Inmobiliaria Colonial, SOCIMI, S.A. and its subsidiaries

Audit Report,
Consolidated 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 consolidated annual accounts

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

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Inmobiliaria Colonial, SOCIMI, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2017, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at 31 December 2017, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

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 consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated 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 consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated 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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Key audit matter	How our audit addressed the key audit matter
Valuation of Investment Property	
Colonial Group has real estate assets which are recognised in Investment property amounting to Euro 8,792,369 thousand under the fair value model, that represent 84% of total assets. Also, the variation in value in investment property in 2017 amounts to Euro 937,108 thousand, representing 87% of the consolidated net profit for the year. Notes 4.c), 8 and 17.f) to the accompanying consolidated annual accounts contains information on the assets included in this heading. In order to obtain the fair value of these assets, the Group commissions valuations that are carried out by independent third party experts. Fair value is determined using the discounted cash flow methodology, 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 judgment required on the part of Management. Changes in these assumptions could lead to a significant variation in the fair value of such assets and their impact on the consolidated comprehensive income statement and consolidated statement of financial position.	We obtained the year-end valuations of these assets by independent experts and we assessed that these independent 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 assessed the relevant disclosures in Notes 4.c), 8 and 17.f) to the accompanying consolidated annual accounts. We consider that we have obtained sufficient audit evidence in the course of our work to corroborate the reasonableness of the valuation of investment property.
Recognition of rental revenue. Lease incentives	
Consolidated lease income amounts to Euro 283,287 thousand for the year ended 31 December 2017 and is recognised on a straight-line basis over the lease term. There are rental contracts with specific conditions such as lease incentives, registration costs and early cancellation costs. These terms and conditions are subject to special treatment under accounting regulations, as described in Notes 4.n) and 10 to the accompanying consolidated annual accounts. Specifically, rent-free periods have resulted in the recognition of accounts receivable amounting to Euro 78,746 thousand at 31 December 2017.	We reviewed the new lease contracts signed, possible amendments and the follow-up of existing leases in order to identify lease incentives and any other kind of incentives requiring a specific accounting treatment. For a representative sample of contracts with specific characteristics, we analysed the accounting impacts and assessed the recoverability of those assets. We assessed the Group's procedures and controls with respect to the validation of the receivables deriving from the accounting treatment of such incentives. We validated the supporting documentation for Management's assumptions in the valuation and accounting of lease incentives.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition criteria during rent-free periods have a direct impact on lease income. We therefore focused on this area due to the materiality of the rent-free period assets and the application of significant judgement by Parent company management, concerning the expected term of the lease contract and the recoverability of the receivables, among other matters.	No significant matters warranting disclosure have come to light as a result of our work.
SOCIMI Tax Scheme	
On 30 June 2017 the Parent company and certain subsidiaries asked the Tax Authorities to include them in the SOCIMI tax scheme as detailed in Notes 1, 4.m) and 16 to the accompanying consolidated annual accounts. Adopting this tax scheme entails breaking up the tax group existing at 31 December 2016, with effect as from 1 January 2017 and recovering the Tax Group's adjustments pending recovery. 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 consolidated 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 consolidated annual accounts, as a result of the change in the way of accounting for corporate income tax in the Parent company and companies included in the SOCIMI Tax Scheme.	We obtained the certificates dated 30 June 2017 through which the Parent company and certain subsidiaries 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 communications. We verified that the companies involved meet 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 along with 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 consolidated annual accounts. The results of our procedures ended satisfactorily and we did not identify any relevant matter affecting the financial information included in the accompanying consolidated annual accounts.
Public offering of shares of Axiare Patrimonio SOCIMI, S.A.	
In November 2017 the Parent company's interest in Axiare Patrimonio SOCIMI S.A. (hereinafter Axiare) amounted to 28.79%. The Group holds this investment as a financial asset available for sale in 2017 as the conditions to view it as an investment in an associate are not met, as indicated in Note 9.b) to the accompanying consolidated 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 Parent company Management's assessment is adequate.

Key audit matter	How our audit addressed the key audit matter
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 shares already held by the Parent 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 transaction was completed after the 2017 year-end but before the date of formulation of the consolidated 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 23 to the accompanying consolidated annual accounts. We have decided to mention this matter as this is a significant transaction that has a relevant impact on the Company's consolidated annual accounts.	We have determined that the information detailed in Notes 9.b), 9.c) and 23 to the accompanying consolidated annual accounts relates to the information that 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 included are adequate.

Other Matters

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

Other information: Consolidated management report

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

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility regarding the consolidated 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 consolidated management report, which consists of evaluating and reporting on the concordance of the aforementioned information with the consolidated annual accounts, based on the Group'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 consolidated 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 consolidated management report and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated 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 consolidated annual accounts

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company´s directors are responsible for assessing the Group´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 Group or to cease operations, or have no realistic alternative but to do so.

The Parent company´s audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group´s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company´s directors.
- Conclude on the appropriateness of the Parent company´s 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 Group´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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent 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 Parent 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 Parent company´s audit committee, we determine those matters that were of most significance in the audit of the consolidated 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 Parent company´s audit committee

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

Appointment period

The General Ordinary Shareholders' Meeting held on 28 June 2016 appointed us as auditors of the Group 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 the Note 22 to the consolidated 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. and Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2017, prepared in accordance with International Financial Reporting Standards and Consolidated Management Report

Translation of a report originally Issued in Spanish based on our work performed In accordance with the audit regulations In force in Spain and of consolidated financial statements originally Issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group In Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

(Thousands of Euros)

ASSETS	Note	31 December 2017	31 December 2016	LIABILITIES AND EQUITY	Note	31 December 2017	31 December 2016
				Share capital		1.088.293	892.058
Intangible assets		3.037	2.549	Share premium		1.126.248	731.326
Property, plant and equipment	7	39.369	44.061	Reserves of the Parent		245.118	250.634
Investment property	8	8.792.396	7.762.627	Reserves in consolidated companies		406.366	199.417
Non-current financial assets	9	444.350	150.676	Valuation adjustments recognised in equity - financial instruments		(559)	(571)
Non-current deferred tax assets	16	407	454	Valuation adjustments on available-for-sale financial assets		70.415	1.317
NON-CURRENT ASSETS		**9.279.559**	**7.960.367**	Other equity instruments		4.686	3.697
				Treasury shares		(31.262)	(49.811)
				Profit for the year		682.523	273.647
				Equity attributable to shareholders of the Parent		**3.591.828**	**2.301.714**
				Non-controlling interests		**2.087.870**	**1.706.205**
				EQUITY	11	**5.679.698**	**4.007.919**
				Bank borrowings and other financial liabilities	12 and 13	857.237	777.531
				Bonds and similar securities issued	12	3.307.633	2.509.956
				Non-current deferred tax liabilities	16	371.233	356.658
				Non-current provisions	15	11.450	13.674
				Other non-current liabilities	14	44.362	54.630
Trade and other receivables	10	103.232	116.954	**NON-CURRENT LIABILITIES**		**4.591.915**	**3.712.449**
Current financial assets		12	441				
Tax assets	16	20.115	44.689	Bank borrowings and other financial liabilities	12 and 13	39.350	93.549
Cash and cash equivalents	12	1.104.601	105.200	Bonds and similar securities issued	12	13.574	313.927
CURRENT ASSETS		**1.227.960**	**267.284**	Trade payables	14	143.880	69.760
				Tax liabilities	16	18.819	17.328
Non-current assets held for sale	21	**-**	**-**	Current provisions	15	20.283	12.719
				CURRENT LIABILITIES		**235.906**	**507.283**
TOTAL ASSETS		**10.507.519**	**8.227.651**	**TOTAL EQUITY AND LIABILITIES**		**10.507.519**	**8.227.651**

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of financial position for the year ended 31 December 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

(Thousands of Euros)

Statement of comprehensive income	**Note**	**2017**	**2016**
Revenue	17-a	283.287	271.400
Other income	17-b	2.714	3.057
Staff costs	17-c	(28.936)	(22.293)
Other operating expenses	17-d	(40.921)	(33.481)
Depreciation and amortisation charge	7	(2.445)	(2.909)
Net change in provisions	17-e	(5.704)	(2.755)
Net gain/(loss) on sales of assets	17-g	527	(149)
Operating profit		**208.522**	**212.870**
Changes in fair value of investment property	17-f	933.435	560.777
Losses due to impairment of assets	17-f	(5.220)	(4.373)
Finance income	17-h	7.802	3.559
Finance costs	17-h	(86.846)	(107.794)
Impairment of financial assets	17-h	(401)	(648)
Profit before tax		**1.057.292**	**664.391**
Income tax expense	16	23.159	(105.087)
Consolidated net profit		**1.080.451**	**559.304**
Net profit for the year attributable to the Parent		682.523	273.647
Net profit attributable to non-controlling interests	11	397.928	285.657
Basic earnings per share (€)	5	1,83	0,81
Diluted earnings per share (€)	5	1,83	0,81
Other comprehensive income			
Consolidated net profit		**1.080.451**	**559.304**
Other items recognised directly in other comprehensive income		**69.028**	**1.134**
- Items that can be subsequently transferred to profit or loss			
Gains/(losses) on hedging instruments	11 and 13	(94)	(244)
Gains/(losses) on available-for-sale financial assets	9	69.098	1.317
Tax effect on prior years' profit or loss	11 and 13	24	61
Transfers to consolidated net profit		**91**	**3.782**
Gains/(losses) on hedging instruments	11 and 13	122	4.217
Tax effect on prior years' profit or loss	11 and 13	(31)	(435)
Consolidated comprehensive profit		**1.149.570**	**564.220**
Comprehensive profit for the year attributable to the Parent		751.633	277.031
Comprehensive profit attributable to non-controlling interests		397.937	287.189
Comprehensive basic earnings per share (euros)		2,01	0,82
Comprehensive diluted earnings per share (euros)		2,01	0,82

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED
31 DECEMBER 2017

(Thousands of Euros)

	Note	Share capital	Share premium	Reserves of the Parent	Prior years' losses at the Parent	Reserves in consolidated companies	Valuation adjustments recognised in equity - financial instruments	Valuation adjustments on available-for-sale financial assets	Other equity instruments	Treasury shares	Profit/(loss)	Equity attributable to shareholders of the Parent	Non-controlling interests	Equity
Balance at 31 December 2015		**797.214**	**560.606**	**1.163.954**	**(1.147.975)**	**64.881**	**(2.504)**	**-**	**2.895**	**(17.065)**	**415.413**	**1.837.419**	**1.612.048**	**3.449.467**
Consolidated comprehensive profit		-	-	-	-	-	2.067	1.317	-	-	273.647	277.031	287.189	**564.220**
Transactions with shareholders:														
Share capital increase		94.844	170.720	(1.905)	-	-	-	-	-	-	-	263.659	-	**263.659**
Offset of prior years' losses		-	-	(938.993)	938.993	-	-	-	-	-	-	-	-	**-**
Treasury share portfolio		-	-	(957)	-	(861)	-	-	-	(31.521)	-	(33.339)	(453)	**(33.792)**
Distribution of 2015 profit		-	-	28.535	208.982	130.063	-	-	-	-	(415.413)	(47.833)	(48.752)	**(96.585)**
Share-based payment transactions		-	-	-	-	-	-	-	629	-	-	629	462	**1.091**
Changes in the scope of consolidation		-	-	-	-	5.270	(134)	-	-	(1.225)	-	3.911	(144.378)	**(140.467)**
Other changes		-	-	-	-	64	-	-	173	-	-	237	89	**326**
Balance at 31 December 2016	**11**	**892.058**	**731.326**	**250.634**	**-**	**199.417**	**(571)**	**1.317**	**3.697**	**(49.811)**	**273.647**	**2.301.714**	**1.706.205**	**4.007.919**
Consolidated comprehensive profit		-	-	-	-	-	12	69.098	-	-	682.523	751.633	397.937	**1.149.570**
Transactions with shareholders:														
Capital increases		196.235	394.922	(6.691)	-	-	-	-	-	-	-	584.466	-	**584.466**
Treasury share portfolio		-	-	10.371	-	-	-	-	-	2.956	-	13.327	-	**13.327**
Distribution of 2016 profit		-	-	(7.910)	-	218.808	-	-	-	-	(273.647)	(62.749)	(27.000)	**(89.749)**
Share-based payment transactions		-	-	(1.286)	-	-	-	-	989	2.537	-	2.240	641	**2.881**
Changes in the scope of consolidation		-	-	-	-	79	-	-	-	(2)	-	77	9.737	**9.814**
Other changes		-	-	-	-	(11.938)	-	-	-	13.058	-	1.120	350	**1.470**
Balance at 31 December 2017	**11**	**1.088.293**	**1.126.248**	**245.118**	**-**	**406.366**	**(559)**	**70.415**	**4.686**	**(31.262)**	**682.523**	**3.591.828**	**2.087.870**	**5.679.698**

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, SOCIMI, S.A. AND SUBSIDIARIES
(COLONIAL GROUP)
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2017
(Thousands of Euros)

	Note	2017	2016
CASH FLOWS IN OPERATIONS			
1. CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES			
Profit from operations		208.522	212.870
Adjustments to profit			
Depreciation and amortisation (+)		2.445	2.909
Net change in provisions (+/-)	17-e	5.704	2.755
Others	17-a	(11.079)	(32.515)
Gains/(losses) on sale of investment property (+/-)	17-g	(527)	149
Adjusted profit		205.065	186.168
Taxes paid (-)		29.434	(8.013)
Increase/(decrease) in current assets and liabilities			
Increase/(decrease) in receivables (+/-)		929	352
Increase/(decrease) in payables (+/-)		9.845	(16.127)
Increase/(decrease) in other assets and liabilities (+/-)		4.866	6.117
Total net cash flows from/(used in) operating activities		250.139	168.497
2. CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Investments in (-)			
Intangible assets		(1.318)	(1.154)
Property, plant and equipment	7	(2.867)	(2.776)
Investment property	8	(128.862)	(171.368)
Equity investments and financial assets	2-f	(300.317)	(138.756)
Other financial assets	9	(211.886)	(136.976)
		(645.250)	(451.030)
Disposals of (+)			
Investment property	8	450.671	17.054
		450.671	17.054
Total net cash flows from/(used in) investing activities		**(194.579)**	**(433.976)**
3. CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Dividends paid (-)	11	(89.749)	(96.584)
Repayment of bank borrowings (-)	12	(572.925)	(292.657)
Repayment of debts with bondholders (-)	12	(300.700)	(530.799)
Interest paid (+/-)	17	(94.406)	(114.831)
Post-control transactions (+/-)	20	(266)	-
Treasury share transactions (+/-)	11	13.327	(48.883)
		(1.044.719)	(1.083.754)
New bank borrowings obtained (+)	12	609.968	597.412
New bondholder borrowings obtained (+)	12	800.000	650.000
Capital increases (+)	11	591.157	-
Expenses associated with capital increases	11	(6.691)	(1.905)
Other proceeds/(payments) for current financial assets and other (+/-)		(5.874)	(8.850)
		1.988.560	1.236.657
Total net cash flows from/(used in) financing activities		**943.841**	**152.903**
4. NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS			
Cash flow for the year		**999.401**	**(112.576)**
Cash and cash equivalents at beginning of year	**12**	**105.200**	**217.776**
Cash and cash equivalents at end of year	**12**	**1.104.601**	**105.200**

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of cash flows for the year ended 31 December 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries

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

1. Colonial Group business activity

Group activity

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 de Madrid (formerly Avenida Diagonal 532, in Barcelona).

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

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

The Parent'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 Parent may also carry on any other ancillary activities, i.e., those that generate income, which in total represents less than 20% of the Parent's 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, refurbishment 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 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 Parent 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. and Subsidiaries ("the Group") carry out their 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, the "SFL subgroup" or "SFL" for the subsidiary).

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 Parent 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 Parent obtained a "Baa2" credit rating with a negative outlook from Moody's. In 2017, the subsidiary SFL also improved its credit rating, which is now "BBB+" with a stable outlook and maintained the "A-2" short-term credit rating.

In view of the business activity carried out by the Group, it has no environmental expenses, assets, provisions or contingencies that might be significant with respect to its equity, financial position or performance. Therefore, no specific disclosures relating to environmental issues are included in these explanatory notes. However, the Group does apply a proactive environmental policy in relation to urban development, construction, maintenance and the preservation of its property portfolio.

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (EU-IFRSs) as adopted by the European Union, taking into account all mandatory accounting policies and rules and measurement bases, the Spanish Code of Commerce, the Spanish Limited Liability Companies Law, the Spanish Securities Markets Law and other applicable company law, as well as regulations laid down by the Spanish National Securities Market Commission (CNMV), to present a true and fair view of the Colonial Group's consolidated equity and financial position at 31 December 2017 and of the comprehensive income from its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended.

The consolidated financial statements of Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries for the year ended 31 December 2017 were prepared on the basis of the accounting records kept by the Parent and by the other companies comprising the Colonial Group and were authorised for issue by the Parent's directors at the Board of Directors meeting held on 22 February 2018.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements at 31 December 2017 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify the policies and bases used and to make them compliant with EU-IFRSs.

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

The Group's consolidated financial statements for the year ended 31 December 2016 were approved by the shareholders of the Parent at the General Meeting held on 29 June 2017.

b) Adoption of International Financial Reporting Standards

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

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

Standards and interpretations effective this year

New accounting standards came into force in 2017 and were accordingly taken into account when preparing these consolidated financial statements. The new standards are as follows:

- IAS 7 (Amendment) "Disclosure initiative";

- IAS 12 (Amendment) "Recognition of deferred tax assets and unrealised losses".

- Annual improvements to IFRSs. 2014-2016 Cycle: The amendments affect IFRS 12 "Disclosure of interests in other entities" and relate mainly to a clarification on the scope of the standard.

The impact of the interpretation of these amendments has not been significant.

Standards and interpretations issued but not yet effective

At the date of authorisation for issue of these consolidated financial statements, the following standards, amendments or interpretations were published by the IASB but had not yet come into force, and although early application is permitted, the Group opted not to apply them early:

- IFRS 4 (Amendment) "Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts'"

- IFRS 9 "Financial instruments"

- IFRS 15 "Revenue from contracts with customers"

- IFRS 15 (Amendment) "Clarifications to IFRS 15 'Revenue from contracts with customers'"

- IFRS 16 "Leases"

- Annual improvements to IFRSs. 2014-2016 Cycle: The amendments affect IFRS 1 and IAS 28 and shall apply to annual periods beginning on or after 1 January 2018. The main amendments refer to:

    - IFRS 1 "First-time adoption of International Financial Reporting Standards": Deletion of short-term exemptions for first-time adopters.

    - IAS 28 "Investments in associates and joint ventures": Valuation of an investment

Based on the analysis carried out to date, Inmobiliaria Colonial considers that out of all these standards, interpretations and amendments, the only ones that may have an impact on the consolidated financial statements would be IFRS 9 and IFRS 15, the entry into force of which is set for 1 January 2018, and IFRS 16, the entry into force of which is set for 1 January 2019.

The main aspects identified by the Group for these standards are as follows:

IFRS 9 “Financial Instruments”

- Valuation of financial assets: The Colonial Group will measure its financial assets at amortised cost, with the exception of investments in equity instruments and derivative financial instruments, which will be measured at fair value. The measurement bases employed with respect to those used up until 31 December 2017 will not have a significant impact.

- Impairment of financial assets: The Colonial Group will apply the general expected loss model for financial assets, with the exception of trade receivables, for which Inmobiliaria Colonial will use the simplified expected loss model, regardless of the financial component that these assets may have. Considering the Group's credit risk management policies and the high credit rating of the receivables, it does not consider that the application of the expected loss model will have a significant impact.

The Colonial Group considers that the application of IFRS 9 will not have a significant impact on equity at 1 January 2018.

IFRS 15 “Revenue from contracts with customers”

In relation to the entry into force of IFRS 15, the Colonial Group considers that, based on the nature of the business, its application will not have a significant impact on the Group's consolidated financial statements.

IFRS 16 “Leases”

The Colonial Group has begun to analyse the impacts of IFRS 16 “Leases”, which stipulates that right-of-use assets and liabilities arising from operating leases, with the exception of short-term lease agreements and those relating to assets with a low value, must be recognised on the consolidated statement of financial position. In addition, the criteria for recognising lease expenses will change, which will now be recognised as a depreciation charge for the asset or finance cost for discounting the lease liability.

The Colonial Group is gathering the data necessary for its operating lease agreements in order to assess the related impacts, however, it does not expect IFRS 16 to have a significant impact on the Group's consolidated financial statements with regard to an associate or joint venture at fair value.

Accordingly, at the date of authorisation for issue of these consolidated financial statements, the following standards, amendments or interpretations were published by the IASB but had not yet come into force, and are subject to approval by the European Union:

- IFRS 10 (Amendment) and IAS 28 (Amendment) “Sale or contribution of assets between an investor and its associate or joint venture”

- IFRS 2 (Amendment) “Classification and measurement of share-based payment transactions”

- IAS 40 (Amendment) “Transfers of investment property”

- IFRIC 22 “Foreign currency transactions and advance consideration”

- IFRS 17 "Insurance contracts"

- IFRIC 23 "Uncertainty over income tax treatments"

- IFRS 9 (Amendment) “Prepayment features with negative compensation”

- IAS 28 (Amendment) “Long-term interests in associates and joint ventures”

- Annual improvements to IFRSs. 2015-2017 Cycle: The amendments affect IFRS 3, IFRS 11, IAS 12 and IAS 23 and shall apply to annual periods beginning on or after 1 January 2019, all of which are subject to adoption by the EU. The main amendments refer to

    - IFRS 3 "Business combinations": An investment previously held in a joint venture is measured again when control over the business is obtained.

    - IFRS 11 "Joint arrangements": An investment previously held in a joint venture is not measured again when joint control over the business is obtained.

    - IAS 12 "Income taxes": All tax consequences relating to the payment of dividends are recognised in the same manner.

    - IAS 23 "Borrowing costs": Any specific loan originally obtained to develop a qualifying asset is considered part of general borrowings when the asset is ready for use or sale.

- IAS 19 (Amendment) “Plan amendment, curtailment or settlement”.

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

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

c) Functional currency

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

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

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

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

  The market value 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.

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

- Estimate of the appropriate allowances for bad debts (Note 10).

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

- Measurement of non-current assets held for sale (Notes 4-s and 21).

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

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

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

e) Basis of consolidation

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

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

2. The results of the subsidiaries acquired or sold during the year are included in consolidated income from the effective date of acquisition and are no longer included from the date of disposal, as appropriate.

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

4. Where necessary, the financial statements of the subsidiaries are adjusted to ensure uniformity with the accounting policies applied by the Parent. All subsidiaries have the same reporting date as the Parent, i.e., 31 December.

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

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

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

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

    Full consolidation:

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

    - Subsidiaries are accounted for using the acquisition method. The acquisition cost is the fair value of the assets delivered, the equity instruments issued and the liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and identifiable liabilities and contingencies incurred in a business combination are measured initially at fair value at the acquisition date, regardless of the effect of non-controlling interests. When the acquisition cost is higher than the fair value of the Group's interest in the identifiable net assets acquired, the difference is recognised as goodwill. If the acquisition cost is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income (details of the companies consolidated at 31 December 2017 and 2016 are included in the Appendix).

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

f) Changes in the scope of consolidation

The following changes occurred in the scope of consolidation in 2017:

- On 18 May 2017, the subsidiary Inmocol Torre Europa, S.A. (hereinafter, "Inmocol") was incorporated. The initial share capital of 20,000 thousand euros was fully subscribed by the Parent 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 Parent, having only paid 25% of the capital subscribed, i.e., 2,500 thousand euros. The unpaid share capital subscribed will be paid by the Parent when agreed upon by the Board of Directors of Inmocol.

- During the first half of 2017, the Parent 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 Parent 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 (Note 8). The acquisition price was 19,747 thousand euros, plus associated acquisition costs. Of this amount, 4,200 thousand euros were deferred for up to a maximum of 31 January 2018 and were recognised under “Trade payables” in the consolidated statement of financial position (Note 14). In addition, the loan held by Arturo Soria with a financial institution for 13,159 thousand euros, including interest, was repaid early, and was registered in the Property Registry on 26 November 2017.

- On 27 October 2017, the Parent acquired 61.51% of the share capital of the Spanish company Utopicus Innovación Cultural, S.L. (hereinafter, "Utopicus"), the head of the Utopic_US co-working platform. The acquisition price amounted to 2,633 thousand euros, including associated acquisition costs, and 205 thousand euros were deferred, which were recognised under “Trade payables” in the consolidated statement of financial position (Note 14). 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 Parent, thus increasing its interest in the share capital of Utopicus to 69.60%.

- On 30 November 2017, after the previous tenant left, the subsidiary SFL acquired the Emile Zola property (Note 8) through (i) the acquisition of all share capital of the French company SAS Société Immobilière Victoria, which owns the land and a portion of the buildings of this property, directly from the subsidiary SFL, and (ii) the subsidiary SFL acquired the rest of the property that was not owned by SAS Société Immobilière Victoria. The acquisition cost totalled 165,000 thousand euros.

- On 20 December 2017, the Parent acquired all share capital of the Spanish companies Almacenes Generales Internacionales, S.A. (hereinafter, "Agisa") and Soller, S.A., which own several plots of land located in Madrid (Note 8). The acquisition price was 178,220 thousand euros, plus associated acquisition costs. Of this amount, 41,335 thousand euros were deferred, to the latest, until 31 December 2018, and were recognised under “Trade payables” in the consolidated statement of financial position (Note 14). Several guarantees were extended as collateral for the deferred amount (Note 12-i).

- On 20 and 27 December 2017, Agisa acquired 64.60% of the share capital of the Spanish company Peñalvento, S.L. (hereinafter, "Peñalvento"), which owns a plot of land in Madrid (Note 8). The acquisition price was 12,127 thousand euros, plus associated acquisition costs. Of this amount, 632 thousand euros were deferred until 31 December 2018, and were recognised under “Trade payables” in the consolidated statement of financial position (Note 14). Several guarantees were extended as collateral for the deferred amounts (Note 12-i). In addition, in a single deed, the loan held by Peñalvento with a financial institution for 20,192 thousand euros, including interest, was cancelled early, which is expected to be registered in the Property Registry in February 2018. With the acquisition of the aforementioned ownership interest, together with the 35.40% interest in the share capital of Peñalvento owned by Agisa, the Parent now owns all share capital of Peñalvento.

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

- On 25 May 2016, the Parent acquired 100% of the share capital of the Spanish company Moorage Inversiones 2014, S.L. (hereinafter, "Moorage"), which owns several plots of land in Barcelona (Note 8). The acquisition price was 44,745 thousand euros, plus associated acquisition costs. Of this amount, 15,680 thousand euros were deferred until 25 May 2018, and were recognised under “Other non-current liabilities” in the consolidated statement of financial position (Note 14). A guarantee was extended as collateral for the deferred portion (Note 12-i). At 31 December 2017, this amount was recognised under “Trade payables” in the consolidated statement of financial position (Note 14).

- On 29 June 2016, the Parent acquired 2,038,956 shares from Reig Capital Group Luxembourg Sàrl (hereinafter, Reig), representing 4.38% of the share capital of the subsidiary SFL. The acquisition was carried out through two transactions: (i) the contribution to the Parent of 1,019,478 shares in SFL in consideration for the subscription of 90,805,920 shares in Colonial (Note 11-a) valued at 63,564 thousand euros; and (ii) the sale to the Parent of 1,019,478 shares, at a price of 50.00 euros per share, for a total of 50,974 thousand euros. Following the transactions, the Parent held 26,765,356 shares in the subsidiary SFL (57.52% of its share capital). Accordingly, equity attributable to the Parent increased by 2,368 thousand euros.

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

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

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

At 31 December 2017 and 2016, Colonial Invest, S.L.U., Colonial Tramit, S.L.U., SB2 SAS, SB3 SAS and SCI SB3 were inactive subsidiaries.

g) Comparative information

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

h) Grouping of items

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

i) Correction of errors

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

3. Distribution of profit of the Parent

The distribution of profit from 2017 proposed by the Board of Directors of the Parent and that will be submitted for approval at the General Annual Meeting is as follows:

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

The Parent's Board of Directors will submit for approval at the Annual General 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 Parent (Note 11-f).

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

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

4. Accounting policies

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

a) Business combinations and intangible assets

Business combinations

The acquisition method of accounting is used for business combinations (Note 2-e).

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

The negative different, if any, between the cost of the business combination and the allocation to assets, liabilities and contingent liabilities of the acquired entity, is recognised as profit or loss in the year in which it is incurred.

If a business combination is achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at fair value at the acquisition date and recognises any resulting gain or loss in the consolidated statement of comprehensive income or under other consolidated comprehensive income, where appropriate.

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.

b) Property, plant and equipment (Note 7)

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 included in the carrying amount of the asset or recognised as a separate asset only when it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be determined reliably. Maintenance and upkeep expenses are charged to the consolidated statement of comprehensive income in the year incurred.

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

	Years of estimated useful life	
	Spain	France
Property for own use		
Buildings	50	50
Fixtures	10 to 15	10 to 50
Other property, plant and equipment	4 to 10	5 to 50

Gains or losses arising on the disposal (Note 17-g) or derecognition of an asset (Note 17-f) from this heading are determined as the difference between the sale price and its carrying amount and are recognised in the consolidated statement of comprehensive income.

c) Investment property (Note 8)

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

Investment property is presented at fair value at the end of the reporting period and is not depreciated.

Profit or loss arising from fluctuations in the fair value of investment property is included in income in the same period in which it occurs and recognised under "Changes in fair value of investment property" in the consolidated statement of comprehensive income. These gains or losses are not included in operating profit as the changes in valuation are not directly within the control of the Group's management.

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

When the Group recognises as an increased fair value of an investment property the cost of an asset that substitutes another already included in such amount, the Group reduces the value of the property by the fair value of the asset replaced, recognising the impact under “Losses due to impairment of assets” in the consolidated statement of comprehensive income (Note 17-f). If the fair value of the assets replaced cannot be determined, it will be recognised by increasing the fair value of the property, and it will later be reassessed periodically on the basis of appraisals performed by independent experts.

In accordance with IAS 40, the Group calculates the fair value of its investment property on a regular basis. Fair value is determined based on the valuations made by independent experts (Jones Lang LaSalle and CB Richard Ellis Valuation in Spain, and Jones Lang La Salle and Cushman & Wakefield in France, in both 2017 and 2016) at the date of preparing the consolidated statement of financial position, so that the year-end fair values for investment property items reflect prevailing market conditions. The valuation reports prepared by independent experts contain only the standard warnings and/or disclaimers concerning the scope of the findings of the appraisals carried out, referring basically to the comprehensiveness and accuracy of the information provided by the Group.

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

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

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

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

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

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

The properties were assessed individually, considering each of the lease agreements in force at the end of the reporting period. Buildings with unlet floor space were valued on the basis of future estimated rentals, net of an estimated letting period.

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

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

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

Yields (%) - Offices	Gross 31 December 2017	Gross 31 December 2016
Barcelona – Prime Yield		
Leased out	4.92	5.10
Total portfolio	5.00	5.17
Madrid – Prime Yield		
Leased out	4.56	4.75
Total portfolio	4.57	4.77
Paris – Prime Yield		
Leased out	3.25	3.70
Total portfolio	3.26	3.70

Assumptions made at 31 December 2017					
Rent increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	3.0	3.0	3.0	3.0	2.25
Total portfolio	3.0	3.0	3.0	3.0	2.25
Madrid –					
Leased out	3.0	3.0	3.0	3.0	2.5
Total portfolio	3.0	3.0	3.0	3.0	2.5
Paris –					
Leased out	1.0	1.50	2.0	2.0	2.0
Total portfolio	1.0	1.50	2.0	2.0	2.0

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

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

A change of one-quarter of one point in yields would have the following impact on the valuations used by the Group at 31 December 2017 and 2016 to determine the value of its investment property:

	Thousands of euros		
Sensitivity of valuations to a change of one quarter of a point in yields	Valuation	Decrease of one quarter of a point	Increase of one quarter of a point
December 2017	8,933,035	639,037	(551,470)
December 2016	7,927,918	518,842	(454,174)

A reconciliation between the valuations used by the Group and the carrying amounts of the headings of the consolidated statement of financial position where the valued assets are recognised, is as follows:

	31 December 2017	31 December 2016
Headings of the consolidated statement of financial position -		
Property, plant and equipment	33,781	38,536
Investment property (Note 8)	8,792,396	7,762,627
Trade and other receivables – Lease incentives (Note 10-b)	78,746	103,125
Total headings of the consolidated statement of financial position	**8,904,923**	**7,904,285**
Unrealised gains on assets recognised under IAS 16	28,292	24,630
Assets not valued	(180)	(1,000)
Valuation	**8,933,035**	**7,927,918**

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 income earned in 2017 and 2016 from the lease of investment properties amounted to 283,287 thousand euros and 271,400 thousand euros, respectively (Note 17-a) and is recognised under “Revenue” in the accompanying consolidated statement of comprehensive income.

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

d) Impairment of property, plant and equipment

At each reporting date, the Colonial Group assesses the carrying amounts of its property, plant and equipment to determine if there are indications that the assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

e) Financial instruments (excluding derivative financial instruments)

Financial assets (Note 9)

Initial measurement

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

Classification and subsequent measurement

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

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

- Investments held to maturity: this heading includes non-derivative financial assets, such as current and non-current fixed-income securities that are generally held until maturity and measured at amortised cost. Current fixed-income securities are recognised under “Current financial assets” in the consolidated statement of financial position. Interest income is calculated in the year in which it accrues, in accordance with financial criteria.

- Available-for-sale financial assets: this heading includes investments where the Group does not exercise significant influence or control. They are measured at fair value and the profit or loss on changes in this fair value is recognised under other consolidated comprehensive income.

Financial liabilities (Note 12)

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

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

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

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

f) Receivables (Note 10)

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.

g) Cash and cash equivalents (Note 12-j)

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.

h) Own equity instruments (Note 11)

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

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

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

i) Provisions and contingent liabilities (Note 15)

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

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

- Contingent liabilities: potential liabilities arising as a consequence of past events, the emergence of which depends on the occurrence of one or more future events which are beyond the control of the consolidated companies.

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

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

j) Employee benefits

Termination benefits

Under current legislation, the Group is required to pay severance to employees terminated under certain conditions. Severance payments 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, the Parent did not record any provisions in this connection.

Pension obligations

In 2017 and 2016 the Parent 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.

At 31 December 2017 and 2016, the SFL subgroup had several defined benefit pension plans. Defined benefit obligations are calculated on a regular basis by independent actuarial experts. The actuarial assumptions used to calculate these liabilities are adapted the situation and to applicable French legislation, in accordance with IAS 19. The actuarial cost recorded in the consolidated statement of comprehensive income in relation to said plans is the sum of the service costs for the period, the interest expense and actuarial gains and losses. At 31

December 2017, net liabilities for defined benefits amounted to 872 thousand euros (862 thousand euros at 31 December 2016).

Share-based payments (Note 18)

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

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

k) Derivative financial instruments (Note 13)

The Group uses financial derivatives to manage its exposure to variations in interest rates. All derivative financial instruments, whether or not designated as hedging instruments, are carried at fair value: market value in the case of listed securities, or according to option valuation methods or discounted cash flow analysis for non-listed securities. The fair value of the derivative financial instruments is determined based on the valuations made by independent experts (Solventis in 2017 and 2016).

The following valuation criteria have been applied for accounting purposes:

- Cash flow hedges: fair value gains or losses arising on transactions which classify for hedge accounting are recognised, net of taxes, directly in other consolidated comprehensive income, under "Gains/(losses) on hedging instruments", until the underlying or expected transaction occurs, at which point they are reclassified, where appropriate, to "Finance costs" or "Finance income" in the consolidated statement of comprehensive income. Any valuation gains and losses on the ineffective portion of the hedge are recognised directly as financial profit or loss in the consolidated statement of comprehensive income.

- 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 as financial profit or loss in the consolidated statement of comprehensive income.

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

Hedge accounting is discontinued when a hedging instrument expires or is sold or exercised, or when the hedge no longer qualifies for hedge accounting. Gains or losses on hedging instruments recognised in other consolidated comprehensive income remain under this heading until the related transaction is performed. Once the related cash flow occurs, any cumulative gain or loss recognised in other consolidated comprehensive income is transferred to consolidated net profit or loss for the year. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other consolidated comprehensive income is transferred to consolidated net profit or loss for the year.

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

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

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

The method used to determine the effectiveness of hedging instruments consists of calculating the statistical correlation between the benchmark interest rates at each measurement date for the derivative and the related hedged liability, taking into consideration that the hedging instrument is considered effective if this statistical correlation is between 0.80 and 1.

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

l) Current / non-current

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

The Group's primary business is the lease of assets and its normal business cycle is the calendar year and, therefore, assets and liabilities maturing in one year or less are classified as current assets and those maturing in more than one year are classified as non-current assets, except for receivables arising from the recognition of lease incentives (Notes 4-n and 10-b), which are applied on a straight-line basis over at least the term of the lease agreement and are considered to be current assets.

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

m) Income tax (Note 16)

General regime

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

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

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

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, all deferred tax assets that are not recognised in the consolidated statement of financial position are reassessed at the end of each reporting period and are recognised if it has become probable that they will be recovered through future tax benefits. In accordance with IAS 12, changes in deferred tax assets and liabilities caused by changes in tax rates or tax laws are recognised in the consolidated statement of comprehensive income for the year in which these changes are approved.

In accordance with that established in IAS 12, the measurement of the Group's deferred tax liabilities reflects the tax consequences that would follow from the manner in which the carrying amount of its assets is expected to be recovered or settled. In this regard, for deferred tax liabilities that arise from investment properties that are measured using the IAS 40 fair value model, there is a refutable presumption that their carrying amount will be recovered through their sale. Consequently, the deferred tax liabilities arising from the Group's investment properties located in Spain were calculated by applying a tax rate of 25%, less any existing tax credits not recognised at 31 December 2017. The effective settlement rate was therefore 18.75%.

Until 31 December 2016, the Parent 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 Parent and the majority of its 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:

1. 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 is the parent of 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.

2. 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 is the parent of 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.

3. 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:

a) 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.

b) 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.

c) 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.

SIIC regime – SFL subgroup

Since 1 January 2003, the SFL subgroup companies have filed tax returns under the French tax regime applicable to listed real estate investment companies ("the SIIC regime"). This regime enabled the assets allocated to the rental business to be recognised at market value at the date on which it availed itself of this tax regime, currently subject to a tax rate of 19% (hereinafter, "exit tax"), payable within a period of four years, on the capital gains recognised.

This regime affects only real estate activities and is not applicable to companies engaged in sales and services, such as Segpim, S.A. and Locaparis SAS in the SFL subgroup, to properties under finance leases (unless the lease is cancelled early) or to the subgroups and investees in conjunction with third parties.

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

On 30 December 2006, a new amendment to the SIIC regime ("SIIC 4") was approved, which established, among other provisions, that dividends paid annually to shareholders that directly or indirectly hold more than 10% of the share capital of an SIIC and that are exempt from tax or subject to a tax rate that is less than two-thirds of the standard French income tax rate would be subject to a 20% levy, payable by the SIIC. This provision applies to the dividends distributed from 1 July 2007 onwards. At 31 December 2007, the Parent notified SFL that dividends distributed from 1 July 2007 would be taxed in Spain at a rate of over 11.11% as a result of the partial waiver of the exemption for these dividends. As a result, the 20% tax withheld at source described above was not applicable.

After the Parent adhered to the REIT Regime, the 20% tax withheld at source was no longer applicable.

On 18 December 2008, a new amendment to the SIIC regime ("SIIC 5") was approved, which established the requirement limiting the maximum holding of a single shareholder in an SIIC to 60% as of 1 January 2010. The Parent has an ownership interest of less than 60% in SFL.

n) Recognition of revenue and expenses (Note 17)

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

However, in accordance with the accounting principles established in the EU-IFRS conceptual framework, the Group recognises revenue when it is earned together with all the necessary associated expenses. The sale of goods is recognised when the goods have been delivered and ownership transferred.

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

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

Property leases-

In accordance with IAS 17, leases are classified as finance leases whenever their terms imply that all risks and rewards inherent to ownership of the leased asset have been substantially transferred to the lessee. All other leases are classified as operating leases. At 31 December 2017 and 2016, all of the Group's leases qualify as operating leases.

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 consolidated statement of comprehensive income 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 Group to its customers. In accordance with SIC 15, the Group recognises the aggregate cost of incentives granted as a reduction in rental income of the lease agreement. The effects of the rent-free periods are recognised during the minimum term of the lease agreement on a straight-line basis.

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

o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of property developments (Note 8), which require preparation during a significant period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

p) Consolidated statement of cash flows (indirect method)

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

- Cash flows: inflows and outflows of cash and cash equivalents. Cash equivalents are highly liquid, low-risk short-term investments.

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

- Investing activities: the acquisition, sale or disposal by other means of non-current assets and other investments not included in cash and cash equivalents.

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

q) Costs passed on to lessees

In accordance with EU-IFRSs, the Group does not consider the costs incurred by lessees from its investment properties as income and they are recognised, less the corresponding costs, in the consolidated statement of comprehensive income. In 2017 and 2016, a total of 46,935 thousand euros and 48,400 thousand euros, respectively, were invoiced in this regard.

Direct operating expenses associated with investment properties which generated rental income in 2017 and 2016, included under “Operating profit” in the consolidated statement of comprehensive income, amounted to 65,841 thousand euros and 66,720 thousand euros, respectively, prior to deducting the costs passed on to the lessees. The expenses incurred in connection with investment properties that did not generate rental income were not significant.

r) Related party transactions

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

s) Non-current assets held for sale (Note 21)

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

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

The Colonial Group classifies non-current assets as assets held for sale when the Board of Directors or Executive Committee has made an official decision in this respect, and the sale is considered highly probable within a period of twelve months.

t) Fair value hierarchy

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

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

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

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

In accordance with IFRS 13, the Group estimated the bilateral credit risk in order to reflect both its own risk, as well as counterparty risk in the fair value of its derivatives (Note 4-k). Credit risk at 31 December 2017 and 2016 was not considered to be material.

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

31 December 2017

	Thousands of euros		
	Level 1	Level 2	Level 3
Assets			
Non-current financial assets available for sale	419,277	-	-
Derivative financial instruments:			
Not classified as hedges	-	1,484	-
Total assets (Note 9)	**419,277**	**1,484**	**-**
Liabilities			
Derivative financial instruments:			
Classified as hedges	-	348	-
Not classified as hedges	-	153	-
Total liabilities (Note 13)	**-**	**501**	**-**

31 December 2016

	Thousands of euros		
	Level 1	Level 2	Level 3
Assets			
Non-current financial assets available for sale	-	-	138,293
Total assets (Note 9)	**-**	**-**	**138,293**
Liabilities			
Derivative financial instruments:			
Classified as hedges	-	2,757	-
Not classified as hedges	-	657	-
Total liabilities (Note 13)	**-**	**3,414**	**-**

5. Earnings per share

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

At 31 December 2017 and 2016, there were no instruments that may have had a diluting effect on the Parent's average number of ordinary shares.

	Thousands of euros	
	31 December 2017	31 December 2016
Consolidated profit for the year attributable to shareholders of the Parent:	**682,523**	**273,647**
	No. of shares	No. of shares
Average number of ordinary shares (in thousands)	373,312	336,240
	Euros	Euros
Basic earnings per share:	**1.83**	**0.81**
Diluted earnings per share:	**1.83**	**0.81**

6. Segment reporting

Segmentation criteria

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

The business lines described below have been defined in line with the Colonial Group's organisational structure at 31 December 2017 and 2016, which has been used by the Group's management to analyse the financial performance of the various operating segments.

Basis and methodology for business segment reporting

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

Segment revenue comprises revenue directly attributable to each segment, as well as gains from the sale of investment properties. Segment revenue excludes both interest and dividend income.

Segment expenses comprise operating expenses directly attributable to each segment and losses on the sale of investment properties. Allocated expenses do not include interest, the income tax expense or general administrative expenses incurred in the provision of general services that are not directly allocated to any business segment.

Segment assets and liabilities are those directly related to the segment's operating activities. The Group has no set criteria for allocating borrowings or equity by business segment. Borrowings are attributed in full to the "Corporate Unit".

Segment information for these businesses is as follows:

2017 segment reporting

	Thousands of euros						
	Rentals					**Corporate Unit**	**Total Group**
	Barcelona	Madrid	Paris	Other	Total Rentals		
Income							
Revenue (Note 17-a)	34,871	52,270	195,780	366	283,287	-	**283,287**
Other income (Note 17-b)	7	69	2,145	-	2,221	493	**2,714**
Net gain/(loss) on sales of assets (Notes 17-g)	8	519	-	-	527	-	**527**
Profit / (Loss) from operations	33,497	46,300	188,513	260	268,570	(60,048)	**208,522**
Changes in fair value of investment property (Note 17-f)	78,155	139,404	715,421	455	933,435	-	**933,435**
Losses due to impairment of assets (Note 17-f)	(287)	(2,129)	-	-	(2,416)	(2,804)	**(5,220)**
Financial profit/(loss) (Note 17-h)	-	-	-	-	-	(79,445)	**(79,445)**
Profit before tax	-	-	-	-	-	1,057,292	**1,057,292**
Consolidated net profit	-	-	-	-	-	1,080,451	**1,080,451**
Net profit/(loss) attributable to non-controlling interests (Notes 17-j)	-	-	-	-	-	(397,928)	**(397,928)**
Net profit/(loss) attributable to shareholders of the Parent (Note 5)	-	-	-	-	-	682,523	**682,523**

There were no significant inter-segment transactions in 2017.

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

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals		
Assets							
Intangible assets, property, plant and equipment and investment property (Notes 7 and 8)	906,338	1,759,960	6,119,969	7,691	8,793,958	40,844	**8,834,802**
Financial assets	1,659	3,899	2,181	-	7,739	1,541,224	**1,548,963**
Other non-current assets	-	-	-	-	-	407	**407**
Trade receivables and other current assets	-	-	-	-	-	123,347	**123,347**
Total assets	**907,997**	**1,763,859**	**6,122,150**	**7,691**	**8,801,697**	**1,705,822**	**10,507,519**

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals		
Liabilities							
Bank borrowings and other financial liabilities (Note 12)	-	-	-	-	-	896,587	**896,587**
Bonds and similar securities issued (Note 12)	-	-	-	-	-	3,321,207	**3,321,207**
Operating liabilities (suppliers and payables)	-	-	-	-	-	143,880	**143,880**
Other liabilities	-	-	-	-	-	466,147	**466,147**
Total liabilities	-	-	-	-	-	**4,827,821**	**4,827,821**

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals		
Other disclosures							
Investments in intangible assets, property, plant and equipment and investment property	10,447	25,236	96,452	66	132,201	3,648	**135,849**
Depreciation and amortisation	(1)	(118)	(485)	-	(604)	(1,841)	**(2,445)**
Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year:							
- Changes in provisions (Note 17-e)	(61)	(24)	1,915	-	1,830	(7,534)	**(5,704)**
- Changes in value of investment property (Note 17-f)	78,155	139,404	715,421	455	933,435	-	**933,435**
- Losses due to impairment of assets (Note 17-f)	(287)	(2,129)	-	-	(2,416)	(2,804)	**(5,220)**

2016 segment reporting

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total Rentals		
Income							
Revenue (Note 17-a)	30,343	42,558	198,137	362	271,400	-	**271,400**
Other income (Note 17-b)	8	11	2,640	-	2,659	398	**3,057**
Net gain/(loss) on sales of assets (Notes 17-g)	557	(706)	-	-	(149)	-	**(149)**
Operating profit/(loss)	28,357	35,209	190,522	207	254,295	(41,425)	**212,870**
Changes in value of investment property (Note 17-f)	44,673	77,130	438,040	934	560,777	-	**560,777**
Losses due to impairment of assets (Note 17-f)	(7,531)	-	-	-	(7,531)	3,158	**(4,373)**
Financial profit/(loss) (Note 17-h)	-	-	-	-	-	(104,883)	**(104,883)**
Profit before tax	-	-	-	-	-	664,391	**664,391**
Consolidated net profit	-	-	-	-	-	559,304	**559,304**
Net profit/(loss) attributable to non-controlling interests (Notes 17-j)	-	-	-	-	-	(285,657)	**(285,657)**
Net profit/(loss) attributable to shareholders of the Parent (Note 5)	-	-	-	-	-	273,647	**273,647**

There were no significant inter-segment transactions in 2016.

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

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals		
Assets							
Intangible assets, property, plant and equipment and investment property (Notes 7 and 8)	807,984	1,349,566	5,605,423	6,761	7,769,734	39,503	**7,809,237**
Financial assets	1,081	1,250	699	-	3,030	253,287	**256,317**
Other non-current assets	-	-	-	-	-	454	**454**
Trade receivables and other current assets	-	-	-	-	-	161,643	**161,643**
Total assets	**893,803**	**1,339,016**	**5,740,847**	**6,391**	**7,980,057**	**247,594**	**8,227,651**

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

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals		
Other disclosures							
Investments in intangible assets, property, plant and equipment and investment property	49,147	47,782	67,990	-	164,919	-	**164,919**
Depreciation and amortisation	(4)	-	(489)	-	(493)	(2,416)	**(2,909)**
Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year:							
- Changes in provisions	(1)	(1,545)	743	-	(803)	(1,952)	**(2,755)**
- Changes in value of investment property (Note 17-f)	44,673	77,130	438,040	934	560,777	-	**560,777**
- Losses due to impairment of assets (Note 17-f)	(7,531)	-	-	-	(7,531)	3,158	**(4,373)**

7. Property, plant and equipment

The changes in this heading of the consolidated statement of financial position in 2017 and 2016 were as follows:

	Thousands of euros		
	Properties for own use	Other property, plant and equipment	**Total**
Balance at 31 December 2015	**27,780**	**5,338**	**33,118**
Acquisition cost	***43,112***	***11,980***	***55,092***
Accumulated depreciation	***(7,532)***	***(6,642)***	***(14,174)***
Accumulated impairment	***(7,800)***	**-**	***(7,800)***
Additions	1,671	1,061	**2,732**
Additions to the scope of consolidation (Note 2-f)	-	8,842	**8,842**
Depreciation charge	(282)	(946)	**(1,228)**
Disposals	-	(2,632)	**(2,632)**
Transfers	-	70	**70**
Impairment (Note 17-f)	3,159	-	**3,159**
Balance at 31 December 2016	**32,328**	**11,733**	**44,061**
Acquisition cost	***44,783***	***19,570***	***64,353***
Accumulated depreciation	***(7,814)***	***(7,837)***	***(15,651)***
Accumulated impairment	***(4,641)***	**-**	***(4,641)***
Additions	2,077	982	**3,059**
Additions to the scope of consolidation (Note 2-f)	195	130	**325**
Depreciation charge	(434)	(1,033)	**(1,467)**
Disposals	(97)	(197)	**(294)**
Transfers	(13)	(3,886)	**(3,899)**
Impairment (Note 17-f)	(287)	(2,129)	**(2,416)**
Balance at 31 December 2017	**33,769**	**5,600**	**39,369**
Acquisition cost	***42,697***	***12,814***	***55,511***
Accumulated depreciation	***(4,000)***	***(7,214)***	***(11,214)***
Accumulated impairment	***(4,928)***	**-**	***(4,928)***

At 31 December 2017 and 2016, the Group used two floors of the building located at Avenida Diagonal, 530, in Barcelona, one floor of the building located at Paseo de la Castellana, 52, in Madrid and one floor of the building located at 42 *rue* Washington in Paris for its own use, while the rest of these buildings were destined for leasing purposes. The cost of buildings earmarked for the Group's own use is recognised under "Property for own use".

On 5 September 2017, the subsidiary Finresa sold an asset for 425 thousand euros, resulting in the disposal of 193 thousand euros and a profit of 190 thousand euros.

In 2017 a total of 3,899 thousand euros were reclassified to "Investment property" in the consolidated statement of financial position (Note 8), given that the Group expects to earn rental income or obtain a gain from its sale as a result of future increases in their market prices.

The additions to the scope of consolidation in 2016 amounting to 8,842 thousand euros related to land and two apartments located in Madrid owned by the subsidiary Finresa (Note 2-f). The disposals related to the sale of one of the apartments acquired from Finresa for 2,100 thousand euros, generating a loss of 706 thousand euros.

At 31 December 2017, it became evident that an impairment loss in the amount of 2,416 thousand euros had to be recognised, evidenced by the appraisals performed by independent experts (Note 17-f). In 2016, the impairment loss on the assets recognised in previous years in the amount of 3,159 thousand euros was reversed (Note 17-f).

Lastly, assets amounting to 101 thousand euros were derecognised due to being replaced in 2017 (Note 17-f).

8. Investment property

The movements in this heading of the consolidated statement of financial position in 2017 and 2016 were as follows:

	Thousands of euros		
	Investment property	Investment property in progress	**Total**
Balance at 31 December 2015	**6,574,272**	**169,041**	**6,743,313**
Additions	91,723	73,196	**164,919**
Additions to the scope of consolidation (Note 2-f)	270,050	31,866	**301,916**
Disposals (Note 17-g)	(7,532)	-	**(7,532)**
Transfers	(22,881)	22,572	**(309)**
Changes in fair value (Note 17-f)	557,296	3,024	**560,320**
Balance at 31 December 2016	**7,462,928**	**299,699**	**7,762,627**
Additions	74,277	57,175	**131,452**
Additions to the scope of consolidation (Note 2-f)	359,678	11,033	**370,711**
Disposals (Note 17-g)	(5,049)	-	**(5,049)**
Transfers (Notes 7 and 21)	(271,528)	(132,925)	**(404,453)**
Changes in value (Note 17-f)	925,082	12,026	**937,108**
Balance at 31 December 2017	**8,545,388**	**247,008**	**8,792,396**

Movements in 2017

The additions for the year relate to the following transactions:

- On 30 November 2017, the subsidiary SFL acquired the Emile Zola property through (i) the acquisition of all share capital of the French company SAS Société Immobilière Victoria, which owns the land and a portion of the buildings of this property, resulting in an addition to the scope of consolidation of 107,721 thousand euros, and (ii) the rest of the property that was not owned by SAS Société Immobilière Victoria directly from the subsidiary SFL, resulting in an addition of 62,289 thousand euros.

- The remaining additions relate to development and refurbishment projects, mainly at properties of the SFL subgroup, in the amount of 33,961 thousand euros, and at properties of other Group companies, in the amount of 35,202 thousand euros. The above amounts include 2,591 thousand euros in capitalised borrowing costs.

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

- On 18 May 2017, the subsidiary Inmocol Torre Europa, S.A. was included in the scope of consolidation, resulting in the addition to the scope of consolidation of land contributed by the shareholder of this company in the amount of 10,000 thousand euros, plus 80 thousand euros in associated acquisition costs.

- On 27 September 2017, the Parent acquired all shares in Colonial Arturo Soria, S.L.U., resulting in the addition to the scope of consolidation of the office building owned by the subsidiary, for 32,579 thousand euros.

- As set forth above in the changes due to additions, on 30 November 2017, the subsidiary SFL acquired the Emile Zola property through the acquisition of all share capital of the French company SAS Société Immobilière Victoria, which owns the land and a portion of the buildings of this property, representing an addition to the scope of consolidation of 107,721 thousand euros.

- On 20 and 27 December 2017, the Parent acquired all shares in Agisa, Soller and Peñalvento, resulting in the addition to the scope of consolidation of the land owned by these companies for 220,331 thousand euros.

The derecognitions in 2017 relate to the following transactions (Notes 4-c and 17-g):

- On 12 January 2017, the Parent disposed of several of its properties located on calle Orense de Madrid, for a total of 5,600 thousand euros, resulting in the disposal of 4,650 thousand euros and a profit of 290 thousand euros.

- On 31 October 2017, Finresa sold an asset for 410 thousand euros, resulting in the disposal of 399 thousand euros and a profit of 11 thousand euros.

Transfers in 2017 relate to the following transactions:

- In the first half of the year, the subsidiary reclassified the In&Out property under non-current assets held for sale (Note 21) once the subsidiary's Board of Directors passed the resolution to sell this asset. The amount transferred totalled 408,352 thousand euros.

- Furthermore, several assets amounting to a total of 3,899 thousand euros were reclassified from “Property, plant and equipment” in the consolidated statement of financial position, given that the Group expects to earn rental income or obtain a gain from their sale as a result of future increases in their market prices (Note 7).

Movements in 2016

The additions in 2016 related to the following transactions:

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

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

- The remaining additions related to development and refurbishment projects, mainly involving properties belonging to the SFL subgroup, in the amount of 67,990 thousand euros, and properties of other Group companies, in the amount of 19,835 thousand euros. The above amounts included 1,177 thousand euros in capitalised borrowing costs.

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

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

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

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

Assets amounting to 7,532 thousand euros were derecognised due to being replaced in 2016 (Note 17-f).

Changes in value of investment property

“Changes in value of investment property” in the consolidated statement of comprehensive income includes the profit from the revaluation of the investment property for 2017 and 2016, in the amount of 937,108 thousand euros and 560,320 thousand euros (Note 17-f), respectively, in accordance with the appraisals of independent experts at 31 December 2017 and 2016 (Note 4-c).

Capitalised borrowing costs

The table below details the borrowing costs capitalised in 2017 and 2016 (Note 17-h):

	Thousands of euros Amount capitalised during the period	Average interest rate
2017:		
Inmobiliaria Colonial, SOCIMI, S.A.	857	2.53%
Danieltown Spain, S.L.U.	141	2.52%
Moorage inversions 2014, S.L.U.	84	2.53%
SFL subgroup	1,509	1.90%
Total 2017:	**2,591**	**-**
2016:		
Inmobiliaria Colonial, SOCIMI, S.A.	824	2.86%
Danieltown Spain, S.L.U.	43	2.86%
Moorage inversions 2014, S.L.U.	19	2.82%
SFL subgroup	291	1.94%
Total 2016:	**1,177**	**-**

Other disclosures

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

Minimum	Total surface area (m^2) of investment property					
	Investment property		Investment property in progress		Total	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Barcelona (*)	286,655	286,216	81,838	59,368	368,493	345,584
Madrid	385,461	355,779	153,165	38,263	538,626	394,042
Rest of Spain	13,048	12,735	-	-	13,048	12,735
Paris (*)	377,426	415,174	64,867	45,855	442,293	461,029
	1,062,590	**1,069,904**	**299,870**	**143,486**	**1,362,460**	**1,213,390**

(*) Including 100% of the floor space of Washington Plaza (a property owned by the Group company SCI Washington, 66%-owned by SFL), the Haussmann, Champs Élysées, 82-88 and Champs Élysées, 90 buildings (owned by the Parholding subgroup, a company 50%-owned by SFL), the Torre del Gas property (owned by Torre Marenostrum, S.L., a company 55%-owned by the Parent) and the Torre Europa, 46-48 building (owned by Inmocol Torre Europa, S.A., a company 50%-owned by the Parent).

At 31 December 2017, the companies of the Parholding subgroup and Torre Marenostrum, S.L. pledged assets as collateral for mortgage loans, the carrying amount of which is 1,048,232 thousand euros, and as collateral for debts in the amount of 237,980 thousand euros (Note 12-e). At 31 December 2016, the corresponding balances totalled 862,787 thousand euros and 241,000 thousand euros, respectively.

In 2016, the subsidiary SFL exercised its 26,000 thousand euro call option on the last finance lease it held, thereby assuming ownership of the building located at Wagram, 131 and generating the related exit tax liability (Notes 4-m and 16).

9. Non-current financial assets

The changes in this heading of the consolidated statement of financial position in 2017 and 2016 were as follows:

	Thousands of euros			
	31 December 2016	Acquisitions or provisions	Additions to the scope of consolidation (Note 2-f)	31 December 2017
Deposits and guarantees given	12,383	4,616	6,590	23,589
Derivative financial instruments	-	1,484	-	1,484
Financial assets available for sale	138,293	280,984	-	419,277
Total	**150,676**	**287,084**	**6,590**	**444,350**

	Thousands of euros		
	31 December 2015	Acquisitions or provisions	31 December 2016
Deposits and guarantees given	8,954	3,429	12,383
Financial assets available for sale	-	138,293	138,293
Total	**8,954**	**141,722**	**150,676**

a) Deposits and guarantees given

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

b) Available-for-sale financial assets - Interest in Axiare Patrimonio SOCIMI, S.A.

The movements in this interest 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 Parent acquired 10,846,541 shares of Axiare Patrimonio SOCIMI, S.A. (hereinafter, "Axiare"), representing 15.09% of its share capital.

In March 2017, the Parent acquired 1,404,000 shares of Axiare, representing 1.78% of the company's current share capital, for 18,801 thousand euros, obtaining an interest of 15.49% in Axiare.

In November 2017, the Parent 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 Parent received 3,681 thousand euros in dividends from its interest in Axiare, which were recognised under "Finance income" in the consolidated statement of comprehensive income (Note 17-h).

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

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

c) Voluntary takeover bid to acquire shares of Axiare Patrimonio SOCIMI, S.A. (Note 23-b)

On 28 December 2017, the Spanish National Securities Market Commission authorised the voluntary takeover bid to acquire shares of Axiare Patrimonio SOCIMI, S.A. submitted by the Parent on 24 November 2017, as it considered that its terms were in line 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 for Axiare Patrimonio SOCIMI, S.A. by Inmobiliaria Colonial, SOCIMI, S.A., was published. 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, both inclusive.

10. Trade and other receivables

The breakdown of this current asset heading in the accompanying consolidated statement of financial position at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	31 December 2017	31 December 2016
Trade receivables from sales and services	27,049	16,337
Accrual of lease incentives	78,746	103,125
Other receivables	86,564	85,810
Other current assets	386	776
Impairment of receivables -		
- Trade receivables from sales and services	(4,040)	(3,621)
- Other receivables	(85,473)	(85,473)
Total trade and other receivables	**103,232**	**116,954**

a) Trade receivables from sales and services

This mainly includes the amounts receivable from customers, fundamentally from the Group's rentals business in France, that are billed monthly, quarterly or yearly. At 31 December 2017 and 2016, no material amounts were past due.

b) Accrual of lease incentives (Note 4-n)

This includes the amount of the incentives in the operating lease agreements (grace periods, etc.) that the Group offers its customers, which are recognised in the consolidated statement of comprehensive income during the minimum operating lease term. Of that amount, 61,300 thousand euros have a maturity of more than 1 year (87,596 thousand euros at 31 December 2016).

In 2017, a total of 40,321 thousand euros in lease incentives for the In&Out building recognised prior to the sale were derecognised as an increase to the sale price (Note 17-g).

c) Other receivables

At 31 December 2017 and 2016, the amounts owed by Nozar, S.A., resulting from the cancellation of the purchase agreements entered into in July 2007 as a result of failing to comply with the conditions precedent, were recognised under "Other receivables", and totalled 85,473 thousand euros, including accrued interest.

Nozar, S.A. is currently involved in bankruptcy proceedings; consequently, at 31 December 2017 and 2016, the accompanying consolidated statement of financial position included an impairment loss for the entire amount of this company's trade receivables.

d) Impairment of trade receivables

In 2017, impairment losses in the amount of 419 thousand euros (2,896 thousand euros in 2016) relating to accounts receivable were charged to "Net change in provisions" in the consolidated statement of comprehensive income for the year (Note 17-e).

At 31 December 2017 and 2016, the Group had no significant receivables past due but not impaired.

11. Equity

a) Share capital

At 31 December 2015, the Parent's share capital was represented by 3,188,856,640 shares with a par value of 0.25 euros each, which were fully subscribed and paid.

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

- At the Annual General Meeting held on 28 June 2016, the shareholders approved the issue of 288,571,430 new shares with a par value of 0.25 euros each, plus a share premium of 0.45 euros per share, as consideration for the non-monetary contribution of shares of Hofinac (Note 2-f). 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 (Note 2-f). 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 Parent carried out two capital increases, both with a charge to monetary contributions and the disapplication of pre-emption rights, through the accelerated bookbuild offering amongst qualified investors:

- The increase was registered with the Mercantile Registry on 5 May 2017. Its purpose is to reinforce the Parent'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 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 the 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 Axiare Patrimonio SOCIMI, S.A. (Note 9-c) not owned by Colonial was registered with 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 Parent 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%
Fidelity International Limited	-	-	6,248,471	1.75%
Invesco Limited	-	-	3,540,788	0.99%

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

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

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

The Parent has no knowledge of other significant equity interests.

During the General Shareholders’ Meeting held on 24 April 2015, the Board of Directors was authorised to issue, on behalf of the Parent, on one or several occasions, and for a period of five years, debentures and/or bonds convertible into new shares of the Parent and/or exchangeable for shares of the Parent or any other third-party entity, expressly providing for, in the case of convertible debentures and/or bonds, the power to disapply the pre-emption 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 Parent's shareholders authorised the Board of Directors, in accordance with article 297.1 b) of the Spanish Limited Liability Companies Law, to increase share capital, through monetary contributions, by up to half the existing amount, 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 disapply pre-emption rights, limiting this authorisation to a maximum nominal amount of 20% of total share capital, taken as a whole.

b) Share premium

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

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

c) 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 appropriation to the legal reserve included in the distribution of the Parent's profit for 2016 approved by the shareholders at the General Meeting held 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 consolidated financial statements.

d) Other reserves of the Parent

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

The resolutions approved by the shareholders at the Annual General 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 General 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 in Note 11-a, costs of 6,691 thousand euros were reported in 2017 (1,905 thousand euros in 2016), under “Reserves of the Parent” in consolidated equity.

In 2017, the Parent carried out treasury share transactions, which gave rise to a gain of 10,371 thousand euros (a loss of 12 thousand euros in 2016), and which were registered directly in the Parent's equity. The income generated from the delivery of treasury shares to the beneficiaries of the long-term incentives plan (Note 18-a), calculated as the difference between the carrying amount of the shares delivered and the amount of the obligation assumed by the Parent (Note 4-j), which amounted to 1,286 thousand euros in 2017 (945 thousand euros in 2016) was also recognised in the Parent's reserves.

Following both offset exercises, voluntary reserves total 206,019 thousand euros, of which 169,439 thousand euros continue to be restricted.

e) Valuation adjustments recognised in other consolidated comprehensive income - financial instruments

This heading of the consolidated statement of financial position includes the sum of gains and losses arising from changes in the fair value of efficient financial derivatives classified as cash flow hedges (Note 13).

The changes in this heading are as follows:

	Thousands of euros	
	31 December 2017	31 December 2016
Opening balance	**(571)**	**(2,504)**
Changes in the fair value of hedges in the period	(39)	(101)
Transfers to consolidated net profit	51	2,168
Changes in the scope of consolidation (Note 2-f)	-	(134)
Closing balance	**(559)**	**(571)**

f) Treasury shares of the Parent

At 31 December 2017 and 2016, the number of the Parent'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 18)	(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**

Parent share buyback plans -

On 14 November 2016, the Parent's Board of Directors agreed to carry out a treasury share buyback programme. The purposes of the plan are to complete the coverage of the share plan approved by shareholders at the General Meeting held on 21 January 2014 and additional initiatives that the Board of Directors may consider advisable in the Company's business interest. The maximum monetary amount assigned to the programme amounts to 68,000 thousand euros and a maximum of 10,000,000 shares may be acquired, equivalent to 2.8% of the Parent's share capital as of that date. The maximum duration of the programme 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. The buyback programme ended in 2017.

On 16 October 2017, the Parent's Board of Directors agreed to implement a new programme 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 programme 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 Parent's share capital as of that date. The maximum duration of the programme 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 Parent ended the share buyback programme early.

Deliveries of Parent shares deriving from the long-term Incentives Plan (Note 18) -

Every year, the Parent 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 -

This heading comprises the Parent'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 Parent's shares, totalling 287,138 shares in the amount of 1,650 thousand euros, to cover the long-term incentives plan (Note 18-a).

Other disposals -

On 29 November 2017, the Parent sold 9,907,257 shares at a price equivalent to the issue price of the new shares issued in the framework of the accelerated bookbuild offering carried out on the same date (Note 11-a), i.e., at 7.89 euros per share.

On 4 August 2016, the Parent delivered 2,116,508 treasury shares to APG in exchange for 237,623 shares in the subsidiary SFL (Note 2-f).

g) Liquidity contracts

The Parent enters into liquidity contracts in order to enhance the liquidity of its transactions and the regularity of its quoted share price.

At 31 December 2017 and 2016, the Parent'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 Parent entered into a liquidity contract in order to enhance the liquidity of its transactions and the regularity of its quoted share price, as provided for under CNMV Circular 3/2007, of 19 December.

On 10 July 2017, on the issue of CNMV Circular 1/2017, of 26 April 2017, the Parent terminated the liquidity contract effective as of 10 July 2017.

Liquidity contract dated 11 July 2017 -

On 11 July 2017, the Parent entered into a new liquidity contract in order to enhance the liquidity of its transactions and the regularity of its quoted share price, as provided for under CNMV Circular 1/2017, of 26 April. The contract is valid for 12 months.

h) Treasury shares of SFL

In 2017 the treasury shares of SFL, amounting to 13,056 thousand euros, were reclassified from “Treasury shares” to “Consolidated reserves” in the consolidated statement of financial position.

i) Non-controlling interests

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

	Thousands of euros				
	Torre Marenostrum, S.L.	Inmocol Torre Europa, S.A.	Utopicus subgroup	SFL subgroup	**Total**
Balance at 31 December 2015	**22,715**	**-**	**-**	**1,589,333**	**1,612,048**
Profit for the year	1,124	-	-	284,533	**285,657**
Dividends and other	(382)	-	-	(48,272)	**(48,654)**
Changes in the scope of consolidation (Note 2-f)	-	-	-	(144,378)	**(144,378)**
Financial instruments	505	-	-	1,027	**1,532**
Balance at 31 December 2016	**23,962**	**-**	**-**	**1,682,243**	**1,706,205**
Profit for the year	1,954	1,037	(65)	395,002	**397,928**
Dividends and other	(1,547)	(27)	11	(24,446)	**(26,009)**
Changes in the scope of consolidation (Note 2-f)	-	10,000	80	(343)	**9,737**
Financial instruments	9	-	-	-	**9**
Balance at 31 December 2017	**24,378**	**11,010**	**26**	**2,052,456**	**2,087,870**

The breakdown of the items included in “Dividends and other” at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	31 December 2017	31 December 2016
Dividend paid by the SFL subgroup to non-controlling interests	(19,909)	(42,435)
Dividend paid by Washington Plaza to non-controlling interests	(5,516)	(5,934)
Dividend paid by Torre Marenostrum to non-controlling interests	(1,575)	(382)
Other	991	97
Total	**(26,009)**	**(48,654)**

The SFL subgroup has the following shareholders agreements with Prédica:

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

- Agreement in Parholding, in which SFL holds 50%. In the event of a change of control of SFL, Prédica may consent to the change of control, or acquire or sell all of the shares and current accounts held by SFL in the common subsidiary, at a price agreed between the parties or on an arm's length basis.

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

The detail of these headings of the consolidated statement of financial position, by type of debt and maturity, at 31 December 2017 and 2016 is as follows:

31 December 2017

	Thousands of euros							
	Current	Non-current						Total
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total non-current	
Bank borrowings:								
Lines of credit	33,459	-	-	-	-	-	-	33,459
Loans	4,087	154,151	14,218	79,280	197,217	199,383	644,249	648,336
Syndicated loans	-	-	-	150,000	13,400	-	163,400	163,400
Interest	1,180	-	-	-	-	-	-	1,180
Debt arrangement expenses	(2,276)	(2,085)	(1,742)	(1,458)	(441)	(469)	(6,195)	(8,471)
Total bank borrowings	**36,450**	**152,066**	**12,476**	**227,822**	**210,176**	**198,914**	**801,454**	**837,904**
Other financial liabilities:								
Current accounts	-	55,645	-	-	-	-	55,645	55,645
Interest on current accounts	56	-	-	-	-	-	-	56
Derivative financial instruments (Note 13)	363	-	-	-	-	138	138	501
Other financial liabilities	2,481	-	-	-	-	-	-	2,481
Total other financial liabilities	**2,900**	**55,645**	-	-	-	**138**	**55,783**	**58,683**
Total bank borrowings and other financial liabilities	**39,350**	**207,711**	**12,476**	**227,822**	**210,176**	**199,052**	**857,237**	**896,587**
Bonds and similar securities issued:								
Bond issues	-	375,000	-	500,000	500,000	1,950,000	3,325,000	3,325,000
Interest	17,348	-	-	-	-	-	-	17,348
Arrangement expenses	(3,774)	(3,404)	(3,148)	(3,105)	(2,702)	(5,008)	(17,367)	(21,141)
Total bonds and similar securities issued	**13,574**	**371,596**	**(3,148)**	**496,895**	**497,298**	**1,944,992**	**3,307,633**	**3,321,207**
Total at 31 December 2017	**52,924**	**579,307**	**9,328**	**724,717**	**707,474**	**2,144,044**	**4,164,870**	**4,217,794**

31 December 2016

	Thousands of euros							
	Current	Non-current						Total
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total non-current	
Bank borrowings:								
Lines of credit	84,815	-	-	-	-	-	-	84,815
Loans	5,209	5,268	145,563	56,036	156,331	212,594	575,792	581,001
Syndicated loans	-	-	-	20,000	121,874	-	141,874	141,874
Interest	1,203	-	-	-	-	-	-	1,203
Debt arrangement expenses	(1,729)	(1,723)	(1,524)	(1,155)	(851)	(214)	(5,467)	(7,196)
Total bank borrowings	**89,498**	**3,545**	**144,039**	**74,881**	**277,354**	**212,380**	**712,199**	**801,697**
Other financial liabilities:								
Current accounts	-	63,346	-	-	-	-	63,346	63,346
Interest on current accounts	70	-	-	-	-	-	-	70
Derivative financial instruments (Note 13)	1,428	-	45	-	-	1,941	1,986	3,414
Other financial liabilities	2,553	-	-	-	-	-	-	2,553
Total other financial liabilities	**4,051**	**63,346**	**45**	**-**	**-**	**1,941**	**65,332**	**69,383**
Total bank borrowings and other financial liabilities	**93,549**	**66,891**	**144,084**	**74,881**	**277,354**	**214,321**	**777,531**	**871,080**
Bonds and similar securities issued:								
Bond issues	300,700	-	375,000	-	500,000	1,650,000	2,525,000	2,825,700
Interest	16,873	-	-	-	-	-	-	16,873
Arrangement expenses	(3,646)	(3,072)	(2,717)	(2,459)	(2,418)	(4,377)	(15,043)	(18,689)
Total bonds and similar securities issued	**313,927**	**(3,072)**	**372,283**	**(2,459)**	**497,582**	**1,645,623**	**2,509,956**	**2,823,883**
Total at 31 December 2016	**407,476**	**63,818**	**516,367**	**72,422**	**774,936**	**1,859,944**	**3,287,487**	**3,694,963**

The changes in net financial debt in 2017, which arose from cash flows and other, are detailed in the table below:

	Thousands of euros			
	31 December 2016	Cash flows	Changes in control of subsidiaries	31 December 2017
Lines of credit	84,815	(51,356)	-	33,459
Loans	581,001	66,906	429	648,336
Syndicated loans	141,874	21,526	-	163,400
Bond issues	2,825,700	499,300	-	3,325,000
Gross financial debt (gross nominal debt)	**3,633,390**	**536,376**	**429**	**4,170,195**
Cash and cash equivalents	**(105,200)**	**(984,677)**	**(14,724)**	**(1,104,601)**
Net financial debt	**3,528,190**	**(448,301)**	**(14,295)**	**3,065,594**

a) Issues of the Parent's straight bonds

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

				(Thousands of Euros)		
Issue	Term	Maturity	Fixed-rate coupon payable annually	Amount of the issue	31 December 2017	31 December 2016
05/06/2015	5 years	05 /06/2019	1,863%	750,000	375,000	375,000
05/06/2015	8 years	05/06/2023	2,728%	500,000	500,000	500,000
28/10/2016	8 years	28/10/2024	1,450%	600,000	600,000	600,000
10/11/2016	10 years	10/11/2026	1,875%	50,000	50,000	50,000
28/11/2017	8 years	28/11/2025	1,625%	500,000	500,000	-
28/11/2017	12 years	28/11/2029	2.5%	300,000	300,000	-
Total issues					**2,325,000**	**1,525,000**

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

At 31 December 2017 and 2016, the fair value of the bonds issued by the Parent was 2,378,881 thousand euros and 1,545,466 thousand euros, respectively.

European Medium Term Note Programme -

On 5 October 2016, the Parent registered a 12-month 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 of the Colonial Group in the consolidated statement of financial position at each of these dates must at least be equal to the financial debt not guaranteed. This ratio had been met at 31 December 2017 and 2016.

b) Issue of SFL straight bonds

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

				(Thousands of Euros)		
Issue	Term	Maturity	Fixed-rate coupon payable annually	Amount of the issue	31 December 2017	31 December 2016
28/11/2012	5 years	28/11/2017	3.50%	500,000	-	300,700
20/11/2014	7 years	20/11/2021	1,875%	500,000	500,000	500,000
16/11/2015	7 years	16/11/2022	2,250%	500,000	500,000	500,000
Total issues					**1,000,000**	**1,300,700**

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

At 31 December 2017 and 2016, the fair value of the bonds issued by SFL was 1,062,635 thousand euros and 1,371,985 thousand euros, respectively.

In November 2017, the subsidiary SFL settled the bonds maturing from the 2012 issue, with an outstanding nominal amount of 300,700 thousand euros.

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

c) Syndicated financing of the Parent

The breakdown of the Parent's syndicated financing at 31 December 2017 and 2016 is detailed in the table 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	-	-
Total syndicated financing of the Parent		**725,000**	**163,400**	**350,000**	**121,874**

The variable interest rate has a spread tied to the 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 on the property assets of the Parent.

In March 2017, the Parent signed a new syndicated credit facility for 375,000 thousand euros, maturing at five years. This line of credit is intended to cover the Parent's 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 Parent complied with all financial ratios.

d) SFL syndicated loan

The breakdown of SFL's syndicated loan at 31 December 2017 and 2016 is as follows:

Thousands of euros	Maturity	31 December 2017		31 December 2016	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Loan facility	July 2020	400,000	-	400,000	20,000
Loan facility	October 2019	150,000	-	150,000	-
Total SFL syndicated loan		**550,000**	**-**	**550,000**	**20,000**

The variable interest rate has a spread tied to the EURIBOR.

Compliance with financial ratios -

SFL syndicated loans must meet the following financial ratios every six months:

Ratios
Loan-to-Value Ratio<= 50% Interest coverage ratio >= 2 Secured debt/equity value <= 20% Appraisal value of unmortgaged properties >= 2 billion euros Gross financial debt subsidiaries / Consolidated gross financial debt < 25%

At 31 December 2017 and 2016, SFL complied with the financial ratios stipulated in the respective financing agreements.

e) Mortgage-backed loans

At 31 December 2017 and 2016, the Group held the following mortgage-backed loans for certain investment properties:

	Thousands of euros			
	31 December 2017		31 December 2016	
	Mortgage debt	Market value of asset	Mortgage debt	Market value of asset
Investment property (Note 8)	237,980	1,054,197	241,000	868,866
Total	**237,980**	**1,054,197**	**241,000**	**868,866**

At 31 December 2017, 85% of the mortgage debt (203,320 thousand euros) corresponded to the SFL subgroup and accrues interest at a fixed rate (85% and 205,400 thousand euros, respectively, at 31 December 2016). The remaining mortgage debt corresponds to the subsidiary Torre Marenostrum, S.L., and is tied to the EURIBOR plus an additional spread.

Compliance with financial ratios -

The Group's two mortgage-backed loans are subject to compliance with various financial ratios.

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

At 31 December 2017 and 2016, the Group complied with the financial ratios required in its financing agreements.

f) Other loans

At 31 December 2017 and 2016, SFL had five bilateral loans not secured by a mortgage guarantee, that were subject to compliance with various ratios. The total limits and balances drawn down are as follows:

Thousands of euros	Maturity	31 December 2017		31 December 2016	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Other loans:					
BECM	April 2019	150,000	150,000	150,000	140,000
Banco Sabadell	June 2020	70,000	10,000	50,000	50,000
BNP Paribas	May 2021	150,000	75,000	150,000	150,000
CADIF	June 2023	175,000	175,000	-	-
Banque Postale	June 2024	75,000	-	-	-
Total other loans		**620,000**	**410,000**	**350,000**	**340,000**

In 2017, the subsidiary SFL signed two new lines of credit with CADIF and Banque Postale for a total of 175,000 thousand euros and 75,000 thousand euros, maturing in 6 and 7 years, respectively. Furthermore, SFL increased the limit of the bilateral loan that it had taken out with Banco Sabadell by 20,000 thousand euros, which was set at 70,000 thousand euros.

In May 2016, the subsidiary SFL arranged a loan with BNP Paribas for a period of five years, with a floating interest rate and a spread tied to the EURIBOR.

Compliance with financial ratios

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

Ratios
Loan-to-Value Ratio<= 50% Interest coverage ratio >= 2 Secured debt/equity value <= 20% Appraisal value of unmortgaged properties >= 2 million euros Gross financial debt subsidiaries / Consolidated gross financial debt < 25%

At 31 December 2017 and 2016, SFL complied with the financial ratios stipulated in the respective financing agreements.

Lastly, at 31 December 2017, the companies of the Utopicus subgroup had five loans drawn down for a total of 356 thousand euros (Note 2-f). These loans are not subject to compliance with any ratio.

g) Lines of credit

The Group has lines of credit of up to 33,459 thousand euros, which at 31 December 2017 were fully drawn down (84,815 thousand euros at 31 December 2016).

h) Other financial liabilities - Current accounts

At 31 December 2017, the Group had a current account in the amount of 55,645 thousand euros extended to the companies of the SCI Washington Group. This current account accrues an additional spread on the three-month Euribor. At 31 December 2016, the Group had two current accounts in the amount of 57,346 thousand euros and 6,000 thousand euros extended to two Group companies, SCI Washington and SAS Parholding, respectively.

i) Guarantees given

At 31 December 2017, the Parent had granted guarantees to government bodies, customers and suppliers in the amount of 1,102,474 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 CNMV as collateral for the voluntary takeover bid for Axiare Patrimonio, SOCIMI, S.A. (Notes 9-c and 23), issued by Caixabank for 1,033,676 thousand euros (Note 12-j), and secured with a cash deposit.

- bank guarantee for the transaction to buy Moorage (Note 2-f), for the sum of 15,680 thousand euros. The amount payable is recognised under “Trade payables” in the consolidated statement of financial position (Note 14).

- bank guarantees for the transaction to buy Agisa, Soller and Peñalvento (Note 2-f), for the sum of 41,767 thousand euros. The amount payable is recognised under “Trade payables” in the consolidated statement of financial position (Note 14).

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

- 4,946 thousand euros (5,097 thousand euros in 2016) granted to secure obligations acquired by Asentia. Accordingly, the Parent and this subsidiary have an agreement in place whereby if any of the guarantees are enforced, Asentia must compensate the Parent for any damages sustained within 15 days.

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

j) Cash and cash equivalents

At 31 December 2017 and 2016, amounts of 1,104,601 thousand euros and 105,200 thousand euros, respectively, were recognised under “Cash and cash equivalents”, of which 1,045,668 thousand euros and 13,715 thousand euros, respectively, were either restricted or pledged. The balance for 2017 includes 1,033,676 thousand euros corresponding to the necessary cash to be able to carry out the voluntary takeover bid for Axiare Patrimonio, SOCIMI, S.A. (Note 9-c and 23), and which is secured by the bank guarantee delivered to the CNMV as collateral for the takeover bid.

k) Debt arrangement expenses

At 31 December 2017 and 2016, the debt arrangement expenses assumed by the Group and not yet accrued amounted to 29,612 thousand euros and 25,885 thousand euros, respectively. These expenses are taken to the consolidated statement of comprehensive income during the term of the debt in accordance with financial criteria. In this regard, in 2017 and 2016 the Group recognised in the consolidated statement of comprehensive income 5,191 thousand euros and 5,384 thousand euros, respectively, corresponding to the costs paid during the year.

l) Interest rate on borrowings

The interest rate on the Group's borrowings, the Group's average credit spread, with and without accrual of the financing fees for 2017 and 2016, is shown in the table below:

	(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 of the Group	2.35%	2.49%	2.46%	2.63%
Average credit spread of the Group	1.56%	1.87%	1.62%	1.93%

The interest rate of the Group's outstanding debt at 31 December 2017 is 1.86% (1.96% at 31 December 2016).

The accrued interest outstanding recognised in the consolidated statement of financial position at 31 December 2017 and 2016 amounted to:

	(Thousands of Euros)	
Issue	31 December 2017	31 December 2016
Parent Bonds	15,006	13,550
SFL Bonds	2,342	3,323
Bank borrowings	1,180	1,203
Other financial liabilities - Current accounts	56	70
Total	**18,584**	**18,146**

m) Capital management and risk management policy

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 Group'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 Parent formally implemented a 12-month Euro Medium Term Note programme to issue bonds up to a maximum of 3,000,000 thousand euros, which may be expanded to 5,000,000 thousand euros, and which was extended in 2017.

The various bond issues launched in 2015, 2016 and 2017 have enabled the Parent 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 Parent's financing is granted entirely over the long term and structured in such a manner that it allows the performance of the underlying business plan.

Financial risk management policy -

The Group 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 Group'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 Group'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 Group's other consolidated comprehensive income. 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 Colonial Group draws up the monthly follow-up report on its cash forecasts to manage its liquidity risk and meet its various financing needs.

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

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 Group had sufficient lines of credit available to meet its short-term maturities. The Group does not use high-risk financial products as a method for investing cash surpluses.

- Counterparty risk: the Group mitigates this risk by using top-tier financial institutions to arrange its financing and by accessing the debt market through bond issues.

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

13. Derivative financial instruments

The following table details the financial instruments and their fair values at 31 December 2017 and 2016:

Derivative financial instrument	Company	Counterparty	Interest rate	Maturity	Nominal value (thousands of euros)	Fair value – Asset / (Liability)
Swap	SFL	CA-CIB	0.23%	2022	100,000	(103)
Cap	SFL	CADIF	0.25%	2022	100,000	1,484
Swap (redeemed step-up)	Colonial	BBVA	4.40%	2018	4,212	(50)
Cap	Colonial	ING	1.25%	2018	300,000	-
Cap	Colonial	Morgan Stanley	1.25%	2018	130,000	-
Vanilla swap	Torre Marenostrum	CaixaBank	0.94%	2032	27,728	(348)
Total at 31 December 2017					**661,940**	**983**

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

At 31 December 2016, the Parent had arranged 3 CAPs, for a nominal amount of 780,000 thousand euros, with a coverage ratio of 1.25% (strike price) and maturing on 31 December 2018. The premiums paid amounted to 8,580 thousand euros and were recognised in full as hedging expenses in the consolidated statement of comprehensive income for 2014, whereby these CAPs were valued at 0 thousand euros in the consolidated statement of financial position. In 2017 the CA-CIB CAP was sold for 6 thousand euros, which was recognised as income under "Finance income" in the statement of comprehensive income.

The impact for 2017 and 2016 on the consolidated statement of comprehensive income as a result of the recognition of derivative financial instruments was a net finance cost of 322 thousand euros and 3,740 thousand euros, respectively (Note 17-h), corresponding primarily to SFL.

Hedge accounting -

At 31 December 2017 and 2016, hedge accounting was only applied to that arising from the subsidiary Torre Marenostrum and, therefore, the mark-to-market (MtM) differences between the periods were recognised directly in other consolidated comprehensive income.

At 31 December 2017, the accumulated impact on other consolidated comprehensive income as a result of hedge accounting was a balance receivable of 559 thousand euros, net of the tax effect and consolidation adjustments. At 31 December 2016, a balance receivable of 571 thousand euros was recognised in other consolidated comprehensive income (Note 11).

Fair value of derivative financial instruments -

The fair value of the derivatives was calculated by discounting estimated future cash flows based on an interest rate curve and on assigned volatility at 31 December 2017, using the appropriate discount rates established by an independent expert.

14. Trade payables and other non-current liabilities

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

	Thousands of euros			
	31 December 2017		31 December 2016	
	Current	Non-current	Current	Non-current
Trade and other payables	26,487	-	27,326	-
Payables for the purchase of properties	72,636	4,600	15,373	20,280
Advances	17,047	-	17,995	-
Guarantees and deposits received	4,628	39,497	1,733	34,201
Payable to Social Security	2,292	-	1,752	-
Unearned income	4,657	-	2,243	-
Other payables and liabilities	16,133	265	3,338	149
Total	**143,880**	**44,362**	**69,760**	**54,630**

a) Trade and other payables

This heading includes primarily the amounts payable by the Group for business-related purchases and associated costs.

b) Payables for the purchase of properties

This heading includes the amounts payable arising from acquisitions of ownership interest and/or properties. At 31 December 2017, the amount included under this line item relates mainly to:

- the refurbishment or renovation work on various properties carried out by SFL, mainly the Louvre Saint-Honoré building, in the amount of 10,218 thousand euros (15,373 thousand euros at 1 December 2016).

- the amount payable for the acquisition of the ownership interest (Note 2-f) in Moorage (20,280 thousand euros, including the contingent price classified as non-current), in Agisa, Soller and Peñavento (41,967 thousand euros), and in Colonial Arturo Soria, S.L.U. (4,200 thousand euros).

The effect of the updated deferred payments was not material.

c) Advances

This heading includes primarily the amounts paid upfront by lessees for bi-monthly or quarterly rent.

d) Guarantees and deposits received

This heading includes mainly security deposits paid by lessees.

e) Unearned income

This heading includes the amounts received by SFL for rights of entry, which relate to the amounts invoiced by lessees to reserve a unique space, and that were recognised as income on a straight-line basis over the minimum term of the related lease agreement.

f) Average period of payment to suppliers and trade creditors

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

	2017	2016
	Days	Days
Average supplier payment period	31	31
Ratio of payments made	31	32
Ratio of payments pending	31	23
	Amount (in thousands of euros)	Amount (in thousands of euros)
Total payments made	93,540	72,009
Total payments pending	5,212	6,715

The figures shown in the foregoing table in relation to payments to suppliers relate to suppliers that because of their nature are trade creditors for the supply of goods and services and, therefore, they include the figures relating to certain line items of “Trade payables” in the accompanying consolidated statement of financial position.

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

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.

15. Provisions and contingent assets and liabilities

Changes in “Current provisions” and "Non-current provisions" in the consolidated statement of financial position for 2017 are as follows:

	Thousands of euros		
	Non-current provisions		Current provisions
	Provisions for employee benefits	Provisions for contingencies and other provisions	Provisions for contingencies and other provisions
Balance at 31 December 2016	**1,029**	**12,645**	**12,719**
Charges	229	-	7,662
Disposals	-	(2,070)	-
Amounts used	(14)	(369)	(98)
Balance at 31 December 2017	**1,244**	**10,206**	**20,283**

a) Non-current provisions

Provisions for the outstanding urban development costs of UE-1. –

As a result of restructuring the financial debt of Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. (hereinafter, “DUE”), a former subsidiary, 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 more 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 Parent recognised a provision for the full amount of the loan granted to DUE.

The Parent has a restricted cash line of credit with BBVA to cover the outstanding execution costs of the UE-1, which is drawn when DUE shows that the development work has been carried out. At 31 December 2017, a total of 9,876 thousand euros had been drawn down (9,437 thousand euros at 31 December 2016).

Provisions for employee benefits -

This line item includes the retirement benefits and seniority bonuses of employees of SFL (Note 4-j).

Other non-current provisions -

In 2017, the subsidiary SFL reversed the provision for contingencies recognised in 2016 amounting to 2,070 thousand euros, given that a ruling was handed down on the lawsuit filed with one of its lessees in favour of the interests of the subsidiary SFL.

b) Current provisions

Additions to current provisions include 20,283 thousand euros, reflecting an estimate of the Parent's various future risks, which increased in 2017 by 7,662 thousand euros.

c) Contingent assets

In 2010, the Parent filed certain lawsuits against former directors for transactions carried out between June 2006 and December 2007 regarding the following corporate actions for liability, with the following currently in process:

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

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

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. At 31 December 2017, the appropriate provision had been recognised to meet any potential costs.

16. Tax matters

a) Adherence to the REIT Tax Regime and dissolution of the tax group, both effective as of 1 January 2017

Up until 31 December 2016, the Parent was the head 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 Parent either directly or indirectly owns at least 75% of their share capital (this threshold falls to 70% in the case of listed subsidiaries) and has the majority of the voting rights.

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

On 30 June 2017, the Parent chose to operate within the REIT Tax Regime (Note 1-a). Adherence to this tax regime entailed the dissolution of the Parent's tax group at 31 December 2016, effective as of 1 January 2017, and the outstanding adjustments to be recovered from the tax group.

In addition to the Parent, the following subsidiaries also chose to operate under the REIT Tax Regime: Danieltown Spain, S.L.U., Moorage Inversions 2014, S.L.U., Hofinac Real Estate, S.L.U. and Fincas y Representaciones, S.A.U.

Likewise, in 2017 the subsidiary Colonial Arturo Soria, S.L.U. was acquired, which had already chosen to operate under the REIT Tax Regime prior to 1 January 2017.

b) Tax receivables and tax payables

The breakdown of “Tax assets” in the accompanying consolidated statement of financial position is as follows:

	Thousands of euros			
	Current		Non-current	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Tax refunds receivable	2	45	-	-
Income tax refunds receivable	13,294	35,815	-	-
VAT refundable	6,819	8,829	-	-
Deferred tax assets	-	-	407	454
Total tax receivables	**20,115**	**44,689**	**407**	**454**

At 31 December 2016, “Income tax refunds receivable” included a balance in favour of the Parent of 35,625 thousand euros arising from minimum income tax prepayments made in 2016 and 2015. The amount of these prepayments corresponds to the minimum payment of 23% and 12% of the accounting result on the date of the prepayment, through the application of the temporary measures in effect for 2016 and 2015, respectively. In January 2017, the tax authorities refunded 23,512 thousand euros relating to the prepayments made by the Parent in 2015 that were included in the settlement for that year. In January 2018, the tax authorities refunded the remaining 12,113 thousand euros.

The breakdown of “Tax liabilities” in the accompanying consolidated statement of financial position is as follows:

	Thousands of euros			
	Current		Non-current	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Income tax payable	2,349	4,962	-	-
Other taxes payable	2,827	2,515	-	-
Exit tax payable (SFL Group)	8,437	6,159	21,390	9,314
VAT payable	5,206	3,692	-	-
Deferred tax liabilities	-	-	349,843	347,344
Total taxes payable	**18,819**	**17,328**	**371,233**	**356,658**

Exit tax SFL (Note 4-m)-

In 2017, the subsidiary SFL acquired Emile Zola, which qualified for the SIIC regime in December 2017, thus generating exit tax in the amount of 21,138 thousand euros, which must be paid in four equal annual payments between 2018 and 2021.

In 2016, the subsidiary SFL executed the call option in the finance lease agreement that it held on the Wagram 131 property (Note 8). This asset was subject to the SIIC regime, giving rise to the corresponding obligation to pay the exit tax totalling 13,012 thousand euros, which must be paid to the French tax authorities in four equal annual payments between 2017 and 2020.

c) Reconciliation of the accounting profit to the taxable profit

The following table reconciles pre-tax accounting profit and taxable profit after temporary differences:

	Thousands of euros	
	2017	2016
Accounting profit before tax (aggregate of individual expenses)	882,811	623,112
SFL profit subject to the SIIC regime (Note 4-m)	(812,025)	(496,315)
REIT profit (Note 4-m)	(8,715)	(*)
Permanent differences	(17,532)	(52,233)
Temporary differences	(20,512)	(8,667)
Aggregate taxable profit before offsetting tax losses	**24,027**	**65,897**
Offset of tax losses	-	(1,344)
Aggregate taxable profit	**24,027**	**64,554**
Recognised taxable profit	28,846	65,871
Unrecognised tax loss	(4,819)	(1,317)

(*) As mentioned above, the adoption of the REIT regime is effective as of 1 January 2017.

d) Reconciliation of income tax expense

Income tax -

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

The above-mentioned Royal Decree Law also established the limit for tax loss carryforwards at 25% of the tax base, prior to their offset, for companies whose revenue is equal to or greater than 60 million euros

On 30 June 2017, the Parent chose to operate within the REIT Tax Regime, which is applicable effective as of 1 January 2017 (Note 1). After adhering to the REIT regime, the profit arising from REIT activities will be taxed at a rate of 0%, provided that the stipulated requirements are met (Note 4-m).

The breakdown of “Income tax expense” in the consolidated statement of comprehensive income for 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Corporate income tax expense	(9,842)	(22,322)
Deferred tax on the restatement of assets to their fair value (IAS 40)	(56,990)	(11,320)
Reduction in deferred liabilities due to the drop in the tax rate - France	13,779	-
Reduction in deferred liabilities due to reversal liability SIIC-4	72,159	-
New limit on tax loss carryforwards (Royal Decree Law 3/2016, of 2 December, on Corporate Income Tax)	-	(71,438)
Other non-primary components	4,053	(7)
Income tax expense	**23,159**	**(105,087)**

e) ***Deferred tax assets***

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

	Thousands of euros			
	Recognised for accounting purposes			
Deferred tax assets	31 December 2016	Additions	Derecognitions	31 December 2017
Valuation of financial instruments	346	24	(31)	339
Other	108	-	(40)	68
	454	**24**	**(71)**	**407**

Prior years' tax loss carryforwards –

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

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

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

	Thousands of euros	
	At companies that make up the consolidated tax group	At other Group companies
Aggregate of the individual tax loss carryforwards:	**5,398,777**	**5,038**
Adjustments for transactions among companies that make up the consolidated tax group	(9,614)	-
Adjustments for the offset of taxable profit and tax loss carryforwards among companies that make up the consolidated tax group	(9,642)	-
Total tax loss carryforwards of the Group at 31 December 2016	**5,379,521**	**5,038**

Following the dissolution of the Parent's tax group at 31 December 2016, effective as of 1 January 2017, the outstanding adjustments for transactions among the companies of the extinguished consolidated tax group, amounting to 9,614 thousand euros, were recovered, and the resulting tax losses were assigned to each of the companies of the group based on how they contributed to incurring these losses.

The following table shows the aggregate tax loss carryforwards to be offset by Spanish companies following the aforementioned dissolution of the tax group:

	Thousands of euros
Year	Companies forming part of the Group
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	530,185
2011	117,894
2012	88,977
2013	86,023
2014	16,624
2015	2,075,151
2016	996
2017	5,853
Total	**5,391,789**

Deferred tax asset for tax credit carryforwards

The nature and amount of unused tax credits at 31 December 2017 by the Group due to insufficient taxable profit in prior years, and the last years for offset are set out below:

	Thousands of euros		
Type	Year incurred	Amount	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
Tax credit for reinvestment			
	2002	458	2017
	2003	3,316	2018
	2004	1,056	2019
	2005	92	2020
	2006	1,314	2021
	2007	7,275	2022
	2008	1,185	2023
	2009	434	2024
	2010	713	2025
	2011	39	2026
	2012	123	2027
	2013	112	2028
	2014	24	2029
		23,884	

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. The terms for holding the amounts reinvested by the Parent are as follows:

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

The Parent's directors consider that the Parent will comply with the stipulated timeframes.

f) Deferred tax liabilities

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

	Thousands of euros				
Deferred tax liabilities	31 December 2016	Additions	Additions to the scope of consolidation (Note 2-f)	Derecognitions	31 December 2017
Asset revaluations	340,650	56,990	32,495	(86,046)	344,089
Asset revaluations (Spain)-	*106,630*	*7,096*	*32,495*	*(108)*	*146,113*
Asset revaluations (France)-	*234,020*	*49,894*	-	*(85,938)*	*197,976*
Deferral for reinvestment	6,308	-	-	(1,150)	5,158
Other	386	-	121	-	596
	347,344	**56,990**	**32,616**	**(87,196)**	**349,843**

Deferred tax liability for asset revaluations –

This deferred tax liability relates mainly to the difference between the accounting cost of investment properties measured at fair value (under IFRS) and their tax cost (acquisition cost less depreciation and any impairment that may be deductible).

Asset revaluations (Spain)

This line item includes the deferred taxes associated with the Group's investment property located in Spain that would be accrued if these assets were transferred at the fair value at which they are recognised, using the effective rate that would be applicable to each of the companies taking into account applicable legislation and any unrecognised tax credits.

Following the adoption of the REIT Tax Regime, the changes in the deferred taxes recognised in 2017 relate mainly to the properties owned by the companies that did not choose to operate under this regime, i.e., Torre Marenostrum, S.L. and Inmocol Torre Europa, S.A., and to certain adjustments arising from corporate transactions. Accordingly, the deferred taxes associated with the investment property of Colonial Group companies, wholly owned by the Parent, were recognised at an effective rate of 18.75% (tax rate of 25% with a limit on tax loss carryforwards of 25%). Consequently, in calculating its deferred tax liabilities, the Group considers applying the deferred tax asset of 33,693 thousand euros arising from the tax losses (the difference between the 25% tax rate and the effective settlement rate applied of 18.75%).

Asset revaluations (France)

"Asset revaluations (France)" records the amount of the deferred taxes associated with the Group's investment property located in France, which would accrue if those assets are sold. It should be noted that practically all of the assets in France are subject to the SIIC regime (Note 4-m), and therefore no additional tax would arise at the time of their sale. Only the assets of the companies forming part of the Parholding subgroup would fall outside of that tax regime at 31 December 2017 and 2016.

The Colonial Group also recognised deferred tax under this heading in connection with the asset revaluations under the SIIC regime (the SIIC-4 liability), calculated as the minimum stipulated dividend under the regime, in the event that all capital gains on the investment properties recognised by the SFL Group are realised, taking into account an effective tax rate for the calculation of the deferred tax of 11.15% Following the adoption of the REIT Tax Regime, and given that the dividend distributed by the subsidiary SFL to the Parent will no longer be subject to this taxation, the deferred tax recognised in this connection amounting to 72,159 thousand euros was reversed.

In 2017 the subsidiary SFL recognised the impact of the gradual reduction in the French tax rate, which dropped from 33.33% to 25%, and which entailed a decrease in the deferred tax liabilities due to the adjustment made to assets of 13,779 thousand euros.

g) Years open to review and tax audits

The Group has the last four years open for review by the tax inspection authorities for all applicable taxes in Spain and France, except income tax of Spanish companies with tax loss carryforwards or unused tax credits, in which case the period under review for this tax is extended to ten years. In 2016 the Parent filed supplementary income tax returns for 2011 to 2014, breaking the statute of limitations for these years.

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

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

The disclosure requirements arising from the status of the Parent and certain subsidiaries as REITs (Note 16-a) are included in the related notes to the individual financial statements.

i) Adherence to the Code of Best Tax Practices

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

17. Income and expenses

a) Revenue

Revenue comprises basically rental income from the Group's rental properties which are concentrated in the cities of Barcelona, Madrid and Paris. The breakdown of revenue, by geographical segment, in 2017 and 2016 is shown in the table below:

Rental segment	Thousands of euros	
	2017	2016
Barcelona	34,871	30,343
Madrid	52,270	42,558
Rest of Spain	366	362
Paris	195,780	198,137
	283,287	**271,400**

Revenue for 2017 and 2016 includes the effect of the lease incentives throughout the minimum term of the lease agreement (Note 4-n). Revenue also includes the accrued amounts received in connection to rights of entry (Note 14-e). At 31 December 2017 and 2016, these accruals increased revenue by 13,061 thousand euros and 33,908 thousand euros respectively.

At 31 December 2017 and 2016, the total minimum future lease payments receivable corresponding to the Group's non-cancellable operating leases, based on the leases currently in force at each date, without taking into account the impact of common expenses, future increases in the CPI or future contractual lease payment revisions based on market parameters, were as follows:

Minimum operating lease payments	Thousands of euros	
	Nominal amount	
	31 December 2017	31 December 2016
Within one year	268,060	274,007
Spain	*83,567*	*75,618*
France	*184,493*	*198,389*
1 to 5 years	562,568	664,884
Spain	*124,389*	*122,155*
France	*438,179*	*542,729*
More than five years	141,118	247,678
Spain	*16,492*	*6,405*
France	*124,626*	*241,273*
Total	**971,746**	**1,186,569**
Spain	***224,448***	***204,178***
France	***747,298***	***982,391***

b) Other operating income

This heading relates mainly to property services rendered, and amounted to 2,714 thousand euros and 3,057 thousand euros at 31 December 2017 and 2016, respectively.

c) Staff costs

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

	Thousands of euros	
	2017	2016
Wages and salaries	18,092	14,849
Social security costs	6,580	5,561
Other employee benefit expenses	4,710	2,278
Contributions to defined benefit plans	239	235
Internal reallocation	(686)	(630)
Total staff costs	**28,936**	**22,293**
Spain	***13,527***	***9,287***
France	***15,409***	***13,006***

“Other employee benefit expenses” includes amounts corresponding to costs accrued in 2017 under the Parent's long-term remuneration plan (Note 18-a) and SFL’s share option plan detailed in Note 18-c, totalling 2,880 thousand euros (2,260 thousand euros in 2016).

The contributions made by the Parent 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 consolidated statement of comprehensive income. At year-end 2017 and 2016, there were no contributions payable to this pension plan.

The Group headcount at 31 December 2017 and 2016, and the average headcount in 2017 and 2016, by job category and gender, is as follows:

	Number of employees				Average headcount, 2017		Average headcount, 2016	
	2017		2016					
	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	14	6	12	5	13	5	12	5
Technical graduates and middle managers	32	37	29	32	33	32	27	30
Clerical staff	16	53	18	49	16	52	16	50
Other	5	3	4	1	4	2	1	1
Total employees	**67**	**99**	**63**	**87**	**66**	**91**	**56**	**86**

d) Other operating expenses

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

	Thousands of euros	
	2017	2016
External and other expenses	17,979	9,621
Taxes other than income tax	22,942	23,860
Total other operating expenses	**40,921**	**33,481**

Operating leases as lessee -

At the end of 2017, the subsidiary Utopicus had agreed the following minimum lease payments with the lessors, based on the leases in force, without taking into account the charging of expenses, future increases in the CPI or other lease payment revisions:

	Thousands of euros
	2017
Less than 12 months	282
1 to 5 years	832
More than 5 years	348
Total minimum operating lease payments as lessee	**1,461**

These amounts relate to the lease agreements signed by Utopicus for the premises at which it offers its co-working services.

e) Net change in provisions

The changes in "Net change in provisions" in the consolidated statement of comprehensive income during the year are as follows:

	Thousands of euros	
	2017	2016
Net charge to operating provisions (Note 15)	(5,592)	(1,929)
Net charge to provisions for doubtful debts and other	(112)	(826)
Total net change in provisions	**(5,704)**	**(2,755)**

f) Changes in the fair value of investment property and Losses due to impairment of assets

The breakdown of "Changes in fair value of investment property" in the consolidated statement of comprehensive income for 2017 and 2016, by types, is as follows:

	Thousands of euros	
	2017	2016
Investment property (Note 8)	937,108	560,320
Non-current assets held for sale – Investment property (Note 21)	(3,673)	457
Changes in fair value of investment property	**933,435**	**560,777**
Spain	***218,014***	***122,737***
France	***715,421***	***438,040***

The breakdown, by nature, of the impairment losses recognised under "Losses due to impairment of assets" in the consolidated statement of comprehensive income is as follows:

	Thousands of euros	
	2017	2016
Impairment/ (Reversal of impairment) of properties for own use (Note 7)	(287)	3,159
Impairment of other property, plant and equipment (Note 7)	(2,129)	-
Other impairment	(2,703)	-
Derecognitions of replaced assets (Notes 7 and 8)	(101)	(7,532)
Losses due to impairment of assets	**(5,220)**	**(4,373)**

g) Net gain/(loss) on sales of assets

The breakdown of the Group's net gains/(losses) on sales of assets (Notes 7, 8 and 21), and their geographical distribution, is detailed as follows:

	Thousands of euros					
	Spain		France		Total	
	2017	2016	2017	2016	2017	2016
Sale price	6,435	17,054	445,000	-	451,435	17,054
Asset derecognition	(5,242)	(16,240)	(404,679)	-	(409,921)	(16,240)
Derecognition grace periods	-	-	(40,321)	-	(40,321)	-
Indirect costs and other	(666)	(963)	-	-	(666)	(963)
Net gain/(loss) on sales of assets	**527**	**(149)**	**-**	**-**	**527**	**(149)**

The carrying amount of the In&Out building sold by the subsidiary SFL already took into account the price of the sale commitment signed on 25 July 2017, which is the reason this sale did not generate any profit at the time of sale.

h) 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:		
Revenue from equity investments (Note 9-b)	3,681	-
Other interest and similar income	1,435	1,220
Income from derivative financial instruments (Note 13)	95	1,162
Capitalised borrowing costs (Note 4-c)	2,591	1,177
Total finance income	**7,802**	**3,559**
Finance costs:		
Interest and similar expense	(86,429)	(81,988)
Finance costs associated with the repurchase of bonds	-	(20,904)
Expense on derivative financial instruments (Note 13)	(417)	(4,902)
Total finance costs	**(86,846)**	**(107,794)**
Impairment of financial assets	**(401)**	**(648)**
Total financial loss	**(79,445)**	**(104,883)**

"Finance costs associated with the repurchase of bonds" in 2016 included the costs borne by the Parent to repurchase issued bonds.

i) Related party transactions

The main related party transactions undertaken in 2017 and 2016 were as follows:

	Thousands of euros	
	2017	2016
	Building leases	Building leases
Gas Natural, SDG, S.A. (*)	5,227	5,234
Total	**5,227**	**5,234**

(*) Gas Natural, SDG, S.A. is the shareholder of the Parent in the subsidiary Torre Marenostrum, S.L.

j) Results by company

The contribution of the consolidated companies to consolidated profit for the year was as follows:

Company	Thousands of euros					
	Consolidated net profit		Net profit attributable to non-controlling interests		Net profit for the year attributable to the Parent	
	2017	2016	2017	2016	2017	2016
Inmobiliaria Colonial, SOCIMI, S.A.	154,306	54,131	-	-	154,306	54,131
SFL subgroup	868,431	511,645	(395,002)	(284,533)	473,429	227,112
Torre Marenostrum, S.L.	4,505	2,658	(1,954)	(1,124)	2,551	1,534
Danieltown Spain, S.L.U.	3,311	3,548	-	-	3,311	3,548
Moorage Inversiones 2014, S.L.U.	5,194	(9,610)	-	-	5,194	(9,610)
Hofinac Real Estate, S.L.U.	32,494	(802)	-	-	32,494	(802)
Fincas y representaciones, S.A.U.	3,345	(2,265)	-	-	3,345	(2,265)
Inmocol Torre Europa, S.A.	1,993	-	(1,037)	-	956	-
Colonial Arturo Soria, S.L.U.	3,511	-	-	-	3,511	-
Agisa, S.A.U.	1,842	-	-	-	1,842	-
Soller, S.A.U.	2,421	-	-	-	2,421	-
Peñalvento, S.L.U.	2,019	-	-	-	2,019	-
Utopic_US subgroup	(2,917)	-	65	-	(2,852)	-
Colonial Invest, S.L.U.	(2)	(1)	-	-	(2)	(1)
Colonial Tramit, S.L.U.	(2)	-	-	-	(2)	-
Total	**1,080,451**	**559,304**	**(397,928)**	**(285,657)**	**682,523**	**273,647**

18. Share option plans

a) Long-term remuneration plan linked to fulfilment of several management indicators

On 21 January 2014, shareholders at the Parent's General Shareholders' Meeting set up a long-term remuneration plan for the Chairman and the Managing Director of the Parent and for members of the Group's Management Committee, applicable from 2014 to 2018.

Between 1 and 15 April of each of the following periods, at the proposal of the Nomination and Remuneration Committee, the Board of Directors must determine the number of shares that correspond to each beneficiary of the plan based on fulfilment of the previous year's indicators. 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 Parent recognised 1,334 thousand euros and 1,146 thousand euros respectively under “Staff costs - Other employee benefit expenses” in the consolidated statement of comprehensive income to cover the incentive plan (Note 17-c).

On 26 April 2017, the Parent 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, which would be 380,116 shares (Note 11). The shares were delivered to the beneficiaries on this date. 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, which would be 365,116 shares (Note 11). 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.

b) 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 agreed 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.

c) Share option plans on SFL shares

The subsidiary SFL had two bonus share plans at 31 December 2017, the breakdown of which is as follows:

	Plan 3	Plan 4	Plan 4
Meeting date	22.04,2015	13.11,2015	13.11,2015
Date of Board of Directors' Meeting	17.06,2015	26.04,2016	03.03,2017
Initial target number	27,328	32,036	33,376
Initial expected %	70.83%	70.83%	70.83%
Initial expected number	19,356	22,691	23,640
Amount per share (euros)	36.08	41.49	42.61
Options cancelled	(2,064)	(912)	(784)
Expected % at year-end	150.00%	100.00%	100.00%
Estimated number at year-end	37,895	31,124	32,592

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

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

At 31 December 2017 and 2016, a total of 1,546 thousand euros and 1,114 thousand euros were recognised in the consolidated statement of comprehensive income relating to these bonus share plans (Note 17-c).

19. Balances with related parties and associates

At 31 December 2017 and 2016 the Group did not have any balances outstanding with related parties and associates.

20. Remuneration and other benefits to the Board of Directors and senior management

a) Composition of the Parent's Board of Directors

The Parent’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, the composition of the Parent's Board of Directors is as follows:

Director	Position	Type of director
Juan José Brugera Clavero	Chairman	Executive
Pedro Viñolas Serra	Chief Executive Officer	Executive
Carlos Fernández González	Director	Proprietary
Sheikh Ali Jassim M. J. Al-Thani	Director	Proprietary
Adnane Mousannif	Director	Proprietary
Juan Carlos García Cañizares	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. Directors Francesc Mora Sagués and Grupo Villar Mir, S.A.U. left the Board in 2016, and Luis Maluquer Trepat was reclassified from other director to independent director.

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

b) Remuneration of Board members

The breakdown of the remuneration received in 2017 and 2016 by the members of the Board of Directors of the Parent, by item, is as follows:

31 December 2017

	Thousands of euros		
	Parent	Other Group companies	Total
Remuneration earned by executive directors (*):	**4,866**	**150**	**5,016**
Attendance fees of non-executive directors:	**580**	**95**	**575**
Directors' attendance fees	557	95	652
Additional attendance fees of the Chairman and Deputy Chairman	23	-	23
Attendance fees of executive directors:	-	**50**	**50**
Fixed remuneration of non-executive directors:	**780**	**100**	**880**
Directors' remuneration	495	60	555
Additional remuneration of the Audit and Control Committee	135	40	175
Additional remuneration of the Nomination and Remuneration Committee	150	-	150
Fixed remuneration of executive directors:	-	**70**	**70**
Total 2017	**6,226**	**465**	**6,691**

Remuneration earned by executive directors (*):	4,866	270	5,136

(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan described in Note 18.

31 December 2016

	Thousands of euros		
	Parent	Other Group companies	Total
Remuneration earned by executive directors (*):	**2,610**	**150**	**2,760**
Attendance fees of non-executive directors:	**535**	-	**535**
Directors' attendance fees	521	-	521
Additional attendance fees of the Deputy Chairman	14	-	14
Attendance fees of executive directors:	-	-	-
Fixed remuneration of non-executive directors:	**897**	**90**	**987**
Directors' remuneration	546	90	636
Additional remuneration of the Executive Committee	66	-	66
Additional remuneration of the Audit and Control Committee	150	-	150
Additional remuneration of the Nomination and Remuneration Committee	135	-	135
Fixed remuneration of executive directors:	-	**60**	**60**
Total 2016	**4,042**	**300**	**4,342**

Remuneration earned by executive directors (*):	2,610	210	2,820

(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan described in Note 18.

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

The shareholders at 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. At 31 December 2017 and 2016, the Parent recognised 178 thousand euros and 175 thousand euros, respectively, in this connection under “Staff costs” in the consolidated statement of comprehensive income.

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

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

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

c) Remuneration of senior management

The Parent’s senior management team is formed by senior executives and other persons responsible for the management of the Company, reporting to the CEO. The Company’s senior management team was made up of two men and two women at 31 December 2017 and 2016.

Monetary compensation earned by senior management in 2017 amounted to 1,918 thousand euros. Furthermore, they received 988 thousand euros corresponding to the long-term incentives plan (1,081 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 Parent recognised 61 thousand euros and 60 thousand euros, respectively, in this connection under "Staff costs" in the consolidated statement of comprehensive income.

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

21. Non-current assets held for sale

The movements under this heading in 2017 and 2016 were as follows:

	Thousands of euros
	Investment property
Balance at 31 December 2015	**12,727**
Additions	60
Disposals (Note 17-g)	(13,550)
Transfers	306
Changes in value (Note 17-f)	457
Balance at 31 December 2016	**-**
Transfers (Note 8)	408,352
Disposals (Note 17-g)	(404,679)
Changes in value (Note 17-f)	(3,673)
Balance at 31 December 2017	**-**

Investment property (Note 8) -

Movements in 2017

In the first half of 2017, the subsidiary SFL transferred the In&Out building from "Investment property" in the consolidated statement of financial position amounting to 408,352 thousand euros. The value of the property at 30 June 2017 took into consideration the price of the sale commitment signed by the subsidiary SFL on 25 July 2017, which amounted to 445,000 thousand euros, less transaction costs. In September 2017, the sale commitment was executed for the aforementioned amount (Note 17-g).

"Changes in value of investment property" in the consolidated statement of comprehensive income includes the loss of 3,673 thousand euros and the profit of 457 thousand euros from the revaluation of the non-current assets held for sale for 2017 and 2016 (Note 17-f), respectively, in accordance with the appraisals of independent experts at 31 December 2017 and 2016 (Note 4-c).

Movements in 2016

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

On 21 September 2016, the Parent sold the asset located at calle Ausias March in Barcelona for 15,000 thousand euros, obtaining profit net of costs totalling 557 thousand euros (Note 17-g).

22. Auditors' fees

Fees incurred for auditing services in 2017 and 2016 provided to the various companies composing the Colonial Group by the principal auditor and other auditors are set forth below:

Description	Thousands of euros			
	2017		2016	
	Principle auditor	Other auditors	Principle auditor	Other auditors
Audit services	569	239	535	323
Other attest services	91	3	137	-
Total audit and related services	**660**	**242**	**672**	**323**
Tax advisory services	-	-	-	-
Other services	135	542	161	20
Total professional services	**135**	**542**	**161**	**20**

The principal auditor of the Colonial Group for 2017 was PricewaterhouseCoopers Auditores, S.L., whereas the Group'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 Parent for issuing comfort letters and agreed-upon procedure reports on ratios linked to financing agreements.

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

23. Events after the reporting date

From 31 December 2017 to the date on which these consolidated financial statements were authorised for issue, no significant events took place and there were no additional matters worthy of mention apart from the following:

a) Acquisition of LE Offices Egeo, S.A.U.

On 16 January 2018, the Parent 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, plus associated acquisition costs. In addition, in 2018, the loan held by Egeo with a financial institution for 30,182 thousand euros, including interest, was cancelled early.

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

As indicated in Note 9-c to these consolidated financial statements, the Parent 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 9-b).

Accordingly, taking into consideration the shares already held by the Parent, 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 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 consolidated 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 of Axiare Patrimonio SOCIMI, S.A. and subsidiaries for 2017 amounted to 218,238 thousand euros.

24. Explanation added for translation to English

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

APPENDIX

Companies included in the scope of consolidation

At 31 December 2017 and 2016, the fully consolidated subsidiaries and the information thereon were as follows:

	% shareholding				Shareholder	Line of business
	Direct		Indirect			
	31.12.17	31.12.16	31.12.17	31.12.16		
Torre Marenostrum, S.L. (*) Avda. Diagonal 532 08006 Barcelona (Spain)	55%	55%	-	-		Real estate
Colonial Invest, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Colonial Tramit, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Danieltown Spain, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Moorage Inversiones 2014, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Hofinac Real Estate, S.L.U. (*) Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Fincas y representaciones, S.A.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Inmocol Torre Europa, S.A. (*) Avda. Diagonal 532 08006 Barcelona (Spain)	50%	-	-	-		Real estate
Colonial Arturo Soria, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	-	-	-		Real estate
Almacenes Generales Internacionales, S.A.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	-	-	-		Real estate
Soller, S.A.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	-	-	-		Real estate
Peñalvento, S.L.U. Pº de la Castellana, 52 28046 Madrid (Spain)	-	-	100%	-	Almacenes Generales Internacionales, S.A.U.	Real estate
Utopicus Innovación Cultural, S.L. Duque de Rivas, 5 28012 Madrid (Spain)	69.60%	-	-	-		Co-working
Zincshower, S.L.U. Duque de Rivas, 5 28012 Madrid (Spain)	-	-	100%	-	Utopicus Innovación Cultural, S.L.	Co-working
Colaboración e Innovación Tecnológica, S.L. Duque de Rivas, 5 28012 Madrid (Spain)	-	-	100%	-	Utopicus Innovación Cultural, S.L.	Co-working

* Company audited in 2017 by PricewaterhouseCoopers

	% shareholding				Shareholder	Line of business
	Direct		Indirect			
	31.12.17	31.12.16	31.12.17	31.12.16		
Société Foncière Lyonnaise, S.A. (SFL) 42, rue Washington 75008 Paris (France)	58.56%	58.55%	-	-		Real estate
Condorcet Holding SNC (**) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
Condorcet PROPCO SNC (**) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	Condorcet Holding SNC	Real estate
SCI Washington (*) 42, rue Washington 75008 Paris (France)	-	-	66%	66%	SFL	Real estate
SCI 103 Grenelle (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI Paul Cézanne (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
Segpim, S.A. (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Sale of real estate and provision of services
Locaparis, SAS (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	Segpim	Sale of real estate and provision of services
Maud, SAS (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SAS Société Immobilière Victoria (*) 42, rue Washington 75008 Paris (France)	-	-	100%	-	SFL	Real estate
SB2, SAS (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SB3, SAS (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI SB3 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SAS Parholding (*) 42, rue Washington 75008 Paris (France)	-	-	50%	50%	SFL	Real estate
SCI Parchamps (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate
SCI Pargal (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate
SCI Parhaus (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate

* Company audited in 2017 by PricewaterhouseCoopers
** Company audited in 2017 by Deloitte & Associés

At 31 December 2017, the Colonial Group companies were audited by PricewaterhouseCoopers Auditores, S.L., with the exception of the SFL Group, which was audited jointly by Deloitte and PricewaterhouseCoopers.

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Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries

Consolidated 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%.

In France, with the episode of risk aversion relating to the presidential elections safely behind them, the markets operate in a stable environment, and are driving business sentiment indicators. In this regard, France is leading the PMI Index in the Eurozone with 59.2 points.

Source: "La Caixa" monthly report

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.

París

During the fourth quarter of 2017, take-up in the Paris region (Ile-de-France) exceeded 853,000 sqm, an historic high. The year 2017 had a cumulative take-up of 2,619,000 sq m, an 8% year-on-year increase and 15% higher than the average over the last ten years.

In terms of the transactions carried out, of special mention are the number of large transactions (from 5,000 sq m), reaching a total of 88 transactions in 2017, registering 23 transactions more than the previous year. Also worth mentioning is the transaction of SNCF at the SFR campus in Saint-Denis for 43,000 sq m. Demand remains strong from large companies as 52% of the spaces over 5,000 sq m transacted were for buildings pending construction.

Immediate supply of available office space fell below 3.4 million sq m, resulting in a vacancy rate of 6.4%. This decline in supply reached levels similar to the summer of 2009. Due to the lack of supply, a large part of the deliveries continues to be for pre-let spaces.

The vacancy rate in the CBD area stood at 3%, while the area with most availability is the Western Crescent with a vacancy rate of 11.8%.

Prime rental prices in the Paris CBD reached €775/sq m/year at the close of the fourth quarter of 2017, with several transactions above €760/sq m/year and one transaction over €800/sq m/year. Rents in La Défense reached €510/sq m/year.

Sources: 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

Revenue totalled 283 million euros at 31 December 2017, and was generated by the Group's recurring business (property rentals).

Profit from operations amounted to 209 million euros.

According to the independent year-end appraisals by CB Richard Ellis, Jones Lang Lasalle and Cushman & Wakefield, the Group's investment property was revalued by 933 million euros in the year. This revaluations, which was registered in France as well as in Spain, is the result of a +12.2% increase like-for-like in the appraisal values of the assets in operation with respect to December 2016 (11.4% in Spain and 12.6% in France).

The Group capitalised 2.6 million euros of borrowing costs related to developments in progress.

The net finance cost amounted to 79 million euros, including 2.6 million euros relating to the finance costs of developments in progress that were capitalised.

Once the results attributable to the minorities of (398) million euros were deducted, the results after taxes attributable to the Group amounted to 683 million euros.

Annual results

The highlights of rental business are as follows:

2017 was an excellent year for the Colonial Group with a Total Shareholder Return of +21% due to an increase in the EPRA Net Asset Value per share of +19% in combination with a dividend yield of +2%.

This return is a consequence of a strategy of specialization on prime offices in the markets of Barcelona, Madrid and Paris, with an approach of real estate value creation – “Prime Factory” -, that priorities quality of return maintaining highest financial discipline.

The Group’s successful strategy is reflected in all aspects of the financial and operating results for 2017:

1. Very solid operative parameters

> 99 signed contracts corresponding to more than 134,000 sq m and €48m in annual rental income

> EPRA vacancy at minimum levels of 4%. Barcelona stands out with 1%

> Maximum level of signed rental contract prices in all markets, setting the reference for prime rents

> Capturing rental price increases: +9% vs. ERV December 2016 and +13% of release spreads

2. A +4% like-for-like increase in rental income driven by rental price increases

3. An increase of +22% in recurring income, up to €83m, +14% on EPS

4. Disposal of the IN/OUT asset in Paris for €445m, a premium of +27% on 2016 valuation

5. An increase in asset value of +15% (+12% like-for-like), reaching €9,282m

6. An increase in the net attributable result of +149%, reaching €683m

7. An increase of +19% in Net Asset Value per share reaching €8.60/share

8. A robust capital structure with an LTV of 31%, €2,427m of liquidity and a solid investment grade rating by Standard & Poor’s and Moody’s

<u>Increase in the recurring results</u>

The recurring earnings amounted to €83m, an increase of 22%, compared to the previous year, mainly due to three factors:

1. A solid 4% year-on-year increase in rental income
2. An improvement in financial results
3. A lower corporate tax expense due to the conversion to SOCIMI

<u>Growth in rental income</u>

The Colonial Group achieved a +4% like-for-like growth in rental income compared to the close of the previous year. This increase is among the highest in the sector.

In Spain, the rental income increased +5% like-for-like, thanks to the strong performance of the Barcelona portfolio with an increase of +10% like-for-like. The Paris portfolio increased +4% like-for-like, with contracts signed on the Edouard VII, #Cloud and Percier buildings.

<u>Real estate value creation</u>

At the close of 2017, the asset value of the Colonial Group amounted to €9,282m (€9,741m including transfer costs), an increase of 12% like-for-like. Including the impact of the new acquisitions and the net sale of IN/OUT, the increase was 15% year-on-year.

The value of the assets in Spain increased by +11% like-for-like in the last 12 months. The portfolios in Madrid as well as Barcelona had +11% year-on-year growth each. It is important to highlight that more than half of the increase in asset values in Spain (+8% in Barcelona and +7% in Madrid) is a result of the increase in market rents on the properties. This increase in prices is based on the Colonial Group's capacity to capture the rental cycle growth with its prime portfolio.

The asset value of the Paris portfolio has increased +13% like-for-like in the last 12 months. An increase in prices makes up +2% of the growth. However, the majority of the value creation is due to projects of real estate transformation. Among these, the Galerie Champs Elysées, Louvre Saint Honoré, Edouard VII and Washington Plaza buildings are highlighted.

In general terms, the increase in asset values is a consequence of three factors:

1. A growing interest by investors in prime assets, driving down yields, especially in the Paris CBD market, which is one of the core markets that attracts the most investors on a global level

2. Rental price increases captured in recent quarters by the Colonial Group's portfolio in the three markets

3. The Group's industrial approach that enables superior value creation through portfolio repositioning and Prime Factory projects

Solid fundamentals in all segments

The Colonial Group's business has had an excellent performance with strong volumes of lettings, maintaining levels close to full occupancy.

<u>*Lettings with significant growth in rental prices*</u>

The Colonial Group has signed 99 rental contracts, corresponding to 134,831 sq m and an annual rental income of €48m. More than 59,000 sq m correspond to new contracts, mainly concentrated in the Barcelona market.

The Colonial Group's portfolio has captured significant increases in rental prices: +9% versus the ERV at December 2016 (Barcelona +10%, Madrid +8% & Paris +8%). In addition, the increase in renewals (Release Spread) was in the double digits in Spain (Barcelona +19% Madrid +11%).

In the Barcelona portfolio, close to 51,000 sq m were let. It is worth highlighting the 10,000 sq m signed in the fourth quarter corresponding to pre-let transactions by international technology companies. The maximum rental price signed was €23.5/sq m/month, establishing the prime benchmark rate.

In the Madrid portfolio, more than 62,000 sq m were let. The maximum rental price of €32/sq m/month was signed on a 5,000 sq m transaction for the Castellana 43 building.

In the Paris portfolio, more than 21,000 sq m were let in 28 transactions. The maximum office rental price in 2017 was €884/sq m/year signed in a transaction of more than 3,000 sq m on the Ozone building.

<u>*High occupancy levels*</u>

The excellent letting performance has enabled Colonial to achieve solid ratios close to full occupancy, clearly above the market average in the three cities in which the Group operates.

At the close of 2017, the EPRA vacancy of the Colonial Group was 4%. It is worth highlighting the Barcelona portfolio with only 1% vacancy. The Paris property portfolio had a 3% vacancy.

Vacancy in the Madrid portfolio reached 7%, mainly due to the entry into operation of the recently delivered Discovery project. Excluding this new product, the rest of the Madrid portfolio had a vacancy rate of 2%.

Active portfolio management and growth drivers

The growth strategy of the Colonial Group involves annual organic investments of around €400m in acquisitions of new assets, prioritizing off-market transactions, and identifying assets with value-added potential in market segments with solid fundamentals.

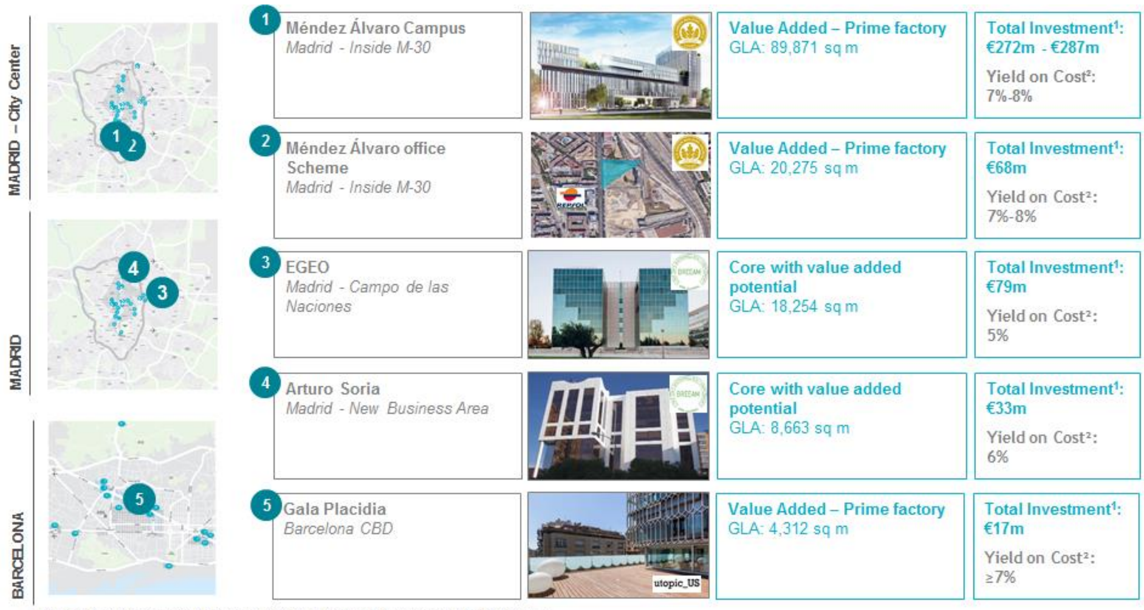
Alpha II acquisitions – achieving the 2017 investment objective

During the first quarter of 2017, the Colonial Group executed the Alpha II acquisition program, corresponding to the purchase of four assets for a total investment volume of almost €400m (acquisition price + future capex). Specifically, three development projects were acquired: Plaza Europa 34 in Barcelona, Paseo de la Castellana 163 in Madrid and 112-122 Av. Emile Zola in Paris, as well as the Spanish headquarters for the Bertelsmann Group, located in the Barcelona CBD.

Alpha III acquisitions – acceleration of the 2018 investment objective

Colonial commenced 2018 with the execution of the Alpha III project, which includes the acquisition of five assets, four in Madrid and one in Barcelona, with a total expected investment of €480m. The investment in Madrid consists of the development of more than 110,000 sq m of offices in the south of the CBD and of the acquisition of two top quality assets in new business areas in the capital. Additionally, Colonial has acquired an asset located in the CBD in Barcelona, where a complete refurbishment will be carried out with the objective of strengthening coworking initiatives.

The main characteristics of the Alpha III acquisitions are as follows:



1 Acquisition price + total estimated project capex 2 Potential running yields on cost for the next years

The Arturo Soria building and the two Méndez Álvaro plots were purchased in 2017, while the EGEO and Gala Placídia assets were purchased in Barcelona in the first quarter of 2018.

Rotation of mature assets

The Colonial Group regularly reviews the potential of future value creation for each one of its assets in the portfolio. As a consequence of this analysis, in September 2017, the disposal of the In&Out office complex in Paris was completed for a price of €445m, representing a premium of +27% on the appraisal valuation prior to the disposal commitment. This sale represents the culmination of the process of real estate value creation for this asset: (1) the transformation of the building through a development project, (2) the signing of a long-term contract for the OECD headquarters, and finally (3) the disposal of the asset at one of the highest prices in this market segment.

The sale proceeds of this mature asset will be reinvested in new projects of the Group, such as the creation of the Emile Zola office complex in the 15th arrondissement in Paris with an approximate investment amount of €265m (purchase price + future capex).

Project portfolio – important source of future value creation

To date, Colonial has a project portfolio of more than 240,000 sq m to create top quality products that offer high returns and therefore future value creation with solid fundamentals.

In Madrid, two projects are highlighted which will be carried out on the plots of land acquired at Méndez Álvaro south of the Madrid CBD, as well as two projects, Príncipe de Vergara 112 and Castellana 163, in the Madrid CBD. In Barcelona, the Parc Glories and Plaza Europa 34 projects are highlighted.

In December 2017, the Discovery project was delivered with more than 10,000 sq m. This asset, located in the CBD, is currently in the commercialization phase.

In the Paris portfolio, it is important to mention three large projects: Emile Zola, Louvre St. Honoré and Iéna. All of them are located in the best areas of the French capital and together make up more than 44,000 sq m of new spaces with enormous value creation potential in the coming years.

Initiatives in the Proptech field

The Colonial Group's strategy involves taking advantage of initiatives in the Proptech field, which enable the Group to maximize the service provided to its clients and to be a leader in emerging trends in the offices sector.

(1) In October 2017, Colonial formalised the acquisition of a controlling stake in the Spanish platform Utopic_US, a leader in the field of flexible spaces and Coworking in Spain. With this acquisition, the Colonial Group has positioned itself in a new strategic line with the objective to complement and reinforce the user strategies of the Group, offering flexibility, integrated services and content.

(2) In August 2017, Colonial incorporated Aleix Valls, the former Managing Director of Mobile World Capital Barcelona, as Digital Senior Advisor to boost initiatives and strategies in the Proptech area of the company.

(3) Colonial is part of a think-tank created by six European companies specialized in the office business line in order to develop and boost best practices in the Proptech, Flexible Office Space, Digitalization and Sustainability fields.

Maximum standards in Corporate Social Responsibility (CSR) and Reporting

The Colonial Group maintains the maximum standards in Financial Reporting as well as Sustainability Reporting. For the third consecutive year, it has obtained the EPRA Gold Award in Financial Reporting, as well as the EPRA Gold Award in Sustainability Reporting for the second consecutive year. The Colonial Group is the only Spanish REIT company (SOCIMI) with the maximum rating in both categories.

Regarding the ratings in relation to CSR, the Colonial Group has achieved the GREEN STAR rating by GRESB, a benchmark institution in CSR ratings in the real estate sector on a global scale.

In addition, the SFL subsidiary has been awarded with the "BREEAM Awards 2017" for the responsible management of its portfolio and the strong commitment of its teams in sustainable development.

It is important to highlight that 93% of the Group's portfolio in operation has maximum Sustainability certificates (BREEAM/LEED), clearly positioning Colonial as a leader in the European offices sector.

Corporate Social Responsibility is an integrated part of Colonial's Group strategy to offer long-term sustainable returns.

Capital structure and share price performance

Active balance sheet management

The year 2017 was characterized by the proactive management of the capital structure to guarantee a solid balance sheet with sufficient flexibility at all times. In this respect, the following milestones are highlighted:

> April: Improvement in Colonial's rating to BBB with stable outlook and its French subsidiary to BBB+ in the following months

> May: Capital increase in the amount of €253m at €7.1/share, with a minimum discount on the share price and a neutral impact with respect to the last reported NAV

> May: Colonial's conversion to a SOCIMI (REIT) with a positive impact on recurring results and expanding Colonial's access to "REIT-only" investors, improving the liquidity of the share price on the stock exchange

> June: Inclusion of Colonial on the el IBEX35, the Spanish benchmark market index, increasing the liquidity of the security on the stock exchange

> October: Share buyback in the amount of €18m at an average price of €7.86/share (a discount of 3% over NAV at June)

> November: Announcement of the takeover bid on Axiare prior to acquisition of shares to hold a 28.8% stake before the takeover bid

> November: Bond issuance in the amount of €800m in two tranches: €500m at 8 years with a coupon of 1.625% and €300m at 12 years with a coupon of 2.5%

> November: Share placement for a volume of €416m at €7.89/share, a premium of +2% over the share price: €338m through the issue of new shares and €78m through the sale of treasury shares

> December: Approval of the takeover bid prospectus on Axiare and start of the acceptation period

The capital market has clearly supported the successful execution of the fulfilment of all of the milestones of the announced Business Plan. The value creation in terms of NAV per share and dividend return is clearly reflected in the share price performance with an annual revaluation of +26%, reaching a price of €8.3/share at the end of 2017, and outperforming the benchmark indices.

Successful takeover bid on Axiare

Colonial successfully executed a takeover bid on Axiare on 13 November 2017, reaching a stake of 87%.

It is important to highlight the following milestones in the process:

> 13/11/2017: Announcement of the takeover bid on Axiare prior acquisition of shares to obtain 28.8%, pre-takeover bid

> 28/12/2017: Approval of the takeover bid prospectus by the CNMV

> 29/12/2017: Start of the acceptance period

> 08/01/2018: Opinion of the Board of Directors of Axiare on the takeover bid

> 29/01/2018: End of the acceptance period of the takeover bid

The acquisition positions Colonial as a European office leader, with almost €10,000m of asset value, a portfolio of 1.7 million sq m of surface area in use and 330,000 sq m under development.

In addition, Colonial reinforces its bet on the office market in Spain, strengthening its positioning in Madrid.

With an 87% majority share in Axiare, the Colonial Group strengthens its growth strategy for the coming years offering an attractive return for the shareholders based on the combination of both companies.

3. Liquidity and capital resources

See "Capital management and risk management policy" under Note 12-m to the consolidated financial statements for the year ended 31 December 2017.

The average payment period (APP) of the Group's Spanish companies to its suppliers was around 31 days in 2017. 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.

The Group has established two payment days per month to comply with the requirements set forth in Law 11/2013, of 26 July. Accordingly, invoices 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.

4. Risk management policies and objectives

Risk Management

Colonial is exposed to a variety of risk factors arising from the countries in which it operates and from the very nature of its activities. Colonial's Board of Directors is responsible for determining the risk management and control policy, identifying the Group's main risks, and implementing and supervising the 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 Group's activities are described below.

Strategic risks:

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

- Risks associated with the 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). The European real estate sector has maintained the dynamism of the previous year in spite of the political uncertainty and economic policies of the last year, characterised by reaching very significant investment levels. 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 the Group 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 strengthened the Group's position in the sector.
- Risks related to the value of assets: Every six months the Group carries out appraisals, through independent experts and by applying objective market criteria, on all of its property assets. Colonial allocates a significant portion of its resources to investing in and maintaining its property assets in order to enhance their value and position on the market, and to optimise income and returns.

Corporate risks:

Risks relating to the organisational structure, corporate culture, corporate policies and key decision-making processes 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 the Group's voluntary commitment to its stakeholders. Management of these expectations forms part of the Group's objectives in terms of sustainability and creating value for these stakeholders.

- Corporate governance risk: The Group'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 co-working 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 co-working platform and the development of digitalisation and new technologies in developing services and new business models 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 Group efficiently manages its financial risks with the aim of maintaining adequate levels of liquidity and debt, minimising borrowing costs and ensuring compliance with its business plans:

    - Risk of exposure to interest rate fluctuations: The management of this risk is to reduce interest rate volatility to limit and control the impact of interest rate fluctuations on profit and cash flows and to keep overall borrowing costs at reasonable levels. The Colonial Group analyses the arrangement of financial instruments to hedge interest rate fluctuations. A high percentage of the Group's gross financial debt is at fixed rates.

    - Risks relating to financing and debt: The Group's financial structure calls for diversification of its sources of financing, both by entity and by 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 Group's financial structure, thus extending and diversifying the maturity of its debt. The Colonial Group's net financial debt is held at suitable levels, measured using the loan-to-value ratio, providing the Group 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, the Group has the necessary sources of financing to undertake its current projects in addition to those laid down in its business plan. The Group 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 the Group 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 a key part of the Group's organisation and business plan.

- Risk of loss or damage to property assets: The Colonial Group's properties are exposed to general risks of damage as a result of fires, flooding or other events, regardless of whether or not they are attributable to natural causes. Colonial has arranged hedges to cover the reconstruction costs of the properties it owns, as well as any damage caused 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 Group, 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 Group, 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 the Group 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 Group. The Company has also taken out insurance to cover any legal costs or possible damage against directors and executives.

- Tax risks: The Colonial Group must adhere to the general tax legislation of the countries in which it operates, as well as any specific regulations for the REIT regime. Accordingly, Colonial 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 Group, 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:

a) Acquisition of LE Offices Egeo, S.A.U.

On 16 January 2018, the Parent 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, plus associated acquisition costs. In addition, in 2018, the loan held by Egeo with a financial institution for 30,182 thousand euros, including interest, was cancelled early.

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

As indicated in Note 9-c to these consolidated financial statements, the Parent 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 9-b).

Accordingly, taking into consideration the shares already held by the Parent, 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 consolidated 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 of Axiare Patrimonio SOCIMI, S.A. and subsidiaries for 2017 amounted to 218,238 thousand euros.

6. Future outlook

The outlook for the Madrid, Barcelona and Paris office markets is as follows:

<u>*Barcelona & Madrid*</u>

In the Spanish economy, 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.

<u>*Paris*</u>

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

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

Regarding growth expectations, the main analysts have revised their forecasts upwards and growth is expected to reach 1.8 both in 2017 and 2018, compared to 1.1% in 2016.

Strategy for the future

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

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

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

7. Research and development activities

As a result of the nature of the Group, its business activities and structure, Inmobiliaria Colonial, SOCIMI, 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 Parent's share capital.

9. Other relevant information

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

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

Below follows a glossary of the Alternative Performance Measures, including their definition and relevance for Colonial, in accordance with the recommendations of the European Securities and Markets Authority (ESMA) published in October 2015 (ESMA Guidelines on Alternative Performance Measures). These Alternative Performance Measures have not been audited or reviewed by the Parent.

Alternative Performance Measure	**Calculation method**	**Definition/Relevance**
EBIT ***(Earnings before interest and taxes)***	Calculated as the "*Operating profit*" plus "*Changes in fair value of investment property*" and "*Losses due to impairment of assets*".	Indicator of the profit generating capacity of the Group, considering only its productive activity less debt and tax effects.
EBITDA **(*Earnings Before Interest, Taxes, Depreciation and Amortization*)**	This 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.

Alternative Performance Measure .	Calculation method	Definition/Relevance
Gross financial debt (GFD)	Calculated as the sum of the items *"Bank borrowings and other financial liabilities"* and *"Issuance of bonds and other similar securities"*, excluding *"Interest"* (accrued), *"Arrangement expenses"* and *"Other financial liabilities"* of the consolidated statement of financial position.	Relevant indicator for analysing the financial position of the Group.
EPRA1 **NAV (*EPRA Net Asset Value*)**	Calculated based on the equity of the Company and adjusting specific items according to EPRA recommendations.	Standard analysis ratio for the 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 statement of financial position 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*	Appraisal of all the assets in the Group's portfolio carried out by external appraisers to the Group, deducting the transaction costs or *transfer costs.*	Standard analysis ratio for the 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 appraisers to the Group, before deducting the transaction costs *transfer costs.*	Standard analysis ratio for the property sector.
***Like-for-like* Rentals**	Amount of rental income from leases included in the item "*Revenue*" comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded, 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.

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

Alternative Performance Measure .	**Calculation method**	**Definition/Relevance**
Like-for-like **Appraisal**	Market Value excluding transaction costs or the Market Value including transfer costs, comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods 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 the item *"Cash and cash equivalents"* between the Market Value, including transaction costs, of the Group's portfolio of assets.	This permits an analysis of the relation between the net financial debt and the appraisal value of the Group's 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 portfolio of assets of the parent company of the Group.

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

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

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

EPRA NAV (EPRA *Net Asset Value*)	31/12/2017	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.