December 2016	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	**5,469,985**	**35,426**	**700,382**	**4,068**
Buyback plan 14 November 2016	6,837,328	46,787	3,162,672	20,249
Buyback plan 16 October 2017	2,260,000	17,797	-	-
Delivery of incentives plan shares (Note 19)	(380,116)	(2,537)	(365,116)	(2,114)
Other acquisitions	-	-	4,088,555	27,145
Other disposals	(9,907,257)	(68,052)	(2,116,508)	(13,922)
Closing balance	**4,279,940**	**29,421**	**5,469,985**	**35,426**

Company share buyback schemes -

On 14 November 2016, the Company's Board of Directors agreed to carry out a treasury share buyback scheme. The purposes of the scheme are to complete the coverage of the share plan approved by shareholders at the General Meeting held on 21 January 2014 and additional initiatives that the Board of Directors may consider advisable for the corporate interest. The maximum monetary amount assigned to the scheme amounted to 68,000 thousand euros and a maximum of 10,000,000 shares may be acquired, equivalent to 2.8% of the Company's share capital as of that date. The maximum duration of the scheme was six months, i.e. up to 15 May 2017. However, it would be ended early if the maximum number of shares or the maximum monetary amount was reached before said date. At 31 December 2016, 3,162,672 shares had been acquired under the framework of the buyback scheme, for the amount of 20,249 thousand euros. At 31 December 2017, the Company has acquired the remaining 6,837,328 shares so completing the buyback plan, for the amount of 46,787 thousand euros.

On 16 October 2017, the Company's Board of Directors agreed to implement a scheme involving the repurchase of treasury shares in accordance with the authorisation granted by shareholders at the General Meeting held on 30 June 2014. The maximum monetary amount assigned to the scheme amounts to 100,000 thousand euros and the maximum number of shares to be acquired is 12,000,000 shares, equivalent to 3% of the share capital of the Company as of that date. The maximum duration of the scheme is six months, i.e. up to 17 April 2018. However, it would be ended early if the maximum number of shares or the maximum monetary amount is reached before said date. On 3 November 2017, the Company considered that the share buyback scheme had been completed, having acquired up to that point 2,260,000 shares for 17,797 thousand euros.

Deliveries of Company shares deriving from the long-term Incentives Plan (Note 19) -

Every year, the Company settles the obligations to comply with the previous year's plan through the delivery of shares to the beneficiaries of the Remuneration Plan, once it has assessed the degree of attainment of the indicators included therein.

Other acquisitions -

The Company's acquisition, on 29 July 2016, of 3,801,417 shares of Mora Banc Grup S.A. and Mora Assegurances, S.A.U., for 25,495 thousand euros, by virtue of the agreement signed between the two parties on 27 July 2016, and several acquisitions of the Company's shares, totalling 287,138 shares for the amount of 1,650 thousand euros, to cover the long-term incentives plan (Note 19).

No other acquisitions were made in 2017.

Other disposals -

On 29 November 2017, the Company sold 9,907,257 shares at a price equivalent to the issue price of the new shares emitted in the framework of the Accelerated Bookbuild Offering carried out on the same date, i.e. at 7.89 euros per share.

On 4 August 2016, the Company gave 2,116,508 treasury shares to APG in exchange for 237,624 shares in the subsidiary SFL (Note 8).

Liquidity contracts –

The Company draws up liquidity contracts to assist in the liquidity of its transactions and the regularity of its quoted share price.

At 31 December 2017 and 2016, the number of the Company's treasury shares included in the liquidity contracts and their acquisition cost were as follows:

	31 December 2017		31 December 2016	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	**209,603**	**1,329**	**148,701**	**945**
Liquidity contract dated 22 June 2015	30,480	482	60,902	384
Liquidity contract dated 11 July 2017	(10,583)	30	-	-
Closing balance	**229,500**	**1,841**	**209,603**	**1,329**

Liquidity contract dated 22 June 2015 -

On 22 June 2015, the Company drew up a liquidity contract to assist in the liquidity of its transactions and the regularity of its quoted share price, as provided for under Circular 3/2007, of 19 December, of the Spanish Securities Market Commission.

On 10 July 2017, on the issue of Circular 1/2017, of 26 April 2017, of the Spanish Securities Market Commission, the Company terminated the liquidity contract.

Liquidity contract dated 11 July 2017 -

On 11 July 2017, the Company drew up a new liquidity contract to assist in the liquidity of its transactions and the regularity of its quoted share price, as provided for under Circular 1/2017, of 26 April, of the Spanish Securities Market Commission. The contract is valid for 12 months.

Adjustments due to change in value –

This balance sheet heading includes the sum of gains and losses arising from the changes in the value of financial investments available for sale described in Note 8.

13. Provisions and contingencies

Provisions –

The breakdown of current and non-current provisions in the balance sheet at year-end 2017 and 2016, as well as the main changes in 2017, are as follows:

	Thousands of euros			
	Current	Non-current		
	Provisions for contingencies and charges	Provisions for personnel	Provisions for contingencies and charges	Total non-current
Balance at 31 December 2016	**11,926**	**97**	**10,574**	**10,671**
Charges	7,988	-	-	-
Disposals / amounts used	-	(14)	-	(14)
Transfers	-	-	(368)	(368)
Balance at 31 December 2017	**19,914**	**83**	**10,206**	**10,289**

Provision for contingencies and charges - Current

Additions to current provisions include 19,914 thousand euros, reflecting an estimate of the Company's various future risks, which increased in 2017 by 7,988 thousand euros.

Provision for contingencies and charges - Non-current

As a result of restructuring the financial debt of Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. (hereinafter, "DUE"), the Company 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, up to an amount of no higher than 20,000 thousand euros. The loan accrues contingent interest, based on compliance with certain conditions. At 31 December 2017 and 2016, no finance income was accrued in this connection. The Company recognised a provision for the full amount of the loan granted to DUE.

The Company has a cash line of credit with BBVA to cover the outstanding execution costs of the UE-1, which is drawn when DUE demonstrates the execution of the development works. At 31 December 2017, 9,786 thousand euros had been drawn down (9,437 thousand euros at 31 December 2016) (Note 11).

Contingent assets –

In 2010, the Company 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 actions for liability:

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

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

Given that the 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 both cases are lost. The Company's directors do not expect such possible rulings to have a significant impact on the financial statements, given that at 31 December 2017, the appropriate provision had been recognised to meet any possible costs.

14. Bank borrowings, bonds and other marketable securities

At 31 December 2017 and 2016, the breakdown by debt type and maturity is as follows:

31 December 2017

	Thousands of euros							
	Current	Non-current						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total non-current	Total
Bank borrowings:								
Syndicated loans	-	-	-	150,000	13,400	-	163,400	163,400
Fees and interest	372	-	-	-	-	-	-	372
Debt arrangement	(980)	(980)	(983)	(911)	(114)	-	(2,988)	(3,968)
Total bank borrowings	**(608)**	**(980)**	**(983)**	**149,089**	**13,286**	**-**	**160,412**	**159,804**
Debt instruments and other marketable securities:								
Bonds issues	-	375,000	-	-	-	1,950,000	2,325,000	2,325,000
Fees and interest	15,006	-	-	-	-	-	-	15,006
Debt arrangement	(2,886)	(2,530)	(2,273)	(2,267)	(2,267)	(5,007)	(14,344)	(17,230)
Total debt instruments and other marketable securities	**12,120**	**372,470**	**(2,273)**	**(2,267)**	**(2,267)**	**1,944,993**	**2,310,656**	**2,322,776**
Total at 31 December 2017	**11,512**	**371,490**	**(3,256)**	**146,822**	**11,019**	**1,944,993**	**2,471,068**	**2,482,580**

31 December 2016

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

Issues of the Company's straight bonds–

The breakdown of the issues of straight bonds made by the Company at 31 December 2017 and 2016, is as follows (in thousands of euros):

				Thousands of euros		
Issue	Duration	Maturity	Fixed-rate coupon payable annually	Amount of the issue	31 December 2017	31 December 2016
05/06/2015	5 years	05 /06/2019	1.86%	750,000	375,000	375,000
05/06/2015	8 years	05/06/2023	2.73%	500,000	500,000	500,000
28/10/2016	8 years	28/10/2024	1.45%	600,000	600,000	600,000
10/11/2016	10 years	10/11/2026	1.88%	50,000	50,000	50,000
28/11/2017	8 years	28/11/2025	1.68%	500,000	500,000	-
28/11/2017	12 years	28/11/2029	2.50%	300,000	300,000	-
Total issues				**2,700,000**	**2,325,000**	**1,525,000**

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

The bonds issued by the Company that are traded on a regulated market had a fair value of 2,378,881 thousand euros and 1,545,466 thousand euros (par value of 2,325,000 thousand euros and 1,525,000 thousand euros, respectively) at 31 December 2017 and 2016.

European Medium Term Note Programme -

On 5 October 2016, the Company registered a 12-month EMTN (*European Medium Term Note*) programme for 3,000,000 thousand euros, which can be extended to 5,000,000 thousand euros, on the Irish Stock Exchange.

On 11 October 2017, the programme was renewed for a further 12 months.

Compliance with financial ratios -

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 in the balance sheet at each of these dates must at least be equal to the financial debt not guaranteed. This ratio had been met at 31 December 2017 and 2016.

Syndicated Loans –

The breakdown of the Company's syndicated debt at 31 December 2017 and 2016 is provided below:

Thousands of euros	**Maturity**	31 December 2017		31 December 2016	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Loan facility	November 2021	350,000	150,000	350,000	121,874
Loan facility	March 2022	375,000	13,400	-	-
Company's total syndicated financing		**725,000**	**163,400**	**350,000**	**121,874**

The variable interest rate has a spread tied to EURIBOR.

The main purpose of this syndicated loan maturing in November 2021 is to finance possible acquisitions, as well as refurbishments and other investment requirements of the Company's property assets.

In March 2017, the Company signed a new syndicated loan facility for 375,000 thousand euros, maturing at five years. The Company will use this line of credit to cover its general corporate needs. A total of 10 banks took part in the process, with Crédit Agricole acting as lead bank.

Compliance with financial ratios –

The loans are subject to compliance with the following financial ratios on a quarterly basis:

Ratios
Loan-to-value ratio <= 55% Interest coverage ratio >= 2x Secured mortgage debt / Value of property assets <=15% Secured non-mortgage debt / Value of non-property assets <=15% Value of the consolidated assets >= 4.5 billion euros

At 31 December 2017 and 2016, the Company complied with all the financial ratios.

Mortgage loans-

At 31 December 2017 and 2016, the Company did not have any loans secured by mortgages.

Other guarantees delivered –

At 31 December 2017, the Company has granted guarantees to government bodies, customers and suppliers in the amount of 1,091,123 thousand euros (27,013 thousand euros at 31 December 2016). These include the following guarantees granted to cover deferred payments deriving from acquisition transactions:

- a bank guarantee before the Spanish Securities Market Commission to guarantee the voluntary takeover bid to acquire shares of Axiare Patrimonio, SOCIMI, S.A. (Notes 8 and 22), issued by Caixabank for 1,033,676 thousand euros, and guaranteed with a cash deposit.

- bank guarantee for the transaction to buy Moorage, for the sum of 15,680 thousand euros. The amount of the account payable is recognised in “Suppliers” on the balance sheet.

- bank guarantees for the transaction to buy the companies Agisa and Soller, for the sum of 41,767 thousand euros. The amount of the accounts payable is recognised in “Suppliers” on the balance sheet.

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

- 4,946 thousand euros granted to secure obligations acquired by the company Asentia. The Company and Asentia have an agreement in place whereby if any of the guarantees is enforced, Asentia must compensate the Company for any damage sustained within 15 days.

- 5,000 thousand euros granted to secure obligations acquired by the company DUE. In this regard, the Company has a cash line of credit with BBVA to cover the obligations acquired with DUE. The liabilities covered by these guarantees have been provided for in full under “Non-current provisions – Other provisions” in the balance sheet (Note 11).

Fees and interest-

The borrowing interest rate, the average credit spread of the Company, with and without accrual of lending fees for 2017 and 2016, is shown in the following table:

	Thousands of euros			
	2017		2016	
Issue	Without accrual of fees	With accrual of fees	Without accrual of fees	With accrual of fees
Average interest rate	2.55%	2.69%	2.68%	2.87%
Average credit spread	1.61%	1.94%	1.71%	1.99%

The interest rate on the outstanding debt at 31 December 2017 is 1.99% (2.00% at 31 December 2016).

The accrued interest outstanding recognised in the balance sheet at 31 December 2017 and 2016 amounts to:

	Thousands of euros	
Issue	31 December 2017	31 December 2016
Company Bonds	15,006	13,549
Bank borrowings	372	234
Total	**15,378**	**13,783**

Debt arrangement expenses –

At 31 December 2017 and 2016, the debt arrangement expenses assumed by the Company and not yet accrued amounted to 21,198 thousand euros and 15,765 thousand euros, respectively. These expenses are taken to the income statement during the term of the debt generating them on a time proportion basis. In this regard, in 2017 and 2016, the Company recognised 2,045 thousand euros and 4,072 thousand euros, respectively, in the income statement, corresponding to the costs repaid during the year.

Cash and cash equivalents-

At 31 December 2017 and 2016, amounts of 1,069,355 thousand euros and 79,591 thousand euros, respectively, were recognised under “Cash and cash equivalents”, of which 11,992 thousand euros and 11,215 thousand euros, respectively, were either restricted or pledged. The balance for 2017 includes 1,033,676 thousand euros with the necessary cash to be able to carry out the voluntary takeover bid for the acquisition of shares of Axiare Patrimonio, SOCIMI, S.A. (Notes 8 and 22).

15. Other non-current financial liabilities

The “Other non-current financial liabilities” heading, which totalled 30,581 thousand euros at 31 December 2016, also included, in addition to the guarantees received from lessees and other deposits received, the deferred payment and the contingent consideration on the acquisition of the shares in Moorage totalling 15,680 thousand euros and 4,600 thousand euros, respectively (Note 8).

At 31 December 2017, this heading amounted to 17,298 thousand euros relating to the guarantees received from lessees and other deposits received, the contingent consideration on the acquisition of the shares in Moorage, and the deferred payment for the acquisition of Utopicus shares, which amounted to 4,600 thousand euros and 72 thousand euros, respectively.

16. Public authorities and tax matters

Up until 31 December 2016, Inmobiliaria Colonial, S.A. was the parent of a group of companies filing consolidated tax returns, since 1 January 2008. This consolidated tax group included only subsidiaries incorporated in Spain in which the Company owned at least 75%, either directly or indirectly (this threshold falls to 70% in the case of listed subsidiaries), and in which it held the majority of voting rights.

On 30 June 2017, the Company chose to operate within the REIT Tax Regime (Note 1). By choosing this tax regime, the fiscal Group valid at 31 December 2016 is no longer applicable from 1 January 2017.

The detail of current balances with the tax authorities at 31 December 2017 and 2016 is as follows:

	Thousands of euros			
	Receivable		Payable	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Tax receivables and payables	-	-	1,079	1,600
Value added tax payable	64	5	1,008	520
Current taxes	12,788	35,625	-	-
Other deferred taxes	-	-	187	219
Social Security payables	-	-	92	71
Total current balances	**12,852**	**35,630**	**2,366**	**2,410**
Deferred tax due to the merger (Note 1)	-	-	33,731	29,938
Other deferred taxes	-	-	5,632	6,694
Total non-current balances	**-**	**-**	**39,363**	**36,632**

Current taxes –

At 31 December 2017, the Company held a balance in its favour of 12,113 thousand euros deriving from income tax prepayments made during 2016 and withholdings made by third parties to the Company. In January 2018, the National Tax Agency refunded it.

The reconciliation of accounting profit to taxable profit for income tax purposes at 31 December 2017 and 2016 is as follows:

31 December 2017

	Thousands of euros		
	General regime	REIT	TOTAL
Accounting profit for the period (before tax)	**32,120**	**3,076**	**35,196**
Permanent differences:			
Dividends SFL (Note 18)	-	(28,603)	(28,603)
Dividends Torre Marenostrum, S.L. (Note 18)	-	(514)	(514)
Plan contribution (Note 19)	-	239	239
Recovery of the tax impairment	-	4,289	4,289
Non-deductible provision	(1,168)	1,251	83
Capital increase costs (Note 12)	-	(6,691)	(6,691)
Other	(10)	57	47
Temporary differences:			
Arising in prior years-			
Deferral for reinvestment	750	-	750
Non-deductible provisions	(3,150)	-	(3,150)
Impairment of the portfolio (Note 8)	(8,171)	-	(8,171)
Non-deductible amortisation	(1,339)	-	(1,339)
Arising in the year-			
Impairment of the portfolio (Note 8)	-	2,941	2,941
Amortisation of SFL financial goodwill	-	(283)	(283)
Non-deductible provisions	-	11,169	11,169
Retirements from deferred tax on asset gains	(20,229)	-	(20,229)
Non-deductible finance costs	(835)	22,671	21,836
Other	(273)	1	(272)
Taxable income (taxable profit)	**(2,305)**	**9,603**	**7,298**

Royal Decree Law 3/2016, of 2 December, on Corporate Income Tax came into force on 1 January 2016, establishing the limit to the carrying forward of tax losses at 25% of the tax base, prior to said carry-forward, for companies whose revenue is equal to or greater than 60 million euros.

The part of the accounting profit which will be under the General Regime has been differentiated from the part which falls under the REIT Regime. The following table shows the main differences between accounting profit and taxable profit for 2017:

General regime

- Recovery of impairment of equity interests with Group companies, considered not tax deductible in prior years.

- Pursuant to Law 16/2012, of 27 December, the depreciation of property, plant and equipment, intangible assets and property investments for the tax periods initiated within 2013 and 2014 would be deductible from taxable profit up to 70 per cent of that which would be tax deductible. In this regard, the Company carried out the corresponding adjustments to its taxable profit. In 2017, and according to the provisions of the Law, the Company has recovered a tenth part of the allocations made to depreciation in 2013 and 2014, which were considered non-deductible.

- Recovery of impairment of properties which were not deductible.

- Other provisions which were not tax deductible in prior years.

REIT Regime

- Dividends from the subsidiaries SFL and Torre Marenostrum, S.L. in application of the exemption as provided for under article 21 of the Corporate Income Tax Law.

- Impairments of equity interests allocated in 2017 with Group companies, considered not tax deductible.

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

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

31 December 2016

	Thousands of euros	
	General regime	REIT (*)
Accounting profit for the period (before tax)	**61,813**	**n.a.**
Permanent differences:		
Dividends SFL (Note 18)	(54,565)	n.a.
Dividends Torre Marenostrum, S.L. (Note 18)	(270)	n.a.
Plan contribution	235	n.a.
Recovery of the tax provision	4,300	n.a.
Capital increase costs	(1,905)	n.a.
Other	(26)	n.a.
Temporary differences:		
Arising in prior years-		
Deferral for reinvestment	762	n.a.
Arising in the year-		
Impairment of the portfolio (Note 8)	8,173	n.a.
Amortisation of SFL financial goodwill	(283)	n.a.
Non-deductible provisions	967	n.a.
Retirements from deferred tax on asset gains	(44,800)	n.a.
Non-deductible finance costs	26,605	n.a.
Non-deductible amortisation	(1,339)	n.a.
Non-deductible impairment	181	n.a.
Other	9	n.a.
Taxable income (taxable profit)	**(143)**	**n.a.**

(*) On 30 June 2017, the Company chose to operate within the REIT tax Regime with backdated effects from 1 January 2017.

The difference between the accounting profit and the taxable profit taxed under the General Regime for income tax purposes for 2016 primarily corresponds to the following:

- The dividends received from the French subsidiary SFL in application of the exemption on dividends from non-resident companies, amounting to 54,565 thousand euros. SFL files income tax under the special SIIC regime which, inter alia, provides that shareholders with more than 10% of the share capital of an SIIC and which are exempt from taxation or subject to a tax that is two thirds lower than the standard income tax rate shall be subject to a 20% withholding at the SIIC source on the dividend originating from the income subject to that special system.

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

- Impairment of equity interests and of loans with Group companies, considered not tax deductible.

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

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

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

The breakdown of tax that would have been directly recognised in the Company's equity at 31 December 2017 and 2016 is as follows:

31 December 2017

	Thousands of euros			
	Tax base			Tax (*)
	Increases	Decreases	Total	Total
In deferred tax: Adjustments due to changes in value - Available-for-sale financial assets (Note 8).	69,098	-	69,098	-
Total deferred tax	**69,098**	**-**	**69,098**	**-**
In current tax: Capital increase costs (Note 12)	-	(6,691)	(6,691)	-
Total current tax	**-**	**(6,691)**	**(6,691)**	**-**
Total tax directly recognised in equity	**69,098**	**(6,691)**	**62,407**	**-**

(*) Does not generate tax as the REIT regime rate is 0%

31 December 2016

	Thousands of euros			
	Tax base			Tax (*)
	Increases	Decreases	Total	Total
In deferred tax:				
Adjustments due to changes in value - Available-for-sale financial assets (Note 8).	1,317	-	1,317	(329)
Total deferred tax	**1,317**	**-**	**1,317**	**(329)**
In current tax:				
Capital increase costs (Note 12)	-	(1,905)	(1,905)	476
Total current tax	**-**	**(1,905)**	**(1,905)**	**476**
Total tax directly recognised in equity	**1,317**	**(1,905)**	**(588)**	**147**

(*) Not recognised for accounting purposes

The reconciliation between the accounting profit and the income tax expense recognised in the income statement for 2017 and 2016 is as follows:

	Thousands of euros	
	2017 (*)	2016
Accounting profit before tax	35,196	61,813
Permanent differences (**)	(31,150)	(52,231)
Adjusted accounting profit	**4,046**	**9,582**
- REIT Regime	(26,896)	-
- General regime	30,942	9,582
Accounting profit adjusted to the General Regime	**30,942**	**9,582**
- Unregistered tax deferrals offset in the year	(13,768)	-
Taxable profit with the General Regime	**17,174**	**9,582**
Corporate income tax expense at 25%	4,294	-
Activation shield	(689)	-
Other adjustments	(906)	6,974
Total tax expense recognised in the income statement	**2,699**	**6,974**
- Current tax	3,605	-
- Deferred tax	(906)	6,974

(*) income tax expenditure is calculated for the accounting result which is taxed under the General Regime. The rest of the accounting result which is taxed under the special REIT regime will be at a rate of 0% and does not generate tax expenditure.
(**) The 6,691 thousand euros and 1,905 thousand euros of capital increase expenses posted directly in the Company's equity in 2017 and 2016 are not included.

Deferred tax assets –

The breakdown of deferred tax assets at 31 December 2017 and 2016 by item is as follows:

31 December 2017

Deferred tax assets (Tax base)	Thousands of euros	
	General Regime Base	REIT base
Tax loss carryforwards	5,379,360	-
Non-deductible impairment	-	287
Impairment of the non-deductible portfolio	8	2,941
Non-deductible finance costs	397,779	22,671
Non-deductible amortisation	9,377	-
Non-deductible provisions	157,712	11,169
Other	100	-
Total tax credits and deferred tax assets	**5,994,336**	**37,068**
By transactions in tax group	3	-
Total transactions with tax group companies	**3**	**-**
Total deferred tax assets	**5,994,339**	**37,068**
Balance recognised for accounting purposes (*)	**-**	**-**

(*) In accordance with the above, when determining the deferred tax liability at 31 December 2017, the Company has considered the application of tax credits totalling 5,057 thousand euros, with these being calculated at the effective settlement rate, estimated at 18.75% (Note 4-m).

31 December 2016

Deferred tax assets	Thousands of euros
	Amount
Tax loss carryforwards	5,376,264
Non-deductible impairment	272
Impairment of the non-deductible portfolio	8,180
Non-deductible finance costs	398,614
Non-deductible amortisation	10,716
Non-deductible provisions	160,864
Other	100
Total deferred tax assets	**5,955,010**
By transactions in tax group	3
Total transactions with tax group companies	**3**
Total deferred tax assets	**5,955,013**
Balance recognised for accounting purposes (*)	**-**

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

Deferred tax assets relating to prior year tax loss carryforwards –

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

The following table detail the tax loss carryforwards (TLC) generated by the Company as at 31 December 2017:

Year of origin	Thousands of euros	
	Tax base General regime	Tax base REIT
2000	12,979	-
2001	5,468	-
2003	140	-
2004	38,516	-
2005	36	-
2006	25,053	-
2007	321,571	-
2008	1,200,383	-
2009	865,940	-
2010	530,183	-
2011	117,893	-
2012	85,756	-
2013	83,618	-
2014	15,028	-
2015	2,074,346	-
2016	145	-
2017	2,305	-
Total	**5,379,360**	**-**

From 2008 until 31 December 2016, the Company formed part of the 06/08 Tax Group, so that when the Group was broken up after it changed to the REIT regime, the tax loss carryforwards generated during those years have been distributed between the companies which formed part of that tax group in proportion to how they contributed to generating them.

Deferred tax liabilities –

The breakdown of deferred tax liabilities at 31 December 2017 and 2016 by item is as follows:

31 December 2017

Deferred tax liabilities	Thousands of euros Tax Base
Deferral for reinvestment outstanding	19,656
Deferred liability for financial goodwill	2,180
Deferred liability from gains allocated to investment properties and financial assets	264,382
Capitalised tax credits	(129,457)
Total deferred tax liabilities	**156,761**
Balance recognised for accounting purposes (tax credit)	**39,550**

31 December 2016

Deferred tax liabilities	Thousands of euros Tax Base
Deferral for reinvestment outstanding	24,384
Deferred liability for financial goodwill	1,892
Deferred liability from gains allocated to investment properties and financial assets	244,152
Capitalised tax credits	(124,040)
Total deferred tax liabilities	**146,388**
Balance recognised for accounting purposes (tax credit)	**36,851**

Tax credit for reinvestment –

As set forth in prevailing legislation, for the tax credit for reinvestment of extraordinary gains to be applicable, the assets 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 under applicable laws. The terms for holding the amounts reinvested by the Company are as follows:

	Thousands of euros	
	2018	2019
Reinvested by the Company	8,786	18,701
Associated profit	946	188

The Company's Directors consider that the Company will comply with the stipulated timeframes.

Deferred liability for gains allocated to property investments and financial assets –

The deferred tax attributable to the capital gains assigned to the merger of Grupo Inmocaral, S.A. and Inmobiliaria Colonial, SOCIMI, S.A. (Note 1) was calculated based on a 25% tax rate on 41,077% of the total capital gains attributable to those assets, as determined in 2015 by an independent third party (Loan Agency Services).

“Deferred liability for gains allocated to investment property and financial assets”, as detailed in Note 4-m, includes the amount of deferred taxes associated with the Company’s investment property that would accrue if these assets were transferred using the effective rate that would be applicable, taking into account applicable legislation and any unrecognised tax credits. Accordingly, the deferred taxes associated with the Company's investment property were recognised at an effective rate of 18.75% (tax rate of 25% with a limit on tax loss carryforwards of 25%).

Total unused tax credits –

The breakdown of unused tax credits due to insufficient taxable profit at 31 December 2017 and 2016 by item is as follows:

	Thousands of euros	
	2017	2016
Unused tax credits for dividends receivable	7,685	7,685
Unused tax credits for reinvestment	16,141	16,141
Unused tax credits for deductions for donations	55	55
Unused tax credits for training	3	3
Total unused tax credits	**23,884**	**23,844**
Balance recognised for accounting purposes	**-**	**-**

At 31 December 2017, the unused tax credits for reinvestment due to insufficient taxable profit and the corresponding last year for use are as follows:

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

Deferred tax assets for other deductions –

The nature and amount of the unused tax credits at 31 December 2017 due to insufficient taxable profit in prior years and the corresponding last year for use are as follows:

Type	Thousands of euros		
	Year of origin	Unrecognised for accounting purposes	Last year for use
Double taxation tax credit	2008	6,553	n.a.
	2009	238	n.a.
	2010	227	n.a.
	2011	295	n.a.
	2012	168	n.a.
	2013	69	n.a.
	2014	135	n.a.
Tax credit for donations	2010	4	2020
	2011	4	2021
	2012	4	2022
	2013	6	2023
	2014	6	2024
	2015	9	2025
	2016	22	2026
Tax credit for training	2008	1	2023
	2009	1	2024
	2010	1	2025
		7,743	

Years open to inspection and tax audits-

The Company has the last four years open for review by the tax inspection authorities for all applicable taxes. In 2015, the Company filed supplementary income tax returns for 2011 to 2014, breaking the statute of limitations for these years.

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

Adherence to the Code of Best Tax Practices –

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

Disclosure requirements arising from REIT status, Law 11/2009

a) Reserves arising from years prior to the application of the tax regime established in this Law.

	Thousands of euros
Share premium	1,126,248
Legal and statutory reserves	39,099
Other reserves	
Restricted reserve	169,439
Other reserves	36,580
Total reserves 31/12/2017	**1,371,366**

b) Reserves from years in which the tax system established under this Law was applied, differentiating the part arising from income subject to the tax rate of 0%, or of 19%, with respect to those which, where appropriate, were taxed at the general taxation rate.

Not applicable, as 2017 was the first year in which the REIT Regime applied.

c) Dividends distributed with a charge to profit for each year in which the tax system established under this Law was applicable, differentiating the part arising from income subject to the tax rate of 0%, or of 19%, with respect to that which, where appropriate, was taxed at the general taxation rate.

Not applicable, as 2017 was the first year in which the REIT Regime applied.

d) In the event of the distribution of dividends with a charge to reserves, designation of the year in which the reserve used was set up, and whether such reserves were subject to the tax rate of 0%.19% or a general rate.

e) Date on which it was resolved to distribute the dividends referred to in letters c) and d) above.

f) Acquisition date of the properties earmarked for lease and of the equity interests in companies referred to in Article 2.1 of this Law.

Property	**Location**	**Acquisition date**	**Maintenance start date**
Pedralbes Centre	Barcelona	29-12-92	01-01-17
Avda. Diagonal, 530	Barcelona	29-12-92	01-01-17
A.S.A.M Claret 436	Barcelona	29-12-92	01-01-17
Alcala, 30-32	Madrid	14-06-94	01-01-17
Amigo 11-17	Barcelona	28-12-94	01-01-17
Berlin-Numancia	Barcelona	15-04-97	01-01-17
Avda Diagonal, 682	Barcelona	30-12-97	01-01-17
Pº Castellana.52	Madrid	28-07-98	01-01-17
Vía Augusta.21-23	Barcelona	26-10-98	01-01-17
Francisco Silvela, 42	Madrid	25-10-04	01-01-17

Property	Location	Acquisition date	Maintenance start date
Alfonso XII	Madrid	28-03-00	01-01-17
Ramírez De Arellano, 37	Madrid	30-11-99	01-01-17
Sant Cugat - Sant Joan	Sant Cugat Del Valles	24-12-99	01-01-17
Les Glories - Diagonal	Barcelona	09-06-00	01-01-17
Jose Ortega Y Gasset, 100 (Lista 100)	Madrid	05-07-00	01-01-17
Pg.Dels Til.Lers, 2-6 (Los Tilos)	Barcelona	15-09-00	01-01-17
Poeta Joan Maragall	Madrid	18-04-01	01-01-17
Avda. Diagonal, 409	Barcelona	09-10-01	01-01-17
Agustín De Foxá 29	Madrid	30-01-03	01-01-17
Parc Central 22@ A.1.6 - A.1.7	Barcelona	17-02-05	01-01-17
Recoletos, 37-41	Madrid	21-10-05	01-01-17
Pº Castellana, 43	Madrid	21-10-05	01-01-17
Miguel Ángel, 11	Madrid	21-10-05	01-01-17
José Abascal, 56	Madrid	21-10-05	01-01-17
López Hoyos, 35	Madrid	21-10-05	01-01-17
Martinez Villergas, 49	Madrid	24-03-06	01-01-17
Orense, 46-48	Madrid	27-06-05	01-01-17
Pérez Rozas, 25	Santa Cruz De Tenerife	17-06-02	01-01-17
Botanico, 8	Puerto De La Cruz	17-06-02	01-01-17
Hotel Mojacar	Mojacar	03-07-06	01-01-17
Parraco Ramón Glez Guedes, 15	Las Palmas De Gran Canaria	17-06-02	01-01-17
Plaza Europa 42-44	L'Hospitalet Llobregat	30-12-14	01-01-17
Príncipe de Vergara, 112-114	Madrid	14-07-15	01-01-17
Génova, 17	Madrid	28-07-15	01-01-17
Santa Engracia	Madrid	17-12-15	01-01-17
José Abascal, 45	Madrid	21-06-16	01-01-17

Property	Location	Acquisition date	Maintenance start date
Travessera de Gracia 47-49	Barcelona	28-12-16	01-01-17
Avda. Diagonal, 609	Barcelona	29-12-92	01-01-17
Torre Bcn	Barcelona	31-10-01	01-01-17
Travessera de Gracia, 11	Barcelona	28-12-94	01-01-17
Hotel Centro Norte	Madrid	16-10-02	01-01-17
Illacuna	Barcelona	06-05-14	01-01-17
Ricard Roca, 1	Palma de Mallorca	29-12-92	01-01-17

Financial investment	Acquisition date	Maintenance start date
Société Foncière Lyonnaise, S.A	09-06-04	01-01-17
Danieltown, S.L.U.	28-05-15	01-01-17
Moorage Inversiones 2014, S.L.U.	25-05-16	01-01-17
Hofinac Real State, S.L.U.	30-06-16	01-01-17
Fincas y Representaciones, S.A.U.	29-12-16	01-01-17
Colonial Arturo Soria, S.L.	27-09-17	27-09-17
Axiare Patrimonio Socimi, S.A.	13-11-17	13-11-17
Almacenes Generales Internacionales, S.A.U. (AGISA)	20-12-17	(*)
Soller, S.A.U.	20-12-17	(*)

(*) Adoption of REIT Regime planned with effect from 1 January 2018, once its Bylaws are amended and resolutions are passed by the General Shareholders' Meeting.

g) Identification of the asset included in the 80% referred to in Article 3.1 of this Law.

All the properties in the above list are included within the 80%.

The consolidated balance sheet of the Colonial Group company meets the minimum 80% investment requirement.

h) Reserves from years in which the special tax system established under this Law was applied, used in the tax period, which are not intended for distribution or to offset losses, identifying the year from which such reserves originate.

Not applicable.

17. Income and expenses

Revenue -

The Company's ordinary revenue was earned mainly in Barcelona, Madrid and Paris. The detail by type of business activity is as follows:

Activity	Thousands of euros	
	2017	2016
Building leases (Note 4-c)	70,725	64,746
Services	703	241
Income from holdings in Group companies and associates (Note 4-n)	29,117	54,835
Total	**100,545**	**119,822**

Geographic markets	Thousands of euros	
	2017	2016
Barcelona	29,644	25,109
Madrid	40,714	39,275
Paris (*)	28,603	54,565
Others (**)	1,584	873
Total	**100,545**	**119,822**

(*) The total amount corresponds to finance income from dividends of SFL (Note 18).
(**) Includes 514 thousand euros and 270 thousand euros in 2017 and 2016, respectively, relating to dividends from the shareholding in Torre Marenostrum, S.L. whose only asset is in Barcelona (Note 18).

Income from 2017 and 2016 include the effect of incentives to leasing throughout the minimum duration of the contract (Note 4-n), which has led to an increase in revenue of 1,742 thousand euros and 1,682 thousand euros, respectively.

Staff costs -

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

	Thousands of euros	
	2017	2016
Wages and salaries	11,219	7,506
Social security costs	883	827
Other employee benefit expenses	1,612	1,349
Contributions to defined-benefit pension plans	239	235
Internal reallocation	(685)	(630)
Total	**13,268**	**9,287**

At 31 December 2017 and 2016, "Other employee benefit expenses" included 1,334 thousand euros and 1,146 thousand euros, respectively, relating to the amount accrued in the year from the long-term remuneration plan described in Note 19.

The contributions made by the Company in 2017 and 2016 to defined benefit plans amounted to 239 thousand euros and 235 thousand euros, respectively, and are recognised under "Staff costs" in the income statement. At year-end 2017 and 2016, there were no contributions payable to this pension plan (Note 4-l).

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

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

	Thousands of euros	
	2017	2016
Charge to provision for insolvency (Note 4-g)	85	1,563
Reversal of provision for insolvency (Note 4-g)	(18)	(18)
Charge to provision for contingencies and charges (Note 13)	7,988	2,831
Charge to provision for other trade balances	18	-
Total impairment/charges	**8,073**	**4,376**

Impairment of property assets

The changes in the impairment of property assets in the various balance sheet headings at 31 December 2017 and 2016 are presented below:

	Thousands of euros			
	Property, plant and equipment (Note 5)	Investment property (Note 6)	Non-current assets held for sale (Note 10)	Total
Balance at 31 December 2015	**(7,800)**	**(152,938)**	**(31,678)**	**(192,416)**
Charge	-	(273)	(546)	(819)
Reversal	3,159	58,586	815	62,560
Disposals	-	308	7,137	7,445
Transfers	-	(24,272)	24,272	-
Balance at 31 December 2016	**(4,641)**	**(118,589)**	**-**	**(123,230)**
Charge	(287)	(694)	-	(981)
Reversal	-	33,266	-	33,266
Disposals	-	6,381	-	6,381
Transfers	-	-	-	-
Balance at 31 December 2017	**(4,928)**	**(79,636)**	**-**	**(84,564)**

The reconciliation with the income statement is as follows:

	Thousands of euros	
	2017	2016
Provisions for non-current assets	(981)	(819)
Use of provisions for non-current assets	33,266	62,560
Total impairment/charges	**32,285**	**61,741**

Gains/(losses) on disposals

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

On 21 September 2016, the Company officially sold part of a property in Barcelona for 15,000 thousand euros, generating a profit of 589 thousand euros (selling costs included).

Also, during 2016, the Company derecognised certain assets included in the "Investment property" heading, which had a carrying amount of 1,197 thousand euros, due to obsolescence.

Finance income and costs

The breakdown of financial loss in 2017 and 2016, by type, is as follows:

	Thousands of euros	
	2017	2016
Finance income and other	89	645
Income from investments in equity instruments (Note 8)	3,681	-
Capitalised borrowing costs (Note 6)	857	824
Finance income from Group companies and associates (Note 18)	268	81
Total finance income	**4,895**	**1,550**
Interest on borrowings and bonds	(39,608)	(34,274)
Costs associated with the repurchase of bonds	-	(20,904)
Other finance costs	(2,350)	(179)
Finance costs - Group companies and associates (Note 18)	(193)	(1)
Total finance costs	**(42,151)**	**(55,358)**
Change in derivative instruments (Note 9)	(2)	(64)
Change in fair value of financial instruments	**(2)**	**(64)**
Impairment of the Hofinac Real Estate, S.L.U. equity interest (Note 8)	803	(803)
Impairment of the Fincas y Representaciones, S.A.U equity interest (Note 8)	2,359	(2,359)
Impairment of the Moorage Inversiones 2014, S.L.U equity interest (Note 8)	5,010	(5,010)
Impairment of Utopicus Innovación Cultural, S.L. equity interest (Note 8)	(2,937)	-
Impairment of Colonial Tramit, S.L.U. equity interest (Note 8)	(3)	-
Impairment of Colonial Invest, S.L.U. equity interest (Note 8)	(2)	-
Use of provision for contingencies and charges (Note 13)	368	648
Impairment of credit facilities with investee DUE	(368)	(648)
Impairment and gains/(losses) on disposal of financial instruments	**5,230**	**(8,172)**
Sale of derivatives (Note 9)	6	-
Gains/(losses) on disposals and other	**6**	**-**
Total financial profit (loss)	**(32,022)**	**(62,044)**

18. Related-party transactions and balances

Related party transactions -

The breakdown of transactions with related parties in 2017 and 2016 is as follows:

2017

	Thousands of euros		
	Services rendered	Dividends received	Interest income/ (cost)
Torre Marenostrum, S.L.	162	514	-
Société Foncière Lyonnaise, S.A.	-	28,603	-
Danieltown Spain, S.L.U.	60	-	183
Moorage Inversiones 2014, S.L.U.	60	-	85
Hofinac Real Estate, S.L.U.	122	-	(193)
Fincas y Representaciones, S.A.U.	84	-	-
Inmocol Torre Europa, S.A.	137	-	-
Colonial Arturo Soria, S.L.	15	-	-
Total 2017	**640**	**29,117**	**75**

2016

	Thousands of euros		
	Services rendered	Dividends received	Interest income/ (cost)
Torre Marenostrum, S.L.	160	270	-
Société Foncière Lyonnaise, S.A.	-	54,565	-
Danieltown Spain, S.L.U.	-	-	58
Moorage Inversiones 2014, S.L.U.	-	-	23
Hofinac Real Estate, S.L.U.	60	-	(1)
Total 2016	**220**	**54,835**	**80**

In addition to the transactions listed in the preceding table, at 31 December 2017 and 2016 the Company received extraordinary dividends charged to reserves from Torre Marenostrum totalling 1,411 thousand euros and 198 thousand euros, respectively, which were recognised as a reduction of the equity interest (Note 8).

On 29 July 2016, the Company acquired 3,801,417 treasury shares from Mora Banc Grup, S.A. and Mora Assegurances, S.A.U. (former Company shareholders), for a total amount of 25,495 thousand euros, by virtue of an agreement concluded between the parties on 27 July 2016 (Note 12).

Balances with related parties -

2017

At 31 December 2017 and 2016, the Company recognised the following balances with related parties in the balance sheet:

	Thousands of euros				
	Current accounts receivable	Non-current loans extended	Non-current payables to Group companies	Current loans granted	Current payables to Group companies
Torre Marenostrum, S.L.	16	-	-	-	-
Danieltown Spain, S.L.U.	73	12,486	-	-	(25)
Moorage Inversiones 2014, S.L.U.	73	6,035	-	152	(23)
Hofinac Real Estate, S.L.U.	12	-	(10,594)	18	-
Fincas y Representaciones, S.A.U.	8	-	-	22	-
Inmocol Torre Europa, S.A.	22	-	(7,500)	-	-
Colonial Arturo Soria, S.L.	6	13,159	-	-	-
Almacenes Generales Internac., S.A.U	-	11,495	-	-	-
Peñalvento, S.L.U	-	22,577	-	-	-
Total	**210**	**65,752**	**(18,094)**	**192**	**(48)**

2016

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

19. Director and senior management remuneration and other benefits

The Company's Board of Directors was made up of nine men and one woman at 31 December 2017, and ten men and one woman at 31 December 2016.

At 31 December 2017, its composition was 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
Juan Carlos García Cañizares	Director	Proprietary
Adnane Mousannif	Director	Proprietary
Carlos Fernández-Lerga Garralda	Lead Director	Independent
Ana Sainz de Vicuña	Director	Independent
Javier Iglesias de Ussel Ordís	Director	Independent
Luis Maluquer Trepat	Director	Independent

In 2017, Juan Villar-Mir de Fuentes resigned from his position as director.

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

In accordance with the provisions of Article 229 of the Spanish Limited Liability Companies Law, at the end of 2017 the Company's directors did not report to other members of the Board any direct or indirect conflict of interest that they, or any person associated with them as defined by the Spanish Limited Liability Companies Law, may have with respect to the Company.

Remuneration of Board members –

Remuneration received in 2017 and 2016 by members of the Board of Directors of the Company, by item, is as follows:

	Thousands of euros	
	2017	2016
Remuneration earned by executive directors (*):	**4,866**	**2,610**
Attendance fees:	**580**	**535**
Directors' attendance fees	557	521
Additional attendance fees of the Chairman and Deputy Chairman	23	14
Fixed remuneration:	**780**	**897**
Directors' remuneration	495	546
Additional remuneration of the Executive Committee	-	66
Additional remuneration of the Audit and Control Committee	135	150
Additional remuneration of the Nomination and Remuneration Committee	150	135
Total	**6,226**	**4,042**
Remuneration earned by executive directors (*):	**4,866**	**2,610**

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

At 31 December 2017 and 2016, the Company had taken out a civil liability insurance policy covering all of its directors, executives and employees, for a total of 393 thousand euros and 302 thousand euros, respectively. The aforementioned amount includes the insurance premium paid for both periods for civil liability insurance to cover damages caused by acts or omissions.

The General Shareholders' Meeting held on 28 June 2016 approved the granting of a defined-contribution scheme for executive directors covering retirement and, when applicable, disability and death, with overall annual contributions of 178 thousand euros and 175 thousand euros in 2017 and 2016, respectively.

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

At 31 December 2017 and 2016, two members of the Board of Directors had signed guarantee or golden parachute clauses in the event of certain cases of termination or change of control, all of which were approved at the General Shareholders' Meeting.

In 2017 and 2016, there were no finalisations, modifications or early terminations of contracts outside of the normal business activities between the Company and the members of the Board of Directors or any other person acting on their behalf.

Remuneration of senior management –

The Company's senior management team is formed by senior executives and other persons responsible for the management of the Company, reporting to the CEO, as per the definition provided in the Good Governance Code for listed companies. The Company's senior management team was made up of two men and two women at 31 December 2017 and 2016.

Monetary compensation earned by senior management in 2017 amounted to 1,818 thousand euros. Furthermore, they received 988 thousand euros corresponding to the long-term incentives plan (1,038 thousand euros and 939 thousand euros, respectively, in 2016).

At its meeting held on 27 July 2016, the Board of Directors approved the granting of a defined-contribution scheme for a member of senior management covering retirement and, when applicable, disability and death. At 31 December 2017 and 2016, the Company recognised an annual contribution for this item under "Staff costs" in the income statement of 61 thousand euros and 60 thousand euros, respectively.

At 31 December 2017 and 2016, one member of the senior management team had signed a guarantee or "golden parachute" clause in the event of certain cases of termination or change of control.

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

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

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

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

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

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

In 2017 and 2016, the Company recognised 1,334 thousand euros and 1,146 thousand euros (Note 17) under "Staff costs", respectively, to cover said incentives plan.

On 26 April 2017, the Company settled the outstanding obligations relating to compliance with the plan once the Board determined the number of shares to be delivered to the beneficiaries of the Plan in accordance with the level of fulfilment of indicators for 2016 would be 380,116 shares (Note 12). The shares were delivered to the beneficiaries on 26 April 2017. Of these shares, 175,814 shares were delivered to members of the Board of Directors and 138,140 shares to members of senior management, with a market value upon delivery of 1,257 thousand euros and 988 thousand euros, respectively.

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 365,116 shares (Note 12). The shares were delivered to the beneficiaries on 29 April 2016. Of these shares, 175,814 were delivered to members of the Board of Directors and 138,140 to members of senior management, with a market value upon delivery of 1,196 thousand euros and 939 thousand euros, respectively.

Extension of the term of the long-term remuneration plan linked to fulfilment of several management indicators –

On 29 June 2017, the shareholders at the General Shareholders' Meeting approved to extend the term for applying the share delivery plan approved at the General Shareholders' Meeting held on 21 January 2014 for an additional two years, in accordance with the terms and conditions thereof.

20. Other disclosures

Employees

The number of Company employees at 31 December 2017 and 2016, as well as the average number of employees for 2017 and 2016, by job category and gender, is as follows:

	No. of employees at 31 December				Average no. of employees			
	2017		2016		2017		2016	
Job category	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	5	3	5	3	5	3	5	3
Technical graduates and middle managers	11	8	9	7	12	6	9	7
Clerical staff	14	32	15	31	14	33	15	31
Total	**30**	**43**	**29**	**41**	**31**	**42**	**29**	**41**

The Company also had one female employee with a disability equal to or exceeding 33% at 31 December 2017 and 2016.

Audit fees

Fees incurred for auditing services to the Company in 2017 and 2016 by the principal auditor and other auditors are set forth below:

	Thousands of euros	
	Services provided by PricewaterhouseCoopers, S.L. and by related companies	Services rendered by Deloitte, S.L. and related companies
Description	2017	2016
Audit services	223	310
Other verification services	88	135
Total auditing services and related	**311**	**445**
Tax advisory services	-	-
Other services	82	141
Total professional services	**82**	**141**

The principal auditor of the Company for 2017 was PricewaterhouseCoopers Auditores, S.L., whereas the Company's principal auditor for 2016 was Deloitte, S.L.

The fees for other attest services include 88 thousand euros relating to services provided to the Company for issuing comfort letters and agreed-upon procedure reports on covenants linked to financing agreements.

Capital management: Policies and objectives

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

Companies operating in the real estate 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 Company's financial structure requires its sources of financing to be diversified in terms of entities, products and maturity dates, in order to ensure the continuity of its companies as profitable businesses and to be able to maximise returns for shareholders.

On 5 October 2016, the Company formally implemented a 12-month Euro Medium Term Note programme to issue bonds up to a maximum of 3,000,000 thousand euros, which may be expanded to 5,000,000 thousand euros, and which was extended in 2017 (Note 14).

The various bond issues launched in recent years have enabled the Company to finance its corporate transactions and real estate asset acquisitions carried out during these years, to reduce the finance costs of its borrowings, and to extend and diversify the maturity dates thereof. The Company's financing is granted in full at long term, structured in such a manner that it allows the development of its underlying business plan.

Financial risk management policy –

The Company efficiently manages its financial risks with the aim of having an adequate financial structure that allows it to maintain high levels of liquidity, minimise borrowing costs, reduce volatility due to changes in capital and ensure compliance with its business plans.

- Interest rate risk: The risk management policy is designed to limit and control the impact of interest rate fluctuations on profit and cash flows, to maintain the level of debt, and to keep overall borrowing costs at reasonable levels in accordance with the Company's credit rating.

  In order to attain these objectives, the Group enters into interest rate hedges to hedge against potential fluctuations in finance costs if necessary. The Company's policy is to arrange instruments that comply with accounting rules to be considered effective hedges and, therefore, to recognise changes in market value directly in the Company's income statement. At 31 December 2017, 93% of total debt in Spain and 85% in France was hedged or at fixed rates (92% and 77%, respectively, at 31 December 2016).

- Liquidity risk: Based on the annual cash budget, the Company draws up the monthly follow-up report on its cash forecasts to manage its liquidity risk and meet its various financing needs.

  The Company considers the following mitigating factors in managing liquidity risk: (i) recurring cash flow generation by the Company's core activities; and (ii) its ability to renegotiate and obtain new financing on the basis of long-term business plans and (iii) the quality of the Company's assets.

  Cash surpluses may eventually rise that enable the Group to have lines of credit available but not yet drawn down or highly-liquid deposits with no risk. At 31 December 2017, the Company had sufficient lines of credit available to meet its short-term maturities. The Company does not use high-risk financial products as a method for investing cash surpluses.

- Counterparty risk: the Company mitigates this risk by using top-level financial institutions.

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

The Company holds a majority stake in several companies (Note 8). The accompanying financial statements cover the Company individually and, therefore, do not reflect any changes in the components of equity that would be recognised if the aforementioned subsidiaries were to be consolidated. The Company prepares its consolidated financial statements on the basis of the International Financial Reporting Standards (IFRSs). According to the consolidated financial statements, shareholders' equity at the company at 31 December 2017 amounted to 3,591,828 thousand euros, attributable consolidated profit to 682,523 thousand euros, and assets and revenue to 10,507,519 thousand euros and 283,287 thousand euros, respectively.

21. Average supplier payment period

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

	2017	2016
	Days	Days
Average supplier payment period	30	31
Ratio of payments made	30	32
Ratio of payments pending	29	22
	Amount (in thousands of euros)	Amount (in thousands of euros)
Total payments made	67,232	57,992
Total payments pending	3,803	6,176

The figures in the table above on payments to suppliers refer to suppliers which by their nature are trade creditors because they are suppliers of goods and services. Therefore, they include the figures for "Payables - suppliers" and "Other payables" on the attached balance sheet.

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

With regard to 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.

22. Events after the reporting period

From 31 December 2017 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 apart from the following:

Acquisition of LE Offices Egeo, S.A.U. –

On 16 January 2018, the Company acquired 100% of the share capital of the Spanish company LE Offices Egeo, S.A.U. (hereinafter "Egeo"), the owner of an office building located in Madrid. The acquisition price was 49,098 thousand euros. In addition, in 2018, the loan held by Egeo with a financial institution for 30,182 thousand euros, including interest, was repaid early.

Gala Placidia –

On 18 January 2018, the Company acquired a property in Barcelona for 13,400 thousand euros.

Business combination between Inmobiliaria Colonial SOCIMI, S.A. (acquiring company) and Axiare Patrimonio SOCIMI, S.A. and subsidiaries (acquired companies) –

As indicated in Note 8-c to these financial statements, the Company launched a takeover bid for all share capital of Axiare Patrimonio SOCIMI, S.A., the acceptance period of which was from 29 December 2017 to 29 January 2018, both inclusive.

On 2 February 2018, the Spanish National Securities Market Commission published the result of the takeover bid, which was accepted for 45,912,569 shares, representing 81.55% of the shares targeted by the takeover bid and 58.07% of the share capital of Axiare Patrimonio SOCIMI, S.A., which entailed the payment of 842,955 thousand euros.

With this expenditure, the value of the ownership interest in Axiare Patrimonio SOCIMI, S.A. amounted to 1,262,232 thousand euros, including the value of the ownership interest at 31 December 2017, which totalled 419,277 thousand euros (Note 8-b).

Accordingly, taking into consideration the shares already held by the Company, it now holds 68,674,633 shares, representing the 86.86% of the share capital of Axiare Patrimonio SOCIMI, S.A., and may not exercise the rights of forced sale and purchase.

Reason for the business combination -

As explained in the prospectus of the takeover bid, with the acquisition of Axiare, the Colonial Group consolidated its position as the European platform in the prime office market of Paris, Madrid and Barcelona. Axiare's asset portfolio at 30 September 2017, with 74% relating to offices, of which 93% are located in Madrid, clearly complements the Colonial Group's strategy, which consists of investing in the office markets of Madrid, Barcelona and Paris, with a focus on high-quality buildings. The acquisition of Axiare will enable Colonial to increase the value of its current portfolio and therefore reach a real estate asset portfolio valued at approximately 10,000 million euros, thus increasing the Group's exposure in Spain. Furthermore, the synergies with the acquisition of Axiare may represent a savings in operating costs. Accordingly, it will potentially enable Axiare's financing structure to be optimised as a result of its inclusion in the Group with a credit rating of BBB by Standard & Poor's and Baa2 by Moody's.

Financial information of Axiare Patrimonio SOCIMI, S.A. -

In accordance with the consolidated financial statements authorised for issue on 14 February 2018, the consolidated equity of Axiare Patrimonio SOCIMI, S.A. and subsidiaries at 31 December 2017 amounts to 1,242,244 thousand euros.

At the date of preparation of these financial statements, there was no financial information available relating to the date of acquisition and, therefore, the effect of the business combination could not be calculated and the value of the assets and liabilities acquired could not be determined.

The most recent financial information available relates to the consolidated statement of financial position of Axiare Patrimonio SOCIMI, S.A. and subsidiaries at 31 December 2017, which is as follows:

ASSETS	31 December 2017	LIABILITIES	31 December 2017
		EQUITY	**1,242,244**
Intangible assets	1,783		
Property, plant and equipment	663		
Investment property	1,722,655		
Non-current financial assets	21,916	Bank borrowings and	
Deferred tax assets	7,528	other financial liabilities	636,414
Other non-current assets	470	Other non-current liabilities	11,388
NON-CURRENT ASSETS	**1,755,015**	**NON-CURRENT LIABILITIES**	**647,802**
		Bank borrowings and	
Trade and other receivables	11,335	other financial liabilities	37,711
Tax assets	7,282	Trade payables	11,979
Cash and cash equivalents	167,979	Tax liabilities	1,875
CURRENT ASSETS	**186,596**	**CURRENT LIABILITIES**	**51,565**
TOTAL ASSETS	**1,941,611**	**TOTAL EQUITY AND LIABILITIES**	**1,941,611**

The net consolidated profit Axiare Patrimonio SOCIMI, S.A. and subsidiaries for 2017 amounted to 218,238 thousand euros.

23. Explanation added for translation to English

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

APPENDIX I

NON-CURRENT INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

		Thousands of euros								Thousands of euros
2017	Domicile	Share capital	Reserves, share premium and interim dividend	Profit/(loss)	Valuation adjustments	Dividend (Note 18)	Direct	Indirect	Shareholder	Cost (Note 8)
HOLDINGS IN GROUP COMPANIES AND ASSOCIATES:										
Torre Marenostrum, S.L. (*)	Avda. Diagonal 532, 08006 Barcelona, Spain	5,334	9,322	1,525	(954)	514	55%	-	-	24,790
Colonial Tramit, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	3	4	(2)	-	-	100%	-	-	13
Colonial Invest, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	3	5	(2)	-	-	100%	-	-	13
Danieltown Spain, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	541	22,844	(340)	-	-	100%	-	-	30,038
Moorage Inversiones 2014, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	63	21,707	10	-	-	100%	-	-	49,355
Hofinac Real Estate, S.L. (*)	Avda. Diagonal 532, 08006 Barcelona, Spain	24,943	138,789	4,896	-	-	100%	-	-	202,000
Fincas y Representaciones, S.A.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	926	1,579	1,149	-	-	100%	-	-	46,681
Inmocol Torre Europa, S.A. (*)	Avda. Diagonal 532, 08006 Barcelona, Spain	12,500	-	(61)	-	-	50%	-	-	10,080
Colonial Arturo Soria, S.L.	Avda. Diagonal 532, 08006 Barcelona, Spain	3	12,026	425	-	-	100%	-	-	19,747
Almacenes Generales Internac., S.A.U.	Paseo de la Castellana 52, 28046 Madrid, (Spain)	2,083	36,008	(3,414)	-	-	100%	-	-	100,124
Soller, S.A.U.	Paseo de la Castellana 52, 28046 Madrid, (Spain)	2,524	8,093	428	-	-	100%	-	-	78,096
Utopicus Innovación Cultural, S.L.	C/ Duque de Rivas 5, 28012 Madrid (España)	252	1,038	(405)	-	-	69.60%	-	-	3,634
Société Foncière Lyonnaise, S.A. (*) (**)	42, rue Washington 75008 Paris, France	93,058	587,202	272,390	-	28,603	58.56%	-	-	1,511,370
Segpim, S.A. (*)	42, rue Washington 75008 Paris, France	39	167	624	-	-	-	100%	SFL	-
Locaparis, SAS (*)	42, rue Washington 75008 Paris, France	153	15	583	-	-	-	100%	Segpim	-
MAUD SAS (*)	42, rue Washington 75008 Paris, France	80	(1,510)	735	-	-	-	100%	SFL	-
SB2, SAS (*)	42, rue Washington 75008 Paris, France	40	(21)	(2)	-	-	-	100%	SFL	-
SB3, SAS (*)	42, rue Washington 75008 Paris, France	40	(21)	(2)	-	-	-	100%	SFL	-
SCI SB3 (*)	42, rue Washington 75008 Paris, France	2	(7)	-	-	-	-	100%	SFL	-
SCI Washington (*)	42, rue Washington 75008 Paris, France	94,872	-	9,319	-	-	-	66%	SFL	-
SAS Parholding	42, rue Washington 75008 Paris, France	15,000	2,867	7,505	-	-	-	50%	SFL	-
SC Parchamps (*)	42, rue Washington 75008 Paris, France	1,558	(4,350)	4,219	-	-	-	100%	SAS Parholding	-
SC Pargal (*)	42, rue Washington 75008 Paris, France	9,120	16	4,111	-	-	-	100%	SAS Parholding	-
SC Parhaus (*)	42, rue Washington 75008 Paris, France	1,500	-	4,167	-	-	-	100%	SAS Parholding	-

2017	Domicile	Thousands of euros Share capital	Reserves, share premium and interim dividend	Profit/(loss)	Valuation adjustments	Dividend (Note 18)	Direct	Indirect	Shareholder	Thousands of euros Cost (Note 8)
HOLDINGS IN GROUP COMPANIES AND ASSOCIATES:										
SCI 103 Grenelle (*)	42, rue Washington 75008 Paris, France	-	-	3,360	-	-	-	100%	SFL	-
SC Paul Cézanne (*)	42, rue Washington 75008 Paris, France	56,934	101,249	7,062	-	-	-	100%	SFL	-
SAS Société Immobilière Victoria (*)	42, rue Washington 75008 Paris, France	244	90,973	-	-	-	-	100%	SFL	-
Condorcet Holding SNC (**)	42, rue Washington 75008 Paris, France	10	(1)	10,915	-	-	-	100%	SFL	-
Condorcet PropCo SNC (**)	42, rue Washington 75008 Paris, France	20,500	-	7,703	-	-	-	100%	Condorcet Holding SNC	-

* Company audited by PricewaterhouseCoopers
** Company audited by Deloitte & Associés

NON-CURRENT INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

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

Inmobiliaria Colonial, S.A.

Management Report
for the year ended
31 December 2017

1. Company situation

Macroeconomic context

According to activity data from the fourth quarter of 2017, certain continuity is expected regarding the growth acceleration of the global economy. This growth acceleration can be seen in both the advanced and emerging economies due to increased confidence by companies and consumers.

The Eurozone continues to show solid growth, exceeding initial expectations, coupled with increased confidence. Again, private consumption is the driving force of economic growth, thanks to favourable credit conditions; improvements in the labour market; and global economic recovery. On a political front, the first phase of Brexit negotiations has successfully concluded, with a pre-agreement between the EU and the UK. This breakthrough heralds the second phase of negotiations on the future trade agreement.

The Spanish economy continues to maintain positive growth, growing at rates above 3%.

Spanish Rental market situation

Barcelona

During the fourth quarter of 2017, a total of 73,000 sq m of offices were signed in Barcelona, an increase of 42% compared to the previous quarter, with an amount of 51,514 sq m. The year 2017 closed with a cumulative take-up of 332,000 sq m. This represents an increase with respect to the previous year, confirming the positive trend of the Barcelona office market. Particularly worth mentioning is the 22@ district, the most sought after area in the city, resulting in a significant increase in the number of contracts.

In addition, it is worth mentioning the number of transactions above 5,000 sq m in the last quarter of 2017, with technology and pharmaceutical companies leading the demand. This dynamic resulted in the average vacancy rate in Barcelona continuing its downward trend, decreasing from 12.8% to 7.7% this last year. The vacancy rate in the CBD stood at 5.4%, at historically low levels.

It is important to point out that, due to the lack of large, quality spaces, especially in the city centre, there has been an increase in the number of pre-let transactions, which is quite unusual in the office market in Spain. Therefore, the immediate supply of new product continued to decline in all of the submarkets. As a consequence, maximum rents in the CBD during the fourth quarter of 2017 continued the positive trend which commenced in 2013, reaching rental levels of €23.3/sq m/month.

Madrid

During the fourth quarter of 2017, the take-up in Madrid was 213,000 sq m, with a significant increase with respect to the previous quarter, during which the take-up volume was 94,116 sq m. The cumulative figure reached in 2017 exceeds 560,000 sq m. This figure is the highest it has been in the last decade.

A good level of demand during the last three months of 2017, especially coming from the Public sector, substantially decreased available supply in the city centre. Demand was particularly high for quality refurbished buildings, mainly within the M-30.

Large transactions above 10,000 sq m, compared to the absence of these during the first nine months of the year, led to a vacancy rate decrease at 10.9%, compared to the previous quarter. In particular, the vacancy rate in the CBD was 7.0%.

From a supply point of view, in 2017, 238,000 sq m were made available on the market, of which 163,000 sq m related to refurbishments, upon completion of the works being carried out on 18 properties. Currently 255,000 sq m are under construction and refurbishment, and will be completed during 2018-2019. This figure is below the average of 300,000 sq m constructed during the previous cycle.

Prime rents during the fourth quarter of 2017 continued to increase, reaching €31.25/sq m/month, a figure 2.5% higher than the previous quarter and 10% higher than the previous year, thereby continuing a growing trend.

Sources: "La Caixa" monthly report, reports by Jones Lang Lasalle, Cushman & Wakefield, CBRE & Savills

Organisational structure and functioning

Colonial is the benchmark SOCIMI in the quality office market in Europe and since the end of June 2017 it is listed on the IBEX 35, the index of reference in the Spanish stock exchange.

The Company has a market capitalization of approximately Euro 3,800 million, with a free float of around 60%. It manages assets exceeding Euro 9,000 million.

The Company's strategy focuses on the generation of industrial value through the creation of a prime product of the highest quality through repositioning action and the transformation of property assets.

In particular, the strategy is based on the following pillars:

- A business model focusing on the transformation and creation of offices of the highest quality in prime locations, principally in CBD's (Central Business District).
- Maximum commitment to the creation of offices that respond to the highest demands of the market, placing special emphasis on efficiency and sustainability.
- A diversified pan- European strategy in the office markets in Barcelona, Madrid and Paris.
- An investment strategy that combines "Core" and "Prime Factory" acquisitions with "value added" components.
- A clearly industrial real estate approach to create value that exceeds the average in the market.

Colonial is now the European Company that most focuses on center city areas and leads the Spanish real estate market in terms of quality, sustainability and efficiency in its office portfolio.

An integral approach for all areas of Corporate Social Responsibility has been adopted and aspires to the highest standards of (1) sustainability and energy efficiency, (2) corporate governance and transparency as well as (3) excellence in HR and social actions, making them an integral part of the Group's strategy.

Over the past three years the Group has successfully executed its acquisition program and made investments exceeding Euro 1,500 million (committed amounts including future Capex). All acquisitions involve assets in good locations with good fundamentals, potential for additional returns through property repositioning, while always maintaining maximum financial discipline.

The capital structure is solid, with an LTV below 40% (one of the lowest in the sector) and one of the best ratings in the Spanish sector.

The Company's strategy involves consolidation as the prime office leader in Europe, placing special emphasis on the markets in Barcelona, Madrid and Paris:

- A solid capital structure with a clear vocation towards maintaining maximum credit rating standards-investment-grade.

- Attractive yields for shareholders based on recurring profitability combined with the creation of property value through “value added” initiatives.

2. Business performance and results

Introduction

Total income for rentals amounts to 70,725 thousand euros and profit (loss) from operations totals 67,218 thousand euros

The Company's net financial loss amounted to 32,022 thousand euros, which is due mainly to the net payables to third parties, totalling 41,958 thousand euros.

Profit after tax from continuing operations amounted to 32,497 thousand euros.

Rental business

The surface above-ground in operation at December 2017 amounted to 351,965 sq m, with an occupancy rate of 98.2% (99.0% in Barcelona y 97.5% in Madrid).

In 2017, the Company reviewed/renewed leases representing a total above-ground surface area of 102,137 sq m (29% of the surface above-ground in operation at December 2017).

3. Liquidity and capital resources

See Note 20 to the financial statements for the year ended 31 December 2017**.**

The Company's average payment period to its suppliers was around 30 days in 2017. 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 Company has established two payment days per month to comply with the requirements set forth in Law 11/2013. Accordingly, invoices are received 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 (Note 21).

4. Risk management policies and objectives

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

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

Strategic risks:

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

- Risks associated with the industry climate: 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). In spite of the political uncertainty and economic policies of the last year, the European real estate sector has reached very significant investment levels. The maturity of the French real estate sector and the high level of investment in the Spanish real estate sector in recent years have enabled Colonial to have a more optimistic outlook over the coming years in terms of increased returns from its investments and sustainable growth.
- Risks associated with a competitive sector: The real estate sector is characterised as being highly competitive, reaching high levels of investment in recent years, and was driven by specialised international investment funds

and by listed real estate investment companies (REITs). The Colonial Group, which in 2017 chose to adhere to the special REIT tax regime, has maintained a benchmark position in the European real estate sector as a result of the high quality and value of its assets and its strategy of focusing mainly on its office rental activities in prime or central business district (CBD) areas. The successful investment and growth strategy implemented by the Colonial Group in 2015, 2016 and 2017, and the successful takeover bid for Axiare at the beginning of 2018 have further strengthened the Company's solid position in the sector.

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

Corporate risks:

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

- Reputational risk and risks concerning social commitment: The Colonial Group's corporate social responsibility policy sets out the principles and bases of Colonial's voluntary commitment to its stakeholders. Management of these expectations forms part of the Company's objectives in terms of sustainability and creating value for these stakeholders.
- Corporate governance risk: Colonial's management of corporate governance focuses on maintaining its commitment to continue making progress on a model based on the principles of efficiency, regulatory compliance and transparency, that are in line with the main international regulations and standards.
- Anticipation of new trends: As is the case with other sectors, the real estate sector requires continuous adaptation to emerging trends. The growing implementation of digitalisation in all sectors, the new technology supplied in the real estate sector, and the increase in coworking spaces results in constant changes that specifically affect the real estate sector. In 2017, the Colonial Group assigned specific resources and activities for the purpose of implementing these trends through the acquisition of a coworking platform and the development of digitalisation and new technologies in developing services and new business models in the real estate sector.

Operational risks:

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

- Financial risks: The Company efficiently manages its financial risks with the aim of maintaining adequate liquidity and debt levels, minimising borrowing costs and ensuring compliance with its business plans:
  - ✓ Risk of exposure to interest rate fluctuations: Management of this risk aims to reduce interest rate volatility to limit and control the impact of interest rate fluctuations on profit and cash flows and to keep overall borrowing costs at reasonable levels. Colonial analyses the arrangement of financial instruments to hedge interest rate fluctuations. The Company maintains a high percentage of its gross financial debt tied to fixed rates.
  - ✓ Risks relating to financing and debt: Colonial’s financial structure warrants diversification of its sources of financing by entity, product and maturity. In 2017, the new bond issue amounting to 800 million euros, the improvement in the credit rating that is now BBB with a stable outlook and the arrangement of the new loan represented an improvement in the Company's financial structure, thus extending and diversifying the maturity of its debt. Colonial's net financial debt is held at suitable levels, measured using the loan-to-value ratio, providing the Company with sufficient financial capacity to carry out both its projects and to take on important growth targets for the coming years.
  - ✓ Liquidity risk: As mentioned in the preceding paragraph, Colonial has the necessary sources of financing to undertake its current projects in addition to those laid down in its business plan. The Company increased its capacity to attract capital and obtain liquidity and new lines of financing, whereby in 2017 it carried out two accelerated bookbuild offerings, launched a new bond issue and arranged a new loan.
- Asset management risks: Sustainable property management requires that Colonial allocate a significant portion of its investments to acquiring, constructing, renovating and maintaining the high quality of its properties, which stand out as a result of their high energy efficiency. This property management strategy is incorporated into the Company's organisation and business plan.

- Risk of impairment loss or damage to property assets: Colonial's properties are exposed to general risks of damage as a result of fire, flooding or other events, regardless of whether or not they are attributable to natural causes. The Company has arranged hedges to cover the reconstruction costs of the properties it owns, as well as any damage caused to third parties.
- Security risk of information systems: The digital revolution brought about great benefits in innovation and growth, however, it also constitutes a source of new threats. The Company, aware of these growing threats, reviews the control measures to secure its information systems and to undertake and mitigate this risk.

Compliance risks:

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

- Regulatory compliance risks: The process of identifying and assessing risks of regulatory or contractual breach that may give rise to legal proceedings against Colonial allows it to take the appropriate corrective measures to mitigate these risks or, where applicable, any possible impact thereof, through the controls established in the crime prevention model defined and implemented by the Company. Colonial has also taken out insurance to cover any legal costs or possible damage against directors and executives.
- Tax risks: Colonial must adhere to the general tax legislation of the countries in which it operates, as well as any specific regulations for the REIT regime. Accordingly, the Company has a tax policy, a tax strategy and a tax risk management system, 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 Company, and to ensure the reliability of this public information, Colonial has developed an Internal Control over Financial Reporting (ICFR) Organisational and Monitoring Model. 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 in these processes.

5. Events after the reporting period

From 31 December 2017 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 apart from the following:

Acquisition of LE Offices Egeo, S.A.U. –

On 16 January 2018, the Company acquired 100% of the share capital of the Spanish company LE Offices Egeo, S.A.U. (hereinafter "Egeo"), the owner of an office building located in Madrid. The acquisition price was 49,098 thousand euros. In addition, the loan held by Egeo with a financial institution for 30,182 thousand euros, including interest, was cancelled early.

Gala Placidia –

On 18 January 2018, the Company acquired a property in Barcelona for 13,400 thousand euros.

Business combination between Inmobiliaria Colonial SOCIMI, S.A. (acquiring company) and Axiare Patrimonio SOCIMI, S.A. and subsidiaries (acquired companies) –

As indicated in Note 8 to these financial statements, the Company launched a takeover bid for all share capital of Axiare Patrimonio SOCIMI, S.A., the acceptance period of which was from 29 December 2017 to 29 January 2018, both inclusive.

On 2 February 2018, the Spanish National Securities Market Commission published the result of the takeover bid, which was accepted for 45,912,569 shares, representing 81.55% of the shares targeted by the takeover bid and 58.07% of the share capital of Axiare Patrimonio SOCIMI, S.A., which entailed the payment of 842,955 thousand euros.

With this expenditure, the value of the ownership interest in Axiare Patrimonio SOCIMI, S.A. amounted to 1,262,232 thousand euros, including the value of the ownership interest at 31 December 2017, which totalled 419,277 thousand euros (Note 8-b).

Accordingly, taking into consideration the shares already held by the Company, it now holds 68,674,633 shares, representing 86.86% of the share capital of Axiare Patrimonio SOCIMI, S.A., and it may not exercise the rights of forced sale and purchase.

Reason for the business combination –

As explained in the prospectus of the takeover bid, with the acquisition of Axiare, the Colonial Group consolidated its position as the European platform in the prime office market of Paris, Madrid and Barcelona. Axiare's asset portfolio at 30 September 2017, with 74% relating to offices, of which 93% are located in Madrid, clearly complements the Colonial Group's strategy, which consists of investing in the office markets of Madrid, Barcelona and Paris, with a focus on high-quality buildings. The acquisition of Axiare will enable Colonial to increase the value of its current portfolio and therefore obtain a real estate asset portfolio valued at approximately 10,000 million euros, thus increasing the Group's exposure in Spain. Furthermore, the synergies with the acquisition of Axiare may represent a savings in operating costs. Accordingly, it will potentially enable Axiare's financing structure to be optimised as a result of its inclusion in the Group with a credit rating of BBB by Standard & Poor's and Baa2 by Moody's.

Financial information of Axiare Patrimonio SOCIMI, S.A. –

In accordance with the consolidated financial statements authorised for issue on 14 February 2018, the consolidated equity of Axiare Patrimonio SOCIMI, S.A. and subsidiaries at 31 December 2017 amounts to 1,242,244 thousand euros.

At the date of preparation of these financial statements, there was no financial information available relating to the date of acquisition and, therefore, the effect of the business combination could not be calculated and the value of the assets and liabilities acquired could not be determined.

The most recent financial information available relates to the consolidated statement of financial position of Axiare Patrimonio SOCIMI, S.A. and subsidiaries at 31 December 2017, which is as follows:

ASSETS	**31 December 2017**	**LIABILITIES**	**31 December 2017**
		EQUITY	**1,242,244**
Intangible assets	1,783		
Property, plant and equipment	663		
investment property	1,722,655		
Non-current financial assets	21,916	Bank borrowings and	
Deferred tax assets	7,528	other financial liabilities	636,414
Other non-current assets	470	Other non-current liabilities	11,388
NON-CURRENT ASSETS	**1,755,015**	**NON-CURRENT LIABILITIES**	**647,802**
		Bank borrowings and	
Trade and other receivables	11,335	other financial liabilities	37,711
Tax assets	7,282	Trade payables	11,979
Cash and cash equivalents	167,979	Tax liabilities	1,875
CURRENT ASSETS	**186,596**	**CURRENT LIABILITIES**	**51,565**
TOTAL ASSETS	**1,941,611**	**TOTAL EQUITY AND LIABILITIES**	**1,941,611**

The net consolidated profit Axiare Patrimonio SOCIMI, S.A. and subsidiaries for 2017 amounted to 218,238 thousand euros.

6. Future outlook

Despite sources of uncertainty, global economic activity indicators continue to post notable increases. Growth forecasts by analysts remain at 3.6% in 2017, compared to 3.2% in 2016. Regarding price levels, according to CaixaBank Research forecasts, no worrying inflationary tensions are evidenced. On the other hand, there are still some sources of political and commercial uncertainty which could affect the baseline scenario.

In the Eurozone, the main analysts forecast a GDP growth of 2.4%, in contrast to previous forecasts at the beginning of the year of 1.7%. Activity indicators indicate that the Eurozone's growth momentum shall continue.

It has been following a positive trend in certain aspects which have driven growth in the Spanish economy in recent years, in particular these are: 1) a favourable evolution of economic activity, positively impacting the employment market; 2) gains in competitiveness; 3) low interest rates and 4) a good outlook for bank credit. In addition, the labour market maintains a positive trend with 1,500,000 more registered workers affiliated to Social Security in the last 3 years.

In the Barcelona market, it is important to point out that, due to the lack of large, quality spaces, especially in the city centre, the forecasts suggest that many projects are going to be delivered already partially or totally pre-let. As a consequence, long-term forecasts remain positive, positioning Barcelona as one of the top European cities in terms of expected rental growth, with an annual growth above 3% between 2017 and 2022. On the other hand, Madrid is positioned as one of the European cities with the best rental growth forecast over the coming years until 2021.

7. Research and development activities

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

8. Treasury shares

At 31 December 2017, the Company had 4,509,440 treasury shares with a nominal value of 11,274 thousand euros, which represents 1.04% of the Company's share capital.

9. Other relevant information

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

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

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

Alternative Performance Measure .	**Calculation method**	**Definition/Relevance**
EBIT ***(Earnings before interest and taxes)***	Calculated as the "*Operating profit*" plus "*Variations in value of investment property*" 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.

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

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

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

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

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

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

EPRA NAV (EPRA *Net Asset Value*)	31/12/2017	31/12/2016
	(Millions of euros)	
"EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT"	**3,592**	**2,302**
Includes:		
(i.a) Revaluation of investment assets	13	11
(i.a) Revaluation of assets under development	n.a.	n.a.
(i.c) Revaluation of other investments	(58)	51
(ii) Revaluation of finance leases	n.a.	n.a.
(iii) Revaluation of assets held for sale	n.a.	n.a.
Excludes:		
(iv) Market value of financial instruments	(1)	2
(v.a) Deferred taxes	198	221
(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	**3,744**	**2,587**

- **EPRA NNNAV (EPRA “triple net”)**

EPRA NNNAV (EPRA “triple net”)	31/12/2017	31/12/2016
	(Millions of euros)	
EPRA NAV	**3,744**	**2,587**
Includes:		
(i) Market value of financial instruments	1	(2)
(ii) Market value of the debt	(117)	(79)
(iii) Deferred taxes	(200)	(222)
EPRA NNNAV	**3,428**	**2,284**

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

Market Value excluding transaction costs or GAV *excluding transfer costs*	**31/12/2017**	**31/12/2016**
	(Millions of euros)	
Barcelona	836	761
Madrid	1,497	1,273
Paris	6,064	5,736
Operating portfolio	**8,398**	**7,771**
Projects	**519**	**144**
Other	**16**	**14**
Shareholding value in Axiare	**349**	**141**
Total Market Value excluding transaction costs	**9,282**	**8,069**
Spain	3,053	2,333
France	6,229	5,736

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

Market Value including transaction costs or GAV *including transfer costs*	**31/12/2017**	**31/12/2016**
	(Millions of euros)	
Total Market Value excluding transaction costs	**9,282**	**8,069**
Plus: transaction costs	459	409
Total Market Value including transaction costs	**9,741**	**8,478**
Spain	3,121	2,387
France	6,619	6,092

- ***Like-for-like*** **rentals**

Like-for-like **rentals**	**Barcelona**	**Madrid**	**Paris**	**TOTAL**
	(Millions of euros)			
Rental income 2015	**27**	**35**	**169**	**231**
Like-for-like	3	1	11	15
Projects and additions	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	3	1	6	10
Projects and additions	0	0	(5)	(5)
Investments and divestments	2	8	(3)	7
Others and compensation	0	0	0	0
Rental income 2017	**35**	**52**	**196**	**283**

- ***Like-for-like*** **appraisal**

Like-for-like **appraisal**	**31/12/2017**	**31/12/2016**
	(Millions of euros)	
Valuation at 1 January	**8,069**	**6,913**
Like-for-like Spain	265	151
Like-for-like France	679	494
Acquisitions	625	524
Divestments	(356)	(13)
Valuation at 31 December	**9,282**	**8,069**

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

Loan to Value Group or LtV Group	**31/12/2017**	**31/12/2016**
	(Millions of euros)	
Gross financial debt	4,170	3,633
Less: *"Cash and cash equivalents"*	(1,104)	(105)
(A) Net financial debt	**3,066**	**3,528**
Market Value including transaction costs	9,741	8,478
Plus: Treasury shares of the Parent valued at EPRA NAV	39	41
(B) Market Value including transaction costs and Parent treasury shares	**9,780**	**8,519**
***Loan to Value* Group (A)/(B)**	**31.3%**	**41.4%**

- **LtV Holding or LtV Colonial**

LtV Holding or LtV Colonial	**31/12/2017**	**31/12/2016**
Holding Company	*(Millions of euros)*	
Gross financial debt	2,488	1,647
Less: "Cash and cash equivalents" of the Parent and Spanish subsidiaries wholly owned thereby	(1,085)	(80)
(A) Net financial debt	**1,403**	**1,567**
(B) Market Value including transaction costs	**5,562**	**4,439**
***Loan to Value* Holding (A)/(B)**	**25.2%**	**35.3%**

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 2017 is included in this Management Report in a separate section.